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Booking Holdings, Inc. (BKNG)

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MANAGEMENT DISCUSSION SECTION

Douglas Anmuth

Analyst, JPMorgan Securities LLC

All right. We're going to go ahead and get started. So, I'm Doug Anmuth, JPMorgan's Internet analyst. We're pleased to have with us today David Goulden, EVP and CFO of Booking Holdings. So, Booking is the global leader in online travel with the mission to make it easier for everyone to experience the world. Booking has more than 28 million listings across hotels, homes, apartments, and other unique places to stay. It serves global travelers across more than 220 countries through six primary consumer-facing brands. David joined Booking in 2018. Prior to that he held a number of senior executive positions at EMC and also Dell. So welcome, David.

David Ian Goulden

Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

Thank you. Great to be here.

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QUESTION AND ANSWER SECTION

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

All right. So, let's kick off and start – just kind of getting a sense of where are we in this recovery. You reported strong 1Q results with your highest ever quarterly bookings, surpassing 2019 levels for the first time since the pandemic began. Where are you in the recovery and kind of resurgence? And when will we get to the point of being fully recovered?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

Great question. So, yeah, thanks, Doug. So we were pleased with Q1 results. So our gross bookings were a record for Q1, 7% higher than they were in 2019, but room nights were still down and revenue was still down. So, gross bookings were being helped by our ADRs, our average daily rates. And, of course, revenues are lagging indicator in a recovery. We did see further improvement in April. So brining you current from Q1 across – things improving in all our regions.

And actually in April our global room nights were up about 10% versus where they were in 2019 and the gross bookings were more than 30% higher than they were in April 2019. If those April trends continue, we expect Q2 revenue also to be above where it was in 2019 levels. So, in terms of recovery, we're certainly in a recovery environment. We don't believe it's fully recovered. We're pleased with Q1. We're pleased with April, and we're in the recovering phase.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Okay. What parts do you feel like of the business that still need to catch-up more?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

There's two parts of business that really are still underperforming where we were in 2019. The first would be Asia. So, Asia is now our only region – this is now for April – where we were operating below 2019 levels, but again it did recover from Q1. So we recovered from being down about 35% in Q1 in Asia to being down in the high teens. So, a decent recovery.

The other areas still lagging would be international travel. For us, international travel was always a strong part of the business and its stock has been over half of our bookings. International room nights were still down slightly in April compared to 2019, whilst the domestic business had very strong growth.

Within international, the inter-regional travel within Europe has led – the recovery is actually up versus 2019, but the longer haul international business is still below 2019 levels. So, the good news is what we've seen throughout this recovery is that once restrictions are lifted and people are able to travel because of safety and because of a lack of restrictions, travel picks up very nicely. We saw it in the US last year. We're seeing happening in Europe now. Rest of world is now positive [ph] rather than (00:03:31) 2019, and we're starting to see Asia beginning to recover as well.

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Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Okay. For those travelers coming back to the platform perhaps after several quarters or couple of years, what are some of the biggest changes that they will notice across Booking and in the other brands?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

I think the biggest change will be at Booking. And if you haven't used the platform a couple of years, you're going to see quite few different things on Booking.com. You'll see the impact of us building out the Connected Trip and payments platform. You'll see changes to the apps. You'll see more things available in the Genius program. I'll just cover each one very briefly.

So, on the Connected Trip, many bookers on Booking.com will now be able to book or see flights across all our platforms. Flights now available in over 40 countries across Booking.com. Over 70% of the hotel bookers, if they want to, can now see a flight. We've expanded the adoption of our payments platform, not quite so visible for bookers, but they'll see it in terms of being able to have alternative currency methods to Japan than they had before.

And also they may see the fact that we are now participating sometimes ourselves in the pricing equation with Booking actually offering a discount or some incentive over and above what hotel properties will offer from ourselves directly. Payments is now about a third of the business of Booking.com from a gross booking point of view, up from about 13% in Q1 2019, so a pretty big difference.

We've also made a lot of progress on the app. So, apps very important for us; mobile is important, but apps is very much the majority of our mobile activities. If you look over the last couple of years, we've modernized the app in quite a few ways. We've changed the kind of look and feel, improving the home page landing experience to make it look more like a multi-vertical travel offering. You see flights ground transportation, et cetera, and just made it a much more complete and easy to use experience.

It's not being a one-time thing. But there's been a number of the app releases and we've actually reengineered the frontend and actually some of the backend quite extensively the last couple of years. So, you'll see quite a lot of difference compared to where you were a couple years ago, particularly around the usage since, say, Q1 2019.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Okay. Great. And how are you thinking about market share now? I know you talked about those April numbers, which I think you'd also provided, I believe, at 1Q earnings, right?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

We did, yes.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

In terms of room nights and gross bookings. How are you thinking about market share and how you'll be able to grow that over time?

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David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

Yeah. So we know we picked up some share points in 2021 versus 2019. That's perhaps the best comparison point, especially in the US and in Europe. And we know that we continue to stay ahead of where the travel market is in 2022 from a recovery point of view, kind of look at our growth rate versus the overall growth rate in travel.

A lot of the questions have been around the US, where we've had a fairly strong focus now for a few years and is now starting to really pay off a bit more for us in the last couple of years. We've put some programs in place last year, we're going to build on them. We see a lot of opportunities ahead for us in the US in terms of improving consumer awareness to our brand activities, improving the [ph] competitiveness (00:06:59) of our alternative accommodation product in the US marketplace, ramping up our flights, optimizing cross-sell, and increasing the use of payments in our US products.

And those, I think, worked for us nicely in 2021 and will be things we can build on, as well as building our hotel relationships and just becoming more competitive in some of the brand marketing and overall margin spend in the US marketplace.

I think longer term, it's really if you think about market share, it comes down to a couple of things. It comes back to the quality of the services that we offer and how good we are at marketing those to existing and new customers. Now, those are things that we feel pretty good about. So, we feel that we're in a strong situation, we've really been able to invest through the pandemic to further the overall position in the company.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Okay, great. At 1Q earnings, you provided a lot of color just around demand for the summer travel season and, obviously, being strong. We are seeing, of course, these growing macro concerns here around inflation, rising prices really across everything, but certainly travel and the concerns just around the impact to consumer demand. So, what data points – or what gives you confidence perhaps that demand will remain strong in travel as we go through the remainder of 2022?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

Sure. I mean, we can talk about the trends that we have seen. And what we can say is that if we look at the trends through the end of April, which are relatively current, our consumers appear to be in pretty good shape. In April, as I said, we saw more room nights booked than in 2019 at higher prices.

We also see the booking window expanding and getting back closer to what it was in 2019. That's usually sign of confidence. People are booking ahead for the summer as opposed to just booking for their short-term needs.

We also can kind of look at what travelers do in response to higher prices, what we've seen historically, they would trade down in their property choices if that becomes a factor. So far, we've not seen that in our data. Of course, the macro is out there and there are potential risks from inflation, and higher ADRs could impact customer spend, obviously, air ticket prices, but we're not seeing that in our data today.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

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Okay. How does – when you think kind of post-pandemic and with recovery, how do you think traveler behavior and travel mix changes? What are the newer trends that make travel kind of look different over time?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

Yeah, we've seen a couple of things happening, some coming into the pandemic and some as people kind of prepare to exit the pandemic. And these trends may or may not hold out longer term. But in pre-pandemic, we saw a slow but steady rise in the mix of alternative accommodations as our sector becomes more mature.

And during the pandemic, we saw more people being exposed to it. We saw a fairly big mix shift in the early stage of the pandemic towards alternative accommodations. People felt safer traveling in that type of location. We do see it normalize back again. Obviously, more people being exposed to it. So that's something we expect to see going forward.

Obviously, the most impacted segment of travel during the pandemic was business travel, and that may never return to the same levels. What it takes to be productive from a business trip point of view, obviously, commentaries like this are great, but we've been operating virtually for two years and I think people are recalibrating what really justifies a business trip.

And we actually played out – now that's obviously a very small part of our business, but it does impact the other part of our business, because a lot of our property partners that were more dependent upon business travel are now looking for leisure travel, which is something where we can provide them a source of demand maybe they didn't have before.

We do think things will normalize back towards people have been staying away from those big city tours, I think that will come back again. I don't think that will be something that's structurally impaired. But I think going forward there's also an opportunity that is being created by the new work environment, flexible work environment, maybe did not exist pre-pandemic.

This would not necessarily apply to every single person. But as people go back to work in a more flexible hybrid environment, there's more opportunity for people to extend their weekend travel and do a business leisure trip, maybe traveling somewhere for a long weekend, combining some business and some leisure.

We also see people extending their summer vacations in Europe is now quite popular, so let people go work for a month or so from a different country, avoid [indiscernible] (00:11:38). But like extend their summer vacation, maybe spend a couple of weeks on vacation, a couple weeks working, maybe visiting family. And then as we get more remote workers, again, small segment, that could result in more people kind of traveling from their remote locations back into some office hub for travel as well.

So, these are segments that we're still seeing how they develop is certainly there's more opportunity, I think, in people's calendars and their lives for the travel potential coming out of the pandemic than they have in many cases going into it.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Okay. Certainly, alternative accommodations could play a role in that as well. What's your latest view just around kind of the role of alternative accommodations, really doing these next few quarters of the recovery? And how do

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you think about that as a continued strong driver of growth or perhaps mix kind of shifting – perhaps stepping back a little bit as things kind of reopen further?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

Yeah. I think that the mix has stepped back. So I think we kind of saw that spike in alternative accommodations as a result of the pandemic. I think we've moved back to a more normalized environment. Of course, one of the real value propositions on our platform is that we do provide that mixture in one place of alternative, independents change, all in one platform. So we did see a mix shift happen.

As I mentioned, we saw a slow but steady increase in the alternative accommodation mix pre-pandemic. It's now about 31% of our room night bookings here in alternatives in the first quarter. That's a little higher than it was in Q1 of 2019 and little high than it was in Q1 2021. So, I do think it's going to continue to slowly increase. I don't think it has to do a step back before it grows up again.

I'd say, more people were exposed to the alternative accommodation mix due to pandemic, so that might fuel the growth a little bit. But I think we're back into that slow, steady march situation. I think we've seen the – we've already seen the normalization at least from the data we've seen.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Got it. Okay. You also talked about seeing a large sequential increase in alternative accommodations properties on Booking in 1Q. Was there a particular region or a property type that's really driven that growth?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

No regional property type. It's been a focus of ours to really improve our accommodation offering mainly in the US. We have a very strong business in Europe. It's a very broad business. Our average is 30% to 31%. In Europe it's a fair amount higher than that. So, if you think about the kind of segments in Europe, alternative, independents, and change, three very strong legs to the stool, change proportionally less important in Europe than they are in the US just from a hotel mix point of view.

A lot of the focus has been on the US. We've been doing a couple of things. We had some pretty strong feedback from our partners. They want us to improve our products in the alternative space, and we've done some things recently. We introduced liability insurance globally for all of our accommodation partners in the alternative space. That's an important factor for them.

We've also been improving our payment product, principally in the US, to allow our multi-property partners to handle – easily more handle [indiscernible] (00:14:46) bookings in the US marketplace across [ph] all of the (00:14:50) properties on that platform. So those are things we've introduced recently that we've rolled out that I think are helping us push.

And then we've also recently just last month launched an alternative property acquisition campaign in the US to really raise the awareness that we have a very viable platform. We've significant numbers of alternative bookings happening throughout the lifetime of our portfolio as a really viable alternative to the other names who may be out there. And we're hopeful that supply acquisition will continue.

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Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Okay. Well, let's talk about those US investments in a more broader context. About a year ago, you really talked more about kind of stepping up attention levels in the US. Can you talk about some of your investments there? You have, of course, on alternative, but how some of those investments have played out. And if there's anything you can share on your progress in the market.

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

I think we talked a little bit about the different aspects. There's no single silver bullet here. There's a number of things we've done working more closely with the chain partners to help those relationships get stronger over time, lean into marketing [ph] more those (00:15:57) perhaps did last year as we saw demand start to return. Alternative, payments, and cars just basically making the offer particularly on Booking.com much more complete in the US and more comparable to what it is within Europe.

In terms of data points I think it's quite important just to clarify what we said here, because we said that for the full year 2021 in the US, our room night growth was strong versus 2019. So, stronger than a normal growth rate, i.e., up significantly versus 2019, way ahead of where the market was in the US. And that growth rate accelerated to very strong in April. So, we have put data points out there that kind of indicate that we're well ahead of where the market is in the US as we also get some of these benefits to pay off things we've been working on for quite some little time now.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Okay. So let's shift gears, talk a little bit about payments. In our process, about a third of gross booking is through your payment rail essentially. How do you think about how that implementation has really helped the business operationally, and then also how it's helped on both the sides of consumers and, of course, your suppliers?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

Yeah. I think payments is very important. It's certainly a key point for us to help take friction out of the travel experience for both the bookers and for the partners. I'll give you kind of some examples.

So, with payments, we're able to do some things with bookers we can't do before. So we're able to basically merchandise and improve the value proposition to our bookers we're offering two or three things together through the same price. We had to sell them all separately before. So it's a level we can drive outside of marketing to drive growth. It's another level for us.

We have the ability to package, bundle, and cross-sell more components of the Connected Trip, because we have them on the payments platform. We can remove friction between the customer and the partner. Even in the agency model a number of our customer service requests are from the customer or the partner saying, was I charged the right amount, was I paid the right amount, even though we weren't in the middle of that equation. When we're handling both sides of the payment equation, that's on us. We can handle that and resolve any issues right away.

For our accommodation partners, we can provide them with a couple of different things. Certainly, we have a large global at scale payments network and we can pass on some of the rates that we can get from our acquirers

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to our property partners and give them in some cases a more economic way to handle payments. But also we can handle things like additional factors of authentication.

In Europe, there's now a PSD 2, where if there's a card not present, you have to have multifactor authentication on the booking transaction. Not all of our partners have invested to be able to do that. We have and we can do that for them. And last, but not least relates to one of my other comments, customer service expense friction comes down on those payment related activities, because again we're not trying to solve somebody else's payment equation. We can take care of it ourselves.

Douglas Anmuth
Analyst, JPMorgan Securities LLC
Q

So, related to that, I think you've formed a new fintech unit at Booking about six months ago. What are some of the opportunities that that unit is pursuing?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.
A

Yeah. So, the payments platform is very fundamental to the basic equation of the booker/seller proposition. But once you have a payments platform, which is where the fintech unit comes on, we can start doing things on top of that. So building some financial services [indiscernible] (19:41) products that are focused more on travel.

So, for example, later this year we'll be rolling out on Booking.com Pay In Your Own Currency feature that will let bookers be able to kind of lock in their exchange rate and use our financial services capability to kind of handle that for them. So they're not leaving themselves to the vagaries of future exchange rates when they're paying in their partner's currency as they stay. We can generate some revenue from that over time, of course. That's the first example that you'll see.

Other payment enabled features we'll roll out in the course of the year and into next year will be things like buy now, pay later. It's quite a fairly popular offering in the travel space. But also using the ability to use our payments platform so that customer maybe pay for additional flexibility on the Booking.com platform using our risk management approach.

So, over time, we'll be able to drive new services for bookers, but also drive a financial services revenue stream that we can enable with the payments platform. That's a longer term thing in terms of generating returns from it. But with the amount of cross-border business that we do and the size of what our payments platform will be as it rolls out at scale, there's a good opportunity there for us.

Douglas Anmuth
Analyst, JPMorgan Securities LLC
Q

Okay, great. So let's shift gears, talk about Connected Trip a little bit. This has been an investment area for a little while. That will continue. But if we think about flights, that's kind of the biggest piece of the Connected Trip vision next to accommodations, of course. Can you just talk about where you are in terms of the rollout of flights? How big it is for you? And how are you able to do this in a differentiated way perhaps relative to some other platforms?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.
A

Sure. So I think there's a benefit. To answer your last question first, there is a benefit in kind of coming in from a greenfield situation in a fairly mature marketplace. And there's opportunity because we have this big booker base

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that has expressed interest in buying more things from us, or else we wouldn't be doing it, plus the fact we can just drive a differentiated solution for our customers in the future.

So, in terms of being able to get a [ph] fine (00:21:47) product out is very effective. One thing our customers really enjoy on Booking.com is the transparency and the simplicity and the clarity of the offering. The booking site is very clean. The price are very transparent, reviews are good. They're current. Hidden charges don't exist. You pay what you see on the site.

People ask for that in flights. Flights is a difficult marketplace. A lot of extras, baggage, seats, you name it. It's not the most easy transaction to navigate through; changed fares, et cetera. So we do want to make it very simple and very clean and very transparent in terms of what people are paying. And so far, the feedback we have from our customers is we do a good job of that.

In terms of rollouts, we live in about 40 countries now. As I mentioned, about 70% of our bookers can now see a flight offering. In terms of volumes, it's still small, obviously, our accommodations. But last quarter we sold 5 million tickets. That's about 2.5 times the number we sold in Q1 2019 before we started rolling flights out. So, it's beginning to scale and beginning to make a difference.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Okay, great. What are some of the other things that you think about in terms of Connected Trip that will just continue to improve the kind of booking experience, make it better for travelers going forward?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

Yeah. I go back to flights a little bit to start off with and kind of talk about couple of things we are seeing in terms of benefits. So, what we're seeing – because flights will be the next big vertical, right? The other verticals I'll come on to in just a minute.

But what we're seeing is that for over 70% of the flight bookers on Booking.com, flight is the first only thing that they're booking. That's important, because it shows that it is a distinct booking [indiscernible] (00:23:33). And, of course, it helps with the cross-sell. Now, the good news is that of all the flight bookers we're seeing, 25% are brand new to the platform. We've never seen them before ever. And those bookers, we're getting a nice cross-sell into accommodations.

And then finally, what we're seeing is the accommodation bookers who are buying flights. We've tested this across a few key markets, and a couple of those markets we're now seeing signs that they're more likely to come back and buy more accommodation. So, this kind of nice virtuous circle is beginning to happen for us around the flights business; data points that we kind of track and monitor carefully, and we'll continue to disclose as we go along. So that's a benefit of flights.

In terms of new things, well, we are continuing to experiment around the Connected Trip. We have done some good work in terms of seeing if we can drive frequency and loyalty by us, working with, for example, our ride partners to offer discounted taxi from the airport, from the train station to a high value customers; us contributing to some of the economics of that to produce a positive return and just providing value.

Obviously, the more we drive down the Genius program, we use that. Principally, Genius today is funded by our hotel partners. But over time, we can kind of participate in some of the other verticals. On top there's huge

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discounts to really offer a great solution to our customers. So it just gives us more ways to interact, more ways to merchandise, more ways to market with our customers, particularly our top customers, the ones we want to kind of drive to a higher level of frequency and even a high level of direct bookings.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Okay, great. Let's shift gears, I want to talk about marketing. What are some of the key trends that you're seeing in performance marketing now? I think we've heard a little bit in this week – we've heard a lot this week about advertising. But some in particular, I've just talked about maybe some of the froth perhaps coming out of the marketing environment a little bit, making it somewhat easier perhaps from a performance marketing perspective. How are you thinking about those trends?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

Yeah. We said and we continue to say, we do expect these online marketing channels to remain competitive. There are a lot of people playing in those channels. It's not just the OTAs. You've got the hotel chains, you've got the [indiscernible] (00:25:59) players, a lot of people participating in these channels. We have seen a reduction, as we said, in offline spending and more going to online. That's helpful. That helps everybody.

Our approach hasn't changed. We are disciplined player in those channels. We're looking to attract high quality customers as a positive ROI. And that's been our focus for quite some time. We have seen that the ROIs in those channels have changed over time. I remember in 2021, in the first half of the year, the ROIs improved compared to 2019. But in Q3, because we chose to lean into what we saw recovery in summer travel environments in Q3 of 2021, the ROIs came down, because we are a little bit in control of destiny ourselves. Where we see more volume in these marketing channels, we want to lean in, leverage our strength and leverage our performance marketing capabilities to attract customers onto the channel.

The most recent quarter, Q1 of 2022, the ROIs were also higher than they were in 2019, but lower than they were in 2021. A little bit better than we expected. We said we expect them to be flat in the first quarter. They're actually up a little bit. So, that is a good thing. But bear in mind, this year, don't forget, we've said we do expect to lean in. We think this is going to be – I mean, we've seen it to be a recovering travel marketplace. Some of our customers haven't been using online channels for a couple of years, and they've lost a little bit of memory as to which ones they like best.

So now is the time to really take advantage of our strength and lean in. Again, that's something that is up to us in terms of how often we do it. Over time, we do expect our direct mix shift to benefit the overall return on those marketing channels.

Obviously, to the extent that we are higher percentage of direct, it means we're spending a lower amount of our total spend on marketing across a small piece of the overall business, where an example of that would be in 2019, you saw our spend on marketing as a percentage of TTV come down from 5.3 to 5.1, a meaningful shift, because we had a higher mix of direct business. The ROI stayed pretty constant in the channel.

So, a number of dynamics going on here, but we're pleased with the way that it's working out, we're pleased about the opportunities we see for ourselves this year as the market recovers.

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Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Okay. You pushed a bit more into brand. Last quarter you unveiled some new creative types, the Super Bowl. How is that approach to brand change coming out of the pandemic? And is there anything to share perhaps just early on in how some of those efforts are working relative to your expectations ?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

Yeah, not surprising, we and others were relatively quiet from brand spend during the pandemic, but we did push into our first ever Super Bowl ad this year. I think it went pretty well. We had good social activity around the campaign itself, the evening of the campaign. We got a lot of PR. On the back of it, we continue to drive that program out. You've probably seen us reignite our program the last couple of weeks.

Importantly, what we're seeing is a fairly meaningful increase in top of mind awareness in the US of Booking.com, which is kind of really where brand is aimed at, just making people aware of the proposition. So, we're pleased with what we're seeing so far. I would remind you that brand marketing was a relatively small percentage of our overall marketing spend pre-pandemic. We don't expect it to be meaningfully more as we go forward, a little bit more, but we've become more focused upon a fewer markets with our brand spend.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Okay. When you put all of this together, we talked about some of the product changes, marketing efforts, clearly, an improved backdrop. But how do you think about normalized top line growth? You have kind of talked about a goal of growing faster on the other side of the pandemic. How do you think about that?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

I think this is a very important point to put it into context, particularly with what we've learned during the pandemic in our core accommodations business. Then also the fact we're growing these additional businesses alongside it quite rapidly. We are absolutely focused on being a larger business with a more diverse offering than we had before that's growing faster than it was pre-pandemic with more earnings per share and higher earnings per share growth.

It sounds like that's a pretty tall order. But when you think about what we're doing in terms of the strengthening of the accommodations business, the fact we gain share there with any of these extra businesses to it, we think the Connected Trip will also impact and help accommodations. That's the focus that we have. A lot of it's tied back to loyalty and directness and getting more of our customers coming to us through repeat mechanisms. But that's really summarizes the strategy what we're trying to do here.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Got it. Okay. So you hit on, obviously, earnings growth. I want to talk about margins. So, you've been pretty clear that, of course, the margins are likely not getting back to those high 30s levels that you once saw. And there's, obviously, some mix elements in there. But can you talk about some of the drivers there and how you're thinking about that going forward?

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David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

Yeah. So, again, within that context, we expect to have industry leading margin rates, but we do expect some pressure compared to 2019, principally by the fact we are moving into some other businesses that will become quite large that will produce EBITDA dollars, but at a lower margin rate than the core accommodations business. Within the core accommodation business, there are puts and takes.

Generally, we've done a good job of driving stability in that business from a margin point of view. I think that one of the biggest factors in the short term will be this growth versus profitability, how much we're leading into kind of gain share, that will obviously drive margin down for a shorter point in time. But then we can normalize that when we choose to go back to kind of more market-based growth rates. There are similar takes from a mix point of view in there that could push things down, but of course we've got the direct share gain that can help stabilize them.

So, I think that we can look at a fairly stabilizing margin profile for our accommodation business. Most of that is under our control. I mean, just how quickly we want to grow, how quickly we want to responds to some of the mix shifts. Then the biggest driver of our overall margin rate reduction will be the fact we're moving into some other verticals that have different margin profiles. Again, good things for business, more earnings per share, better bottom line growth, but obviously a different margin rates in accommodations.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Got it. Okay. You've talked about the impact of book to stay timing on take rate and margins in the near term. Just as you look out further, is there a reason to think that take rate will look any different versus pre-pandemic?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

If you take the book to time factors out, which I think we've explained quite clearly, you're kind of left with a couple of things, which are the underlying take rates from our property partners and they're solid, and they have been solid and continue to be so. And we are adding to that take rate with the payments revenue and the things we can build on top of payments revenue, things like fintech. Those add to the overall take rate. Things like insurance are dependent upon payments as well.

So, there are reasons to think that the underlying take rate on the accommodation side actually has some upward movement, which has been. But we're also pleased with our ability to do more merchandise. I talked about payments before and how we can use payments to selectively merchandise in the key markets to cross-subsidize things. So, when we lean into those areas, those will offset some of the benefits from the payment increase and take rate.

And you saw in 2021 that those merchandising efforts offset much of that payment increase. This year we expect, again, pretty most of the payments increased take rates to be offset by our merchandising activities. Again, we control that. We choose to do more or less based upon how we think the returns are on those areas. Over time, it's a very small impact now, but obviously things like the mix of the business will also impact take rates. I don't think that's the question you're asking me, but obviously an air take rate is very different from an accommodation take rate.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

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Sure.

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

But again, those things could be pretty easily broken out. And you can see what's happening to the accommodation take rate, which has been very strong, and I'll say the underlying rates are stable.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Okay, great. Last question I wanted to ask you about capital allocation. You've resumed share repurchase activity, made some acquisitions in recent quarters. Has anything changed in terms of how you're viewing capital allocation?

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

A

No, the bigger picture hasn't changed. Obviously, job number one is to invest in the business, which we can do organically. We've made a number of investments or partnerships. We've done a number of those in Asia over the year, or M&A. You've seen us spend more on M&A than we have recently. And over and above that, we think the share repurchases are a good form of returning capital to our shareholders. We restarted our share repurchase program last quarter. We spent about $1.3 billion through the end of April, which is faster than the three-year timeframe we gave you to spend the $10.4 billion of authorization we came out of COVID with.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Got it. Okay. We're going to leave it there. Thank you, David.

David Ian Goulden
Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.

Great. Thank you, everybody. Thanks, Doug. Thank you.

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