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# Booking Holdings, Inc. (BKNG)

Q1 2019 Earnings Call


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# MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to the Booking Holdings First Quarter 2019 Conference Call.

Booking Holdings would like to remind everyone that this call may contain forward-looking statements, which are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed, implied or forecasted in any such forward-looking statements. Expressions of future goals or expectations and similar expressions reflecting something other than historical fact are intended to identify forward-looking statements.

For a list of factors that could cause Booking Holdings' actual results to differ materially from those described in the forward-looking statements, please refer to the Safe Harbor statements at the end of Booking Holdings' earnings press release as well as Booking Holdings' most recent filings with the Securities and Exchange Commission. Unless required by law, Booking Holdings undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

A copy of Booking Holdings' earnings press release, together with an accompanying financial and statistical supplement, is available in the For Investors section of Booking Holdings' website, www.bookingholdings.com. And now, I'd like to introduce Booking Holdings' speaker for this afternoon, Glenn Fogel and David Goulden. Go ahead, gentlemen.

## Glenn D. Fogel

*Chief Executive Officer, President & Director, Booking Holdings, Inc.*

Thank you. And welcome to Booking Holdings' first quarter conference call. I'm joined this afternoon by our CFO, David Goulden. We produced a solid quarter, with 217 million worldwide room nights booked, which is up 10% year-over-year and exceeded the high end of our guidance range. As we discussed on our last call, the timing of Easter and foreign exchange rate movements meaningfully impacted our U.S. dollar financial results this quarter. Our year-over-year non-GAAP revenue growth was down slightly in U.S. dollars, but up 6% on a constant currency basis and up about 8% when further adjusting for Easter. Adjusted EBITDA declined year-over-year by 10%, but increased about 6% when adjusting for FX and Easter, which was above the high end of our guidance range for the quarter.

We are pleased with our results for the quarter and we continued to see encouraging metrics in our business. Our direct channel is growing faster than our pay channels, our mobile share is increasing and our alternative accommodation business is growing faster than our overall business. As we continue to execute against a very large market opportunity, we will look to drive shareholder returns through the combination of organic growth investment, share repurchases and opportunistic M&A.

As we discussed on our last earnings call, we are investing to support the growth in our core accommodation business primarily through brand marketing, merchandising and customer acquisition programs. These investments are aimed at driving long-term top-line growth and share gains. We are on target with the launch of our new brand campaigns and, while it's early, we have confidence that they will increase our brand awareness over time. We are also pleased with the early results of some of our merchandising and customer acquisition programs and look to expand these as we move into our busy travel season.


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Our branding goals include driving greater awareness of our alternative accommodations listings, as we continue to expand and improve our offering here. We were pleased to announce during the quarter that Booking.com passed the milestone of 0.75 billion guests stays in its alternative accommodations since 2007. And as of March 31, Booking.com had approximately 5.8 million reported listings in alternative accommodations, which grew approximately 13% year-over-year.

More importantly, our individually owned properties represent the fastest category of supply in booked room night growth. This is a key area of our focus for us as we look to provide the broadest possible selection of unique places to stay, which helps drive conversion benefits across our platform. We will continue to utilize M&A and strategic investments to accelerate key growth opportunities. For example, FareHarbor has enabled us to accelerate our growth in the attractions market and has given us key capabilities to build a truly Connected Trip, where we envision a frictionless customer experience that we believe will enhance loyalty in our accommodations offering. Our strategic investments in China and broader Asia, accompanied with local marketing partnerships, will continue to help us expand in these key under-penetrated markets where we believe we can have long-term growth.

Finally, in terms of share repurchases, we completed the remaining portion of our $10 billion share repurchase program, buying approximately $4.5 billion to-date in 2019. Consistent with our historical approach to share repurchases, we took advantage of the opportunity to invest in our own stock during the quarter. This year alone, we have purchased 5% of our fully diluted shares. Additionally, our board of directors approved a new $15 billion repurchase authorization that we will look to execute over the next two to three years, assuming stable business and market conditions. David will provide some more color in his prepared remarks, but this new authorization reflects our strong financial position, our high cash flow generation and demonstrates our confidence in the future of the business.

In conclusion, we had a solid quarter, as our team remains in full execution mode. We will continue to drive long-term shareholder returns through a combination of organic investment, share repurchases and opportunistic M&A. As you can see, we are actively pulling on all three of these levers. We remain absolutely focused on the large global opportunity that lies ahead of us and will manage our business with a long-term view to capture it.

I will now turn the call over to our CFO, David Goulden, for the financial review.

## David I. Goulden

*Executive Vice President and Chief Financial Officer, Booking Holdings, Inc.*

Thank you Glenn, and good afternoon. I will discuss our operating results for the first quarter, provide an update on our capital structure and then discuss our guidance for the second quarter as well as our thoughts on the full year. All growth rates are relative to the prior-year comparable period unless otherwise indicated. Information regarding reconciliation to GAAP can be found in our earnings release. Now, on to our results for the quarter.

Our booked room night growth of 10% for the quarter exceeded the high end of our guidance range. We were pleased with our performance, considering the slow start in Europe and the growth challenges in our primary performance marketing channels. Despite a sluggish environment in Europe, room night growth rates in the region exceeded our expectations. Our room night growth rates for the rest of the world was slightly ahead of our expectations and grew faster than Europe.

Average daily rates for accommodations or ADRs were down about 2% in Q1 on a constant currency basis, which was more than our guidance of down about 1%. Changes in foreign exchange rates reduced Q1 growth rates in


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U.S. dollars by approximately 6 percentage points versus last year. We estimate the changes in FX rates impacted Q1 gross bookings, revenue and EBITDA growth rates by similar amounts, and EPS growth rate by about 1 percentage point more. Q1 gross bookings grew by 2% expressed in U.S. dollars and grew by 8% on a constant currency basis, coming in above the high end of our guidance range.

Consolidated non-GAAP revenue for the first quarter was $2.9 billion and declined by 0.4% in U.S. dollars and grew by about 6% on a constant currency basis. As expected, the shift in timing of Easter holiday had an approximately 2-percentage-point negative impact on our Q1 revenue growth rate. As a reminder, last year, Easter was on April 1, and therefore the majority of Easter-related travel revenue was recorded in the first quarter. This year, with Easter on April 21, Easter travel revenue will be recorded in Q2. Our Q1 non-GAAP revenue growth rate on a constant currency basis and adjusted for Easter timing was about 8%.

Advertising and other non-GAAP revenue, which is mainly comprised of non-intercompany revenues for KAYAK and OpenTable, grew by 9% in Q1. Adjusted EBITDA for Q1 was $718 million, which exceeded the high-end of our guidance range, and was down 10% year-over-year on a reported basis and up about 6% on a constant currency and Easter adjusted basis. Our Q1 adjusted EBITDA margin of 27%, after adjusting for Easter, was also ahead of our forecast.

We remain disciplined with our spending on performance marketing, which helped drive better-than-expected leverage of 250 basis points in the quarter. While we have seen slowing growth across our performance marketing channels, we continue to see these channels as an effective way to acquire customers, and we will continue to spend rationally to optimize growth.

As part of our 2019 growth investments as well as our continued efforts to drive more direct traffic to our websites, we increased our spend on brand marketing in the quarter by 61% versus Q1 last year, contributing to about 250 basis points of deleverage. Sales and other expense line grew with merchant gross bookings growth and contributed 172 basis points of deleverage, primarily due to the growth of our payment platform at Booking.com. Finally, personnel expense came in lower than our forecast and contributed a small amount of deleverage in the quarter.

Our non-GAAP EPS was $11.17, down 7% versus the prior year. Adjusting for currency and Easter timing, non-GAAP EPS grew 11% in the quarter. Non-GAAP net income reflects a non-GAAP tax rate of 18.9%, which decreased slightly from the prior year and was higher than our estimate for guidance due to discrete items. Our 8% lower share count in Q1 benefited EPS growth in the quarter.

On a GAAP basis, operating income declined by 24% and GAAP operating margin decreased by 532 basis points compared to Q1 of last year. Q1 GAAP net income amounted to $756 million (sic) [$765 million] or $16.85 per share, up significantly from Q1 2018. Our Q1 GAAP net income included $451 million of pre-tax unrealized gains on our equity investments in Ctrip and Meituan. We excluded these unrealized gains from our non-GAAP results. We had a GAAP tax rate of 21% in the quarter, which increased from the prior year, primarily due to discrete tax provisions related to the Ctrip and Meituan gains.

Our operating cash flow and free cash flow in the quarter were negatively impacted by a payment of $403 million to the French tax authorities in order to preserve our right to contest an assessment in courts, as well as an increase of $48 million of income tax prepayments in the Netherlands.

We entered 2019 with approximately $4.5 billion remaining from our $10 billion share repurchase program, which we announced in May of 2018. In the first quarter, we repurchased another $2.7 billion of our stock under the


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program, and since the end of Q1, we've completed the remaining $1.8 billion share purchase reauthorization, reflecting both the buying opportunity and our confidence in the business. We ended the quarter with $12.8 billion in cash and investments and $8.7 billion of outstanding debt.

With this authorization complete, we wanted to update you on how we're thinking about our capital structure and next steps for capital allocation. We believe that our strong balance sheet is a strategic asset as we look to capitalize on the growth opportunities ahead in our core online travel businesses and also as we execute our strategy to deliver the full Connected Trip.

Our top priorities are investing in the growth of our business both organically and inorganically, and having the financial resource to enhance our competitive position even in the event of a macro downturn. In April, our board authorized a new $15 billion share repurchase authorization, which we expect to complete in the next two to three years, assuming stable business and market conditions. We intend to fund this authorization as well as future M&A via cash on hand, cash flow from operations, and additional borrowing capacity, consistent with maintaining strong investment-grade credit ratings.

On a related note, as we have deployed more of our cash, we have decided to move $3.6 billion of cash we were holding in euros into our U.S. cash pool. This means that starting in Q2, our $3.75 billion of euro debt will no longer be fully hedged from currency fluctuations for GAAP purposes, and going forward, you'll see these non-cash gains or losses in our foreign currency transactions and other line in our GAAP income statements.

These euro-denominated liabilities remain economically hedged by our ongoing cash generation from euro-denominated operations and, at maturity, we intend to refinance the debt in euros or repay it with euro-denominated cash flow. As such, we intend to exclude these non-cash gains or losses from our non-GAAP financial presentation.

Turning to guidance, I want to briefly walk you through some of the factors we discussed on our last call that will impact the outlook for the year, and then I'll come back to our guidance for Q2. Starting with our growth investments in 2019, as we discussed in detail last quarter, we're investing for growth, customer acquisition and loyalty. While it's early days, we're on target with the launch of our brand campaigns. We're also encouraged with the initial results from some of our merchandising and customer acquisition programs. We continue to expect these growth investments will reduce our EBITDA growth rates by a few percentage points in 2019, and there will be a greater negative impact on EBITDA growth during the first half.

Moving to payments for Booking.com. Last quarter, we noted that we do not expect any additional reduction in EBITDA growth from payments this year. We now expect the payments will have a modestly negative impact on EBITDA growth for this year due to a change in the timing of revenue recognition on a component of merchant revenue. However, we do not expect any additional negative impact on EBITDA growth from payments for 2020. As a reminder, we believe payments provides important advantages in many areas, including merchandising flexibility, a better customer and partner experience, reduced customer service expenses and the ability to coordinate and manage integrated trips.

Now, to the mechanical factors impacting our outlook. Using current FX rates assumed in our guidance, gross bookings growth and revenue growth through to non-GAAP EPS growth will be reduced by approximately 3 percentage points for the full year, which is greater impact than anticipated on our previous guidance, due to the reduction in the euro-dollar exchange rate since we last announced. Additionally, the shift of timing of Easter will impact Q1 and Q2 revenue growth rates.


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Finally, our outlook does not anticipate any change in the macro environment, which as I previously mentioned, remains sluggish in Europe. With that context, it remains our expectation that non-GAAP EPS on a constant currency basis will grow in the low double digits in 2019. We continue to expect to gain share in accommodations in each major geographic region, and we're confident that the strength of our business reinforced by the growth investments we're making this year will enable us to achieve this.

Let's now turn our attention to Q2. Foreign exchange rates are expected to be an approximately 5-percentage-point headwind to year-over-year growth rates in Q2, which we estimate will impact gross bookings, revenue, EBIDTA and non-GAAP EPS growth rates by similar amounts. We used a dollar-to-euro exchange rate of $1.12 when setting our Q2 guidance. The shift of timing of Easter discussed earlier on the call will positively impact revenue growth in Q2. We estimate this timing shift will increase Q2 2019 revenue growth rates by approximately 2 percentage points.

Based on where we are in the quarter and looking at all other factors and consistent with our usual approach to guidance, we are forecasting booked room nights to grow by 6% to 8% and gross bookings to be approximately flat in U.S. dollars and grow by 4% to 6% on a constant currency basis. Our Q2 forecast assumes that constant currency ADRs for the company will be down about 2%. We forecast Q2 revenue to be up 5% to 7% in U.S. dollars and grow by 10% to 12% on a constant currency basis. Normalizing for both Easter and constant currency, we estimate Q2 revenue to grow by 8% to 10%.

Q2 adjusted EBITDA is expected to range between $1.295 billion and $1.325 billion, which represents approximately flat year-over-year growth. Normalizing for both Easter and constant currency, we estimate Q2 EBITDA growth also to be approximately flat. We are forecasting modest leverage from the performance marketing expense line in Q2, reflecting lower volumes in the pay channels and our continued focus on acquiring high quality traffic.

We expect to continue to meaningfully grow our brand marketing spend in the quarter, which will contribute deleverage to the P&L and more than offset leverage we're expecting from performance marketing. Of course, the benefits from brand marketing will be realized over multiple quarters. Finally, sales and other expense growth is expected to remain elevated and continue to grow faster than revenue, primarily due to the ramp of our payment platform at Booking.com.

We are forecasting Q2 non-GAAP EPS of approximately $22.15 to $22.60. Normalizing for both Easter and constant currency, we estimate Q2 non-GAAP EPS to grow approximately 7% to 9%. Our non-GAAP EPS forecast includes an estimated income tax rate of approximately 19%, which is in line with Q2 last year. We continue to expect our full year non-GAAP tax rate to be 19% to 19.5%. Our Q2 non-GAAP EPS guidance assumes a fully diluted share count of about 43.6 million shares, which is 10% below Q2 last year. We forecast GAAP EPS between $21.10 and $21.55 for Q2. Our GAAP EPS guidance for Q2 assumes a tax rate of approximately 19%.

We have hedge contracts in place to substantially shield our second quarter EBITDA and net income from any further fluctuation in currencies versus the dollar between now and the end of the quarter. But the hedges do not protect our gross bookings, revenue or operating profit from the impacts of foreign currency fluctuations. Our forecast does not assume any significant change in macroeconomic conditions in general or in the travel market in particular.

We'll now take your questions.


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# QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] . Our first question comes from the line of Lloyd Walmsley from Deutsche Bank. Your line is open.

Lloyd Walmsley
*Analyst, Deutsche Bank Securities, Inc.*

Q

Thanks. I have two questions, if I can. First, just on the performance spend, it looks like it declined again on a year-over-year basis. Can you talk about how much of that was a function of changing ROI targets versus just not seeing the traffic from some of the pay channels? Or maybe how much was contra revenue from the new acquisition programs? And then second one, as you look to 2Q, are things fairly stable? Anything strange to call out on the bookings and room nights outlook? I'm wondering if Easter is a bit of a headwind to bookings in 2Q. And then does your guidance assume deceleration for the remainder of the quarter? Anything you can share there would be helpful.

David I. Goulden
*Executive Vice President and Chief Financial Officer, Booking Holdings, Inc.*

A

Okay, Lloyd. Let me take it in reverse order. So, we can remember your first question last. So, relative to Q2 guidance and what we are expecting from a room night point of view, our April room night growth was actually in line with the high end of our guidance range, to answer your question on deceleration, but that was impacted by a little bit of negative impact from the timing of the Easter holiday, so in line with the high end, but with some pressure from the timing of Easter with our shifts.

In terms of what have we factored into our Q2 guidance, the approach hasn't changed. We've obviously looked at the macro. There's some uncertainty out there. Europe continues to be a little sluggish, but we've taken all those factors into account and, consistent with our prior practice, that really supports the way we came out with guidance. And then on your first question, on the performance marketing spend, we're pleased with our share in those channels. Our ROIs were fairly consistent with what we expected them to be, and that categorized the leverage that we're seeing in the performance marketing channel.

Lloyd Walmsley
*Analyst, Deutsche Bank Securities, Inc.*

Q

And anything just to add in terms of how much, how material the contra revenue is from new acquisition programs and merchandising that you can help us think through?

David I. Goulden
*Executive Vice President and Chief Financial Officer, Booking Holdings, Inc.*

A

Obviously, as we go through the year, that's going to increase. Q1, nothing particularly material to talk about. We talked about the fact that those investments will ramp during the year, so Q1 will be the smallest impact as we go through the year.

Lloyd Walmsley
*Analyst, Deutsche Bank Securities, Inc.*

Q

All right. Thank you. Appreciate it.


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**Operator**: Our next question comes from the line of Mark Mahaney from RBC Capital Markets. Your line is open.

Q

Hi, guys. This is [ph] Ben (23:58) on for Mark. Thanks for taking my question. Firstly, just on the alternative accommodations, last quarter, you talked about specifically building out inventory in non-urban and single home vacation destinations in the U.S. Any like kind of update on the progress there, or any relative performance of U.S. versus Europe performance in the AA market? And just secondly, are there any kind of preliminary results you can report from the brand marketing campaign, any significant upticks in direct traffic to call out? Thank you.

Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*

A

Hi, [ph] Ben (24:36). It's Glenn speaking. So, we did call out previously about how important we think it is to have the breadth of all types of alternative accommodations, and we marked that in our portfolio. We felt an area we needed to grow more was the single property owner spot. And I'm pleased to say we continue to make progress there. We continue to grow that very fast. But it is still a smaller portion of the overall portfolio of alternative accommodations, so there's room to grow there. In regard to brand, we are pleased with the early, early part of our rolling out the campaigns, and I think in any type of new campaign, you need to have some time before you declare victory or not. So, we'll say just that it's early, and so far, so good.

Q

Thanks, Glenn. And any comment on kind of how your AA performance has been in Europe versus the U.S. overall, like in general?

Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*

A

I don't think we break that out like that, but we've always said how Europe is a bigger portion of our overall business than any other part of the world. And we have pointed out in the past in terms of awareness that if you went to somebody on the street and said where can I get a home in the U.S., they probably would not go to Booking.com. But if you were walking in a capital city in Europe, you have much higher likelihood that they would say Booking.com.

Q

Thank you very much.

**Operator**: Our next question comes from the line of Douglas Anmuth from JPMorgan. Your line is open.

Doug Anmuth
*Analyst, JPMorgan Securities LLC*

Q

I have two. First one for David. If your April was 8% in terms of room nights booked, I was just hoping you'd give a little bit more color in terms of the guide, 6% to 8%. Is there something that you're expecting over the next couple months? Or is this just kind of your natural expectation for decel that you've kind of had in previous quarters. And


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then Glenn, I couldn't help but notice that you mentioned opportunistic M&A, I think, three times in your script. I'm curious what kinds of things you guys are kind of considering and looking at. Any kind of color there would be helpful. Thanks.

David I. Goulden
*Executive Vice President and Chief Financial Officer, Booking Holdings, Inc.*
A

Sure. Let me go first on the guidance call – on the guidance comments, not to repeat what I said, maybe to put a bit more flavor on it. April was in line with the high end of our guidance range. I mentioned we had a little bit of pressure in April from the timing of Easter. When we look at our guidance for the quarter, we haven't changed our guidance approach. We are looking at a number of things that are happening out in the marketplace. In the macro, there's obviously some uncertainty out there, then that really kind of lays into our guidance. But again, our approach to guidance hasn't changed. So, don't read anything more into it than that.

Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*
A

And in terms of opportunistic M&A, as you know, we wouldn't talk about any specific targets or anything of that nature. But you know we built this company over time by bringing in great teams, great products, and that's what we're going to continue to do. I think the best way to look at this is, over the past couple of years, where we've been spending our money, bringing in things that we didn't really have. And I'll just point to our most recent acquisition, which we just closed a couple days ago, Venga, a small acquisition. But it brings in a CRM platform for our OpenTable operation with restaurants, and it makes the idea of how we can provide a personalized experience for a consumer, a diner. It makes it much more powerful in terms of the overall restaurant operating system.

Now, that is part of our overall strategy of the Connected Trip and we talked about this in the past about providing a service, a value to a traveler. There's much more than just going onto a site and booking a hotel. That's what we're trying to do is create all these different things, stitch them together in a way that provides significantly more value than any single service could do on its own.

Doug Anmuth
*Analyst, JPMorgan Securities LLC*
Q

Okay. Thank you both.

**Operator**: Our next question comes from the line of Kevin Kopelman from Cowen and Company. Your line is open.

Kevin Kopelman
*Analyst, Cowen and Company*
Q

Thanks a lot. First, just kind of a follow-up on your last comment there. Can you give us more detail on your roll-out of the attractions product? It's an area where you've had kind of a pilot in place for a long time, but we haven't seen that broader product. So, what can we expect in attractions?

Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*
A

Sure. Glenn speaking here. So, as you know, we've been building out the attraction business now for a while, and we went out and we bought a company called FareHarbor, which provides a back-end solution to enable smaller


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and medium-size attraction suppliers to go digital and get onboard. And we've talked in the past about more than 100 cities where you can now get attractions, and the whole idea is to create this frictionless, seamless way for a consumer who is using, say, the Booking.com app, to be able to see all the different things you can do in a city because you don't go to a city just to sit in the hotel room or in the home. You do it to do things.

And providing this very easy-to-you, frictionless thing where you're provided with a QR code that enables you just to go up to some type of attraction and go through it, either it's quicker because we're offering up something like a skip-the-line benefit or it's cheaper. And these are things we can do. Because of our overall huge demand, we can negotiate with these suppliers and get these kind of benefits for our customers that others may not be able to get. That's the whole idea. Now, in terms of rolling it out, we continue to add more cities and more attractions all the time, and I think you'll be able to go to more cities as we roll it out in the near future.

Kevin Kopelman
*Analyst, Cowen and Company*
Q

Thanks. And then just one other question, if I may, on revenue in the first quarter was a little lower than expected despite the strong nights. Can you give us some color on the puts and takes there? And to what extent was that impacted by the new merchandising programs? Thanks.

David I. Goulden
*Executive Vice President and Chief Financial Officer, Booking Holdings, Inc.*
A

Yeah. Kevin, this is David. Let me take that. I think that's really more due to the timing of our beat on room nights. If you think about it, we were speaking to you last at the end of February, and therefore, the beat that we saw in room nights was clearly in the month of March. And those room nights came in later during the quarter. Therefore, they have less of an impact in Q1 and more of an impact in future quarters.

Kevin Kopelman
*Analyst, Cowen and Company*
Q

Thanks, David. Thanks, Glenn.

**Operator:** Our next question comes from the line of Justin Post from Bank of America. Your line is open.

Justin Post
*Analyst, Bank of America Merrill Lynch*
Q

Great. Thanks for taking my question. I guess if you look at last quarter's bookings and this quarter's guidance of 4% to 6% ex-FX, so more deceleration there, I'm just trying to think about the long-term growth rate. So, could you talk about if there's some unusual factors that you're seeing in 2Q? Obviously, the 2% ADR declines, other things you're seeing. And do you feel like your growth rate can improve from the 4% to 6% level in 2Q over time from here? Thank you.

Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*
A

So, why don't I start, Justin, then I'm sure David can add some more comment to this. But so, I think we mentioned a little bit about sluggishness in Europe continues. As we mentioned before, we're a bigger player in Europe than we are in other areas of the world. In terms of your point, which is can it improve? Certainly. It's not just a macro thing. And I'm going to use that question as an opportunity to, again, lay out what our long-term


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strategy is. And we believe in providing this better service, stitching together all these different things, really providing something that no one else really can do.

And then layering on that, all of the money we're spending on machine learning experts, using our huge amount of data, our big data analysis to really provide a better thing for the consumer. We believe, and that's why we're doing this, is that we can come up with something that actually hits an inflection point at some point, where it really is significantly better to come to Booking.com to do your travel, and that's what we're aiming for. So you asked me, do I think that's possible? I absolutely believe it's possible, and that's why we're building this stuff.

And David, do you want to give any more?

### David I. Goulden
*Executive Vice President and Chief Financial Officer, Booking Holdings, Inc.*

A

Yeah. And Justin, just to kind of drill a little bit more into numbers this year, you've got a couple of things going on. Bear in mind, we of course didn't guide to the top line for the year. We did give you some guidance on the bottom line. But we do expect to get some additional benefits from our investments which we move throughout the year. That's one of the factors to think about this year in addition to longer-term factors that Glenn spoke about.

### Justin Post
*Analyst, Bank of America Merrill Lynch*

Q

Great. Thank you.

**Operator**: Next question comes from the line of Mark May from Citi. Your line is open.

### Mark A. May
*Analyst, Citigroup Global Markets, Inc.*

Q

Thank you. I have two, if I could. Just kind of curious how much of the slowdown in bookings and also the ADR pressure might be not so much a macro factor as it is sort of hotel pricing competition? We've picked up on bookings efforts around early payment benefits and some other efforts that seem more a response to sort of pricing competition. Just wondering how much that, in fact, accounts for some of the slowdown in bookings and the pressure on ADRs.

And then my second question is around the non-GAAP EPS growth in low-double digits this year. I believe that you talked about share count declines of about 10%. So is that kind of the way we should be thinking about the non-GAAP EPS growth for this year, ex the buybacks? It's kind of in the very low single digits? Thanks.

### Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*

A

So Mark, let me talk about the beginning. And you started out by talking about hotels, but I think we really have to expand that question into price competition in general. And in previous quarters, we talked about certain areas where, particularly Asia, where price competition can be very strong. And one of the things that we talked about is building out that merchandise payment platform for Booking.com so we could have an ability to compete on price, when appropriately, but even more so that whole idea of merchandising. And that's not necessarily just discounting a hotel which anybody could do and that may not be the thing to do. What you can do instead is package something. So for example, we made that investment into Didi. We made that investment into Grab in Southeast Asia. And the idea is that a customer comes to us, and we can offer them up ground transportation along with a hotel. And on that merchandise platform, we can do different things with the overall price, the overall


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cost to the consumer in a way that makes it much more advantageous to that consumer to come to us. So that's the way we'll have an advantage in competing in these areas of high competition. And I'm looking forward to that as we continue to roll that out.

And Dave, I don't know, is there anything you want to add there?

David I. Goulden
*Executive Vice President and Chief Financial Officer, Booking Holdings, Inc.*
A

Yeah. Well, I think there are a couple things. So, Mark, you asked about the ADRs. I can give you a bit more color on that. They were down a little bit more than we expected for the quarter. It wasn't really a full quarter because there's a fairly important rounding factor there. So it was down less than 1% more than we thought. But they were down for the quarter year-on-year by 2%. And there are two factors there, really almost equal weighting. One was to do with rate and pricing. I wouldn't necessarily say that was rate and pricing pressure that we were creating, just kind of rate and pricing pressure in the marketplace. The other was geo mix impacts, is some of the higher growth countries are some of the countries with the lower ADRs.

And then moving to your question about non-GAAP EPS, constant-currency on low double-digit basis, I mean, we clearly are going to get benefit from share count reduction this year. I talked to you about a 10% reduction. That was a Q2 share count reduction. Obviously, we bought very heavily in the first month and that will impact the Q2 share counts. So something a little bit less than that for the full year.

But bear in mind that we're also making significant investments this year as well. We talked about the fact the investments we're driving are costing us a few basis points of EBITDA growth rate. So there are a few different things going on in the income statement this year. But you need to kind of look at the investments as well as the share count reduction because they both have an impact upon that growth rate. So I'd say the good news is here that even though we're making some very significant investments, we're still looking to return low double-digit non-GAAP EPS growth constant-currency basis in a year where we're making that level of spend.

Mark A. May
*Analyst, Citigroup Global Markets, Inc.*
Q

Helpful. Thanks.

**Operator:** Our next question comes from the line of Brian Nowak from Morgan Stanley. Your line is open.

Brian Nowak
*Analyst, Morgan Stanley & Co. LLC*
Q

Thanks for taking my question. I just wanted to ask a couple about alternative accommodations. Can you just sort of talk about any learnings you've had from commission rate adjustments or take rate adjustments on alternative accommodations? And how should we think about your strategy on the take rates on the alternative accommodations base? And then for any other areas of investment, I guess, talk to us about how you think about integrating more OpenTable into the platform, maybe driving more and more attach on non-hotels to the traveler's experience. Thanks.

Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*
A

Hi, Brian. It's Glenn. So we talked in the past on alternative accommodations. The take rates are not dissimilar from hotels. We have commented though, that the cost to us for those type of accommodations can be higher


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than a hotel, and we talked, the reason is, one, you can't spread your costs, account costs or other things in terms of getting people on board as well as you can't with a hotel because you only have really one property, so to speak, to get somebody in the room. Even more so, we've mentioned that the contacts for the customer in the accommodations area is higher usually than for the hotels, and that ends up being costlier too.

So the strategy is always look, you're in a market. You've got to match up the market. And the more demand you have, the more ability you'll have to get the take rates you want. As you get bigger and bigger and you learn more about how to do the business, hopefully you can leverage and lower your cost across the accommodations area. Along with more technology, will also help us, and I've mentioned in the past, as we continue to develop more technology, particularly in the area of using our natural language processing to help provide automated responses to the customers, the Booking.com chat bot, it works so well right now in English. As we continue to develop that, we'll reduce that cost portion of the business.

And in terms of integrating for OpenTable, I think you've probably heard me talk about this, and it's something that I am very encouraged by and I'm often frustrated that we haven't done it yet but I do see it coming out in the future because I always talk about if somebody travels, 100% of them are not going to eat at home. We need to be able to provide a combined package product, something that we're using all the data we have about our customers to provide them with a better, more effective way to give them value. And it's not just for the customer who is traveling. We've got the customer on the restaurant side using our OpenTable platform, it's a marketing platform for those restaurateurs and be able to do that because we know who the people are, where they're going, we know their habits.

Doing that all together I believe is going to provide a significant benefit for our customers. Another reason to make them more loyal to us, make them come back, more repeat. How fast is that going to happen? I hope faster than it has in the past and then we continue to work with the teams. And I think we'll see some stuff coming down the road in the not too distant future that is encouraging.

Brian Nowak
*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thanks.

**Operator**: Our next question comes from the line of Eric Sheridan from UBS. Your line is open.

Eric J. Sheridan
*Analyst, UBS Securities LLC*

Q

Thanks for taking the question. And maybe following up on a couple of points that have been made during the call so far, how far along are you to where you want to be on realigning your marketing against your longer term goals? What comes from performance channels versus direct channels, lining up against direct traffic and sort of loyalty and reward type behavior from your core users and growing acquisition but also growing retention of spend across users on the platform? I just want to understand how far through that process we are, and what some of the big friction points you're still trying to solve for that you think line up against your broader goals of how to spend and what kind of ROI you'll get from your broader marketing budget. Thanks, guys.

Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*

A

Well, in terms of where we are in the process, we think that it's every day we think we're where we want to be in terms of the balance between the different ways we're going to spend in marketing, always looking at what's the


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ROI, what's the long-term benefit that we're getting, what's the return, the loyalty we're going to get out of these people looking at the data. Historically we've always been a company that deals with data and what are we getting out of it.

Now, it's harder with the brand marketing, and it's much harder with a new campaign that comes out, and you don't have a lot of response yet. So as I mentioned earlier, we're early in that. But we are – we absolutely believe that it's important to continue on the path of building out that brand spend and develop that brand awareness, particularly in the U.S., where we believe we under-index. So that people are more aware of the very good service, the very good products that we provide to customers and develop the same type of market share that we have been able to achieve in other areas.

That being said, competitors are always making their moves, and it's – and I'm going to use a word I know I use all the time – dynamic. These markets are dynamic whether it be paid stuff, whether it be areas and brand. They're always moving and changing and you're always looking at what everybody is doing and matchings against that. I think we're good where we are right now. I'm pleased with the ROIs. And I think we're going to be fairly steady in the near future.

Eric J. Sheridan
*Analyst, UBS Securities LLC*

Q

Maybe if I could just ask one follow-up. As you've seen some of the performance channels evolve, how are you thinking about what they donate to you in terms of traffic and conversion, measured against what kind of ROI you're getting? Are you still in sort of a neutral to declining ROI environment, but you can't sort of abandon them from a volume standpoint? How are you thinking about the puts and takes of some of your performance channels, and what they deliver to you?

Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*

A

I'll say we look at all factors. When we're doing – we're spending on any part of our marketing channel, we are always looking at all the data we get back in every way, shape or form and determining whether or not this is a good spend, not a good spend. Should we spend more? Should we spend less? And also, what's the elasticities at that time. But I'm not going to get into the details of any individual thing.

David I. Goulden
*Executive Vice President and Chief Financial Officer, Booking Holdings, Inc.*

A

And then Eric, I just had to – these channels are all important to us. So it's not one versus the other. It's always both, and we acquire new customers through these channels. And people sometimes move from channel to channel so it's a little dynamic. So just want to make the point, it's really always a question of and, it's not a question of or, how we kind of look at these channels.

Eric J. Sheridan
*Analyst, UBS Securities LLC*

Q

Great. Thanks, guys.

**Operator**: Our next question comes from the line of Deepak Mathivanan from Barclays. Your line is open.


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Deepak Mathivanan
*Analyst, Barclays Capital, Inc.*

Q

Great. Thanks, guys. Two questions. So first of all, related to the prior one but on the brand marketing side. Which inning are we currently with respect to the size of the program? Obviously, unlike performance there's some constraints in how big the program can reach in every market. So I mean, you guys are expecting it to grow in 2Q as well. And are we at a – when do you think we'll be at a run-rate where these programs are in sufficient scale in your key markets?

And then second on – David, you noted margin pressure from payments is higher than prior expectations for the year. Is that driven by incremental adoption of payment offerings on higher volumes? Or can you talk about some of the primary drivers of that? Thank you.

Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*

A

So I'm going to take the first one, and I'm going to say we don't use words like innings. We're a global company and baseball is not actually played in much of the world. So when we talk about it the way you do, I'm going to use football and talk about where you kick the ball. So I'd say, look, it's still first quarter, first half, depending on which, whether you're playing in a high school game or you're playing out in a world game. So definitely first half, and maybe the early part of that. There's a lot of things still to be done, and as I said, this is early in terms of getting response. But I want to commit again that this is an important area we're going to continue to spend. We may have to change things down the road but we're going to continue to spend.

David I. Goulden
*Executive Vice President and Chief Financial Officer, Booking Holdings, Inc.*

A

Yeah, and Glenn, let me just follow-up and answer the question on payments. So let me just kind of recap again what's going on with payments. So last call we went through a long explanation on payments in February, and we said we didn't expect any additional reduction in EBITDA growth from payments in 2019. We now expect that this year payments will have a modestly negative impact on EBITDA growth for the year. So what's changed?

Nothing's changed in terms of the adoption of payments and the cash flow economics of payments what's changed is due to a change in the revenue recognition timing of a component of merchant revenue we'll not recognize this year. And we expect to start recording some of this revenue again in 2020. So it's a timing issue of revenue recognition. It doesn't change underlying cash flow economics. It doesn't change the long-term economics. It really will impact us in 2019. And that's what's going on.

Deepak Mathivanan
*Analyst, Barclays Capital, Inc.*

Q

Great. That's very helpful. Thank you.

**Operator:** Our next question comes from the line of Naved Khan from SunTrust. Your line is open.

Naved Khan
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Yeah. Thanks a lot. Glenn, maybe you can give us some additional commentary around the macro. Back in Feb, when you were on the call, it seemed like Europe was kind of not that great. And now, two months out, is your view incrementally better? Or how do you view the European macro? And then I have a follow-up.


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Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*
A

I'm just going to have to stick to, it's sluggish. And I can't really compare it to the last call. Things we called out in the past seem to be continuing somewhat. Germany and France, the manufacturing confidence fail. Germany reduced the full year growth outlook, Brexit, even though we got off the cliff, it still is something in people's mind. And I think it also hurts confidence in the UK about making decisions. So I can't say more than we believe it's sluggish and it's not dissimilar.

Naved Khan
*Analyst, SunTrust Robinson Humphrey, Inc.*
Q

Got it. And then follow-up question I have was just on this ADR being down 2% versus your expectation of, I guess, that being down 1%? Is there some kind of dynamics about trade-down in terms of what consumers are booking? Are they selecting hotels or places to stay that might not be at the same ADR rate versus previous levels?

David I. Goulden
*Executive Vice President and Chief Financial Officer, Booking Holdings, Inc.*
A

Not specifically. In terms of the mix impact, which is part of the ADR component, it's really more a mix impact that's impacted by different geographies and where some of the higher growth markets are. Some of the higher ADRs are in the U.S. and Western Europe versus some of the lower relative growth markets. Some of the higher growth markets, the places like Asia and country like Vietnam have lower ADR. So, that mix impact is a bigger factor than trading up or trading down within a particular local marketplace.

Naved Khan
*Analyst, SunTrust Robinson Humphrey, Inc.*
Q

Thank you, Glenn. Thank you, David.

**Operator**: Our next question comes from the line of Stephen Ju from Credit Suisse. Your line is open.

Stephen Ju
*Analyst, Credit Suisse Securities (USA) LLC*
Q

Hey. Thank you. So, Glenn, in the emerging markets and Asia where you may be plugging into these super apps to source demand, how much easier or more difficult do you think it'll be for you to get users to come directly to Booking or Agoda, so you do not have to pay for those transactions every single time?

And second, would you also talk about what's going on behind the scenes between Agoda, alternative accommodations versus hotel and your push to run your own payments, and how these factors may be influencing your agency versus merchant booking growth? Thanks.

Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*
A

So, regarding the super apps, like take Grab for example, I don't know because we haven't rolled out the product yet. And we come up with hypotheses but we don't have data yet to say how easy is it to get people to come direct or not. So I can't answer that until we start getting some data and then we'll have a much better sense. We just have hypothesis. Regarding Agoda and I think you mentioned their home business, the alternative accommodations for Agoda, is that correct?


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Stephen Ju
*Analyst, Credit Suisse Securities (USA) LLC*

Q

I think Agoda versus everything else and the consumer behavior of choosing alternative accommodations versus hotels, and you're pushing payments and how that's influencing the merchant bookings growth rate, maybe at the expense of the agency.

Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*

A

Yeah. So let me – so I'll talk just about the Agoda thing, and I'll let David talk about payments. So, one thing people may not be aware is that Agoda has an alternative accommodation product too. And unlike Booking, where every single property on Booking is instantly bookable; on Agoda, in Asia with some of their properties, they're not absolutely instantly bookable. And that is because they're localizing in certain areas of Asia where it's important to have some of the product that is not instantly bookable. So there's a little difference there between the Booking one and the Agoda one. But it's growing nicely. It's much smaller than the Booking.com product, but it is an important part as you probably have seen out in Asia. The growth in the alternative accommodation market is very, very fast.

And I'll let David talk about...

David I. Goulden
*Executive Vice President and Chief Financial Officer, Booking Holdings, Inc.*

A

Yeah. In terms of payments, the mix shift that's going on that's driving, and if you just kind of look at our year-on-year growth in agency versus merchant bookings, that growth is being driven by a mix shift towards more payments at Booking.com. Both Agoda and Priceline have had payment platforms for many years, and the mix of payments within their total business isn't dramatically changing.

But as I mentioned, last year we went from a relatively small percentage the year before to 10% of the TTV at Booking.com on payments, and we expect it to continue to rise this year. We expect it to be meaningfully higher over the next few years as well. But we also continue to believe that our [indiscernible] (52:59) property, our agency product at Booking.com also remains a very important part of our portfolio. But the mix shift that you're seeing and the impact that payments is having as it's ripping through our income statement is really due to what's happening at Booking.com.

Stephen Ju
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Thank you.

**Operator**: Our next question comes from the line of Heath Terry from Goldman Sachs. Your line is open.

Heath Terry
*Analyst, Goldman Sachs & Co. LLC*

Q

Great. Thanks. I realize there's been a little bit of discussion around marketing efficiency already, but kind of wanted to dig a little bit deeper into that, if we could. For the last – we went through this sort of six-quarter period or so where you saw a significant leverage on your marketing spend. And for the last couple of quarters, we've started to see deleverage again just in terms of looking at this in terms of total advertising spend as a percentage of revenue.


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In the past, when you've had that kind of deleverage, it's driven acceleration in bookings growth or in revenue or gross profit growth back when you reported that. Is there a level that you feel like is appropriate or that you are targeting from a growth perspective in terms of what you're willing to accept on that advertising return? Just really trying to get a sense of, now that you've gone through this efficiency effort, kind of where your strategy is now or where your thoughts are in terms of optimizing around that growth and advertising return trade-off.

David I. Goulden
*Executive Vice President and Chief Financial Officer, Booking Holdings, Inc.*

A

Sure. This is David. Let me take that. So you're right, we basically had a period of time from late 2017 up through Q3 of 2018 where we had a strategy to explicitly optimize the performance marketing spend, ergo improve our ROIs. And you saw some fairly dramatic amounts of leverage as we went through that period of time. For example, Q2 2018 was a great example with over 600 basis points of leverage in the performance marketing spend.

We essentially lapped the execution of that strategy in Q4 of 2018. So, from Q4 of 2018 onwards, it's really been a function of against our now more optimized spend that we feel is the appropriate balance between growth and profitability, what opportunities do we see, how much traffic is being presented to us, where can we find attractive traffic at good ROIs. Our ROI targets from that point of view haven't really changed. The actual ROIs themselves are a function of what happens in these dynamic marketplaces, the amount of traffic that gets presented to us and where the opportunities are. We always look to try and lean in and find growth in those channels. So we're always pushing for incremental growth subject to our ROI targets and our ROI returns that we're quite pleased with.

So we have post the big change in optimization, we're now into driving more opportunistic efficiency from those channels, and like everybody else who operates in those channels, we're a function of how much volume they present to us and also what the competitive dynamic is in those channels at any point in time.

Heath Terry
*Analyst, Goldman Sachs & Co. LLC*

Q

But it sounds like from what you're saying the focus is still on efficiencies versus growth. Even though you've stabilized where this is, it's stabilizing at this level of growth versus the 20% or so that you had before you started this effort. Is that fair to say?

David I. Goulden
*Executive Vice President and Chief Financial Officer, Booking Holdings, Inc.*

A

Well, I'd say this, our approach to certain channels have been very different from other channels. Right? So for example, and then you can see how those channels themselves are in fact responding. Our core search channel – or search channels are still growing. But we've also experienced declining growth rates in some of those core search channels, as we noted prior. Some of the other channels, some of the major channels, and you can look at the external results, are no longer growing. In fact, quite the opposite way.

So a lot of it is resulting in the dynamic of those channels and the growth opportunity presented to us. Once we lapped our optimization, once we kind of got to our new ROI targets, we really are pushing against growth at those targets. So we aren't pushing to kind of drive the ROI targets up. If you happen to wind up with our higher ROIs during a particular quarter, it's because of the dynamics that will happen within the market. So at this point in time, we are looking to push growth, consistent with our ROI targets that we feel good about.


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Heath Terry
*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. Great. Thank you very much.

**Operator**: And our next question comes from the line of Anthony DiClemente from Evercore. Your line is open.

Anthony DiClemente
*Analyst, Evercore ISI*

Q

Thank you. Maybe first for David. One of your competitors reported a deceleration in its alternative accommodations segment's bookings in the Q1 specifically. So I know you don't explicitly break out alternative in your reporting, but did you see stable growth in alternative accommodations bookings into Q1? Or did you likewise see a deceleration there as compared to the 4Q?

And then, secondly, maybe for Glenn, you've talked on this call and in the past about investments in your customers, customer acquisition and loyalty programs. Just can you give me a couple of specific examples of loyalty or customer retention features that are working for you? And just maybe more broadly, what are the things you can to deliver more value to drive incremental loyalty from customers at Booking Holdings? Thank you.

David I. Goulden
*Executive Vice President and Chief Financial Officer, Booking Holdings, Inc.*

A

You want the second one first and then...

Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*

A

The first one is easy because we've said this several times now, our alternative accommodation business continues to grow faster than our core business. That's been going on for a very long time and continues to go on. We're very pleased with the way we're building out that product. That's the answer to the first one.

Anthony DiClemente
*Analyst, Evercore ISI*

Q

But relative to itself, last quarter, is it keeping stable growth? Is it accelerating or is it decelerating in the year-over-year growth rate versus prior periods?

Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*

A

Right. But we don't break out that in that detail to that granularity.

Anthony DiClemente
*Analyst, Evercore ISI*

Q

Okay.

Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*

A

So we'll go to the second one, loyalty. Well, you've certainly seen some of the loyalty stuff and whether it be you're a genius customer at Booking.com, where you're getting significantly reduced prices for a hotel, which is


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one way to do it, or you're over at OpenTable and you're getting your dining points and you're seeing that. So interesting that both those we love, I'm going to pick one out. It's small and just started experimenting, but I like it, is the fact that you can now use those dining points, and you can, instead of using them just to get a cheaper restaurant meal, you can use those to get a cheaper hotel room. That's a perfect thing. And maybe you've actually seen some of the TV ads going out there that's actually KAYAK is the one doing it with OpenTable. And that's an example where you can do that.

Now, we've been experimenting with some other things, different services that we have, and this deals primarily with the ground transportation. We have a company call RentalCars.com, which is more than just rental cars. It's ground transportation. It has a lot of good relationships with different types of ground transportation, black cars, ride sharing, etc. And we're experimenting with different ways to package these services and give that better value to the customer. I don't want to get into too much detail. Obviously, we're rolling this out now and testing, etc.

And I've also – you see it in the attractions part. I've actually used that where I've actually, I've booked with a hotel at Booking.com with my app, and then I got my QR code. And I got a discount on all sorts of things to do in a particular city. Those are all different ways, and there are lots more that we're doing it. And things are standard, like just the points, which is a standard loyalty thing, and things much more creative regarding putting together different types of service into one bundle and all different things like that.

### Anthony DiClemente
*Analyst, Evercore ISI*

Q

Great. Thank you very much.

**Operator:** There are no further questions at this time. I would now like to turn the call over, back to your speakers.

### Glenn D. Fogel
*Chief Executive Officer, President & Director, Booking Holdings, Inc.*

Thank you. So I just want to say how pleased we were with our solid Q1 results and remain excited about our future as we continue to execute on our long-term growth plans. Thank you very much.

**Operator:** This concludes today's conference call. Thank you for your participation. You may now disconnect.


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