

26-Feb-2020

# Booking Holdings, Inc. (BKNG)

Q4 2019 Earnings Call

## CORPORATE PARTICIPANTS

**Glenn D. Fogel**

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

**David Ian Goulden**

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

---

## OTHER PARTICIPANTS

**Lloyd Walmsley**

*Analyst, Deutsche Bank Securities, Inc.*

**Mark S. F. Mahaney**

*Analyst, RBC Capital Markets LLC*

**Kevin Kopelman**

*Analyst, Cowen and Company, LLC*

**Justin Post**

*Analyst, Bank of America Merrill Lynch*

**Brian Nowak**

*Analyst, Morgan Stanley & Co. LLC*

**Justin Patterson**

*Analyst, Raymond James Financial Inc.*

**Deepak Mathivanan**

*Analyst, Barclays Capital, Inc.*

**Eric J. Sheridan**

*Analyst, UBS Securities LLC*

**Naved Khan**

*Analyst, SunTrust Robinson Humphrey, Inc.*

**Stephen Ju**

*Analyst, Credit Suisse Securities (USA) LLC*

**Doug Anmuth**

*Analyst, JPMorgan Securities LLC*

**Heath P. Terry**

*Analyst, Goldman Sachs & Co. LLC*

## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to Booking Holdings Fourth 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 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 obligations 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](http://www.bookingholdings.com).

And now, I'd like to introduce Booking Holdings speakers for this afternoon, Glenn Fogel and David Goulden. Go ahead, gentlemen.

### Glenn D. Fogel

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

Thank you, and welcome to Booking Holdings Fourth Quarter Conference Call. I'm joined this afternoon by our CFO, David Goulden. We had a strong fourth quarter as we booked 191 million room nights, which is up 12% year-over-year, and exceeded the high end of our guidance range. We produced over \$3.3 billion in revenue and approximately \$1.3 billion in EBITDA, which are year-over-year increases of approximately 5% and 3% on a constant-currency basis, respectively. I will talk first about our full-year performance in 2019, then about our objectives for 2020, and then I will address the current situation regarding the coronavirus.

2019 was a good year for our company. We booked 845 million room nights for the year, which is 11% more than in 2018. Just to put that into context, that means we booked on average more than 2.3 million room nights each day. We produced strong year-over-year growth across our key financial metrics. Non-GAAP revenue and adjusted EBITDA were up 8% and 6% on a constant-currency basis, respectively. Our non-GAAP EPS was up 15% on a constant-currency basis, exceeding our guidance for the year. Our EPS growth rate benefited from over \$8 billion of share repurchases during 2019, which demonstrates our disciplined approach to returning capital to shareholders and our confidence in our business.

I am pleased with these results considering the macro environment we faced in certain geographies throughout the year. Moreover, we accomplished this top-line growth rate, while also producing solid leverage in our performance marketing spend. Our ability to execute consistently in this environment speaks to our scale and global diversity as well as to the dedicated and talented teams we have at our company.

We made solid progress against our key strategic goals for the year: expanding the Booking.com payment platform, improving our Alternative Accommodations business, and further building our Connected Trip strategy. As we move into 2020, we will continue to focus on becoming an even more customer-centric company that drives loyalty and increased repeat behavior. We plan to accomplish this goal through smart customer acquisition, while providing the best experience in our core accommodations product using our scale to offer the best value to our customers and making further progress in our Connected Trip strategy.

In addition, while we have always been a cost-conscious organization, in 2020, we will further emphasize the need to make sure our expenses are appropriate for our revenue, and we'll look at ways to streamline and make all aspects of our company more efficient. Investing in products and processes is important for the long-term, but so too is eliminating unnecessary expense, and during 2020, we'll be taking a close look at these opportunities.

One of our highlights during 2019 was expanding our payment capabilities at Booking.com. Over 50% of our Booking.com's gross bookings now occur on properties that are enabled on its payment platform. The percentage of Booking.com's gross bookings processed on its payment platform grew from approximately 10% in 2018 to over 15% in 2019, and we expect this to reach approximately 25% in 2020.

As we've discussed, this platform provides payment options favored by both our customers and property partners, particularly non-hotel property partners, and provide a platform for merchant product offerings. Merchant offerings also provide Booking.com with merchandising capabilities, and we expect to continue to increase our investment in this capability to drive growth. This payment platform is foundational for our Connected Trip strategy in which we envision a frictionless customer experience across multiple products that we believe will drive increased loyalty.

Our Alternative Accommodations business grew solidly in 2019 and has large scale. As of December 31, 2019, we had 6.3 million listings in our Alternative Accommodations business. We remain focused on increasing the quality and variety of properties joining our platform, so we can provide the best choices for our customers and drive search conversion. Booking.com's Alternative Accommodations business recorded approximately \$3.1 billion in revenue in 2019, representing approximately 21% of our overall revenue for the year, and a solid growth rate of 14% when expressed in euros. It consistently grew faster than our core accommodations business throughout the year and also maintained a healthy profit margin. We believe presenting both Alternative Accommodations and traditional properties on one platform is the best customer proposition.

Last year, we took further steps to create our vision of a Connected Trip. We're on a journey to build a multiproduct offering including accommodations, flight, Attractions, ground transport, and dining, all connected by a seamless payment network and supported by personalized intelligence to provide a frictionless customer experience that we believe will drive enhanced loyalty and support growth.

We saw early signs of these benefits last year as we leveraged the integration of Rentalcars.com and Booking.com to deliver a better ground transport offering for Booking.com's customers. Rental car days grew 12% year-over-year in the fourth quarter, primarily due to the increased cross-sell of the product to Booking.com customers. We believe we are in the early stages of seeing the benefit from this cross-sell opportunity. We've also been encouraged by certain incentive programs that provide discounted ground transport options to bookers with higher-value accommodations. These programs have shown an increase in conversion at acceptable ROIs. We look forward to further experimentation with these types of offerings during 2020.

We also expanded our flight capabilities across the company in 2019. Booking.com launched an integrated flight product, while Agoda and Priceline began building a global flight platform that is initially focused on the APAC

region. Currently, Booking.com offers a flight product in 12 countries in Europe, but we plan to expand this throughout 2020. Booking.com's goal for the year is to be able to expose 50% of its total customers to a flight product globally. Developing a robust flight product remains an important investment, considering there are more than 4 billion global flight passengers last year.

Having the ability to engage with these customers early in their travel journey gives us a better opportunity to cross-sell our accommodation and other products, but even more important, it enables us to offer a true Connected Trip experience. This year, we will continue to expand other aspects of the Connected Trip such as Attractions and dining options. For these offerings, we will utilize not only our own assets, but also partner with third-party providers, so we can offer the best customer experience possible. We continue to see loyalty benefits from accommodation customers who also use our Attractions product.

We will continue to invest in our app platform as it becomes the center of our Connected Trip experience. Booking.com remains one of the most downloaded travel apps in the iOS and Android stores globally. According to a leading third-party research firm, Booking.com was the only OTA to rank in their Top 10 Travel Apps in the World, ex-China, in 2019, coming in at number three. We've been investing in the app platform for some time as it is becoming the preferred platform for travel bookings, and we are very pleased with the strong room night growth that occurs on Booking.com's app.

As I mentioned earlier, all of these investments are designed to drive greater loyalty and increase repeat behavior with our customers. We made progress on this front last year. In each quarter of 2019, our direct channel grew faster than our primary pay channels and our direct channel increased its share for the year. The direct channel represents over 50% of our total booked room nights, and when including rooms booked through branded search terms, this number increases to over 60%.

We have a large and loyal customer base today, but we believe we can grow this further and increase market share. Booking.com's best and most loyal customers are part of its Genius program. This group of customers has grown consistently for several years. In 2019, we had over 70 million active Genius customers, an increase of 9% year-over-year. These Genius customers were responsible for a growing proportion of Booking.com's booked room nights in 2019, and we thank them for their loyalty. On top of that, we see that Genius customers book more frequently and more often on a direct basis when compared to non-Genius customers. We will continue to focus our efforts on growing this special group of customers and offering them great value as part of their Genius membership.

While we are pleased about our long-term prospects, we recognize that current travel demand has been impacted by the coronavirus. At the present time, Greater China has been affected the most. The broader APAC region has also been impacted, which is an area in which we have been experiencing strong growth over the last several years, and we are now starting to see a slowdown in travel globally and are aware of the potential for further demand deceleration around the world.

David will provide more details in his remarks, but I would like to point out this is not the first time our company management team has faced an exogenous impact to travel demand. We know that travel is fundamental to people's lives, and we believe travel industry growth will rebound to prior growth rates. While the coronavirus impacts travel, we will continue to manage the company in a measured way that builds value for the long-term.

However, the steps we are taking today include: one, making sure we take care of our customers and help them with their travel plans, which includes facilitating cancellations and working closely with our supply partners; two, ensuring the health and safety of our over 26,000 employees around the world; three, managing our marketing

efforts appropriately, we will continue to participate in those paid channels that provide us quality traffic at attractive ROIs recognizing that we need to incorporate higher cancellation rates in our bidding calculations; in regards to brand marketing, we will be very cognizant of when and where brand marketing money should be spent this year; four, working with our travel suppliers so they are best-positioned to achieve success on our platform; and five, continuing to invest for the future. The company that provides a better travel service, a holistic, seamless, frictionless, Connected Trip that delivers more value to both a traveler and our supply partners, will create a lasting relationship with both travelers and suppliers, and we intend to create this service over time.

With that, I will now turn the call over to David for the financial review.

---

**David Ian Goulden**

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

Thank you, Glenn, and good afternoon. I'll review our operating results for the fourth quarter and 2019, and then discuss our thoughts on 2020 and our guidance for the first quarter. 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 12% in Q4 exceeded the high end of our guidance range as growth accelerated through the quarter with a strong finish in December. Our room night growth in Europe continued to exceed our expectations in Q4 despite a macro environment that remained cautious. Room night growth rates for the rest of the world also exceeded our expectations and grew slightly faster than Europe in Q4. Average daily rates for accommodations, or ADRs, were down about 4% year-on-year in Q4 on a constant-currency basis, which was in line with our guidance.

As indicated on our last earnings call, the year-over-year ADR decline was impacted by decreases in rates within several key markets such as the US, Japan and Hong Kong, as well as an increasing mix to faster-growing lower ADR markets and the impact of lapping 1% ADR growth in Q4 of last year. Changes in foreign exchange rates reduced Q4 growth rates in US dollars by approximately 1 percentage point versus last year. We estimate the change in FX rates impacted gross bookings, revenue, and EBITDA growth in Q4 by similar amounts and EPS growth by less than 1 percentage point.

Q4 gross bookings grew by 6% expressed in US dollars and grew about 7% on a constant-currency basis, coming in above the high end of our guidance range. Consolidated revenue in the fourth quarter was \$3.3 billion and grew by 4% in US dollars and about 5% on a constant-currency basis. Advertising and other revenue, which is mainly comprised of KAYAK and OpenTable, grew by 3% in Q4 as we lapped the benefit of the HotelsCombined acquisition in December. Adjusted EBITDA for Q4 was \$1.3 billion, which exceeded the high end of our guidance range and was up 2% year-over-year on a reported basis and about 3% on a constant-currency basis.

Performance marketing expense increased 2% year-on-year, which helped drive leverage of about 40 basis points in the quarter. The year-on-year growth was driven by higher-than-expected volumes in our paid channels. We spent \$86 million on brand marketing in the quarter, which represented a decline of 31% versus Q4 last year, and computed about 130 basis points of leverage. This decrease is in part driven by a ramp-up in spend in the second half of 2018. We remain committed to investing in brand marketing in a disciplined manner going forward.

Sales and other expense decreased 1% versus Q4 last year and contributed about 30 basis points of leverage due to reduced chargeback expenses as well as a reclassification of certain sales and other expenses incurred

during 2019 into contra-revenue in Q4, both of which offset the increase in expenses related to the continued growth of our payments platform of Booking.com.

Personnel expense was in line with our forecast, growing 16% year-on-year and contributing about 175 basis points of deleverage in the quarter, as expected, driven in part by lower year-end reversal of bonus accruals than we experienced in Q4 2018.

G&A expenses increased 16% year-over-year on a non-GAAP basis, which excludes a \$21 million travel transaction tax charge in Q4 of 2018. Non-GAAP G&A expenses contributed about 60 basis points of deleverage in the quarter. This year-over-year increase in G&A was driven largely by higher indirect taxes including the French DST. Finally, information technology expenses increased 42% year-over-year driven by several items supporting the growth of the business including payments to contractors, software license fees, outsourced data center and cloud costs.

Our non-GAAP EPS was \$23.30, up 4% on a reported and constant-currency basis versus the prior year. Non-GAAP net income reflects a non-GAAP tax rate of 17.7% in Q4, which is significantly higher than Q4 last year due to a one-time adjustment of approximately \$72 million in Q4 2018 related to a provision of the Tax Act that was clarified by revenue guidance issued in Q4 2018. Our Q4 tax rate was about 1 percentage point lower than our guidance due to some discrete items. Our 9% lower share count in Q4 benefited EPS growth in the quarter.

On a GAAP basis, operating income increased by 3% and GAAP operating margin decreased by about 50 basis points compared to Q4 last year. Q4 GAAP net income amounted to \$1.2 billion or \$27.75 per share, up 81% from Q4 2018. Our Q4 GAAP net income includes \$326 million of pre-tax unrealized gains on our equity investments in Meituan and Ctrip and \$47 million of FX re-measurement losses on our euro bonds. We excluded these unrealized losses and remeasurement gains from our non-GAAP results.

We had a GAAP tax rate of 17.5% for the quarter, which increased significantly from the prior year due to the tax impacts of the items excluded from non-GAAP results as well as the factors I mentioned that impacted the non-GAAP tax rate. In Q4, we generated \$1.1 billion of operating cash flow, which declined 1% compared to Q4 last year. Our free cash flow for the quarter was about \$1 billion, which decreased by 1% compared to last year, mainly due to timing of the payments, which reduced year growth by 15 percentage points.

We repurchased \$1.3 billion of our stock in Q4, bringing the total repurchase to the year to over \$8 billion. As of the end of the year, we had about \$11.5 billion remaining under our \$15 billion repurchase authorization. We ended the quarter with \$11.8 billion in cash and investments, and \$8.7 billion of outstanding debt. Looking back at 2019, we're quite pleased with our performance during the year. As we produced steady room night growth in the 10% to 12% range, we delivered a very healthy 39% EBITDA margin, while investing in the business and absorbing unplanned DST expenses, and we grew our non-GAAP EPS by 11%, or around 15% on a constant-currency basis, which exceeded our annual guidance of low-double digit growth.

Turning to 2020, our initial outlook reflected a continuation of this operating model, i.e., to gain share in accommodations with some deceleration in room night growth, to invest in payments, merchandising, and the Connected Trip for any modest pressure on operating margins, and for EPS growth to benefit from our share repurchases. Due to a few mechanical factors including the lapping of ADR declines and the phasing of personnel and G&A expenses during the year, we expect that our earnings growth to be weighted largely to the second half of the year.

Now, turning to more recent events, the coronavirus has had an impact across our business since it made news headlines on January 21. The early impacts were [ph] in areas in (21:37) China, but we also saw these impacts across Asia and to a lesser extent in other regions outside of Asia as well. To help with context, the APAC region represents a little over 20% of our room nights, with no single country accounting for more than a mid-single digit share of total room nights. In APAC, we've seen an increase in cancellations, reduction in new bookings, and pressure on ADRs.

As you all know, it's not possible to predict where and to what degree outbreaks of the coronavirus will disrupt travel patterns. While the incidents of infections have slowed in China, in the last week alone, new outbreaks have occurred in South Korea, Iran and Italy. We've been able to measure the impacts on our business so far in Asia, and we've seen a recent impact of room night bookings in Europe, following the outbreak in Italy. As a result, we're providing only a near-term outlook with a wider guidance range to account for the possibility there will be a growing travel disruption in Europe.

Based on where we are in the quarter and considering the continued impact of the coronavirus, we're forecasting Q1 booked room nights to be down 5% to 10% versus the prior year. Clearly, we're dealing with a very fluid situation and it's extremely difficult to predict where Q1 will come out, but this is our best estimate based upon the data we have available now. We forecast total gross bookings to decline 8% to 13% on a constant-currency basis and about 200 basis points more in US dollars. Our Q1 forecast assumes that constant-currency ADRs for the company will be down about 4%.

We forecast Q1 non-GAAP revenue to decline 3% to 7% on a constant-currency basis and decline 200 basis points more in US dollars. Q1 adjusted EBITDA is expected to range between \$560 million and \$590 million, which is down 16% to 20% year-over-year on a constant-currency basis and about 200 basis points more in US dollars. We're forecasting Q1 non-GAAP EPS of approximately \$9.05 to \$9.65, which is 14% to 19% below Q1 2019. On a constant-currency basis, we estimate Q1 non-GAAP EPS to decrease year-on-year by approximately 12% to 17%.

Our non-GAAP EPS forecast for Q1 includes an estimated income tax rate of approximately 18.5%. Our Q1 non-GAAP EPS guidance assumes a fully diluted share count of about 41.6 million shares, which is 9% below Q1 of last year. We forecast GAAP EPS to be between \$7.95 and \$8.55 for Q1. Our GAAP EPS guidance for Q1 assumes a tax rate of approximately 18.5%. We use a dollar to euro exchange rate of \$1.10 when setting our Q1 guidance. We have hedge contracts in place to substantially shield our first 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.

Finally, a housekeeping item. Starting with our Q1 results and going forward, we plan on reporting our performance and brand marketing expenses on a combined basis as we view our overall marketing spend as investment in customer acquisition and retention.

We'll now take your questions. Operator?

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Presenters, 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 guess just the first question, a bit of a clarification. I think, David, you said something about expecting some share gain with deceleration in room nights. I wasn't sure if I heard that correctly, is that kind of before the impact of the virus or including the impact of the virus? Anything you can kind of share there? And along the same lines, ex the virus, are you seeing anything in particular changing with marketing ROIs as some competitors pull back in certain brands and certain geographies? And then I guess a second question, if I can, would just be anything particular changing with regard to some of the SEO channel impacts from last quarter. Are you seeing that spread to either new geographies or change in intensity? Anything you could share there would be great. Thanks.

**David Ian Goulden**

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

A

Sure, Lloyd. Yeah. Thank you. Let me start off answering the first question. So, yes, to clarify, what I said was when we turn to 2020, we talked about our initial outlook, which is our outlook at the start of the year obviously around the times we're putting our plans together for the year. We talked about that reflected continuation of the same operating model we delivered in 2019, so my comments about gaining share in accommodations with some deceleration of room nights, some modest pressure on operating margins, and for EPS to benefit from our share buybacks was to give you a flavor of the shape of our profile for the year coming into the year before the coronavirus.

Yeah, and then on the SEO challenges, to pick up your second, I just want to kind of remind people that as we said, the SEO channel is a relatively small part of our business, and it has been for a period of time. The SEO channel continues to be under pressure as the primary provider of that channel focuses more upon their paid search rather than free search, but we continue to do well in that channel. We have teams dedicated to it. We are pleased with our share in that channel. As a channel, it is under continued pressure, but as we said before, really contributes a very minor part of our overall business.

**Lloyd Walmsley**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. And then anything on just marketing ROIs outside of the impact of the virus given competitive dynamics?

**David Ian Goulden**

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

A

Yeah, let me start, and then maybe Glenn can add. Again, I'll talk about Q4 because obviously, Q4 was a very clean quarter relative to not having a virus and it's only a few weeks behind us, so I think it's a good time to still talk about Q4. We were pleased with our ROIs in the channels in Q4. We didn't see any major shifts.

We mentioned we saw a continued leverage in our performance marketing spend because our performance marketing channels continued to grow less rapidly than the overall business so the leverage that we

demonstrated was kind of a mix-driven leverage, a mathematical leverage. ROIs didn't really change very much in Q4, nothing to really note. We're pleased with where they were, and I think – does this answers all of your question, or were you also asking about current quarter as well?

**Lloyd Walmsley**

*Analyst, Deutsche Bank Securities, Inc.*

That's great. I'll assume that the virus is making things pretty messy, but – unless you want to add something.

**David Ian Goulden**

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

No, I just wanted to stop there. I think that's the right place to stop.

**Lloyd Walmsley**

*Analyst, Deutsche Bank Securities, Inc.*

Great. Thank you.

**Operator:** We do have another question from the line of Mark Mahaney from RBC. Your line is open.

**Mark S. F. Mahaney**

*Analyst, RBC Capital Markets LLC*

Thanks. I want to ask about two things. Just kind of attach rate with the Connected Trip and how far along do you think you are in tapping into that opportunity? I noticed that both rental car days and airline ticket growth, unit growth rates nicely accelerated in the December quarter. It looks like that's much easier comp in airline tickets, but you called out some kind of greater cross-selling opportunities you're getting with rental cars, so just talk about where you are in the process of doing that, is it a small percentage that you've even attempted this at so we can get a sense of how much better the results could be in rental cars?

And then, Glenn, when you were talking about the outlook, you seemed to emphasize a little bit more streamlining costs in 2020. I don't think that was related to coronavirus. I think it's – or maybe it was, but I don't think it was. It sounded like you want to be a little bit more careful about costs or something like that. Could you just explain the why behind that, why get a little bit more focused on streamlining costs this year versus last year, unless it was all coronavirus, but I didn't get that impression. Thanks, Glenn.

**Glenn D. Fogel**

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

Hi, Mark. Yeah, let me take the first one, the attach rates, et cetera. And I think you called it out correctly. The rental car business has shown some good numbers. If you look in the supplemental statistics at the end of our press release and you can see some nice growth there, and part of that growth is coming from that cross-sell part of our Connected Trip that we're building out, and you're also correct in your statement about the air business. Air business is so early we're just really are getting that up and running. That's why you're not really seeing any of the increase there from that, or not enough to matter right now. It's very, very low attach rates. When I look at those numbers, I believe over time, we should increase those significantly, and it's going to take some time as we continue to optimize, figure out what's the best way to present it, where to show it.

One of the things I'm very proud about is the center we've built in Tel Aviv that is filled with a bunch of machine learning experts, AI geniuses who really look at all of the different parts of the way we present things, and they're

trying to come up with what is the best way to present an offer to a traveler at the right time and putting in what is the right merchandising benefit that we should do it to get the right conversion and the right bottom-line. It's something that the more data we get, the better we'll know what the right thing to do, but it's something that's going to take time. So, that's the answer to that one.

Regarding costs, you're also absolutely correct on that. One of the things when I took the job over in Amsterdam as CEO of Booking.com, and I've been there now a little more than six months, is looking at what are we spending on, where are we spending, what projects are we on, which ones are the right ones, which ones should we not be doing right now, and then taking that throughout our entire organization. Always believe that you should be a cost-effective company, and I believe it's also very natural, as companies grow very rapidly and achieve great success on the bottom-line, sometimes discipline lightens up a little bit. So certainly before the coronavirus, I was already thinking that we need to make sure that we're doing everything we can to spend the money correctly.

One of the things I've mentioned in the calls over the last couple of quarters is us bringing all of our companies together better, and one of the benefits of that is to get some efficiencies in our spend, a real cost procurement-type project. And in the past, we've run all these companies independently, and that was the right thing to do at the time, but while doing that, you do lose out on some cost efficiencies. Now, the state of the company where it's at, now it's time to start bringing that in, and that's what we're going to be doing.

---

**Mark S. F. Mahaney**

*Analyst, RBC Capital Markets LLC*

Okay. Thanks, Glenn.

Q

---

**Operator:** We do have another question from the line of Kevin Kopelman from Cowen. Your line is open.

---

**Kevin Kopelman**

*Analyst, Cowen and Company, LLC*

Great. Thanks a lot. Could you give us more color on the latest trends in Europe travel bookings that you've seen over the last few days following the outbreak of the coronavirus in Italy? Thanks.

Q

---

**David Ian Goulden**

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

Yeah, Kevin, this is David. Let me take that. Let me just kind of maybe frame it in the way that the quarter shapes up and our projections do take into account what we've seen in the last few days. So, let me kind of give you a lay of the land first of all by region. Not surprisingly, we already mentioned that China is the worst impacted. Asia, excluding China, has also been impacted for some time. The rest of world, which obviously includes Europe and Europe is a big piece of that for us, was growing through February, but we also expected to be impacted to the negative in March as well.

A

To give you a bit more color in terms of just how it plays across the quarter, on a consolidated basis, we saw – we [ph] crossed (34:15) all room night growth in January even though we saw some tapering off at the end with the virus hitting the news on the 21st. Expect February to be approximately flat from a growth rate point of view, and therefore to get to our guidance for the quarter, expect to see declines in March.

---

**Kevin Kopelman**

*Analyst, Cowen and Company, LLC*

Q

Got it. And so that – and that March expectation is based on just the worsening kind of trend over the last few days?

**David Ian Goulden**

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

A

Yes. I mean, we really obviously as I mentioned, we're dealing with a very fluid situation, very difficult to predict what's going on, because we're responding to something that we have no control over. We've given you kind of our best view of it, so when we built what we expect to happen in March and created the guidance range, we're looking very specifically at what has happened over the last few days after the outbreak in Italy, and the response we've seen in Europe in response to that, which is not surprising, has been negative. So, yes, we are expecting and we're seeing even though we're going to get room night growth through rest of world in February towards the end of February that is already in decline and we expect it to continue to decline into March.

**Kevin Kopelman**

*Analyst, Cowen and Company, LLC*

Q

Got it. Thank you.

**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. Thank you, a couple questions. I guess it would be helpful if you could give us a view on past behavior when you've had travel disruptions and people cancel their trips or your most loyal customers don't book. How long does it take before they start going on trips again, or do you see a timeframe where people cancel and then rebook? I know you can't be too specific, but any thoughts on that?

And then second, it's interesting your main competitor pulling back spending. You're talking about some cost savings. Do you think there's inefficiencies in marketing or other channels in travel and maybe the industry as a whole could benefit as people take a deeper look at their costs? Thank you.

**Glenn D. Fogel**

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

A

Hi, Justin. I think it would not be wise to draw and use past experience as an analogy for what will happen in the future. The situation now is very different. Say, I've now been in this business, in fact this week, it'll be 20 years I've been at this company. My anniversary is Friday, 20 years, and so I've seen a lot of exogenous factors I mentioned, impacting travel, some extremely severe, and I won't go through all of them because we'll use up the entire time for the call.

That being said, they all have different effects and different rebound time periods. So, it's not going to be helpful for me to tell you what took after 9/11 or after the GFC, or after swine flu or after the volcano in Iceland. I mean, I could go on and on and on, which I'll stop there. So, I really can't be that helpful and you'll just have to make your own best guesstimates, which will be as good as anybody else's guesstimates.

Regarding spending, we have very high margins compared to anybody else in the industry, but that does not give us a license to waste money, and I want to continue to always be looking, are we spending correctly in every single part of this company, so we can then spend the money in the right place at the right time.

In terms of marketing, there probably is a lot of waste in the industry, probably and I think we can see that. Some people who are probably going to be pulling back in certain of their marketing. We like to think that we've been efficient and effective, but I think there's always room everywhere to do better, and we're going to continue to do so. That's the only right way to try and have a long-term successful company. I am confident though that regardless of what the – towards your first question, I am confident the business will be coming back. It's something that we've seen over and over and over again. As I said many, many times here, travel is a basic need for people. They have been doing it for a very, very long time, and as soon as the air clears, so to speak, you'll see people will be coming back to travel.

---

**Justin Post**

*Analyst, Bank of America Merrill Lynch*

Great. Thank you.

Q

---

**Operator:** We do have another question from the line of Brian Nowak from Morgan Stanley. Your line is open.

---

**Brian Nowak**

*Analyst, Morgan Stanley & Co. LLC*

Great. Thanks for taking my question. I have two, please. David, just I appreciate the month-over-month commentary for the first quarter, but maybe just so we can all sort of better understand the underlying durability of growth, how big of a room night and EBITDA headwind have you put into the guide to factor in corona for the first quarter? And then the second one, Glenn, just to sort of talk about opportunities and sort of untapped geographies. Talk to us about how you think about the importance and the opportunity to focus more on the US from a branding and a performance marketing perspective this year to perhaps take more share in that area. Thanks.

Q

---

**David Ian Goulden**

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

Yeah, okay. Thanks, Brian. I'll take the first part of it. I'm going to try to avoid getting into specific growth rates by month. I'll give you a flavor. I think you can do some back-of-the-envelope math to kind of figure out what March has to look like in terms of getting to a minus 5% to minus 10% range. The way that we've looked at this is that we have, as I mentioned in my answer to Kevin, kind of looked at very much so what's happened to the last few days and anticipating at the lower end of the range that the travel environment in Europe may get worse because we would be surprised if there's only one outbreak in Europe over the course of the rest of the quarter.

A

So, we've taken into account what we saw happening over the last week, which of course is led by a lot of cancellations, so over time, it may not be quite as bad as we're seeing in the last week because you see obviously the different growth rate on underlying bookings, vis-à-vis cancellations, the early reactions to these news patterns because usually you get spike in cancellations and things can moderate out.

But we've taken into account what we've seen happening over the course of the last week. We projected that for the rest of the quarter, and recognize that in fact it may get worse if there are additional outbreaks in Europe or further slowdowns in the rest of the world. So, that's how we've tried to intelligently give you some guidance data points from obviously data that we're getting is moving very rapidly but it is the best data that we have as of until this morning.

---

**Glenn D. Fogel**

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

A

In regards to our opportunities around the world, the US is without doubt our biggest opportunity. It is an enormous market that we under-index significantly. Now, the reason for why we have not achieved what we'd like to yet and historical as you know, Booking.com was always a hotel-only company, and we didn't have an air product there for example. Many Americans like to start their travel business using air, so now, we're going to be bringing out an air product over time, so that will be one.

Second thing is, extremely price competitive, price-sensitive consumer in the US. Booking.com historically an agency player, meaning the price was set by the hotels, or by the non-hotel accommodations. We believe that we have to be able to merchandise, meaning adjusting what that value to the consumer is going to be. But to do that, you've got to have a payment product. It was only last quarter that we got up running the domestic payment product for our US consumers. That's another one.

Another big issue, packages. Many Americans like to use a package product, or like to do some sort of combination that will get them more value. Well, we're just starting that now and one of the things I'm very proud about is working between priceline.com and Booking.com to come up with a package product for the US consumers that we're just getting that out.

The other thing is we have other assets to help bring consumers to our sites and make them aware of the great things we have. One of them for example, OpenTable. A lot of people are using OpenTable every month. In the past, we have never done anything to really bring together the power of the OpenTable platform and the Booking.com platform in a way that will provide more value to the consumers. So, lots of things that we're working on because I do believe the US is a great opportunity for us to help build out our business.

---

**Brian Nowak**

*Analyst, Morgan Stanley & Co. LLC*

Great. Thanks, guys.

Q

---

**Operator:** We have another question from the line of Justin Patterson from Raymond James. Your line is open.

---

**Justin Patterson**

*Analyst, Raymond James Financial Inc.*

Great. Thanks so much. One on Connected Trip first, how should we think about scaling supply through your own assets and third-party partners on the attractions and dining side? With partners in there, is there anything you need to control to ensure an optimal customer experience? And then the second question's on marketing, as your direct channel mix grows and your payments business grows, how do you think about that incremental ROI of using coupons to drive conversion versus say attracting customers via branded performance marketing? Thanks so much.

Q

---

**Glenn D. Fogel**

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

I wanted to take the first one, and I'll let David, being our CFO, he can talk about how we're going to optimize in terms of the coupons. You're right in terms that in an ideal world, you would like to have all of your supply directly connect to us and you prefer in an ideal world not to be using third-party suppliers. That being said, that's a balance against speed to market and making sure you have the supply necessary to create a good offer to the consumers. So, in the interest of speed, we have gone with third-party providers to provide inventory that we don't have.

A

I mentioned OpenTable a little while ago. Well, OpenTable has a great product and they do a lot of business in a lot of different cities, but there are also a lot of cities around the world that they don't do business, and we want to provide that dining opportunity to our consumers in as many cities as we can. So, we will partner with others. Attractions, the same thing. We had our own contracts with the supply, but there are a lot of places in the world where people are traveling, so to make sure that we have the supply, we're going to third parties. Over time, we believe that in the long run, having your own supply helps you in terms of creating that truly seamless Connected Trip, but speed matters in this market, so we're going to do that too.

---

**David Ian Goulden**

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

**A**

Yeah, and Justin, on the different marketing channels, first of all, we're very pleased to build our direct business. That's very important for the future in the Connected Trip and the app and all things kind of driving that direction, but the performance marketing channels are also really important sources of acquisition of new customers for us and sometimes some existing customers can come back to that net as well. But to answer your question, we look at all of these on a very measured incremental ROI basis. We can really measure our different activities and compare them on a very comparable basis, so when it comes to things like coupons or other attractions, we may only offer through one of our channels, we just look at the ROI on that vis-à-vis other channels and decide where we lean in or don't as the case may be.

So, we have pretty good metrics on all things like that because we are able to measure the short-term return on those investments. Again, longer-term, we're looking to drive people towards the direct channel particularly towards the app, and Glenn mentioned how well downloaded that is and how it's becoming very much a powerful app in the travel space. And as the Connected Trip becomes a bigger piece of the business and the app becomes a way to experience the Connected Trip in during the trip, it's either more strategic, but tactically, we can look at all these different things including things like couponing on a very measured basis and decide to lean in based upon which ones give us both the short-term returns and also create the highest level of repeat or return to direct activity after that initial offer.

---

**Justin Patterson**

*Analyst, Raymond James Financial Inc.*

**Q**

Thank you.

---

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

---

**Deepak Mathivanan**

*Analyst, Barclays Capital, Inc.*

**Q**

Great. Thanks for taking the question. David, last year, you talked about achieving double-digits earnings growth and then exceeded it pretty nicely [indiscernible] (47:12). Understand that situation is a little bit more fluid right now, and the color you provided on the operating model was helpful. How should we think about those things kind of translate into earnings growth for this year? And then how are you thinking about using the balance sheet for share repurchases in the near-term when there is like a disruption currently going on? Thank you.

---

**David Ian Goulden**

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

**A**

Sure, Deepak. Thanks for the question. Let me take the first part of it. So, yes, we talked about our operating model expectations pre-coronavirus as a continuation of the model I think was quite successful for us in 2019, and I don't want to get to specific targets for 2020 because there's not a lot of point in putting out a hypothetical

forecast for the year, which we could never measure against and bridge against because obviously the year is going to come out very different from what we expected it only a few weeks ago. But we were pleased with the way that 2019 came out. If you kind of look back at Q4, look at 2019, understand the underlying health of the business, and we believe that there's no reason why that model can't continue in normal times. And then, Glenn, do you want to talk about the second part, balance sheet?

---

**Glenn D. Fogel**

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

**A**

Yeah. So, we are very pleased to have a very strong balance sheet. Significant amount of free cash. We have a very good credit rating, and the question really is, as we've always had, is how should we best use our capital? One of the things has always been share repurchases. Another thing that we always do is we're always looking at other companies that could potentially help add to our Connected Trip strategic vision, and we're going to continue to look at that. Certainly, valuations have changed significantly in the recent past and that may provide an opportunity for us in both areas. But, as David says, it's a very fluid situation right now and we're not going to box ourselves into anything right this second. I will say though, however, we do look at this very, very carefully because we do want to be agile.

---

**David Ian Goulden**

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

**A**

Operator, do we have any more questions, please?

---

**Operator:** Yes, sir. We have another question 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. Maybe, if I can, a few around cost structure and how you're thinking about investing in the business in sort of a relatively uncertain environment. Is there a way to tease out what are some of the investments you plan on making, just because they fit with the strategic vision that are going to be made for the long-term, irrespective of how the environment arcs up or down over the next sort of couple of quarters, and how much of it is more variable in nature where you might tune up or down investments we could better understand the variable, they'll probably more likely track with how room nights either get better or worse from the excellent results in Q4 versus the cautionary results or guide for Q1. Thanks so much, guys.

---

**Glenn D. Fogel**

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

**A**

Sure. So I've been talking about our long-term strategic vision for some time now since I became CEO of the Holding Company a little more than three years ago, and how important it is to create and continue to create value for all sides of this marketplace, and we're going to continue to do that and that requires investing in people, in terms of code, making sure we are providing something that is a differentiator from is out there right now, and there is no reason to slow that down, stop that, or hold back on that.

The sooner we get out the truly superior travel service, the better we will be, and I want to be in that position when we come out of this current environment, which is something that is unexpected, but will end. I want to come out of that as soon as possible with the best services that we have, so we're going to continue on that. We are not changing that at all.

Now in terms of investments, in terms of marketing and things like that, naturally you always want to make adjustments based on what the environment is so far, as I mentioned, about brand marketing. Well, we are not going to be making brand marketing to people who are not listening to that message at all. If you're not thinking about travel, you're not listening to a travel ad, it's foolish for us to invest money in a brand marketing campaign, and that's an example of extreme on the other side.

And in between – there are always different things in between that we're going to be making adjustments as we go throughout the year and we've always been doing that. That's no different.

Do you have anything to add?

**David Ian Goulden**

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

A

Yeah, Eric, I'd just maybe put a little bit of a framework around what Glenn talked about. So if you think of operating expenses and just kind of look at 2019 for a second, it's about \$9.5 billion. A little over half of our OpEx is really variable with volume. Obviously, our performance marketing change with volume up and down, our brand marketing is really not volume-related but obviously as Glenn just said, no point spending a lot on branding if people are not primarily thinking about travel.

And a large piece of our sales and other expenses is also relates to volume as well because that ties back to the merchant processing costs on our payment platform. So a little over half of our OpEx really is directly tied to the volume within the business.

Now obviously there are volume-related aspects in the other areas which are mainly in our personnel, G&A, IT, et cetera, and obviously, there's some fixed and some variable expenses there. But if you think about our cost structure, it really is quite variable with the large expense items being tied to volume quite directly. And of course in the areas that are not tied directly, there are things we can continue to do to refine and optimize, as Glenn talked about.

**Eric J. Sheridan**

*Analyst, UBS Securities LLC*

Q

Thanks so much, guys.

**Operator:** We do have another question from the line of Naved Khan from SunTrust. Your line is open.

**Naved Khan**

*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Yeah, thanks a lot. A couple of questions. So David, in your commentary, you spoke about maybe 2020 seeing payments processed through your own payment platform going to 25%. What are the levers that you control to kind of get that from 15% in 2019 to 25% this year?

And then the other question I have was just maybe can you shed some light on your maybe early results from the Grab partnership, how that might be working for you?

**David Ian Goulden**

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

A

Well, so let me start off with the payments platform. Actually, Glenn was the one who gave the numbers out, but let me just kind of talk to you about how we see it's developing and the impact it'll have on our income statement.

So as you see, we basically had a growth from 10% in 2018, 15% in 2019, 25% in 2020 we expect obviously to exit 2020 with the higher than 25% payments, that's the average for the year. Might be helpful just to understand a little bit about what that's doing to our income statement because there's always been questions about that in prior calls.

In 2020, we expect payments actually to contribute to both revenue growth as it has been, but also to start contributing to EBITDA growth as well, with very little impact at all upon our EBITDA rate in 2020 will contribute towards EBITDA growth as we recover an ever-increasing percentage of our payment costs. So that's how I think about payments rolling through our business.

Obviously, there's still a very attractive nature in our agency model as well, so one is not going to completely replace the other, but as Glenn said, for all sorts of reasons including the ability to participate in merchandising and also to be able to package and control things together via the Connected Trip, our payments will become an ever-increasing part of business, and we're pleased with how it is progressing and we're on track to get it to a stage where it starts to contribute towards EBITDA growth which we'll start doing this year.

---

**Glenn D. Fogel**

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

A

And regarding the Grab relationship, I'm very pleased about how that's been progressing, and some people will remember we invested in Grab for three reasons. One reason was Grab has a significant number of customers and we want to find all different ways that we can get exposed our hotel accommodation, all of our travel services, to customers in different ways, and that certainly was a great way to do it. One.

The other thing is that our travelers when they arrive in a place that they're not familiar with, they want to know how are we going to get around? And many people sometimes mistakenly assume that whatever ride sharing capability they have in their home country is going to be in the place they go visit and it's not going to be there, and they are not going to know what they're going to do. And then they figure out what am I going to do, and one of the great things is we said that we would come up with Grab in a way that a person can use the Booking.com app in a seamless way can get a ride sharing without having to download another app, without having to put a credit card into something that they're not familiar with, and it will be seamless and a great experience. And I mentioned last quarter how we've gotten that up and running in Singapore. And the third thing of course is that we'd like to have a financial return on the money we invested.

One of the things I mentioned in the last quarter was how by the end of the year I expected us to be able to have that Grab app operational in the Booking.com app by the end of the year for Indonesia and Thailand, and I'm very pleased that we are now actually operational in every single territory that Grab operates on the iOS platform. So it's just a great shout-out to the team who has been working on that, and thank you, guys, for getting that done ahead of schedule and really pushing that through.

We'll be operational for Android I think in two to four weeks I've been told, and we're talking about it's now beyond Singapore, it's Malaysia, it's Indonesia, it's Thailand, it's Vietnam, it's Cambodia, it's Philippines, it's Myanmar, everywhere the Grab is, and I tell you, I've seen this used and it really is something that makes it so easy. You get off that plane in that airport and you just go to that Booking.com app and right away, you can get that car to take you to a hotel. It's a wonderful experience, and we're also on the other side being able to show our hotel accommodations to more and more Grab customers. So good in all areas.

**Naved Khan**

*Analyst, SunTrust Robinson Humphrey, Inc.*

Great. Thanks.

Q

**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*

Okay. Thanks very much. So Glenn, I guess out of adversity can come opportunity, so in an environment in which folks are going to be really starved for business, are there any silver linings we should be thinking about in terms of Booking becoming a more important partner for your suppliers or being able to onboard more supply for the future?

Q

And I guess for the integrated travel experience as well as the rollout of your own payment rails, you are talking about transforming what the Booking.com experience has meant for the consumer for some time now. So do you feel like you have to retrain them to look for non-hotel products or pay upfront, and do you think you need to incur some cost to bring up that awareness? Thank you.

**Glenn D. Fogel**

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

So nobody wants their business to succeed because of unfortunate events. Nobody hopes for that. But sometimes the events happen anyway and you do end up being a beneficiary of those events. Companies that are stronger when they enter into a bad period emerge even stronger, and in this industry, I've seen it happen over and over again.

A

No doubt I've talked in the past about potential recessions and what would happen in a recession, and why I believe that would make us more valuable to suppliers, so that they would use us more to get demand because they needed it more, and you have pointed out what could be a very unfortunate thing for many players in our industry.

So yes, silver lining is one way to describe it. I do believe that in the long run we will emerge from this in a much better position, a stronger competitor, and we will end up even better off, though of course, no one would ever hope for that to happen under that way.

In regards to the consumer, consumers are amazing how they – they learn very rapidly how to save money, get value, when they see a new – and it's interesting, you don't even see announcements of them in different products many times. It's just – you're playing around with it and you see it. Now we of course will be using all sorts of marketing methods to get and make sure our customers are aware of the better way to do your travel planning, your travel execution, but I am not concerned at all that when we have that better product, I'm not concerned that people won't know about it. People will know about it.

**Stephen Ju**

*Analyst, Credit Suisse Securities (USA) LLC*

Thank you.

Q

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

**Doug Anmuth**

*Analyst, JPMorgan Securities LLC*

Q

Thanks for taking the question. Just wanted to ask two. First, you talked about the 15% of Booking.com bookings using the payments platform. Can you just talk a little bit more about what you're seeing in terms of conversion rates and speed to book and then other metrics that you may look at in payments?

And then secondly, Glenn, you mentioned wanting to expose flights ultimately to 50% of your customers. Just curious why that's the number, kind of why you'd stop there. Thanks.

**Glenn D. Fogel**

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

A

Well, we wouldn't actually stop there. That's just my target...

**David Ian Goulden**

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

A

This year.

**Glenn D. Fogel**

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

A

...for this year. We do intend to have 100% of the people eventually be exposed to it and we want 100% using it, but this is – it takes time because of regulatory licensing things. It's not as though you can just immediately just start selling airline tickets everywhere. That takes time to get your licenses in certain jurisdictions. And David...

**David Ian Goulden**

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

A

Yeah, let me just characterize a little bit what we're seeing on the payment platform and why we think it's very important both now and in the future.

So, the benefits come in different areas, and they're multiple and sometimes they are additive. So in some cases, just offering people payments in different methodologies, payments in currency of their own choice or payment processor of their own choice [indiscernible] (1:01:48), to offer a Chinese customer to pay in iPay, WeChat Pay or something like that, just offering that payment choice even if the underlying hotel product is the same, we have seen conversion increases even if people don't use our choice. It's a bit like offering something in the local language, and of course, we offer our site in over 40 local languages. The fact that you offer something and present it in somebody's native language or in this case you give them a payment choice that they recognize, is actually something that by itself will help with conversion. We can demonstrate what that does, albeit a small amount, if they don't use payments, and then of course if they do use payments, it helps a little bit more.

So you do get some conversion benefits. But the other thing the payment platform will let us do as well is we can also, as Glenn mentioned, we can start participating in the pricing process via merchandising more proactively. So we can offer – basically Booking.com can get involved in that and offer Booking sponsor benefits or other offers to the customer that you could only really do if you are participating as a merchant and you're taking the payments on behalf of the property and passing it through.

So the other thing that the payment can do, the payment platform also will do is it'll help bridge a gap between a customer and a property in terms of customers can pay in their payment platform or their payment currency of choice, and we can pay out to the property partner in their payment currency of choice.

So for example, again, the hotel in Italy or in Paris may not take all the payment methods that we offer to our Asian customers, and we can give them virtual credit cards, in for example, a MasterCard or a Visa format. So there are all sorts of different benefits from the payments platform.

Another one I talked to you about that helps in the business as well is that the agency model, of course, leaves the payment process open to the customer to deal with the property and vice versa, and we actually get a lot of our customer service request calls are to do with things that go wrong somewhere or were not expected in that equation between the property and the customer when we're not participating because we're just being agents providing the booking. So we find that if we manage the payment process, we can reduce the number of customer service incidents around the payment question, and actually increase the overall satisfaction and experience of both the customer and the property partner.

So there are many benefits of the payment platform. As I said, I mentioned a few. In some cases, you get all of them in one transaction. In some cases, you only get one. But it's something that we are developing rapidly inside of Booking.com. Of course, we've got a lot of experience in payments in both Agoda and in Priceline, so we're taking leverage of that capability where we've already seen those benefits occur.

**Doug Anmuth**

*Analyst, JPMorgan Securities LLC*

Thanks. Very helpful.

Q

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

**Heath P. Terry**

*Analyst, Goldman Sachs & Co. LLC*

Great. Thank you. You called out specifically the January 21 date as the one where you've sort of started to see the headlines for coronavirus. Wondering if you could share with us sort of where your expectations were then for bookings growth in the quarter just to get a better sense of sort of where the magnitude of the shift between then and where we are now?

Q

And then also on the – as we think about sort of where you're seeing the divergence in bookings growth and room night growth continuing and spreading, I know in the past, you've talked about obviously that being a function of cheaper ADRs. So I was wondering if maybe you could get a little bit more into detail with us on that as far as how much of that is geographic, how much of that is you believe customers continuing to downshift to cheaper rooms, and how much of it might be an access to inventory issue as hotels look to retain more of their compression nights for their own platforms?

**David Ian Goulden**

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

Sure. Let me take those in reverse order. So the ADR question probably the best place to go is back to Q4 because we're operating obviously in a business-as-usual type environment, and without going through a long explanation because we gave a fairly long explanation as to what's happening to ADRs and why we saw that ADR reduction in the fourth quarter, bear in mind part of it is because we were lapping a rather unusual increase a year ago, so the four really became a three, if you normalized that.

A

And then we saw basically half of that decline due to lower rates in the key countries which were like US, Japan, Hong Kong, of course again, on a pre-virus model, and some of that was macro, and about half of the decline in ADRs was due to a shift towards lower ADR countries. Again, some of that was also macro because some of the higher ADR countries got very expensive from an FX point of view. So when we go back and look at Q4 and look at Q3, we saw basically 2 points of normalized reduction in ADRs in Q3 and 3 points in Q4.

We believe about half of that was kind of macro and half of that was mix related going forward. So hopefully that gives you a little bit of flavor as to kind of what's going on.

Going into 2020, we expect the ADR reductions to be down to a couple of points again on a pre-coronavirus basis basically just assuming that the macro piece of that continued with a little bit more in the first half and a little bit less in the second half due to the lapping effect of what we saw occurring last year.

And just to go back to your very first part of the question, just like we try not to give specific guidance for where we were for the year pre the coronavirus, and we did give you a fairly good flavor as to how we thought the business would operate during the year pre the coronavirus, we try not to get into a lot of bridging exercises between where we were at Q1 before and afterwards.

For what it's worth, I can tell you that we were tracking nicely ahead of our internal expectations for the first three weeks in January, but that's only a three-week period of time. So take it for what it's worth, but we were running slightly in front of the expectation we had for the year, which I outlined relative to when we talked about 2019 and when we expected things to continue into 2020.

But I don't want to get into a specific, we thought room night growth would be X and now it's Y, because we can never really compare against a hypothetical growth.

We were comfortable with where the year was shaping up. We felt good about the profile of business we talked about in 2020 relative to what we saw in 2019 and the business model continuing, and hopefully that gives you a flavor you can kind of really come to your own conclusion as to what it was. But we are pleased with how things were shaping up going into 2020 and the shape of 2020 as we looked at the full year.

---

## Glenn D. Fogel

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

So this concludes the remarks, and I just want to end by saying in summary our 2019 performance met some important financial and strategic goals, and I'm very pleased about the steps that we've taken to-date to provide more value to the customers and our supply partners, and we look forward to doing more so in the future. And we're going to manage through the current travel environment and I am very confident in our long-term prospects.

And finally, I want to thank our supplier marketing partners, our more than 26,000 employees distributed across more than 300 offices, and a very special thank you to a subset of those 26,000 over the last couple of months have been working so hard in this environment, and I want to thank them very much. And most of all, I want to thank our traveler customers who are out there, exploring the world. Good night.

---

**Operator:** Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.