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Booking Holdings, Inc. (BKNG)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Booking Holdings First Quarter 2020 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 guaranteed 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 facts 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 the 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' speakers for this afternoon, Glenn Fogel and David Goulden. Please go ahead.

Glenn D. Fogel

President, Chief Executive Officer & 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 are living in difficult times. Since our last call in February, the spread of COVID-19 has grown exponentially, bringing uncertainty, turmoil, and too many people to tragedy all over the world.

What started as a regional outbreak, that we hoped would be contained when we follow the paths of other new viruses, like SARS or H1N1, has grown into a global pandemic of unprecedented proportions. We join the global community in our sadness at this horrific suffering and loss of life, and recognize the tremendous economic toll on so many people in so many countries.

This virus has wreaked havoc on industries across the world, and this is without a doubt the biggest disruption to modern global travel the world has ever seen. Millions of people have been under stay-at-home orders, and there have been and continue to be closures of borders, government enforced travel restrictions, and strict guidelines regarding social distancing. These actions have profoundly impacted our industry in every corner of this earth.

While our Q1 reported room nights declined 43% year-over-year, we did not see the virus' full negative force on our business until mid-to-late March. So the 43% decline does not truly reflect the state of our business nor the travel industry today. In March, our reported room nights declined over 100%,, meaning we received more cancellations during that month in new bookings.

Looking at things a different way, our newly booked room nights, which exclude the impact of cancellations, were down over 60% year-over-year in March and down over 85% in April. This gives you a clearer indication of how much our business current is currently impacted by this crisis.

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That being said, while the virus' impact on travel is unprecedented, I am confident that this crisis will eventually end and people will travel again. Travel is fundamental to who we are. And while it may take some time to return to pre-COVID-19 levels, we will get there eventually end and people will travel to continue to grow thereafter.

So what are we doing now as we wait for effective treatments or a successful vaccine? During the first quarter, when it became clear that the virus impact was going to be more significant than anyone initially anticipated, we quickly developed a series of plans to help us navigate through these challenging times.

One, stabilize the business from the immediate shock of the crisis. Two, optimize the business for the expected decrease in travel demand over the next few years. And three, position the business to capture travel demand when it returns, so we can emerge from this crisis on strong footing and extend our leadership position.

As we entered the stabilization phase at the beginning of the crisis, our employees' health and safety was a top priority. Although we have a few offices currently open in Asia, the vast majority of our employees are now working from home, including our customer service teams, which is no small accomplishment, considering the technology requirements and the huge increase in change requests and cancellations that we experienced. I'm very proud of our teams and pleased to say that we are functioning well in this new distributed environment.

Another immediate priority was helping our customers and our supply partners. For a number of weeks, we were fielding a significantly higher number of daily inbound calls than we typically receive. For our customers, this entails supporting them as they sought refunds for bookings that were no longer possible due to government regulations, or made requests to modify their travel plans. For our partners, many of whom do not have the ability to process such a large volume of customer service calls, we supported them by handling the unprecedented level of cancellations and date modifications requests.

Looking ahead, we'll be working with our travel partners to create plans to stimulate travelers to book again once this crisis is behind us. We know how critical it would be to bring demand to our supply partners in a cost effective way.

Also as part of our stabilization plan, we took immediate steps to conserve cash and increase liquidity, such as halting stock buybacks, dramatically reducing marketing spend worldwide, cutting nonessential costs, implementing a general hiring freeze, and reducing executive compensation with our brand CEOs and I foregoing salaries during this crisis and the other senior managers throughout the company voluntarily reducing their base salaries and our board of directors foregoing their cash fees.

In addition to reducing costs, we bolstered our liquidity by raising over $4 billion in debt. These measures have enabled us to have sufficient liquidity to weather the long period of significantly reduced travel demand and have the necessary resources to invest in securing demand when people are ready to travel again.

We've now begun to refine and execute our optimized plan in which we will adapt to the new reality that assumes it will likely be years, not quarters, before we witness a full recovery of global travel demand. We believe that either a vaccine or effective treatment is needed before people will feel fully comfortable traveling the way they did before the pandemic started. And even after a vaccine or treatment is declared safe and effective, we believe it may be some time before there is sufficient quantity and distribution of them to give people and governments confidence for people to travel freely.

Furthermore, as in pre-COVID-19 days, travel will be dependent on the overall economy, consumers' financial health after having gone through a very deep recession, and consumers' confidence in their own economic

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futures. For these reasons, we expect travel to fully recover later than many other industries. However, when travel demand does start to recover, we believe there'll be attractive growth opportunities.

We are in the process of assessing the cost structure of our entire company and developing plans to align it with expected market demand. As part of these efforts, we're also evaluating our strategic initiatives and the timing of significant expenditures. We intend to continue to invest in our key projects, such as payments and the connected trip, that we believe will position us well for the future.

But we are also reexamining all areas of the company to see where can we reduce or delay costs where possible. Fortunately, our financial strength allows us to make strategic decisions oriented towards the long-term interest of the business.

We recently completed a strategic evaluation at OpenTable and KAYAK, announcing last week a series of actions to reduce operating costs. Unfortunately, this included the decision to lay off and furlough some employees. As a principle, during this crisis, we have not reached first for employee reductions to lower costs. But after making adjustments in other operating expense areas, we made the tough decision to ensure the size and scope of our business is proportionate to the new realities of the travel market.

We are now working with the other brands to examine their cost structures, and we will be thoughtful and deliberate in our evaluations.

In an attempt to minimize the impact on our employees during these difficult times, we have been evaluating and employing various governmental financial support programs. Booking.com recently announced that it would participate in the employee aid program offered by the United Kingdom, and we were able to place employees on furlough there, which has enabled employees to receive a significant portion of their full-time salary.

We have also applied to the Dutch government to obtain aid under their recently enacted program to support employment in the Netherlands. This program provides funds to Dutch companies impacted by this crisis and covers a portion of employee salaries for a three-month period, with the requirement that companies which receive this aid maintain employment during the time the aid is provided.

These programs, along with all the other steps we have taken, will help us support employees and maintain jobs as we continue to fully evaluate the operating environment. We will continue to look at other available options that might help us mitigate near-term head count reductions during this period of significantly reduced revenue.

The actions we are taking in our stabilization and optimization phases are being done so that we can capitalize quickly and efficiently on travel demand when it becomes safe for people to travel again. We want to emerge from this crisis as a strong organization that is equipped to deliver for our customers and our partners well-capitalized and in a position to increase our market share when the world is ready to travel again.

On a smaller, but somewhat positive note, we are seeing some stability in our newly booked room night growth trends. We hope that this is the beginning of the road back to recovery, but it is simply too early to say with certainty. Some governments have seen progress in limiting or reducing the pandemic. They have slowly begun to reopen their economies. And we have seen new bookings primarily for domestic travel, although still at very low levels.

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Some or many of these reservations may ultimately be canceled, but we believe it does show that travel for essential business and personal reasons will slowly return as society makes progress against the pandemic. And as travel returns, we expect to see improvement in our revenue.

We're also prepared for disruption in that progress, as relaxation of social distancing in some geographies may lead to a resurgence of infections and reinstatement of government restrictions. Our aim is to optimize the business to participate in the ultimate return of demand.

[Technical Difficulty] (00:12:11-00:13:20)

David Ian Goulden

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

Thank you, Glenn, and good afternoon. Operator, am I live on the line? Can you confirm that please? I can...

Operator: Yes, you are, sir.

David Ian Goulden

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

Thank you. Thank you, Glenn, and good afternoon. I'll review our operating results for the first quarter, discuss our stabilization initiative to bolster our liquidity, and provide color on trends we saw in April. All growth rates are relative to the prior year comparable period, unless otherwise indicated. Information regarding reconciliation of non-GAAP to GAAP can be found in our earnings release.

Now on to our results for the quarter. At the time of our last earnings call on February 26, the outbreak of COVID-19 was largely contained to Asia, and we're yet to see a meaningful impact in our business across Europe or North America.

As we moved into March, the COVID outbreak continued to spread throughout Europe and North America, leading to eventual declaration of a global pandemic and the implementation of numerous travel restrictions and shelter-in-place orders.

Not surprisingly, we saw a resulting sharp deterioration of our top line trends in March with significant levels of cancellations and a substantial reduction in the level of new bookings. Although we only felt the full brunt of the COVID-19 pandemic around mid-to-late March, our Q1 results were still significantly negatively impacted.

Our Q1 reported room nights declined 43% for the full quarter. However, that decline exceeded 100% in March, as we received more cancellations than new bookings in the month. Our cancellation rate peaked in mid-March and has been steadily improving since then as we work through the wave of cancellation of bookings made prior to the imposition of restrictions on travel.

Gross bookings declined 51% in Q1, which is a greater decline than reported room nights due to average daily rate for accommodations decreasing about 15% year-on-year on a constant currency basis.

Consolidated non-GAAP revenue for the first quarter was $2.3 billion and decreased 21% year-on-year. Revenue in the quarter was less negatively impacted the room nights than gross bookings due to the fact that many cancellations we received in Q1 were for check-ins that were expected to occur in later quarters.

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Adjusted Q1 for EBITDA was $290 million, which was down 60% year-on-year. We benefit from having a highly variable cost structure that naturally declines in periods of lower travel demand. As Glenn noted, we're taking further actions in reducing other areas of spend as we stabilize and then move to optimize and align our cost structure with the new demand environment.

With that being said, there were some areas of expense pressure in the quarter related to COVID-19 pandemic that I'll walk you through.

Marketing expense, which is a highly variable expense, decreased 29% year-on-year, as we saw a significant reduction in demand in the paid channels. In addition, we took actions to substantially reduce our brand marketing spend in response to the diminished travel demand environment. We expect our marketing expense will remain significantly below 2019 levels for the remainder of the year.

Sales and other expenses increased 75% year-on-year due primarily to $183 million increase in provisions for expected bad debt and other credit losses resulting from the COVID-19 pandemic. Excluding the impact of the increased provision recorded in the quarter, sales and other decreased 10% year-on-year, as this expense line is substantially variable in nature.

For example, we recorded low expenses associated with payments in Q1. This reduction was partially offset by higher outsourced customer service costs as we worked through the heavy volume of cancellations we received in the quarter.

Personnel expense decreased 3% year-over-year primarily due to decrease in stock-based compensation, which was impacted by reduced financial performance as a result of the COVID-19 pandemic. Excluding SBC expenses, personnel increased 12% year-over-year. And although we've implemented a hiring freeze, personnel expense this quarter was impacted by annualized hires that were made last year. We expect the pressure on personnel expense will diminish as we move through the year.

G&A expenses increased 6% year-over-year, largely driven by higher indirect taxes, including digital service taxes. Excluding these indirect taxes, the G&A expense decreased 7% year-over-year, as we reduced discretionary expenses such as G&A expense. We will see less year-over-year pressure on G&A from digital service taxes once we lap the enactments of the French GST, which occurred in Q3 of last year.

Finally, information technology expenses increased 20% year-on-year, driven by higher software fees and outsourced data center and cloud costs. On a GAAP basis, we incurred an operating loss of $308 million as our GAAP operating expense in the quarter included a charge of $489 million related to an impairment of goodwill for OpenTable and KAYAK. This impairment charges is driven by reduced financial projections of results for the COVID-19 pandemic. We excluded the impairment of goodwill from our non-GAAP results.

Our Q1 GAAP net loss was $699 million. Our Q1 GAAP net loss includes $307 million of pre-tax losses on our equity investments in Trip.com and Meituan, and the $100 million impairment charge related to our strategic investments. This was partially offset by $33 million of FX remeasurement gains on our Eurobonds. We excluded these unrealized losses, impairment charge, and remeasuring gains from our non-GAAP results.

Now on to our cash and liquidity position. Our Q1 ending cash and investment balance was $9.2 billion, which decreased from our December ending balance of $11.8 million due to several factors, including the following primary drivers.

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First, we had $380 million of operating cash outflow in the quarter, which was driven by an $820 million use of cash due to change in working capital, as well as the lower earnings we generated in the quarter. Working capital in Q1 was negatively impact impacted by a prepayment of taxes in the Netherlands of $717 million that was subsequently funded in April.

The large reductions in our deferred merchant bookings, accounts payable, and accrued expense balances were mostly offset by the significant reduction in our accounts receivable balance in Q1. The deferred merchant booking reduction was driven by both lower bookings and customer refunds. We expect these balances will all continue to decline in the low level of bookings we're currently seeing in the business.

Second, we repurchased $1.3 billion of our stock in Q1, almost all of which was purchased under our stock buyback plan we filed last November. We halted buybacks as soon as we recognized the growing impact of the pandemic.

Third, we had CapEx of $80 million in the quarter. And finally, the value of our investments declined in part by the $370 million unrealized loss on equity securities and the $100 million impairments related to a strategic investment that I mentioned earlier. In addition, we had $106 million decline in investment value that did not impact the P&L, but was reflected in the balance sheet.

The majority of remaining $288 million difference between cash and investments at year-end on March 31 is primarily due to the timing of the settlements for sales on some corporate bonds that were classified in prepaid expenses and other assets at the end of March. These sales were settled in April and moved into cash and investments.

In our efforts to stabilize the business from the immediate shock of the crisis, we've taken several steps to shore up and bolster our liquidity position. We halted repurchase of our stock and we will not initiate repurchases until we have better visibility in the shape and timing of recovery from the COVID-19 pandemic.

We worked to receive a refund in April of the prepayment of taxes in the Netherlands that was made earlier in Q1. We amended our revolving credit facility to substitute the minimum liquidity covenants for the previous leverage covenants we reviewed in 2021 to ensure we continue to have access to the source of liquidity.

And finally, and most notably, we completed a bond and convertible note offering on April 8 that raised $4.1 billion of capital. If you adjust our March 31 ending cash investment balance of $9.2 billion for our bond and convertible note offering and the settlement of the corporate bond sales and the refund of the Dutch tax prepayment, all of which occurred in April, our March 31 cash and investment balance would increase to about $14.3 billion. Approximately $12 billion of this is highly liquid after considering the actions we've taken including recently completing the sale of our Trip.com ADSs and moving on cash and investments in corporate bonds into AAA Treasury and Government Money Market Funds. After the bond and convertible offering, we have about $13 billion of debt, $4 billion of which matures before the end of 2022.

Due to the COVID-19 crisis, I will not provide quarterly guidance like we normally do. However, I will provide some color from our preliminary April results, which will give you a clear picture of our recent top line trends, considering that April was the first month fully impacted by the pandemic.

As Glenn mentioned, our newly booked room nights in April were down over 85% year-on-year. As a reminder, newly booked room nights exclude the impacted cancellations. Of course, these new bookings may be canceled

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in the future, especially as the very high percentage of new bookings in April were made with flexible cancellation policies.

Reported room nights continue to be negative in April as cancellations outpaced new bookings. We expect our revenue in April to have a greater year-on-year decline than newly booked room nights, considering the impact of the cancellations in March for April stays and also since many hotels, especially in Europe, were not open in April. New bookings and revenue for the second quarter may vary from April's results depending upon the level of travel demand and accommodation availability we experienced in May and June.

Now, as Glenn noted, we're seeing some stability on newly booked room night growth trends with the year-on-year decline rate being quite consistent from our April after reducing rapidly through the first quarter. We believe that domestic travel will rebound sooner than international travel, as we expect travelers to look to their home country or region first for safe travel option.

In April, we witnessed a meaningfully higher domestic mix in our business. Historically, domestic accommodation bookings represents about 45% of Booking.com's total business. And if we consider Western Europe as one market, the historic mix increases to about 55%. In April, Booking.com's domestic share increased to approximately 70%. And if you consider Western Europe as one market, the domestic mix increased over 75%.

Towards the end of April, we saw some very early indications that domestic travel was starting to return in certain markets where shelter-in-place rules were relaxed, including Greater China, South Korea, Vietnam, and Germany. Newly booked room nights in the US declined less than our global average in April and we saw an improvement in domestic travel during April, but we cannot tie this to relaxed new shelter-in-place rules, as these had only happened in a few states and in recent days.

I must emphasize again that it's too early to say we're witnessing anything like a broad rebound in travel, especially as we've seen some countries like Singapore, where travel demand was less impacted than other places initially, but is now seeing of travel demand decreases associated with new outbreaks. If we look across all our business, the decline rate for newly booked room nights in the last few days in April was only a few percent better than the decline rate in the first few days.

We've also observed a meaningful change in Booking.com's customer booking behavior. In April, their customers mainly but either very close to stay or several months out. The combined mix of both, very short booking and bookings for over two months' time, is twice the normal amount. This booking behavior change has also been accompanied by an increase in mobile bookings, particularly in our app, helping drive a higher mix of direct bookings and we'll continue to focus on providing our customers with a great app experience.

As Glenn emphasized, we have a tough road ahead of us as we look to navigate through the unprecedented challenges that COVID-19 has presented to us. We're working hard to stabilize our business through actions including our cost savings initiative and a significant bolstering of our liquidity position. We'll continue to optimize our business and our cost to align with expected market demand, and we'll work to position ourselves to capitalize upon the reemergence of travel demand when that time occurs and wherever that demand occurs. We have the confidence that through these actions we'll be well-positioned to come out of this crisis and expand our global leadership role in the travel marketplace.

With that, we'll take your questions.

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Glenn D. Fogel

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

And, David, can you hear me?

David Ian Goulden

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

I can hear you now, Glenn.

Glenn D. Fogel

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

Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first response is from Mark Mahaney, RBC Capital. Please go ahead.

Mark S. F. Mahaney

Analyst, RBC Capital Markets LLC

Q

Thanks. Maybe I'll try two questions. First, David, I think at the end you talked about this increase in app bookings or rise in direct bookings. Is that something you actually were able to drive, that just happened randomly, and is there a way coming out of this crisis that at the margin you can tilt more of your bookings to accelerate this transition to direct bookings?

And then secondly, thanks for the data points on the improvements in a couple of the markets. Any quantification on those? Is there any way to say that any of these markets, South Korea, Vietnam, whatever, are back down 50% or something like that? Like, can you kind of draw the curve a little bit, or it may be too early? Thank you very much.

David Ian Goulden

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

A

Yeah, Mark, thank you. This is David. I'll take that. Let me go with the second question first. We have called our markets where there's been a double-digit improvements in the rate of decline from the start of April to the end of April. We really only kept our remarks through the month of April because early trends in May are too early to call, so I'm not going to tell you exactly how much they're down. I mentioned in total even with this improvement we're seeing in these markets our all in room night decline rate is only a few points better at the end of the month than it was at the start. And the markets that we called out we see double-digit improvements during the course of the month of April.

In terms of the shift towards app, first of all, I'll just caveat, as I said before, anything that we talk about in terms of April when we're running at kind of 10% to 15% of our normal volumes, you have to take and qualify through that lens and try not to draw too big a trend from it. We did see during the course of the month that – we saw more app customers, we saw more Genius customers, which is often tied to app use as well. We're pleased with the

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fact that in the – as we saw some demand increase or we saw the residual demand occur, more was going into the app.

We're continuing to try and emphasize the app as we come through this, because we want to make sure we drive more direct business and, of course, the app is one of the strongest ways to drive direct business. But I wouldn't say there was a particular strategy that drove us there, and I'm pleased that's the way that things came out and we can continue to understand how customers is buy and trying to continue that trend as demand starts to recover.

Mark S. F. Mahaney
Analyst, RBC Capital Markets LLC

Q

Thank you, David, thank you for that. Wishing you both the best.

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

A

Thank you, Mark.

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

A

Thank you.

Operator: Thank you. Your next response is from Kevin Kopelman with Cowen. Please go ahead, sir.

Kevin Kopelman
Analyst, Cowen and Company, LLC

Q

Great, thanks so much. I just wanted to dig into the cost trends that you're seeing in April and also what you're planning for going forward. So, could you help us think about that? Maybe starting with advertising, how that might trend relative to that new bookings metric? And then moving on to personnel and your other big chunk of expenses, what you're planning for there. Thanks.

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

A

David, why don't you take it?

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

A

Yeah. Thank you, Kevin. Glenn, let me take that. So, marketing expenses are going to correlate quite closely to the rate of newly booked room nights. So you can assume a close correlation there. I actually walked through a number of these in the prepared remarks to Q1 and Q2, but just to summarize. Sales and other – obviously, a large piece of that is tied to our merchant platform, so that is variable with volume. But things like customer service costs and bad debt, as you saw, was a major factor in Q1, those may continue to be a factor in Q2.

Next biggest area, of course, is personnel. And as we mentioned, the hiring freeze and the other actions that we took did not have much of an impact in Q1. In Q2, you'll get the full impact of those. Also to the extent that we are successful with our application for government aid, that would generally help Q2. And some the optimization actions that we've already taken, like KAYAK and OpenTable, will also help Q2. So as we move through the year

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and continue with optimization activities, that will also help the personnel expense as we move through the year, although the government aid programs will be mainly focused upon Q2 and not the second half.

As I mentioned, pressure will decrease on G&A, particularly as we start to lap the GST expenses last year, and information technology is an interesting line. We saw, obviously, a fair amount of pressure on that in Q1. I pointed how some of those costs related to our volumes. And even though our revenues were basically not very high in Q1, the volumes that we had to process through the business through refunds and cancellations, et cetera, were several also high and that drove IT costs up. That was one of the factors. We expect there to be less pressure on that line going through the rest of the year.

Kevin Kopelman
Analyst, Cowen and Company, LLC
Q

Thanks. And then if I could just ask one quick follow-up. Can you talk about how successful you've been in getting refunds out to customers who have had to cancel and also helping them coordinate refunds when they're dealing with the hotels?

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

Yes, I'll let Glenn take that one.

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

Yeah. So, this is a difficult issue. We have customers who have purchased reservations far in the future perhaps that were nonrefundable. And then there was a case of pandemic and it was a force majeure situation, a situation where the customer says, well, I can't travel, because the government has said that you cannot travel. And we have hoteliers who are saying, wait, I can't refund everybody, I may have even spent the money here, and it's a difficult situation. So, we always believe in trying to do what is best for the customers, and our contracts with our hoteliers is completely set up for this exact situation, force majeure situation, in which case it goes over a long history of travel that in a situation like this the hotel should refund the customer.

So what we'll do is we'll provide the monies to the customer and recover from the hotel. Now, we've talked that there is an issue, many of these hotels are closed right now, there is nobody actually there to have discussions with. We hope to get a significant portion of it, but we don't know yet as we're not talking with the people. And we always want to come up with a good relationship with the hotel. So as they reopen, as things start again, we want to do this in the best way possible. I don't think we have any specific numbers to give. Dave has put in the reserves and I think that's – we hope for the best going forward.

Kevin Kopelman
Analyst, Cowen and Company, LLC
Q

Thanks, Glenn. Thanks, David.

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

Thank you, Kevin.

Operator: Thank you. Your next response is from Naved Khan of SunTrust. Please go ahead.

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Naved Khan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Yeah, thanks a lot. Just a couple of questions. So in the new bookings that are coming in, are you seeing any kind of a pattern in terms of people – most people opting for maybe alternative lodging, which is a hotel or vice versa?

And then in terms of just the fixed cost, I think, David, you gave us a sense of where these were on your Q4 call. I think you said they're less than 50% of the OpEx. And after the initiative that you've taken or will take, give us some sense of where these could land ultimately.

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

A

Yeah, Naved, on the new bookings, I mentioned the fact that we're seeing a bit of, what I call, a dumbbell in the [ph] curve pattern (00:34:50), which means that they're either very close to the current stay or they're a long way out.

What happened in the first quarter is hotel and alternative performed about the same, so they basically were almost in lockstep from a growth point of view throughout the quarter.

In April, we saw a shift to alternative associated with those longer-term bookings. So we saw our alternative combinations doing better in the April bookings, particularly at the far end of the dumbbell, which is the two-month-plus out bookings, particularly in the domestic markets, where we saw some decent return rates in the domestic markets in the month of April. So, that's what we saw relative to the mix.

On the fixed costs, we are still, as Glenn said – I think he went through a fair amount of detail in his commentary. We are still building our optimized plans for many parts of the business. We've really only put those in place yet in one of our business segments. And we're working through the other business segments as we speak. And of course, the timing of that is also going to be tied to what we're doing around some of the government aid programs.

So I don't want to come up with a number just yet. I'll give you data points, example that the reductions that we took at KAYAK and OpenTable reduced the personnel and ops expenses there by about 20%. And those will be part of that fixed or semifixed cost base we talked about. That's one example.

Beyond that, I really don't want to go into any more detail. We haven't finalized our plans yet, but as we do and when we do, we'll let you know what we're expecting to do to our cost base.

Naved Khan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Got it. Thank you and good luck.

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

A

Thank you.

Operator: Thank you. Your next response is from Brian Nowak of Morgan Stanley. Please go ahead.

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Alaxandar Wang
Analyst, Morgan Stanley & Co. LLC

Q

Hi. This is Alax Wang on for Brian. Thanks for taking the question. Just two questions. One, Glenn, you talked about sort of positioning the business to become stronger. Can you talk to us a little bit how you think about new strategies or approach in the US market specifically coming out of the downturn?

And then the second question, just given the stay-at-home dynamics and with strong social media use, do you see an opportunity to potentially use more social advertising to drive growth coming out of the downturn?

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

A

Thanks, Alax. It's very important for us as we come out as optimized to make sure that we're doing everything we can to become a better competitor in the US. We've talked in the past that we believe we under-index in the US, and that is something that is important to counter and be able to.

One of the things that we believe is providing a better overall value proposition to the customers, and it's also as we talked in the past, has made our customers more – or potential customers aware of this better value proposition. And that goes through the connected trip that we've talked about in the past.

Now, important we think that we'll be able to provide something different and better to the consumer. But your point is a good one about social media and how do we get that message to those consumers.

And with our CMO, who came from Google, who has been here about 10 months now, we absolutely believe that the social media is a way to try and drive that message to the consumer, and we will be doing things in the future, albeit always looking what's the right ROI for that. It does us no good to waste advertising money.

Alaxandar Wang
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks, Glenn.

Operator: Thank you. The next response is from Lloyd Walmsley of Deutsche Bank. Please go ahead.

Lloyd Walmsley
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks. Two questions, if I can. First, can you just talk about how you see the P&L coming out of this? And specifically, do you think that performance marketing can structurally benefit perhaps from lower competition in advertising auctions?

And then secondly, wondering if you're seeing any shift between kind of urban and more ski and beach type of locations in April booking. And given somewhat of a shift to alternative, give us an update on how you feel about your whole home inventory position as people perhaps look to locations with less urban density. Thanks.

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

A

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Right. Well, let me start with the second one first about the nature of where's the demand going in April and such. And I can't give you any more specifics beyond what we've already described to you, a slight increase in people going for the alternative accommodations over home.

I can say, though, there's not a lot of skiing in April, so that one I can tell you. And remind me, your first question was?

Lloyd Walmsley
Analyst, Deutsche Bank Securities, Inc.

Q

First question was, how do you see the P&L coming out of this? And then, might there be some longer-term structural benefits from lower competition in advertising auctions?

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

A

Yeah. So one of the things that I think is important to understand, while we do believe that certainly because of this pandemic, some of the smaller players in the industry are going to have trouble going forward.

But the big players are still going to be around. They're going to be very competitive as they were in the past. And they are the ones who are the sophisticated players in the performance marketing area. So I don't think it's going to change a great deal. The people who we've been competing against in the past are going to be the same people going forward. So I don't see significant change in that area.

In terms of the P&L, when we get to that place down the road and that shining sun where we have fully recovered, I hope to be doing what we did in the past, and have the leading margins in the industry and still growing nicely. And that's about the best one can put forward in terms of a long-term prediction.

Lloyd Walmsley
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thank you.

Operator: Thank you. Your next response is from Doug Anmuth of JPMorgan. Please go ahead.

Dae Lee
Analyst, JPMorgan Securities LLC

Q

Hi. This is Dae Lee on for Doug. Thanks for taking our questions. The first one, can you talk about your business travel mix, what the mix was going into COVID-19? And do you have any data that suggests maybe some business is helping recovery in some of the markets where you're seeing some?

And then in those markets where you are seeing some pickup in demand, are those countries recovering in a similar manner? Just looking to see if the timeline in those countries can help educate us on how other country recoveries might look like going forward.

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

A

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So why don't I take the latter one – or take the former one. One of the things I think is somewhat – think it's something that can be deceiving in terms of trying to take what has happened in one country and then model outcomes everywhere else.

And we've seen a little bit of cases where countries have begun to open up, doing better, but then because they opened up the economy, there is a resurgence in infection, and then they put in the reinstatement of the restrictions and things go back. And I think it's hard to do that. And also, you have different countries, different travel patterns also. So I definitely would not take what is happening in one and then apply that across the entire world and say, okay, that's how this is going to roll out. I think that would be a chance to come up with a very bad prediction for future. And, David, in terms of the first question?

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

Nothing really – no major updates on business travel as we don't have a formal percentage. We have a self-declared estimate that maybe as much as a fifth of our business might be business travel, but it's not always in number. It's a number that we really track or spend a lot of time looking at. It's basically just a self-declared booking field. What I would say is – and obviously as Glenn said, we're just talking about very small deviations. We're trying to give as much color as we can for what we saw in April.

What I will tell you and it's pretty obvious that our domestic business was – ratio grew appreciably faster than the international rates. And to the extent this business travel was international, that's still very depressed. I'm not saying that a large piece of it is, but obviously a chunk of it is, so that's another way to look at it. We don't really have any specific data for the month of April what happened to business travel versus non-business travel other than the fact that we know what happened to domestic versus international.

Dae Lee
Analyst, JPMorgan Securities LLC
Q

Got it. Thank you both.

Operator: Thank you. Your next is response from Stephen Ju of Credit Suisse. Please go ahead.

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

...earning and experimenting to merchandise better to the customer and connected travel have been themes you've been talking about for some time now. But with the demand environment being what it is, does that slow down the product development team in terms of the ability to innovate? Because I guess there's a comparative lack of data and consumer behavior. But I guess your competitors are probably struggling with the same difficult circumstances as well. But strictly as you think about what you wanted to achieve for Booking in terms of product development and what the company looks like on the other side of the crisis? Thanks.

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

You're right. One of the things that's been a great advantage for us is our experimentation ability, because with more data, we're able to come up with insights and be able to develop things much faster, and that's always been a great advantage for us. And if there's no demand, you're right, it's hard to put something in and see is this working or not, how well does it work or not. So I agree with you with that. But one can still make great insights with what in comparison is a small amount of data, but still can give you the insights.

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Don't forget, we were a lot smaller 10, 15 years ago, but we were able to come up with a lot of new things that were very valuable and helped make us a leader in innovation in this industry. And we believe that we'll still be able to do that, and the connected trip will still be going forward, because we do believe and we're seeing data before COVID that was indicating we're going in the right way. And I do believe that this will continue going forward. As demand comes back, we'll be able to do more and more with that data.

Stephen Ju
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thank you.

Operator: Thank you. Your next response is from Eric Sheridan of UBS. Please go ahead. One moment, please.

Eric J. Sheridan
Analyst, UBS Securities LLC

Q

...inventory longer-term, Glenn. Any views about how supply might consolidate on the other side of COVID-19 just because of the benefits of needing scale versus some of the historical trends, which could be quite a positive for the OTAs as demand is needed and demand starts to pick up, looking back at past periods, the OTAs tend to take share and tend to be a better partner for the hotel industry. So just curious about the relationship of supply and how you yourself see supply evolving over the long term on the other side of COVID-19. Thanks so much, guys.

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

A

In the long run, the very long run, there'll be supply that will be to measure with what it was before COVID, and it will match up with what the demand is in the long run. There may be, in the period right now going forward as we're going through this recovery that there may be some decline in some areas of supply that just isn't as great a place to stay, and therefore their demand doesn't go there and prices have adjusted that the better quality places are a little bit cheaper, people will go gravitate there.

But here's the point, the buildings don't disappear. The hotel business doesn't – the buildings there. If there's demand, it will get filled. There may be a new owner. It may be recapitalized and such. But it will be there. So I think in the long run, I'm not concerned about a constrain on supply that impacts our ability to provide great value to the consumer at all or a chance that the supplier doesn't need us anymore. I don't see that happening at all.

Operator: Thank you. Your next response is from Deepak Mathivanan of Barclays. Please go ahead.

Deepak Mathivanan
Analyst, Barclays Capital, Inc.

Q

Thanks for taking the questions. Glenn, how would you characterize your answer to the previous question on the alternative accommodation side? I mean, alternative accommodations has a great mix of inventory from urban apartments to – with traditional vacation renters, and also people like hosts that are using this in homes. Have you seen any meaningful disruption on that side? Is that something that's going to change meaningfully long-term in your view?

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And then second question, I was also going ask about your thoughts on investing behind brand. It feels like particularly in markets like US, you can invest on brand, and then support it with some of the direct channels to capture meaningful share of the initial recovery demand. What are your views on that? Thank you so much.

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

A

Sure. Let me talk about the first; then we'll go back to the second one. So in terms of alternative accommodations, interesting question about will there be a decline in the supply because there's no demand right now for many of them. And they just say, well, I'm not going to bother with this, one. Two, is there an issue people are deciding this isn't a great thing to do, because they're concerned about having strangers in their homes and just don't want to have that and how long does that goes for. You have also the trends beforehand about the regulatory environment. Does this issue of the pandemic increase regulatory restraints on the supply or not?

The flipside of that is very interesting, of course, is where did Airbnb and a lot of this business really come out of the Great Recession 2008/2009, where a lot of people said I need to get extra income, so I'll rent out my spare bedroom or something of that nature. Now, of course, it's much more professional, I think. I think in the end, this is a good business for everybody. People like alternative accommodations. The people, the host, the people who own these properties, people are doing it as cottage industries, they like it. It's good money. And as demand comes back, they'll continue to do it and there will be supply to meet that demand. On the demand side, people as you see right now in just April alone, people see a need for, I think that's good. I really don't see a lot of changes.

One of the things – and I'll just use your question to point to this is that people think the world's going to be so different, and I don't think the world's going to be hugely different once we get past this. There have been pandemics in the past. Go back 100 years, go back Hong Kong flu, go back – there have been pandemics. There have been terrible things. But in the end, people want to travel. People are willing to supply accommodations, and I don't see that there's going to be a great change in the long run.

And your other question was?

Deepak Mathivanan
Analyst, Barclays Capital, Inc.

Q

Yeah. It was just on using brand advertising and support it with direct channels to capture a lot of the incremental demand during the initial recovery curve. Do you think that's something that's possible? How are you thinking about it, at least in certain markets like US, where it feels like brand advertising can be more efficient initially?

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

A

Well, we're talking with the whole marketing team about that. One of the things you don't want to be doing, the reason we're not brand advertising right now is you don't want to be putting a message out when nobody's really listening or very few people are listening to it, and you're spending the money for the number of people who you're spreading this message to who really are not interested in traveling right now. That's not an efficient use of the money. I talked a little earlier about how we want to really be ROI efficient in this. So, I'm not sure – certainly when we think that enough people are ready to travel, then it'd be good to start pushing that message out to them. The critical thing is, when is that right point? We'll be measuring very carefully to see when that right time is.

Deepak Mathivanan
Analyst, Barclays Capital, Inc.

Q

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Great. Thank you so much.

Operator: Thank you. Your next response is from Justin Post of Bank of America. Please go ahead.

Justin Post
Analyst, BofA Securities, Inc.

Q

...to see you back. Two questions, and I apologize if they have been asked. But first, thinking about your merchant platform today, much bigger than before. Does that help you when people are ready to come back and hotels are engaging with different offers or pricing or things like that?

And then secondly, if you assume more people are going to travel in their own countries versus international, does that change anything for ADRs or market share or your take rates? Thank you.

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

A

Well, I'll take the first one. I'll let David talk to the second one. The merchant platform will be very important, and that's why we do believe it's [ph] on the core books (00:52:01) continue to invest in our payments product and get that out, because, as you point out, providing value, providing the right price, putting it together through that connected trip, that's one of the things we've talked about a lot and we still believe this is a great thing for consumers, really being able to put together different packages in a way, so paying one way.

And clearly one of the things too is us having more control over the cash makes it much easier if a refund is needed, to be doing it for one thing instead of a customer having to deal with refunds from their air and from their hotel, from their car. Maybe other things or attractions they did and all different people they talk to try and get refunds from. By doing it in one package, connected trip with us through our merchant payment product platform, we'll be able to give much better value both in the time when they buy it and even if they have to deal with getting a refund. So that's more important. And, David, I'll let you talk about ADRs and what do you think.

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

A

Yeah, sure. Thanks, Justin. So historically, both ADRs and length of stay have been a little shorter for domestic travel, because people's longer trips would be international, and therefore they've been going towards higher ADRs and long length of stay. Now, to the extent those international trips get moved back into the domestic marketplace, that distinction may actually not be as great. Because if the domestic marketplace was generally more short-term oriented and that mix shift as it becomes more the place that people want to go for there longer, major vacations, et cetera, that may not be as big a factor as it was before. And there's really no difference in take rates.

Justin Post
Analyst, BofA Securities, Inc.

Q

Great. Thank you.

Operator: Thank you. Your next response is from Daniel Powell with Goldman Sachs. Please go ahead.

Daniel Powell
Analyst, Goldman Sachs & Co. LLC

Q

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Great. Thanks for taking the questions. Two, if I may. First is kind of to build on the question around timing of advertising and when you decide to sort of step back on the gas, I guess so what are you looking for to sort of indicate when would be a good time to step in? And what would your expectation be around ROIs if there's been somewhat of a vacuum created from hotels and other partners perhaps not being as able or willing to spend when things start to look a little bit better?

And then the second question, you mentioned maintaining good relationships with your suppliers. Wondering if you could sort of give us a sense of during the global financial crisis, what did your relationships, what did your access to inventory look like coming out of that environment versus what you might expect in this one? Thanks.

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

A

Sure. So regarding the brand advertising, I'm sure you'll forgive me for saying, I'm not – I really don't want to give away exactly when we're going to put on the gas and what the signals are, so our competitors can then get a jump on that. I'm sure you'll understand that. Look, it is important, though, for us to feel that we are going to be effective in using that brand advertising and going through. And as the question earlier about, there's a lot of things that we can do desktop now and be able to put out what is half video, [ph] half off (00:55:15), half brand and half performance through video channels that you can start seeing some better response and a better sense of what your ROIs are not able – little bit more selective in how you use that. I think we're going to definitely be pushing that way.

In regards to the supply relationships and the great recession as a model going forward, we were very pleased to see that, and this is why we feel comfortable and confident to talk about how a deep recession can be helpful to distributors, because in the past, the suppliers leaned in heavily into distributors who had demand for the obvious reason. That if you're a hotel and you're running a 40% or 30% occupancy rate, you need to get that demand and we're here to provide it to them.

So that helps build that better relationship. And I do think that's what you're going to see going forward. And I do agree, I think that some of them may not be doing as much brand advertising as perhaps they were in the past, and that'd be due to cash constraints and other things, where they need to make sure they're maintaining a certain amount of cash flow.

Daniel Powell
Analyst, Goldman Sachs & Co. LLC

Q

Great. Appreciate it.

Operator: Thank you. Your next response is from Lee Horowitz of Evercore ISI. Please go ahead.

Lee Horowitz
Analyst, Evercore ISI

Q

Great. And thanks for taking the question. Given the moves you guys have made with your balance sheet and shoring things up, and obviously depressed private and public valuations, I'm wondering how you're thinking about your potential ability to be a acquirer of assets across the travel space during this crisis, given your strong balance sheet?

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

A

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Well, we always like having a strong balance sheet for many reasons, that being one of them. And of course, valuations as we know have changed drastically, but they've changed drastically for a reason. And certainly risk factor has significantly increased than it was a short time ago.

So, the way we approach acquiring assets or any type of acquisition is always the same, which is we measure in terms of what will it add to our business or the franchise to help consumers and partners. What is it that's going to be great? What do we think of that management? Do we think they're good? Do we think they can help us or not? And if not, can we operate this? Or will this add without that management team?

This is something that we've always – we built our company through M&A, as you know, and we're going to continue to look out for that. But we recognize that this is a frothy time, and we have to be careful and picky in terms of what we do, because the risk factors are much higher now. And, David, do you want to talk anything more about the balance sheet or no?

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

No.

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

All right.

Operator: Okay. Our final question is from James Hardiman of Wedbush Securities.

James Hardiman
Analyst, Wedbush Securities, Inc.
Q

Hey, good afternoon. Thanks for taking my question. So really appreciate all the data points on March and April. Obviously, somewhat limited, but wanted to take a step back. Was curious if you guys have done some consumer work? Seems like you're in a unique position to sort of understand what types of travel consumers are most likely to reengage in the soonest.

Obviously, there's air travel, hotels, restaurants, vacation homes, apartments, even car rental, all of which you guys have a piece of. How are you thinking about which of those are most likely to resume normality the quickest?

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

Well, what we've seen is the hotels area and David talked a little bit about what we've seen on that. A lot of areas still extremely limited, whether by government restrictions, like people who go to certain countries or the amount of flights and times available. And people just general fearful about getting on a plane right now.

And you may have seen, for example, the Ryanair data that just came out in Europe. Ryanair is a good bellwether for air travel in Europe. And in April, it was essentially almost nothing, really almost nothing. And that's, unfortunately, what we've seen in other parts of the world, extremely low amounts of air travel. But this all will go somewhat together as people feel more comfortable about how – their entire situation.

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It's the vaccine we talk about, it's a treatment perhaps. It's also in their economic situation, all those things. So I think what we'll see as things start coming back, yeah, some things will lead the other one. But I think overall it will all come back very similar.

James Hardiman
Analyst, Wedbush Securities, Inc.

Q

Got it. And then last question from me, if I may. Sounds like you're not quite ready to give any sort of a monthly cash burn number, just given some of the expense optimization that's still going on.

So maybe walk us through some of the puts and takes. You've got about $1 billion of deferred merchant bookings. How quickly is that coming down? Are there timing differences between when you provide refunds to customers versus when you're getting those refunds from the hotels? And then can you help us with an interest number, given the transaction that's taking place as of late?

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

A

Thank you, James. So maybe I'll wrap up with this one. So we haven't given a cash flow projection for the year. We did give you an indication as to kind of what our cash position would look like at the end of 2021 before we did our bond offering. And now, of course, we have significantly $4.1 billion more than that.

So we're not going to get into our monthly burn. We walked you through the changes to our balance sheet for working capital movements in Q1. Those balances will continue to reduce until we start to get travel demand occurring once again.

And I think the best way to handle it is once we've really gone through our optimization plan and we decided where are we going to reset our cost base to, at that point in time we'll give you more color as to where we are.

I do not have an interest rate number for you off the top of my head, but we can follow-up with everybody, follow up with that one.

James Hardiman
Analyst, Wedbush Securities, Inc.

Q

Okay. Fair enough. Appreciate it.

Operator: Thank you. There are no further questions in the queue at this time. I would like to turn the call back over to Glenn Fogel.

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

Thank you. Now I understand there was a technical difficulty and some of the last part of my prepared remarks were cut off. And I think what's – actually works out well, because the last two paragraphs which I were – actually are a nice way to close this off. So let me just close that off for everyone.

Look, we know the progress against the pandemic is going to be disruptive at times, as relaxation of social distancing in some geographies may lead to a resurgence of infections and/or reinstatement of government restrictions.

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Our aim is to optimize the business to participate in the ultimate return of demand, manage our expenses in light of our best estimate of the shape of that return, invest in our business to build on our leadership position in the industry, and serve our customers, employees, and partners, and build shareholder value going forward.

We have a tough road ahead of us, and we have been through many difficult decisions in the past, the last few weeks, and we're going to have some in the future, the weeks, the months, and quarters to come.

The base scale and impact of COVID-19 is unprecedented, but we know one day we will be on the other side. And we are doing everything we can to ensure we are well-positioned to navigate through these challenging times. We have the confidence that with a highly variable cost structure, strong cash and liquidity, great global brand awareness, and some of the best people anywhere, we are well-positioned to come out of this crisis and extend our leadership role in the global travel ecosystem.

And I'm going to close by giving a heartfelt thank you to all the employees, our customers, our partners, and our governments as we work through these difficult days together. And to our employees, I have never been more proud of you and your enormous efforts to support our customers, partners everywhere. We know there will be more tough days ahead, not just for us, but for so many people at industries all over the world. I am confident we will get through it.

And lastly, I want to say thank you to all the frontline workers out there, the doctors and nurses, the scientists trying to come up with a cure or vaccine, the delivery people, the people making sure there'll be food in the stores, basically to everybody in a job that is designated as critical. To all of you working night and day to help our world get through this, thank you from all of us at Booking Holdings. Good night.

Operator: Thank you. This concludes today's conference call. You may now disconnect. Have a good day.

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