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Booking Holdings, Inc. (BKNG)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Booking Holdings Third 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 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.

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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 third quarter conference call. I'm joined this afternoon by our CFO, David Goulden. While the impact of COVID-19 continues to weigh heavily on our results, we were pleased to see a sequential improvement in trends in our third quarter, which is our seasonally largest and by far most profitable quarter. Reported room nights, which includes the impact of cancellations, were down 43% year-over-year in the third quarter, which was a marked improvement from the 87% decrease we experienced in the second quarter. Continued pressure on ADRs in the quarter slightly offset by a one point FX benefit led gross bookings and revenue to decline by about four percentage points more than room nights. We recorded approximately $1 billion of adjusted EBITDA in the quarter, which was an improvement from the $376 million loss we reported in Q2. But this was 60% lower than in the third quarter last year.

As our results show, we are operating significantly below pre-COVID levels. However, we were encouraged by our improvement versus the second quarter, and we're pleased to see travelers and supply partners connecting through our platforms as they emerge from the spring's first wave of coronavirus infections. Delivering these results in what continues to be an extremely challenging and unpredictable environment is a credit to our team's relentless efforts to provide the best value and service to our traveler customers and supply partners.

The improvement in booking trends in the third quarter versus the second quarter was almost entirely driven by domestic travel, with a very modest improvement in international travel. As we noted last quarter, our domestic business is benefiting from government restrictions on international travel, which forces consumers who want to travel, they have to do it domestically. We believe the improvements in trends we've seen in this challenging environment demonstrate people's deep desire to find a way to travel, with Q3 results benefiting from some pent-up demand after the lockdowns in Q2.

Looking more closely at the shape of the quarter, the year-over-year decline in reported room nights was relatively consistent each month of Q3, as the steady improvement in global trends that we saw from April through July flattened out in August and September. In October, reported room nights declined by about 58% compared to October 2019 and over the last seven days, through yesterday, declined by about 70%. We believe this worsening result is driven by increased virus infections and certain governments reimposing public health related restrictions. We believe that travel will continue to be greatly affected by infection trends and government's public health responses. David will provide some more color on the regions in his remarks.

As we think about the full fourth quarter, it's difficult to predict exactly what the next two months will look like in terms of travel demand, as we enter the winter months in the Northern Hemisphere amid rising COVID case counts in many areas. Given the trends we are currently seeing, we believe that year-over-year room night declines will be greater in Q4 than what we observed in October. If this turns out to be the case, it will be very challenging for us to reach profitability in Q4.

Despite the expected challenging fall and winter ahead of us, I remain confident in the long-term outlook for both our industry and our company. I strongly believe that people have an innate desire to travel, which will ultimately drive a recovery out of this crisis. When we think about the timing and shape of this recovery, we continue to believe that a key milestone will be a widely distributed vaccine or effective treatment, which will give people confidence that it is safe to travel. While we are encouraged by the news of progress being made on this front, we

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understand that it will take time to produce and distribute any vaccine on a global basis to achieve effectiveness. I'm also encouraged to see some governments, such as Japan and Thailand, taking concrete incentives to incentivize travel. More programs like these and increased cooperative action from governments around the world, would help accelerate the travel recovery.

While the progress we are seeing leaves me optimistic on the long-term outlook for our industry, I continue to recognize there will likely be years – and not quarters – before the travel market returns to pre-COVID volumes. In the meantime, we continue to execute against a series of plans to navigate the company through these challenging times and lay the important groundwork that will set us up to emerge from the pandemic in a position of strength. As we previously discussed, we've assessed our total cost structure and developed plans to align it with expected market demand over the next few quarters. This work is complete at KAYAK, OpenTable, Agoda and Priceline, and we've started to see some of the associated $80 million of annual cost savings phase in during the third quarter.

We are making progress with our initiatives to reduce the workforce at Booking.com by up to approximately 25%, with an associated annualized savings estimated between $250 million to $300 million. We have been taking restructuring actions at Booking.com in various countries, and in some countries we've implemented voluntary leaver schemes. We are continuing to work with our works councils, employee representatives and other organizations to finalize plans in other countries. It is our hope to make the vast majority of the announcements to employees about these personnel reductions by the end of 2020.

It is important to stress that these personnel restructuring decisions are difficult, and we do not take them lightly. Given the expected timeframe of a recovery that we have discussed, we believe that our restructuring plans are the correct actions for the company in order to right-size the business.

In addition to our cost reduction actions, we remain focused on positioning the business to capture more travel demand as it develops during the recovery and over the long term. Part of this effort is continuing to build towards our long-term vision of the Connected Trip seamless multiproduct offering, which we believe will ultimately improve the customer experience on our platform and drive enhanced loyalty and frequency over time. In addition, we believe offering other travel products will provide opportunities through merchandising and customer acquisition to enhance the growth of our core accommodation business.

Booking.com has continued to take important early steps to build a flight product and recently announced the launch of flights on Booking.com in the US. We see flights as a key component of the Connected Trip. It is an obvious opportunity for us to remove friction in the booking process for our customers.

The Connected Trip vision of providing this frictionless customer experience will be brought together by a seamless payment network, which we continue to develop and extend to more of our supply partners. We strongly believe that developing these payment capabilities has valuable benefits for both our bookers and supply partners, including potentially lower payment costs for suppliers. Also, we will continue to work closely with our supply partners to help them respond to this environment and more effectively market their properties on our platform in order to capture more travel demand as returns over time.

Finally, I want to address a matter that we are following closely, many of you may have questions about. The European Commission is working on a new regulatory framework for the digital economy which, among other things, proposes to designate some large online companies who operate across Europe as gatekeepers and to establish rules and regulations for these businesses. The criteria for being a gatekeeper and the associated rules and regulations are in development, so the potential impact is difficult to estimate at this time. There have been

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questions and speculation that Booking.com may be one of the designated gatekeepers, which we firmly believe would be incorrect for a number of reasons. The principal reason is that the accommodations market in Europe is very open and very competitive. Consumers have multiple online and offline choices to book accommodations, and accommodation providers have multiple online and offline channels to attract customers. To put this into perspective, Booking.com booked about 7% of all potentially bookable accommodation room nights across all properties on our platform globally in 2019. Across Europe, that number was about 11%. As I mentioned, the new European regulatory framework is under development, and we will update you on developments during future calls.

In conclusion, we believe we are responding well to this pandemic crisis. We have provided great service to our customers and are working with our supply partners to ensure that together we can get them as much business as possible during these difficult days. I am incredibly sad that we've had to let go and are still in the process of letting go so many dedicated and hardworking people, but it is a necessary step. And we expect to have some challenging quarters ahead of us. As I said before, we believe it will take years for travel to fully recover. However, I am confident in our team's ability to execute during these unprecedented times and continue to deliver value to our traveler customers and supply partners alike and to emerge from this crisis on a strong footing.

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

David Ian Goulden

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

Thank you, Glenn, and good afternoon. I will review our operating results for the third quarter and provide some color on the trends we saw through the quarter and into October. All growth rates are relative to a prior year comparable period unless otherwise indicated. Information regarding reconciliation of non-GAAP to GAAP can be found in our earnings release. Now onto our results for the quarter.

On our last earnings call in August, we discussed the trends that we saw throughout the second quarter and into July, including the year-over-year decline in newly booked room nights, steadily improving from about 85% in April to about 35% in July, driven by increased levels of domestic travel. As a reminder, newly booked room nights exclude the impact of cancellations. As Glenn noted, the steady improvements in global trends that we saw from April to July flattened out in August and September resulting in our newly booked room nights declining 37% for the full quarter. Our Q3 reported room nights, which include the impact of cancellations, decreased 43% for the fourth quarter, which is worse than our newly booked room night decline in the quarter, and the cancellation rates remained above prior year levels. This improvement in room night declines versus Q2 was helped by pent-up demand from walk-downs and other travel restrictions earlier in the year.

At a reasonable level, we saw North America continue to improve as we moved throughout the third quarter. However, this improvement was offset by softening trends in Europe. Room night declines in Asia were consistent throughout Q3. Unfortunately, as we moved into September we saw COVID case counts climbing higher in many European countries and governments beginning to respond with imposition of travel restrictions. This difficult pattern continued throughout the month of October, leading to a further slowdown in bookings in Europe. In October, we also saw a slowdown in North America, while the room night declines in Asia remained consistent with Q3. As a result, global newly booked room nights for October were down about 50% year-over-year, and reported room nights for October were down about 58%. Over the last seven days through yesterday, these trends have further deteriorated, with newly booked room nights declining about 58% year-over-year and reported room nights declining about 70% year-on-year. This is the global average, and in Europe, these decline rates are much higher.

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These recent trends are a reminder this is a fragile recovery and that we're now seeing a second dip in our business driven by COVID. We believe that the recent increase in COVID cases in Europe and the US coupled with cold weather and travel restrictions in these geographies will likely result in a second dip being U-shaped and lasting until the early spring of 2021.

Domestic room nights represented over 70% of our newly booked room nights in both Q3 and in October, up significantly versus 2019, which was about 45%. After growing year-on-year-in the third quarter, our newly booked domestic room nights reverted back to a year-over-year decline in October. Booking.com's domestic alternative accommodation, newly booked room nights, also decreased year-over-year in October after increasing nicely in the third quarter. Our October reported room night decline, which includes the impact of cancellations, was worse than our newly booked room night decline in the month, as the cancellation rates remained above prior year levels. Although we saw continued improvement in the cancellation rate through the third quarter, this trend also reversed course in October. Given the recent high COVID case counts and increased travel restrictions, we expect to see further pressure on cancellation rates for the remainder of the fourth quarter, especially considering the percentage of our recent bookings are being made with flexible cancellation policies that remains higher than the prior year.

We continue to monitor other changes in Booking.com's customer booking behavior. In Q3, we continued to see an increase in the mix of customers booking alternative accommodations versus the prior year levels. However, as we progress through the quarter and into October, we saw this increase in the alternative accommodations share moderate. Booking.com's alternative accommodations represented approximately one-third of all new bookings in the quarter. We've also seen the length of the booking window contract in the third quarter after expanding versus the prior year in the second quarter, as customers made a higher share of bookings in both quarters to stay in the peak summer period. The booking window continued to shrink versus last year in October, as customers focused on their short-term travel needs. Mobile bookings, particularly through our app, continued to gain share in the third quarter and October. And finally we continue to see greater than 50% of our newly booked room nights coming to us through the direct channel.

Gross bookings declined 47% in Q3, which is a greater decline than reported room nights due to average daily rates for accommodations decreasing about 8% year-on-year on a constant-currency basis. As a point of comparison, our newly booked room nights ADRs excluding the impact of cancellations declined year-over-year by only a couple of percentage points in Q3. An increasing mix of bookings in higher ADR markets like Western Europe and the US helped offset – largely offset the pressure of the broader lodging industry ADR declines.

Consolidated revenue for the third quarter was $2.6 billion and decreased 48% year-over-year, about in line with the gross bookings decline. Adjusted EBITDA of $1 billion in Q3 was down 60% year-on-year. And while we significantly reduced our variable cost lines like marketing, sales and other, our more fixed expenses decreased to a lesser extent in Q3. As Glenn mentioned, we've continued our actions in the quarter to reduce operating expenses as we optimized to align our cost structure with the new demand environments. However, for 2020, we expect the savings recognized in our personnel expense line related to these actions will be more than offset by charges reported in the restructuring and other exit costs line.

Marketing expense, which is a highly variable expense line, decreased 48% year-over-year, as we saw a significant reduction in demand in the paid channels. In addition, we substantially reduced our brand marketing spend in response to the diminished travel environments. We expect our marketing spends will remain significantly below 2019 levels in the fourth quarter.

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Sales and other expenses decreased 53% year-over-year, primarily due to a reduction in expenses associated with payment transactions, a reduction in the provision for bad debt and credit losses as we saw an improvement in our collection rates relative to prior expectations, as well as lower outsourced customer service costs as we needed less support in processing, reduced transaction volumes. We expect sales and other expenses will continue to be down year-over-year in the fourth quarter. However the extent of the decline will be impacted by level of volume we see in the business.

Personnel expenses decreased 9% year-over-year, primarily due to lower bonus accruals and reduced headcounts. The restructuring actions to be completed at Agoda, KAYAK, OpenTable and Priceline benefited the personnel expenses by approximately $20 million in the third quarter. Additionally, personnel expenses benefited from $22 million in government aid packages, primarily related to programs we were already participating in within The Netherlands and the UK. Currently, we do not anticipate further material benefits to personnel expenses from government aid in future quarters, and we expect the personnel expenses in the fourth quarter will decline about the same as it did in the third quarter.

G&A expenses decreased 34% year-over-year, largely driven by reduced discretionary expenses such as T&E and other personnel related expenses, lower indirect taxes as well as lower office expenses due to employees working remotely. We expect the G&A will continue to be down meaningfully year-over-year in the fourth quarter, about in line with the decline we saw in the third quarter. Information technology expenses were up 1% year-over-year. We expect that IT expenses will be up slightly versus the prior year in the fourth quarter. Finally, we've broken out restructuring charges separately in operating expenses in the P&L. The $41 million in restructuring charge recorded in the third quarter primarily relates to rightsizing activities at Booking.com. I note that these restructuring charges are included in our non-GAAP results.

With respect to Booking.com, in September, we initiated the first wave of restructuring actions in over 40 countries, which did not include the UK and The Netherlands, where Booking.com continues to consult with its work councils and employee representatives. We currently estimate that the remaining restructuring charge related to actions at Booking.com will be approximately $100 million, some of which we expect to record in the fourth quarter and the rest into early 2021.

At this time, and subject to our consultation with the Dutch Works Council, employee representatives and other organizations, we currently estimate that these selective cost reductions plus attrition at Booking.com could impact up to about 25% of the global workforce and could produce annualized run-rate personnel savings of between $250 million and $300 million, which we expect to be almost fully phased in, in the second quarter of 2021. Again, these estimates may change and we'll update you in the coming months. It's our hope to make the vast majority of announcements to employees affected by these personnel reductions by the end of 2020.

Our non-GAAP EPS was $12.27, down 73% versus the prior year. Non-GAAP net income reflects a non-GAAP tax rate of 41%, which is significantly higher than Q3 last year, due to the impact of disproportionate nondeductible expenses, including SBC, relative to a low projected full year pre-tax earnings estimate.

On a GAAP basis we had operating income of $315 million in Q3, as our GAAP operating expenses in the quarter included a charge of $573 million related to an impairment of goodwill for OpenTable and KAYAK. This non-cash impairment charge is driven by reduced financial projections and a longer expected recovery for KAYAK and OpenTable due to COVID-19 pandemic.

We reported GAAP net income of $801 million in the quarter and we benefited from an unrealized $730 million pre-tax gain on our equity investments, primarily related to our investment in Meituan. In addition, we reported a

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$64 million pre-tax expense in the quarter related to our French and Italian tax matters. There was also $117 million of FX remeasurement losses on our euro bonds. We excluded the impairments, the tax expense, the unrealized gains and the remeasurement losses from our non-GAAP results.

Now, on to our cash and liquidity position. Our Q3 ending cash and investments balance increased to $14.9 billion from our June ending balance of $13.4 billion, due to positive operating cash flow as well as the unrealized gain on our long-term investments. We generated $920 million of operating cash flow and $848 million of free cash flow in the quarter, both down approximately 50% versus the prior year. Change in working capital represents a use of cash of about $300 million in the quarter, driven by seasonal effects and the impact this had in the third quarter, due to a high concentration of check-ins, which resulted in an increase in our accounts receivable balance. We'll continue to focus on maintaining a strong liquidity position, given the high level of uncertainty created by the COVID pandemic. And consistent with our comments last quarter, we've halted repurchases of our stock and will not initiate repurchases until we have better visibility into the shape and timing of a recovery.

Now, on to our thoughts for the fourth quarter. Consistent with our approach last quarter, I will not provide fourth quarterly guidance but instead will provide you some additional color from our preliminary October results, which will help give you a better sense of our recent top line trends.

As I mentioned earlier, our newly booked room nights and reported room nights in October declined year-over-year about 50% and 58%, respectively, and are higher rates in the last week. Room night declines for the fourth quarter will likely vary from October's results, especially considering the recent rise of COVID-19 cases and the imposition of travel restrictions and the impact that will have on the level of travel demand and cancellations in November and December. We expect the room night declines in November and December will be worse than they were in October.

We expect gross bookings in the fourth quarter will decline year-over-year by several percentage points more than our reported room nights, due to negative pressure on local currency ADRs. And we expect our revenue declines in the quarter will be several percentage points less than the decline in gross bookings, primarily due to book to stay timing differences similar to what we saw during the first wave of the pandemic.

Given our expectations for further reductions in room night growth from October coupled with continued ADR pressures, we expect it will be very challenging to reach a positive adjusted EBITDA in the fourth quarter. On a more positive note, if we compare our internal outlook for the full year 2020 now with where we were when we spoke to you in August, we're ahead on all major income statement and cash flow metrics.

In conclusion, as Glenn emphasized, we're quite pleased with our third quarter results in a challenging environment. And while we expect the fourth quarter to be an even more difficult environment, we have confidence that we'll continue to execute against what we can control. We've made some difficult decisions and taken a number of actions that will help us optimize the business. We are confident that through these actions we'll emerge from the crisis in a stronger position.

We'll now take your questions. So, Laura, can you please open the line for Q&A?

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QUESTION AND ANSWER SECTION

Operator: Absolutely. Thank you, sir. [Operator Instructions] Presenters, your first question will come from the line of Brian Nowak from Morgan Stanley. Your line is now live. Go ahead, please.

Alaxandar Wang
Analyst, Morgan Stanley & Co. LLC

Q

Hi, this is Alax Wang on for Brian. Thanks for taking the question. First, can you just – I appreciate all the details on alternative accommodation, but can you give us a sense of how that business is doing globally, sort of year-to-date? And what do you see as the main sort of investment priorities for that business, whether it may be supply or branding? And then, second, appreciate all the comments on the Booking.com launch of flights in the US. Maybe talk to us a little about what you're seeing in early tests or any early learnings and any other areas where you might want to expand to in the US, whether it may be packages or you talked about payments as well.

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

A

Sure, Alax. It's Glenn speaking. Why don't I take – I'm going to go in reverse order. I'll cover about flights. I'll talk a little about the alternative accommodation strategy and where we're going. And then I'll let David, he wants to talk to you about what you wanted in terms of year-to-date. So talking about the things we're doing with flights. We just started it for Booking.com in the state. So it's very, very, very early. But as I always talked about this Connected Trip vision. Flights is a very important part of it. Many people start with flights. So we believe that it's going to be an important way to get more customers into our funnel and see all the great offerings we have. Now, payments is a very important part of our overall Connected Trip because one thing, if you want to offer up, for example, a package as you discussed – which we do want to offer and when we get to it you have to have a payment platform. You got to be able to do that because you can't combine the two into one price, if you're not willing, able to take all the money from the customer upfront and then distribute it to the different suppliers. That's the way to do it. So these things are very important to us, and it's early. But I am pleased to see us up and running, and later on we'll be able to come back to you hopefully with some numbers and give you some in the future, some idea how it's doing.

Regarding alternative accommodations, clearly an important part of the business. We talked about it last quarter, how many people in the second quarter went for alternative accommodations when you compared that to the 2019 numbers, because for the reason that we talked about in terms of safety, people wanting to feel that they weren't with a big crowd, lots of these issues we talked about last time. That's important around the world. And we've always talked about how important it is to offer up to our customers every single type of accommodation they may want. And we know by having more selection, that improves the proposition to the consumer. So we're continuing to do that. Now, I've also talked about how particularly in certain geographies like the US we were not getting as much of the inventory as we should have and that we know is needed in certain types of alternative accommodations, primarily the individual home unit. And we continue to build that out too because we know people want that one too. So the strategy is to continue to build that out and make sure that we're offering the customer what they want when they want it. And, David, I don't know if you want to give anything in terms of this question about year-to-date.

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

A

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Yeah, I can provide a little extra color, Glenn, in response to the question. Perhaps just the best way to talk about things is the third quarter because the year-to-date numbers are really skewed very much by what's happened so far this year in Q1 and Q2. So just to remind you we have over $6.5 million listing in the alternative space. We mentioned that we saw growth in Q3 in our domestic business. And to give a little bit more context around that, within the domestic business, alternative accommodations grew low double digits, whereas the rest of the business or the core business grew low single digits. So that kind of gives you a spread how they did relative to each other in the third quarter. The area we saw the biggest improvements in alternative accommodations growth, vis-a-vis what we saw in second quarter was in Europe, just another data point.

Alaxandar Wang
Analyst, Morgan Stanley & Co. LLC

Q

Thank you, Glenn. Thank you, David.

Operator: Thank you. Your next question will come from the line of Kevin Kopelman from Cowen. Your line is now live. Go ahead, please.

Kevin Kopelman
Analyst, Cowen and Company

Q

Great. Thanks a lot. I was hoping you could just dig into the trends and the situation a little bit in Europe that you described from the past week. Can you just kind of walk us through how far along we are in the process of the countries kind of locking down or shutting down? Maybe compare that to April and what's going on in the business, specifically in Europe. Just so we understand how far along we are in that process that would be reflected in those numbers you gave us. Thanks.

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

A

Sure. Thank you, Kevin, for the question. It's obviously a very hard thing to answer because none of us are actually in the governmental meetings that are making these decisions on what to do in terms of lockdowns, how strict to be, when you're going to say you're going to open it up. And they're making those projections now and they could very easily change and people are even changing what they say week to week, day-to-day. And we see each day there's a new pronouncement by a new government. What we can say, though, is when thee restrictions are put up, we do get cancellations right away of course from people who are planning to travel in certain regions. And that obviously is going to impact our as-booked room nights. Certainly people also say, hey, I'm not going to make a new booking, I was going to make that new booking, I'm not going to do it because either, A, I'm not going to be able to travel there or, B, I'm concerned that that area is going to be restricted or where I'm leaving from could be restricted.

Now, compared to April, though, I think there's a sense that I've gotten some thoughts about from some of the people who are involved in talking to – our public affairs people talking to governments, et cetera, is that you are trying to do it in a more selective way. Everybody knows the impact on the economies that a full lockdown, complete lockdown can do. So the governments are doing their best to try and not do complete lockdowns. But travel is always something that is immediately looked at as a potential increase in infections because people come from different regions. So I feel that we are still going to have a lot of disruption due to these very, very steep increasing infection rates. And I can't give you anything more than that, I don't think. Unless, David, do you have anything you want to add?

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

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I just want to add. I think you've had it said upfront, Glenn, but just to be clear that right now the declines that we're seeing in Europe, they're obviously worse than the global average numbers I gave you, but they're not as deep as they were back in April, just to be clear. But we do see that the shape of things being a little different as well. We think we obviously saw, witnessed April was much more of a deep V in terms of the shape of the first wave as do those, they shot back, long-term bookings were on the book. They're canceled. We believe that we're going into more of a U-shaped trend environment for the rest of the winter. Won't be hopefully as deep. But of course, the winter months are also a factor, because in the Northern Hemisphere, particularly in Europe it's much harder to travel to warm weather without getting on a plane. So the substitution, in fact, we saw in the third quarter for international to domestic is probably going to be less in the winter months than we were able to enjoy in the third quarter. So there are a few factors going on. But just to reinforce, it is worse than average but not quite yet as bad as we were in April.

Kevin Kopelman
Analyst, Cowen and Company

Q

Got it. Thanks, David. Thanks, Glenn. Really helpful.

Operator: Thank you. Your next question will come from the line of Lloyd Walmsley with Deutsche Bank. Your line is now live. Go ahead, please.

Chris Kuntarich
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Thanks. This is Chris on for Lloyd. You guys have made some comments earlier on about performance marketing as well as cancellation rates starting to step up. Could you just talk a little bit about your ability to deploy performance marketing dollars in 4Q? As those cancellation rates step up, how should we think about kind of balancing that with the shorter booking windows as well? And then just specific to the U-shaped recovery that you guys are talking about, are you making any vaccine or any additional assumptions? I know, David, you just kind of walked through some of them. But anything else we should think about there? Thanks.

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

A

So, Chris, on the performance marketing, you're smart to point out the fact that cancellations is going to impact the ROI significantly. So when we start seeing virus rates going up, we are immediately taking action. We don't want to be paying for a whole bunch of clicks that are not going to end up in revenue. Even if they end up booking, the booking gets canceled and you end up having spent the money for nothing. So absolutely, there's a direct relationship. And as virus rates go up, and as restrictions follow up in terms of restricting travel, we are immediately readjusting our expectation in terms of our performance marketing. So that is absolutely correct.

In terms of the yield, we have not made any call in terms of when a vaccine's going to be declared effective and safe, nor how long it will take to be distributed or not. I think everybody, though, has read all the news about these things. I don't think anybody's expecting a large distribution, a global distribution anytime soon. So certainly not nearly in the first quarter. So we're not based on our decisions on that at all. We are hopeful, though, that we've seen what happened in the spring. And we saw government actions did help. And we saw what happened in the summer. There was that rebound, pent-up demand. So we're hopeful. And, David, you made the curve, so you can explain further how we came up with what we're – why we're doing what we're doing.

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

A

Well, I think, Glenn, you summarized it well. But I think that we just believe that there won't be much change in the environment in Europe and maybe in North America through the winter months. We believe that hopefully when we get to the early spring, that might be coupled with more progress towards a vaccine or vaccines. We're not making a call on when one is going to become available. As Glenn said, hopefully there will be better news and also there will be better weather and people thinking about the spring and the ability to travel again and the prospects of a warmer climate, some warm weather to come. And we expect that will hopefully be the slope up on the U. We are optimistic that when we see the recovery it will be a strong recovery in the spring as I think we saw it was in the summer this year.

Kevin Kopelman
Analyst, Cowen and Company

Q

Got it. Appreciate the color.

Operator: Thank you. Your next question will come from the line of Eric Sheridan from UBS. Your line is now live. Go ahead, please.

Eric J. Sheridan
Analyst, UBS Securities LLC

Q

Thank you so much for taking the question. Maybe I can broaden out the question on advertising. Glenn, how far along are you in terms of what you want to accomplish over the medium to long term in realigning your marketing channels and making sure you're maximizing for ROI. And maybe you could just give us a little bit of color on some of the things while it's a low end demand environment that you might be sort of testing and learning and thinking about in terms of realigning for some of the outcomes you're looking for in a multiyear view. And maybe just a little bit additional color on some of the direct mobile booking activity you're seeing. That seemed quite promising for the long-term. Thanks so much.

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

A

Sure. So in terms of the long term view of marketing, as you all know, we built our company based on performance marketing. We also know, though, that we need to increase awareness in certain geographies, and we've always talked about being able to do that from a brand perspective. One of the things that we just tested out – and it's very small, very, very small in the States, a digital brand campaign. You may have seen it. America Is For Everybody. And we do that on a digital basis. That was a digital brand effect to see how that would do. You may have seen the print version in The New York Times, not very digital by having an actual printed thing but very low cost and we thought it was very important to get that out, really what our values are as a company and what we stand for. But it certainly is important that we get that awareness out there to areas where we are, let's face it, we are under-indexed in like the States. And we'll continue to do that as demand comes back, coming up with the different ways. Always testing. We are always testing and digitally you can do it better in terms of figuring out what your ROI is or not.

Of course, the most important thing for us always is provide a great service and all the things we talked about – the great price, the great selection, the great customer service. We can get the loyalty, people come back directly instead of us having to pay all that money for marketing to get people to come back. Get people to come directly

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is really the ultimate goal, of course. In terms of mobile, David, why don't you take that one if you want to give anything further in terms of where that is?

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

A

Yeah. Thanks, Glenn. No, additional hard data points to provide now. But to just give you a little color. Obviously we said several quarters ago we were over 50% mobile. And that's continued to increase in a positive direction. And we're pleased with the fact that the app continues to be a very major part of the mobile business and also increasing in line with the growth in mobile. So at the appropriate time we'll give you a full more data points on that. But not quite ready to break those out today, but they are trending positively. And to Glenn's point, particularly with the app, not just as a place where we can get more direct business but also a place where essentially the customer trip, the Connected Trip will actually live and we can interact not just during the booking process but also during the trip as well in a very real way. We can also deliver the multiuse product capabilities. That is super important, so we're pleased to see that moving in the right direction.

Eric J. Sheridan
Analyst, UBS Securities LLC

Q

Thanks so much.

Operator: Thank you. Your next question will come from the line of Doug Anmuth from JPMorgan. Your line is now live. Go ahead please.

Dae Lee
Analyst, JPMorgan Securities LLC

Q

Hi. Good afternoon. This is Dae on for Doug. Thanks for taking the questions. I have two. Given your strategy of having property sites in a single platform can I get an update on the work that you guys are doing to sort of customize property type to the right traveler at the right time. And how are you messaging to travelers who have sent property types in mind? And then my second question is on what's your view on the overall competitive environment right now? Are you seeing that competition is holding up better or worse than previously expected during these challenging times?

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

A

So let me take the second, and I'll let David take the first one. I didn't hear it so well. In terms of the overall competitive market, the travel business has always been extremely competitive, and whether there's a terrible lack of demand because of a pandemic or it's boom times, back just – it's hard to believe but just a year ago or so – the competition continues to exist. And in fact, it's interesting because the European Commission, the regulators who are talking about that potential new regulations coming out, it's interesting. They put out a report only a few weeks ago, and in the report it mentioned in fact that online travel is considered a fiercely competitive market. So, clearly regulators recognize that, too. And I don't think it's changed at all in terms of the fact there's a lot less demand than there used to be. I think it's always competitive and always will be. And David, on the first questions.

Dae Lee
Analyst, JPMorgan Securities LLC

Q

Yeah. Thanks for that.

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

I'm sorry. Back to the first question just to how we match the property type to traveler. And that really is what our business is all about, you could say property type to travel or traveler to property type. And obviously, we do that very dynamically. So, we of course, using machine learning and artificial intelligence, the more you visited our site or sites, the more we know about you and therefore we're going to optimize our results to your search to kind of match your prior needs and behavior.

But of course, more recently for both the traveler and the accommodation, we'd be focused much more upon the domestic market opportunities, letting our suppliers make themselves available and attractive to our travelers. If you've spent any time on our site recently, particularly Booking.com, you'll see there's extensive information that the properties can put in now about what they've done across a number of dimensions to handle safety and health during the pandemic. So it's absolutely, again, a core premise of how the business operates that we intelligently do that mapping and matching.

Now of course, because we have the benefit of having a very, very broad range of both traditional hotels and alternative accommodations on the same platform, we can let people filter, search, compare side-by-side on very comparable basis, and we think that provides a unique value to a lot of our customers. But as you would expect, we've been optimizing and modifying that quite a lot and if you search for something this time this year and compared it to this time last year because of the pandemic, you get very different priority results coming back to you.

Dae Lee
Analyst, JPMorgan Securities LLC
Q

Great. Thanks for the color.

Operator: Thank you. Your next question will come from the line of Justin Post from Bank of America. Your line is now live. Go ahead, please.

Justin Post
Analyst, BofA Securities, Inc.
Q

Great. Thank you. Your main competitors talked about some pretty big cost savings that they're going to be able to achieve when you look out. I'm just wondering if you could give us, looking to the other side, how you're thinking about margins. I know in 2019 your EBITDA margins were high 30%s. But do you think this is an opportunity for the whole industry to get more profitable? And would you think about your margins being higher when you get back to kind of those levels of bookings? Thank you.

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

David, why don't you take that in terms of our long-term thoughts about margin?

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

Yeah. Sure, Justin. Let me give you a couple of thoughts here. So first of all, we expect our business to have very attractive and continue to have industry leading margins when demand fully returns. There will be a couple of puts and takes. So for example, as we build into new products like Air, those will be dilutive to the margin rates but

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obviously, healthy margin dollars is important to our business and strategy. And things like payments, again, will be dilutive to the margin rate but will contribute margin dollars. You have to take that into account when thinking about the long-term future.

As I said, we expect to have industry leading margins in the long term. Between now and when we get back to full recovery there will be some puts and takes. Obviously, for example, as we grow rapidly as we expect to over the next few years as the industry recovers, we will incur marketing expense related to our bookings prior to those bookings turning into revenue. So during those periods of reacceleration, there will be some downward pressure on offering margin to the cap buildup of our business again. And as I said, in the long term we expect to be very well-positioned.

Justin Post
Analyst, BofA Securities, Inc.

Q

Great. Thank you.

Operator: Thank you. Your next question will come from the line of Mark Mahaney from RBC. Your line is now live. Go ahead, please.

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

Q

Okay. I was wondering if you could talk about more recent trends you're seeing in Europe. And I apologize, I'm sure you covered this part on the call, but if you could just repeat it now or provide any more color especially in the wake of the recent lockdowns. Does that already – do you notice that already having a shift in how people are traveling? And have you seen this kind of sustained shift over to alternative accommodations, I guess, across the business? Is that something that you think may lead to almost a semi-permanent change in consumer behavior, just a much greater willingness to embrace alternative accommodations than they were pre-COVID that's happened during the crisis? But do you think there's a reason to think that that will be kind of a permanent condition? Kind of a modest shift over there? Thanks a lot.

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

A

Hi, Mark. So as I talked a little earlier about this in the prepared remarks, we've seen a significant drop. And talk about the last seven days, things move very quickly. Changes happen very rapidly when governments make changes in terms of ability to travel, restrictions in terms of going to restaurants, nonessential shops being closed. These things make immediate impact on people. In fact, I haven't actually tried it this time, but you can watch in our systems. You can watch an announcement go out, and very, very quickly you can see the impact, just cancellations or drops in bookings for future stays. So, there's an incredible correlation between that.

In terms of the alternative accommodations, my thoughts, it's interesting, at the beginning of the crisis I wasn't sure which way this might go. Because on the one hand, I thought that people would want to not be in a crowded hotel and risk getting infected or going in an elevator, so therefore they would want an alternative accommodations where they could be separate from people. But I also recognize that people may be wanting industrial strength disinfecting of rooms and professionalized treatment of the entire place so maybe people would book more hotels. Clearly, we've seen the statistics very early in the Q2 area where we saw that significant increase in share shift to alternative accommodations for us. Then we've seen in Q3, it's not as much. I do believe that the trend that has been going on for a very long time of more and more people contemplating and then using the alternative accommodations. I think that trend has just been accelerated. In fact, it brought forward what

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would have happened perhaps a year or two years or whatever in the future because now people did try this. And now, I do believe that there is a continuous shift. Once you've tried it and if you like it, you're going to put it in your consideration set for the future.

Now of course, when we talked about our share of alternative accommodations versus total, when it's – let's say – let's go even Q2 when it was a big number, 40%. Well, that meant 60% of the new bookings were for hotels. Hotels are still a really popular way to stay, and they will always be. That's one of the things that's great about our platform because we offer both. We offer the most of both, and that is something that is a winning combination for our customers. When they come on, we know from the data that many people come onto our site they're not sure yet where they want to stay. And they're looking at a lot of different types of accommodations. By offering them all the different types of accommodations that makes us a winner in terms of getting them to book it with us. And I think that's going to be the workaround to keep going forward.

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

Q

Okay. Thanks, Glenn.

Operator: Thank you. Your next question will come from the line of Stephen Ju from Credit Suisse. Your line is now live. Go ahead, please.

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

Q

Okay. Thank you. So, Glenn, digging a little bit on the flexibility you called out, given what consumers went through during March and April with trying to cancel trips and getting refunds and are your users choosing to go for the higher priced cancellation enabled option? Because I would imagine handling cancellations with your hotel partners is probably a little bit more seamless versus the alternative accommodations. So is there any new work you think you might need to do to prepare your supply partners for what might be the new consumer normal of elevated cancellations? Thanks.

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

A

Yes. So there is a tremendous shift into people wanting to have the free cancellation option. There's no doubt about that, and it's understandable. There's also [indiscernible] (51:42) booking window, people booking much, much closer into when they're going to actually arrive at their accommodation. Again, both these things making perfect sense with what's going on around the world right now. And how long that will continue for? Uncertain. But there was a crisis in the beginning of the year for everyone who had done a nonrefundable accommodation. But then what happened is you had countries that were shutting down travel and the issue became, well, now the person can't go there. It was nonrefundable, but it's a force majeure situation. Do they get their money back? And if so, from whom? Who's going to give it? The hotels aren't even around to actually give the money back, many of them, et cetera. And I will make the point of how proud I am of our customer service team, dealing with all those people desperate to get their money back. At the same time having to deal with suppliers saying – who'd say listen, we're closed, we don't have access to the money, we can't return it. And I'm really pleased with the way we acted in taking the money out of our own of pocket essentially and giving it to those consumers who need that money now. They need it now. They can't wait. And in doing that, I'm just so proud of our teams that did that and really made things better.

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Now we're much – we're many months after that. Now, if you book a nonrefundable accommodation, even if there is a close-down by a government, you're not getting your money back because everybody's aware of the situation. Your eyes are wide open when you buy that nonrefundable, you're not going to get that money back. And so people are pretty much behind the refundable one. I do expect that over time that we'll go back because of the benefit of getting a better price. David, do you want to give any comments on this at all that I neglected to say?

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

A

No. I think, you covered the major areas. Glenn, obviously we are, as we enter euphemistically the second wave, we've all learned a lot from the first including customers and ourselves and our partners, there will be some differences. Glenn talked about the force majeure which is obviously important. Typically, there are fewer bookings that are on the books right now because we're operating at much lower levels than we were back in the January, February time before everything hit so that will also reduce some of the extra workloads we had then on customer service, although we expect there to be some.

And as I mentioned, we've seen customers particularly recently favoring the more flexible cancellation policies, which of course, is in everybody's benefit. And that also had a slight lean towards the agency products where the cancellation options are more flexible. So we're going into it eyes open. I'm sure there are going to be some things we haven't foreseen that come along, but I think it will be quite different in terms of how we'll be able to deal with this vis-à-vis the all hands on deck situation back in April and May.

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

Q

Thank you.

Operator: Thank you. Your next question will come from the line of Deepak Mathivanan from Barclays. Your line is now live. Go ahead, please.

Deepak Mathivanan
Analyst, Barclays Capital, Inc.

Q

Hey, guys. Thanks for taking the question. Glenn, I know it's early and just things are volatile in the second wave right now. But any reason to not think that the demand during peak of the second wave will be better than what you saw in April and May? There are government restrictions, but consumers obviously have found some ways to travel safely and then restrictions have also somewhat measured and probably shorter now. Just obviously vaccine will be ideal. But curious how to think about consumer behavior changes in the second wave versus the first outbreak.

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

A

Deepak, I think that certainly what you're saying could be the case, and I think it's hard to say. As David said, we're not expecting to hit the lows of April yet. But I'll point out there are counter facts too, such as we were entering the spring and into the summer it was getting warmer, it was getting lighter in the Northern Hemisphere and you could travel locally and have a nice holiday away from wherever you were. If you were in a city that was suffering significant infection rates and you just wanted to get out, it was easy enough to say I'm just going to drive and get in my car and drive not so far away. It's pleasant. I can go outside. Maybe I'm near a beach, maybe near a lake, whatever. It's all pleasant, take a little holiday. Okay? Not so great in the middle of the winter and the

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dark. So that's a counter factor. Who knows? I think the right way to think about this stuff is not think about right now second wave, next couple of months. I think the important thing is to think about the long-term and that's what we continue to put our focus on is making sure that we're coming up with our systems, our product, our services, working with our suppliers so we have everything set up right when that demand comes back for real in the way we know it will because all pandemics do end. They do. Whether there's a vaccine or not – and we hope there will be one soon and all the news says there will be one relatively soon. But even if not, even without a vaccine, a pandemic will end. People will start traveling again. And we will I believe have that very wonderful rebound and come out of this crisis.

Deepak Mathivanan
Analyst, Barclays Capital, Inc.

Q

Got it. And then second question on alternative accommodations, if I may. Can you elaborate on what type of use cases is driving the alternative accommodations growth? Clearly like you said, there's domestic and there's driving. But in the marketplace seems like there's appetite for longer term stays now. Are you seeing a broader use case expansion under alternative accommodations as well?

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

A

Well, there's definitely a wide use case because we're operating in a very, very different world right now. I haven't done any research. We have not done the research to really nail down how many people decided I want to use an alternative accommodation because I cannot live in just a one room apartment in the city for the next month. I need to get out in a bigger space in the country. I don't know how many of did that. Or people said I'm working from home and I live in a studio. I need another place. I can't do that. Or a family that says the kids are going crazy, we've got to get out of this place and go to – so, there are a lot of alternative uses of the alternative accommodations that never existed before. And that could very well have driven that up. I think in the long run, though, again, people have experienced this now it goes into the consideration set for any type of use, standard holiday or not. And that's why I do believe in the long run continue to build our inventory for these single property type use is very important.

Deepak Mathivanan
Analyst, Barclays Capital, Inc.

Q

Okay. Thanks, Glenn.

Operator: Thank you. Your next question will come from the line of Lee Horowitz from Evercore ISI. Your line is now live. Go ahead, please.

Lee Horowitz
Analyst, Evercore Group LLC

Q

Great. Thanks for the question. Two if I could. One, just on the US in the third quarter. Could you speak at all to any market share shifts you're seeing in the US market and how you may be thinking about using the COVID disruption and obviously your strong balance sheet and operating structure to perhaps lean into this depressed demand environment to pick up share in some markets where maybe you've been underrepresented? And then second, on the cost cutting guidance, of on the 250 to 300, my understanding is one that obviously a lot of that is variable in nature and coming down with the overall travel demand environment. But that some of it could perhaps be permanent. I guess, is there any way to contextualize how you were thinking about perhaps some of the permanent cost savings that may be associated coming out of that, whether that's digitizing of customer

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relationship management or things of that nature? Anything that could be helpful on the permanent nature of some of those once we get back to, say, 2019 levels. Thanks.

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

A

So why don't I take a little bit of the first part of the US. And then David you can say anything you want to add to that and then talk about the cost cutting. So absolutely, I've said many times that we're under-indexed in the US and that's a great opportunity for us. That's a case where we have the capability of adding to our future growth by doing better things in the US. Now, in terms of how to do it in terms of, you mentioned, you know, the big balance sheet, and how much was it lean, et cetera. Right now, there's no tremendous amount of demand right now for doing anything. So the idea of putting together a big brand campaign or just to make more awareness right now, we're just trying to lean into performance marketing, that to me is not a good use of money.

We've always said that we want to be frugal in the way we try and get more customers and how we build our brand, et cetera. We want to do it the right way. So obviously I mentioned already about getting more supply for a certain type of alternative accommodation properties. That's absolutely something we are doing and going and doing that. And it's also coming up and putting investing in flight in the US. I mentioned that one already. I mentioned now down the road we'll have packages. So building out payments, which are so important for all the different reasons we can go into why that's an important thing and making sure we had that set up right in the US and we have lots of our hotel partners on the payment network. So all those things are investments and that is what we are doing. What we're not going to do is go out and do a giant, giant brand campaign when literally nobody's listening to that right now in this winter and we're not going to do it that way. David, do you want to add anything?

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

A

Yeah. I do. Thanks, Glenn. Just to – relative to the US, in the third quarter, when we look across the major markets, the US was by far the strongest of the major markets for us from a performance point of view. The decline rates there were lower than the average and lower than any of our other territories. So we're not talking market share but just giving you something directional to think about in terms of how the business performed.

And then on the cost side, yes, you're right. There's $250 million to $300 million of expense reductions annualized from Booking.com. There's also 80 for the other brands as well, so don't ignore that piece as well.

But you're right, most of those related to volume related functions in the business, things like customer service, credit collection, partner services. Not entirely but largely functions like that which are tied to volume. So as volumes come back, as we expect to do over the next few years, we obviously need to replace that cost base. So we're looking at all sorts of alternatives including how much more technology could we deploy in those areas as we would do normally. The cost savings that we're not talking about right now because we're in the middle of a crisis and we've got our hands full with getting the volume costs aspects out of the business, already operating efficiencies in the business in other areas beyond what we're doing now. That's not the immediate focus. That is something we can take another look at once we get beyond the crisis as we start to see a recovery.

Of course we've been running a fairly efficient business if the first place. We're not sitting with a large amount of excess fixed costs to optimize, but there's always opportunity. And if you recall, we started talking about some of those things a little bit before the coronavirus hit in the spring of this year. So we'll come back to those in the course of time, and we'll also look to make sure that as we continue to drive efficiencies in the business, that we don't bring back all the costs that had to leave the business as the business returns to prior volumes.

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Lee Horowitz
Analyst, Evercore Group LLC

Great. Thanks for the question.

Operator: Thank you. And that will be our last question. I would now like to hand the call over back to Mr. Fogel for closing remarks.

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

Thank you. So the first thing I want to do is I want to say thank you once again to all of our employees who have been working so hard to help our partners and customers in these very difficult times. And of course, I absolutely want to thank our customers who choose from the many available options to book their travel through us. And finally, I have to thank all of our supplier partners who continue to work closely with us as we try and get through this crisis. While the near term will definitely be challenging, I remain confident in our long-term value proposition. And we are focused on the steps we have to take today to create a better company tomorrow. Please be safe and good night.

Operator: Thank you, sir. And again, thank you so much presenters. Thank you everyone for participating. This concludes today's conference. You may now disconnect. Stay safe and have a lovely day.

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