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Booking Holdings, Inc. (BKNG)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Booking Holdings' Second Quarter 2021 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 would like to introduce Booking Holdings' first speaker for this afternoon, Mr. Glenn Fogel. You may begin your conference.

Glenn D. Fogel

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

Thank you and welcome to Booking Holdings' second quarter conference call. I'm joined this afternoon by our CFO, David Goulden.

I'm encouraged by another quarter of meaningful improvement in our accommodations business with Q2 room nights up sequentially 59% versus Q1. This compares very favorably to our pre-pandemic historical pattern of a slight decline in Q2 room nights versus Q1. Compared with 2019, Q2 room nights were down 26% which was significantly better than the 43% decline we previously reported for the month of April and the 54% decline in Q1.

The acceleration in the second quarter was primarily driven by domestic and international booking trends in Europe following a ramp-up in vaccination rates and the relaxation of many travel restrictions in the region. The growth of international bookings in Europe was mainly from bookings within the European region.

The very strong room night growth in the United States that we saw in April and highlighted on our last earnings call continued in May and June, resulting in very strong US room night growth for the full quarter versus Q2 2019. David will provide additional details on our second quarter results in his remarks.

We are, of course, closely monitoring the impact of the Delta variant on the rising COVID case counts around the world as well as some newly imposed travel restrictions which have led to a modest pullback in our booking trends in the month of July relative to June. However, the July booking trends were improved from our full Q2 results. While the worries of the Delta variant demonstrates the volatility and uncertainty around the exact timing and shape of the recovery for travel, we remain confident that we will eventually see a strong recovery in travel demand globally.

The sharp return to growth initially in the US and then in the European markets that we have witnessed this year shows us clearly that leisure travelers are eager to get back to booking trips on our platform when restrictions are lifted and customers are able to travel. We expect to be much closer to our 2019 revenue levels in Q3 than we were in Q2 driven by the strong booking improvements we have seen in the last few months.

As we have done throughout the pandemic, we will continue to build on the strengths of our core accommodation business and support its long-term growth. The strength of our core business comes from the flywheel effect we get from our two-sided marketplace where we drive benefits to our traveler customers and our supply partners alike.

For our customers, we strive to deliver the best choice of accommodations, offer the most value and provide the easiest booking experience, all backed by excellent customer service and support. By addressing these critical needs of choice, value and ease; we create a superior booking experience and strengthen the relationships with our customers. I'm pleased to report that at Booking.com, we are seeing pre-pandemic customers coming back to us to book their trips while also attracting new customers. And the current mix of prior and new customers is not significantly different than prior to the pandemic.

One of the ways we drive value to our large customer base at Booking.com is through our Genius loyalty program. This program provides discounts for Genius members at hundreds of thousands of properties on our platform and also offers value and other benefits like complimentary breakfast, free room upgrades and more

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recently discounted airport taxis just to name a few. We will continue innovating and adding to the ways we provide value to our Genius customers who have historically had a high repeat rate and a higher mix of direct bookings when compared to non-Genius customers.

Our app is an important way we deliver an easier booking experience to our customers. Globally, in Q2, Booking.com was the number one downloaded OTA app according to a third party research firm. In the US in Q2, we were the most downloaded major OTA app as downloads of the Booking.com app in the second quarter significantly increased sequentially. We also saw US app use in Q2 meaningfully surpass the prior peak observed before the COVID pandemic.

In the second quarter, we again saw a higher mix of our customers booking directly with us than in the comparable period in 2019. It is encouraging to see these gains even as we look for opportunities to lean into performance marketing channels where we see attractive ROIs. We have a long history of effectively managing our performance marketing channels to bring bookers to our platform profitably. We plan to continue with this proven approach in the future.

In addition, we're leveraging our marketing expertise and ROI focus as we test into other channels like social and digital media as well as when we deploy promotional campaigns like our Back to Travel campaign which we ran first in the US and then launched in the UK and across Europe. We will continue to expand the diversity of our marketing and customer acquisition channels as we aim to drive incremental traffic to our platform and increase consumer awareness of our brands.

While we will remain focused on our efforts to grow and retain our customer base, we believe we will continue to benefit from the secular tailwind of more people booking their trips online instead of offline. Historically, the accommodation industry has seen a steady increase in online share each year. And looking ahead, we believe this trend will continue for the foreseeable future. In April, McKinsey published a 24-country survey with results showing that across 11 major consumer-facing industries, travel had the greatest percentage of customers that plan to increase their usage of digital channels after the pandemic.

On the other side of our marketplace, we are focused on helping our supply partners reach a broader audience of potential customers. Our scale and global reach allows us to connect our supply partners with a significant amount of demand from around the world demonstrated by the 845 million room nights booked across our platforms in 2019.

In addition to being a large demand channel for our partners, we add value to our accommodation partners in other ways by providing customer service support for travelers in over 40 languages, localized partner service support teams, market intelligence and data, product innovations in response to new traveler trends and fraud liability shift and access to alternative payment methods for payment-enabled transactions. Whether an alternative accommodation or an independent hotel or a large global hotel chain, we strive to be a valuable partner to all types of accommodations on our platform.

In the second quarter, we saw the first sequential increase in the number of properties on Booking.com and the lowest number of properties coming off of our platform in a quarter since the onset of the COVID-19 pandemic. As of June 30, we had over 28 million reported listing on Booking.com, of which 6.6 million were for alternative accommodation properties.

Within alternative accommodations in the US, Booking.com continued to add targeted new properties in the quarter and also saw encouraging share gains with some of our larger professional managers. While all these

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were positive early developments, we recognize there is much work ahead to improve and grow our alternative accommodations product in the US market. Our alternative accommodations business in Europe was strong in the quarter and represented an increasing share of our European accommodations business.

I want to move to our key strategic priorities of expanding Booking.com's payment platform and building the Connected Trip vision, both of which we believe will further enhance the strength of our core accommodation business and support its continued growth. On our integrated payment platform at Booking.com, we have made continued progress with increasing the adoption of payments by our supply partners in the US including adding some major hotel chains in the second quarter. Around 24% of Booking.com's total gross bookings in Q2 were processed through its payment platform, which is up from about 22% for the full year 2020.

We recently announced the organization of all of our payments initiatives and efforts into a new fintech unit at Booking.com. First, the fintech unit will be focused on enabling Booking's core business to run better, faster and more efficiently for both customers and our supply partners. In addition, we recognize that we have opportunities to better monetize our overall transaction flows. In 2019, we did almost $100 billion of transaction value and we believe setting up a separate fintech unit to better capitalize on these flows will benefit us in the long run.

On our Connected Trip vision, I mentioned on our last earnings call that the development of the Connected Trip this year will be focused on enabling travelers to book the major elements of their trip in one place on Booking.com. The top priority on this front has been to scale up a robust flight platform on Booking.com, which will give us the ability to engage with flight bookers early in their travel journey and allow us an opportunity to cross-sell our accommodation and other services to these bookers.

Since our last earnings call, we have launched our flight product in six new markets and are now live in 24 countries. Air tickets booked through Booking's flight offering have continued to meaningfully exceed our expectations. However, these still represented a small portion of our total reported air tickets which were up 120% in Q2 versus Q2 2019. Primarily, this was driven by Priceline.

While it remains early days for Booking's flight product, we are seeing positive data indicating we are getting entirely new customers for Booking.com. In addition, we are seeing an encouraging attach rate of accommodation bookings from these new customers. These early data points help demonstrate that our flight offering creates a new funnel to bring incremental customers to the platform and then cross-sell an accommodation to these new customers. We expect to continue to build on the early success we are seeing with flights at Booking.com.

In conclusion, I am encouraged by the signs of recovery we are seeing in some parts of the world and am confident that we will eventually see a strong recovery in travel demand globally. We continue with our most important work to strengthen our company's position and execute against our strategic priorities. And our teams are working hard to support the strong summer travel season this year in North America and Europe. As I said before, we are thinking about our business beyond just getting back to 2019 levels of demand. And we are focused on building a larger and faster growing business that generates more earnings after the full recovery and for the long run.

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

David Ian Goulden

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

Thank you, Glenn, and good afternoon. I'll review our operating results for the second quarter and provide some color on trends we've seen so far in the third quarter. To avoid comparison to pandemic-impacted periods in 2020,

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all growth rates will be relative to comparable periods in 2019 unless otherwise indicated. Information regarding reconciliation of non-GAAP results to GAAP results can be found in our earnings release.

Now on to our results for the second quarter. On our last earnings call, we discussed the improvement in trends in Q1 which continued into April driven by strong results in the US and improvements in Europe. On the earnings call, we saw the overall improvements in our trends accelerate in May and continue to get better in June, which resulted in our Q2 reported room nights declining 26% versus Q2 2019, which was significantly ahead of the 54% decline in Q1, the 43% decline we saw in April and our expectations in May.

The improvement in Q2 room nights growth rate versus Q1 was driven by Europe and the US as well as better results in rest of world. Europe showed the greatest level of recovery in the quarter and actually achieved slight room night growth versus 2019 in June. Booking trends in Europe clearly benefited from a notable improvement in vaccination rates as well as loosening travel restrictions.

The US was again the strongest performing major country in Q2 and had very strong room night growth versus 2019 for the full quarter. Asia partially offset improvements in other regions with greater room night declines in Q2 than in Q1 due to the increase in COVID outbreaks with related travel restrictions.

In the month of June, our room nights were down 13% and our monthly active unique customer counts at Booking.com reached about 90% of the level we saw in June 2019. As Glenn mentioned, we are pleased to see the solid rebound in our customer base at Booking.com as well as a healthy mix of new customers which was only a little lower than the mix of new customers in Q2 2019.

Mobile bookings, particularly through our apps, represented over 60% of our total room nights. Our app continues to represent an increased percentage of our mobile bookings. Our direct channel increased as a percentage of our room nights year-on-year and relative to Q2 2019. Domestic room nights grew in the mid-teens in Q2. While international room nights remained down significantly versus 2019, we saw a sequential improvement in our international bookings resulting in the international mix of our room nights increasing to about 25% in Q2 from about 15% in Q1.

Our cancelation rates improved from Q1 and were in line with Q2 2019 levels in the quarter. The percentage of our Q2 2021 bookings made with flexible cancelation policies remained significantly higher than in Q2 2019. The booking window at Booking.com remained shorter than it was in the second quarter of 2019 as we continued see a higher mix of near-term bookings. However, the booking window contracted less than it did in the prior three quarters.

The mix of alternative accommodation room nights on Booking.com in Q2 was 32%, which is 3 points higher than Q1. In June, our alternative accommodation room night growth was flat versus June 2019, the first time we've reached 2019 levels for this segment since the start of COVID. The sequential improvement from Q1 to Q2 was due primarily to the overall improvements in room night growth in Europe in the quarter. As we noted, last quarter, Europe is where we have our highest mix of alternative accommodations. Within Europe, our mix of alternative accommodations remained about the same as Q1 and this represents a continued increase from 2019 to 2020 and into 2021.

Gross bookings declined 12% in Q2, which is less than the decline in reported room nights due to an increase in average daily rates for accommodations of 11% versus 2019 on a constant currency basis and also due to a few points of changes in FX rates and strong performance in our flights business.

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Our accommodation constant currency ADR benefited by about 7% from an increased mix of business in North America, which is a high ADR region, and a decrease of mix of business in Asia which is a lower ADR region. Excluding regional mix effects, constant currency ADRs were up approximately 4% driven mainly by rate increases in North America and in Europe. The increase in North America was driven by higher levels of demand for beach-oriented leisure destinations and in Europe were driven by a higher mix of summer bookings which have higher ADRs.

Airline tickets booked in the second quarter were up 120% versus 2019 driven by strong growth at Priceline and by flight bookings at Booking.com and Agoda, neither of which have flight products in Q2 2019. We are encouraged to see another record-breaking quarter for air tickets booked through our flights business, which is a key component of our multiproduct Connected Trip strategy.

Consolidated revenue for the second quarter was $2.2 billion and decreased 44% versus 2019, which is better than our expectations. Revenue in the quarter declined meaningfully more than gross bookings due to bookings made in the quarter that are expected to check in in future quarters at which point the revenue will be recognized.

Take rates in Q2 were about 10% largely driven by timing differences. As you'll recall, we discussed the impact of timing on take rates in Q1, Q2 and for the full year during our last call. We continue to expect these timing factors to impact full year take rates, although the second half of the year will be less negatively impacted than the first half of the year. Removing the impacts of timing, our take rates on accommodation bookings in Q2 were stable versus Q2 2019.

The better-than-expected top line performance resulted in adjusted EBITDA of $48 million in the second quarter, which came in better than our expectations. With the exception of Q3 last year, this is the first EBITDA-positive quarter since the first wave of COVID.

Marketing expense, which is a highly variable expense line, decreased 29% versus 2019. Marketing expense declined more than gross bookings due to higher ROIs in the paid channels and through an increase in our direct mix. Sales and other expense in Q2 were significantly higher than they were in Q1 on a dollar basis. Sales and other expenses as a percentage of revenue in Q2 was better than our expectations due to lower-than-expected bad debts and customer service related expenses.

Personnel expenses in Q2 were higher than they were in Q1 on a dollar basis primarily due to the $136 million of expenses related to our decision to repay the government aid in the second quarter. Excluding this repayment, personnel expenses in Q2 would have been in line with our expectations. G&A and IT expenses were both higher in Q2 than they were in Q1 on a dollar basis and were in line with our expectations. We recorded a non-GAAP loss of $105 million in the quarter.

On a GAAP basis, we had an operating loss of $56 million in Q2. We recorded a GAAP net loss of $167 million in the quarter which includes income tax expense of $126 million. On a GAAP and non-GAAP basis in Q2, we recorded a tax expense on a pre-tax loss due to higher earnings expectations for the full year relative to our expectations for Q1. For the full year, we expect our GAAP and non-GAAP tax rates to be slightly higher than 2019.

Now onto our cash and liquidity position. Our Q2 ending cash and investment balance of $16.1 billion was down versus our Q1 ending balance of $16.4 billion. However, our Q1 ending balance benefited from the timing of the $2 billion raised in our euro bond offering which we completed in March and the subsequent redemption of the

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two higher coupon senior notes occurring in April. Adjusting our Q1 ending cash balance for the redemption of the two notes that happened in April would have resulted in an adjusted Q1 cash balance of $14.4 billion.

Our Q2 ending balance was higher than this adjusted Q1 balance primarily due to operating cash flow of $1.2 billion and a $0.5 billion unrealized gain on our long-term investments. The $0.2 billion operating cash flow in the quarter was driven almost entirely by changes in working capital. Changes in working capital represented a source of cash of $1.2 billion in the quarter due to the increase in our deferred merchant bookings and other current liabilities partially offset by the increase in our accounts receivable.

We will continue to focus on maintaining a strong liquidity position given the continued uncertainty created by the COVID pandemic. Of the $16.1 billion of cash and investments at the end of Q2, $4.3 billion was related to our long-term strategic investments and $11.7 billion was cash and short-term investments. We ended the quarter with about $12.3 billion in debt, which is about $3.6 billion higher than our pre-pandemic levels. We have $1 billion convertible note maturing in Q3.

While the return of capital to shareholders will be an important component of our value creation strategy in the future, we remain on pause and will wait to reinitiate until we believe each of our three major regions is beyond the risk of a significant reversal in trends due to COVID. We're not there yet given the current trends we're seeing in Asia and with our current close watch on how things are developing in Europe.

Now onto our thoughts for the third quarter. With the recent rising case counts driven by the Delta variant in many countries, some governments around the world have responded with new travel and leisure restrictions as well as some stricter vaccination and testing requirements for tourists. However, there are indications that hospitalization rates are lagging the recent increase in case counts particularly in countries with higher vaccination rates, which could be an important factor in how governments plan their responses to the recent increase in COVID cases.

We're closely watching the UK where the vaccination rate is high and the government has moved forward with relaxing travel restrictions despite rising case counts in the country which are among the highest in Europe. We're encouraged by the recent declining new case counts and by the continued lower level of hospitalizations in the UK compared with other outbreaks.

We saw booking trends improve in the UK in July leading up to and after travel restrictions were lifted on July 19. Our July room nights declined about 22% versus 2019, which was a modest pullback from the 13% decline in June primarily just softening booking trends in Europe.

Looking within Europe, we saw reductions in room nights in July across several of our key countries including Germany, France and Italy. But despite the recent pullback in these countries, at the end of July, we had a higher amount of gross bookings on the books for the remaining summer period in Europe than we did at this same point in time in 2019.

Outside of Europe, the US continued to have very strong room night growth in July, although modestly below Q2 levels, while Asia and Rest of World room night declines were about the same in July as they were in June. Asia continues to be the least recovered region in July and continues to be down significantly from 2019 levels.

The change in growth rates from June to July were similar for domestic and international room nights with domestic remaining positive and international room nights remaining down significantly versus 2019. Given the recent additional uncertainty around COVID, driven primarily by the Delta variant, it's difficult to predict exactly how room nights in August and September will compare with the 22% reduction we saw in July.

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Turning to the income statement. We expect Q3 gross bookings to decline several points less than room nights driven by expected improvements in reported ADRs and by flight bookings. We expect that the Q3 revenue decline will significantly improve from Q2 reflecting the strong improvement in bookings in the last few months. I just mentioned we have more gross bookings for the summer than at this time in 2019 for Europe. The same is also true for North America.

We expect our Q3 revenue as a percentage of gross bookings will increase meaningfully from Q2 due to the high concentration of check-ins expected in the third quarter and will be about in line with Q3 2019. As a reminder, the exact relationship between revenue and gross bookings in Q3 will be impacted by how our bookings trend in August and September.

We expect marketing expenses in Q3 will decline several points less than gross bookings as we expect to invest in capturing demand and increasing awareness during the peak travel season and ahead of the continued global recovery of travel demand. We expect sales and other expenses in Q3 to be up significantly versus Q2 on a dollar basis due to higher gross booking volumes in the third quarter as well as an increase in the mix of gross bookings processed on a merchant basis.

However, we expect sales and other as a percentage of revenue in Q3 will be a bit lower than in Q2. We expect our more fixed expense categories in Q3 in aggregate to be about in line with Q2 on a dollar basis. We expect Q3 EBITDA will be the highest since Q3 2019.

In conclusion, we are pleased with our better-than-expected results in Q2 which benefited from a recovery in travel demand and also reflects the strong fundamentals of our business and the good execution by our teams. We remain confident in the eventual full recovery of travel demand globally and are looking forward to a strong summer travel season this year in North America and Europe.

We'll continue to responsibly invest in our business to ensure we're well positioned for the full recovery of travel and for building a larger and faster growing business that generates more earnings than prior to the pandemic.

We'll now take your questions. Maria, if you could open the line for questions, please.

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QUESTION AND ANSWER SECTION

Operator: Okay. [Operator Instructions] And your first question will come from the line of Kevin Kopelman from Cowen. Your line is open.

Kevin Kopelman
Analyst, Cowen and Company

Q

Great. Thanks a lot. Could you talk more about the key drivers of your competitive share gains that it looks like you're seeing in the US? And would you say your growth in the US over the past few months has been driven more by traditional hotel or more by alternative accommodations? Thanks.

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

A

So Kevin, why don't I take a little of this. And we'll let David add anything that he thinks I didn't put in but I should have said. So we are very pleased with the strong results that we're seeing in the US. And that is the result of a lot of hard work by our team. And a lot of it is just the blocking and tackling and making sure that we're getting the right inventory, the right price, doing the right marketing, presenting the right offer to the customer at the right time and doing a bunch of things that we've been doing for so long in terms of improving conversion, a lot of AB testing, all the things we've always done, blocking and tackling. There's no silver bullet. There's no sense of this is the magic key to unlock extra demand in the US. It's just a lot of very good work.

Now, in terms of alternative accommodations. We talked a little bit about how we're pleased at getting more inventory there. We're pleased we're gaining some share with some of our professional managers. That's going well. But overall, it's everything that we do to improve our business, provide a better service to both sides of that marketplace, both the customers getting the big offer and working with all of our suppliers from the biggest international chains to the small alternative accommodations and everything in between to make sure we're providing them with the demand they need to make their business successful.

And David, anything specific that you want to add to that?

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

A

No, Glenn. I think you summed it up well. Just in response to your last part of the question, Kevin; as we said, our business in the US is more heavily mixed to hotels and alternatives than our global average. So therefore, the growth rate has to be driven by both. We can't have levels of growth that we're seeing without seeing strong growth in the hotel business.

Kevin Kopelman
Analyst, Cowen and Company

Q

Yeah, understood. Thanks, Glenn. Thanks, David.

Operator: Your next question will come from the line of Mario Lu from Barclays. Your line is open.

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Mario Lu
Analyst, Barclays Capital, Inc.

Q

Great. Thanks for taking the questions. I have two on alternative accommodations. So I believe you mentioned you're gaining share on the managed properties globally. So can you provide some color onto what drove the share gain, whether it was just mostly geo-based or specific actions that you guys made on your end? And then, similarly, if you could share what percentage of the 6.6 million listings are actually managed properties versus by individuals. Thanks.

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

A

I'll go a little backwards on that. So we don't disclose on the breakdown of all the different categories of our alternative accommodations, how many are professionally managed, how many are-single property owners and everything in between. I have said in the past and I'll repeat it that one of the areas that we do need to add more to is these single-property owners. So we know that is an area that we need to focus on.

In regards to your other questions about how we're doing adding share, I think we spoke a little about that when I did the prepared remarks and what I just said now is a lot of this is just working hard with people who are property owners or the managers, people who have inventory that want to get it filled. It's a wonderful thing in this business that everybody knows an empty bed at night is zero revenue. You fill that bed and you get an incredible margin on it. And they want to fill up their properties. So we're there to make sure that they know we're there to help fill that and do all the things that I mentioned before, making sure that we can bring them that demand.

And I'll leave – David, anything you want to disclose to them that is any different, I'm not sure if you have anything further to add.

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

A

No additional data points on the mix of the 6.6 million. What I would just clarify, Mario, is that the comments that Glenn made about gaining share gains with our larger professional managers, that's really related to how we're doing in the US. That was a specific US-related comment. I'm not saying that's not the case worldwide. But I'm just saying that if you remember, our strategy is to really get a lot of additional properties in the US with the targets more the professional managers where there's a lot of high-quality supply available through those managers, again, single-property owners that own properties that are available via managers. So the comment we were making was relative to what we're doing in the US.

Mario Lu
Analyst, Barclays Capital, Inc.

Q

That's helpful. Thank you.

Operator: And your next question will come from Naved Khan from Truist Securities. Your line is open.

Naved Khan
Analyst, Truist Securities, Inc.

Q

Yeah, thanks a lot. A couple of questions. I think, David, I think I heard you say marketing percentage was higher versus 2019. And I did some rough math off of the bookings number. It does look it was higher in the last quarters. Can you just maybe talk about what are the drivers of efficiency in marketing?

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And then maybe one for Glenn. Can you just talk about some reports of maybe flash deals being tested on the site maybe later this year and what kind of interest you might be seeing from hotels in terms of [indiscernible] (00:35:46)?

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

So, David, do you want to take that first one?

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

Yeah. Let me talk a little bit about marketing, what was going on. I think I understood the question. But basically, what you're seeing was in Q2, our marketing expense as a decline of our gross bookings, which is the way to look at it because if you look at it versus revenue for all those different booked day timings things in there. So look at it as potential of gross bookings. That ratio improved in the second quarter.

So said differently, our marketing expenses declined more than our gross bookings did. Two factors. We did see higher ROIs across many of our paid channels than we saw a couple years ago. But we also saw a nice increase in mix towards directs as well. So the more we have direct mix now, then the less we're paying for marketing to attract those new customers.

So I'd say nothing particularly unique to call out in that. The marketing environment is still – I would say isn't fully stable yet, clearly. And we're still going through a stage of recovery in the industry. So not all factors are directly comparable with where we were in 2019. But we were pleased to see that the ROIs did improve.

Now, bear in mind what I said about Q3 implies that the opposite is likely to happen in Q3. Obviously, we're only a month into Q3. But we are setting up our marketing spend in Q3. It is historically the quarter where we spend the most. It's the peak season. We want to recapture the customers that are out there. We'll also be increasing our brand spend in Q3 relative to Q2. So that's one of the contributors to essentially what will be some deleverage in marketing spend relative to gross bookings in Q3.

So we'll see how the quarter develops. But that's what we expect to happen in the third quarter. But in the first two quarters, we did see the benefit in ROI helping us create some leverage on the marketing line.

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

And regarding your question about flash deals. If you read the same article that I did, I think there was something in there about there was no official response from Booking. So let me say that I have nothing to say specifically about this. But let me reemphasize that we are putting a lot of effort into working cooperatively with our supply partners to get that incremental demand through all different ways. Being a better merchandiser and providing more value to both sides of the marketplace is where we're going towards.

Naved Khan
Analyst, Truist Securities, Inc.
Q

Understood. Thank you both.

Operator: And your next question will come from Deepak Mathivanan from Wolfe Research. Your line is open.

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Deepak Mathivanan
Analyst, Wolfe Research LLC

Q

Great. Thanks, guys. Thanks for taking the question. I wanted to ask a little bit about your experimentation with a more diversified marketing strategy. Historically, performance marketing has been the one that's worked the best for the space. How should we think about your approach with some of the other channels? Are there specific kind of objectives that you look for as kind of travel comes back to leverage into those channels?

And then the second question kind of related to that, but how should we think about your market share during this time? I know it's sort of still early and there's not a lot of data points yet. But any color that you can provide on how your market share is trending in some of the markets where travel is recovering, that would be great. Thank you.

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

A

So regarding diversifying our marketing efforts, you are absolutely correct. We built this company on doing a great, great job with performance marketing channels and we know that. But what a lot of people don't know is that Priceline.com was very, very successful in its early days in brand marketing. And of course, Booking.com we brought the US, we had lots of brand marketing.

The key thing in any type of marketing program is making sure that you're getting the ROI that you want to get. And we are going to continue to do that. I mentioned in my prepared remarks about how we are looking at new channels like social channels. You've seen, I hope, some of the things that we've been putting out. And we're going to continue to experiment and do all different ways to make sure we are reaching out for every pocket of demand. But we always do that with the knowledge that it's got to be cost effective. It's got to produce in the long run because it takes longer for a brand to actually produce results. So we recognize that. But in the long run, it's got to produce the results that we want.

And we're going to keep on doing that. And I really believe that in the long run, we will have many different ways that we're going to be bringing marketing. One of the key things though, before you start spending a huge amount on a brand marketing campaign, is making sure that you have the product the way you want it. And that's one of the things that we are keen to do in perhaps the alternative accommodations area is really working to make sure in the US, for example, that we've got that product the way we want it.

In regards to market shares, we're very pleased with how we're doing right now. I haven't seen results from some of our competitors. And I'm not really going to go down country by country in terms of what our shares are. But I am pleased with the results that we're achieving. And I'll let David say if he wants to give any specificity.

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

A

No, Glenn. I think you said it well. We are pleased. You'll have to wait and see when the dust settles. I think market share is a better measure over the course of a year than over a quarter or two quarters. We're only two quarters into the year. But we're pleased with how things are going, our growth rates relative to what we see happening out there. But we'll count that and talk about that if we can more at the end of the year when we've got some more concrete data on how the market actually develops.

Deepak Mathivanan
Analyst, Wolfe Research LLC

Q

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Okay. Thank you so much.

Operator: And your next question will come from the line of Justin Post from Bank of America. Your line is open.

Justin Post
Analyst, BofA Securities, Inc.

Q

Great. A couple of questions. I guess first, David, can you revisit your comment about July travel bookings being better than summer of 2019 and what that means for revenues in the third quarter? Any thoughts on that.

And maybe, Glenn, I think you said June was back to 13% from 2019. How does that make you feel about the confidence of a full travel recovery? And then when we do recover, maybe any high-level thoughts on – could your market share be higher, could your margins be higher than 2019? Any new thoughts you have on either of those items would be really helpful. Thanks a lot.

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

A

All right. Why don't...

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

A

David, do you want to take this?

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

A

Yeah. Why don't I start with – just to kind of make sure that you know what we're saying. So to recalibrate or restate what we've said, we have more gross bookings for the summer, for the remaining summer months than at the same time in 2019, i.e., the same time, i.e., end of July in 2019, than we had at that same time for Europe and North America. So assuming the cancelation rate stays the same, then that would potentially result in more revenue in those markets for the summer months, for the remaining summer months.

Now, I did also point out that we have a higher percentage of cancelable bookings out there or refundable bookings out there than we had at the same time in 2019 as well. So there's obviously some risk that more of those bookings cancel than there were done in the same period of time. But it means basically that our potential revenue base for the summer is higher now in those two markets than it was in 2019. Now, obviously, the offset there is what's happening in Asia and what's happening in Rest of World. We don't have a situation, the revenue or the bookings on the books, which will be the potential revenue in those markets, are substantially below where they were at the same time in the end of July in 2019.

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

A

Okay. And Justin, I would say that nobody knows when this full recovery is going to happen. And I think everybody is able to throw a dart, but it's really throwing darts. Given all the variations that are happening, these new variants come out and we've seen the impact there. However, the thing that I continue to say is how much we are very confident and I think everybody is that this will end at some point and we will come out of it strongly.

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Now, we've talked about this a bit in the past about how we want to come out of this. We want to have a bigger business, making more EBITDA, growing faster. But we've also talked a bit about margins where we have a command – we want to be the leader in the industry in terms of our EBITDA margin. But we recognize that a lot of things that we're doing nowadays can actually end up with a lower margin.

Obviously, air, for example. It's wonderful when we say 120% increase over 2019 in air tickets. That's wonderful. But we all know that those margins are nowhere near what they are in the accommodation business. And I can go on with different examples. The key thing for us and for our shareholders, I believe, is coming back with more EBITDA dollars. We continue to grow our business so there's more of that. That's the way we're looking at it.

Justin Post
Analyst, BofA Securities, Inc.

Q

Great. Thank you.

Operator: And your next question will come from Doug Anmuth from JPMorgan. Your line is open.

Dae K. Lee
Analyst, JPMorgan Securities LLC

Q

Hi. This is Dae Lee on for Doug. Thanks for taking the questions. One for Glenn. In your prepared remark, you talked about better monetize the transaction flow and that's one of the drivers that led to the creation of this fintech unit. So just curious what's the opportunity that you're seeing there and if there's something that will affect user experience as well or more focused around the back end.

And then second one for David. A follow-up question on the sales and marketing ROI. You guys have called out higher ROIs last quarter and again this quarter. So curious if this is a result of something that you're doing differently or is this just more of an outcome due to the competitive dynamic on the performance advertising channels?

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

A

So in terms of the fintech unit, there are many opportunities for us. With the flow in 2019, $100 billion worth of transactions flowing in through there; we know that there are ways that we can save money for the consumers and the suppliers, both sides. And we can make good money on it too in the long run.

So it's coming up with things like providing better FX tools. It's things, for example, of making sure that if somebody wants to pay in an alternative payment method, that we're able to provide that. It means making sure that we can do a better job with different types of regulations in terms of making sure that any type of transaction is not fraudulent. It's all sorts of things. As a player at scale, we can do things that many, many, many of our partners could not do. And it's also providing conveniences to our customers who want it but our suppliers can't do it on their own.

And there are lots of different things that we can do, even things as simple as our fintech unit setting something up like our e-wallet, an electronic wallet that enables us to easily provide value to that customer, which can come from a supplier or it can be something that we're promoting ourselves, all different things. So what I see is not only the basics that we need to make our Connected Trip work, which of course you have to have that if you want to create a Connected Trip with a single price point, one person pays one amount. But it's all the other types of things that we can provide that others really can't do on their own right now.

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

A

Yeah and then on the second quarter ROIs. Our playbook really has not changed. And our strategy in the performance marketing channels have not changed. We continue to seek high-quality traffic at the right price. And to us high quality means high converting traffic, lower probability cancellation which we watch very carefully and a high probability of coming back to us on a direct basis. And those are the things that go into our building strategy plus all the dynamics that occur in each of those marketplaces.

So we expect there'll be ROI volatility throughout the recovery. Of course, we also look at what the available demand is and when is the time to lean in versus lean in more. We are certainly looking at this as an opportunity to win customers onto our platform and get new customers. And we mentioned a very healthy mix of new customers in the business quite similar to the mix as it was in Q2 of 2019.

So we're pleased with how things are going. And we like the way that we're bringing back existing customers. We like the way we're winning new customers. We're pleased to see the existing customers come back generally much more directly than the new customers, which you expect as part of the playbook. So as I say, many factors go into those ROI calculations including cost per click, conversion rates, cancelation rates and we're still in a period of relative high volatility in each of those compared to where we were in 2019.

Dae K. Lee
Analyst, JPMorgan Securities LLC

Q

Got it. Thank you both.

Operator: And your next question will come from Brian Nowak from Morgan Stanley. Your line is open.

Alaxandar Wang
Analyst, Morgan Stanley & Co. LLC

Q

Hi. This is Alax Wang on for Brian. Thanks for taking the question. Two questions. One, I think you mentioned that your monthly traffic on Booking.com is back to about 90% of pre-pandemic, which is encouraging particularly with some of the headwinds you're calling out in Asia. Just curious if you're able to segment out any differences in behavior on that new versus existing cohort and going forward any strategies to sort of grow those bases separately.

Second question around air. Sounds like there's a lot of momentum there. Just curious on your views on some of the remaining execution hurdles you see for that initiative and any plans to sort of grow consumer awareness for the new air product.

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

A

So I'll take the air first and we'll see what David wants to say or not say about breakup of our customer base. So air, obviously, Priceline's been doing it forever since the company started but in the US only. And Booking.com only got going very, very recently. And I mentioned 24 countries, nice. But that's a lot of countries that we haven't touched yet that have to be done.

And there's so many things that need to be done to really improve the air product at Booking.com. I am not going to list them all. But I see a lot of ways we can make that even better than it is. And that's a little bit why we haven't

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done any real large marketing effort on the air side yet. We got to have – and I talked about this before. So before you start with marketing, make sure you got the product the way you want it. So it's so encouraging that we're doing well with it right now even though I see a lot of things that still need to be done to improve that product.

And it's something that we're really pleased with is seeing the attachment rate again is something that we obviously have reason to want to do this is not just to sell a flight ticket. It's to actually get some of those higher margin, those accommodations and build out that Connected Trip. So it's nice to see at the very early stage – and I urge you to listen carefully – I say very early stage, we're seeing good results. So I do see a lot of opportunity here in the future. But we won't be bringing out any sort of marketing on it until I feel that we have the product where we want it to be.

And David, I don't know if you want to talk about the other one.

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

A

Yeah, Alax, there's not a lot more to say. I think we want to be helpful, give you some data points to understand how our active customers are probably – people who are actually booking on the site have recovered. And the mix, a healthy mix of new customers only slightly below what we saw in Q2 2019. I think those are good signs.

So I don't want to get into the segmentation with our customers. Obviously, there are some customers who book very often and some customers who don't book quite as much. And we kind of love them all, but we want to make sure we kind of treat them differently. And I'd say that's part of the reason why we have our Genius program. And of course, the more often you work with us or book with us on Booking.com, i.e., move up the Genius ladder and you get more benefits from the Genius program, which is I think a nice way of driving loyalty.

So other than the data points we've given out which we thought would just be helpful, stakes in the ground, so people understand what's going on within the business. I don't want to get into any further details.

Alaxandar Wang
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you.

Operator: And your next question will come from Mark Mahaney from Evercore. Your line is open.

Mark Mahaney
Analyst, Evercore ISI

Q

Hey, thanks. I guess I'll just follow up on – keep sticking with the air and I guess learnings to date. And talk about this as – is this a new customer acquisition tool? Is this a cross-sell product? Do you notice greater engagement with the people in those 24 markets where you've rolled it out with Booking? Does this increase the overall spend, frequency of purchase? What have you seen so far? And maybe it's all too early. So I guess if you're going to respond that way, then I'll ask when do you think you'll have a decent read into what impact, if any, if it's had a permanent impact on your Booking.com customer base. Thanks.

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

A

Hi, Mark. I am sort of tempted just to go with what you said and say, too early. But I'll add a little more to that in the sense I'm very pleased because we haven't been out really marketing this, yet new customers are coming to

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the site. And then we're seeing them get an attractive cross-sell that I really like seeing that as a sign that this is the right direction that we're going.

Now, I had a good sense that was going to happen anyway because we've been seeing that happen at Priceline for two decades where that's been happening. So I had good confidence that this would happen. But it's something that I believe – we want to have a lot more data before we start coming back to you and start showing you here's what attachment rates are, here is how it compares to Priceline, here's what we see versus industry and how many new people are coming from the air funnel versus the others. I would just leave everyone with the sense that we're very pleased. This is bringing us new customers, new customers who are buying not just flight tickets but some of them are buying hotels too. This is proving out a little bit of our long-term vision of this Connected Trip.

Now, do I expect that to happen with something like activities? No, I'm not really thinking a lot of people are going to come for an activity first. Then they're going to buy a flight or then they're going to buy a hotel. That's going to be a lot more the other way and helping produce the loyalty and the repeat business that we talked about. And then it goes into all the things that I was talking about in terms of using a wallet so we can give credits and have different suppliers be able to promote different offerings in different ways to different customers. All of that spins together increasing that flywheel. And that's what we're trying to achieve and I think it's just so great to see it start happening right now even though it's very early.

Mark Mahaney
Analyst, Evercore ISI

Q

Okay. Thanks, Glenn.

Operator: And your next question will come from Vince Ciepiel from Cleveland Research. Your line is open.

Vince Ciepiel
Analyst, Cleveland Research Co. LLC

Q

Great. Thanks for taking my question. I wanted to talk a little bit about your perspective on leisure versus corporate. I believe you historically see about 80% of the business in leisure, so first there. Some markets are running 15%, 20% ahead of 2019 levels. And I'm curious your perspective on the long-term trend line within leisure and how COVID has changed that, maybe people's ability to work remote.

You mentioned more leisure business shifting online with that McKinsey study. But just curious how you think about leisure over the long run. And then the second part is on the corporate side. Any early indications of recovery there and how you think that evolves through the second half of this year?

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

A

Yeah. Let me give generalities about what I think about leisure versus business and corporate and just in general what I think is going to be happening in the future. And David can go back and talk about what we've disclosed in the past about the mix.

So you're right in the sense that we are much more leisure-oriented. And much of our business travel is small businesspeople. These are people who are doing their own travel. This is not part of a big travel management company operation. So it's a little bit different when we have business travelers. And they act somewhat similar to leisure sometimes.

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The fact is that we've all seen this that leisure is out of the gate much faster than any business travel, which makes perfect sense because on the one hand, you have businesspeople who say there's a risk factor when you put people in travel, et cetera. And there's also the issue of cost. Why have people travel when you don't have to?

That second part I think is very key for the future of the business. I believe that there's still going to be resistance by CFOs and other people who are cost-conscious in their businesses about, hey, do we really have to have all the travel that we did in the past? Maybe not because with these new technologies actually seem to be pretty effective without having to send somebody from New York to London at $15,000 for a one-day meeting. And I think that's going to somewhat change how the business of travel is done in the sense there'll be fewer people up front in the plane and spending a lot of money on those very high-cost 5-star hotels, et cetera, which will change things a little bit.

For us, we're leisure, so it's not going to impact us negatively so much. In fact, it may help us because there's more availability that needs to get filled up.

The other thing you mentioned though and we'll see how it plays out though. With more people being able to work from home and deciding, gee, I think Friday I'm going to work from somewhere else and have a Friday, Saturday, Sunday or a Thursday, Friday, Saturday, Sunday mini-holiday somewhere, working Thursday and Friday but at a different location; how much is that going to actually build more travel? Uncertain at this time since everybody is still shifting around what's the way to work in the future, how many days are we in offices, how many days are we not in offices. Nobody knows the answer to that yet. And it's going to take a long time to play out.

But I do hope that will hopefully build out more travel. We like more travel. So there's a lot of uncertainty about this and nobody really knows. And even as much as I've heard the encouraging signs from some of the suppliers, particularly some of the airlines; I saw a Deloitte report came out a couple of days ago, maybe yesterday, in which the expectation of corporate travel was not as optimistic in the near term. So I think we have to say we don't know. We'll find out as it rolls out.

And David, I don't know if you want to give anything more to that in terms of the numbers for us in business travel because I heard a number he quoted. I'm not sure if it was right or not.

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

A

No, the number – first of all, we haven't given that out recently. But we're over 80% leisure. And as we said, our business – first of all, it's a self-declared metric. When you make bookings, it's hard to be precise about it. But the type of business travel we do have is much more unmanaged business travel as Glenn explained. So we're heavily biased towards that leisure segment.

Vince Ciepiel
Analyst, Cleveland Research Co. LLC

Q

Thank you.

Operator: And our last question will come from Jed Kelly from Oppenheimer. Your line is open.

Jed Kelly
Analyst, Oppenheimer & Co., Inc.

Q

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Hey, great. Thanks for taking my question. Two, if I may. Just as you sort of – you mentioned earlier in your prepared remarks how you're gaining share with professional property managers. Can you sort of talk about like your supply strategy heading into this winter in the US, trying to increase that single-unit inventory? And then can you give us an update just on how APAC is trending particularly with Agoda? Thank you.

Glenn D. Fogel

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

A

I'll let David talk – what you want to say about Asia in general. And regarding the share, I just want to be a little careful. We said we are pleased that we are doing better. We're gaining share with the professional managers and I like what we're seeing there. It's going to be a long haul in terms of building out the US inventory for all types of alternative accommodations whether it be professional management – getting as many as we want there – or single property. It's going to be a while to get to where we want to be in that. I just want everybody to understand that this is a goal that we're working on hard by having the boots on the ground, talking with managers, sending out the right information, getting people to understand why we have a great proposition for them. And I'm confident we're going to do that.

When you look at what we've achieved in Europe, you look at the share of our alternative accommodations in Europe; you say, boy, that's a goal to have in the US too. We should be pushing for that. There's no reason we shouldn't. The customers are similar. The proposition is similar. There's nothing that we shouldn't be able – no reason we shouldn't be able to achieve that over of time. But it's going to take time. And David, I don't know if you want to talk about Asia a little bit there.

David Ian Goulden

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

A

Yeah. So Asia, APAC, I mentioned that the room night growth was worse in Q2 than it was in Q1. So that region deteriorated, counteracting some of the benefits and strength we saw in Europe and in North America.

Of course, both Booking and Agoda have sizable businesses in APAC, although clearly that's the majority of Agoda's. So the whole region is very depressed. As you know, vaccination rates are lagging in most parts of Asia. Also, response to COVID outbreaks tend to be more aggressive and restrictions are put in place more quickly based upon outbreaks in the Asia region across almost all countries. So travel level is very low, particularly international travel level is exceptionally low and still a long way to go. And no recovery in Q2, in fact, worse in Q2 versus Q1.

Jed Kelly

Analyst, Oppenheimer & Co., Inc.

Q

Thank you.

Operator: And that concludes our Q&A. I will turn the call over back to Glenn Fogel for closing remarks.

Glenn D. Fogel

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

Thank you. So in closing, I want to reiterate our strong belief that our industry's full recovery will be hastened by everyone who can get a vaccine, going out and getting it. We urge all people who are approved for and medically able to be vaccinated to do their part to make our society safer and go out and get a vaccine.

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And as always, I want to thank our partners, our customers, dedicated employees and our shareholders. We appreciate your support as we continue to build on the long-term vision for our company. Thank you and please be safe. Good night.

Operator: And that concludes our conference call. Thank you for participating. You may now disconnect.

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