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Booking Holdings, Inc. (BKNG)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Booking Holdings Third 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. For a list of factors that could cause Booking Holdings' actual results to differ materially from those described in the forward-looking statements, please refer to the Safe Harbor statements at the end of Booking Holdings earnings press release as well as Booking Holdings most recent filings with the Securities and Exchange Commission.

Unless required by law, Booking Holdings undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events, or otherwise. A copy of the Booking Holdings earnings press release together with a accompanying financial and statistical supplement is available in the For Investors section of Booking Holdings website. That's www.bookingholdings.com.

And now, I'd like to introduce Booking Holdings' speakers for this afternoon: Glenn Fogel; and David Goulden. And I'll turn the call over to Glenn Fogel, the CEO. Please go ahead, sir.

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Glenn D. Fogel

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.

I am pleased to be reporting strong results today for our peak travel season. Compared with 2019, Q3 room nights were down 18%, which was an improvement from the 22% decline we previously reported for the month of July and the 26% decline in Q2. The improvement since July was primarily driven by stronger room night trends in Europe.

In the United States, room night growth in Q3 was strong, but lower than Q2. Asia room night declines in Q3 were about in line with Q2 and remain down significantly versus 2019. International travel, which is important to our business, drove the overall sequential improvement in room night trends from Q2 to Q3. Nevertheless, our international room nights remain significantly depressed versus 2019.

Q3 consolidated revenue of $4.7 billion was more than double the amount of revenue in Q2. The third quarter was also our most profitable quarter since Q3 2019, with $2.1 billion of adjusted EBITDA and a 45% adjusted EBITDA margin.

Moving into the fourth quarter, we have seen a further improvement in our room night trends in October, including early signs of a pickup in room night trends in Asia. However, recently rising COVID case counts in many countries, including several important European countries adds to the uncertainty around how November and December trends will progress. David will provide additional details on our third quarter results and what we are seeing so far in the fourth quarter in his remarks.

The improvement in trends we saw in the third quarter and so far in the fourth quarter following the negative impact from the Delta variant in July and August once again demonstrates the resilience of leisure travelers who are looking to travel when it is safe to do so and restrictions are lifted. We are confident that we are on the path to the eventual strong recovery in travel demand globally.

As the global recovery continues, we are making progress, strengthening our core accommodation business to support its long-term growth. As I said before, the strength of our core business comes from driving benefits to our traveler customers and our supply partners alike.

For our customers, we are aiming to create a superior booking experience and build stronger relationships, which we believe is accomplished by addressing our customers' critical needs of value, choice, and ease of use. We continue to see Booking.com's pre-pandemic customers coming back and booking with us while we're also attracting new customers.

Importantly, we see our top customers from before the pandemic returning to us at a meaningfully higher frequency than other customers.

Providing attractive prices on accommodations is a key component of offering value for our customers. We work closely with our supply partners to increase participation in our targeted rate programs to ensure that compelling prices are available to our customers.

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Our Genius loyalty program at Booking.com is a great example of a program where hundreds of thousands of our property partners are participating to offer lower rates and other benefits such as complimentary breakfast, room upgrades, and discounted airport taxis to our large customer base.

In addition to offering lower rates on accommodations, we have recently extended lower rates on rental cars to our Genius customers. This is just one example of the way we continue to innovate and add value for our Genius members.

With about two-thirds of our room nights booked on mobile devices and the majority of those booked through the app, it's critical that we provide our customers with a positive booking experience on our app. The app is an important platform as it allows us more opportunities to engage directly with travelers, and ultimately, we see it as the center of our Connected Trip experience.

In the third quarter, Booking.com was once again the number-one downloaded OTA app globally according to a third-party research firm. Also in the third quarter, we surpassed 100 million monthly active app users for the first time. The recent growth of Booking.com's app is encouraging, and we are working hard to continue to build on this success.

In the third quarter, we saw a higher mix of our customers booking directly with us than in the third quarter of 2019. Our direct mix improved even as we leaned into performance marketing channels during our peak travel season. While we will continue to invest in performance marketing, we will also look 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.

For example, with our ambition to acquire more customers in the medium intense space, we have made progress in strengthening our foundations for digital marketing, including in social channels, though our spend so far has been small. However, we're increasingly confident in the potential for these channels, and as we see positive results, we expect to raise our level of participation there.

Remaining active and investing effectively across marketing channels is made even more important by the opportunity to acquire bookers who are new to online booking channels. Travel, like many industries during pandemic, has seen a meaningful shift from offline to online according to third-party data, and this has increased our addressable market.

For our supply partners, we are focused on bringing incremental demand to their properties from the broad audience of potential customers on our platform. In a survey of 600 small and medium hoteliers in Europe conducted earlier this year, 85% of respondents agree that online platforms are a cost-efficient way to increase the reach of their hotel and source more diverse guests. We agree with this statement, and believe it applies more broadly, whether we are working with a small and medium hotelier or an alternative accommodation or a large global hotel chain, we strive to be a valuable partner to all accommodation types on our platform.

With our chain hotel partners, we are continuing to see increased engagement relative to 2019 levels, which shows up in higher levels of participation in our programs that enable them to differentiate and promote themselves on our platform.

For our alternative accommodations, the global mix of room nights in Q3 of about 30% was up slightly from Q3 2019. This increase in alternative accommodation share of our business in the quarter was less than it was in Q2 as we saw a greater sequential improvement in demand for hotel room nights in Europe from Q2 to Q3.

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Our property count of about 2.4 million and reported listings of over 28 million on Booking.com remain stable relative to the prior quarter.

Let me talk more about some of our key strategic priorities: Payments and the Connected Trip, both of which we believe will further enhance the strength of our core accommodations business and support its continued growth.

Turning to Payments at Booking.com, last quarter, we spoke about the organization of all of our payments initiatives and efforts within a new fintech unit at Booking.com. The recently established fintech unit enables Booking.com to have a dedicated focus on enhancing payments in our core business for both customers and partners as well as monetizing our overall transaction flows via new payments, related products, and services.

Adoption of our payment solutions by our supply partners in both the US and Europe continues to grow. Adoption in the US has seen significant increases recently driven by the additions of some major hotel chains in the second and third quarters, which we will look to build on in the fourth quarter.

In Europe, more customers are choosing to pay using Booking.com's payment platform when finalizing their booking as attractive and localized options are provided. This is a result in nearly a third of Booking.com's total gross bookings in Q3 being processed through our payment platform, which is up from about 22% for the full year 2020.

The fintech unit is also driving continued payments innovation to ensure that growth is sustained into the future. This includes offering low-cost payout choices to our suppliers as well as partnering with third parties to provide payment solutions to our bookers such as buy now, pay later. We believe these efforts help position Booking.com as an attractive and trusted payment intermediary for all parties on our platform.

On our Connected Trip vision, we have been focused this year on enabling travelers to book the major elements of their trip in one place on Booking.com. We continue to work on scaling 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.

Booking.com's flight product is now live in 27 countries. Total company air tickets in the third quarter was up 131% versus Q3 2019, primarily driven by strength in Priceline but also helped by Booking.com's flight offering which continues to meaningfully exceed our expectations. While it remains early days for Booking's flight product, we are seeing that over 25% of Bookings' flight bookers are entirely new customers.

With these new customers, we are seeing an encouraging attach rate of accommodation bookings. However, there is more work to be done to further optimize the cross-sell opportunity. The early signals help demonstrate, though, that a flight offering can drive incremental new customers to the platform to which we can cross-sell our accommodation product. We are beginning to test initiatives targeting these new flight customers, including, for example, encouraging account creation to activate Genius status, and in some cases, offering additional incentives for them to book accommodations. We remain focused on continuing to test and innovate in order to build on the early successes we are seeing with flights at Booking.com.

We're also continuing to run tests using offerings from our verticals like rental cars and taxis.

Now, before closing, I do want to note that as world leaders assemble this week in Glasgow for the COP26 summit, discussing the urgency of tackling the global climate crisis, I cannot overstate the importance for our

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industry to come together to work for the goal of carbon neutrality by 2050. Decarbonization is a major challenge for the entire industry, and solving this challenge requires the commitment of all stakeholders.

I am proud to say that our company, Booking Holdings, is committed to addressing this challenge. We recently released a report that we commissioned with [indiscernible] (00:14:43) that looked into what will it take to get the accommodations industry specifically to a carbon-neutral future. While a big task, data shows it is achievable. At Booking.com, we are working on making it easier for travelers to find and choose sustainable accommodation options when booking their travel.

In addition, we're working with our accommodation supply partners by sharing guidance, insights, and best practices to enhance sustainability initiatives at the property level.

Of course, there is much more that must be done. But we believe that we are taking important steps to contribute to a more sustainable future for our industry.

And finally, we plan on publishing a Booking Holdings Climate Transition Plan in early 2022, which we will speak more about at that time.

In conclusion, we executed well and produced strong results in our peak travel season, which is a credit to the hard work and support provided by the many teams across our company. I'm encouraged by the signs of recovery we are seeing in many parts of the world, and I'm confident that we are on the path to an eventual strong recovery in travel demand globally. We continue with our important work to strengthen our company's position and execute against our strategic priorities.

As I've 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'll now turn the call over to our CFO, David Goulden. David? David? All right. David is dialing back in, I think.

David Ian Goulden

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

Yes, I'm back in, Glenn. Sorry. Have you just finished?

Glenn D. Fogel

Chief Executive Officer & Director, Booking Holdings, Inc.

Yes, I just finished.

David Ian Goulden

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

All right. Perfect timing. Thank you. I was cut off, and I'm back in again. So thank you, Glenn, and good afternoon. I'll review our results for the third quarter and provide some color on the trends we've seen so far in the fourth quarter.

To avoid the comparison to the pandemic-impacted periods in 2020, all growth rates are 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.

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Now, on to our results for the third quarter. On our last earnings call, we discussed the improvement in trends that we saw throughout the second quarter driven by the US and Europe followed by a large pullback in July. After our earnings call, we saw our overall trends improve in August and continue to get better in September, which resulted in Q3 reported room nights declining 18% versus Q3 2019, which was ahead of the 26% decline in Q2 and the 22% decline in July.

September was the strongest month in the third quarter with room nights declining 14%, about the same level as June. The improvements in the Q3 room night decline versus Q2 were driven primarily by Europe which benefited from strong cross-border travel within the region. In Q3, room nights in Europe were down mid-single digits versus 2019, with room night trends improving in August versus July.

September was similar to August. You will recall the room night growth pulled back from June to July in Europe due to concerns over the Delta variants. Rest of world also improved from Q2 to Q3.

In the US, [indiscernible] (00:18:35) Q2 to Q3, however, the US still had strong growth in the quarter and remained our strongest performing major country in Q3. Within the US, we saw a meaningful slowdown in August from the very strong growth we experienced in July followed by a recovery to strong growth in September. The slowdown in the US in August was due to concerns about the Delta variant.

Asia room night declines in Q3 were about in line with Q2. Room nights in Asia were still down significantly from 2019 levels.

Mobile bookings primarily through our apps represents about two-thirds of our total room nights. Our apps continue to represent an increasing percentage of our mobile bookings. In Q3, as Glenn mentioned, we achieved an important milestone in the use of our app at Booking.com surpassing 100 million monthly active users. We're also pleased to see the number of unique customers booking via our app in the quarter grow strongly compared with Q3 2019.

Our direct channel as a percentage of our room nights year-on-year and relative to Q3 2019 increased.

While international room nights remained down versus 2019, we saw another sequential improvement in our international trends with the international mix of our room nights increasing to about 33% in Q3 from about 25% in Q2 and about 15% in Q1. Most of this improvement in international room nights came from bookings of travel within Europe. We continue to see double-digit growth in domestic room nights in Q3, but at a slightly lower level than in Q2.

The pickup in international travel in the quarter was the driver of the improvement in overall room night trends from Q2 to Q3. However, international room nights were down almost 50% compared with Q3 2019 levels.

Our Q3 cancelation rates were slightly above Q3 2019 levels. However, cancelation rates improved in the quarter, and September was slightly better than 2019 for the month.

Percentage of our Q3 2021 bookings may reflect that cancelations policies remain significantly higher than in Q3 2019.

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The booking window of Booking.com remained shorter than it was in the third quarter of 2019 and contracted more than it did in Q2 as we saw a high mix of near-term bookings during our peak summer season. All regions had a shorter booking window in Q3 than in Q3 2019.

For our alternative accommodations, the global mix of room nights in Q3 of about 30% was up slightly from Q3 2019. The increase in mix alternative accommodations in the quarter was less than it was in Q2 as we saw a greater sequential improvement in demand for hotel room nights in Europe from Q2 to Q3.

Our alternative accommodation room nights in Europe grew slightly in August and September versus 2019, and for the quarter were about in line with Q3 2019. We believe we benefited from the strength of our portfolio in Europe where we can respond to solid demand for alternative accommodations and an improving demand for hotels.

Gross bookings declined 6% in Q3 which is less than the decline in room nights due to the increase in average day rates for accommodations of about 10% versus 2019 on a constant currency basis and also due to a couple of points of benefit from changes in FX rates and strong performance in our flight business.

Our accommodations constant currency ADR benefited by just over 5 percentage points for an increased mix of business in North America, which is a high ADR region, and a decrease of mix in Asia, which is a low ADR region. Excluding regional mix effects, constant currency ADRs were up just over 4% driven mainly by rate increases in Europe and North America across many destination types with notable strength in beach-oriented leisure destinations.

Airline tickets booked in the third quarter were up 131% versus 2019 driven by very strong growth of Priceline and by flight bookings at Booking.com. We're encouraged to see another quarter of triple-digit growth from our flights business which is a key component of our multipronged Connected Trip strategy.

Consolidated revenue for the third quarter was $4.7 billion, which was 7% below Q3 2019 and was more than double the amount of revenue in Q2 2021, a far greater sequential improvement than in 2019.

Our Q3 revenue as a percentage of gross bookings was about in line with Q3 2019 which was in line with our expectations. We experienced even more revenue seasonality in Q3 2021 than normal due to the concentration of stays in Q3 from bookings made in the quarter and also from bookings [indiscernible] (00:23:52) when customers could book accommodations but could not stay due to restrictions and other COVID-related concerns.

The strong top line performance resulted in adjusted EBITDA of $2.1 billion in the third quarter which is 15% below Q3 2019. Marketing expense, which is a highly variable expense item, decreased 3% versus Q3 2019. Marketing expense declined by a few points less than gross bookings due to slightly lower ROIs in paid channels of the investments into capturing demand during the peak travel season.

Sales and other expenses in Q3 were significantly higher than they were in Q2 on a dollar basis due to high volume of merchant gross bookings which increased as a percentage of total gross bookings in the third quarter.

At Booking.com, the amount of gross bookings processed through our payments platform in Q3 was over $6 billion, which was almost one-third of Booking.com's business up from about a quarter in Q2.

Our more fixed expense categories in Q3 in aggregate came in 3% lower than Q2 as the $136 million of personnel expense in the second quarter related to our decision to repay the government aid was mostly offset by

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an increase from Q2 to Q3 in our bonus accruals and digital service tax expense, both of which are accrued proportional to revenue.

Our non-GAAP EPS was $37.70, down 17% versus Q3 2019. Non-GAAP net income of $1.6 billion reflects a non-GAAP tax rate of 21% which is higher than the 19% in Q3 2019 due to a higher proportion of non-tax deductible expenses in relation to lower pre-tax income versus 2019.

On a GAAP basis, we had operating income of $2 billion in Q3. We recorded GAAP net income of $769 million in the quarter, which includes a $1 billion pre-tax unrealized loss on our equity investments primarily related to our investment in Meituan as well as income tax expense of $199 million.

Now on to our cash and liquidity position. Our Q3 ending cash investment balance of $15.4 billion was down versus our Q2 ending balance of $16.1 billion as the $1.5 billion of free cash flow was more than offset by the repayments of a $1 billion convertible note that matured in Q3 and the $1 billion unrealized loss on our equity investments.

The return of capital to shareholders has and will be an important component of our value creation strategy. Throughout the COVID pandemic, we said that we'd restart returning capital to shareholders when we saw that our three largest regions were no longer at meaningful risk of a major reversal due to COVID and has also become more predictable.

Assuming that travel recovery continues, we plan to restart returning capital in early 2022 under our remaining authorization. Assuming continued recovery, we would expect to complete this authorization within three years from restarting.

Now, on to our thoughts for the fourth quarter. October room nights declined 10% versus 2019 which is better than the 14% decline in September. The improvement in October was driven mainly by Asia, although the region remains down considerably versus 2019. The improvement in Asia was led by domestic travel within many countries and was driven by improving vaccination progress and governments easing restrictions on travel.

Room night growth in the US improved little from September to October and remained strong in October. Rest of world also improved little in October and was back close to 2019 levels.

Room night declines in Europe were about the same in October as they were in September, but weakened towards the end of the month. This resulted in overall room night declines being higher in the last week of October than the average for the month. The slowdown at the end of October in Europe was driven by a number of countries that have seen recent increases in COVID infections including Germany, Russia, and Italy.

Given the ongoing uncertainty around COVID, it's difficult to predict how room nights in November and December will compare with the 10% reduction you saw in October. Looking forward to November and December, the rising case counts across many important Western European countries and across much of Eastern Europe as well as the start of the winter season in the northern hemisphere which in 2020 contributed to an increase in COVID cases, creates unpredictability.

Also, pre-pandemic contribution in Asia to total room nights was highest in November and December, and Asia is still our least-recovered region.

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On a more positive note, since the US announced in late September plans to ease travel restrictions in November for international travelers who are vaccinated, we've seen a significant improvement in room nights booked by Europeans to travel to the US as well as the reverse. Also, we are pleased to see more gross bookings on the books for the Christmas-New Year period than we saw at this time in 2019 in the US and Western Europe.

Turning to the income statement, we expect Q4 gross bookings to decline by 2 points less than room nights driven by higher reported ADRs and flight bookings versus 2019. We expect less of an increase in our ADRs in Q4 than Q3 due to less of a benefit from regional mix as the Asia region continues to recover but also due to lower occupancy rates after the peak travel season.

We expect Q4 revenue to decline more than gross bookings due to a couple of factors. The first is that due to the short booking window in Q3, a lower percentage of Q3 bookings than normal will stay in Q4. The second is due to our expectation that the booking window will contract less in Q4 than it did in Q3, resulting in more bookings made in the quarter that are expected to check in in future quarters. As a result, we expect our revenue as a percentage of gross bookings to be more than 1% below Q4 2019. This also means we expect Q4 revenue to have a greater sequential decrease from Q3 than we saw in 2019 and we expect Q4 revenue to decline more than it did in Q3.

We expect Q4 marketing expense as a percentage of gross bookings to increase slightly versus 2019 as we expect to invest in capturing demand and increasing awareness during the continued global recovery of travel demand.

We expect Q4 sales and other expenses to be lower than they were in Q3 due to lower merchant transaction volumes. However, we expect sales and other expenses in the fourth quarter to be higher than in Q4 2019 due to higher merchant volumes and mix.

We expect our more fixed expense categories in Q4 in aggregate to be about in line with Q3 on a dollar basis. We expect Q4 EBITDA to be positive but driven largely by the higher than normal seasonal decrease in revenue, we expect a much greater seasonal sequential decrease in EBITDA from Q3 to Q4 than normal.

In conclusion, we are pleased with our recovery in the top line in Q3 which led to strong financial results for the quarter. The financial strength we saw in Q3 was helped by the concentration of stays in the quarter which lead to some differences in the comparison of Q4 to Q3 relative to what we've seen in prior years. October room night trends improved relative to September driven by some encouraging trends in Asia. However, recently the rising case counts across Europe increases uncertainty about how trends will progress in November and December.

In closing, we're confident in our ability to capture demand as the global recovery continues and to execute against our strategic priorities.

With that, I'll now take your questions, and Eli, I'll turn it over to you to open the line for questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question is from the line of Justin Post of Bank of America. Your line is now open.

Justin Post
Analyst, BofA Securities, Inc.

Q

Great. Thank you for taking my question. Great to see Europe recovering. With room nights down 10% versus 2019, Glenn, maybe you could go through what needs to happen from here to get above 2019. What areas still need to come back strong? I imagine it's Asia, but your thoughts on that.

And then, David, maybe you could talk about core business margins versus 2019. Let's ignore Payments and Connected Trip for now. But how are you thinking of the puts and takes on the core business versus 2019? Thank you.

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

A

Hi, Justin. So I don't think it's a very hard answer, really, what we need. What we need is obviously more of a recovery against this pandemic. Because that's clearly what's driving the problem in many industries, ours particularly.

For us, we've talked about this a few times. We talked about, yes, our business has done well with international, and international generally has been hard hit, albeit we are seeing some better things, but that the long haul is still a problem. Yes, we're seeing some numbers coming up in Asia. Great. I love it. The fact that people are getting more vaccinated in Asia, that's great. The fact that vaccines are being distributed more broadly and getting around, that's great. The fact that the pharmaceutical companies are coming out with new ways to combat against this terrible virus with pills now that can help people who have caught it but end up being hopefully healthier quicker, all good things.

But what we need really is for everyone who can get a vaccine to please go out and get that vaccine if you're medically able to and you're capable of getting it, please get it. That will help hasten the recovery for not only the travel industry but the entire world. And that's what we hope will happen.

Obviously we're doing everything we can so we're prepared when that day comes, which it will. We can't say when, but we know it will come. And we're preparing by doing all the things that David and I have been talking about, preparing with our partners and getting our marketing prepared and doing all the steps that you know we've been doing to make sure that when travel comes back to above 2019, we're getting the share we want to be getting.

And David, do you want to – you can answer the second question and add to mine too.

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

A

Yeah, sure. No, I won't add to yours, but I think it was great. Justin, we've actually been through this before, so I'll be relatively quick on the puts and takes in the core accommodation business.

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Our underlying take rates have been solid and obviously the reported take rates are a function of timing, so that continues to go well for us. As we get back to 2019 levels, there will be some inflationary pressure on the personnel line. Everybody knows there's a war for tech talent out there, and we've had two or three years with the merit increases and other expenses in – another increases in our cost base. Of course, we did take expenses out, but they were variable expenses, so they will come back with some efficiency over time but there will be some pressure on the personnel line.

But there are other things that aren't in the model that we can use to offset that pressure. We can get extra economies of scale as the business grows beyond 2019 levels on both the fixed cost and on the variable cost side as well.

There are opportunities in our direct mix which, of course, is very important. And of course, a key element of this will be what happens to our overall ROIs on the performance marketing side where we saw some increases in the first half of the year. We saw some small compression in the second half of this year, and those markets are very variable and very dynamic and we're pleased with how we're doing in those markets.

The last point I want to leave you with on that topic is that within our core business, there's always a trade-off between gross market share and profitability. So to the extent we see opportunity, we're leaning in. We want to try and drive market share increases where we think we can. That will pressure the business in the short-term as we lean into making that investment and also the investment in marketing and other areas will basically be a leading indicator relative to revenue.

So there will – and we do believe that there are opportunities for us to gain share in accommodations through this recovery and beyond. So that would be an additional factor in the mix of how we think about the long-term business margins in accommodations.

Justin Post
Analyst, BofA Securities, Inc.

Q

Great. Thank you.

Operator: Your next question is from Kevin Kopelman of Cowen and Company. Your line is now open.

Kevin Kopelman
Analyst, Cowen and Company

Q

Great. Thanks so much. Hoping to dig into ad spend trends a little bit. So spend is going up a little. How much of that is Booking getting more aggressive as demand picks up versus a more competitive overall ad environment?

And then compared to 2019, has the distribution between brand and performance changed meaningfully?

And lastly, can you give us an update on the kind of merchandising and promotion – some of the merchandizing and promotion tests that you've done over the past couple of quarters? Thanks.

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

A

So, David, why don't you take the first two about the ad competitiveness and I think some brand question, and I will talk a bit about some of the merchandising.

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

A

Exactly. Thank you, Glenn. Let's do that. So, Kevin, if you remember, on the last call, we said that we expect to see some reduction in ROIs in Q3 versus 2019, and actually, ROIs came out very much where we expected them to. Actually our direct mix was slightly better than we expected in Q3, and that's why there was less of a compression in the difference between gross bookings and marketing than we actually expected in Q3. So that's positive. It was really something that we – I'd say that was more what we did because we expected that to be the outcome.

Of course, these markets are dynamic and as recovery continues, more and more players will come back into the marketplace. But basically what happened in Q3 was very much in line with what we told you a quarter ago would happen.

The mix in between brand and the performance has not materially changed. If you recall, back in 2019, we were over 90% or around 90% of our marketing spend was in performance marketing. We are looking to move up – to move the brand spend up a little bit over time, but of course, brand has been very much shut down in 2020, is now coming back on in 2021. So we're not in a very different position than where we were in 2019, but we do see the opportunity to continue to trend a little bit more towards brand, some of which might go at the mid funnel market opportunity that Glenn talked about.

And then Glenn, I'll handover to you to talk about the third one.

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

A

Yeah. So, Kevin, obviously merchandising is very important. The reason why we built out and are continuing to build out our payments platform at Booking.com is making sure that we're able to compete and provide great value to our customers.

And what's really important is not doing just out of our own pocket but working with our partners, coming up with the right time to the right consumer, the right offer, and helping them our supply partners also provide some of that let's say added value.

So, for example, we may do flash sales. You may hopefully have seen some. I hope you've gotten some. I hope you actually booked some of them. That's an example. One of the things, for example, when somebody is getting an accommodation and we're able to offer them either lower cost or even free sometimes rides from the airport to the hotel. And they're all different variations that we can do with the different verticals and coming up with the best combination, trying to do as much as we can with our suppliers' money but sometimes using our own too to come up with what really is an attractive offer so the consumer knows that when they come to our site, they're getting the best value. Because value really is one of the key strategic objectives for us, always will be providing that.

Kevin Kopelman
Analyst, Cowen and Company

Q

Thanks, Glenn. Thanks, David. Really helpful.

Operator: Your next question is from Deepak Mathivanan from Wolfe Research. Your line is now open.

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Zachary Morrissey
Analyst, Wolfe Research LLC

Q

Thanks. This is Zach on for Deepak. Thanks for taking the question. First on pent-up demand, obviously it's been a nice tailwind for your business over – and just general travel demand over the last few quarters. But just curious how you're thinking about whether there's another leg to run on the level of pent-up demand. Asia is still kind of depressed, as you noted, and cross-border restrictions are kind of easing. So as we look into next year, how are you guys thinking about the level of pent-up demand?

And then second, when we kind of dig a little further into the current trends, is there any kind of reversal in terms of urban versus suburban or shorter versus longer term stays that you can call out? Thanks.

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

A

Zach, so just to make sure I understood your first part of your question, you're just asking a little bit about how we're going to get the demand that's coming in the future? Do I have that correct?

Zachary Morrissey
Analyst, Wolfe Research LLC

Q

Just I guess like understanding whether level of pent-up demand that you guys are kind of expecting as we move into next year, given there's still current travel restrictions especially on the cross-border side, Asia still remains depressed.

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

A

Right. Okay.

Zachary Morrissey
Analyst, Wolfe Research LLC

Q

So as we look into next year, should we see another kind of boost here I guess?

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

A

Got it. I've got it. Okay, why don't I take the first half, and then I'll let David say whatever – what we feel we can disclose regarding any of the trends regarding different parts of the business.

So we absolutely know there is huge pent-up demand because any time any government let's go a restriction, we see immediate, immediate pumped up demand. So, for example, the announcement of the November 8 opening for people to come to the US, immediately we saw demand. In the UK, when they changed restriction, immediate demand. So we know it's there. Absolutely.

Now, how much, we don't have a way to quantify it. But we do know if you look at – particularly in the US, when you look at what people's savings rates are right now, people have been able to save a lot of money during this pandemic and they want to spend it. And one of the things people have not been able to do as much as they wanted to is go travel. So I believe there is a significant amount of demand there just waiting to come out, but of course it has to – we have to have these restrictions for the long-haul international travel open up and we also – we know that it's important that we always provide the best value so that when they do travel, they come to us.

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And, David, I don't know what you can say about suburban and local, far, what you can say.

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

A

Yeah, Zach, Q3 saw a strong recovery across the geographies that we talked about. So I'd say that there's still a bias towards more leisure outdoor oriented activity, particularly, beach-oriented properties doing very well in the summer months in the northern hemisphere. But we do see some recovery into the cities as well. I think that we all know that anecdotally if you want to book a hotel room night in a city, it's becoming increasingly hard. So we are seeing recovery across the board, although still more oriented towards the outdoor beach-oriented leisure locations.

Zachary Morrissey
Analyst, Wolfe Research LLC

Q

Great. Thank you.

Operator: All right. Your next question is from Mark Mahaney of Evercore ISI. Your line is now open.

Mark Mahaney
Analyst, Evercore ISI

Q

Thanks. Three quick ones, please. Any impact at all from IDFA? Secondly, those 100 million mobile app MAUs, do you have enough history to know if those are – if they act materially different? Are they more or less profitable? Are they more or less loyal than – more or less likely to convert than the users that you had coming at you from other platforms?

And then third, please, the rolling out of the air products to more markets you have in 21 markets, you rolled out some good statistics here about how 25% of the customers are new and there was something you said about add-on sales. If you could just repeat what that was. But it all sounds like that's a really good product addition. So I guess the action question is why aren't you – well, how long will it take you to roll it out fully across all markets given how positive it's been so far?

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

A

Thanks, Mark. Why don't I take – let me do the air question first, then I'll talk a little bit about IDFA, and I'll let David what he wants to say about our app and I'm not sure – I'll let him be as free as he wants to be or not about what we see in terms of profitability, et cetera.

So you're absolutely right about the air business. Very exciting for us, of course, and we've been working on it. And it's interesting because I happen to have noticed that in the first quarter call in 2020, just as things started going very bad for the whole world, we were talking about just starting out in the air business at Booking.com in the fourth quarter 2019, and I mentioned about we are striving to get to that 50% coverage of Booking.com customers, and I was looking forward to hopefully doing that for 2020. And of course that didn't quite happen exactly the way we wanted.

But the question – and it wasn't from you, Mark – it was another analyst who asked well, why not 100%? And I said well, the 50% was just we want to get to that year. Of course we want to get to 100%. And that still is the

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same thing. Yes, we're in 27 countries. Of course we want to get to every single country to anybody we currently deal with, we want to be able to provide them with an air ticket.

But it takes time. It's not something you just flip a switch. You have to actually go through regulations to get licensing and all sorts of things. So we're rolling it out as we can, as we should, and we will get to 100% at some point.

Now, I do want to point out, though, we are at that over that 50% number right now, so I am pleased with where we are with that. I also want to say, though, it's still so early. We're not doing big marketing yet. Real big marketing. There are a lot of opportunities to get a much higher number of people coming to this air product, and the reason that we like it is not only the 25% of new customers, of course, it's fantastic, but is that attachment rate, which I haven't given a number but I'm pleased with where we are with that right now, and again, that's something we have not optimized yet.

There is a lot of opportunity there to optimize that and get an even higher attach rate. And that's part of the overall vision of being able to bring new customers in from different verticals, different ways than we've done in the past, which was primarily pay for performance marketing and bring a lot more customers and as we talked a little bit earlier in a previous answer about being able to provide them with a lot more value.

And your first question about IDFA, look, these privacy-related changes, they only impact a small part of our marketing, and it's obviously not unique to our company. We know that. Very common. We can manage through this. And as you know, most of our marketing primarily it's paid marketing channels like PPC and meta and that's not going to be directly impacted by any of these kinds of changes. Our focus is always the first party data. We want to leverage the data in our marketing and any of these changes to privacy like the IDFA thing, this does not really impact us.

And I think you would know. We chose not to show with the app, tracking opt-in back in April of 2021 this year, April – well, the IDFA specifically decided not to do that, and of course you've seen our results since then. So I really don't think this is a big deal for us. Very proud of the team in our whole marketing thing. They will be able to work and come up with I would say privacy-oriented ways to continue to be able to market with good tracking and ROIs.

And, David, I think you had number two which was about the monthly active users for mobile.

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

A

Yes, I've got number two. And, Mark, what I can tell you is we have watched very carefully how our different types of direct users respond. And obviously the more direct we can get, the better, and the more those direct customers return, they're better still.

And there are three types of direct customers. There are direct customers using the app, and direct customers that come to us on the mobile web, and direct customers that come to us on desktop. And perhaps not too surprisingly the direct customers on the app measured by the metric I just talked about are our most loyal cohort of direct customers. So it's a good thing. We want to get more of them and a lot of our marketing that we do these days you'll see is oriented at getting people to download and use the app because it's sticky.

Mark Mahaney
Analyst, Evercore ISI

Q

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Thank you, Glenn. Thank you, David.

Operator: Next we have Eric Sheridan from Goldman Sachs. Your line is now open.

Eric J. Sheridan
Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much for taking the question. I want to come back to the comments you talked about a little bit earlier about the dynamics around hotel room night growth or traditional hotel supply room night growth versus alternative accommodations. Curious what your view is on how the landscape on both the supply and the demand side might evolve as we move into a post-pandemic world and aim towards summer of 2022. And how do you think about making investments on supply to match up the way in which there might be a more normalized travel environment in 2022? Thanks so much.

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

A

Thank you. I'll give my first comments, and I'll let – David can always add if he'd like. So we saw before the pandemic an increase in the alternative accommodations business as it became a larger and larger share of the total accommodations business, and it was going on a pretty steady rate going up. Then the pandemic happens and you get a step change as people desire safety, being away from crowds, and they go there.

And now we've seen for ourselves, we've seen people liking hotels and that. I think the long-term trend, though, will continue and I think if you look five years in the future, I think alternative accommodations will be a higher share. Now that means of course for us is we talked about this in the past how important it is that we go out and make sure we get the best supply we can get.

And that means working hard on that and making sure that the people who own these properties see us as a platform that they want to use, that's first in their mind that this is a great way to fill up their properties. And that's something we are working on absolutely.

The demand side is similar. If you go to Europe and we talked about this in the past. You'd say, where can I get a villa in the south of France? People will say I think Booking.com is a great place. If you went to the US and you said, hey, I need a vacation place to ski that you may not think of Booking.com first. We've got to get that awareness up and I've talked about that in the past and that's something we have to do also.

But one of the truly great things about Booking.com is we offer more or both. Nobody offers – you put together hotels and alternative accommodations. You put that together, we're the ones who have both of those. And I really believe that's a superior way for somebody to decide what they're going to choose in terms of accommodation, and we see this in our data.

We see people come. They look – first start looking at one type and then they end up booking another type and they're able to compare and contrast both of those, see the reviews on both, look at the prices on both. What are they going to get from one, what are they going to get from the other? And that's why we believe we have a superior offering to the consumer.

And I do believe, though, that it is something that absolutely is going to continue. But on the other side you all see the hotels. They're making some moves themselves and they're coming up with ways to offer a better offering providing some of the benefits of an alternative accommodation to a consumer particularly so they are prepared

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as people work in a new way in the future and want to have both the benefits of the hotel but perhaps more room or more services that you can get in terms of making sure you have good Wi-Fi or a place where you can do your work at and that's something I see, also hotels are definitely going to be getting into that space.

David, I don't know if you want to say anything more to that.

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

A

I think it was good. I would just point out that to your point that that strength and that balance in both clearly contributed to us having a strong Q3 because we saw the strong demand in alternative continue, that we saw sequentially a much bigger increase from Q2 to Q3 in hotels that we could offer both.

Eric J. Sheridan
Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much for the color.

Operator: Next we have Stephen Ju of Credit Suisse. Your line is now open.

Stephen Ju
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thank you so much. So, Glenn, I think in the past we've talked about your payments product helping to expand your TAM by onboarding those users who may not necessarily be using credit cards and instead online payment services.

Given the overall I guess depressed state of travel in Asia, maybe much of that value unlock is still in front of us, but are you seeing evidence in other regions of the world that this is helping to bring in the incremental user?

And also just a rising ability for you guys to merchandise as you do more of the Connected Trip, opens up a greater opportunity for you guys to run promos and change prices and hence flex your gross margins up and down to drive growth on top of what has always been more of a performance marketing-driven growth. So is there still a pretty material gap in ROI from doing one versus the other at this point in terms of what you perceive?

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

A

All right. So I'll talk about the first one about our payments. I'll let David talk about ROIs on our merchandising approach and how we're doing that.

So you're absolutely right. If somebody doesn't have an ability to pay for something because they don't have the appropriate payment method, then they're not going to be able to buy from that person and/or that company like us. So we always have to do that.

So if you are in Southeast Asia and let's say somebody is using mostly Grab, who's a partner of ours, and they're using Grab Pay. Well, if we're not able to use Grab Pay for the hotel taking the money in from the consumer, that person is not going to use us. They're going to use somebody else. And we have obviously Grab Pay, our partner working on that.

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Or if you look at other ways, people who say they go and look, it's not their favorite, they could use another way, they still decide not to use us.

There's something else we've seen which is really interesting, is that just having more ways to accept payments seems to increase conversion sometimes. I don't know why. I can't give you the science. I just see data, isn't that interesting. The other side is making sure we're paying the supplier the way they want to get the money. Because sometimes they say you know, I don't want to get it the way you're doing it with a virtual credit card or I don't want to get it in terms of a bank transfer. I want to get it some other way. So we've got to be able to do that and that improves our relation with the suppliers. It particularly improves with the supplier when the method that we can get the money to them is cheaper than the method they are currently using. That's a great thing where we can do that, that's another value-add to that hotel or any other type of supplier.

Lots of ways that we're going to do that and there are all other things we're working. The fintech part of our business that we're just starting out, we talked last time about setting up that unit. There are a lot of opportunities there, and we talked about how in 2019 we did over $100 billion worth of gross bookings, and our idea is to let's find ways that we can monetize that better and let's find ways we can provide value to both consumers and suppliers.

David, I don't know if you want to talk a little bit about ROIs and how we're doing the merchandising.

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

A

Sure. So as Glenn said, payments is increasingly becoming part of the core value proposition that we offer at Booking.com in particular to both customers and partners. So it's no longer just have, something we think of as an add-on. It is really is solving problems for both of them in cost-effective ways and risk-reduction ways that they couldn't do as efficiently themselves.

So that's why it's growing rapidly as a percentage of our mix. Now, you're right, Stephen, that once we're on payments, we can participate in merchandising. Of course the most efficient way to get rates is to source great rates, which Glenn talked about a fair amount in his comments. But if we need to participate over and above the sourcing and driving promotional targeting in particular markets we can with the payments platform.

And we now have enough experience under our belt enough, the instrumentation around that that we can treat that, as you mentioned, as a marketing investment and look at it in a very similar way to the way that we look at our spend in the performance channels, for example, compare ROIs one versus the other and decide what the right mix is.

So correct, with payments becoming a bigger piece of our proposition, where we can where we need to, where we think it makes sense, we can look at merchandising through a strong ROI lens and we can be quite proactive in that area and compare it directly with other forms of spending on marketing.

Stephen Ju
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you.

Operator: Next we have Doug Anmuth of JPMorgan. Your line is now open.

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Doug Anmuth
Analyst, JPMorgan Securities LLC

Q

Thanks for taking the questions. I just wanted to ask about social advertising. I know the dollars there are still small, but just curious what gives you the confidence in that working to the point of potentially adding some real dollars there? It's an area you've tried before, so just curious kind of what's different now.

And then secondly, David, if you can just walk through those 4Q sequential revenue dynamics again and if there's something that's particularly different as opposed to just the normal seasonality. Thanks.

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

A

Hi, Doug. So, yeah, so absolutely small numbers right now. And I think I said that in my prepared remarks. These are small, small numbers right now. But obviously there are a huge number of potential customers who are in those areas where we want to reach out to make sure they're aware of us and they're coming to us. So it's a place that we're not going to ignore.

Now, we obviously have to come up with the right method, the right way to present our offerings, the way we're going to present our brand and be able to get them to come to us, and that means we've got to be able to measure are we getting a good return or not. And I don't want to give too much in terms of details how we're doing, what we're doing, but I'm feeling good about how we're building it up and if we see the right returns, the right ROIs, because we are always very conscious of spending that advertising money the right way. Then we will scale up and spend more money. And that's what I said in the prepared remarks.

I feel good about where we are now. Because the great thing about our business, our company, the way we think is we're not dogmatic. We don't think just because we thought it at first this would be great that then we're actually going to – we're going to do it, experiment, put money to work, see the results, test, and then we'll learn and if it's great we're going to put more money. If not, we're going to come up with another way. That's how we built this company and that's how we'll do it in the future.

And, David, I think there was a question for you there.

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

A

Yeah, Doug, let me explain that – re-explain that whole seasonality thing because this is quite important and let me explain it at the kind of high level. So Q3 was very strong. It was almost artificially strong from a revenue point of view because you've got two things unnaturally helping you.

First of all, remember a lot of bookings in Q1, Q2 that would normally stay in Q1, Q2 stayed in Q3 so we've got that benefit compared to normal Q3. On top of that, in the quarter more bookings in Q3 than normal stayed in Q3. So because booking window was so short, so Q3 got topped up two ways from Q1, Q2, and in Q3.

So now when you think of Q4 and you're now comparing it against a very top up Q3, and some of that top-up in Q3 directly impacts Q4, so Q4 gets impacted by comparing against a strong Q3, but I think some of those Q3 bookings that normally would stay in Q4 stayed in Q3 so you've now got if you like a double factor driving the comparison between Q3 and Q4.

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Also, we believe the booking window will start expanding in Q4 so more of the bookings in Q4 will actually leak out of Q4 than did in Q3 relatively. So you've got these two factors kind of driving a very unusual comparison between Q3 and Q4. So a fair amount more sequential revenue decline. It's all timing and all mechanics, but think of it as a Q4 comparing a Q3 on steroids. And some of the reason why Q3 was on steroids will directly impact Q4. So that's what's going on.

Doug Anmuth

Analyst, JPMorgan Securities LLC

Q

Got it. Very helpful. Thanks for the clarity there.

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

Glenn D. Fogel

Chief Executive Officer & Director, Booking Holdings, Inc.

Thank you. So in closing, I want to repeat what I said at the close of last quarter's earnings call and 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 we urge all who are advised to get a booster to go get one.

And as always, I want to thank our partners, our customers, our 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: This concludes today's conference call. Thank you all for your participation. You may now disconnect.

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