23-Feb-2022

Booking Holdings, Inc. (BKNG)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Booking Holdings' Fourth 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 Booking Holdings' earnings press release together with an accompanying financial and statistical supplement is available in the For Investors section of Booking Holdings' website, www.bookingholdings.com.

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

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

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

Despite the appearance of the Omicron variant in late November and its rapid spread throughout Europe, the US, and other parts of the world, we closed out 2021 by delivering fourth quarter revenue and adjusted EBITDA of $3 billion and $940 million, respectively, which were better than we expected. Room nights decelerated from down 10% in October compared to 2019 to down 35% in December. However, I am pleased to say that since December, we have seen a meaningful improvement in top line trends with room nights in the first half of February reaching 2019 levels and with gross bookings higher than 2019.

At Booking.com, I'm encouraged to see strong gross bookings on our books for the summer period in Western Europe and North America, both of which are now ahead of where we were at this time in 2019, though I note that a high percentage of these bookings are cancelable.

2021 was a year in which our hopes for a return to normalcy were set back several times. First, with the Delta variant, and then Omicron. However, we witnessed proof that people have a deep desire to travel. When leisure travelers believe it is safe to travel and restrictions are lifted, people book travel, and we are currently seeing this starting to happen in many parts of the world.

While this is a potentially favorable backdrop for 2022, we do expect there will still be periods when COVID negatively impacts travel trends as we move through the current year. David will provide additional details on our fourth quarter results and what we are seeing so far in the first quarter in his remarks.

As I look back over the last year, I am proud of the work we have done under still difficult times to strengthen our core accommodation business by driving benefits to our traveler customers and to our supply partners.

For our customers, we remain focused on addressing our customers' critical needs of value, choice, and convenience. One of the many ways we provide value for our customers and partners on Booking.com is through our Genius loyalty program. For our customers, our Genius loyalty program offers lower prices and other benefits like complimentary breakfasts, room upgrades, and discounted airport taxis.

For our partners, our Genius program delivers incremental room nights to properties from our most loyal customers. Over the last year, we have meaningfully expanded our Genius loyalty program at Booking.com by opening the lowest level of Genius benefits to any customer, who creates an account and is logged in on Booking.com.

At the beginning of 2022, we fully launched a third tier of Genius for our top customers that made at least 15 bookings in the last two years. These Genius Level 3 members have access to even lower prices and priority customer service support in addition to all the benefits available to Genius Levels 1 and 2.

These improvements to our Genius program are indicative of our efforts to move beyond just the transaction and increase our focus on value for the customer. With our higher degree of customer focus, we aim to increase loyalty, frequency, spend, and our direct relationships with our customers over time.

Over the last year, we have enhanced Booking.com's mobile app, making it more user-friendly and easier to use. As I've said before, the app is a critical platform as it allows us more opportunities to engage directly with travelers. It is also where an increasing number of bookings are happening, and ultimately we see it as the center of our Connected Trip experience.

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In 2021, Booking.com was the number-one downloaded OTA app globally according to a third-party research firm. For 2022, we are increasing our efforts to enhance the app in order to build on the success we saw over the last year.

In the fourth quarter and for the full year, we saw a consistently higher mix of our customers booking directly with us than in 2019, and our direct mix improved even as we leaned into performance marketing channels during the year. We will continue to lean into performance marketing channels at appropriate ROIs as we look to bring more customer demand to our platform during the recovery.

In addition to performance marketing, we will be utilizing brand marketing, particularly in markets where we're looking to raise consumer awareness of our customer-facing brands. A timely example of that, which I hope all of you saw two weeks ago or so, was Booking.com's first Super Bowl ad in which we reintroduced the Booking.yeah slogan to our US audience. We had a great year in the US in 2021, with strong growth in room night and very strong growth in gross bookings versus 2019, even though Booking.com was relatively quiet from a brand marketing perspective.

We are looking to accelerate the momentum of last year's performance by layering in brand marketing that extends beyond the Super Bowl ad through the rest of the year in order to introduce Booking.com to an even broader audience.

As I mentioned last quarter, we have an ambition to acquire more customers in the medium-intent space. We continue to work on strengthening our foundations for digital marketing, including in social channels. However, our spend so far remains relatively small.

For our supply partners, we strive to be a valuable partner to all accommodation types on our platform, which means focusing on bringing incremental demand to properties from the broad audience of potential customers on our platform.

For alternative accommodations, our global mix of room nights in 2021 of about 29% was in line with 2019 levels. In Europe, where our alternative accommodation offering is more competitive, our mix of room nights increased in 2021 by a few percentage points relative to 2019. We continue to work on improving the competitiveness of our alternative accommodation offering in the US market where we have added targeted supply over the last year and have plans for more additions and improvements to come in 2022.

We closed out the year with 2.4 million hotel and alternative accommodation properties and over 28 million total reported listings on Booking.com, both of which were stable relative to the prior year.

Let me now talk about the progress we have made over the last year in some of our key strategic priorities around Payments and the Connected Trip. These strategic priorities are interrelated, and we believe both will further enhance the strength of our core accommodations business and support its continued growth.

On Payments at Booking.com, we saw a further increase in adoption by our property partners in the US in the fourth quarter, now with over half of US gross bookings booked at properties that have adopted Payments. Globally, about 60% of gross bookings are booked at properties that have adopted Payments. About 30% of Booking.com's total gross bookings in Q4 were processed through our Payment platform which brings the full year 2021 mix to about 27% compared to about 22% for the full year of 2020 and about 15% in 2019.

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We will continue our work on positioning Booking.com as an attractive and trusted payment intermediary by providing payment options favored by both travelers and our supplier partners across hotels, alternative accommodations, cars, flights, and attractions. Furthermore, we see Booking.com's Payment platform as a key component of our larger Connected Trip vision.

On our Connected Trip vision, we made progress in 2021 as we worked to build a robust flight platform on Booking.com. This flight platform gives us the ability to engage with potential customers who choose their flight options early in their discovery process and allows us an opportunity to cross-sell our accommodation and other services to these flight bookers. Flights also enables us to provide a more complete travel offering to our accommodations customers.

Booking.com's flight platform is now live in 34 countries, which collectively represented about 70% of Booking.com's room nights booked in 2019. We continue to see that over 25% of Bookings' flight bookers are entirely new customers to the platform, and of those new customers, an encouraging percentage are an attaching accommodation to their flight booking. These are positive early signals which help demonstrate that our flight offering can drive incremental new customers to us and we can cross-sell our accommodations product to them. We will continue our work to further optimize the cross-sell opportunity and build on the early positive signals we are seeing in flights.

In November, we announced our intention to acquire Etraveli for €1.6 billion and we expect to close the transaction later this year, pending regulatory approvals. Etraveli is one of the largest flight-centric online travel agencies and is a leader in flight booking technology. They've developed a comprehensive technology platform, sourcing complex flight content from a variety of supply providers, which is then distributed to consumer-facing sites. Booking.com and Etraveli have been successfully partnering over the last two years with Etraveli powering Booking's flight product. Given the strategic importance of flights to our Connected Trip offering, we believe it is critical to bring Etraveli's flight expertise and technology in-house, while also unlocking some of the limitations that exist in our current commercial agreement.

When the deal closes, Etraveli will continue to operate as an independent company within Booking Holdings while further supporting the development of Booking.com's flight platform.

Outside of flights, Booking.com has significantly improved the coverage of its Attractions product over the last year, in part due to the successful integration of third-party supply from Viator and Musement. We now have bookable attractions available in cities that represent about half of Booking.com's accommodation transactions, which is up from about 10% coverage a year ago.

While the volume of Attractions bookings is still modest, we believe that developing a compelling [ph] easy-to-you (00:13:12) Attractions product will help keep travelers engaged with our platform through the trip and build loyalty.

We had a very busy end to 2021 and start to 2022, so I would like to address a few other important recent updates.

First, I am very excited to welcome the Getaroom team to Booking Holdings. We closed our $1.2 billion acquisition of Getaroom at the end of December, and we are well underway with integrating Getaroom into Priceline where it will help expand Priceline's current strategic partnerships business.

Getaroom is a B2B-focused distributor of hotel rooms primarily servicing leisure demand through about 150 affiliate partners primarily in the North American market. The B2B business is an important component and

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channel in our expansion efforts to reach new customers and partners, particularly in key markets such as the US. We believe B2B business can generate attractive returns by providing inventory to affiliate partners without the B2B business needing to invest significant dollars in brand marketing or online performance channels to generate customer demand.

I am confident that the combined strategic partnership business of Priceline and Getaroom will improve B2B distribution for hotel partners, while offering a robust accommodations technology stack for affiliate partners to help further enhance our offerings in North America.

Second, some of you may have seen the news two weeks ago that Booking.com plans to enter into an expanded strategic partnership with Majorel, one of our most trusted long-term external customer support partners. As part of this partnership, which is still subject to consultation with works councils and regulatory approvals, Majorel will begin employing most of the customer service representatives that previously worked for Booking.com outside The Netherlands and the UK. We have been successfully working with Majorel for six years in order to help meet the evolving seasonal demands of our business and we believe that this expanded partnership will help increase the flexibility and efficiency of our customer service offering going forward.

Finally, on our last earnings call in early November, I discussed the urgency of tackling the global climate crisis and the importance of our industry coming together to work towards the goal of carbon neutrality by 2050. Shortly after that earnings call, Booking.com launched its Travel Sustainable program. This is a first-of-its-kind program that features a Travel Sustainable badge for any property on our platform that has implemented a combination of sustainable practices.

When searching for accommodations, travelers can see whether or not a property has been given a Travel Sustainable badge and can filter search results based on the badge. We believe our greatest influence on sustainable travel is through enabling our accommodation partners to showcase their sustainable practices to travelers, who are looking for ways to travel more sustainably. We're looking forward to talking more about this program and other efforts and commitments related to sustainability when we publish our 2021 Sustainability Report and our first Climate Action Plan in March.

In conclusion, we executed well and produced strong results in 2021. As we look ahead to 2022, I am encouraged by the quick rebound in bookings we have seen so far this year and the level of summer travel on our books. While we expect to see some volatility in trends as a result of the ongoing effects of COVID, I am confident in the continued recovery in travel demand globally as there is clearly a very strong desire to travel among our leisure bookers.

Of course, we are concerned and are monitoring the situation in Eastern Europe which we recognize could be disruptive to travelers who may be going to that region. Overall, we believe we are well positioned to continue capturing travel demand and will continue our work executing against our strategic priorities.

As I have 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 with more products 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.

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Thank you, Glenn, and good afternoon. I'll review our results for the fourth quarter, provide some color on the trends we've seen so far in the first quarter, and our thoughts on 2022. All growth rates for 2021 and 2022 are relative to comparable period in 2019, unless otherwise indicated. Information regarding reconciliation of non-GAAP results to GAAP results can be found in our earnings release.

Now, onto our results for the fourth quarter. On our November earnings call, we discussed the improvement in trends that we saw throughout the third quarter driven by Europe, followed by a further improvement in October driven by Asia. You will recall that trends weakened in Europe towards the end of October driven by a number of countries that had seen recent increases in the Delta variant infections at that time.

In November, we saw a slowdown from October in our overall trends, but mainly by Europe, and this slowdown continued to worsen in December across all regions due to Omicron variant concerns. This resulted in Q4 reported room nights declining 21% versus Q4 2019, which was 11% worse than the 10% decline in October, but only a few points worse than the 18% decline in Q3. December room nights were 35% below 2019.

Looking across the full quarter, the slowdown in Q4 versus Q3 was driven primarily by Europe which declined about 20% versus Q4 2019, while our other regions improved in Q4 versus Q3. Compared with Q4 2019, the US continued to have strong growth for the fourth quarter while Asia was still down considerably and Rest of World was down modestly. However, as I mentioned, we saw a slowdown across all our regions in December, most meaningfully in Europe and in the US.

Mobile bookings primarily through our apps represented two-thirds of our total room nights in the fourth quarter and for the full year. Our apps continue to represent an increasing majority of our mobile bookings. We'll continue to see greater than 50% of our total room nights coming to us through the direct channel. Our direct channel increased as a percentage of our room nights in the fourth quarter and for the full year relative to 2020 and 2019.

The international mix of our total room nights in Q4 was about 33%, in line with Q3. Q4 international room nights were down almost 50% compared to Q4 2019 levels, a few points worse than decline in Q3. We continue to see growth in our domestic room nights in the fourth quarter also at a level slightly below Q3. The December slowdown was more severe for international than for domestic.

Our cancelation rates were up a few percentage points versus 2019 in Q4 and for the full year, increased meaningfully in December due to concerns about the Omicron variants. The booking window in Q4 of Booking.com was much shorter than it was in the fourth quarter of 2019 and contracted further in December as customers focused mainly on short-term travel needs.

For alternative accommodation at Booking.com, the global mix of room nights was about 27% in Q4 and about 29% for the full year was in line with 2019 levels. The global mix was impacted by the underperformance of Europe relative to North America. Within Europe, our mix of alternative accommodations increased in Q4 by a couple percentage points and for the full year by a few percentage points relative to 2019.

Gross bookings declined 8% in Q4 which is less than the 21% decline in room nights due to an increase in average daily rates for accommodations on a constant currency basis of about 13% versus 2019 and very strong performance in our flights business.

Our accommodations constant currency ADR benefited by about 4 percentage points from an increased mix of business in North America, which is a higher ADR region and a decrease of mix in business in Asia, which is a lower ADR region. Excluding regional mix effects, constant currency ADRs were up about 9% driven by rate

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increases in most of our regions, most notably in Europe and North America, and especially in higher-demand leisure-oriented destinations. Constant currency ADRs were higher than we expected due in part to continued higher rates for flexible bookings plus generally high pricing in North America and in Europe.

Airline tickets booked in fourth quarter were up 116% and for the full year were up 104% versus 2019 driven by very strong growth at Priceline and by flight bookings at Booking.com. We are encouraged to see a full year of triple-digit growth from our flights business which is a key component of our multipronged Connected Trip strategy.

Consolidated revenue for the fourth quarter was almost $3 billion, down sequentially 36% from Q3 2021 and 11% below Q4 2019. Q4 2021 revenue was more than double the $1.2 billion of revenue we recognized in the fourth quarter of 2020. Q4 revenue was stronger than our expectation due to higher ADRs and a shorter booking window. Revenue was less impacted than bookings from Omicron in Q4.

Revenue as a percentage of gross bookings was about 40 basis points below Q4 2019, which was better than our expectations as the deceleration within Q4 more negatively impacted our gross bookings than revenue in the quarter. Excluding timing impacts, our underlying accommodation take rates were about in line with Q4 2019 levels.

Our full year revenue was almost $11 billion which was 27% below 2019, but improved 61% versus 2020. Full year revenue as a percentage of gross bookings was 14.3%, which was lower than 15.6% in 2019 primarily due to the timing differences between gross bookings and revenue recognition.

The strong revenue results in the fourth quarter helped drive adjusted EBITDA of $940 million, which was 27% below Q4 2019. Sequentially, Q4 EBITDA was down 55% which is better than we expected. This was driven primarily by the higher than expected revenue and lower than expected OpEx in our more fixed expense categories.

Marketing expense which is a highly variable expense line decreased 2% versus Q4 2019. Marketing expense as a percentage of gross bookings increased slightly versus 2019, in line with our expectations. Marketing ROIs were a little lower than our expectations due to negative impact of cancellations late in the quarter and this was offset by a higher than expected mix of direct business. Sales and other expenses were 21% higher than Q4 2019, due to a higher volume of merchant gross bookings and higher outsourced call center costs. About 30% of Booking.com's gross bookings were processed through our Payments platform in Q4 and about 27% for the full year, up from 22% in 2020.

We expected our more fixed expense categories in aggregate to be about in line with Q3 due to lower personnel costs offset by higher IT and G&A costs. They came in 10% lower than Q3, due to year-end finalization of our bonus expense accruals as well as lower than expected IT costs. That means our personnel expenses do not reflect our run rates going into 2022.

Non-GAAP net income of $554 million results in non-GAAP EPS of $15.83, which was down 32% versus Q4 2019. Our non-GAAP tax rate of 20% was higher than the 18% in Q4 2019. Our full year non-GAAP tax rate of 20% was 1% higher than in 2019 due to a higher proportion of nondeductible tax expenses and nontax deductible expenses in relation to a lower pre-tax income versus 2019.

On a GAAP basis we had operating income of $848 million in Q4, we recorded GAAP net income of $618 million in the quarter, which included income tax expense of $198 million.

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Now onto our cash and liquidity position. Our Q4 ending cash and investment balance of $14.3 billion was down versus our Q3 ending balance of $15.4 billion, primarily driven by the $1.2 billion Getaroom acquisition, partially offset by positive free cash flow of about $178 million. Few housekeeping notes about Getaroom. The first is that it closed at the end of Q4, and was not meaningful to Q4 results. The second is that we did not include the incremental room nights from Getaroom in our commentary about January and February. These incremental room nights will be included when we release our Q1 actual results.

In early January, we started returning capital to shareholders under our remaining authorization and have to date purchased about $500 million. Assuming that travel recovery continues, we still expect to complete our remaining authorization within the next three years.

Now onto our thoughts for the first quarter and to remind you, we'll make comparisons with 2019 unless otherwise indicated. January room nights declined about 22%, an improvement from the 35% decline in December as concerns around the Omicron variant ease. This improvement was driven primarily by recovery in cross-border travel within the European region and domestic travel in Europe. We saw room nights trends improving throughout January and continuing into February. Our room nights in the first half of February were about in line with 2019 levels and gross bookings were higher.

In the first half of February, we saw meaningful improvement across all of our regions compared to January. The US has strong room night growth versus 2019 in the first half of February, while Europe had about 10% growth. Rest of World was up slightly and Asia was down about 35%.

Our mix of international room nights recovered from about 23% in December to over 40% in the first half of February, which is the highest international mix we've seen since the start of COVID. As a reminder, our pre-COVID international mix was just over 50%.

As I mentioned, improvements we've of seen in the first half of February are broad-based with large countries in Europe and international travel routes within Europe driving the largest impacts. The new cross border bookings we're seeing in Q1 in Europe on average have a longer length of stay and a shorter booking window than comparable bookings in 2019. As we've seen throughout the pandemic, when travel restrictions are lifted and traveler confidence increases bookings improve quite quickly.

Given the rapid changes during the first half of Q1 it's difficult to predict how room nights for the remainder of the quarter will develop. While it's encouraging to see the recent improvements, we are still in a potentially volatile environment, with high COVID infection rates in some part of the world and geopolitical uncertainty that could impact our business, especially in Europe.

So far in Q1, the overall booking window at Booking.com has contracted less versus 2019 than it did in Q4. We've seen recent strength in our summer booking trends and our gross bookings for the summer are higher than they were at this time in 2019. The summer booking trends are stronger in Western Europe where the gross bookings for summer period are up double-digits versus 2019. And gross bookings for the US are also higher for the summer than they were at this time in 2019. Of course, a very high percentage of all bookings for summer are cancelable, so things could change rapidly.

Turning to the income statements, we expect the change in gross bookings in Q1 versus 2019 to be several percentage points better than the change in room nights due to the increase in ADRs and very strong flight bookings. Constant currency ADRs in Q1 so far have increased versus 2019 as similar rates to Q4.

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We expect Q1 revenue as a percentage of gross bookings to be about one-half percentage points lower than in Q1 2019 as the booking deceleration in Q4 negatively impacts Q1 revenue and the booking recovery in Q1 benefits revenue in future quarters. So, this one-half percentage points of difference in revenue as a percentage of gross bookings could be higher if booking trends increase meaningfully from the first half of February especially if a high percentage of these bookings offer stays in future quarters.

We expect marketing expenses in Q1 will trend about in line with gross bookings compared to Q1 2019. We expect sales and other expense in Q1 as a percentage of gross bookings to be about the same as it was in Q4. We expect our more fixed expenses in aggregate will be about 15% higher in Q1 than in Q4 on a dollar basis due to impacts of seasonal increase in benefit costs, the 2021 year end personnel-related accrual finalizations, and the impact of planned hiring as well as increases in our key expenses including some deferral from Q4.

Given what we just explained and reminding you that Q1 is our seasonally lowest quarter, we expect adjusted EBITDA to be positive but down sequentially from Q4 significantly more than the sequential declines we saw pre-COVID primarily due to the impact of Omicron on Q1 revenues.

As we think about the full year ahead, we're encouraged about the strong summer bookings we're seeing so far and we're optimistic about the continued recovery of leisure travel. However, we do expect continued volatility in our top line trends driven by COVID. There are other uncertainties on the horizon including the current geopolitical situation which could impact travel.

If we look at Russia and Ukraine combined as destination markets, they represent a very low-single digit percentage of our total gross bookings. All this makes it very difficult to predict how the top line will progress during the year and how the full year will turn out.

As we think about the recovery of travel in 2022 and the opportunities in front of us, we plan to invest in marketing, other incentives, and improvements and expansion of our products to attract existing and new customers to our platforms and to drive additional loyalty in the future. This also requires investments in people and technology. We're excited about the opportunity to expand our business, and we believe we can strengthen our position in accommodations and build much more complete travel solution for our customers and partners. We believe this is the right thing to do for higher longer-term returns from our business.

With this in mind, there are a few factors to consider when thinking about the shape of the P&L for the full year. These fall into four buckets. Revenue, marketing, sales and other expenses, and our more fixed operating expenses.

Starting with revenue as a percentage of gross bookings, we expect this to be higher in 2022 than it was in 2021, but lower than in 2019. In 2021, our revenue as a percentage of gross bookings was about 130 basis points lower than 2019 mainly due to timing differences between the recovery of gross bookings and revenue. In 2022, we expect this timing to be less of an impact than it was in 2021.

Moving to marketing, there are a number of factors that go into play. We expect the environment to remain competitive, especially as the leisure travel market moves closer towards full recovery. We intend to remain disciplined in our performance marketing ROIs and will continue to invest in developing the medium-intent social media channels, and you'll see us active in branding in the US and other major markets.

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Our goal continues to be to use our marketing strength to gain share in markets where we can with reasonable returns. We expect to run initiatives and programs during the year to attract both existing and new customers to our platforms. It's difficult to know exactly how these factors will play out across the year, but we expect marketing as a percentage of gross bookings to be a little higher than it was in 2019 and also in 2021.

Of course, an increasing direct mix helps our marketing efficiency and we believe the investments we're making will result in a higher direct mix over time.

Turning to sales and other expenses, we expect these to be about 50 basis points higher than in 2021 as a percentage of gross bookings. This is mainly from additional payment processing costs, but also impacted by anticipated higher third-party customer service expenses. The additional expenses related to Payments are offset by higher payment-related revenue.

The last area is our more fixed operating expenses, which include personnel, G&A and IT. We expect our personnel expenses to be impacted by higher-than-average annual wage increases, especially in the product and technology areas, and by planned head count increase in key areas including product and technology and buying-related functions. We expect personnel expenses to be about 10% higher than in 2021.

We expect that G&A and IT will both grow faster than personnel driven by a number of factors, including digital services taxes, returning to a hybrid work environment, and the investments to enhance our customer and partner-facing and internal systems.

The comments we've made for 2022 do not include the anticipated reduction to personnel expense and increases to sales and other expense from the enhanced strategic partnership with Majorel that Glenn spoke about. We do not anticipate much of an impact on adjusted EBITDA in 2022 from this initiative, and we'll update you again in May.

Also, we expect our acquisition of Getaroom to have a small positive impact on our P&L in 2022. As Glenn noted, we expect that the Etraveli acquisition will close later this year, which will result in a minor impact to the P&L in 2022.

So, when thinking about the shape of the P&L in 2022, these factors mean that revenue recovery will lag the gross bookings recovery and EBITDA recovery will lag revenue recovery. Some of the lag in EBITDA versus revenue is timing, i.e., the marketing we spend on Bookings we expect to recover ahead of revenue. On top of this, we plan to make investments in customer acquisition and in expanding our product offerings we mentioned earlier.

Taken together, we expect our EBITDA margins in 2022 to be a few points higher than we were in 2021.

Looking beyond 2022, we continue to remain focused on investing to build a larger and faster-growing business with more products than we had pre-COVID that delivers more EBITDA dollars and more earnings per share with industry-leading EBITDA margins.

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

With that, we'll take your questions. And Kris, I'll turn the call over to you for Q&A.

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QUESTION AND ANSWER SECTION

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

Justin Post
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you. Great to see your bookings back to 2019 levels. I know, there's a lot of thought about what booking looks like post travel recovery, so I'm wondering if we could revisit some of the things you're thinking about, what the business could look like as far as booking levels and margins when we get back to normal. And I know, that you've made a couple acquisitions. I'm sure you're excited about those, and obviously your Connected vision trip (sic) [Connected Trip vision] (00:39:59) seems to be on the right direction. So maybe we could revisit how you're thinking about the absolute value of bookings and also what the absolute level of EBITDA could look like once we get to a full recovery. Thank you.

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

A

Thank you, Justin.

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

A

Hi, Justin.

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

A

Why don't I let David handle the margin, though he did say it in his prepared remarks, but I'll let him say it again.

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

A

Justin, let me give you a little bit more color. And I appreciate the question. So, we are focused upon, as I said, growing a business that is larger than it was in 2019. It's more diverse in terms of its product offerings. It's growing faster than it was in 2019. It has more absolute EBITDA dollars and EPS dollars. That's our focus.

We've given you obviously some color of where things go in 2022. We expect that we can expand our [ph] product volume (00:40:58) beyond 2022. And we expect that once we are kind of to normal in that final state, we'll have industry leading EBITDA margins.

But beyond that, we don't want to get too specific about exactly what they're going to be other than our goal is to give more EBITDA dollars, more EPS dollars that are growing faster than they were pre-COVID.

Justin Post
Analyst, Bank of America Merrill Lynch

Q

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Great. And then the two acquisitions you made, one you've closed and one is still open. How are you thinking about those? Are those areas that are really going to help you save costs, or do you think those are actually booking drivers?

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

A

Well, they're really two different acquisitions, Justin. Why don't I take them separately?

Justin Post
Analyst, Bank of America Merrill Lynch

Q

Okay.

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

A

So the Getaroom one, as I described in my prepared remarks, is very much adding to what we already have at Priceline in a B2B business that helps bring in customers that we wouldn't have gotten through our other marketing programs, whether it be pay for performance or brand. These customers are coming from affiliates, and they were contracts that Getaroom had and different technology they had that by bringing them in is going to get us additional business that we wouldn't have gotten otherwise.

On Etraveli, that was a different situation where, as I pointed out many times, how important it is for us to have this Connected Trip vision fulfilled, and one of the critical parts of it is our flight business. And we absolutely are very pleased to see not only the growth in our number of flight bookings, but also the fact the number of new customers getting coming and the number who are then buying an accommodation.

Now, Etraveli has been powering the Booking.com product for two years. Great technology. They do a lot of things that could we recreate on our own? Probably. But it would take a long time. It would require us to use resources that we want to use elsewhere. So, by acquiring Etraveli, we're going to bring that technology in-house and be able to do things that we couldn't do when we were just a commercial partner. So, I'm looking very forward to having that close and hopefully as we said in the future and then really begin to develop a great, great combination.

Justin Post
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you.

Operator: Your next question is from the line of Lloyd Walmsley of UBS. You may ask your question.

Lloyd Walmsley
Analyst, UBS Securities LLC

Q

Thanks, guys. Two, if I can. First, can you give us just an update around how you're thinking about timing for adding some of the value-added features to Payments that could drive positive contribution to the P&L? And is it safe to say that even if you pass some of that cost, some of that margin along to consumers, it would likely drive faster growth and therefore revenue, even if it wasn't directly revenue margin accretive?

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And then the second question would be can you maybe give us some color around the benefits of Connected Trip beyond incremental revenue from adding new products? So, what do you see with repeat rates or direct rates among users who adopt multiple products? Anything you can share there would be great. Thanks.

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

A

Sure, Lloyd. Two separate questions. Let me talk a little bit about the Payments product and what we're developing and how it's going. I'll let David add a little more to them, I'm sure he'll want to add more specifics.

Clearly, what we've talked about this in the past that one of the critical things is enabling a customer to be able to pay in the way they want to pay and enabling the supplier to get paid in the way they want to get paid. So right away, getting that out in the market enables us to have more business.

Then you go beyond that and you see do it cheaper for our suppliers, do it in a way that's cheaper than they're doing it right now, the way they're doing their payments, the way they're getting it through our old agency model at Booking.com and finding a way that we can do that in way that not only improves their business, because they'll not have to pay as much, but obviously we'll make a little out of that too.

But then it goes much more beyond, and that is the Connected Trip. The Connected Trip doesn't work if you don't have Payments. Because we need to put it all together in one payment that we can then handle on our own. And particularly if there's anything that goes wrong, we will have to undo it too. That's really going to be helpful to us.

And then it's not just Payments but it's our fintech unit which is the Payments people, but doing more things. It's coming in and helping out in flexible type products. People want a flexible product they can cancel. Us creating that on our own is something we'll be doing more so in the future. There are a number of different things we can do that will absolutely increase both the ease of use, the convenience, and enable us to make more money out of it.

Now I'll pause here and let Dave, if he wants to add anything more to that.

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

A

No, I think, Glenn, you did a great summary of the interconnectivity between those two and the new areas. Lloyd, on timing, nothing major in terms of market impact in 2022. We're still in building mode for some of those value-added products that Glenn mentioned and the market entry where you might see any impact probably will be more into 2023, 2024 timeframe.

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

A

Then to the second thing, Lloyd, in terms of the Connected Trip, step one is build out the verticals. We didn't have flights a couple years ago on Booking.com, and as you can tell by the numbers I put out we still don't have 100% coverage for all the areas that we do accommodations. We have to build that out. Also just from the technologies at Etraveli, we have a lot of things we can do to just improve that product.

I talked a little about the attractions product where we had only 10% coverage last year. Now we're – we made a lot of good progress to 50%. We had to put that all out. And then there are other areas, ground transportation, other parts of the trip. So, we're building out all the verticals first, make sure we have the supply, make sure it

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works well, et cetera. At the same time, we are beginning, as I pointed out about the people who get flights and then buy an accommodation, we are doing some of that cross-selling and bringing that out. We'll do more and more.

The goal of course is to make it so that it is so seamless, so frictionless that people when they're using Booking.com for any kind of travel they're doing, they're finding it easier and offering more value and that value comes from suppliers being willing to chime in to our platform and be able to offer different things that we can then very, very scientifically target different customers in a way that gets an incremental customer to that supplier, the customer is happy, the supplier is happy, and we of course make money.

That will develop the loyalty. That will develop the direct business. That's where we're going for, and it's the same way in other parts of e-commerce where people don't shop around, they don't look around. They go to one player because they know that's the place where they're going to get the most value, [ph] the easiest to you, (00:47:49) et cetera, and that's what we're going for. It's going to take some time, but I love the progress that we're making.

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

And, Glenn, I'd just add to that as well that when we kind of look at our customer base and not too surprisingly our top customers, the ones that kind of spend the most with us, use us most often and more likely to use multiple things, more likely to use the app, and they're much more likely to come to us directly. So that's the model we're trying to build upon to build the loyalty that Glenn mentioned and we do have good evidence that that is a trend that we can build on, and the more we build value, complete travel offering, frequency, direct linkage via the app, the more loyal those customers become.

Lloyd Walmsley
Analyst, UBS Securities LLC
Q

All right. Thank you.

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

Kevin Kopelman
Analyst, Cowen and Company
Q

Great. Thanks a lot. I had a follow-up on the latest recovery trends. Based on all the data that you have, do you have a sense of to what extent the strong booking numbers you saw in the first half of February reflect sustainable levels that you could see going forward in the coming months as opposed to kind of a short-term catch-up after the Omicron pressure that you saw in December and the start of the year.

And as a follow-up to that, to what extent are travel restrictions that are still in place in many European countries still hurting booking activity based on the data that you've got? Thanks.

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

Hi, Kevin. So, I think, it's very difficult for anybody to have a perfect crystal ball into exactly what is driving the good numbers that David talked about for the first half of February. However, I think, we can all feel fairly certain that there's a tremendous amount of pent-up demand for travel. For several years, people have not been able to travel the way they've wanted to travel, savings are up, so people have cash, and I hear it anecdotally, I hear it when I talk to CEOs in the industry, what they're seeing and what they're hearing. I think everybody feels that

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people want to travel, and I don't think I would just see this as just a little bit of an Omicron rebound is what we're seeing.

I think, what we're seeing is people being able to travel, restrictions are going down, people are feeling safer. There's some new things coming out that will reduce the friction further in Europe. There's an announcement by the EU Council about wanting to suggest getting rid of some of the restrictions.

Those things all help people feel better about travel. And of course, though, there are parts of the world that are still having problems and eventually those are going to go down too. So, I feel good about the demand. I feel good about the future of travel.

That being said, David mentioned it several times, there are a lot of uncertainties still about how linear this is going to be, and I think, we have to all look back at the past and many times we've thought things were – we're out of the woods and then we weren't out of the woods, and of course David also mentioned and I mentioned there's some macro events happening in different parts of the world that can also impact travel.

So, I think, we all have to be cautious but optimistic. Here's the thing I absolutely do know though. The long run. I know in the long run we're going to do well in travel. People are going to come back. You can't stop that demand and a human being that wants to travel. How fast, we can't be certain, but I am confident in our future.

Kevin Kopelman
Analyst, Cowen and Company
Q

Thanks, Glenn. And could you comment on the travel restriction piece in Europe? To what extent are you still seeing restrictions in Europe still limiting some of the activity, or is that pretty much up already?

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

You know, it's not completely done. There are different countries, I look at the list all the time, some places are letting them up completely, UK, you're probably aware. Other places, there's still some. And the question is do you need to take a test before you show up or not?

If you're vaccinated but you're not vaccinated with an EU-approved vaccination, or you're with a WHO vaccination approval, what's the difference there? All these things. But I think a lot of this stuff is going to be going away and I hope, I hope in other parts of the world also that these restrictions around the world can go down as quickly as possible. Australia, for example, is letting tourists back in. You maybe saw some of those happy, happy photographs.

Look, the fact is that I do not believe and I have seen a lot of data on this, that the restrictions on travel and this comes from the WHO and other authoritative sources, that travel restrictions do not have a significant impact on reducing the amount of infections in countries and therefore, given the social costs, the financial costs, et cetera, a lot of these restrictions should be lifted.

Kevin Kopelman
Analyst, Cowen and Company
Q

That's great. Thanks, Glenn.

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

A

Kris, back to you for more questions, please.

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

Doug Anmuth
Analyst, JPMorgan Securities LLC

Q

Thanks for taking the questions. One for Glenn, and one for David. Glenn, just hoping you could talk about the elevated brand strategy in the US and just how the approach differs here versus in previous years.

And then also any comments just framing the broader marketing landscape as you go into stronger recovery.

And then, David, unless I missed it, was just curious on any financial implications from expanding the customer service partnership with Majorel. Thank you.

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

A

So, Doug, I heard the second part a little about the brand marketing, but I didn't hear the first part. Let me answer the brand and our general marketing approach in the US going forward, and then maybe you can give me – say again the beginning part there.

Clearly, you saw that we didn't do a lot of brand marketing in the worst of the pandemic and obviously it's no reason to spend that money and now with the recovery coming, we're coming back and I'm very pleased with what we saw with our Super Bowl ad. It's very, very early, but I'm pleased with numbers and what I've seen so far.

And so, we are stepping back into a more normal marketing approach as we did in 2019. That being said, we're always going to do what we've always done which is look where to do we think we're going to get the best return for our marketing dollars and we continue to evaluate what's going to give us the greatest return. But one thing that we have been changing over time and that is not looking just for the immediate transaction, it's seeing what are we doing in terms of building out the long-term, the loyalty, the repeat business, the coming back direct and being able to measure where that person came from and what they do after that.

So, we're a little more scientific in it than perhaps we were in the past to the long run, but I'm pleased with that because I think that's what we need to do to really build the franchise, increase the value of the company.

The first part, what was the first part, Doug, you asked about?

Doug Anmuth
Analyst, JPMorgan Securities LLC

Q

I think, you hit the brand strategy pretty well. The second part I wanted to ask about the customer service partnership expansion and just financial implications.

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

A

Yeah, sure.

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

A

Yeah, I'll let David.

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

A

So, let me take that. So, first of all, just to put this into context, we – this is to do with Booking.com. So, at Booking.com, we've been working with external service providers for a long period of time, and you may or may not know that when we get to our peak periods the majority of our customer contracts is actually handled by our external partners. So, for example, typically last summer we had about 75% of this year's contracts were handled by external partners. So, this is not something new, it's just something we have a little bit more accelerated.

Financial impacts, do not expect much in 2022. We're still working through as Glenn said through approvals and the close process, then there will be a transition period. For 2023 and 2024, this is more about potentially having the ability to have less of a cost increase than in the past, but the cost driver is not really the driver for doing this. It's really about ability.

We have incredible variability in our workload from peak periods to low periods and to run an in-house CS team is quite inefficient and also isn't the best employee experience for our workers because they are experiencing peaks and troughs, and their career development is also restricted because it's a very in-house group. So, the bigger factors really are flexibility, giving a bigger pool of opportunity for our employees and then with that comes some potential cost benefits in the form of lower increases as we ramp up the volumes.

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

A

And I would just add one other thing is we still believe absolutely the importance of great customer service. This has nothing to do with changing that. We're still going to be doing the technology that goes into the customer service process, our policies, all of those things, we're doing that.

Also, it's looking into the future. Look, we hope to build a very big company. The idea of then having to build a very big internal customer service operation is just not the best use of our resources, our managerial capabilities. This is something that is better done by people who are experts in that and can really do it better than we can do it, but we can still provide all the great things in the actual customer service to the customer. It's definitely a win-win.

Doug Anmuth
Analyst, JPMorgan Securities LLC

Q

Great. Thank you both.

Operator: Our next question is from Mark Mahaney of Evercore. Your line is open.

Mark Mahaney
Analyst, Evercore Group LLC

Q

Yeah. Thanks. Two questions, please. That 9% constant currency ADR growth, I think that's the highest I've ever heard you talk about and I guess that's – and if I'm right, maybe that's not surprising given what's happened to overall inflation rates being at decades highs. So, when you think about this year, what are you assuming in terms

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of the sustainability of that? Maybe I'm even asking whether inflation is temporary or permanent. So just your thoughts. What do you expect to happen with ADR, like when you're running your business, what are your assumptions?

And then the second thing I want to ask is, David, when you talk about the ability of Booking to grow post the recovery, to grow faster than it did in 2019, if that were to actually happen, what would be the biggest drivers of that? Like what would be the greatest things that would cause on the top line the business to grow faster post COVID than it did pre-COVID? Thanks a lot.

David Ian Goulden

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

A

Sure, Mark. Let me take both those. So yes, the 9% constant currency ADR growth was after you adjusted for basically geo mix, right? So same country. And that is a strong number. We experienced 9% ADR growth last year, again versus 2019. So it's quite possible ADR is going to be at or higher than they were in 2021.

I mentioned what the factors were. I mentioned the fact it was higher than our expectation, the rates would start to tail off a little bit when we got into the high season, where obviously there was more supply relative to demand, but the rates continued to hold up. And as I mentioned, flexible rates are still at a premium. But just underneath that though are basically just higher prices, particularly in the less oriented, high demand areas, remain strong.

So, we think that ADRs are likely to be as high in 2022 as they were in 2021 compared to 2019.

And then in terms of faster growth, I mean, there are a number of factors there. We do believe [indiscernible] (00:59:59). We believe that there's further growth for us in the accommodation business, both on a geographic point of view, expanding our offering into alternative accommodations and adding onto that all the benefits from the Connected Trip. What we can do on top of that because of Payments, because of the fact we offer a more complete offering, thinking about more targeted ways to customize a complete solution for our customers, our pricing, payments, customer service, we think that we are solving today a relatively small part of the total travel equation and the potential for to us to solve more of that is what's going to drive more growth, basically create a better product, a better service, have customers coming to us more frequently, increasing loyalty. They all work together to provide what we think is a great growth opportunity for us.

Mark Mahaney

Analyst, Evercore Group LLC

Q

Okay. Thank you, David.

Operator: Okay. At this time, I would now like to turn the conference back to Glenn Fogel for his concluding remarks. You may proceed.

Glenn D. Fogel

Chief Executive Officer & Director, Booking Holdings, Inc.

Thank you. We're very pleased with 2021. It was a volatile and difficult year, but it showed progress, 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 good night.

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Operator: Thank you. And that concludes today's conference. Thank you, everyone, for participating. You may now all disconnect.

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