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Booking Holdings, Inc. (BKNG)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Booking Holdings Fourth Quarter and Full Year 2022 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, bookingholdings.com.

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

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Glenn D. Fogel

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

Thank you. And welcome to Booking Holdings' fourth quarter conference call. I'm joined this afternoon by our CFO, David Goulden. I am pleased to report a strong finish to 2022 as we delivered fourth quarter revenue and adjusted EBITDA of approximately $4 billion and $1.2 billion, respectively, which were both ahead of our previous expectations.

Room night growth versus 2019 of 10% in the fourth quarter improved from 8% growth in Q3. And for the first time, we saw room nights across all of our major regions above 2019 levels for the quarter, which was another important milestone for our recovery.

Room night growth trends have further strengthened in 2023, with January room nights up 26% compared to 2019, or up about 60% year-over-year. We're very encouraged by the continued strength and resiliency of travel demand last year and into the new year, which speaks to consumers' strong desire to travel.

However, as we stated last year, month-on-month trends can be volatile, and we recognize that there is uncertainty regarding the future path of the world's economy. And David will provide further details on our fourth quarter results and on the recent trends we have been seeing in 2023.

Looking back at the full year of 2022, I am proud of our company's performance during what was a challenging and very competitive environment. Our customers booked an all-time high of nearly 900 million room nights on our platforms in 2022, which was an improvement of 52% versus 2021 and 6% higher than in 2019.

Gross bookings of $121 billion exceeded the $100 billion mark for the first time in our history and increased 58% versus 2021 and 26% versus 2019 or 73% and 36% on a constant currency basis. These are record levels of room night, and gross bookings were achieved despite travel restrictions still in place in many parts of the world at the onset of 2022. And I note that most of Asia did not begin to open until towards the end of the year and Russia's invasion of Ukraine negatively impacted our business.

In terms of our P&L last year, we reached a new revenue record of slightly more than $17 billion, which was 56% higher than 2021 and 13% higher than 2019 or up about 71% and 24% on a constant currency basis, respectively. We achieved this strong top line result while improving our profitability with adjusted EBITDA of $5.3 billion, increasing 82% versus 2021, and margins expanding by 4 percentage points year-over-year. Adjusted EBITDA was 10% below the 2019 levels.

However, on a constant currency basis, it was actually 6% higher after accounting for the FX headwinds we faced in 2022. I believe these results demonstrate that we are making significant progress against our goal to build a larger and faster-growing business that generates more earning dollars than it did prior to the pandemic. While there is more work to be done to achieve this long-term goal, I am encouraged by the progress we have seen so far.

Regarding our long-term outlook for travel, we are pleased with the positioning of our business and are positive about the future. This, coupled with our strong balance sheet, led us to return $6.5 billion to shareholders during 2022 by purchasing our shares. At year-end, our share count was 8% lower versus the prior year and returning capital to shareholders will remain a high priority for the company going forward. David will provide further thoughts on our approach in his remarks.

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In addition to our strong financial results in 2022, we made meaningful progress against the key strategic priorities that I highlighted on our earnings call two years ago. These are expanding payments at Booking.com, building out our Connected Trip capabilities, and strengthening our position in the US market. Let me address the progress we've made in each of these areas.

On payments, in the fourth quarter, we processed 42% of Booking.com's gross bookings on a merchant basis and are pleased with our progress in this area. As mentioned in the past, moving Booking.com's model from agent to merchant drives important benefits for both our supplier partners and our travelers.

For our supplier partners, offering a payment solution adds value in several key ways, including providing access to additional traveler demand by enabling alternative payment methods, reducing cancellations, decreasing operational workloads and enabling fraud protection. For our travelers, Booking.com's platform allows many consumers to pay how they want to pay, and we believe ultimately helps deliver a more seamless and frictionless booking experience.

On the Connected Trip, on our long-term vision is to make booking and experiencing travel easier, more personal and more enjoyable, while delivering better value to our traveler customers and supplier partners.

We've expanded our offering into travel verticals other than accommodations with a focus on flights. And in the future, we will work to link relevant travel components together to provide a more seamless and flexible booking and travel experience. We believe that the result of this initiative and the improved consumer experience, we will drive increases in customer engagement and loyalty to our platform over time.

We've continued to make progress on further developing our flight offering on Booking.com, which is now available in over 50 countries. This flight offering gives us the ability to help our consumers book another important component of their travel in one place on our platform and allows us to engage with potential customers who choose their flight options early in their travel discovery process. We continue to see that over 20% of all of our flight bookers globally are new to Booking.com. We will continue this important work to provide our customers the best possible trip experience we can offer.

In the US, both our Priceline and Booking.com brands continue to execute well and contributed to US room night growth of almost 30% and gross bookings growth of about 60% in 2022 versus 2019. On our volume and consumer spend basis, we have grown our US business to be meaningful larger than it was prior to the pandemic. And we believe that our growth rate has outpaced the recovery in the broader market for US accommodations, which means we believe we gained market share.

At Booking.com, we've taken steps to improve our offering in the US by utilizing marketing to improve awareness of our brand, introducing and ramping up our flights product, scaling adoption of payments, and working closely with our accommodation partners to ensure we are delivering incremental value to them. We are encouraged by our achievements in strengthening our positioning in the US, but there is much more work ahead as we continue to execute against this priority over the long term.

In terms of our core Accommodation business, we continue to drive benefits for our traveler customers and for our supply partners. For our supply partners, we strive to be a valuable partner for all accommodation types on our platform by delivering incremental demand and developing products and features to help support their businesses.

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For example, as I mentioned earlier, payments brings an important benefit to our partners. In the area of alternative accommodations, Booking.com alternative accommodation room nights for the full year grew about 56% versus 2021 and about 11% versus 2019, and represented about 30% of Booking.com's total room nights.

During the year, we made progress with our alternative accommodation offering for the full spectrum of property types by rolling out an enhanced payment solution for professionals, launching partner liability insurance, introducing a damage policy and piloting request-to-book functionality, which is an important feature for some individual partners. We have seen improvements in the time to first booking and better retention rates for new partners.

At the same time, we are incorporating our alternative accommodation offering in some of our recent brand advertising to help raise awareness, customer awareness of this product. We aim to build on this progress by continuing to improve the product offering to our supply partners and travelers, particularly in the United States. We remain focused on building a better experience for our customers and increasing loyalty, frequency, spend and direct relationships over time.

Our mix of customers booking directly on our platforms reached its highest level ever in the fourth quarter. Our goal over time is to further increase our direct mix through several initiatives, including continued efforts to enhance the benefits of our Genius loyalty program, further building out our Connected Trip vision to increase engagement with our customers and driving more of our customers to download and utilize the mobile app.

The mobile 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 vision. About 45% of our room nights were booked through apps for the year, which is about 13 percentage points higher than in 2019.

For 2022, Booking.com's app remained the number one downloaded OTA app globally, and for the first time, moved into the number one position in the US according to one of the leading third-party research firms. We will continue our efforts to enhance the app experience to build on the recent success we have seen here.

We believe providing attractive prices on accommodations is very important as we aim to deliver value to our travelers. Our first priority, as we think about providing attractive prices is to work directly with our supply partners to source competitive rates.

In addition to sourcing competitive rates directly from our partners, we have built up our ability to selectively offer discounts and incentives at Booking.com over the last few years. This ability to merchandise is another lever that we can now pull as we look to deliver value to our customers when we cannot directly access the most competitive pricing. We have been pleased with the levels of incremental return we have seen in 2022 from merchandising and we'll continue to selectively utilize this tool going forward.

In conclusion, I am encouraged by the progress our teams have made in delivering strong results in 2022, while executing against our key strategic priorities. These initiatives will help us deliver a better offering and experience for our customers and partners, which strengthens both sides of our marketplace. We are as confident as ever in the long-term growth of travel and the opportunity ahead for our company.

Now, before I turn the call over to David, I want to share the news that David has let us know that he plans to retire from his role as CFO in early 2024, after which he will be involved with us for up to two more years to help initially with the transition and then with other projects and initiatives as needed. As you can see by this time line, he's not going anywhere for quite some time.

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So now, let me turn the call over to David. David?

David Ian Goulden

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

Thank you for those comments, Glenn. And as you said, I'm not going anywhere for some time over the next year in my CFO role, I'm going to be involved beyond that, I will remain as focused as ever on continuing to help deliver strong results from the business and creating value for our stakeholders.

Now, turning to our results. I'll review our results for the fourth quarter and provide some color on the trends we've seen so far in the first quarter and our thoughts on 2023. All growth rates for 2022 are relative to the comparable period in 2019, unless otherwise indicated. All growth rates for 2023 are on a year-on-year basis unless otherwise indicated, but we will be making some references to the comparable periods in 2019 where we think these are helpful. Information regarding reconciliation of non-GAAP results to GAAP results can be found in our earnings release.

Now, on to the fourth quarter. We are encouraged to see room night growth of 10% in the fourth quarter, up from 8% room night growth in the third quarter, with the improvement driven by Asia and the US. For the fourth quarter, the US was up more than 35%. Rest of world was up more than 10%, and Europe and Asia were both up mid-single digits. Q4 was the first quarter of room night growth in Asia versus 2019. Our growth in total room nights on a year-on-year basis increased from 31% in Q3 to 39% in Q4.

Our mobile apps represented over 45% of our total room nights in the fourth quarter and about 45% for the full year. We continue to see an increasing mix of our total room nights coming to us through the direct channel. The direct channel increased as a percentage of room nights in the fourth quarter and for the full year relative to 2021 and 2019. The international mix of our total room nights in Q4 was about 48%, which was higher than Q3, but still a few percentage points below Q4 2019.

Our cancellation rate was slightly above 2019 levels in Q4 but were slightly below 2019 levels for the full year. In Q4, the booking window of Booking.com remained shorter than in 2019, similar to what we saw in the third quarter of 2020, this – of 2022. This booking window expanded meaningfully versus the fourth quarter of 2021 when we saw a higher mix of near-term bookings during the COVID-19 Omicron variant wave.

For our alternative accommodations at Booking.com, our room night growth rate was about 15% in Q4 versus 2019, and the global mix of alternative accommodation room nights was about 29%, which was a couple of percentage points higher than Q4 2019 and Q4 2021.

Q4 gross bookings increased 32% versus 2019 or 47% on a constant currency basis. The 32% increase in gross bookings was 22 percentage points better than the 10% room night increase due to 29% higher accommodation constant currency ADRs and also due to 5 points from strong flight bookings across the group, partially offset by 15 percentage points of negative impacts from FX movements.

Our accommodation constant currency ADRs benefited by about 1 percentage point from regional mix and about 28 percentage points from rate increase across all our regions. Despite the higher ADRs in the fourth quarter, we have not seen a change in the mix of hotel star ratings being booked or change in length of stay that could indicate that customers are trading down. We continue to watch these dynamics closely.

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Airline tickets booked in the fourth quarter were up about 249% versus a small base in 2019 and up about 61% versus 2021, driven by the continued expansion of Booking.com's [ph] flight product (00:19:19). Revenue for the fourth quarter was up 21% versus 2019 and up about 35% on a constant currency basis. Revenue as a percentage of gross bookings was about 130 basis points below Q4 2019 and was about in line with our expectations. Our underlying accommodation take rates were about in line with Q4 2019 levels.

Marketing expense, which is a highly variable expense line, increased 32% versus Q4 2019. Marketing expense as a percentage of gross bookings was about in line with our expectations and with Q4 2019. Sales and other expenses as a percentage of gross bookings were up about 40 basis points compared with Q4 2021 and was in line with our expectations. About 42% of Booking.com's gross bookings were processed through our payments platform in Q4, up from about 30% in Q4 2021.

Our more fixed expenses in aggregates were up 24% versus Q4 2021, which was higher than of our expectations primarily due to changes in FX in the quarter. Adjusted EBITDA was over $1.2 billion in the fourth quarter, which was 3% below 2019 and would have been about 16% above 2019 on a constant currency basis. Non-GAAP net income of $957 million results in non-GAAP EPS of about $25 a share, which was up 6% versus Q4 2019.

On a GAAP basis, we had net income of over $1.2 billion in the quarter, which includes a $240 million pre-tax gain related to the sale of our office building for Booking.com's future headquarters in a sale-leaseback transaction as well as $179 million unrealized gains in our equity investments, primarily related to Meituan, DiDi, and Grab.

When looking at the full year, we are pleased to report that our 2022 room nights were 6% higher than 2019, and our gross bookings were 26% higher and about 36% higher on a constant currency basis. Our full year revenue was over $17 billion, which was 13% above 2019 and up about 24% on a constant currency basis.

Full year revenue as a percentage of gross bookings was 14.1% in 2022, which was lower than the 15.6% in 2019 due to almost a full point of negative impact from timing, about 40 basis points from the slow recovery in our advertising and other revenues, which have no associated gross bookings and about 30 basis points from an increased mix in flights.

The benefit of take rates in 2022 from increased revenue from payments was offset by our increased investments in merchandising, each of which impacted our reported take rates by about 1 percentage point in 2022 compared to about 0.5 percentage point each in 2019. These changes in payments revenue and merchandising costs versus 2019 are mainly at Booking.com.

Our full year adjusted EBITDA was about $5.3 billion, which was 10% below 2019 and up about 6% on a constant currency basis. Adjusted EBITDA margin was 31%, which was 4 points higher than our EBITDA margin in 2021 and better than our expectations for a few points higher at the start of the year.

Now, on to our cash and liquidity position. Our Q4 ending cash and investment balance of $15.2 billion was up versus our Q3 ending balance of $11.8 billion, driven primarily by the $3.6 billion bond offering we completed in Q4, the $2.1 billion of free cash flow generated in the quarter, and about $600 million in proceeds from the sale-leaseback transaction I mentioned previously. This increases in our cash balance was partially offset by about $2.3 billion in share repurchase in Q4 and by the payment of about $780 million for a November debt maturity.

For the full year 2022, we generated almost $6.2 billion in free cash flow, which was 38% higher than in 2019. We repurchased over $6.5 billion of our shares in the year and reducing our year-end share count by 8% versus 2021

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and by 22% over the last 5 years. We are proud of this accomplishment because it reflects both our commitment to return capital to shareholders and how carefully we manage our stock-based compensation expense and its dilutive impacts. We continue to see many publicly-traded companies [ph] pro forma out the very real expense (00:24:13) associated with stock-based compensation. We strongly disagree with this approach, and therefore, every profit metric we report includes the negative impact of stock-based compensation expense.

We view SBC expense as a very real cost of doing business, a cost that every stakeholder should fully count when evaluating the performance and returns of our business or any business. If anything, we view SBC dollars even more valuable than cash dollars because of our long-term expectation that dollars' worth of stock today will be worth more in the future.

It's the same expectation that serves as a rationale for pursuing our share repurchase program, a program that has meaningfully reduced our share count over time and has not just served to offset dilution from SBC. Simply offsetting dilution does not represent a return on capital to shareholders, but actually represents a cash drain on a business that does not get counted in many companies' pro forma reporting of profits.

In 2022, our stock-based compensation resulted in less than 0.7% of shareholder dilution. And during the last 5 years, it resulted in less than 3% of [ph] cumulative dilution (00:25:22). As I mentioned, during the same period, we reduced total share count by a net 22%, inclusive of the shares that were added as a result of our stock-based compensation activities. Our future practices will continue to be guided by the same two philosophical approaches that guided us for decades, namely, number one, the stock-based compensation counts; and two, that our stock repurchases, first and foremost, are meant – are actively meant to return capital to shareholders in the form of share count reductions.

In January, we started to sell down our investment in Meituan and completed the sale of [ph] our position in February (00:26:00). Total proceeds of $1.7 billion from a sale represents a $1.2 billion or over 250% increase in the value of our regional investments. On an after-tax basis, we expect this to increase our available cash position by about $1.4 billion. Our business partnership with Meituan continues.

As we think about our capital structure and allocation framework going forward, we are focused on growing returns for our shareholders whilst appropriately investing in our business and maintaining our strong investment-grade credit ratings. We will target maintaining a gross leverage ratio of about 2% (sic) [2x], which is about in line with the historic levels. On a net leverage basis, we've historically run the business with negative net leverage. However, we plan on moving gradually to addition of positive net leverage targeting about 1x net leverage over time. We believe managing our capital structure with these targets will allow us to maintain our strong investment-grade credit ratings whilst also generating additional capacity for returning capital to shareholders as our EBITDA increases.

Given these considerations and our current outlook of the business we expect our annual total return of capital to shareholders to be at least equal to our free cash flow over the next few years.

In 2019, we started the year with $4.5 billion remaining under our share repurchase authorization that was approved in the prior year, and in the second quarter 2019, our board of directors approved a new $15 billion authorization. Since the start of 2019, we repurchased the full $4.5 billion under prior authorization and have repurchased $11.1 billion under the $15 billion authorization leaving us with $3.9 billion remaining at the end of last year.

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We're announcing today that our board of directors has approved a new share repurchase authorization of $20 billion that we will begin utilizing after we complete the current authorization. We expect to complete the share repurchases under the cumulative $24 billion authorization within the next four years, assuming that travel continues to recover and grow from here.

Before I turn to 2023, I'd like to remind you we'll primarily compare 2023 with 2022; however, there will be some periods where a comparison to 2019 will be helpful to better understand the trends of the business. For example, comparing January 2023 versus 2019, helps avoid the distortion created from comparing to January 2022, which was negatively impacted by the Omicron variant. As you recall, our January 2022 room nights were 21% below 2019 but has quickly improved and February was in line with February 2019. So now, on to the recent trends and our thoughts for the first quarter of 2023.

In January, we booked over 95 million room nights, our highest monthly amount ever and about 10 million more room nights than our previous monthly record set last May. January 2023 room nights were up 60% on year-on-year basis. This compares to Q4 2022 room night growth of 39% on a year-on-year basis.

When comparing January 2023 with January 2019 room nights were up 26%, a very nice improvement from the 10% growth in the fourth quarter of 2022. This improvement in growth rates versus 2019 from Q4 January was driven primarily by Europe, Rest-of-world and Asia. January room night growth versus 2019 was about 35% in the US, over 25% in Europe and Rest-of-world and over 20% in Asia. In January we saw lower cancelation rates versus 2019.

Additionally, we've seen the booking window fully normalized back to 2019 levels in January and in some regions, it has expanded as we see a healthy mix of near-term bookings, as well as bookings to stays late in the year. We also continue to see no change in the mix of hotel star rating levels being booked or changes in length of stay that could indicate that customers are trading down despite ADRs continuing to be higher than in 2019.

The average length of stay for transactions booked in January continue to be a bit longer than it was in 2019. January likely saw some benefit from bookings that were made in the month instead of December last year or potentially later in this year. This may indicate the room night growth could moderate from these levels going forward as some of these booking pattern differences normalize.

On a year-on-year basis, January gross bookings were up 74% or up 83% on a constant currency basis. The 74% increase in gross bookings is 14 percentage points higher than 60% room night growth due to 13% higher constant currency ADRs and also due to a few points from flights booking, partially offset by 9 percentage points of negative impact from FX movements.

Gross bookings in January were up 55% versus 2019 or up 72% on a constant currency basis. While there continues to be uncertainty around the month-to-month trends, our comments for the first quarter made the assumption that room night growth for the full quarter will be over 30% year-on-year. Compared to 2019, this will be just over 20% assuming some moderation in growth from what we've seen over the last few weeks.

We expect Q4 (sic) [Q1] gross bookings to grow about 4 percentage points faster than room nights on a year-on-year basis due to about 6% higher constant currency ADRs and a couple of points from continued flight bookings partially offset by about 6 points of hurt from FX. We expect Q1 revenue as a percentage of gross bookings to be about 10.3% a 40-basis-point improvement from Q1 2019 (sic) [Q1 2022] due to a less negative impact from timing, partially offset by an increase investments in merchandising and a higher mix of flights. We expect Q1

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marketing expense, as a percentage of gross bookings, to be slightly lower in Q1 than in Q1 2022 due to increase in direct mix.

Marketing and merchandising combined as a percentage of gross bookings in Q1 will be a little higher than in Q1 2022 but for the full year, we expect them to be about in line with last year. We expect Q1 sales and other expenses as a percentage of gross bookings to be about 30 basis points higher than in Q1 2022 due to higher gross merchant bookings mix and higher third-party forecasts including the impact of our partnership with Majorel. We expect our more fixed expenses in Q1 to grow just over 20% versus Q1 2022 due to higher personnel and related expenses, indirect taxes and IT expenses.

Taking all this into account, we expect Q1 adjusted EBITDA to be over $600 million, which would represent a more than 93% increase versus Q1 2022.

As we think about the full year ahead, we're encouraged by the strong trends we're seeing in Q1 so far; however, we do expect continued volatility in our top-line trends, which makes it very difficult to predict how the top-line will progress during the year and how the full year will turn out.

Assuming a moderation in growth from current levels and taking into account the more difficult comparisons as we move through the year, our full year commentary assumes low-teens gross booking growth versus 2022. Of course, it's early in the year, but this is our best estimate at this point in time.

For the full year, we expect our 2023 revenue as a percentage of gross bookings to be about 50 basis points higher than in 2022, which will result in year-over-year revenue growth that's higher than our year-over-year gross bookings growth. We expect the negative impact from timing to mostly go away in 2023, and we also expect that our payments mix will continue to add to take rates. Partially offsetting these are continued increase in the mix of flights in our business and increases in merchandising spend versus 2022.

We expect marketing and merchandising combined as the percentage of gross bookings will be about the same as in 2022. We expect our more fixed expenses in 2023 to grow about 20% which is similar to the growth last year. We expect these more fixed expenses to grow more slowly in future years. As a result, we expect to deliver a record level of EBITDA in 2023 while continuing to expand our EBITDA margins by a couple of percentage points versus 2022.

In closing, we are pleased with our Q4 results and the early trends we're seeing in 2023. We remain confident that our strategic priorities will enable us to provide better services for our travelers and partners. We continue to remain focused on building a larger and faster-growing business than we had pre-COVID that delivers more and faster-growing EBITDA dollars, and more and faster-growing earnings per share with industry-leading EBITDA margins.

We'll now move to Q&A. So, Chris, can you please open the lines?

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QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question comes from Brian Nowak, Morgan Stanley. Brian, please go ahead.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks for taking my questions. Congratulations, David. I've two questions, one sort of blocking and tackling and one big picture. Just the first blocking and tackling one, as you're thinking about the low-teens gross bookings for this year, can you just sort of walk us through how you're thinking about your best guess or your base case on ADRs around that model?

Then the second one, kind of more big picture. There's a lot of discussion and sort of speculation about search and potentially travel search becoming more sophisticated because of new AI tools. How do you think about Booking.com's position in that world and sort of the ability to continue to grow the percentage of business that's direct if the search funnel becomes a little more comprehensive? Thanks.

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

A

Okay. Brian, thank you. And let me take the first one. Let me take the first one, then hand over to Glenn for the second one.

So yeah, there are a few puts and takes obviously as we think about the entire year. To answer your question, we expect that room night growth will be slightly lower than the low-teens gross booking growth. We'll get a little bit of help from FX. We'll get a little bit of help from flights, but we think that across the year, as the ADR compare gets harder and we get more recovery in Asia that impacts geo mix, we'll see a little bit of pressure on constant currency ADRs for the full year.

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

A

And, Brian, why don't I take the second one. Obviously, a lot of hype about AI right now, about generative AI. And I guess hype is a good word. We talk about where are we on the Gartner Hype Cycle right now. I'm not sure. I don't think we're into that froth of disillusionment yet. I think we're still probably in the peak of inflated expectations. But there's no doubt this technology seems to be accelerating all the time.

And I think you may be limiting the question almost, because it's not just how is AI going to impact search down the road. It's just AI in general. And we've been talking about this for some time [ph] on all of this (00:38:25). I happened to be listening to our call from three years ago, and I talked about what we're doing in AI. I talked about our Tel Aviv center. I talked about the things we were doing, and how important it was to develop our machine learning capabilities and all the things that we do it at Booking Holdings using AI to improve the product, improve what we're sending to our customers, working with our partners better, using AI.

And so there's a tremendous amount of interest of course in all these areas and some of the stuff we see is very interesting, but I think it's going to take some time before there's going to be major changes, in your specific

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question, about search. No doubt, it's going to make it better. In terms of your question, how are we going to be positioned for these changes, I think the best thing anybody can do is look back at the past.

There's been lots of technology changes since we first started our business over 20 years ago, and as those changes happened, we adapted and developed. We did great when, for example, people went from just desktop to mobile. And we were very good coming out with these new AI machine learning tools to be able to predict what would be best for a customer.

I would say that our capabilities are as good as anybody else's and we will adapt and do very well with these new technologies. So I am confident in the future and I am not scared. I'm actually encouraged by daily use, all of these new tools to provide a better service for both sides of the marketplace.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you, both.

Operator: Thank you. Your next question comes from Mark Mahaney, Evercore. Mark, please go ahead.

Mark Mahaney
Analyst, Evercore ISI

Q

Okay. Let me ask two questions, please. The China outbound question, Glenn, just that will take a while, but that has been a massive market historically. I think it's the largest outbound travel market, and I know it was a small single-digit percentage, mid-single-digit percentage, whatever, back in 2019. Your thoughts on how to position the company to maybe better tap into that now than you were able to a couple of years ago?

And then is there another US out there? And what I mean by that is you've talked about the leaning in to gaining market share gains in the US. Is there another region where you think you kind of under-punch your weight, if I said that right, and can also apply the US playbook to also gain better share in that market? Thank you.

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

A

Thanks, Mark. In regards to China, obviously, there's a lot of excitement about China too, dropping the restrictions in terms of being able to travel due to COVID, getting everybody very excited about what does that mean and not just for travel of course, just reducing those restrictions is increasing GDP in China and what's that going to do in terms of demand for all sorts of things, and what it's going to do to inflation, and how is it going to impact the rest-of-world economies.

In terms of your specific question, you're correct. We were a small player in terms of the overall Chinese travel business before the pandemic. And in terms of the future, yes, there is an opportunity there and there are a lot of outbound travelers who definitely are hoping that they can go outbound travel soon. I don't think it's going to happen nearly as quickly as I think some people have been predicting. When you look at some of the numbers out of January in terms of the amount of outbound airlift available was a teens number, I think maybe was 15% of what it was in 2019 in terms of the actual lift that you could get out of China. So I think it's going to take some time for that.

Now, in terms of how we can take advantage of the increase that is going to happen in the future, we're going to use pretty much the same playbook we use pretty much everywhere, albeit China's a little different because

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there's not Google there. But in terms of marketing and making people aware of all of the great products that we offer and be able to be competitive in pricing, all things any consumer cares about whether you're in China, Europe, US, wherever in the world. We'll keep doing those things.

I know China is a very competitive market and it's going to take some time. And as we said, when we talked about our priorities, you'll note that we'd say US. I don't say China. But I would like to be able to say, look, we have been able to be successful in gaining market share in the US over the last few years. And I think everybody can see those numbers. So yes, we will try and do better than we did in the past in China, but I don't think anybody should start going to the bank with any expectations of significant improvements any time in the near-term.

And what was your second question? Or was that your second question?

Mark Mahaney
Analyst, Evercore ISI

Q

No, no, is there another US? So is there – not Europe, but is there another regional market where you think your market share probably isn't where you want it to be and you can use US learnings to expand share in that market?

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

A

Well, we want to increase our market share everywhere of course. The reason we kept calling out the US is, the US very similar to Europe in many ways, and we had noticed how under-indexed we were there. That's not quite the same case when we look around the world, albeit right now excepting China, which we've noted. We do fairly well in a lot of parts of the world but there's nothing that we pull out separately and say, hey, here is another area where we're going to really press hard to try and do better in. We're going to do what we've been doing throughout the world for a long time is gaining share everywhere, and trying to.

Mark Mahaney
Analyst, Evercore ISI

Q

Okay. Thanks, Glenn. And congratulations, David.

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

A

Mark, thank you. And just to add a comment. Relative to what we're seeing in January, we saw obviously a nice improvement in the Asia region compared to Q4. That is not being driven by China. That's being driven by the other markets in the Asia region. China is a small contributor to that improvement so far.

Mark Mahaney
Analyst, Evercore ISI

Q

Thank you.

Operator: Thank you. Your next question comes from Lloyd Walmsley, UBS. Lloyd, please go ahead.

Lloyd Walmsley
Analyst, UBS Securities LLC

Q

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Thanks, guys. If I heard you right, you talked to, I think, 50 bps of revenue take rate improvement this year. How much of that is kind of the timing headwind unwinding? What are kind of some other puts and takes we should think about impacting revenue take rates this year? And as we think about 2024 and growth continues to normalize, is there another 50 bps in take rate just from that kind of timing unwind? You talked about the 1% headwind to 2022.

And then the second one I guess. You've been picking up share in the US for a while now. Can you talk about just how repeat business is coming in, and specifically, repeat direct is coming in as that kind of cohort of users starts to age in the US and maybe how that compares to historical levels? Anything you could share there would be great. Thanks.

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

A

Yeah, Lloyd, let me take first part of that. So I think that I kind of went through a little bit of this in the commentary but there's a lot of numbers in the commentary with all the comparisons of versus last year versus 2019, et cetera. So relative to the 50 bps of improvement this year, essentially, the timing drag on take rates last year has basically gone – almost entirely gone away. So there was about a point of timing last year, that goes away. And also, we get a little bit of an increase from payments as payment mix increases.

The offsetting amount to those that get you to the plus 50 bps is that we have continuing this year the same level of merchandising we exited last year at, broadly speaking, so you get a year-on-year impact of merchandising that's a negative and flight mix as well, so that's how you get to the plus-50 bps improvement from last year.

So to your question on 2024 though, the timing impact has really gone away at this point in time, compared to 2019, unless of course growth rates change much more than we expect during the year. So essentially, there are puts and takes along the lines of the same things I talked about, payments, merchandising, flights, et cetera. But we don't expect major changes in the take rate levels from where we are right now. You shouldn't be modeling big changes in to take rates because we have some things helping and we have some things kind of hurting, and they're generally going to offset each other broadly speaking at this point in time.

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

A

And we don't go regional in terms of your question there. We are not going to be talking about in the US in terms of your specificity you're asking for.

Lloyd Walmsley
Analyst, UBS Securities LLC

Q

Okay. Any directional chance of just how you're feeling about the aging cohorts in the market share gains you've had just broadly?

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

A

No, I'm not going to get specific in terms of that. I just would say how pleased I am. We've been talking about it for some time on these calls, about what we're doing in the US and gaining share and the reasons that we're doing it and how we're doing it, and I'm just reiterating how pleased we are to be able to do that. And we're going to keep on grinding away to continue to try and gain share.

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Lloyd Walmsley
Analyst, UBS Securities LLC

Q

Okay. Thank you.

Operator: Thank you. Your next question comes from Justin Post, Bank of America Merrill Lynch. Justin, please go ahead.

Justin Post
Analyst, Bank of America/Merrill Lynch

Q

Thank you. Maybe one for David and one for Glenn. David, it looks like you're getting your EBITDA back towards the 33% maybe 33.5% range this year in guidance. How do you think about where you are now versus pre-pandemic? And what are the levers going forward?

And then, Glenn, I think you said AA nights were about 29% of total and that's kind of flattish with last year. How are you thinking about your alternative accommodation business and to the extent you can talk about it, obviously competitive concerns, what are your big initiatives for that business this year? Thank you.

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

A

All right. Just let me take the EBITDA margin question first. So if we add a couple points to where we are in 2022 to get to 2023, the drivers between that and the difference between that and the 39 points we were at in 2019 are basically a few things. One, we're leaning in more relative to marketing and merchandising than we did in 2019. That's very conscious to continue to gain share in the recovering market. We've got the mix of lower-margin businesses. We've said that flights and payments will start to have an impact as they grow and they are making a part of difference. We've got some targeted OpEx investments when you look at our total OpEx expense vis-a-vis 2019. We've got DST and we've got FX. I mean, they're in kind of rough order of impact. That's how you kind of get to the 6 points of difference.

So when you think about where we would go going forward from that, we do expect to be able to increase our EBITDA margins from this level. We're not trying to get back to pre-COVID margin levels, to be super clear, but we do think there's still some growth potential from where we are right now. And the drivers of that, if you think of the things I just mentioned, are the reasons we're down below versus 2019 now. The drivers of that, we think we can use to our advantage over time, is that as our direct mix increases, we should be able to kind of lean in less in total to our marketing spend. We may lean in to the same level in absolute terms on paid marketing, but paid marketing becomes a smaller part of the business.

We do believe that over time we can get more leverage on our fixed-cost but then we do expect to see continued pressure from the higher mix of lower-margin businesses that will continue to grow. But we believe that over the kind of medium term we can still increase margins from where we are today in 2023, but again, not back to the 2019 levels.

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

A

And regarding the alternative accommodation space, we are very pleased with what we're doing and growing. I mentioned in the prepared remarks some of the things that we did last year, and I won't repeat them all, but those are the things that we're doing to make sure that partners, that suppliers who want to put their properties on to our

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platform, and that's the first thing. Then having done that, and doing that right now, it's the idea how do we get the awareness. So you notice that, for example, our Super Bowl ad where we did include the non-hotel accommodation in that and make sure as we continue to grow that branding throughout the year, to make sure people are aware.

It's really – it's not anything that is magic. It is making a product that people want to use and making a product that people who own properties want to put on our platform, and then putting in the marketing to push it through. It has increased – it has [indiscernible] (00:51:25) increased substantially over the years as our hotel profit continues to build very rapidly too. We could have a big increase in the share of the alternative accommodations that we start growing so darn fast in the hotel area, but we're doing both. So that's the point.

And our thing is we know, and this is really important, we know customers come to our site, come to our app, they start at one type of property, and then they switch, and they look at another one, another entirely different one, and then they go back, and they come back. We really believe having both types of properties, hotels and non-hotels, in the same place that enables a customer to be able to compare and contrast or look what they cost or look at the reviews, makes for a better process for consumers over time.

Now, look, we just got a lot of this stuff out last year. And for example, I mentioned our request to book. We're still trialing that. We're just piloting that. It's going to take some more time. But I am very encouraged by where we are and where we're going, so I have no concerns about us continuing in the same direction.

Justin Post
Analyst, Bank of America/Merrill Lynch

Q

Great. Thank you, Glenn. Thank you, David.

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

A

Thank you, Justin.

Operator: Thank you. Your next question comes from Eric Sheridan, Goldman Sachs. Eric, please go ahead.

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

Q

Thanks so much for taking the questions. And, Glenn, your comments around the competitive intensity that you faced in 2022, I'd love to look backwards as the first part of the question and sort of reflecting back on 2022, how you saw the competitive intense in the industry broadly evolve against a backdrop where a sort of pent-up demand was sort of a bit of a tailwind to the industry from a growth perspective?

And as you look forward into 2023 and beyond, as demand somewhat normalizes away from the pent-up dynamic, how should we be thinking about some of those key initiatives you're most focused on to sort of meet where you see pockets of competitive intensity against a more normalized demand environment? Thanks so much.

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

A

Sure. Well, the competitiveness was quite clear when you compared 2022 versus 2021. We had a very nice recovery in 2021 and it even benefited from the fact that a lot of our competitors just didn't seem to be out of the

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gate so fast in terms of their marketing, in terms of what they were doing, whether it be brand, performance marketing in terms of trying to get the same demand that we were out getting there. So in 2022, all of a sudden, we're putting full throttle on to get those customers.

So that what's we saw. We saw it in performance marketing. We saw a significant increase in the amount of money being put into brand marketing and lots of different ways that everybody wanted to make sure that they were out trying to get those customers. That was the difference between 2021 and 2022. That's why I speak about what a competitive market it really was last year.

But, look, this industry's always been competitive. The wonderful thing about the way technology is developed is that it enables customers, and with very little friction, to then look at all the different ways they can do their travel, so we have to always be providing them with a great service, a great price so they will actually use us. It's one thing that I think some people don't recognize as much perhaps is that this is like every day we go out there and we fight for those customers. Yes, we have loyal customers. The loyal customer we provide them with a great service at great price. We got to keep on doing it to maintain their loyalty, and we're going to keep on doing that.

Now, in terms of the future and in terms of areas that I don't think it's going to get any less competitive, but I do think that we do have some advantages because of our great technology, because of the skill sets that we have to continue to try and advance the service better, so people do use it and then they do say, hey, I'm going to go to Booking because it's just better. And that's what we're going to have to keep on doing. But there's no magic bullet here. We got to do it every day.

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

Q

Great. Thank you, Glenn.

Operator: Thank you. Your next question comes from John Colantuoni, Jefferies. John please go ahead.

John Colantuoni
Analyst, Jefferies LLC

Q

Great. Thanks for taking my questions. So marketing efficiency moved back to 2019 levels in the second half of 2022 after being much higher in the first half. And I realize some of that's just the timing of the recovery and sort of the transition to a more competitive environment that you just talked about in the prior question. But how are you thinking about balancing continued investments in customer acquisition with driving EBITDA dollars in 2023, along with the mix between sort of merchandising and marketing? So any detail there would be helpful.

And then if you could give us some more detail about how bookings so far in the core summer period have trended, that would be great? Thanks.

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

A

All right. John, let me answer both those questions. So as I think you know, we took a conscious decision, especially in 2022 to kind of lean in to our marketing channels, the combination of merchandising and marketing. And collectively, they were a fair amount higher than they were in 2019 from a spend point of view. And that was a conscious choice and we believe that is reflected in the share gains we've made, not just in the US but also globally. Obviously, we are recovered at a level much more than the travel industry, as we talked about. When

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you look at occupancy rates and how they've recovered and you look at our room nights and obviously we're significantly in front of that. So we believe that has been a sensible investment.

As I mentioned in my prepared comments, we will keep the combined investments in marketing and merchandising in 2023 at about the same level as it was in 2022. Now, during the year we'll kind of look at what we think the right balance of merchandising versus marketing is, from the concept that I made, you would realize that we're probably on average across the year compared to 2022 spending a bit more on merchandising, a bit less on marketing, but that could change during the year.

We're kind of really thinking of the two together based upon the efficiencies we see in [indiscernible] (00:57:39) and we'll stay at that more elevated level because we believe the market is still recovering and there's still potential for share gains for us in our marketplace. So we kind of really think of the two together, and if you kind of look at it versus 2019, it's a fairly sizable step-up but we think that's been a smart investment and a good investment that makes sense at least this year as we still see recovery in the travel industry

And if you'd remind me again please the second part of your question?

John Colantuoni
Analyst, Jefferies LLC

Q

Second part was if you could give any detail around summer bookings so far?

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

A

Oh, yeah. Thank you. So summer bookings, yes. So we have seen as I mentioned the travel window, the booking window recover completely on a global basis, but actually, the booking window has now expanded a little bit in Europe and North America, but still slower than it was – or shorter than it was, I should say, in Asia. So that means that in Europe and North America, we're seeing strong demand for short-term bookings but also for summer bookings, so we're seeing summer bookings season shaping up quite well.

We're not going to repeat the kind of on-the-books type metrics we talked about last year. We think they perhaps caused a bit of confusion and were more appropriate for a recovering environment. But you can see based upon the fact that we have strong growth in room nights, we have now in those markets slightly lengthened booking windows, a strong growth in gross bookings, then obviously that would certainly stay subject to, obviously, the fact that things are cancelable and a high degree of our bookings are flexible. But it certainly looks like it's shaping up to be a strong summer season for us.

John Colantuoni
Analyst, Jefferies LLC

Q

Great. Thanks, David.

Operator: Thank you. Your next question comes from Kevin Kopelman, Cowen. Kevin, please go ahead.

Kevin Kopelman
Analyst, Cowen and Company

Q

Thanks. Wanted to ask about the flights initiative. Could you update us there, what the outlook is for flights this year? And then also could you comment on the Etraveli acquisition? Thanks.

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

A

Sure, Kevin. So in the prepared remarks, we talked a little bit about the number of countries we have there. Obviously, we're very pleased where we are in terms of the growth of the number of tickets that we're selling now. It's a very good product. We like it because as I mentioned some people go to flights first, so we want to make sure they know who we are and then start buying from us.

And in terms of the acquisition, you know how the world works with regulations. I have nothing to comment on that. We continue to work with the people and the process and continue to work on that. But I will say I'm just so pleased. We look where we were, again, because I listened to that call three years ago, the earnings call, and we had just, three years ago, talked. We had just gotten in 2019 the flights bid up off the ground, sorry about the pun, in Booking.com. And where it just started and where we are now, I just love what the people have been able to build. And I love the fact that people like it and are coming to us, and we have high hopes for the future in this area.

Kevin Kopelman
Analyst, Cowen and Company

Q

Oh, thanks, Glenn. And then one other quick one. As we think about year-over-year comps as the year goes on, is this fair to think of Q2 as a pretty tough comp and then the second half as more normal?

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

A

I'll let David talk about that, if he wants to or not.

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

A

Yeah, if you look at year-on-year, then obviously the comps get harder when we get past Q1. Right? Q1 is going to be the easiest comp on a year-on-year basis. And the toughest quarter on a year-on-year basis will be Q2, because remember we had that kind of early peak in travel bookings in the May timeframe last year as we kind of went through our non-linear recovery. We always said it would be a nonlinear. So Q1 will be the easiest comp, Q2 will be the toughest comp, and Q3 and Q4 a little in between.

Kevin Kopelman
Analyst, Cowen and Company

Q

Great. Thanks, David.

Operator: Thank you. Ladies and gentlemen, that was your final question. I will now turn it back to Glenn Fogel for closing remarks.

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

Thank you. 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.

And I want to close by thanking everyone at Booking Holdings and everyone around the world who are contributing to help the people who have been so terribly hurt by the tragic events in Turkey and Syria. We have

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employees in Turkey and many more who have family and friends there, along with supply partners in the devastated area. Our hearts go out to all who are suffering there.

Thank you and goodnight.

Operator: Thank you. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.

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