CEO and CFO Prepared Remarks for 1st Quarter 2023

Information About Forward-Looking Statements

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CEO Prepared Remarks - Glenn Fogel, Chief Executive Officer and President

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

I am pleased to report that in the first quarter, we reached all-time quarterly highs for both room nights of 274 million and gross bookings of $39.4 billion, and achieved year-over-year growth rates of 38% and 44%, respectively. On a constant currency basis, first quarter gross bookings growth was even stronger at 52% year-over-year. Both room nights and gross bookings came in ahead of our previous expectations as a result of the continued strength in leisure travel demand and from a lengthening booking window, particularly in Europe and the U.S. The room night and gross bookings outperformance versus our expectations was driven by bookings that will stay in future periods, which is when the revenue will be recognized. As a result of this timing difference, revenue was approximately in-line with our expectations, while adjusted EBITDA was a bit below, given the additional marketing expenses associated with the future stays.

When we look at room night growth versus 2019, we have seen a slight increase in April compared with what we saw in the first quarter, though on a year-over-year basis, growth has decelerated as April last year saw an accelerating travel recovery, making the comparison more difficult. Overall, we remain encouraged by the continued strength and resiliency of travel demand so far this year, which speaks to consumers' strong desire to travel. We currently see very strong growth of bookings received for travel during our peak summer period in Q3, though we note these bookings represent a modest percentage of what will likely be booked for total summer travel and most of these bookings are cancellable.

While travel booking trends have remained robust, we recognize that there is uncertainty regarding the path of the global economy. However, we believe we are well positioned to navigate any potential near-term economic uncertainty given our highly variable expense structure, solid operating results, substantial liquidity, and strong free cash flow. This allows us to remain focused on what is important for the long term, which means making the necessary investments to strengthen and grow our business while remaining cost conscious and implementing initiatives across the business to drive cost efficiency. We continue to make progress on our key strategic priorities including our long-term Connected Trip vision.

Connected Trip

The Connected Trip is our long-term vision to make booking and experiencing travel easier, more personal, and more enjoyable, while delivering better value to our traveler customers and supplier partners. Our payments platform at Booking.com ties into our Connected Trip vision as payments helps deliver a more seamless and frictionless booking experience for our travelers. Though still small today, we are seeing an increase in the mix of transactions that are connected to another booked travel component in a trip. We believe continuing to build on this progress will improve the booking experience for more of our customers, which we believe will help drive increasing customer engagement with our platform.

We continue to focus on further developing our flight offering on Booking.com, which provides consumers with another place to book an air ticket. Booking.com's flight offering was an important part of our total Q1 73% year-over-year increase in air tickets, which was an acceleration from the year-over-year growth in Q4 of 61%. We will continue this important work to provide travelers with the best possible flight booking experience.

Though AI has received significant attention recently, we began our investments in AI years ago. We believed then, and we continue to believe now, that we can build a more compelling and differentiated offering if we can leverage AI technology to deliver a more personalized booking experience: A Connected Trip that would be more responsive to a booker's needs and help manage different aspects of their trips.

We believe we are well positioned in this area given that we have been using AI extensively for years in order to optimize interactions with our customers, who are both travelers and partners. This goes from personalizing interactions and recommendations, to machine translation in over 40 languages and dialects, to analyzing the content of pictures provided by customers and partners, to optimizing value for our customers and many more. Over the years, we have built a strong team of AI experts across the company, and we keep current with the latest AI research through Booking.com's collaborations with universities. This enables us to quickly react, adapt and learn how our traveler customers and supplier partners can benefit from new developments in the field.

We are always looking for new ways to make customer interactions smoother and richer, realizing our ambition to make it easier for everyone to experience the world and to deliver our Connected Trip vision. Much of the recent attention has been on Large Language Models or LLMs, which provide a multitude of interesting possibilities for improving all areas of travel searching, booking and experiencing. Two interesting possibilities are interactive itinerary building and answering travelers' questions, though there are current challenges given current LLMs sometimes produce inaccurate outputs. Nevertheless, we are excited to be exploring how we can make use of these technologies for the benefit of our customers. Some of our brands like KAYAK and OpenTable are experimenting with generative AI plug-ins, while others are building ways to integrate the technology into their own offerings. It is, as we all know, very early days, but I am confident in our company's ability to benefit from these developments and improve our products for our customers given our experience in AI, our travel-related data, and our human and financial capital.

Our strategic priorities including the Connected Trip vision aim to improve the experience for our customers and drive more value and benefits to them, but it's important to note that when we think about customers, we have two equally important customer groups to consider: our supply partners and our travelers.

Supply Partners / Alternative Accommodations

For our supply partners, we strive to be a valuable partner for all accommodation types on our platform, from more traditional hotels, to the vacation rental on the beach, to everything in between. We believe we can add value to these partners across the spectrum of accommodation types by delivering incremental demand and developing products and features to help support their businesses.

In the area of alternative accommodations, we are seeing encouraging progress at Booking.com with alternative accommodation room nights in the first quarter increasing about 45% year-over-year and representing about 33% of Booking's.com's total room nights, which is two percentage points higher than in Q1 2022. In the U.S., our mix of alternative accommodation room nights, while still low relative to our global mix, has increased meaningfully in the first quarter, reaching its highest level ever, and it was also our absolute highest room nights in U.S. alternative accommodations ever. We are seeing continued momentum in terms of supply growth both globally and in the U.S. for alternative accommodations, with global listings reaching about 6.7 million by the end of the first quarter, about 2% higher than year-end 2022.

We have seen great traction with the adoption of our enhanced payment solution for alternative accommodation partners in the U.S. We believe rolling out this solution along with other product enhancements last year, including partner liability insurance and an enhanced damage policy, is helping to bring more professional supply online to our platform. In addition, we are seeing our alternative accommodation properties across our major regions achieving improvements in productivity and our new partners are receiving their first booking on our platform earlier. We aim to build on this progress by continuing to improve the product offering to our supply partners and travelers, particularly in the U.S.

Travelers

For our travelers, we remain focused on building a better experience that leads to increasing loyalty, frequency, spend, and direct relationships over time.

Our mix of customers booking directly on our platforms in the first quarter continued to increase, and reached the highest first quarter level ever. We see a very high level of direct bookings in the mobile app, which is an important platform as it allows us more opportunities to engage directly with travelers. Just over 45% of our room nights were booked through our apps in the first quarter, which is a few percentage points higher than in Q1 2022. We will continue our efforts to enhance the app experience to build on the recent success we have seen here.

Another way that we build a better experience and deliver value to our travelers is through our Genius loyalty program at Booking.com. Simplicity is a core principle of Genius, where our travelers get the benefits from the program right away. Over time, we have enhanced these benefits, including the creation of a top tier level of Genius, and we will continue to find ways to deliver incremental value to our travelers through this program.

Sustainability

Finally, we published our 2022 Sustainability Report last month, which provides an update on the progress we have made against the goals laid out in our Climate Action Plan. We are proud of the emissions reductions achieved and ambitious targets set for our own business, but as I have said before, we believe our greatest influence on sustainable travel is through making it easier for travelers to find and book sustainable options. We are addressing this opportunity through our work with our Travel Sustainable Badge and Program, which now includes over 400,000 properties that can highlight their sustainable practices to customers on Booking.com, and the program has been expanded to Priceline, Agoda and KAYAK.

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In conclusion, I am encouraged by the continued strength of travel demand we are seeing so far this year as well as our teams' execution against our key strategic priorities. We remain focused on delivering a better offering and

experience for our customers, both our supply partners and our travelers alike. We are as confident as ever in the long-term growth of travel and in the opportunities ahead for our company.

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

CFO Prepared Remarks - David Goulden, Chief Financial Officer

Thank you Glenn and good afternoon.

I'll review our results for the first quarter as well as our thoughts for Q2 and for the year. All growth rates for 2023 are on a year-over-year basis unless otherwise indicated. 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.

We will be posting our prepared remarks to the Booking Holdings investor relations website after the conclusion of the earnings call.

Before getting into the details for Q1 I want to remind you that our business is quite seasonal. Q1 is typically a strong booking quarter and we incur marketing expenses in Q1 for many bookings that will stay in future quarters, which is when the revenue is recognized. Q1 has also historically been our seasonally smallest revenue quarter and adjusted EBITDA quarter. This means that Q1 adjusted EBITDA can be quite sensitive to the level of bookings we get in the quarter. With the increasing mix of payments at Booking.com, Q1 is also becoming a strong cash flow quarter due to the high level of bookings.

Now onto our first quarter numbers.

Q1 Topline Results

We were encouraged to see strong year-over-year room night growth of 38% in the first quarter, which was better than our expectations. For the first quarter, Asia was up 100%, and Europe and Rest of World were both up more than 30%. We continued to see growth in the U.S., which was up high single digits versus the prior year.

Our growth in total room nights versus 2019 increased from 10% in Q4 to 26% in Q1. In the first quarter, the U.S. was up more than 30%, and all other regions were up about 25%, versus 2019.

The booking window at Booking.com expanded versus 2019 for the first time since the onset of the pandemic, driven by Europe and the U.S. The booking window in the first quarter was longer than we expected due to strong levels of bookings for travel in the summer period. I note that many of these bookings are cancellable.

Our mobile apps represented over 45% of our total room nights in the first quarter, similar to the fourth quarter of 2022.

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 our room nights in the first quarter relative to the first quarter of 2022.

The international mix of our total room nights in Q1 was about 53%, which was the highest quarterly mix since 2019, but still a couple percentage points below Q1 2019.

Our cancellation rates in the first quarter were below Q1 2022 and Q1 2019.

For our alternative accommodations at Booking.com, our Q1 room night growth rate was about 45% year-over-year and the global mix of alternative accommodation room nights was about 33%, which was higher than about 31% in Q1 2022.

We were pleased with the progress we made in North America alternative accommodations, where growth in the first quarter was much stronger than the global average.

Q1 gross bookings increased 44% year-over-year, or 52% on a constant currency basis. The 44% increase in gross bookings was 6 percentage points higher than the 38% room night increase due to 9% higher accommodation constant currency ADRs and also due to a couple points from strong flight bookings growth, partially offset by the 8 percentage points of negative impact from FX movements.

Our accommodation constant currency ADRs were negatively impacted by about 5 percentage points from regional mix due to Asia room nights growing the fastest of all our regions and the U.S. growing the slowest. Excluding regional mix, constant currency ADRs were up about 14 percentage points year-over-year due to rate increases in all of our regions. Despite the higher ADRs in the first quarter, we have not seen a change in the mix of hotel star-rating levels being booked or changes in length of stay that could indicate that consumers are trading down. We continue to watch these dynamics closely.

Airline tickets booked in the first quarter were up about 73% year-over-year driven by the continued expansion of Booking.com's Flight offering.

Revenue for the first quarter was up 40% year-over-year, or about 47% on a constant currency basis. Although we had a stronger than expected Q1 from a room night and gross bookings perspective, the outperformance versus our expectations was driven by bookings that will stay in future quarters. As a result, we did not see revenue benefit in Q1 from these incremental bookings. The lower than expected take rate in Q1 was entirely driven by this timing effect.

Our underlying accommodation take rates continue to be in line with 2019 levels.

Q1 P&L Results

Marketing expense, which is a highly variable expense line, increased 32% year-over-year. Marketing expense as a percentage of gross bookings was about 35 basis points lower than Q1 2022 due to higher ROIs in our paid channels and a higher mix of direct business.

Marketing and merchandising combined as a percentage of gross bookings in Q1 was about 20 basis points lower than last year, which was better than our expectation of being slightly higher. Relative to our expectations, this was due to better ROIs in our paid channels as well as phasing of merchandising spend, which is tied to revenues.

Sales and other expenses as a percentage of gross bookings were up about 15 basis points compared with last year, which was better than our expectations. About 45% of Booking.com's gross bookings were processed through our payments platform in Q1, up from about 34% in Q1 2022.

Our more fixed expenses in aggregate were up 25% year-over-year which was higher than our expectations due to a few factors that impacted personnel and indirect taxes. The 25% year-over-year growth excludes $39 million in accruals related to potential settlements of indirect tax matters recorded in G&A. We continue to manage our more fixed expenses very carefully.

Adjusted EBITDA was $586 million in the first quarter, which was up 89% year-over-year, and would have been up 111% on a constant currency basis. Adjusted EBITDA was lower than our expectations, impacted by marketing expenses incurred for the higher than expected gross bookings for stays in future quarters. February and March gross bookings came in stronger than we expected at the time of our prior guidance. These extra bookings also negatively impacted our take rate more than we expected for the quarter.

If we look at marketing and merchandising as a percentage of gross bookings in Q1 to eliminate the timing difference, this was lower than our expectations and lower than both Q1 2022 and Q1 2019.

Non-GAAP Net Income of $440 million results in Non-GAAP EPS of $11.60 per share, which was up 197% year-over-year. Our average share count in the first quarter was 8% below Q1 2022 and 16% below Q1 2019.

On a GAAP basis, we had Net Income of $266 million in the quarter.

As a reminder, every profit metric we highlight in these quarterly earnings reports includes the negative impact of stock based compensation expense, because we view SBC expense as a very real cost of doing business. We continue to manage SBC very carefully and it continues to be a very low percentage of our operating cash flow.

Cash & Liquidity and Capital Structure/Allocation

Now on to our cash and liquidity position. Our Q1 ending cash and investments balance of $15.3 billion was up slightly versus our Q4 ending balance of $15.2 billion. Our operating cash flow in the quarter was $2.9 billion, up 70% year-over-year, and our free cash flow was $2.8 billion, up 77% year-over-year. The operating and free cash flow generated in the quarter benefited from $2.3 billion from changes in working capital due to an increase in our deferred merchant bookings balance as well as the $586 million in adjusted EBITDA. The $2.8 billion of free cash flow was mostly offset by about $2.0 billion in share repurchases in Q1 and the payment of about $500 million for debt that matured in March.

Q2 2023 Commentary

Now onto our thoughts for the second quarter of 2023.

In April, we continued to see strong travel demand with room night growth versus 2019 that was slightly higher than the 26% growth we saw in the first quarter and with all our major regions growing at similar rates. The booking window in April at Booking.com continued to be longer than it was in 2019. On a year-over-year basis, April room night growth was in the mid teens, which is lower than Q1 due to a more difficult prior year comparison. You will recall that last year, Q1 room nights were 9% below 2019 and April was up 10%. April 2022 was our first month of growth versus 2019 since the onset of the pandemic.

Our comments for the second quarter make the assumption that room night growth will be up mid-single digits year-over-year. As you will recall, Q1 of last year was impacted by Omicron and in Q2 we saw a strong recovery which resulted in Q2 2022 being our highest growth quarter versus 2019, especially May and June, which were our highest growth months last year. Compared with 2019, we would expect Q2 room night growth in 2023 to be just over 20%, assuming some moderation in growth from the first quarter and April when room nights were helped by more bookings than we expected for the summer.

We expect Q2 gross bookings to grow about four points faster than room nights on a year-over-year basis due to a few points from continued flight bookings growth and slightly higher constant currency ADRs.

We expect Q2 revenue as a percentage of gross bookings to be approximately 120 basis points above last year due to a less negative impact from timing and increased revenue from payments, partially offset by an increased investment in merchandising and a higher mix of flights. We may see less of an increase in our take rate if booking trends exceed our expectations, especially if a high percentage of these bookings are for stays in future quarters. This could also result in higher than expected marketing expenses in the quarter.

We expect Q2 marketing expenses as a percentage of gross bookings to be lower than last year due to an increase in direct mix. We expect marketing and merchandising combined as a percentage of gross bookings in Q2 will be about in line with last year.

We expect Q2 sales and other expenses as a percentage of gross bookings to be about 40 basis points higher than last year due to higher merchant gross bookings mix and higher third-party call center costs, including the impact of our partnership with Majorel.

We expect our more fixed expenses in Q2 to grow about 25% year-over-year due to higher personnel and related expenses, indirect taxes, and IT expenses.

Taking all this into account, we'd expect Q2 adjusted EBITDA to be around 35% higher than last year.

In terms of our outlook for the full year, we are not updating our previous full year commentary at this time. Our strong bookings in the first 4 months of the year create the potential for some upside, but we want to see how the next few months develop before considering any updated commentary. We continue to expect that our adjusted EBITDA margins will expand by a couple of percentage points versus 2022.

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In closing, we are pleased with our Q1 results and the very strong growth in bookings for the summer.

About Booking Holdings Inc.

Booking Holdings (NASDAQ: BKNG) is the world's leading provider of online travel and related services, provided to consumers and local partners in more than 220 countries and territories through six primary consumer-facing brands: Booking.com, Priceline, Agoda, Rentalcars.com, KAYAK and OpenTable. The mission of Booking Holdings is to make it easier for everyone to experience the world. For more information, visit BookingHoldings.com and follow us on Twitter @BookingHoldings.

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