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Booking Holdings, Inc. (BKNG)

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CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Mark Mahaney
Analyst, Evercore ISI

Alexander Robert Lyon Brignall
Analyst, Rothschild & Co Global Markets Solutions Ltd.

Justin Post
Analyst, BofA Securities, Inc.

Kevin Kopelman
Analyst, TD Cowen

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Lloyd Walmsley
Analyst, Mizuho Securities USA LLC

Stephen Ju
Analyst, UBS Securities LLC

Kenneth James Gawrelski
Analyst, Wells Fargo & Co.

Jed Kelly
Analyst, Oppenheimer & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Booking Holdings' Second Quarter 2026 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 guaranteed 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 in the 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.

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Disclosure. Booking Holdings encourages investors to monitor this website, in addition to other public announcements and SEC filings, as information posted on this page could be deemed to be material information.

We ask that you please limit yourself to one question, so that we may give as many analysts as possible an opportunity to participate. And now I'd like to introduce Booking Holdings' speakers for this afternoon Glenn Fogel and Ewout Steenbergen. Go ahead, gentlemen.

Glenn D. Fogel

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

Good afternoon and thank you for joining us today. I am pleased to report that our teams delivered another quarter of strong execution. We exceeded the high end of our guidance across all of our key financial metrics, while continuing to invest in the strategic priorities that we believe will drive long term value. These results reflect the strength of our diversified global platform, disciplined execution across our businesses, and our ability to deliver strong returns to our shareholders while also investing for future growth.

As you know, the world remains an uncertain place. With the Middle East conflict and related macroeconomic developments continuing to affect travel demand, both directly and indirectly, through the impact on major Middle East transit corridors and higher travel costs. These dynamics create near-term volatility, yet we know from decades of experience that the underlying desire to explore, connect, and experience the world is remarkably resilient, and travel demand recovers once the underlying disruption subsides. This resiliency was clearly evident during the second quarter, while long-haul international travel remained pressured by elevated airline prices and reduced capacity due to the conflict in the Middle East, domestic and inter-regional travel remained relatively healthy across many parts of the world.

As I've stated many times, we remain focused on creating long term value and look beyond near-term uncertainty. During the quarter, we further increased our capacity to invest for future growth as the expected annual run rate savings enabled by our transformation program continued to increase. These savings provide us with additional flexibility to accelerate innovation, enhance our products, and strengthen our business over the long run. Our focus is on what we can control, delivering strong value, reliability and great service through differentiated solutions for travelers and partners. This focus is reflected in the strategic investments we are making across our business, starting with our Connected Trip vision.

Travel remains a fragmented experience, often requiring multiple providers, transactions and customer service interactions. Our Connected Trip vision is about fundamentally improving that experience, making travel easier while creating greater value for travelers and partners. And we're encouraged by the progress we are making.

During the quarter, Connected Trip transactions, where travelers booked more than one travel vertical with us for the same trip, grew in the low double-digit range and represented a low double-digit percentage of Booking.com's total transactions.

Importantly, these transactions continue to grow meaningfully faster than our overall transaction growth. As travelers increasingly choose to book accommodations, flights, rental cars, attractions, and other travel services with us, we are creating a more seamless end-to-end journey, which strengthens our offerings for both travelers and partners, and our Genius loyalty program is a key enabler of this strategy. We continue to see strong engagement from our higher tier Genius members who plan their trips further in advance, return more consistently, and have a higher direct booking rate than non-Genius travelers.

During the second quarter, Level 2 and Level 3 Genius members represented more than 30% of our active customer base and accounted for a high 50% share of room nights, both up from the prior year. Given the importance of loyalty and the success of Genius so far, we see additional opportunities to further strengthen the Genius offering going forward. Another important strategic priority is strengthening our presence in the U.S. and Asia. The U.S. remains one of our largest long term growth opportunities. Over the past several years, we've made disciplined investments across product, supply, brand, marketing and technology, and we're encouraged by the progress we are seeing. These investments continue to deliver encouraging results during the second quarter. U.S. room nights grew in the high single digits, supported by healthy domestic demand.

We also saw continued growth in our direct channel and increasing engagement across multiple travel verticals. While we still see significant room for growth, some of which will come from further product improvement, we remain encouraged by our consistent progress and remain confident in our ability to continue strengthening our offering in this important market. We are also continuing to invest in building our presence in Asia, which we believe represents one of the most attractive long term opportunities in global travel. Despite a dynamic competitive environment and indirect impact from the conflict in the Middle East, underlying domestic demand remained healthy during the quarter. By combining Booking.com's global reach with Agoda's deep local expertise, we are continuing to invest in localized products, payments and distribution capabilities that position us well for long term growth across the region.

The final strategic priority I'd like to discuss is AI. AI's rapid and continuous development is having a profound impact on all areas of society. Our approach remains focused on deploying this technology in measurable ways and scaling when we see clear benefits. The combination of trusted brands, proprietary travel data, broad supplier relationships, and global reach creates a differentiated foundation as AI reshapes how travelers discover, plan and book travel. As travelers increasingly begin their journeys through AI powered experiences, trusted brands will play an even more important role in where they ultimately choose to book. That's why we continue to work closely with leading AI organizations to ensure travelers can engage with our brands wherever their journey begins.

We're also encouraged by the early progress we're seeing in AI-powered discovery. While AI driven referrals remains a relatively small contributor to our overall business today, we are seeing encouraging momentum that reinforces our belief that the strengths we've built over many years, helping travelers find the right travel options with confidence, positions us well as travelers further gravitate toward AI-powered discovery. At the same time, we're embedding AI across our own platforms to make every stage of the travel journey more personalized, seamless and intuitive.

During the quarter, we continued to advance AI capabilities across our portfolio, including beginning to roll out testing of Booking.com's new AI-powered discovery experience, which helps travelers in the early inspiration phase of planning a trip. For destination searches, the experience combines flight prices, real travel reviews, and AI generated insights, including the best time to visit, travel tips, and itinerary suggestions to make it easier to move from inspiration to booking. We're also deploying the next generation of Priceline's agentic AI travel assistant called Penny, and we're launching Agoda's new gallery view, which gives travelers a more visual way to browse search results by pairing hotel images with relevant guest reviews.

We're already seeing how AI can transform the customer experience. For example, initial testing of Penny's integrated hotel checkout experience has shown that beginning more of the booking journey into a single, seamless experience has the potential to improve traveler engagement while delivering stronger business outcomes. These innovations are just a few examples of how we're using AI to reduce friction throughout the travel journey, while advancing our broader Connected Trip vision. AI is also strengthening our partner value proposition. We are investing in tools that help partners better engage with guests, improve their property content, and operate more efficiently.

For example, our AI-powered messaging capabilities enable accommodation partners to respond to guest inquiries more quickly and consistently, reducing operational friction and improving the traveler experience. These partner innovations were a central focus of our recent Booking.com Click conference, where hospitality partners from around the world explored how AI, personalization, and data-driven insights can improve both guest experiences and business performance. This conference also reinforced our collaborative approach to innovation, including co-developing new AI capabilities using direct partner feedback.

Finally, we're increasingly applying AI across our own business to accelerate software development, enhance customer service, and streamline internal workflows. One area where we continue to see meaningful benefits is in customer service. Our AI initiatives are reducing customer friction, lowering contact rates, and improving operational efficiency. We have now scaled voice AI support across the majority of eligible inbound traveler calls, while continuing to expand digital automation. At the same time, AI powered analytics and real-time agent assistance are helping our teams resolve issues faster and more effectively. As a result of these combined AI and human capabilities, customer service cost per booking continues to decrease at a double-digit rate, while overall customer satisfaction remains high. We're also seeing promising early results in our technology organization, where AI is accelerating software development and improving developer productivity. These signals give us confidence that AI will continue to be an increasingly important driver of innovation, operational efficiency, and better experiences for both travelers and partners.

Looking ahead, we recognize that the external environment may remain dynamic. We believe consumer preferences will continue to evolve, technology will continue to advance, and competition will remain as it's always been competitive. These changes create challenges, but they also create opportunities. What gives us confidence is not the expectation that the world will become more predictable, rather it is our confidence in our ability to execute our strategy to address our customers' long term needs, whether it's advancing the Connected Trip, strengthening our offering in the United States and Asia, deepening our partnerships, or harnessing AI across our business, we are making the investments that we believe will create better experiences for travelers, greater value for our partners, and a stronger company for the long term.

With that, let me turn the call over to Ewout to walk through our financial results and outlook in more detail.

Ewout Lucien Steenbergen

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

Thank you, Glenn, and good afternoon, everyone. I will now review our results for the second quarter and provide our current thoughts for the third quarter and full year. All growth rates are on a year-over-year basis, and the reconciliation of non-GAAP-to-GAAP financials can be found in our earnings release.

Room nights, gross bookings, revenue, and adjusted EBITDA all exceeded the high end of our guidance for the second quarter. These results reflect the resilience of our global business in an uncertain travel environment and the disciplined execution of our teams. Glenn covered many of the underlying travel trends, so I'll focus on what they meant for our financial results and our outlook. Overall, consumer demand remained resilient in the quarter, although we observed some modest shifts in travel behavior.

Constant currency ADRs increased approximately 2% year-over-year, demonstrating continued pricing strength, primarily driven by Europe and U.S. Globally, we saw a modest contraction in booking window and length of stay during the quarter, although both began to normalize in June. Importantly, in Europe, our largest region, both metrics were approximately flat for the quarter.

Now let's turn to our second quarter results. Room nights grew 5%, exceeding the high end of our guidance by about one percentage point. Globally, domestic room nights, representing travel within the same country, grew high single digits. In contrast, international room nights increased slightly, reflecting continued pressure on long-haul travel due primarily to the indirect impacts of the situation in the Middle East. Looking at room night growth by booker region, Europe grew mid-single digits, with domestic room nights up high single digits. Asia grew mid-single digits, with domestic room nights up low double digits. The U.S. grew high single digits, driven by domestic demand. We're also pleased to see another quarter of direct channel growth in the U.S. Rest of world grew mid-single digits, improving from a low single-digit decline in the first quarter due to stronger bookings from Middle East bookers.

Over the past four quarters, our B2C direct mix remained stable in the mid-60% range, while direct room nights continued to grow. This performance came despite the continued pressure on SEO, which we're seeing across much of consumer internet. SEO remains a small component of our overall room nights. The mobile app mix of total room nights over the past four quarters remained in the high 50% range, while the mix of Booking.com room nights booked by travelers in Genius levels 2 and 3 was also in the high 50% range. Both metrics increased year-over-year.

Alternative accommodation room nights at Booking.com were also affected in part by the Middle East conflict, growing 4%. This growth was slightly lower than our overall 5% room night growth due to brands and regional mix, as we saw higher growth from Agoda and Priceline, and also in the U.S., where our alternative accommodation offering is relatively smaller. Alternative accommodations represented approximately 37% of Booking.com's room nights, similar to the second quarter of 2025.

In our other travel verticals, attraction tickets grew double digits, while flight tickets increased 4% year-over-year, despite pressure from the Middle East conflict, including reduced capacity on certain international routes and higher flight ticket prices. We believe this growth continued to outpace the broader market. Connected Trip transactions grew low double digits, more than twice the rate of Booking.com's total transaction growth. This matters because our data shows that traveler who book with us across multiple travel verticals, return more frequently. Our total merchant growth bookings represented approximately 73% of total gross bookings, up about 4 percentage points year-over-year. Our emergent payments platform is foundational to our Connected Trip vision, enabling a more seamless customer experience while generating incremental value and contribution margin dollars.

Total gross bookings increased 9% year-over-year or approximately 8% on a constant currency basis, exceeding the high end of our guidance by about 3 percentage points. Constant currency growth bookings growth was approximately 3 percentage points higher than room night growth, primarily reflecting the approximately 2% increase in constant currency ADRs and the contribution from flights and other verticals. Revenue increased 8% year-over-year, or approximately 7% on a constant currency basis. Revenue growth was lower than gross bookings growth, primarily due to elevated cancellations in March that affected second quarter revenue. Marketing expense increased 11% year-over-year, modestly faster than gross bookings, driven by changes in traffic mix, incremental investments in paid marketing at attractive ROIs, and a shift of merchandising spend to performance marketing.

As always, we aim to grow our top line metrics faster than marketing investments, but are willing to lean in when we see positive long term value for the business through both attractive ROIs and repeat rates. Adjusted sales and other expenses were 1.9% of gross bookings and provided a leverage despite the higher merchant mix, as higher payment expenses were more than offset by customer service efficiencies. Additionally, payment expenses grew less than merchant gross bookings due to a one-time benefit from processing fee reversals.

Adjusted fixed operating expenses increased 6% year-over-year, including 1% higher adjusted personnel expenses, and were a source of leverage as a percentage of revenue, reflecting the targeted cost management actions we implemented last quarter and our continued focus on managing our fixed expense base while investing in key strategic priorities to drive long term growth. Adjusted EBITDA of approximately $2.6 billion grew 9% year-over-year, exceeding the high end of our guidance. Adjusted EBITDA margin expanded nearly 40 basis points, reflecting disciplined execution and cost management. Adjusted EPS of $2.54 per share, increased 15% year-over-year, faster than adjusted EBITDA growth, helped by a 6% reduction in average share count.

Beyond the quarter's financial performance, we also continued to make meaningful progress, improving the efficiency of our business, as we continue to execute on the transformation program, we identified additional opportunities, increasing our expected annual run rate savings from approximately $550 million to approximately $650 million. We expect the approximately $100 million of incremental annual run rate savings to be realized, primarily in 2027. We incurred approximately $30 million of transformation costs in the second quarter, the majority of which were excluded from our adjusted results.

Now, on to our cash and liquidity position. Our second quarter ending cash and investments balance increased sequentially by $1.2 billion to $17.7 billion. During the quarter, we generated strong free cash flow of $3.6 billion, raised $3 billion of debt, paid down $1 billion of debt and returned $4.1 billion to shareholders, including $3.7 billion of share repurchases, marking another record quarter of capital returns. During the first half of 2026, we repurchased $7.4 billion of our common stock at an average price of approximately $173 per share.

We remain committed to a disciplined capital allocation framework, first investing behind the highest return growth opportunities across our business, while also returning meaningful capital to shareholders and maintaining a strong balance sheet. Moving to our thoughts for the third quarter, global travel demand has remained resilient so far in the third quarter, supported by healthy domestic travel trends. As we look ahead, we remain mindful of the situation in the Middle East and continue to monitor the direct and indirect impacts on travel demand.

Our guidance assumes stability in the broader travel environment in line with recent trends. It also assumes that the indirect impacts of the conflict, including elevated flight ticket prices, reduced flight capacity on certain routes, and softer long-haul international travel demand persists through the third quarter. In terms of the direct impact of the conflict, we continue to assume some pressure on inbound travel to the Middle East, while travel demand from Middle East bookers remains largely normalized. Our guidance also assumes recent FX rates for the remainder of the quarter and year, including the Euro-U.S. dollar exchange rate at 1.15. We estimate changes in FX will weigh on our third quarter reported U.S. Dollar growth rates by about one percentage point for gross bookings and revenue. For the full year, we estimate changes in FX will positively impact full year reported growth rates by about 1.5 percentage points for gross bookings and about 1 percentage point for revenue.

We currently expect third quarter room nights to increase between 3% and 5% and for gross bookings, revenue and adjusted EBITDA to each increase between 4% and 6%. On a reported basis, our full year expectation is for gross bookings, revenue and adjusted EBITDA to each be up high single digits and for adjusted EPS to be up low to mid-teens.

Our expectation for gross bookings is lower than our prior expectation, primarily due to lower flight ticket growth, while our accommodation outlook remains largely unchanged.

In conclusion, our second quarter results demonstrate both the resilience of our global platform and the disciplined execution of our teams. Despite the external environment, we delivered robust results and exceeded the high end of our guidance across our key financial metrics, while continuing to invest in the strategic initiatives that we believe will drive long term growth.

Our strategy remains unchanged. We are continuing to invest in the Connected Trip, expanding our presence in key markets, advancing our AI capabilities, and strengthening the value we create for both travelers and partners. At the same time, we remain disciplined in how we allocate capital, balancing these investments with strong operational execution, solid free cash flow generation, and meaningful capital returns to shareholders. Together, these strengths give us confidence in our ability to continue creating long term value.

Finally, I would like to thank my colleagues across the world for their continued dedication, passion, and execution throughout the quarter. Their commitment to serving our travelers and partners in such a dynamic environment is what continues to strengthen our business and positions us well for the future.

With that, we'll now take your questions. Operator, will you please open the lines?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] As a reminder, we ask that you please limit yourself to one question. Your first question today comes from the line of Mark Mahaney from Evercore. Your line is open.

Mark Mahaney
Analyst, Evercore ISI

Q

Okay. Thanks. Glenn, I want to ask. I want to try to draw you out a little bit more on the AI impact, particularly on the top line, on customer satisfaction, and maybe it's still too early, but I would think at some level, AI can potentially materially improve personalization, which should show up in things like book-to-look ratios, match rates. So what do you – is it too early or have you seen any quantitative evidence that in this year, year and a half you've had with Penny that it's somehow improved conversion rates or increased booking per customer? Thank you very much.

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

A

Hi, Mark. I think, that's a great question, and we've talked about this a little bit. Penny, especially, we've mentioned how people using it do come back with more satisfaction, and we talk about how we want to increase conversion. It makes sense, common sense. If you provide somebody with a better way to do the business, they'll be happier doing it. And the whole idea of giving personalization, well, I certainly, as a customer, I prefer something that actually matches up with what I need versus a large smorgasbord, most of which I want to ignore. So, all these things are good, but and this is important, it's still very small and we're not at a stage where we've going to start giving away percentages, numbers, increases in CSAT or anything of that nature. However, I am very pleased with it and I will say what makes it so exciting now with this technology is the ability to do things we never would have been able to do before.

If you recall, when I first started talking about, for example, the Connected Trip, bring it together and we were talking about AI in terms of machine learning models. So, ending up with different types of mathematical predictions of what we thought they want. But now using GenAI, we'll be able to do it so much better. And I envision in the future, we're going to get even more personalized than I ever thought we could, which will lead to what you're asking about in terms of a much better way to actually complete a transaction. And then, God forbid, something goes wrong, a much better way to solve the problem. Ewout, anything to add?

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

A

Yeah, Mark, let me add one other dimension to your question. So, if we look at traffic we're currently receiving from large language models, so this is not what we are receiving directly in terms of traffic, but from large language models, both on a paid and an unpaid basis that is still significantly below 1% of our room nights. And that hasn't moved so much recently. So, no material change over the last few months or quarters.

I'm not saying that that will never change in the future. This, of course, at some point might go in a different trajectory, but at this moment it's still very minimal and it's not really moving so much. Going a little deeper, the organic traffic, what we are receiving from the LLMs, we believe the vast majority is coming to us according to third-party data sources.

And if I look at the paid traffic, we are part of the test group of OpenAI for CPC. We like that from a diversification perspective in terms of our paid channels. And it's very much playing to our strength, the optimization models that we are running in order to convert at an optimal way traffic into bookings. But as Glenn said, strategically, we are of course, very much focused on learning ourselves, diversifying our channels, but then in the end focused on keeping the direct traffic to us by investing in the AI tools – the customer facing AI tools in our own environment.

Mark Mahaney
Analyst, Evercore ISI

Q

Thank you, Ewout. Thank you, Glenn.

Operator: Your next question comes from the line of Alex Brignall from Rothschild & Company Redburn. Your line is open.

Alexander Robert Lyon Brignall
Analyst, Rothschild & Co Global Markets Solutions Ltd.

Q

Thank you for taking the question. I'll carry on with the AI theme, which I suspect many will. We've seen some evidence on our surveys of the LLMs raising kind of broader mix of independent content, and they rely more on kind of inspirational content, as well as kind of just standardized Booking style content. Could you talk about what – obviously it's very low volume, but could you talk about how you – what you have seen on that side, how you're presenting the data within the LLM? And also just if I could, on the e-commerce side of things, obviously lots of conversation on Google and OpenAI's different e-commerce expeditions. Could you just talk about how they have evolved? Thank you.

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

A

Hey, Alex, on the first one, everybody would like to know what's the secret sauce. So, they'll show up in any sort of prompt regarding travel, that the results will be their property or their OTA or their service. Everybody wants to, well, how do you do it? What's the right way to do it? One of the things that we believe is very helpful is to have tremendous amount of content that is very reliable and has been around for a very long time. Now, we don't actually have any sort of handbook saying exactly how we can show up more often than others. However, and I think, Ewout may have just mentioned it, I think, it would be about the fact that third-party people are saying, hey, we're showing up an awful lot, which is great.

On the other hand, they also mentioned we're showing up a lot, but the referrals aren't showing much, so that's an interesting difference between the two. That being said, we hope it actually reminds people when they do get ready to book, they are still thinking of us, having seen us show up in the results of their prompt. We believe that in the long run, it's very important to continue to work very closely with all of the frontier players, which we are doing. And, we've talked about this a lot in the past.

In fact, most recent things, I believe, maybe today even, I think Google may have come out today, a small percentage of their traffic, seeing their agentic booking, which we are one of the first with them. We've been working very hard with them as we have for many years, but working hard on this one and we believe it's – I think, it's out. I didn't see it myself yet, but I think, it's out there, and we'll see how that one does.

Point of this – summing it all up in that area is that we are working hard with third-party frontier players to make sure we're properly placed when somebody wants to book, if they want to start there but even more important to me is making sure that we are offering our own opportunities for people to come to us to rec and that's what we talked a little bit about in the prepared remarks, about Booking has come out with their way to do discovery.

We've got Priceline, Penny. We got the new thing we mentioned about Agoda and their gallery thing, and we're going to keep on working with that so that people, when they think of travel, they think I can go to one of our brands and they will get everything they knew could get from any of the large language models, but get even more because we're able to personalize it from what they've done with us in the past to either give them value that they could not get, because we're going to work with our partners to provide incredible opportunities, help them get incremental business. So, we see this as a win-win-win, as it's always been. We always work with third parties to bring in customers, but we also like them to come to direct. And regarding your second question on e-commerce, I don't know if I really answered that or not. If you want to restate it, please do.

Alexander Robert Lyon Brignall
Analyst, Rothschild & Co Global Markets Solutions Ltd.

Q

Well, just in terms of obviously, Google and OpenAI have talked about different either agent offerings that they will give the consumer or the Google UCP that you mentioned. Have they been broadly as you expected a few months ago? Have they gone in the direction that you were kind of working with them, or have you seen anything that has surprised you there?

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

A

Well, I'll say we continue to work with them. When they change, we change too. And you know, there have been many changes over the last couple of years in the way they were going to go, and things have come up. Personally, I like to take a little pride in the fact that I thought that one of them would start going for a performance marketing advertising platform, which is right in our wheelhouse that we're very, very good at, and they have, and we're working very hard on that. So, I'm pleased about that. But again, the important things are make sure we work with them closely, one. Two, being the big player that we are, we have the expertise, the knowledge, the people who can work with them. We can spread it across all of them to make sure we're not letting anybody out. And the last thing is, if they want a chance to do something else, we'll work with them.

Alexander Robert Lyon Brignall
Analyst, Rothschild & Co Global Markets Solutions Ltd.
Q

Thank you so much.

Operator: Your next question comes from a line of Justin Post from Bank of America. Your line is open.

Justin Post
Analyst, BofA Securities, Inc.
Q

Great. Hey, Glenn. Connected Trip is obviously a big focus, and you had some positive comments there, but it looks like air really decelerated and rental cars were down a little bit. Any thoughts on why those are going in kind of a little different direction than room nights and what that means for Connected Trip? Thank you.

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

All right. So, there are different issues, clearly. Why don't I take the first one, talk about Connected Trip in general. And Ewout had some really good thoughts on why those numbers have diverged and really why you should understand that's not a big deal, very much of exogenous factors. But in terms of Connected Trip, all these elements are important for the long run. And that means having all of the verticals being able to work together. And that's the whole idea, is to bringing something that is actually better than the way people buying individual verticals that aren't connected at all.

And one of the critical things, of course, is our payments platform, which I was very pleased that we were able to announce how the percentage going through is even higher, up 4 percentage points. 73% is a great number, as it continues to go up, because that is critical. That's the glue that brings it all together. And by the way, then as we bring in Genius too, it's a flywheel that keep on increasing. Now you would say, but wait, your flywheel, you had two little parts here, seem to have a little bit of a hiccup here, what's up with that? And Ewout, you have some good thoughts on that. Why?

Ewout Lucien Steenbergen
Executive Vice President & Chief Financial Officer, Booking Holdings, Inc.
A

Yes, specifically, Justin, with respect to flights, our flights business continues to outperform the market, even in a challenging overall airline environment. So, if you look at global demand, that was clearly impacted by airline capacity and also higher flight ticket prices during the second quarter. So, therefore, our 4% growth of tickets is actually higher than the global airline industry, and if you then add 8% of ticket growth on top of it, so we had actually 12% growth, bookings growth for tickets. We saw in Europe, a couple of carriers actually have a contrarian strategy to the rest of the airline world, so, they were more focused on lowering prices to increase demand, but the airlines in the rest of the world were actually doing exactly the opposite. And Asia was particularly hit hard because of their dependency on the Strait of Hormuz.

So, we expect the capacity of the airline industry gradually to come back over the next few months. But most importantly, if we think about travelers, what have they done in the quarter? They have found alternative options. They have been looking for travel domestically, for intra-regional travel. We saw some healthy pickup of still people that want to get their summer bookings in, so that is happening, therefore, the shorter Booking window, but the higher ADRs that we are seeing.

And please keep in mind that the biggest part of our economics is actually coming from accommodation bookings. And that wasn't so much impacted by those dynamics with respect to the airline industry.

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

A

And even with that, we're still very pleased with the growth of our Connected Trip, that low double digit number, the percentage of our total transactions, the low double digits. These are still very good numbers, even with this incredible exogenous impact of the Middle East War.

Justin Post
Analyst, BofA Securities, Inc.

Q

Great, thank you.

Operator: Your next question comes from a line of Kevin Kopelman from TD Cowen. Your line is open.

Kevin Kopelman
Analyst, TD Cowen

Q

Oh, great, thanks a lot. Could you talk more about the testing you're doing on the AI powered discovery experience on Booking.com? What's the extent of the testing today? What are you learning and how do you see it potentially being deployed more broadly in the future? Thanks.

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

A

Kevin, it's out very early. I don't have any data to come back to you, not that I'm sure I would right now. But, we don't have enough to say anything except certainly looking at it as it's being put together, I was very pleased with what I saw. I find it adding convenience, making it easier for people to go through their ideas or inspiration, working from that all the way through to be doing their booking. It looks sweet to me. We'll see when, in the end, my opinion is not the important thing. The important thing is seeing how the customers use it and if we need to make modifications or not.

Certainly, I think last quarter I mentioned to people how I stressed how if you want to see what we're building, what's going on, just keep using our products and services and see it. Now, this is testing, so you may not see some of it because obviously we're not rolling out to everybody at once. But I am pleased with what I'm seeing, but I'm also – I'd recognize that that's not the important thing. The important thing is the data.

Kevin Kopelman
Analyst, TD Cowen

Q

Got it. And if I could ask one, just separate follow-up on Iran. Last quarter, you did quantify, I know it's difficult to quantify, but you said you're assuming a 300 basis points headwind for the second quarter. Could you just tell us, where that ended up and what you're assuming for the third quarter there? Thanks.

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

A

Yeah, Kevin, if we look at the impact from the Middle East, we said that it was about a 2 points impact on the first quarter, but keep in mind that was actually only from the month of March and the elevated cancellations we had in

March. If you look at the second quarter, the impact was actually a bit higher than in the first quarter because we saw the impact continuing in April and in May.

But as we said, then in June, actually the situation started to normalize more, and that continued in the month of July. If we look now forward to the third quarter, we expect that there will be a little bit less of an impact than we have seen in the second quarter, because I think of the normalization. But as we said, we still expect that the indirect impact, particularly on airline capacity and flight ticket prices will continue until the end of the third quarter in our assumptions and guidance.

But overall, we are encouraged by the resiliency in demand, including in July, the healthy pickup of the summer bookings. And overall, if I also may point you to our full year guidance, actually, if you look at our full year guidance, we are at a high single digit level for gross bookings and revenues, and at mid-teens level for EPS at the high end. And that is still in line with our long-term algorithm. And it's also in line at the constant currency basis with our original guidance for the year, despite the fact that in our assumptions, we have seven out of 12 months in impact of the Middle East. So, overall, I would say great resilience of the market and demand and very strong execution by our team.

Kevin Kopelman
Analyst, TD Cowen

Q

Thank you very much.

Operator: Your next question comes from a line of Ron Josey from Citi. Your line is open.

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

Great, thanks for taking the question. Glenn, I wanted to follow-up on your comments around progress in the U.S. market. And specifically, I think you said room for growth and continued investments on inventory. So, I'd love to hear more thoughts on just the roadmap here. Is it adding inventory? Is it a greater focus on alternative accommodations, or maybe just a consistent rollout of Penny? Any insights there would be helpful. And then, Ewout, you talked about an additional $100 million of incremental savings identified or efficiencies. I'd just love to hear more about where that's coming from? Thank you.

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

A

Thanks, Ron. And I am very pleased with the overall progress we have made in the U.S. over the years. And I talked about this last quarter also, but I'll repeat it because I think it's important. We talked some years ago, I said the U.S. is an important strategic goal for us, and we're going to put time, energy, effort, money to work. And if you look over the last quarters, go back a bunch of them, and you'll see us doing very, very well. We come down to high single digit, and that's less than some of the other ones last quarter, but it's still really, really good numbers compared to how the market overall was doing. So, we're doing something right, and I'm really pleased to shout out to the team for what they've been accomplishing.

And how we've been doing it? We've been doing it, the way we do everything is grind it out, improve the product, improve the service, get more inventory, make the marketing better, do all the things that are necessary to so that people, when they're thinking about where they're going to book, they think of us, They use us, they like us, they come back to us, and they got a problem, we solve it fast. That's business, and that's what we've been doing forever. But we had to make a little bit of a concentration of it to make sure that we've fixed some things that perhaps weren't the best. When you're a global player like us, sometimes things that are localized are not being addressed and need to be addressed, and we've been doing that. Now, what are we going to do going forward? It's exactly the same stuff, continue to improve it, get more product, get more inventory, Make sure we're doing a better job of marking it out. I still say, and you know it, and look at 4% growth in alternative accommodations, well, I'd like that to be a lot higher. Specifically, I want to be a lot higher in the U.S. and boy, this sounds like a broken record. I know about how much we need to make sure we have the right inventory, that we need to make sure the U.S. customers are aware of it. We got to make sure the partners like what we're doing. But we are working on that, and I see different things we are going to be improving. And I think that will enable us to continue this very good path we've been on.

Ewout Lucien Steenbergen
Executive Vice President & Chief Financial Officer, Booking Holdings, Inc.
A

Then, Ron, with respect to your question, your second question on the additional $100 million savings from the transformation program. So, first of all, philosophically, I think you know how we run the company. We are focused to optimize for long -term shareholder value. So, very happy that the team has done so well. We found additional savings opportunities within existing categories, so no new categories.

So, this is all existing categories to go deeper in some of those areas and the additional $100 million mostly came from the procurement work stream. So, we are happy because now we raised the overall target to $650 million from $550 million, but you probably remember originally when we launched this program, we were at $450 million. So, what we are doing in the end is creating capacity to self-fund and invest ultimately in our strategic initiatives that then will help to drive long term growth for the company.

Ronald Josey
Analyst, Citigroup Global Markets, Inc.
Q

Thank you.

Operator: Your next question comes from a line of Lloyd Walmsley from Mizuho. Your line is open.

Lloyd Walmsley
Analyst, Mizuho Securities USA LLC
Q

Thanks, guys. Two questions that are sort of related., I guess, first, correct me if I'm wrong, but I don't think you all have called out SEO pressure before. And so, the question there is, do you think this is a shift to AI search or more just a function of pressure on organic visibility in favor of SEM? And the follow-up would just be, it sounds like AI search traffic is still minuscule related to the first one. Do you think that there are a higher share going directly to hotels coming out of AI? Is that – could that be part of what's going on? I know that's a big question investors have. Maybe you guys could talk to it. Thanks.

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

Hi, Lloyd. I do believe that some of the changes that were made in the display at Google definitely put some pressure on SEO. Putting in that AI overview probably has done it. Now, here's an important thing to keep in mind. So, our direct, our direct mid-60s, hasn't gone down at all.

In fact, total number, absolute number, obviously had to go up to maintain the same percentage share in the direct, because obviously we grew. That's good. That says that we are doing a good job of making sure that people come to us, think of, and yes, losing SEO, don't like it, it was never a big part of the business, small part of the business, but obviously I don't like that, and I wonder, okay, somebody, they didn't come to us from SEO, which would have been in that direct category.

Where did they go? Did they come to us direct, or what happened? Because our direct number didn't go down. I don't know. I do know, though, however, that I am pleased, I am very pleased that we continue to develop what we need to make sure people understand the better service we're offering to them, to get them to come back direct. I mean, look at what we're doing with our app in that high 50s percent. When you look back a year ago, that was mid-50s, if you go back two years ago, that was low 50s, people going to the app, going to the app and they're coming direct, like that.

Now, your second question, did some of the, are some of the people coming off of the AI, whichever front, whichever model you want, are they going direct to the hotels more or not? I don't know, they don't tell me. I will say though, again, I doubt, I doubt that anybody is getting a huge amount of business directly from what they're doing with their travel prompts, their discovery. I think, what we are seeing, and I think this shows how we are still performing very well is people are doing what they used to do always. They do a lot of searching, a lot of looking, lot of thinking, a lot of discovery it's called, but when they are actually ready to buy for real that's when they get serious and that's why we are seeing still nice growth rates.

Ewout Lucien Steenbergen A
Executive Vice President & Chief Financial Officer, Booking Holdings, Inc.

And Lloyd, if I just may clarify one additional thing because you also made a comment about that you didn't believe we talked about SEO before, yes, we did last quarter we also talked about it and again just to emphasize it's a very small component of our overall direct mix and we see some slight headwinds, but the overall direct channel is growing in absolute numbers.

So although that the ratio of direct mix is stable, that is because that's a ratio of two positives. So, we are growing the absolute channel and the pay channel. So, in absolute terms, both are going up, but the ratio therefore is staying stable.

Lloyd Walmsley Q
Analyst, Mizuho Securities USA LLC

Yeah, yeah. Thanks. Seems remarkably stable out there despite all the noise. Thank you.

Operator: Your next question comes from a line of Stephen Ju from UBS. Your line is open.

Stephen Ju Q
Analyst, UBS Securities LLC

All right. Thank you so much. Hi, Glenn, Ewout. So, I'll ask the AI question in a slightly different way. I mean, we talked to a lot of companies, they're talking about how greater usage of AI, whether it's coding or product development, it seems to have accelerated the pace of innovation for folks that have kind of jumped into the pool. So, I'm just wondering at Booking, like what you're seeing in terms of your pace of product development, whether you see experimentation with new products, that sort of thing, has picked up over the last year or so.

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

Yeah. I mean, it's an incredible, great part of the story of AI is how it really is improving all aspects of our business. And we mentioned a few times about the internal improvements that we're seeing using AI. Certainly, everybody talks about the improvements in coding, but of course you got to talk about the whole software development lifecycle. And actually, it's improving all areas that we're working very hard and we are seeing real results. You know, some people have talked about, well, we're not seeing much ROI on it.

Well, I don't know what they're doing, but we absolutely are seeing benefit from it. And it's great. And I believe we will continue to improve. As we know, the models are going to continue to improve. And I believe when they improve, we will improve along with it. That's great. Then look to something else that's internal, but it's also external. Look at how we've improved our customer service.

So, we've been talking about how our cost per book, the cost per interaction with a customer going down, that's because of AI. That's using it and we're getting that with better CSAT numbers. The customer likes it and it costs us less. This is a win-win. It's great. But it's not just those easy that everybody knows about. It's throughout the entire business, it's being used. It's being used in finance. It's being used in PR. It's being used by our public affairs. They came back with stuff that they're doing. It's great throughout if it's done the right way.

Now, here's the careful thing, though. As I made this very clear to everyone, and Ewout's been echoing it fully, what we do not want is any surprise because people went bonkers with spending money on tokens, or somehow doing something that costs a lot more than we thought it would. So, Ewout, I don't know if you want to talk about it or not, has actually come up with some things to talk about to make sure that we are making sure when we are spending money on AI, we're going to get a good return on it or stop it. So, Ewout, why don't you talk a little bit about that?

Ewout Lucien Steenbergen
Executive Vice President & Chief Financial Officer, Booking Holdings, Inc.
A

Absolutely, and Stephen, I think it's really important to emphasize what Glenn just said. So, we are already seeing an ROI that is positive on our AI investments today as a company. So, if I'm looking specifically about our AI costs, yes, they're going up. It could be token costs or license fees. It's still at a low single digit level of our overall technology spend. So, it's not really a driver of the growth of that line item, but it is going up.

We have introduced very specific metrics to measure the benefit of this. So, think about, for example, in the engineering world, metrics around adoption, metrics around productivity, but the most important one, from my perspective, is that we are having a cost aware model routing. So that we make sure that for simple tasks, we are using cheaper models. And that, for more complex tasks, we're using more expensive models. So, we're measuring that, for example, by looking at our AI costs over merge requests and our technology costs over merge requests. And actually those are coming down in a meaningful way. So, again, very positive internal usage of AI. Thank you.

Operator: Your next question comes from the line of Kenneth Gawrelski from Wells Fargo. Your line is open.

Kenneth James Gawrelski
Analyst, Wells Fargo & Co.
Q

Thanks. Just one for me, please. Can you talk about, as you consolidate your B2B operations, what opportunities to invest might emerge in B2B, and how do you view the opportunity, whether it be share gain or just absolute growth? Thank you.

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

Sure. So, just to make sure everybody's on the same page on this, so we have three brands, Agoda, Priceline, Booking, that all had separate B2B operations units. And last year, looking at how we can improve things, it was, let's put it together as one unit. All of them were very good. All of them were making good progress, lots of this, but some of them had better aspects than others, different tools, different things that a customer wanted. And we said, why don't we put it together and get the best of all of them? And, that when we go to a potential customer, we can offer them the very best in class platform.

So, that's what we're in the progress of doing. It's being headed up by, we announced it, Omri Morgenstern, who is the CEO of Agoda, an incredibly talented individual. And he's leading this, putting it together. Now, it's obvious the part of why it's better to put it together. Your question is, what do we think is going to happen? Well, we have – it's a big business now, but I want to make it even bigger. And I want to make sure that no customer says, well, gee, I would have used you, except you have these two things that I wanted, but you only have them in the different units. You don't have it as one platform. So, by improving the platform, making it best-in-class, we will be more competitive than we already are, which we are, because we have a whole bunch of great, big customers, small customers throughout the world. But I am really looking forward to the future when you'll be saying, gee, wow, that B2B business is really going great. And I expect that to happen.

Ewout Lucien Steenbergen
Executive Vice President & Chief Financial Officer, Booking Holdings, Inc.
A

And then Ken, one other additional thought on that. It's very important to be focused in a B2B business on incrementality. Because, it's easy to some extent to grow a B2B business very fast, but cannibalizing your existing B2C business where the unit economics are much higher. So, this is a business where you have to be very disciplined from that perspective in terms of being able to measure incrementality. So, that is something that we are having real expertise in, are always doing, and will continue to do it, of course, also when we put the three B2B businesses together in the future. Thank you.

Operator: Your final question comes from a line of Jed Kelly from Oppenheimer. Your line is open.

Jed Kelly
Analyst, Oppenheimer & Co., Inc.
Q

Hey, great. Thanks for taking my question. So, just following up on the B2B, and then those comments you just made, should we imply that your B2B sort of focusing more on, call it corporate travel clients that might be using you for supply? Are you still going to, power some leisure focused brands, too? Thank you.

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

So, Jed, it does it for everyone and anyone who needs inventory and supply. Of course, though, we want to go with the bigger players. You're able to achieve a lot more with the big players, like, for example, a U.S. Bank. We have some of those. Maybe, an airline. We got a lot of those. All these bigger players are really, really the ones that are going to really move the dial. And that includes things like TMCs, which are the corporate travel players, who are looking for inventory that we can supply to them, all of them.

But that doesn't mean we're going to neglect the small players too. It's good if it's easy to do it. If it doesn't, take time, if it's easy, self-service and be able to put it up, that's fine too. In this thing, we want to make sure that we are always looking for what's going to be the most efficient use of our resources, bring back the best return to us. And in the end, we'll make sure that we're absolutely looking to do the best thing we can in all areas, so long as it does provide that positive return.

Jed Kelly
Analyst, Oppenheimer & Co., Inc.

Q

Thank you.

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

A

Okay, that is our final question, I think. Is that correct, operator?

Operator: That is our final question.

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

Great, well, let me wrap up here. Listen, first, a thank you. And one thing I've got to always put out is the thanks to our dedicated employees. Very important, obviously, it's not a business without the employees. And of course, I have to thank our stockholders too, but most important, the travelers and the partners whose trust and support has been instrumental to our strong execution and solid performance this quarter.

Look, we remain mindful of the current macroeconomic and geopolitical environment. We've successfully navigated periods of uncertainty before, of course. We remain confident in the enduring resilience of travel demand. As always, we will stay focused on what we can control. We will continue executing against our long-term strategy.

Thank you very much, and good night.

Operator: This concludes today's conference call. Thank you for your participation, and you may now disconnect.