

06-Aug-2024

Airbnb, Inc. (ABNB)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good afternoon, and thank you for joining Airbnb's Earnings Conference Call for the Second Quarter of 2024. As a reminder, this conference call is being recorded and will be available for replay from the Investor Relations section of Airbnb's website following this call.

I will now hand the call over to Angela Yang, Director of Investor Relations. Please go ahead.

Angela Yang

Director-Investor Relations, Airbnb, Inc.

Good afternoon, and welcome to Airbnb's second quarter of 2024 earnings call. Thank you for joining us today. On the call today, we have Airbnb's Co-Founder and CEO, Brian Chesky; and our Chief Financial Officer, Ellie Mertz. Earlier today, we issued a shareholder letter with our financial results and commentary for our second quarter of 2024. These items were also posted on the Investor Relations section of Airbnb's website. During the call, we'll make brief opening remarks, and then spend the remainder of time on Q&A.

Before I turn it over to Brian, I would like to remind everyone that we will be making forward-looking statements on this call that involve a number of risks and uncertainties. Actual results may differ materially from those expressed or implied in the forward-looking statements due to a variety of factors. These factors are described under forward-looking statements in our shareholder letter and in our most recent filings with the Securities and Exchange Commission. We urge you to consider these factors and remind you that we undertake no obligation to update the information contained on this call to reflect subsequent events or circumstances. You should be aware that these statements should be considered estimates only and are not a guarantee of future performance.

Also, during this call, we will discuss some non-GAAP financial measures. We've provided reconciliation to the most directly comparable GAAP financial measures in the shareholder letter posted to our Investor Relations website. These non-GAAP measures are not intended to be a substitute for our GAAP results.

With that, I will pass the call to Brian.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

All right. Good afternoon, everyone, and thanks for joining. Q2 marked another strong quarter for Airbnb. We had 125 million nights and experiences booked. Revenue increased 11% year-over-year to \$2.75 billion, net income was \$555 million, representing a net income margin of 20%, and we generated \$1 billion of free cash flow. Our total trailing 12-month free cash flow was \$4.3 billion, our highest ever, and our strong cash flow allowed us to repurchase \$749 million of our shares in the quarter. And as of the end of Q2, we had \$5.25 billion remaining on our share repurchase authorization program.

Now, during Q2, we continue to make progress on our three strategic priorities, which, again, are: making hosting mainstream, perfecting our core service, and expanding beyond the core. So, I'll share a few highlights on each. First, we are making hosting mainstream. Last year, we shared our commitment to make hosting just as popular as traveling on Airbnb. We've been focused on raising awareness around the benefits of hosting and providing better tools for hosts. In Q2, we surpassed 8 million active listings, driven by continued growth across all regions and market types. We're not just growing supply, we're also committed to ensuring that it's high quality supply.

Since launching our updated host quality system last April, we've removed over 200,000 listings that failed to meet our guests' expectations, and we'll continue to raise the overall quality of listings on Airbnb, so we can consistently deliver high-quality stays.

Second, we're perfecting our core service. We remain focused on making Airbnb more reliable, affordable, and an overall better service for hosts and guests. We've rolled out hundreds of new features and upgrades over the past few years to do this. This includes launching major reliability initiatives like Guest Favorites, which make it easy for guests to find the best listings in Airbnb. Now, since launch, last November, we've seen over 150 million nights booked at Guest Favorite listings. We've also made dozens of smaller changes that have led to improved usability and booking conversion. These include things like simplified signup and login, improved maps, clearer cancellation policies, and so much more. Now, we've made tremendous progress and we'll never stop improving Airbnb. We're going to continue this commitment.

And finally, perhaps most excitingly, we're expanding beyond our core. We continue to drive growth by investing in underpenetrated markets. In Q2, growth of gross nights booked on an origin basis in our expansion markets significantly outperformed our core markets on average. Our core markets again are US, UK, France, Australia, and Canada. This is largely due to the success of our global expansion playbook, which includes a more localized product and marketing approach. We're also expanding Airbnb's brand positioning beyond travel accommodations to launch and roll out of Airbnb Icons, which is a new category of extraordinary experiences that we launched in May. Now, since launch, we've seen nearly 40 million views of Icons on our site, helping people understand that Airbnb offers more than accommodations will be critical as we expand our offerings in the coming years.

Now, looking back to Q2. We saw a number of positive business highlights. First, guests are increasingly booking on the Airbnb app. We've continued to optimize our mobile website to promote app downloads and we believe our approach is working. Nights booked on our app during Q2 increased 19% year-over-year. Now, these bookings now comprise 55% of total nights booked and this is up from 50% in the prior-year period. Now, in addition to our success in mobile downloads and bookings, we're continuing to see growth of first-time bookers in our platform, with the highest level of growth seen in the youngest age demographic.

Second, Airbnb is uniquely positioned for special events. We're continuing to see more guests choose Airbnb for major holidays and events. The week of July 4th, for example, represented our single highest week of revenue ever in North America, and we saw similar trends in Europe. Now, in anticipation of the Olympics, which was in Paris, nights booked in Paris through Q2 were more than double what they were this time last year. Additionally, cities hosting matches during the recent Euro Cup in Germany saw an average of more than 20% year-over-year increase in nights booked, and supply has increased to meet the higher demand. So, we have 37% increase in active listings in Paris in Q2 compared to a year ago, and these events, what they really do, is they highlight Airbnb's unique ability to disperse travel and spread economic benefits by allowing people to stay in local neighborhoods where there are no travelers – no hotels, sorry.

Finally, supply growth is improving on Airbnb. We've made huge strides with supply growth, but remain just as focused on supply quality. As we improve quality, we believe more people will try Airbnb, unlocking even more growth. We have two major initiatives underway to help us do this. First, we're removing low-quality supply. As I shared earlier, we've removed over 200,000 listings since April of last year. Second, we're making it easier for guests to find the best stays on Airbnb. We launched Guest Favorites as well as top listing highlights, which show the top 1%, 5%, and 10% of eligible homes on Airbnb. These new features make it easy for guests to find the highest-quality homes on Airbnb. In Q2, we also saw active listings managed by Superhosts, some of our highest-quality hosts, increase 26% year-over-year. We're proud of our Q2 results.

Now, turning to Q3. We're looking forward to another record summer travel season. We're encouraged by the excitement around the Olympics and Euro Cup, and we're also encouraged by the relative strength of Latin America and Asia Pacific, which continue to be our fastest-growing regions. However, we are seeing shorter booking lead times globally and some signs of slowing demand from US guests, and our Q3 outlook incorporates these recent trends. We are watching these trends closely along with the impact any macroeconomic pressures might be causing, and we'll continue to execute against our growth strategy by improving our service, expanding in less penetrated markets, and introducing new offerings. We believe this growth strategy will, over the long term, offset any transitory macro trends.

So, with that, Ellie and I look forward to answering your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. And we will now begin the question-and-answer session. [Operator Instructions] And your first question comes from the line of Ron Josey with Citi. Your line is open.

Ronald Josey

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks for taking the question. I've two, please. Brian, just with your last comments on slowing lead times and whatnot in North America, can you tell us a little bit more about that when you saw those trends sort of first hit, and then how it offsets the strength from Olympics and UEFA and everything else? And that's question one.

And then, maybe a bigger question, when we think about expanding beyond the core and perfecting the core service. Post-summer release, post-winter release, we've seen a lot of key improvements across Airbnb with Guest Favorites, with Icons, and the list goes on. When we think about the coming winter release and throughout 2025 and everything else, how are these newer services helping to influence, call it, the Airbnb's tomorrow? Thank you.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

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Yeah. Why don't, Ellie, you take the first one about slowing lead times and when we started seeing these trends, and I'll take the second one?

Ellie Mertz

Chief Financial Officer, Airbnb, Inc.

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Yeah. Absolutely. So, let me double-click a little bit in terms of the trends for lead times since the beginning of the year. In both Q1 and Q2, what we saw was that lead times were basically equivalent with what we have seen in 2023. So, it wasn't really any timing shift or behavior in terms of when guests were booking. What we've seen more recently, and in particular, in July, is a shrinking of the lead times. And in particular, what we've seen is that, there continues to be very strong growth of the shorter lead times, so anything from same day to next week to a couple of weeks from now, but what we're not seeing the same level of strength is in those longer lead times, so two months from now, what you're booking for Thanksgiving, what you're booking for Christmas. And so, it's that, I would say, softness in terms of longer lead times that is a big factor in terms of the outlook that we've provided.

What I would say additionally is that, over the last couple of years, as we emerged from COVID, there were several periods where we saw some volatility in terms of overall lead times, and in particular, some hesitancy for consumers to book those longer lead time trips. I suspect that's what we're seeing right now, and I would say, the silver lining with regard to the trends that we see right now, it's not that consumers are not necessarily going to book that trip for Thanksgiving or Christmas, it just appears that they have not booked it yet. So, we're closely following all of the trends on lead times, but it is a factor that influence the outlook that we've provided for Q3.

Operator: And your next question comes from the line of Doug Anmuth with JPMorgan.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

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Sorry.

Operator: Your line is open. My apologies.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

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Sorry. There was a second part of the question. So, Ron, to answer your question about expanding beyond the core business, where we are is, we've spent 16 years building a business that's approaching \$80 billion in gross booking value. That's basically one category which we call Airbnb, which is short-term accommodation. It's been pretty amazing how far this single product has gone, and we haven't really charged other than like essentially travel insurance. We haven't really expanded beyond our core business, and we do have long-term stays, which are 17% of nights, but we haven't done very much.

We began, before the pandemic, preparing to expand Airbnb, and then when the pandemic hit, we cut back a lot of our resources. We got focused, went back to our roots, and really focused on rebuilding our platform, becoming lean, becoming a functional organization, and we now have essentially the same amount of employees as before the pandemic and double the revenue, and that explains why we have 41% free cash flow margin, one of the most profitable companies in tech. We're now beginning to prepare the next chapter of Airbnb, and I want Airbnb to be one of the most important companies of our generation. And to do that, we're going to need to do more than one thing. We're going to have to do multiple new things. We're going have to have multiple new products and multiple new services.

This fall, this October, we're going to be launching a new host service, which is really important. It's essentially a co-hosting marketplace. So, there are people that have homes, but they don't have time. There are other people in the world that have time, but they don't have home. And so, there's a Venn diagram of people today who have both that could host. But what if we can match those two people together, that would unlock a lot more inventory. That's what we're going to be launching later in October.

Then, next year, we're going to begin to expand Airbnb truly beyond our core business, and we're going to be launching – we're going to relaunch experiences. I've been asked about experiences probably every earnings call since we've been public, rightly so, because it's very exciting. We've learned a lot of lessons from experiences. They need to be more affordable, they need to be more unique to Airbnb, we need things you could only find in Airbnb, they should be merchandised as videos not photos, they should be discoverable on the app, and we should market them. If we think we do the five things, we think we'll have a hit on our hands and we're working on that.

We also have new guest services and new host services that we're launching next year that we're working on. And then, every year, starting next year, we're going to launch new products and services. I look at Apple, I look at Amazon, Apple, at one point was selling IMAX. Amazon was only selling books. We've gotten bigger than either of those companies just selling short-term rentals, but we're ready to beyond short-term rental. So, the new Airbnb, to answer your question, Ron, will be about a lot more than short-term rentals. It's going to be about long-term stays, it's going to be about guest services, host services and many new offerings, and you'll begin to see that next year.

Operator: And your next question comes from the line of Doug Anmuth with JPMorgan. Your line is open.

Doug Anmuth

Analyst, JPMorgan Securities LLC

Q

Thanks for taking the questions. Ellie, just a follow-up on – I know you talked about the shorter booking window. Are you seeing any change in activity around pricing or class of property, and is there anything to call out across cohorts or income levels? And then, Brian, just circling back on expanding beyond the core, are there any expansion markets in particular that you would call out where you're seeing particularly strong traction? Thanks.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

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Yeah. So, why don't, Ellie, you take the first, I'll take the second one?

Ellie Mertz

Chief Financial Officer, Airbnb, Inc.

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Yeah. So, let's talk a little bit generally about ADR today, the question of like, what are people actually purchasing on the platform. I would say, generally, so far this year, what you've seen is a little bit of ADR appreciation globally, in particular, obviously, though more recently in North America. And what we see there is a big driver of the ADR appreciation is mix shift, which you can assume is what it sounds like, people are choosing more expensive or larger properties. And I think part of the read-through from that can be, oh, people are choosing more expensive listings. Therefore, you are seeing stronger demand from higher economic demographics. I think that is one read-through. I think another read-through is that, if you think about the value proposition of Airbnb, it's that we offer those larger properties, and on a per-guest basis, they can be quite affordable, and frankly, more affordable than a hotel. So, I think part of that ADR mix shift appreciation that you see is, frankly, people gravitating to where we actually have some great value, which is the larger Airbnbs that do provide value at a guest level.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

A

And to answer your question about expansion markets, maybe a framework I can give to think about how we want to accelerate growth. Listen, we want to be growing a lot faster than we are. We want to be growing in healthy double-digit growth, and I think we can. And the way we're thinking about accelerating growth is through short-term, medium-term, and long-term. Short-term is really optimizing our core business. It's really around affordability, about having high-quality stays and just conversion rate increases. Long-term is really about new products and services.

So, the question you asked about international is interesting, because it's kind of like a medium-term horizon, like one to three years. And to frame this, Airbnb is in 220 countries and regions. We're one of the most global companies in the world on the Internet, in 220 countries and regions. We operate nearly in every country in the

world. But there's only really five markets where we're penetrated, and those markets are the US, UK, France, Canada, and Australia. And you'd think like, well, if there was one company in the world that would truly be like have a lot of international penetration, it'd be a global travel network, right, a website where you want to travel – use one platform to travel around the world.

So, there's a number of countries, just to give you a couple examples of our some of the big expansion markets, Germany and Brazil, we've seen a lot of progress. Those are huge travel markets, some of the biggest travel markets in the world, and were continuing to grow bigger. In Europe, Italy and Spain, we have low penetration compared to France and UK, and these are major destinations. Then, in Latin America, we've had a lot of progress in Brazil, but there is really Peru, Chile, Colombia, Argentina, these are huge opportunity markets. The Latin America is the fastest growing region, alongside Asia. In Asia, you really have like the big four, big five countries. So, you have China, Japan, Korea, India, and then maybe we could kind of call out Southeast Asia as a holistic region.

So, what we're going to do is, we have an international playbook, which is really product and marketing. First, you need to localize the product. You need to make sure you have the right regulation in place. You need to make sure you have the right foundation. We've highlighted in our investor letter that we've retooled our product for Asia. Asia are different character counts. And so, it's more laborious in certain languages to type in. So, like in Korea and Japan, they prefer to do browsing than search. So, we've had to retool our product, and that's yielded some huge conversion rate increases.

So, some of these are going to pay back sooner, like some of north – like Switzerland, Belgium, Netherlands, they're going to pay back sooner. Japan is going to be a longer game, but that's one of the biggest travel markets in the world. And I literally think there are tens of billions of dollars of gross booking value increase just by getting all the aforementioned countries to the current market penetration of Canada or Australia. If we can get those countries to Canada or Australia, there's tens of billions of dollars, and it's just something we've had to – we're going to focus on. It's something we hadn't focused on in the last four years as much, we really wanted to solidify our core business, but now we're focused on it.

Operator: And your next question comes from the line of Richard Clarke. Your line is open.

Richard J. Clarke

Analyst, Bernstein Autonomous LLP

Q

Hi. I just want to unpack the Q3 revenue guidance a little bit more. I guess, the – if I looked on the balance sheet, your funds held on behalf of customers, to me, it looks like it's up about 13% year-on-year. So, it looks like you're carrying more bookings into the quarter, and then you're talking about shorter lead times. So, does that not mean more bookings in the quarter for the quarter? So, just trying to square that with why revenue is slowing down in your guidance.

Ellie Mertz

Chief Financial Officer, Airbnb, Inc.

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Yeah. Thanks, Richard. So, obviously, that unearned fees balanced on the balance sheet gives you some indication of the backlog. I would not take those balance sheet items as a one-for-one read-through in terms of the revenue that will be recognized over the course of the quarter. A couple of deviations in terms of why they might not match. One is, obviously, a good portion of the bookings that we will recognize in a particular quarter are still to be booked within the quarter. That's one aspect. The second is the balance sheet items will reflect the timing of the payments, the – whether it's Pay Less Up Front or the entirety of the payment. And so, they're just

not a one-for-one guide. All they do, they do, obviously, give a time stand – point-in-time view of the backlog that we have.

Operator: And your next question comes from the line of Eric Sheridan with Goldman Sachs. Your line is open.

Eric J. Sheridan

Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much for taking the question. Maybe I can ask a two-parter coming back to the booking window. When you see what you've seen over the last couple years in terms of the booking window evolving from where it was pre-pandemic to where it is post-pandemic, how much different does that booking window look today versus maybe 2019 as opposed to today versus one and two years ago? And when you think about what that shift looks like, how much of that do you think in terms of a shortening booking window are elements of demand-driven dynamics where the consumer might want to spend less money and be more discerning or just elements of normalization that are working their way back into global travel? Thank you.

Ellie Mertz

Chief Financial Officer, Airbnb, Inc.

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Thanks, Eric. So, let's talk about lead times over time. If we look at where we were, say, in Q2 of 2019, the average lead time across the platform was within one or two days of what it was in Q2 in 2024. So, from the kind of pre-COVID to last quarter, there hasn't been some material shift. What you did see through the path of COVID was, initially, we saw a massive reduction in lead time, because people had no confidence in terms of their ability to book far out, that reversed in, say, the 2022 to 2023 time period, where people are so eager to travel that they were booking way in advance of their kind of normalized patterns to make sure that they had the trip on the book, they got the most attractive listing at the best price by booking early. And I think, fast forward to 2024, you're seeing up through Q2, a very much return to normal. So, hopefully, that's helpful in terms of the overall four-year arc.

In terms of having some color or commentary in terms of what we're seeing today, just to reiterate some of the color I provided at the beginning of the call, the last-minute bookings are incredibly strong. So, they are, I would say, much higher in growth rates than what we are guiding to in terms of the average. There seems to be a lot of desire in terms of making sure you get your summer travel in at very elevated rates, but it's being offset by that portion of bookings, which is, for us, about half of the overall bookings, which are a month or longer. And I think, it's a minor softness, but it does have impact in terms of our backlog just given the concentration of bookings that happen more than a month in advance. There's just a modest amount of softness that is bringing the average lead time down. And I think what we've seen in the past is, from time to time, whether it be a new COVID variant, whether it be a macro headline, whether it be like last year, the outbreak of war in Israel, people from time to time have moments where they are not booking in the same timeframe that they did in prior periods and that's what we're tracking closely right now.

Operator: [Operator Instructions] Your next question comes from the line of Brian Nowak with Morgan Stanley. Your line is open.

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Q

Thanks for taking the questions. Maybe I'll squeeze in two. Let me ask one on the marketing expense comments for you, Ellie. You mentioned in the guide, marketing expense is going to grow faster than revenue in the third quarter. I guess, the question is, sort of how do we think about performance versus branded spend, and anything

you sort of learned about your marketing spend over the years sort of gives you confidence this could resonate to even faster room night growth this time around?

And then, one for Brian on sort of GenAI and philosophical strategy. There's a lot of talk sort of about top-of-funnel GenAI travel assistance. How do you think about taking your leading supply that you have maybe partnering with hotel partners to create a really differentiated top-of-funnel alternative and hotel booking assistant using all these large language model capabilities?

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

Ellie, I'll take the second, you take the first.

A

Ellie Mertz

Chief Financial Officer, Airbnb, Inc.

Yeah. So, Brian, let me talk a little bit about our marketing spend. Let me just back up before I talk about Q3 and remind you of the full year guide that we provided back in February. What we shared in February was that, for the full year, we were looking to deliver an EBITDA margin of a minimum of 35%, which was obviously down slightly from the nearly 37% we delivered in 2023. And the intent on guiding to margin compression on a year-over-year basis was to allow us the flexibility to invest in growth, and what you've seen so far this year is that for H1, marketing as a percent of revenue was effectively flat with where it was in 2023, but we do intend to lean into those growth investments in the back half of the year starting in Q3, and that's obviously what informs the EBITDA guide that you saw in the letter.

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In terms of where we are leaning in on marketing in particular and the confidence around the various channels, let me just talk about a couple of the components of the increase in marketing. So, first, consistent with the conversation Brian Chesky just had on international markets, what you'll see in Q3 is that we will be layering on a handful of incremental markets that we will be targeting and effectively turning on our global playbook. In particular, you'll see us try or intend to extend our success that we've seen in Latin American countries, like Brazil and Mexico, to other markets in that region, places like Peru, Colombia, Chile, Argentina, so there'll be some layering-on of those incremental markets.

We feel like we have had pretty good success there. Obviously, it takes time in terms of investments in the market, both from a product perspective as well as a marketing perspective to reaccelerate growth. But as the results have shown in terms of the differential between growth rates of our expansion markets and our core markets, we feel like our expansion efforts have been successful. And so, rolling them out to incremental markets will be helpful over the medium-term. In terms of incremental performance marketing, what we've shared with you year-to-date, that has continued into Q3, is that based on a lot of optimizations that we've made to our performance marketing efforts, we've been able to maintain extremely high efficiencies. And so, where we see those, we do lean in and have quite high confidence in terms of returns.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

And why don't I take your second question? So, Brian, Generative AI, ChatGPT launched late November 2022. When it launched, I think we all got like incredibly excited. It was kind of like the moment probably some of us first discovered the Internet or maybe when iPhone was launched. And when it was launched, you had this feeling that everything was going to change, but I think that's still true. But I think one of the things we've learned over the

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last, say, 18 months or nearly 2 years, 22 months since ChatGPT launched is that, it's going to take a lot longer than people think for applications to change.

If I were to think of AI, I'd probably think about it in three layers: you have the chip, you have the models, and you have the applications. There's been a lot of innovation on the chips. There's been a lot of innovation on the models. We have a lot of new models and there's a prolific rate of improvement in these models. But if you look at your home screen, which of your apps are fundamentally different because of AI, like fundamentally different because of Generative AI, very little, especially even less in ecommerce or travel. And the reason why is, I think it's just going to take time to develop new AI paradigms. It's actually [indiscernible] (00:30:24) that could have existed before AI.

And so, all of our paradigms are pre-AI paradigms. And so, what we need to do is we need to actually develop AI applications that are native to the models. No one has done this yet. There's not been one app that I'm aware of, that's the top 50 app in the App Store in the United States that is a fundamentally new paradigm, as fundamentally different as, say, multi-touch was to the iPhone in 2008, and we need that interface change.

So, that's one of the things that we're working on, and I do think Airbnb will eventually be much more than a search box, where you type a destination, add dates and find a listing, it's going to be much more of a travel concierge, that's having a conversation, learning, adapting to you. It's going to take a number of years to develop this. And so, it won't be in the next year that this will happen, and I think this is probably what most of my tech friends are also saying is, it's going to just take a bit more time. But to answer your question on what's possible, a new interface paradigm would allow us to attach new businesses.

So, the question is, what permission do we have to go into a business like hotels. Well, today, we have permission, because we have a lot of traffic. But if we had a breakthrough interface, we have even more permission, because suddenly we could move top-of-funnel and not just ask where are you going, but we could point to, we can inspire where you travel. Imagine if we had an index of the world's communities, we told you we had information about every community, and we can provide the end-to-end trip for you. So, there's a lot of opportunities as we develop new interfaces to cross-sell new more inventory. And just to remind everyone, we own HotelTonight. We bought that before the pandemic. It's one of the most popular hotel booking apps in the world and we are still investing in hotels. So, absolutely, there are opportunities down the road with this new interface to sell new things, including hotels and everything.

Operator: And your next question comes from the line of Justin Post with Bank of America. Your line is open.

Justin Post

Analyst, BofA Securities, Inc.

Q

Great. Thanks for my question. Just on the North America and Europe markets, presumably growing a little slower than the average for the company. Any signs of kind of cyclical or macro pressure, like shorter trips or people trading down that could end and that could maybe drive some acceleration when the period ends? And second, how do you feel about your market share in those two key regions? Thank you.

Ellie Mertz

Chief Financial Officer, Airbnb, Inc.

A

Yeah. So, let me talk a little bit about what we're seeing in both North America and EMEA. I would say, I would go back to my prior comments in terms of just the lead times, that commentary is true globally, and so it applies to both North America and EMEA. I would say, EMEA has been relatively stable quarter-to-date. And so, it's not

necessarily a part of the broader moderation story that we have shared. In terms of North America, there's a handful of components. One is the shorter lead times, I would say, second is North America has a concentration of our long-term stay nights, and what we've seen over the last year is that short-term stays have grown more quickly than long-term stays. And so, the LTS growth rate is a drag on the average that has an outsized impact on North America, and we've just comped with the changes that we made a year ago in terms of our LTS fees, which is a bit of a headwind for LTS, generally on the platform, but in particular, in North America.

The one other thing I would add in terms of just providing some color on what's happening in the US is a couple of regulatory comments. One in particular that we're watching is that, in California, the total price display and cancellation grace period regulations went into place on July 1st, and we think that's been a little bit of a headwind to our California business. Our California business, if you include both guests who reside in California as well as guests who are traveling to California, which is what the new rules apply to, is about 10% of our GBV. So, that's an area that we're watching quite closely to see how quickly consumer behavior normalizes after these regulations have been put into place. And to the comments I made earlier on ADR, I would say, we haven't really seen a material move towards trade downs. Much to the contrary, people continue to book our larger, more expensive listings. And then, in terms of shorter trips, the average trip length has gone down, but that is really a function of the mix shift between short-term rentals growing more quickly than long-term rentals, less so people choosing a three-day trip versus a four-day trip. So, I don't think we've seen the type of trade down behavior that you're likely asking about.

In terms of the second component of your question, market share. When we look at market share, we look at the market of nights stayed across combinations. And so, that obviously includes all the hotel nights that are either booked directly through a hotel or booked through an intermediary. And when we look at market share on that basis, what we see is that, in Q2, consistent with prior quarters, we continued on a year-over-year basis to gain market share in terms of total nights stayed over the universe of hotel and other travel accommodations. That is also true on a regional basis. We feel like we're doing quite well as we, across the world, continue to gain market share.

Operator: And your next question comes from the line of James Lee with Mizuho. Your line is open.

James Lee

Analyst, Mizuho Securities USA LLC

Q

Great. Thanks for taking my questions. Two here, please. First on experiences. What are some of the frictions and difficult problems you're trying to resolve here? It seems like you have plenty of supply, plenty of listings, so that doesn't seem to be an issue. Can you help us understand some of the key pain points for both suppliers and customers?

And second, one thing I noticed in North America and EMEA, you have callout that to see a mix shift to nonurban markets, and just want to get some more color on that. On urban markets in general, are you seeing weaker demand or seeing increased competition for hotels? Thanks.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

A

Hey, James. I'll take the first question. So, there's five things that we're looking for to do with experiences. The first thing is we want them to be a better price selection. Right now, we think we can have – we can offer more affordable experiences that younger people, especially Gen Z, could afford. So, that's the first thing. We don't really have enough affordable listings.

The second thing is we need more unique inventory. It's really good. The inventory we have is good. In fact, the five-star rating average for experiences is higher than the five-star rating for homes. But we still think we can have even more unique inventory that you could only find at Airbnb, that's not on another platform, and we want to recruit some of the most interesting people in the world to be on our platform, and we're getting a lot of excitement.

The third is we think we can even merchandise them better. I think experiences, you see moments like with film, with movie, with video. Imagine deciding on a movie, but instead of a film trailer, you had movie stills. Would you go see the movie? You probably wouldn't. So, you need a trailer. You need video. Experiences should be sold video first.

The fourth is it needs to be discoverable in the app. Right now, experiences are hard to find, because over the last four years, we've really focused on – prioritized in our core business. I mean, a lot of people that come to our homepage, they don't ever see experiences. You wouldn't know we sell experiences. So, we're going to completely reimagine our search and discovery engine to cross-sell experiences after you book a home and to really target the right homes. We're going to show you other guests on the experience to provide social proof. We're going to bring some of the magic like the Countdown and the Icons and some of the magic there.

And the final thing is, awareness for experience is really low. Most people don't know we offer experiences, even though, we launched them eight years ago. So, we're going to actually market them and tell the world about them, and we can do this without a lot of incremental investment, because we can market homes and experiences in the same ad. So, if we do those five things, I think we can dramatically change trajectory of our experiences business.

Ellie Mertz

Chief Financial Officer, Airbnb, Inc.

A

James, to your second question, in terms of the mix shift to nonurban markets. We call it on the letter, because there's a differential in terms of the respective market segments, but there isn't – it's not a major shift. What we are seeing is that growth in nonurban markets continues to be slightly higher than that of urban. I think, what that tells you is, we have a, I would say, a differentiated offering in nonurban. And I think the interesting thing about that portion of our business is, it has maintained a, I would say, meaningful larger share of our business demand four years post-COVID than it was previously. I think over the last four years, there's been a broadening awareness of the variety of markets that Airbnb is available, that hotel simply don't exist, and we continue to see great demand for those markets.

Operator: And your next question comes from the line of Justin Patterson with KeyBanc. Your line is open.

Justin Patterson

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thank you very much. Ellie, I appreciate your comments on margins and really on flexibility to invest this year. Could you talk about how long we should see this investment cycle persist and when would you start seeing more meaningful returns? Thank you.

Ellie Mertz

Chief Financial Officer, Airbnb, Inc.

A

Yeah. Thank you. So, we obviously have not given a guide for 2025. We'll provide you a view on 2025 as it approaches. What I would say is, if you look at where we have come over the last couple of years, we have

obviously delivered a substantial amount of margin expansion from where we started. You followed us for some time, but pre going public, we had negative EBITDA margins, and four years later, we were able to deliver almost 37% margins last year. So, I think we've more than demonstrated the strength of this model, both on a profitability basis as well as a free cash flow basis.

What we'd like to deliver more of is growth and that's why we, obviously, set a lower margin target for the current year. And as I said previously, you'll see us start to make those investments in the back half of the year. I anticipate that when you think about both our medium-term growth lever of international markets and the more long-term growth lever of expanding the core offerings, those will require some ongoing investments in order to scale and then deliver the growth. What I think you should also think about, though, is that all of our expansions to date have not been very capital-intensive. So, we will use some of the profitability to invest, but we don't anticipate any kind of sea change in the foreseeable future around overall profitability levels.

Operator: And your next question comes from the line of Kevin Kopelman with TD Cowen. Your line is open.

Kevin Kopelman

Analyst, TD Cowen

Q

Great. Thanks a lot. So, as we adjust out the Easter impact, it looks like you have a little bit of revenue growth slowing kind of each quarter this year expected to the third quarter. Based on the dynamics you're seeing today, do you anticipate some further slowing towards the end of the year, if you look at how stays are shaping up for Q4 or do you see anything in your numbers as of now that could lead to a stabilization? Thanks.

Ellie Mertz

Chief Financial Officer, Airbnb, Inc.

A

Yeah. Thanks, Kevin. So, I would say, first, we're not going to provide an outlook right now for Q4. But when I give you that color on the lead times, I think it's pretty informative from the perspective of, it's not that people are not definitively booking over the long-term, it's they may not have booked yet. And so, as I shared previously, we have seen some movement in lead times over the last couple of years, and in many cases, people have come booked, they just come and booked at a later time period. And so, that's certainly something that we'll be on the eyes out for in terms of Q4 and beyond. I think also just thinking about how the comps play out for the balance of the year, if you'll recall where we were last year, September and October were quite soft, and then November and December had a bit of a rebound. So, those are the comps that we'll be lapping as we approach the end of the summer heading into Q4.

Operator: And your next question comes from the line of Nick Jones with Citizens JMP. Your line is open.

Nicholas Jones

Analyst, Citizens JMP Securities LLC

Q

Hi. Thanks for taking the question. Maybe just another one on expenses and maybe philosophically how you're thinking about it. This plan to relaunch experiences, Brian, it sounds like there's not a lot of incremental investment required there. But earlier in the Q&A, you kind of talk about launching new products and services every year. So, I guess, can you speak to how nimble you plan to be with the investment cycle, if demand maybe continues to get weaker or versus kind of bouncing back, how should we be thinking about kind of the level of commitment to invest in what sounds like a lot of new and exciting products and services?

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

A

Yeah. I mean, we've essentially built our forecast to already have a spread of that between short-term, medium-term and long-term. So, in the short-term, I mean, the biggest driver of growth in the short-term, again, is conversion increases. Every 1% increase in our business is about \$100 million and we have hundreds of basis points of growth opportunities just in conversion and usability improvements. And then, affordability, we have quite a few opportunities, and then on quality and reliability.

Probably one of the biggest variables might be like how we think about expanding internationally, like some of the big Asian countries like Japan, we can be very, very nimble based on the results of Japan. Most of these new services and offerings, though, are going to not cost very much. They're mostly head count. We're talking some teams like hundreds of people, not thousands of people. So, you won't really see that, because this is a network effect business, and most of our traffic is going to be taking traffic we already have for our combinations business and cross-selling new offerings. And so, it's really just the cost of acquisition of supply and that's not very expensive, because we found that we can do it fairly efficiently. So, most of this is very nimble. There's not going to be a lot of incremental investment that would materially change. The variability, it's probably like marketing, especially internationally, that's a question.

Operator: And your next question comes from the line of Jed Kelly with Oppenheimer. Your line is open.

Jed Kelly

Analyst, Oppenheimer & Co., Inc.

Q

Hey. Great. Thanks for taking my question. Just going back to the urban opportunity and potentially putting more hotels on your platform. Can you just talk about philosophically how the company balances putting more supply that you might consider more commoditized and that can be cross-listed, but that might convert at a higher rate? Thank you.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

A

Hey, Jed. So, essentially, I think people come to Airbnb because they want to get something unique. That's what customers think when they think of Airbnb. That's why we're a noun and a verb. We're one of the only brands in the world, like Kleenex or Xerox, that's a noun and a verb, and it means you can – it's something that didn't really exist before we created this category at a wide scale.

That being said, for everyone who books an Airbnb, about nine people book a hotel. And so, if we can get just one of those guests to book on Airbnb, that's currently booking at a hotel platform, we would go from nearly 0.5 billion nights a year to a 1 billion nights a year, and there's two ways to do that. One is the increased reliability of homes in Airbnb, because the number one reason people tell us they book hotels is they're typically more reliable. They know what they're going to get. They have a front desk. The other is adding hotels in Airbnb, and we're not philosophically misaligned with adding hotels. If we were, we would never have bought HotelTonight before the pandemic. We just haven't prioritized hotels. We think of hotels as filling in network gaps during high occupancy nights. We generally think our travelers, if there's an incredible home at a low price, they're always going to choose that, but when occupancy goes up, they are going to go towards hotels.

There are also some use cases where hotels are better and Airbnbs are better. If you need a stay for one night, you're traveling alone, you're business traveler, and you plug in and you plug out, a hotel is better. If you're traveling with a group, you're traveling for more than three nights and you're traveling in a nonurban area, Airbnb

is better. And then, if you're doing something in between, then you're going to have choices. So, we do think between filling the network gaps and getting more of those one night business travel stays, there is an opportunity to offer hotels in Airbnb and we have a lot of hotels. We have hundreds of thousands of boutique hotels and non-home inventory on Airbnb and we're going to continue to expand that over the coming years to come. And so, there's no philosophical misalignment to add commodity inventory. The philosophical misalignment would be if that becomes the majority of our marketplace and people, consumers stop thinking of Airbnb as unique and local. If they start thinking about us and that changes the brand, then that would be a philosophical misalignment, but I don't see that happening anytime soon.

Operator: And your next question comes from Mark Mahaney with Evercore ISI. Your line is open.

Mark Mahaney

Analyst, Evercore ISI

Q

I just wanted to ask a question about Paris and the learnings you've had from this. I assume this is the biggest event for Airbnb, and a massive popular event in your largest city. So, just if that's true, and I think that is, just step back and talk about the learnings of being able to make sure you had enough supply working with local regulators and agencies. And in terms of getting messages out to, opportunities out to guests as well, like this big event that you've pulled off, just talk about the lessons you've been able to draw from that, that will help you set you up better for the next FIFA World Cup, and the next World Cup, next Olympics, et cetera.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

A

Yeah. It's a great question, Mark. I'm really glad you asked this. I just want to like take us back down memory lane, because in 2007, Airbnb provided housing for Design Conference. Then, in 2008, we provided housing for the Democratic National Convention. Then, in 2009, we provided housing for the inauguration. Our first three moments when we started Airbnb was providing housing for events. In fact, our original premise of our business was at housing for events. It wasn't meant to be ever offered for anything other than events and conferences. And the reason why is because conferences and events, and especially things like the Olympics and World Cup, are unbelievable use cases of Airbnb. And the reason why is, I think, obvious to everyone.

Events typically like to host more guests than they have hotel rooms available for. And most regular people aren't looking to become Airbnb hosts and make a long-term commitment to host every week, but a lot of people, for events coming to town, is willing to host one week and make \$1,000 or \$2,000. And so, what we did is we focused, a year ago, on Paris. And in the last year, we increased our supply in Paris by 37%. We now have nearly 150,000 homes in Paris. We have 430,000 guests stay in Paris so far and counting, and that number could continue to climb. So, that's equivalent of five Olympic stadiums. I want you to imagine five Olympic stadiums where the guests staying at Airbnb. The fact is that the Olympics, as we know it, could not ever happen again without Airbnb, because those 400,000 people could not have stayed in a hotel room.

And so, to do that, what we did is we worked with the city of Paris. I was in Paris 10 days ago. I met with President Macron, I met with his economic team, and we talked about how important Airbnb was to the Olympics happening, and we had a lot of cooperation. We were a title sponsor to Olympics, and we targeted this event of Paris. We did a lot of local campaigns. And so, it was so successful that we are now looking at the top 1,000 events in the world, really large ones, like the World Cup and Olympics, but also like looking at where Taylor Swift is going on concert or looking at different conferences, different – like we provide housing for the Berkshire Hathaway Conference in Omaha, and we worked with Warren Buffett, he got the word out. This was over a decade ago.

So, conferences, festivals, events, Coachella, you go down the list. I think this is the best strategy we have to recruit supply. And the supply we recruit for an event is not property managers. They're individuals who host occasionally that come only to Airbnb, and cities actually like when Airbnb provides housing for events, because we solve a problem for them. So, I'm glad you asked the question. The answer is it worked wildly successful, better than we ever imagined. We're working on Milan for 2026. We're looking at the LA Olympics for 2028, but we're also building a strategy for the top 1,000 events in the world, but I think this is a strategy that only Airbnb can do, because we basically increase excess capacity in cities all over the world, allow them to temporarily swell, and it's really alignment and incentives. So, it's been very successful and we continue to – we plan to expand the playbook.

Operator: And your next question comes from the line of Stephen Ju with UBS. Your line is open.

Stephen Ju

Analyst, UBS Securities LLC

Q

Okay. Great. Thank you. So, Brian, I want to ask on Airbnb Rooms. I would have thought that given its more nascent state in the economic backdrop that this should probably be the product that should be growing the fastest. So, is there anything that you can call out in terms of product fit or awareness? I think I heard you call out maybe supply shortages earlier, but any factors that might be weighing on the growth rate here a little bit? Thanks.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

A

Yeah. The reality is the biggest issue with Airbnb Rooms, it's just a small percent of our business. It's a very small percentage. So, even if it – no matter how fast it grows, it's off of a very small base. It's how Airbnb started, by providing a room in a house. It's very affordable. It's very popular for Gen Z, but it is off a very small base. And so, you're not going to see a major change to the growth rate of the company based on that.

I think the thing – but maybe just broad, zooming out though, two points I'll make. The first point is Airbnb is one of the most diverse businesses in the world. We have bedrooms and homes up to tens of thousands of dollar a night luxury villas in Airbnb. We allow you to travel by yourself or with large groups of up to 16 people. We're in every country, nearly in the world, every continent in the world, including at one point in Antarctica. And so, we're a very – we're in urban areas, we're in vacation around those nations. We're off the beaten path. So, our general philosophy is to have something for everyone, to have the most diverse array of inventory in the world.

The other point I'll just make is an area down the road that would really help Airbnb Rooms is continuing to invest in our system of trust. The biggest obstacle to people staying in a room is just like discomfort with staying in a house with a stranger they don't know. One of our core inventions with the system of trust and as more – we invest more in the system of trust, I think we can unlock more of these businesses where strangers are living together. So, I do think it's still a big long-term opportunity for us, but it's off of a smaller base, and it's never going to be as big as entire homes in Airbnb.

Operator: And your next question comes from the line of Lee Horowitz with Deutsche Bank. Your line is open.

Lee Horowitz

Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Thanks. Maybe one on nights and one on pricing. So, Ellie, you talk about putting more investments into place in the second half of this year as a means of accelerating growth. Can you help us better understand sort of the payback periods that you tend to expect on these dollars? And over what timeframe you may assess the ROI on these investments in terms of accelerating total company growth rates?

And then, maybe one on ADRs. You guys are highlighting sort of some building demand pressures in North America, while simultaneously pointing towards people trading up to whole homes and persistent ADR growth for your entire business, again, despite weaker growth in your highest ADR region, North America. I guess, when we think about the sustainability of ADR growth beyond the 3Q, as you mix away from North America, and perhaps the overall travel demand environment continues to soften, how do you think about your ability to continue to grow ADRs through that type of scenario? Thanks so much.

Ellie Mertz

Chief Financial Officer, Airbnb, Inc.

A

Yeah. So, first, let me talk about marketing paybacks. I would say, the way we view marketing paybacks is very different based on the channel of investment. From a performance marketing standpoint, obviously, the ROI is very specific and relatively short-term. We think about that in terms of weeks and months, not quarters. In terms of brands, we think about that over a longer time horizon. And if you think about any particular brand campaign, it needs to be in market for quite some time and it needs to be sustained for you not only to see the benefit, but also sustain the benefit and convert it into actual transactions. So, I think about that more from the six months to a year payback period and requires, I would say, a consistent level of investment.

And then, as a third factor, something that I mentioned in terms of an area of investment that is not programmatic, we do need to, at the margin, build some of our teams that are driving this growth. And so, that will be in a gradual investment modestly above the head count growth that we've been targeting over the last couple of years, but we think it will have long payback, or I should say, high payback in terms of driving acceleration across a variety of initiatives.

In terms pricing, I think there's one question about what is happening at a geo level, I think there's a broader question in terms of the aggregate or global ADRs. To your question in terms of if NAMER is softer than other regions, what happens to your global ADR. Obviously, mix shift is a huge component in terms of the global ADRs that we report. One factor in terms of the Q3 guide is the shift a little bit away from North America, which as you highlight does have the highest ADRs. Over time, we would anticipate that, as regions like Latin America and APAC become larger portions of our overall business, the global ADR would come down, but those incremental nights are all accretive and the economics behind them still are very strong. So, it's a – on a global basis, we're somewhat agnostic, because we can deliver strong economics across a wide range of ADRs.

Operator: And ladies and gentlemen, that will conclude our question-and-answer session. I will now turn the conference back over to Brian Chesky for closing remarks.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

All right. Well, thanks everyone for joining us today. Just to recap, revenue was \$2.7 billion, 11% higher than a year ago, adjusted EBITDA was a Q2 record and our trailing 12-month free cash flow was \$4.3 billion, this is our highest yet, representing a free cash flow margin of 41%, and we've made significant progress in the past few weeks, but there's more to come. In October, we're going to share a set of features and upgrades as part of 2024 winter release. This includes expanding co-hosting, setting the stage for host provided services and much more.

So, I'm proud of what we accomplished in Q2 and I look forward to sharing more with you next quarter. Thanks for joining.

Operator: And ladies and gentlemen, that concludes today's call and we thank you for your participation. You may now disconnect.

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