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Booking Holdings, Inc. (BKNG)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Booking Holdings Second Quarter 2023 Conference Call. Booking Holdings would like to remind everyone that this call may contain forward-looking statements which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from the expressed, implied or forecasted in such forward-looking statements.

Expressions of future goals or expectations and similar expressions reflecting something other than historical fact are intended to identify forward-looking statements. For a list of factors that could cause Booking Holdings' actual results to differ materially from those described in the forward-looking statements, please refer to the safe harbor statements at the end of Booking Holdings' earnings press release as well as the Booking Holdings' most recent filings with the Securities and Exchange Commission.

Unless required by law, Booking Holdings undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. A copy of Booking Holdings' earnings press release together with an accompanying financial and statistical supplement is available for investors section of Booking Holdings' website, www.bookingholdings.com.

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

Glenn D. Fogel

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

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

I am pleased to report that in the second quarter, we continued to see robust leisure travel demand which helped drive the strong results we are announcing today. The 260 million room nights booked in the second quarter increased by 9% year-over-year. And gross bookings of $39.7 billion grew 15% year-over-year and was the highest quarterly gross bookings ever. Both room nights and gross bookings came in ahead of our previous expectations as a result of the favorable demand environment.

Revenue growth of 27% in Q2 also nicely outperformed our expectations. The strong top line results in the quarter combined with better-than-expected marketing efficiency helped drive our Q2 adjusted EBITDA to about $1.8 billion, which is an increase of 64% versus Q2 last year and meaningfully exceeded our prior growth expectations of about 35%.

Looking at the month of July, we have seen an acceleration in year-over-year room night growth relative to the 9% growth we reported for Q2. We estimate July room nights increased by about 20% year-over-year, benefiting from the easier comparison to July 2022.

Overall, we have been very pleased to see our strong performance in the first half of the year, which has benefited from the continued strength and resiliency of overall travel demand. Our solid start to the year combined with what we currently believe will be a new all-time high for a Q3 summer travel period results in an improved outlook for the full year, which David will discuss in detail in his comments.

While the near-term results and outlook are encouraging, we remain focused on what is important for the business for the long term, which means making the necessary investments to strengthen and grow our enterprise while simultaneously remaining cost conscious. We are seeing progress and momentum across several important initiatives, which will help strengthen our business over the long term. These initiatives include advancing our Connected Trip vision, further integrating AI technology into our offerings, continuing to grow alternative accommodations and building more direct relationships with our travel bookers.

Starting with the Connected Trip. This is our long-term vision to make booking and experiencing travel easier, more personal, more enjoyable while delivering better value to our traveler customers and supplier partners. To be clear, this is not a discrete product we'll introduce at some point in the future. Instead, this is a meaningfully enhanced way for a booker to experience and utilize Booking.com.

Over time, you will see incremental improvements and enhancements to our platform that move us another step closer to this long-term vision. And importantly, this approach allows us to realize the benefits while we are building towards that future state. We believe that the current travel experience is much more complicated, fragmented and frustrating to travelers than it should be. And eventually, our Connected Trip vision will greatly improve it via technology.

Looking at the other side of the travel marketplace, we believe that our supplier partners will also benefit greatly from the Connected Trip as it will provide more opportunities to personalize and merchandise their offerings. We continue to build out our Connected Trip vision and have much more work to do. But we're pleased with the progress we have made so far and expect it to ultimately result in increased customer and supplier engagement with our platform.

We've always envisioned the Connected Trip as having AI technology at its center. Across our company, we have a long history with investing in AI technology and incorporating it into our platforms in order to optimize interactions with both our travelers and partners. This is an area where we believe we are well-positioned given that we have built strong teams of AI experts and gained valuable experience from using AI extensively for years.

In addition to the many current applications for AI on our platforms, we believe that we can build an even more compelling and differentiated offering for our bookers. We leverage AI technology to deliver a more personalized booking experience, a Connected Trip that will be more responsive to our bookers' needs and help manage different aspects of their trips.

Generative AI may play an important role in delivering the Connected Trip experience to our bookers. And our teams have been hard at work to integrate this exciting technology into our offerings in innovative ways. For example, in early July, Priceline unveiled its 2023 summer release, which delivered over 40 new booking tools and upgrades including Penny. Penny is Priceline's generative AI travel assistant. Priceline has currently positioned Penny at the end of the funnel on the checkout page where Penny can answer travel-related questions that a customer may have when they reach the checkout page.

Penny is built on Priceline's own proprietary technology and data and also leverages large language model technology to power its conversational capabilities. The combination of these technologies allows for innovations like the ability to make a booking directly in the chat interface. The Priceline team is rapidly gaining insights on booker questions, concerns and behavior as Penny continues to interact with customers. The plan is to further enhance Penny over time by leveraging these valuable learnings.

Around the same time as Priceline's summer release, Booking.com launched its own AI Trip Planner which began rolling out on the mobile app in the US to Genius customers. In contrast to Penny, the AI Trip Planner sits towards the top of the funnel, where travelers are in the discovery and planning processes for their trips. Built upon the foundation of Booking.com's existing machine learning models that recommend accommodation options to many of the travelers on the platform every day, the AI Trip Planner is also partially powered by large language model technology to create a conversational experience for people to start their trip planning processes.

The AI Trip Planner advances trip planning by providing travelers with a rich visual list of definitions and properties including Booking.com's live pricing information with deep links to view more details on the options. From the chat interface of the AI Trip Planner, bookers can tap on any recommended accommodation they're interested in and then complete the reservation.

Critical to our approach here is to marry our own proprietary data and machine learning models with the generative AI technology. This allows us to provide the conversational interface with the traveler while leveraging our own recommendation engine to provide accurate, detailed and real-time information on the property recommendations. Like Priceline, the Booking.com team is already gaining valuable insights from the interactions with bookers even though the Trip Planner is in beta and is still currently a relatively limited rollout.

While we are excited by these new advances at Booking.com and Priceline, it is of course still very early days. And we have much more to learn about how customers will ultimately want to interact with this new technology. In addition, we mentioned last quarter that OpenTable and KAYAK were experimenting with AI plugins. And we will continue to examine all areas of our company to ensure we are taking advantage of AI-created efficiencies. We are confident in our company's ability to benefit from AI developments and improve our products for our customers given our many years' experience in AI, our travel-related data and connections to our supply partners and our human and financial capital.

Across our businesses, we have two equally important customers, our travelers and our supply partners, with each representing one side of our marketplace. For our supply partners, we strive to be a trusted and valuable partner for all accommodation types on our platform. And we look to add value for our partners by delivering incremental demand and developing products and features to help support their businesses.

One area of focus for us on the supply side continues to be our alternative accommodations offering at Booking.com. Alternative accommodation room nights grew faster than our traditional hotel category at about 11% year-over-year for the second quarter and represented about 34% of Booking.com's total room nights, which is 2 percentage points higher than in Q2 2022. This is a new all-time high mix of our total room nights.

We are pleased to see continued momentum in trends of alternative accommodation supply growth, both globally and in the US with global listings reaching about 7 million by the end of the second quarter, which is about 8% higher than Q2 last year. We aim to build on this progress by continuing to improve the product for our supply partners and travelers particularly in the US.

For our travelers, we remain focused on building a better experience that leads to increased loyalty, frequency, spend and direct relationships over time. In the second quarter, our mix of customers booking directly on our platforms continued to increase year-over-year. We see a very high level of direct bookings in the mobile app, which is an important platform as it allows us more opportunities to engage directly with travelers, and we believe will result in increased traveler loyalty.

About 48% of our room nights were booked through our apps in the second quarter, which is about 6 percentage points higher than in Q2 2022, an acceleration in the mix shift compared to Q1 and an all-time high in terms of mix of bookings coming from our mobile apps. We will continue our efforts to enhance the app experience to build on the recent success we have seen here.

In conclusion, I'm encouraged by the strength of travel demand so far this year and signs of what we expect to be a record summer travel season. Our teams continue to innovate and execute well against our key strategic priorities, which helps us position our business well for the long term. We remain focused on delivering a better offering and experience for our customers, both our supply partners and our travelers alike. We are as confident as ever in the long-term growth of travel and in the opportunities ahead for our company.

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

David Ian Goulden

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

Thank you, Glenn, and good afternoon. I'll review our results for the second quarter as well as our thoughts for Q3 and for the full year. All growth rates for 2023 are on year-over-year basis unless otherwise indicated. We will be making some references to the comparable periods in 2019 where we think these are helpful.

Information regarding reconciliation of non-GAAP results to GAAP results can be found in our earnings release. We'll post our prepared remarks to the Booking Holdings Investor Relations website after the conclusion of the earnings call.

Now, on to our second quarter results, against a tough year-over-year comparison in the second quarter due to the strong rebound in travel after Omicron in Q2 last year, we were pleased to have delivered 9% room night growth in Q2, which was a few percentage points better than our expectations.

Looking at our year-over-year room nights growth by region in the second quarter, Asia was up over 40%, Rest of World was up low double digits, Europe was up 2 points and the US was down slightly. It's helpful to remember that the US was very strong last Q2 and stronger than Q1 and Q3 versus 2019 due to rebound from Omicron.

Compared to 2019, our Q2 global room night growth was 26% which was in line with Q1. For the second quarter, all our major regions grew at a similar rate versus 2019. In Q2, the booking window at Booking.com expanded further versus 2019 than it did in Q1. The Q2 booking window of Booking.com also expanded versus 2022.

As Glenn mentioned, our mobile apps represented about 48% of our total room nights in the quarter, which was about 6 percentage points higher than the second quarter of 2022. We continue to see an increased mix of our room nights coming to us through the direct channel. The direct channel increased as a percentage of our room nights in the second quarter relative to the second quarter of 2022.

For the first time since the onset of the pandemic, in Q2, we saw the international mix of our room nights fully recover to 2019 levels. Our cancellation rates in the second quarter were higher than Q2 2022 as the second quarter of 2022 benefited from the strong recovery in new bookings following the relaxation of travel restrictions in many parts of the world post Omicron. Our cancellation rates in the second quarter continued to be below 2019 levels.

For our alternative accommodations at Booking.com our Q2 room night growth was about 11% year-over-year and the global mix of alternative accommodation room nights was about 34% which was higher than about 32% in Q2 2022. Versus 2019, alternative accommodation room night growth was about 38%.

Q2 gross bookings increased 15% year-over-year or 16% on a constant currency basis. The 15% increase in gross bookings was 6 points higher than the 9% room night increase due to 5% higher accommodation constant currency ADRs and also due to 2 points from flight bookings partially offset by the 1 percentage point of negative impact from FX movements.

Our accommodation constant currency ADRs were negatively impacted by regional mix due to a higher mix of room nights in Asia and a lower mix of room nights in the US. Excluding regional mix, constant currency ADRs were up about 9 percentage points year-over-year. Despite the higher ADRs in the second quarter, we have not seen a change in the mix of hotel star ratings being bought or changes in length of stay that could indicate that consumers are trading down. We continue to watch these dynamics closely.

Airline tickets booked in the second quarter were up about 58% year-over-year driven by the continued expansion of Booking.com's flight offering.

Revenue for the second quarter came in nicely ahead of our expectations, increasing 27% year-over-year or about 28% on a constant currency basis. Q2 revenue as a percentage of gross bookings was about 130 basis points above last year, which is in line with our expectations. Our underlying accommodation take rates continue to be in line with 2019 levels.

Marketing expense, which is a highly variable expense line, increased 4% year-over-year. Marketing expense as a percentage of gross bookings was about 50 basis points lower than Q2 2022 due to higher ROIs in our paid channels and a higher mix of direct business. Performance marketing ROIs increased year-over-year due in part to an ongoing effort to improve the efficiency of our marketing spend.

Marketing and merchandising combined as a percentage of gross bookings in Q2 was about 60 basis points lower than last year, which is better than our expectation. Relative to expectation, this is primarily due to better ROIs in our paid channels as well as lower-than-expected merchandising spend which was impacted by the booking window being more expanded than we expected in the quarter, which will push merchandising expense into future periods at the time revenue is recognized.

Sales and other expenses as a percentage of gross bookings were up about 30 basis points compared to last year, a bit better than our expectation. About 48% of Booking.com's gross bookings were processed through our Payments platform in Q2, up from about 38% in Q2 2022. Our more fixed expenses in aggregate were up 20% year-over-year, which is below our expectations due to lower IT expenses in the quarter including some impact from phasing of IT spend into later in the year. We continue to manage our more fixed expenses very carefully.

Adjusted EBITDA was $1.8 billion in the second quarter, which was up 64% year-over-year and would have been up 70% on a constant currency basis. Adjusted EBITDA was well above our expectations due to a stronger top line, the efficiencies in marketing and merchandising and lower-than-expected IT expenses. Our adjusted EBITDA margins increased by about 7 percentage points versus Q2 2022.

Non-GAAP net income of $1.4 billion in the second quarter resulted in non-GAAP earnings per share of $37.62 per share, which was up 97% year-over-year. Our average share count in the second quarter was 9% below Q2 2022 and 15% below Q2 2019. On a GAAP basis, we had net income of $1.3 billion in the quarter.

Now, on to our cash and liquidity position. Our Q2 ending cash and investment balance of $15.7 billion was up versus our Q1 ending balance of $15.3 billion due to the $1.9 billion of debt issuances in May 2023 and the $1.6 billion of free cash flow generated in the second quarter offset by the $3.1 billion in share repurchases we completed in the quarter.

In the first half of the year, we repurchased $5.1 billion of our shares, which represented 5% of our year-end 2022 share count. The repurchases so far this year take our combined authorization down to $19 billion from the $24 billion we discussed earlier in the year. We remain comfortable with our ability to complete the full $24 billion of share repurchases within four years from when we started the program at the beginning of this year assuming no major downturn in the travel environment.

Now, on to our thoughts for the third quarter of 2023. In July, we saw year-over-year room night growth of about 20%, up from 9% in Q2. Looking across our major regions, in July, we saw Asia up about 45%, Rest of World up over 20%, Europe up mid-teens and the US up mid-single digits. When comparing versus 2019, July room night growth was in a similar range to the 26% growth in Q2. The US was our most recovered region with growth at over 30% versus 2019.

Our comments for the third quarter make the assumption that room night growth will be up low double digits year-on-year assuming some moderation in growth from July due in part to the harder prior year comparables in August and September. You'll recall from our commentary on the third quarter of 2022 that room night growth versus 2019 was 4% in July 2022 and 10% in August and September 2022.

In addition, we expect that due to the expanded booking window in the first half of the year for stays in Q3 that there'll be fewer last-minute bookings for stays in the rest of Q3. We expect Q3 gross bookings to grow about 7 points faster than room nights on a year-on-year basis due to a few points from continued flight bookings growth and a few points of positive impact from FX movements. We expect accommodation constant currency ADRs to be about in line with Q3 2022, including 2 points of pressure from the changes in regional mix.

We expect Q3 revenue as a percentage of gross bookings to be around 19%, slightly above last year due to a more positive impact from timing in part due to the expanded booking window in the first half of this year and from increased revenue from Payments. We expect these will be partially offset by a higher mix of flights and increased merchandising spend, some of which is related to bookings we received earlier in the year.

We expect Q3 marketing expense as a percentage of gross bookings to be lower than last year. We expect marketing and merchandising combined as a percentage of gross bookings in Q3 to be slightly lower than last year. We expect Q3 sales and other expenses as a percentage of gross bookings to be about 20 basis points higher than last year primarily due to higher gross bookings mix.

We expect our more fixed expenses in Q3 to grow year-over-year about 30% due to higher personnel and related expenses, higher IT expenses including the impacts of phasing from Q2 and higher indirect taxes in G&A. The year-over-year growth in our more fixed expenses includes about 7 percentage points from changes in FX. The difference between the 20% growth in our more fixed expenses in Q2 and the 30% growth in Q3 is driven mainly by FX and Majorel. Taking all of this into account, we expect Q3 adjusted EBITDA to be around 20% higher than last year.

Given the strong level of bookings that we've seen, we are updating our commentary for the full year. We currently expect gross bookings to grow slightly over 20%, up from our previous expectation for low teens growth. We expect full year room night growth in the mid-teens and constant currency accommodation ADRs to be up slightly for the year including 2 points of pressure from changes in regional mix.

We currently expect revenue as a percentage of gross bookings to increase year-over-year by about 20 basis points, down from our previous expectation of 50 basis points increase. The reduction in our full year take rate is driven by less of an advantage from timing including due to the higher growth rate we expected earlier in this year and also due to the expanded booking window and also from stronger performance which drove a higher mix of flight than we expected earlier in the year.

We currently expect marketing and merchandising as a percentage of gross bookings to be slightly below 2022 as compared to our previous expectation for it to be similar to 2022. The improvements in our expectation is driven primarily by higher ROIs in our paid channels.

We currently expect our more fixed expenses to grow about 25%, up from our previous expectation of around 20%. The increase in our expectation is driven primarily by variable components of personnel expense due to the overperformance versus our expectations at the start of the year as well as higher indirect taxes which is generally tied to revenues and some additional FX pressure.

We manage our more fixed expenses very carefully and continue to expect our more fixed expenses next year to grow at an appreciably lower rate than this year. We continue to expect our adjusted EBITDA margin to expand by 2 percentage points versus 2022.

In closing, we are pleased with our year-to-date results and the momentum in the business as we move into Q3. We'll now move to Q&A. Adam, can you please open the lines?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Lloyd Walmsley with UBS. Your line is open.

Lloyd Walmsley
Analyst, UBS Securities LLC

Q

Great, thanks. Two if I can. First, thanks for some of the color on the gen AI Trip Planners you guys have rolled out. Wondering how you guys think about that strategically and balance that with what search engines are doing. Do you think this brings you guys more direct traffic? Or do you think when you look at what some other players like Google are doing with their new search experience like how that might change traffic flows in the travel space? And then second one. You mentioned marketing ROI improvements and efforts to improve efficiency. Is that a function of just making higher ROI targets or just other changes you're making within marketing? Any commentary you can give there would be great. Thanks.

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

A

Hi, Lloyd. Why don't I take the first one about AI and then I'll let David talk about marketing and ROIs.

So first and while it's an easy answer, it's the true answer, which is nobody knows yet how this very new technology, generative AI, how that's going to play out in the long run. That's one. Two, even though we don't know how it's going to come out, we know it's very important that we continue to do everything we can to explore, experiment, see what might be very helpful to our travelers and to our supply partners too along with internally to do things better internally for us.

Every company is doing that including the big search engines like Google. They're coming out with what they can do and nobody knows. A couple of things though. I am fairly certain that history provides a good roadmap. And that is there will be changes, but companies that are able to adapt quickly, be agile, have great technology experts will benefit from these kinds of changes. We saw it as things – for example, like when the mobile phone came out. We were able to adapt quickly, adjust and we got I think a very good advantage from that. I think that we will hopefully get the same type of benefits as this new technology, generative AI, comes out.

The one thing I didn't mention in the prepared remarks was – I mentioned all the companies, but I didn't mention Agoda. So Agoda is doing some very good things in terms of internally how can we use gen AI to become more efficient with all types of code, Copilot-type systems. So there are lots of different things they were playing with all at once. I'm really happy the way that we're doing it from different directions. Having Priceline doing it at the bottom of the funnel, see how that works. Doing Booking.com's AI Trip Planner at the top, see how that's doing that. The ChatGPT plugins for OpenTable and from KAYAK.

So being able to do all these things from different brands and being able to learn from each other what works, what doesn't work, where should we put more emphasis, where should we put less emphasis; I think that will help us have an advantage over many other companies that may not have the scale, the experts, basically the capital to put into what could be a very, very exciting future for us. We'll see how it plays out. And of course, nobody knows how regulations are going to play into this and that is something that could affect everybody. And, David, I don't know if you want to talk about the marketing ROIs.

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

A

Yeah, sure. Thank you, I will. Lloyd, thanks for the question. So first of all, let's clarify that this is not a change in our approach relative to our desire to lean in this year to a recovering travel market. We're still leaning in to a recovering travel market. And as you can see from our top line numbers, we're doing quite well. So that hasn't changed. And marketing and merchandising investment in total will still be higher this year than it was in 2019, which kind of goes hand in hand with our lean in comment.

But what I would say and what you're seeing is within that envelope, as we look for ways to optimize our marketing spend, we've done a little bit more optimization than we expected. We're not going into all the components of where that's happening. But we're looking at channels for incrementality, for a return to direct, things like that and consistently testing across a very large marketing spend.

You see that during the quarter we spent about $1.8 billion on marketing. So it's a large amount of money that we're spending across that spectrum. We're always looking for ways to optimize different spend, different channels and different approaches. So it's really more to do with our ongoing effort to improve the efficiency of our marketing spend but, again, within the context of us still leaning in and looking to take share as the market continues to recover from COVID.

Operator: Your next question comes from the line of Mark Mahaney with Evercore. Your line is open.

Mark Mahaney
Analyst, Evercore ISI

Q

Okay, two questions, please. First, Glenn, have you noticed any changes in the type of travel demand? And I mean short versus longer stay, rural suburban versus urban. And then wanted to ask the CFO a question on AI, which is when you think about the impact that AI has had and gen AI could have on the business from a financial perspective, do you think that's more likely to be on the monetization side or on the cost efficiency side? And I'm sure you're going to say both. But if you could be a little bit more – if you have any more specifics on which of those you think could be more impacted by the application of gen AI over time. Thanks a lot.

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

A

Hi, Mark. I'm smiling because I want to do number two first and just say both. I'll do it in the order that you gave it. So this is a question that comes up a lot because – and I mentioned in the last call about how I'm always looking for the smoke signals of something changing. And some of the key things I'm always looking at are people trading down in terms of star ratings or are people going for a lower length of stay or are people shifting to areas that may be cheaper travel than what previously was more expensive travel. Always looking for some sort of early warning signal that something's happening. And I do not see that yet. I do not see that in any of those areas and that's what we're seeing right now.

In terms of the AI, it's a very interesting question. And of course, if we knew the answer, we would have a good sense of where should we put in most of our investment dollars and our people. Put them into the area that's going to give us the best return. But the thing is, as I mentioned in the first question, nobody knows the answer to these things. These are all just guesses. So at this stage, it's very important to spread the bets around and see where the returns are coming and see where we want to put people to work, put more money to work, and see what's going to come back.

One of the DNA of our company has always been experiment, see what works, and keep pushing in what's working better than other areas. So we're going to be doing a lot of different experimentation. And I think that's going to go on for some time before we really have a good sense of where the best returns are. I think in the long run, of course, the both things you mentioned are going to give tremendous benefits to everybody. But you're correct to ask the question, which things first and how much. And that is not known yet.

Mark Mahaney
Analyst, Evercore ISI

Q

Okay.

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

Justin Post
Analyst, Bank of America

Q

Great. Thanks for taking my question. Obviously, very strong in Asia. Maybe talk a little bit about what you're seeing there. And are you able to take some share from direct bookings at hotels or competitors? And then I thought your marketing ROI comment was very interesting in a very crowded quarter for marketing spend. So can you talk about – is it the direct traffic that's helping you be more judicious with your marketing spend? Or how are you getting [indiscernible] (00:34:52)?

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

A

So I'll let David speak second about if he wants to give any more color into the marketing question. And I'll start with Asia, so yes, very pleased with Asia, very nice to see the second quarter numbers and even nicer to see July accelerating like that. That's great. And obviously that's a function of Asia took more time to recover. The restrictions dropped later. And we're doing year-over-year comp, so we're getting some benefit out of that. And by the way, just so there's no confusion. China is still not producing significant – they're far behind in terms of outbound recovery. And we're much more an outbound player there. And I don't expect a recovery in China for us for some time, a significant time probably.

So overall, it's good. There are a lot of factors happening there that are very similar to other parts of the world where people wanted to travel. They're going out there. They're doing it. And we have done a very good job. The same way we did in the US, the same we did in Europe is making sure that when people wanted to travel, we were there for them. And we're seeing the results right there and, David, if you want to give any more color into that marketing question.

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

A

Yeah, Justin, I think I gave a fair amount of color in my first answer. So I'm not going to repeat it. You did ask about whether direct mix plays into this as well. And, yes, obviously it is. Our direct mix is increasing as we commented and it continues to do so. That helps. But we're also getting help from just looking across our total spend on marketing and looking at pockets of efficiency using some of the variables I talked about earlier.

Justin Post
Analyst, Bank of America

Q

Great. Thank you.

Operator: 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. Could you give us an update on your efforts and progress in the North America vacation rental market and just where you're at on that initiative? Thank you.

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

A

Hi, Kevin. So I'm very pleased that we're continuing to advance while we talked about the overall, we'll call it, alternative accommodations. This is where we define that area. We talked globally about our 11% growth being faster than the 9% for the overall company. That 11% was a Booking.com number. But in terms of North America specifically or let's reduce it to the US, which is the area where I think we all are more focused on.

We have said many, many times. I've said many, many times that's an area of focus for us. We know we're under-indexed. We know there are areas where we had to improve the product. And we talked in the last call and the call before that and the call before that too probably about the things we were doing to improve it. And that is both on the supply side, making sure we're improving things so that people who own homes, people who manage apartments, people who are in this space who say I'm sorry, but Booking.com, you're not doing certain things that you need to do for me. I'm glad that we are doing those things. And they will then be willing and are beginning to list their properties on our platform. That's great.

Then on the other side, as I talked about last time, is the importance – okay, we got the properties. Now we got to make sure people know about it. And I talked last time again about awareness and that we needed to bring that up too. This is not a thing you solve overnight. This is something that you, day by day, step by step, grind it out. And that's what we're doing in all the different areas and we're seeing the progress. So are we there yet? No, not even close to there yet. But the good thing is we're making the progress and that's all upside for us down the road. So we're going to keep on plugging away at it. And I think we'll continue to experience good returns as we continue to invest in the area.

Kevin Kopelman
Analyst, TD Cowen

Q

Great. Thank you, Glenn. Appreciate it.

Operator: 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. Can you talk about where you're seeing the biggest impacts of Connected Trip? And how big of an impact do you think that's having in terms of your outsized growth in the quarter? And then just switching to mobile, the 48% of room nights booked through the apps. Anything you can share in terms of better frequency and loyalty among those app users? Thanks.

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

A

So I'll leave the second one, what David wants to actually reveal in that area, that specificity. I'm not sure if he does or doesn't. Regarding the Connected Trip, a couple of things on that. So let's start off right at the start. That the Connected Trip is not producing the material increases in what we're doing right now. The good numbers that we're showing right now are not because of the Connected Trip. And it's just too small to show that.

Imagine we're building an arch. And until every piece is in place, you're not getting a lot of advantage from this arch. Right now we're building the arch. So you see parts of it that are showing up but not the big effect. So for example, really happy about one element which is you have to have a flights product. And we're doing 58% year-over-year growth in tickets and flights. That's a really good number. It shows that we're producing a good flight product. Well, we get that going.

And then there are the other areas that we have to build out like things like the attractions. Things like the rides part to get people from the hotel to the airport or from your home to the airport, things like that. Building all those things out. And then, of course, the glue, Payments. That's very important to make sure the whole thing is working correctly. We're able to give benefits, value to both the traveler and enable our suppliers to have an opportunity to give types of benefits so they'll win that deal. These are things we need Payments to do and we're making great progress. We're really happy to see that number up there, that 48% in the growth from last year.

So all these elements are being worked on. But that is not what's producing the very good returns in Q2. On the flipside, that says look at all the potential future we have down the road. That's really encouraging to me. So I'm very happy where we are. I'm glad with the progress we're making. But it should not be mis-thought that this is the thing that's produced Q2's numbers. And, David, I don't know if you want to talk about mobile app, anything there in terms of repeat.

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

A

Yes. Thank you, Glenn, I will. So sorry, go ahead, Doug. You were going to ask a question.

Doug Anmuth
Analyst, JPMorgan Securities LLC

Q

No, go ahead, David.

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

A

Thank you. So in terms of what do you think about what's happening with the app, there are basically three ways that people can interact with us directly. They can come through the app. They can come to us directly on a desktop device. They can come to us directly on a mobile device. And out of those three, not too surprisingly, the app is the stickiest channel in terms of frequency and loyalty as you mentioned, which is why obviously app is now a very high percentage of direct and has become an increasing percentage of direct. And we think that's a good thing. But relative to differences in frequency and loyalty, we're not in a position to get into those today. But it is definitely our best channel in terms of frequency and loyalty.

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

A

And, Doug, one other thing I want to add to this is – yeah, Doug – is the importance of the app and the Connected Trip. It's one of the important parts along with the other ones because one of the things that we really believe is important when you're traveling is to get advice, deals, all sorts of things that you want to have your travel agent in your pocket. Well, in your phone, that is the travel agent in the pocket. And then you throw on top of this all of the gen AI stuff, all of that. There's some real potential opportunities down the road that when people are traveling, they're going to have a much better experience than they have had in the past. And that's what I'm looking for down the road.

Doug Anmuth
Analyst, JPMorgan Securities LLC

Q

Thank you, Glenn and David.

Operator: 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

Great, thanks. Your direct booking mix improvement remains impressive. I guess for starters, can you help us unpack what drove the acceleration in mix towards direct in the quarter, something specific on your end that you guys are doing that drove that improvement quarter-on-quarter? And how should we think that being replicated going forward?

And then, secondly, are we getting to a point where direct mix may fully offset your growth into lower-margin businesses and thus over time allow you to actually walk margins back towards 2019 levels? Just any commentary there in terms of direct mix and margins over time would be helpful. Thanks so much.

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

A

Hi, Lee. I'll let David talk about whether or not he wants to talk about where the margins may go with that. But I'll talk just in general why do we continue quarter after quarter, it seems to be, improving our direct mix. And I believe the reason is because people like the product. That's the thing that helps. They've used it and they decided to come back because we're giving the best prices. We've got the most selection, the greatest selection. We're making it easier for them to do it. And we're providing great customer service. If something goes wrong, they'll fix it.

The reason I use – and I'm not going to list some other online retailers. There are some big ones that I use and I use it constantly. I do it because it's better. And I believe in the end, that's what wins is customer centricity. Coming back with a better product, one that people believe and trust is the reason people are loyal to a brand. That's what we're building here and I believe that's why we are slowly incrementally building out that direct mix. I think that's the biggest thing for me. David, you can add if you want to add anything to that. And also, I'm not sure what you want to talk about in terms of margins when people come direct and what that may do in the long run to our EBITDA margin profile.

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

A

Yeah, Lee, obviously, direct mix is very helpful for the business. And we're talking about here really the direct mix within our accommodation business is kind of our core business. And we mentioned before that we believe that we can continue to improve margins a little bit from where they were in 2023. But we're not trying to walk them all the way back to where they were in 2019.

We all have significant businesses that are lower margin businesses than we had in 2019 when we had a large price business. We're moving towards having a large payments business. So direct mix can obviously offset some of the pressure in the business. But don't expect it to walk our margins back to 2019. That's not what we talked about getting to. But we do believe it's one of the factors that can lead us to have continual improvement from where we are now.

Lee Horowitz
Analyst, Deutsche Bank Securities, Inc.

Q

Helpful. Thank you.

Operator: 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

Thank you so much for taking the questions. Maybe against your broader long-term goals for growth that you called out earlier in your comments, would love to get any update about how you're feeling about supply growth with respect to shared accommodations and/or local experiences against continuing to diversify supply and build out more elements of the Connected Trip? And how do those factor in as elements of investment beyond 2023 looking out into next year? Thanks so much.

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

A

Hi, Eric. So the important thing is always priorities, what's the most important thing. And we mentioned numerous times in terms of our alternative accommodations how important it is to continue to build out the supply there. We have a large number of listings. That's true. And I've talked about many times though you have to have the right type of listing in the right locations. And we've talked in the past, and it's not done yet, in the US, getting the right accommodations in the right places so that when people come, they have something to buy. That's very important. That's top priority.

When you shift down to something like attractions, not as important right now. It's important, but it's not as high a priority as getting the alternative accommodations. That's one of the most critical things is making sure we're spending the time, energy, effort and money in the places that are giving us the best return. We have good attractions from third-party connections. We have the key ones. And some day, it'll be important to build out further along that. But for right now, for this year and next year, I want to make sure that we're going to have the bigger bang for the buck, which is making sure we have the right number and the right types of alternative accommodations on our platform.

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

Q

Super clear. Thank you.

Operator: 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 US business, you highlighted mid-single digit growth in the US. Can you talk about how that's trending relative to your competitors? And does that number, does that capture the amount of Americans traveling over to Europe or is that included in your European room nights? Thank you.

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

A

Yeah, David, I'll let you go on both of them. I'm not sure what you want to talk about in terms of us versus competitors or not.

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

A

Yeah, let me clarify. First of all, when we talk about these regions on a geography basis; we're talking about on a booker basis. So yes, Jed, it does capture bookings being made by US travelers, including those that are moving overseas, which is one of the reasons why we're getting growth.

We mentioned that we're back to basically mid-single-digit growth in July in the US after seeing a very, very small decline in growth in Q2. And actually that was really just April and May. By the time we got to June, we were back to growth as well. And then the April and May comparisons were really due to the really strong rebound we saw between those months when the all clear was declared from Omicron last year. So we got a little bit of funky compares going on there. So I think we're doing well in the marketplace.

It's too early to kind of call how we see us doing against the market for a single quarter. We like to kind of look at that on a longer-term basis. We're going to look at how the year pans out. I would just point out that relative to the market, we mentioned that in July when over 30% growth in the US versus 2019, that is significantly well ahead of any market data points. The market is perhaps closer to breakeven, maybe slightly positive compared to 2019. We're up 30%.

So we tend to look at it over as long a period of time. And we'll have a better view on exactly how we're doing in the US relative to the market as the year develops and as the year ends. As Glenn mentioned, we're pleased with many of our programs there. We also know there's a lot of upside for us to continue to push more into the US marketplace.

Jed Kelly
Analyst, Oppenheimer & Co., Inc.

Q

Thank you.

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

Alexander Robert Lyon Brignall
Analyst, Redbum (Europe) Ltd.

Q

Hi, guys. Thank you very much for taking the question. I just have one on the full year guidance. Obviously, the big change there is the revenue divided by gross bookings being up only 0.2% year-on-year. So could you just talk a little bit about how that will manifest next year? Obviously, pulling forward some bookings brings forward the marketing and also, therefore, it has the impact on EBITDA. But can you talk about the longer-term dynamics? Presumably, that has no impact on 2024 and on the margin trajectory you see going forward. Thank you.

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

A

Yeah, Alex. Let me take that. So yes, as we had called out in the prepared remarks, there are two factors that are causing us to take the guidance of take rates, to scroll that number down a little bit from where we were before. And actually both are kind of what I would call good things happening within this business.

So the first is that the business is growing faster and the booking window has elongated compared to where we thought we'd be this year, which means that we're not getting all the benefit from timing recovery this year. Some of that timing recovery will be delayed into next year. So that we should get back as a positive. That piece of the reduction, we'll get back as a positive next year.

Now the fact that flights is growing faster than we expected is also putting a little bit of pressure on margin. But as Glenn said, that's a good thing as well because we are building out more capabilities and more opportunities to work with our customers across connected transactions. So those are the two main dynamics, one of which we will get back in terms of timing recovery, which we thought would happen this year, will now happen more likely over two years.

Alexander Robert Lyon Brignall
Analyst, Redburn (Europe) Ltd.

Q

Okay. That's really helpful, David. Thank you. As a follow-up, one of the things that's obviously changed is that some of your marketing dollars, which come below the revenue line have turned into merchandising dollars above the revenue line. And so it seems really like that revenue line is very, very hard to model.

If we were to think of things in terms of EBITDA divided by gross bookings, is there any meaningful reason why your core business – so the accommodation business outside of Payments and flights and all the sort of businesses that dilute that figure – should not see a return to pre-COVID profitability, if not improvement, as you increase direct mix? So if I just think accommodation EBITDA divided by gross bookings, is there any reason why that should be less profitable in the future than it was before COVID?

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

A

That's obviously a different way of looking at the EBITDA margin than we typically do. But you're right, obviously, some of the contra revenue because of merchandising is impacting the revenue line. The direct mix will obviously help overcome pressures in the accommodation business. Obviously, it seems like alternative's become slightly bigger. It seems like Asia become slightly bigger.

So I think when we've talked about the long-term model for the business, assume that the core accommodations business can get back to – in the rough region where it was 2019-ish. And then the impacts on EBITDA margins in the overall business will be driven by a mix of some of the newer businesses that have all become quite large in terms of particularly Payments and flights, neither of which were a major factor in 2019.

What I would point to, as I step back further, and say what we've committed to for our long-term model, which I think is very important compared to 2019, is we have a business that is larger on the top line and the bottom line and growing faster on the top line and the bottom line than it did in 2019. And that I think is the overall commitment that we've made that we're very committed to, which we'll stick to, that I think will help drive your thinking about the overall model.

Alexander Robert Lyon Brignall
Analyst, Redburn (Europe) Ltd.

Q

So I guess it's [indiscernible] (00:53:44) the additional businesses as incremental to your core business.

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

A

That's the way to think about building the model out to look at our future EBITDA, yes.

Alexander Robert Lyon Brignall
Analyst, Redburn (Europe) Ltd.

Q

Thank you very much.

Operator: Your next question comes from the line of Ron Josey with Citigroup. Your line is open.

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks for taking the question and really helpful to hear all the stats and see everything go as well this quarter. Glenn, I wanted to take you back maybe a year ago. We talked about growing Booking's share of annual spend per customer. And as we see direct bookings increase, the Connected Trips rise, AI Trip Planners launched, just talk to us about the progress of just gaining share of that annual spend per customer. Any updated goals there? Thank you.

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

A

So, Ron, let me try and understand the question. You're saying the annual spend per customer, is that right?

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

So the percentage share of travel spent, yes. I think we talked about...

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

A

Yeah.

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

...getting to like 25% a year ago or something.

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

A

Yeah, right. So clearly, part of the issue is that our customers – and I'm happy about this – they don't always use us. They probably use a competitor and we see that. We see that unfortunately more than I'd like. Part of it is not having a product that they want. That's one thing, which we're building out as we talked a little bit about. And the other thing is perhaps somebody thinks that they go, for example, internationally, I'll go for this brand but domestic, I'll go with that one.

The key thing for us is to develop that loyalty, that reason that somebody really thinks that they'll come to us for any travel will come to us. So part of it is bringing all this together with the Connected Trip, bring it all together with Payments. The more we learn about the customer with their permission, of course, and then providing them with what they may want more than anyone else so that they will always come back to us for all this.

What do I believe in the end it could be? Do I believe that in the end we could have all customers all the time? Of course not. But I hope that we can continue to improve this substantially in the long run. And you'll see that as we [indiscernible] (00:55:53) finish off some of these areas that we're still building out, things like making sure we have enough of those alternative accommodations people say they want, that we actually have one.

It's like making sure that we have the payment product that they want to use, a payment system that – many things around the world we've talked about. They don't use Visa card. They don't use Mastercard. They don't use American Express. They got other ways they want to pay, making sure we have that payment for them so that that traveler customer feels comfortable using us. And I can go on and on and on with many other things. That's what we need to do. How high do I think it can be? I'm not going to guess that. I just know it can be substantially better than we are right now.

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thank you, Glenn.

Operator: Your next question comes from the line of Scott Devitt with Wedbush. Your line is open.

Scott W. Devitt
Analyst, Wedbush Securities, Inc.

Q

Thanks for taking my questions. I had two, please. The first one – I'm just wondering, Glenn, in terms of – anything you can speak to in terms of shift in travel trends. There's been a lot of discussion around shoulder month travel, April-May, August-September because of remote work and elevated prices.

When I hear you guys talk about the months, I don't necessarily see that in what you're saying. But it may be related to comps. I would just love to hear your perspective on shoulder month travel first. And then, secondly, now that there's a new loyalty program on the market, I'm just wondering your thoughts on Genius and how you're thinking of the current offering relative to competing programs now in the market. Thank you.

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

A

Sure. So yeah, it used to be easy. There was shoulder and there was peak and life was easy to understand. And that's how it used to be and it's not like that at all. And boy, are things confusing right now. When you had Omicron circling the world; in some areas, it's hitting. And then a year later, that's the year they comp against. So it gets very, very confusing, as David was pointing out in the numbers how something could look something. But actually, it's much more understandable if you – they had COVID in that area last year or they had just opened up last year.

Here's the thing. I hope that next year things will return back to a more normalized, easier understanding of what the seasonality of travel is. However, there's a new thing that's common. And that is the idea of people not going to offices as much and then they're also traveling more. So they're using this Monday and Friday where they're traveling more for these longer weekends or perhaps a whole week, et cetera. And I think that's going to make it more – there's going to be more uncertainty to see what that is.

What that may end up doing is evening out travel throughout the year more where people are able to use time in areas that used to be shoulder season. But now people are using it more, which helps spread out the travel more. I don't know, but we'll find out. That's why though – I can't change any of that, so I'm not going to worry about it too much. What we'll use is in the near term is what signals we see in terms of how much we should spend on marketing or not.

And in the long run, what we hope is [ph] to, again, (00:58:43) improve the products because that's the way in the long run to win. That's how we'll do it. I'm sure lots of people are going to have lots of guesses about what the seasonality trends are going to be for the next couple of years globally. I'm not going to try and do that. You had another question, I believe. I forgot it though.

Scott W. Devitt
Analyst, Wedbush Securities, Inc. Q

Yeah, just Genius and your thoughts on Genius or the competing product now on the market.

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

So there have been...

Scott W. Devitt
Analyst, Wedbush Securities, Inc. Q

There's a...

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

Yeah. All right. So going all the way back to when American Airlines came out with their first loyalty plan – I'm actually old enough to – I actually joined it – all the way to now. There are lots of different loyalty plans for all different things and beyond travel for sure. And another company comes out with a new one or whatever. It's nice, interesting. But the truth is I love what we're doing on Genius. I think it's a great product and we're going to do even more with it.

One of the things that's really wonderful about it is that we use it with our partners together in a way to give benefit to both of us, making sure that it is actually incrementally improving what's good for that partner along with, of course, making sure it's good for our customer traveler. Doing that is the way any type of loyalty program should really work. And that's something that I think we've done a good job with and continue to do it. Now what we need to do is add on more benefits and more benefits that enables the supplier to give more opportunity to merchandise and give things that'll be good for the traveler so that they can win that actual transaction. And that's what we're going to continue to do.

We've talked about how we've improved it from when it just started out. And now we're up to three tiers. And there are lots of things down the road that we'll add on as we continue to develop the Connected Trip that will give us the opportunity to give more incremental benefits to both sides. I really don't worry too much about what somebody else is doing. I'm more concerned of making sure we're executing right on those things that's important for our customers, for both the travelers and the suppliers.

Scott W. Devitt
Analyst, Wedbush Securities, Inc.

Q

Thank you and congratulations.

Operator: I will now turn the call back over to Glenn Fogel for closing remarks.

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

Well, I'd like to just thank everybody for participating. We're very, very pleased with the results we've had. So I want to thank the partners, of course, our customers, our dedicated employees and of course our shareholders. We appreciate everybody's support as we continue to build on the long-term vision for our company. Thank you very much and good night.

Operator: Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.