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Booking Holdings, Inc. (BKNG)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Booking Holdings Third quarter 2024 Conference Call.

Booking Holdings would like to remind everyone that this call may contain forward-looking statements, which are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are not guaranteed of future performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed, implied, or forecasted in any such forward-looking statements. Expressions of future goals or expectations and similar expressions reflecting something other than historical facts are indeed to identify forward-looking statements.

For a list of factors had that could cause Booking Holdings' actual results to differ materially from those described in the forward-looking statements, please refer to the Safe Harbor statement at the end of Booking Holdings' earnings press release as well as Booking Holdings' most recent filings with the Securities and Exchange Commission. Unless required by law, Booking Holdings undertakes no obligation to update publicly any forward-looking statement, whether as a result of new information, future events, or otherwise.

A copy of Booking Holdings' earnings press release together with an accompanying financial and statistical supplement is available in the For Investors section of Booking Holdings website, www.bookingholdings.com.

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

Glenn D. Fogel

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

Thank you, and welcome to Booking Holdings' third quarter conference call. I'm joined this afternoon by our CFO, Ewout Steenbergen. I am pleased to report an improvement in topline trends in the third quarter, particularly in Europe, that resulted in room nights, gross bookings and revenue all exceeding the high end of our prior expectations.

The revenue outperformance combined with disciplined marketing spend and lower than expected fixed OpEx growth, helped drive adjusted EBITDA that was 9% above the high end of our prior guidance range. We continue to be encouraged by the strength of our underlying business, the health of the travel industry and the attractiveness of our products.

In the third quarter, our travelers booked just under 300 million room nights across our platforms, an increase of 8% year-over-year. Revenue of \$8 billion grew 9% year-over-year, and adjusted EBITDA of \$3.7 billion increased 12% year-over-year. Finally, adjusted earnings per share grew 16% year-over-year, helped by our strong capital return program, which reduced our average share count by 6% year-over-year.

From a regional perspective, we observed an improvement in our room night growth in Europe in the third quarter, which was the primary driver of the sequential increase in our global room night growth. In Asia, we continue to perform well with another quarter of double-digit growth and we remain optimistic in our outlook for this region, which I'll discuss in more detail later on the call.

In the US, we see relatively stable levels of growth in our business so far this year, which we think continues to outpace the broader US accommodation industry. As we look ahead to the fourth quarter, we expect to continue to see healthy levels of room night growth as demand for travel remains resilient. Ewout will provide further details on our third quarter results and our thoughts about the fourth quarter.

I remain confident in the attractive growth profile of the travel industry, our competitive position and our long-term growth and earnings model. We continue to see progress across several important initiatives, which include growing alternative accommodations, advancing our Connected Trip Vision, continuing to develop our AI capabilities and continuing our progress in Asia. These initiatives contribute to our ongoing effort to deliver a better planning, booking and travel experience for our travelers while also benefiting our supplier partners.

We remain focused on being a trusted and valuable partner to all of the accommodation properties on our platforms by delivering incremental travel demand and developing products and features to help support these businesses, the majority of which are small independents.

For alternative combination of Booking.com, we continue to see more properties connected to our platform with listings at the end of Q3 reaching 7.9 million, up about 10% from last year. The growing number of listings provide more accommodation choices for our travelers, which we believe contributed to strong alternative accommodations room night growth of 14% in Q3.

We believe that we have a differentiated offering because we make all property types, hotels and alternative accommodations available on our Booking.com platform. We see benefits to this approach.

For example, our data shows that a portion of our bookers landing on our platform with an interest in a hotel will instead end up booking an alternative accommodation and vice versa. We believe that this shows in many cases travelers are open to compare hotel and alternative accommodation options when determining the best place to stay for their trip. Our objective is to make sure we continue to provide great choices for our travelers across all property types.

On the Connected Trip, we continue to take steps towards our long-term vision to make the planning, booking and travel experience easier, more personal and more enjoyable, while delivering better value to our travelers and supplier partners. We believe the Connected Trip is strengthened by our growing merchant capabilities, which help bring the different elements of travel together in a more seamless booking experience.

In addition, our Genius loyalty program at Booking.com has been expanding outside of accommodations and into our other travel verticals, which helps to deliver more value to our travelers, as they book more components of their trips with us and to our partners as they receive incremental bookings.

We continue to see growth in Connected Trip transactions, which means a trip that includes booking more than one travel vertical. These connected transactions increased by over 40% year-over-year in the third quarter and represented a high single-digit percentage of Booking.com's total transactions.

We believe by making it easier to plan and book multiple elements of a trip on our platform, we are providing a better overall booking experience for our travelers. And we have seen in past experiments, that customers who choose to book a Connected Trip book more frequently with us and have a higher likelihood of booking directly with us in the future.

Turning to flights. They're an important component for many of the Connected Trips that our travelers are booking. In the third quarter, air tickets booked on our platforms increased 39% year-over-year, which was an acceleration from Q2 growth of 28% and was driven primarily by the growth of Booking.com slate offering, but we also benefited from strong growth in Agoda's flight business. We continue to see a healthy number of new customers coming to Booking.com through the flight vertical and are encouraged by the number of these customers and returning customers that also see the value of the other services we offer on our platform.

To achieve the easier and more personalized experience of the Connected Trip, we have always intended for AI technology to be at the center of this vision. At each of our brands, our teams of AI experts continue to draw on their valuable experience as they incorporate AI technology into our platforms.

We believe that our proprietary data, along with our resources and scale position us well to build compelling and personalized AI-powered offerings for our travelers and partners. This technology will also enable us to drive further efficiency in our own operations. We have significant activity in this area across the company, and I'll briefly discuss just a few of the encouraging efforts that are underway across our brands.

Last summer, Booking.com launched its AI Trip Planner. And since the launch, Booking.com has gained valuable insights from its millions of interactions with bookers as well as from the use of the GenAI technology alongside our existing machine learning models. The learnings from the AI Trip Planner are leading to new applications of GenAI technology, including a recent launch of a Smart filter, which makes over 200 potential search filters findable through a free text interface.

These innovations also extend to the partner-facing side of the business at Booking.com. GenAI is being leveraged to help properties write responses to traveler queries, and this tool has led to an increase in response rates to traveler messengers. This improves the experience for our travelers and partners. Booking.com is also testing a GenAI-powered partner chatbot to help with questions during the onboarding process and accelerate sign-ups, starting with a focus on alternative accommodation properties.

Booking.com is also working to incorporate GenAI into its customer service function to drive increased efficiency and a better experience for travelers. Initial testing shows meaningful improvements in topic detection in Booking.com's customer health center as well as customer service agent case summarization. Booking.com is still early in this journey and sees meaningful opportunities in improving customer service and driving greater efficiency by leveraging AI in the future.

At Priceline, Travelers have now had over 3 million interactions with its Generative AI travel assistant called Penny. This was launched last summer. While Penny was originally positioned at the end of the funnel on the checkout page, it's now available across the full booking experience and can address many types of traveler questions, including destination discovery, hotel search and trip support.

In October, Priceline launched Penny Voice, which enables Penny to engage in verbal conversations with travelers and to assist them with planning trips, searching for hotels and servicing bookings. As Priceline continues to enhance this offering, we envision that Penny will be able to anticipate needs based on preferences and past interaction and then respond in a real-time voice. While there has been great progress in the development of Penny over the last year, Priceline is focused on further enhancing Penny over time by leveraging their valuable learnings so far.

At Agoda, over 120 use cases for GenAI have been implemented across customer service, software development, content generation, product, finance and HR.

Agoda is highly focused on leveraging GenAI to automate product development using both externally and internally developed tools. This is leading to an increase in the share of code written by AI as well as measurable improvements in productivity per developer and development time.

In March, KAYAK launched its Ask KAYAK travel planning tool, which improves and personalizes the search experience by allowing travelers to use free form text entries to search and refine their results.

At the same time, KAYAK also launched PriceCheck, a price comparison tool that allows travelers to upload a screen shock of a flight itinerary, which KAYAK can then check against many different sites in order to determine, if there is a better price available for the traveler.

At OpenTable, an AI voicebot has been recently integrated into its offering to help participating restaurants answer their phones. Diners can call these restaurants and perform tasks like making a reservation, altering their reservation, asking questions and noting dietary restrictions, which are then automatically updated into OpenTable software.

OpenTable is also partnered with Salesforce's Agentforce platform. This helps its customer service agents better serve its restaurants and diners. This platform is now handling restaurant web queries, which is helping agents focus on delivering great service in more complex situations.

It's exciting to see the work happening across our company to integrate GenAI into our platforms and the knowledge sharing that is ongoing between all of our brands. We know we are still in the very early days of GenAI and we have much more to learn about consumers, how they ultimately want to interact with this new technology. But I remain confident in our company's ability to benefit from AI developments and to improve our products for our customers given our many years of experience in AI, our travel-related data connections to our supply partners and our human and financial capital.

Overtime, as we further incorporate this technology, we expect to see benefits in travel and partner acquisition, retention and satisfaction. In addition, we expect it to improve operational efficiency, which will contribute to a deceleration of our fixed expense growth in the future.

Finally, as I mentioned at the start of the call, we continue to be optimistic about our long-term outlook for Asia. We see Asia as a strategically important due to its size, growth potential and our positioning in the region.

We estimate that the travel industry growth in Asia will be in the high-single-digits over the next five years, which is the highest market growth rate of our major regions. Our ambition is to continue to grow faster than the overall travel industry in Asia as we have done through the pandemic recovery.

Over the last 12 months, about 24% of our global room nights were booked by bookers in the Asia region, which is a slightly higher mix than it was prior to the pandemic. Our business in Asia is diversified across the countries in the region with no single country representing more than a low single-digit percentage of our global room nights.

The success we have seen in Asia and our solid position in the region has been driven by operating two complementary brands, Agoda and Booking.com. Our approach is to utilize both of these brands across the region with an eye on profitable growth for booking holdings over the long run.

In conclusion, I'm encouraged by our strong third quarter results and the continued resilience of leisure travel demand. Our teams continue to execute well against our key strategic priorities, which helps position our business well for the long-term. We remain confident in the long-term growth of travel and in the many opportunities ahead for our company.

I will now turn the call over to our CFO, Ewout Steenbergen.

Ewout Lucien Steenbergen

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

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

We will be posting a summary earnings presentation as well as our prepared remarks to the Booking Holdings Investor Relations website after the conclusion of earnings call. Now let's move to our third quarter results.

Our room nights in the third quarter grew 8%, which exceeded the high end of our guidance by 3 percentage points. The stronger-than-expected room night growth was driven by an improvement in trends in Europe starting in August and benefited from the booking window expanding year-over-year in the third quarter versus our expectation for it to be more similar to 2023.

Looking at our room nights growth by region in the third quarter, Europe was up high single-digits; Asia was up low double-digits; Rest of World was up mid-single-digits and the US was up low single-digits. As Glenn noted, we continue to make progress against our strategic priorities, including growing alternative accommodations, increasing the mix of our bookings to the direct channel and our mobile apps, enhancing our Genius offering and driving growth in our other travel verticals as part of our Connected Trip vision.

For our alternative accommodations at Booking.com, our third quarter room night growth was 14%, which continued to outpace the overall business. The global mix of alternative accommodation room nights at Booking.com was 35%, which was up 2 percentage points from the third quarter of 2023.

We continue to strengthen our direct relationships with our travelers and increase loyalty on our platforms. Over the last four quarters, the mix of our total room nights coming to us through the direct channel was in the mid-50% range. And when we exclude our B2B business was in the low-60% range. We have seen both of these mixes continue to increase year-over-year.

Mobile app mix of our total third quarter room nights was in the mid-50% range, which was up from the low-50% range in 2023. We continue to see that a significant majority of bookings received from our mobile apps come through the direct channel.

For our Genius loyalty program, the mix of Booking.com room nights booked by travelers in the higher Genius tiers of Levels 2 and 3 was in the mid-50% range over the last four quarters, and this mix continued to increase year-over-year.

In our other travel verticals, we saw airline tickets booked on our platforms in the third quarter increased 39%, driven by the continued growth of flight offerings by Booking.com and Agoda. We also saw rental car days booked on our platforms increased 16% in the third quarter, driven by strong growth at Booking.com. The growth rates for airline tickets and rental car days were both better than our expectation and both accelerated from the second quarter.

Third quarter gross bookings increased 9%, which was approximately one percentage point higher than the 8% room night growth due to about two percentage points from higher flight bookings growth, partially offset by a decrease in constant currency accommodation ADRs of less than 1%. The year-over-year ADR decline was negatively impacted by a higher mix of the room nights from Asia.

Excluding regional mix, constant currency ADRs were up less than 1% versus 2023. The increase in gross bookings exceeded the high end of our guidance by 5 percentage points due to stronger room night growth, plus less pressure from changes in FX and stronger flight ticket growth.

Third quarter revenue of \$8 billion grew 9% year-over-year, which also exceeded the high end of our guidance by 5 percentage points. Revenue as a percentage of gross bookings was in line with our expectations at 18.4% and was also in line with the prior year, as increased revenues associated with payments were offset by a higher mix of flight bookings. The increased revenues from payments were driven by an increase in our merchant mix, which reached 65% of our total gross bookings, up from 56% in the third quarter of 2023.

Marketing expense, which is a highly variable expense line increased 6% year-over-year. Marketing expense as a percentage of gross bookings was 5.0%, about 15 basis points lower than the third quarter of 2023, due to a higher direct mix and higher performance marketing ROIs, partially offset by increased spend in social media channels.

Third quarter sales and other expenses as a percentage of gross bookings was 2.0% in line with last year.

Our fixed expenses on an adjusted basis were up 7% year-over-year and were below our expectation, due primarily to lower IT expenses, some of which we expect to shift into the fourth quarter, as well as lower G&A expenses. We continue to be very focused on carefully managing the growth of our fixed expenses. We believe it is important to drive greater operating leverage in our fixed expenses, as this creates capacity for disciplined investment across our strategic initiatives, which we believe will help drive stronger top line and earnings growth in the future.

Adjusted EBITDA of \$3.7 billion grew 12% year-over-year and was above our expectation, largely driven by the higher revenue and also by the lower-than-expected fixed expenses. Adjusted EBITDA margin of 45.8% in the third quarter was up versus last year by a bit more than 1 percentage point due to marketing and fixed expense leverage.

Adjusted net income of over \$2.8 billion was up 9%. Adjusted EPS of \$83.89 per share was up 16% and benefited from a 6% lower average share count than the third quarter of 2023.

On a GAAP basis, net income was \$2.5 billion in the third quarter and was negatively impacted by a \$365 million accrual in G&A expenses related to a potential settlement of certain Italian indirect tax matters, partially offset by a \$250 million reduction to our US repatriation tax liability, which lowered income tax expense.

Now on to our cash and liquidity position. Our third quarter ending cash and investments balance of \$16.3 billion was down versus our second quarter ending balance of \$16.8 billion, due to about \$2 billion of capital return, including share repurchases and dividends and a pay down of about \$1.1 billion for debt that matured in September, partially offset by about \$2.3 billion in free cash flow generated in the quarter.

Moving to our thoughts for the fourth quarter. We expect fourth quarter room night growth to be between 6% and 8%, continuing our positive trend from the third quarter. We expect fourth quarter gross bookings to grow between 7% and 9%, 1 point ahead of room night growth due to expected higher flight ticket growth.

We expect constant currency accommodation ADRs to be approximately flat year-over-year. We expect fourth quarter revenue growth to be between 7% and 9%. We expect fourth quarter adjusted EBITDA to be between about \$1.6 billion and \$1.65 billion, representing growth between 9% and 13%. We expect adjusted EBITDA to grow faster than revenue due primarily to marketing leverage as a result of increasing direct mix.

We're increasing our outlook for the full year, driven primarily by the stronger than expected third quarter, which is our seasonally largest revenue and profit quarter. We expect full year gross bookings to increase about 8%, an improvement from our prior expectation of faster than 6%. We expect full year revenue growth of just below 10%, which is better than our prior expectation of faster than 7%.

We expect a slightly negative impact from changes in FX on our full year top-line growth rates, which compares to our prior expectation for about 1 percentage point of negative impact. We expect fixed OpEx on an adjusted basis to grow around 10%, lower than our prior expectation.

We expect adjusted EBITDA to grow between 13% and 14%, which is better than our prior expectation due to the increased revenue growth and lower fixed OpEx growth. We expect adjusted EBITDA margins to expand year-

over-year by a bit more than 1 percentage point. And finally, we expect our full year adjusted EPS to grow in the high-teens.

In conclusion, we are pleased with our third quarter results and our outlook for the fourth quarter and the full year. Thank you to all my colleagues across the company for their hard work, determination innovation and teamwork.

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

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] We'll take the first question today from Justin Post, Bank of America.

Justin Post

Analyst, BofA Securities, Inc.

Q

Thanks. I guess since you talked a lot about AI in your prepared remarks, maybe you could talk about how you expect that to translate to financials? Do you think AI could bring more direct traffic because of all your tools, better attach rates when people come to your site, maybe lower expenses? Just how will we see that translate to financials?

And then one on bookings, it looks like – can you talk about some of the factors in Q4 that could affect bookings either hurricanes or the – maybe the Middle East comps? How you're thinking about some of the 4Q factors? Thank you.

Glenn D. Fogel

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

A

Hi Justin. It's Glenn speaking. I'll take the first question about AI, and then I'll let Ewout talk a little bit about your question regarding fourth quarter. So, we did give a number of examples about some of the things we're working on out of the company on AI because I know there's a lot of curiosity about where are we and what's happening. And it is one of the most exciting times I've – in this company ever. And it's something I've talked about before. Maybe you've heard me talk in some conference, et cetera, that this type of technology is really transformational. And it's going to make it so much better for all people in the travel industry, particularly for the traveler. It's also going to enable us to be able to provide a better service to our partners, enabling them to get more incremental, more targeted customers help their business better.

You, of course, you'd like to know how does that translate into dollars and cents. That is difficult at this time. It's still very, very early. We see some of the efficiencies already coming in, in some places. And we've mentioned – I mentioned in the prepared remarks, about some of the numbers in terms of number of people using it, which is actually a relatively small number compared to the total number of interactions that we have with customers. Sounds like a big a big number, 3 million, where that's a big number, but it's small compared to the size of this company.

So, I know what you'd like to know, but we're not going to project those kind of numbers right now. But what I will say is, it's incredibly important. The companies that are successful in AI are going to be the long-term winners because it is going to, as I say, be transformational. I'm very pleased that we made progress so far, and we have some certain advantages. We've got capital. We've got people who've been working with AI now for many, many

years. Sure, it wasn't GenAI. They're working on machine learning models, but we've got a lot of people who are very, very skilled in the areas of technology.

In addition, having more data, which is so important to be able to combine with other people's large language models, other people systems and come up with really unique ways to provide a better service. It's something that I'm just so thrilled to see what we're doing and what we're building, and I urge anybody who's curious about just test out some of the things we have out there. It's out in the market. It's live. It's real. See what you think of it.

I've done it lot myself and sometimes I'm really pleased, sometimes a little disappointed, but I know we're making great progress. And in the future, we'll be able to better quantify for you what you'd like to know. Ewout I'll let you go on the fourth quarter.

Ewout Lucien Steenbergen

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

A

Justin, with respect to the outlook for bookings in the fourth quarter, I think the headline is we're looking at the fourth quarter as a very robust and positive quarter where we see a continuation of the trends we have seen over the last few months. But let me dive a little bit deeper into that.

First, the comps get a little easier in the fourth quarter because we're lapping the period last year where we had an impact, particularly with respect to the start of the conflict in the Middle East.

The second point is you are referring to events. Events from our perspective, doesn't really impact our results. It might have a really short-term impact. But in the end, it always will effort out. So, you will never hear us really pointing to events as an impact on our outlook or actual performance.

The third is, what we have seen so far is, continuation of the strength of August and September, also in October.

The fourth is, I think it's important to take into consideration that we expect the booking window to be less expended in the fourth quarter than we have seen in the third quarter. In other words, there might have been some pull forward of bookings that otherwise would have been in the fourth quarter into the third quarter.

And the last is, we absolutely also have reflected uncertainties and risks with respect to the global geopolitical environment. We all know there are a lot of things out there that are happening. And we also have taken that in our consideration with respect to our fourth quarter outlook and guidance.

Justin Post

Analyst, BofA Securities, Inc.

Q

Great. Thank you, appreciate it.

Operator: The next question comes from Mark Mahaney, Evercore.

Mark Mahaney

Analyst, Evercore ISI

Q

Two questions, please. On the Asia call out, Glenn, I think it was the first time that Asia I think as a percentage of your mix was higher than it was pre-COVID. I assume so, that's why you called it out. But anything in particular in the region that you've done? Or is that just the region finally recovering back to kind of full outbound travel mode? So how much of that sort of success for you was what you did versus just the market they're finally recovering?

And then AA in the mix, this, I think, 35% number. The question I have for you is, I'm trying to figure out where that mix is long term? In markets where you have kind of full sufficient inventory, both traditional and AA, is the usual mix in those markets around that average of 35%? Or is it materially higher? Therefore, we could expect the overall mix to go up because you still have a lot of regions where you don't have enough AA inventory? Thanks a lot

Glenn D. Fogel

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

A

Hi, Mark, I'm not sure if you're right actually on that thing about calling out Asia. I think we had some things where Asia has done better. But regardless of that, let's just talk a little bit about how pleased we are with the growth we're seeing in Asia. And yes, we're obviously getting a bit of a benefit because Asia overall as a market is growing fast. There were certain areas of Asia that were a little slower coming out of pandemic and such. But this is an opportunity for me to really put out a thanks to our Agoda team. That team has been just doing really well in coming up with ways to provide a better service to the Asia customers. It's a little bit different in some parts.

Now I say Asia, obviously, Asia is a very big place. A lot of different countries. A lot of different ways people buy, what people are looking for. And the Agoda team has done a good job of localization, of coming up the ways that the customer in different parts of Asia, the way they want to buy, matching up with different types of payment methods, for example, to be able to – that the local person wants to pay in a certain way, can use our service and feel comfortable doing that. And in addition is making sure we're getting great inventory. Again, can be a little bit different in Asia than other parts where there's a lot of small independents or different ways to get great pricing, make sure it's showing up on our site. So, a great team effort by everybody there in Agoda, and that's helping great deal of booking, also doing Asia efforts. So overall, we're really, really pleased with what's happening.

Now your second question about alternative accommodations, we are pleased, again, with the growth rate there, 14%, like it, increasing the listings to 7.9 million, 10% increase, and I like that one too.

Last time in the call, I said how we had beaten our biggest homes competitor in 11 of the last 12 times, and we came out of that time ahead of them in terms of the earnings announcement, I didn't know for them to beat them again. And we did, so I'm wondering, this time when we do it again, maybe 13 quarters out of 14, and it's not a small business. It's a big business because as we mentioned a couple of times, the total amount of room nights for alternative combination is running roughly a little bit two-thirds of the biggest homes player in this marketplace. So, it's a big business. So, it's great to be able to be growing at this size. And it's great to be doing and sort of leading in terms of growth.

Your question is at what stage do we end up and feel sort of that's sort of the max or so? I don't know, because one of the key things to our business is making sure that we just get as much of the inventory that the customer wants on the site and they choose. And I mentioned it in the remarks about how customers come to our site and from what they've chosen to start with, we know what they were thinking of and then they go and they buy something else. So, a key thing to our business is making sure we provide whatever the customer wants and not try and steer them.

So, I don't know what the ultimate share is going to be. I do know though, what's important is to continue to work on getting great inventory. And as long we're talking about it, we're nowhere near in certain regions in terms of getting it. It's a lot of ramp left in front of us. US in particular, I keep repeating myself quarter-after-quarter. Sure, we're growing that business nicely in the US. But there's so much more to be done. And I was just looking today, literally today, because seeing what was available for us in the Hamptons, I'm a New Yorker, I look in the

summer. It's like [ph] enough (00:36:10) inventory there yet. So, some people say that's a negative. I see that's an opportunity for us. I'm really looking forward to us continuing to build that business.

Mark Mahaney

Analyst, Evercore ISI

Q

Thank you, Glenn.

Operator: And your next question comes from Doug Anmuth, JPMorgan. I apologize – okay go ahead Doug. I'm sorry.

Dae K. Lee

Analyst, JPMorgan Securities LLC

Q

Okay. Hey. This is Dae on for Doug. Thanks for taking the questions. I have two. So, the first one, could you double click on what you're seeing in Europe. Last quarter, you talked about moderation in growth in Europe, but the region drove outperformance this quarter. So what changed there in the summer and fall? And do you have any macro views to share around the US as a region?

Ewout Lucien Steenbergen

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

A

First, with respect to Europe, we have clearly seen a reacceleration of growth starting in August. We believe that perhaps in July, there was a bit of impact of some of the events. But again, we always look at that as purely timing, and that is averaging out. But then, we also believe there's a general underlying improvement what we are seeing in Europe in terms of the general demand for our products and services. It's partially market, but it's partially also our proposition. Of course, as Glenn already explained, having such a great platform with so many options, so many verticals, where you can purchase in so many different ways. And in Europe, many people use us on the app.

And it's really very much a mainstream app that people are using if they want to travel, very easy. You have your credit card there, easy to book, easy to adjust. So that is definitely in Europe a big winner, and therefore, we have been so much really the stand out in Europe with respect to our proposition. I also need to point out at the expansion of the booking window that happens in the third quarter. So that definitely also helped with the acceleration of growth at the same time.

Dae K. Lee

Analyst, JPMorgan Securities LLC

Q

Great. Thank you.

Operator: And the next question comes from Kevin Kopelman, TD Cowen.

Kevin Kopelman

Analyst, TD Cowen

Q

Great. Thanks so much. I had a question on marketing. Could you give us an update on kind of what you're seeing? You mentioned higher ROIs in the third quarter. How much of that is underlying improvement in ROIs versus Europe being stronger? And can you update us on how you expect the full year now to look in terms of marketing and merchandising as a percentage of GDP? Thanks.

Ewout Lucien Steenbergen

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

A

Yes, Kevin, overall, how you should look at marketing and higher ROIs, I think this is really where the company has such a specialized expertise, has such a great algorithms that are continuously optimizing our incremental spend to make sure that the incremental ROIs are really the highest that are possible. And doing that across all the different options we have, how to allocate our dollars. So, this could be the different forms of performance marketing channels. It could be with respect to merchandising, but it could also be with the social media channels where we are expanding our marketing spend as well. So clearly, the opportunity was there through our continuous optimization, to ultimately achieve higher growth with higher ROIs at the same time.

With respect to your question on the outlook, merchandising as a percentage of gross bookings, we expect it to be more or less flat compared to last year for each of the quarters of 2024 and for the full year. With respect to marketing, we expect marketing leverage to continue in the fourth quarter as a result of the continued growth of our direct channels.

Kevin Kopelman

Analyst, TD Cowen

Q

Great. Thanks so much.

Operator: Next up, we'll hear from Eric Sheridan, Goldman Sachs.

Eric J. Sheridan

Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much for taking the question. I want to come back to the theme on fixed investments. First looking backwards, maybe highlight some of where you've made investments around fixed cost and what you're most proud of in terms of turning a return profile on those fixed investments that you're seeing an impact on the business today?

And not about 2025, but just longer term, how do you think about coming out of that fixed investment cycle? And [ph] as I think (00:40:54) about the return profile or incremental margin that could be produced in the business as fixed investments start to grow slower than revenue over the longer term? Thank you.

Ewout Lucien Steenbergen

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

A

Yeah, Eric, I really love that question because it's something I'm extremely personally passionate about. The way we look at this is actually in two different ways. One is where do we see opportunities for efficiencies and achieving operating leverage. And then a completely separate decision mechanism around where can we reinvest those dollars in the most optimal way that we will achieve the highest growth potential at attractive business case returns in the future. So let me start with the first part.

In terms of operating leverage, we believe there are many opportunities we have as a company because we have been building up scale in the organization, and now we should have an opportunity to run much more volume over the existing scale over the next period. So let me point you to a couple of areas.

First, we have tremendously slowed down hiring. So if you look now, our year-over-year head count is up approximately 3%. If you go back a year ago in the third quarter of 2023, head count was up 13%. So clearly, we are being more efficient, and we are very careful with hiring.

We already touched on AI, artificial intelligence, as a clear opportunity to find efficiencies in the future across many different areas. In the interest of time, I will not elaborate on that, but that's a clear opportunity. We're also looking at procurement, real estate, operating model optimizations, looking at spends, layers to really make the organization more agile and many of those areas. And we believe we really have an opportunity to expand on that in the future.

But then I think your question is also where are we proud about in terms of investments? Well, if you think about the number of new areas where we're growing as a company, it's super impressive from my perspective. A few years ago, we were not really in flights. Look at the growth we are reporting, 39%. Look at all the other verticals. Looking at what we're doing with respect to payments and fintech.

Looking at what we're doing from a geographical perspective. Glenn was touching on the very impressive growth in Asia, the investments we are making in the US, and we believe we are growing still faster than the market in the US and we'll continue to aim to do that in the future as well and many other areas.

So we are very much focused on in a very disciplined way, looking at our scarce resources making sure that we're using that in the most optimal way. And in the end, invest in the most attractive growth opportunities for the company over the next period.

Glenn D. Fogel

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

A

And I'll just add, I think what Ewout said, really hit a lot of the key things that have made us successful. And looking back, there have been a lot of times that people question what are we investing on and why we're spending the money there, et cetera. And we're now finally beginning to see a little bit of a benefit to this.

So there is a point where, as you know, Booking.com was totally an agency business, totally agency business, no payments at all. Now we talk about our merchant mix is now 65%. And we talked about how important it was to have that as a foundational pillar for our Connected Trip, which is another area where people question, why are you getting out of hotels? Why are you getting to these other verticals?

At the end of the day is, the long-term success of a company is being able to make change, to make things different. As the world changes, you have to change with it. If we just stayed as an agency-only hotel and not had invested in other areas, we would not be where we are today. Now going forward, we can't stop. We can see how to do that.

So as Ewout said, we've got very careful. Where are we spending our money? We've got to not put money into things that are not going to be productive and move resource into place that is – something is no longer necessary, we just have to have the will to stop that and do something else. So I'm really proud that we've been able to, we have been here now almost 25 years. It will be 25 years in February. And throughout this, we have changed tremendously. But the one thing that we are really concentrated on is making sure we are careful with our shareholders money.

Eric J. Sheridan

Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: And from Deutsche Bank, Lee Horowitz has the next question.

Lee Horowitz

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks. Maybe Glenn another one on alternative accommodations. You gave a lot of color on the booking patterns you're seeing on the platform as it relates to cross-shopping hotels and alternative accommodations. But can you comment at all what you're seeing in terms of incrementality of this volume? Do you think your growing presence here is bringing in new cohorts of travelers who are coming to Booking for this vertical specifically? Or is a large piece of this volume coming from consumers that you would have likely booked a hotel in your platform otherwise?

Glenn D. Fogel

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

A

That's a very interesting question because I haven't noticed any surveying or trying to understand. Obviously, we can see if we look at it, the customer has come who we've never seen before, we started with an alternative accommodation because I knew that we had alternative accommodations, and that would be completely incremental because we have alternative accommodations.

I don't have the data on that, but I can say, I believe without actual data proof, I believe that we have brought in people who would not have come otherwise, would have gone to another site but came to us because we did offer them an alternative accommodation. And I would say, specifically in Europe, I'm almost certain of that. Because the awareness of our alternative accommodations business in Europe is very high, unlike in other parts of the world.

It's when somebody thinks that I want to have a nice villa in Nice in France, they will think Booking.com. And that is the incrementality that you're asking about. But again, what's more important is to offering all aspects of travel that goes back to the whole Connected Trip Vision. Because if somebody does get that Nice villa, they have to get there somehow.

So if they're going to fly is good to be able to combine that and then they'll have to get from the airport to the villa. So it's nice to have the ground transportation. Maybe they need insurance. And as I always say, nobody goes on a holiday so they can sit in the room, whether it be a villa, even if it's a really nice one, or a hotel room. They want to do stuff, and that's why attractions is important. I can go on and on and on.

And tying that all together in that Connected Trip Vision using science, using data, using our GenAI capabilities to make sure we're offering the optimal things for that traveler in addition given the opportunities for our suppliers to offer up different types of service at different price points so that they, too, can enjoy the benefits of this Connected Trip Vision in terms of more customers, more profitability.

That's the thing we're building. That's the real true incrementality and that is getting people whoever they're traveling right now, some other way that they come to us because we offer them a better service.

Lee Horowitz

Analyst, Deutsche Bank Securities, Inc.

Q

Great, thanks. And then maybe Ewout just one follow-up on sort of fixed OpEx. So there has been a lot of conversation around your passion for driving fixed OpEx going forward. I guess, given where you guys are in your investment cycle, your motivation to free up resources to invest in a lot of your growth drivers and a lot of the conversation on the potential for GenAI to help the P&L.

Do you think that the business is in a place where it can drive fixed OpEx leverage, not just next year, but for many years out into the future, and it should be part of the way we think about you guys going forward?

Ewout Lucien Steenbergen

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

A

I would say absolutely Lee, there is a big opportunity to do that. But there is always the flip side of how much opportunity do we have to reinvest in the business. So again, coming to the two sides of the coin that I was talking about before, do have opportunities to find more opportunities for operating leverage not only in 2025 but also in 2026? Absolutely. And of course, some of the initiatives that are being worked on or under development or have been recently implemented, the run rate effects you will see that coming in then over time in the future.

But as I said as well is, I think this company – the uniqueness of this company is it's doing well. It's growing fast. It's delivering very strong results. We have a lot of free cash flow generation, but we also can reinvest in so many initiatives in order to grow even faster in all those different areas. So how that, on a net basis, will play out, that's a little bit hard to say. But on a growth basis in the sense of how much can we really find in terms of efficiencies, I think there's still a long way to go.

Operator: Next up we'll take a question from Tom White, D.A. Davidson.

Tom White

Analyst, D.A. Davidson & Co.

Q

Great. Thanks for taking my question. Just one, if I could, on social. It seems like in recent months, we've heard you guys mention having better success kind of access and travel demand in social media channels, which I guess, for a long time, didn't really seem to be the case. There's obviously a ton of engagement there, but it didn't seem like it was necessarily efficient demand source for you. Can you maybe talk a bit about why that's changing or it seems to be changing? And curious like how big a vector of growth social maybe could be for you guys over the next several years? And how do you think about the incrementality, I guess, of that channel? Thanks.

Glenn D. Fogel

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

A

So, it's Glenn speaking. I'll let Ewout talk a little bit [ph] he wants about (00:51:05) anything that I don't mention. But we are pleased that we are seeing good results from putting money to work in social platforms. And as you know, over many years, we had mentioned that we were experimenting, but it wasn't really working for us yet. And now finally, we are beginning to see it work.

That being said, it's a relatively small amount of money compared to our overall marketing expenses, but we're glad. And the thing is it always comes down to we're agnostic. As long as we get the right ROI, that's what we really – our goal is, that's what we care about. And it's working now more than in the past because I think cooperation with people in the social platform areas that we're working with people there and coming up with creative ways together to achieve our mutual goals. And we want to continue to do that, and we'll continue to invest so long as we keep getting the ROIs that we want. That's as simple as it is. How big could it be? I don't know.

It really will depend on how much further ahead we keep the ROI. In the past, we have seen some interesting things that work a little bit. But then when you try to scale it, the ROIs fell off. Now we're not really seeing that in the things we're trying now. But I can promise that as we grow bigger and bigger and [ph] start getting (00:52:24) large numbers, real numbers like you know what our number are, total amount we spend on marketing, who knows. But I am encouraged by the progress we have made so far. And I am really glad to be able to diversify that pay performance type spend.

And Ewout, you want to say anything on it?

Ewout Lucien Steenbergen

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

A

Maybe two quick things to add. First, coming back to AI. Actually, AI is an important tool to help with the additional advertisement effectiveness, so that the targeting is better, and therefore, we can achieve those higher incremental ROIs. And maybe one other point with respect to the financials. Glenn is right. In absolute terms, the spend on the social media and marketing channels is still relatively small. But I'm actually encouraged because if you look at the marketing increase spend year-over-year, actually meaningful part of the delta increase is actually going to those social channels.

Operator: Next question is Jed Kelly, Oppenheimer.

Jed Kelly

Analyst, Oppenheimer & Co., Inc.

Q

Hey, great. Thanks for taking my question. Just going back to the US, you're getting some nice branding here with the baseball playoffs having record ratings. You called out room nights maybe growing low single-digits. So can you talk about where you think your brand is in the US?

And then just on the single units in the US, talking to some property managers, they still think you're a little more complex to work with versus some of the other platforms. Can you talk about where you are in terms of maybe simplifying it for them? Thank you.

Glenn D. Fogel

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

A

So you're right on your second point about, it's not as easy yet as some of our competitors, I know that's true, and that's one of the things we're working on, and I'll be short to say, that's opportunity for us. That's great. We're doing so well right now, and we still haven't perfected that. So that's all upside for us.

In terms of awareness, we're still not where we'd like to be, but we continue to improve. I continue to see those numbers going up. When I look at the reports, marketing comes back – market report comes back to me – reports from our market department comes back to me, I am pleased with the progress we're making. But again, that's more opportunity for us.

Ewout, anything specific you want to add?

Ewout Lucien Steenbergen

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

A

Yeah. Just a small technicality, just to point out is, it looks like where we said last quarter, we are growing in the US mid single-digits, and now it's low single-digits. I would still characterize this more as stable growth over these periods because we're really at the cusp in both quarters in terms of which of those buckets is falling. So I wouldn't read too much in it as an investor. But overall, I would call this more stable growth over the last two quarters in the US.

Jed Kelly

Analyst, Oppenheimer & Co., Inc.

Thank you.

Q

Operator: The next question is from Naved Khan, B. Riley Securities.

Naved Khan

Analyst, B. Riley Securities, Inc.

Yeah. Hi. Thanks a lot. A couple of questions. Glenn, it's great to hear that based on GenAI. Maybe give us your thoughts on if you think GenAI can drive more shift in bookings that can happen through online marketplaces like Booking.com versus those that's happened directly on a hotel website?

And then with respect to Connected Trip, I remember you guys had a partnership with some super apps in Asia like Grab, which is a ride-hailing app. Any updates you can share on those partnerships would be great. Thanks.

Glenn D. Fogel

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

Sure. So, two separate questions. Let me talk first a little bit about AI in general and the ability of us versus others. This stuff is not easy. It's complicated. GenAI is hard stuff. And it's really good to be in the position where you have resources, people, capital, data to be able to drive forward experiments to see what works, what doesn't work, how well, how quickly it works. And there's no doubt, this is an advantage.

So if you're a hotel, even an extremely large hotel, you do not have the resources that we have, I believe. Now, of course, you can partner with others. In fact, we're doing that ourselves. For example, we have – go to OpenTable example. They're not building so much, so they're partnering though they have a good agreement with Salesforce to work with their new AI service, it's great there.

But I believe it's really important to be able to combine your own data in the hotels accommodations area and come up with things that are truly differentiated and personalization. So I am confident that we have, I'd say, the pole position in the growth of this area, and I'm very excited about it.

The other thing you mentioned about our partnerships in Asia with some other players. It's a very small amount of those, but we're pleased with where our relationships are with them, et cetera. But that is not something that is – should be seen as anything that was influencing our Asia numbers at all.

Naved Khan

Analyst, B. Riley Securities, Inc.

Thank you, Glenn.

Q

Operator: We'll go next to John Colantuoni, Jefferies.

John Colantuoni

Analyst, Jefferies LLC



Great. Thanks for taking my questions. A quick one on booking window. Maybe you could just help us size the benefit to the third quarter in terms of room nights from both – relative to your expectations and on a year-on-year growth rate perspective?

And then second, on North America, your business there seems to be maybe the one region that's tracking more consistent with the broader market. Talk about what investments and capabilities you're making to start driving market share gains once again in North America? Thanks.

Ewout Lucien Steenbergen

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



John, I will take the first question. We're not really breaking out how much the booking window had an impact on accelerated growth in the third quarter. It is a bit of benefit, but I wouldn't overestimate the impact period-over-period. So I would say a slight benefit in the third quarter, but we're not really quantifying that.

In terms of your second question, we are doing in North America relative to the market, based on external data sources that we are looking at, we believe in the third quarter, actually, we were growing a bit faster than the market overall. And that's, of course, the result of a lot of investments we are making. Glenn has touched on many of those already, the number of listings, the focus on alternative accommodations, the investments in the brand we're making, for example, with respect to the World Series and the baseball playoffs in general.

What we're doing in terms of becoming more – creating more familiarity with the brand in the US and many other features and product enhancements we're making to really further improve our market position in the US. We're a challenger in this market. And actually, we think that's a good position to be in because it is an opportunity to grow and ultimately be able to get to our natural position in terms of overall market impact in the US.

John Colantuoni

Analyst, Jefferies LLC



Thanks so much.

Operator: And everyone, that does conclude our question-and-answer session. I'd like to hand the call back to Mr. Glenn Fogel for any additional or closing remarks.

Glenn D. Fogel

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

Thank you. I want to thank our partners, our customers, our dedicated employees and our stockholders. We greatly appreciate everyone's support as we continue to build on the long-term vision for our company. Thank you, and good night.

Operator: Once again, everyone, that does conclude our conference for today. We would like to thank you all for your participation. You may now disconnect.

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