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Booking Holdings, Inc. (BKNG)

Q3 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Booking Holdings Third 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 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 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 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 statements, whether as a result of new information, future events, or otherwise. A copy of Booking Holdings' earnings press release together with the accompanying financial and statistical supplement is available in the For Investors section of Booking Holdings website, www.bookingholdings.com.

And now I would like to introduce Booking Holdings speaker 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' third quarter conference call. I'm joined this afternoon by our CFO, David Goulden. I am encouraged by the strong results we are reporting today and by the strong leisure travel demand environment that we continue to see.

In the third quarter, our traveler customers booked 276 million or more than a quarter of a billion room nights, which was an increase of 15% year-over-year. And we had gross bookings of $40 billion, which was an increase of 24% year-over-year. Room night growth versus 2019 was 24% in Q3. Both room nights and gross bookings were a record quarterly amount for the company and both came in ahead of our previous expectations.

Third quarter revenue of $7.3 billion grew 21% and adjusted EBITDA of $3.3 billion increased 24%, both versus Q3 last year and both exceeded our prior expectations.

Finally, our non-GAAP earnings-per-share in the quarter grew 36% year-over-year and was nearly 60%, that's 6-0, 60% higher than in the third quarter of 2019. Our earnings per share growth benefited from our improved profit levels, as well as our strong capital return program which reduced our end of quarter share count by 10% versus the third quarter 2022.

Now turning to October, we estimate that room night growth was about 8% year-over-year and about 20% versus 2019. Excluding Israel, we estimate these growth rates would've been about 9% and 22% respectively. We saw a significant negative impact on our business in Israel and there was some impact on travel trends outside of Israel. Nevertheless, we were encouraged to see global room night growth improve towards the end of the month, and David will explain more about October in his remarks.

Overall, we continued to see resiliency in global leisure travel demand and as we take a very early look ahead to 2024, we see strong growth on the books for travel that will take place in the first quarter of next year though a high percentage of these bookings are cancelable. Given current trends, we expect customers and consumers will continue to prioritize travel over other discretionary spend in 2024.

I firmly believe we are well positioned to continue our work attracting customers and partners to our platform while making progress on several important initiatives, which will help strengthen our business over the long term. These initiatives include, one, advancing our Connected Trip vision. Two, further integrating AI technology into our offerings. Three, continuing to grow alternative accommodations. And four, building more direct relationships with our traveler customers.

Starting with the Connected Trip, this is our long-term vision to make booking and experiencing travel easier, more personal and more enjoyable while delivering better value for our traveler customers and supplier partners.

In the third quarter, we saw an increase in the percentage of transactions which we count as Connected Trips, meaning two or more travel components within a trip. Though still a small percentage of our total transactions today, it is encouraging to see an increasing number of our travelers booking more elements of their travel with us.

Outside of accommodations, one of the most important elements of travel is flights. And we continue to focus on further developing our flight offering on Booking.com. In the third quarter, air tickets booked increased 57% year-over-year, driven by the growth of Booking.com's flight offerings.

To provide some context on how this has developed over the last few years, the 9 million tickets booked on our platforms during the third quarter were more than 5 times the number of air tickets booked through us in Q3 2019.This significant growth of our flight offering at Booking.com over the last four years was achieved through our successful partnership with Etraveli. As previously announced, our proposed acquisition of Etraveli was blocked by the European Commission in September. A decision we will appeal.

While we strongly disagree with the EC's decision to block the deal, our commitment to building a flight vertical at Booking.com has not changed. In fact, we have extended our partnership agreement with Etraveli through at least the end of 2028, which means we anticipate continue to work with them and improving Booking.com's flight offering over the coming years.

We believe offering a compelling flight product alongside our accommodation, ground transportation, and attractions offering helps to create a better, easier and more comprehensive travel booking experience for our travelers and more opportunities for our partners. We will continue to build out our Connected Trip vision, which we believe will ultimately result in increased customer and supplier engagement with our platform.

As we discussed last quarter, we have always envisioned AI technology at the center of the Connected Trip. We have a long history of investing in AI technology and incorporating it in our platforms across our company. I previously spoke about the hard work our team has been doing to integrate generative AI into our offerings in innovative ways, including Priceline's generative AI travel assistance, named Penny and Booking.com's AI Trip Planner. It is still very early days. But both teams are gaining valuable insights on booker questions, concerns and behavior as the tools continue to interact with customers.

At Priceline, we're seeing some encouraging signs of lower customer service contact rates and we're exploring other areas across our business where we believe we can use generative AI tools to increase productivity.

For example, our brands are running projects using generative AI to enhance the productivity of our software developers with encouraging results so far. And we look forward to using these tools more widely in the future. I remain confident in our company's ability to benefit from AI developments by improving our products for our customers and operating more efficiently over time.

Turning to our supply partners, we strive to be a trusted and valuable partner for all accommodation types on our platform. We look to add value for our partners by delivering incremental demand and developing products and features to help support their businesses.

During the quarter, some of our partners at Booking.com experienced delayed payments due to a planned upgrade to our finance and payment platforms in early July. We have now cleared the backlog of outstanding payment issues related to this system upgrade. We plan to provide compensation to partners who experienced an extended delay, and we recorded this in our Q3 results. We plan to communicate to all partners who were impacted by these payment delays within the next few days. We continue to focus on strengthening our alternative accommodations offering at Booking.com by increasing supply and raising awareness among travelers.

In the third quarter, alternative accommodation room nights grew at about 24% year-over-year, which was faster than our traditional hotel category. Alternative accommodations represented about 33% of Booking.com's total room nights, which is about 3 percentage points higher than in Q3 2022.

We are seeing continued momentum in terms of alternative accommodations, supply growth, both globally and in the US, with global listings reaching about 7.2 million by the end of the third quarter, which is about 9% higher than Q3 last year. We need to build on this progress by continuing to improve the product for our supply partners and travelers, particularly in the United States.

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

For the first time ever for our company, over 50% of our room nights were booked through our apps in the third quarter, which is about 6 percentage points higher than in Q3 2022. This is a remarkable achievement considering the mix of our mobile app room nights in the third quarter of 2019 was about 18 percentage points lower than it was in the third-quarter of this year. We will continue our efforts to enhance the app experience to build on the recent success we have seen here.

In conclusion, I am encouraged by the 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 continue our work to deliver a better offering and experience for our supply partners and our travelers. We are confident, I am confident 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 third-quarter as well as our thoughts for Q4 and the full year. All growth rates for 2023 are on a year-on-year basis unless otherwise indicated. We'll be making some references to the comparable periods in 2019 where we think these are helpful. Information regarding reconciliation of non-GAAP results to GAAP results can be found in our earnings release.

We will post our prepared remarks to the Booking Holdings Investor Relations website after the conclusion of the earnings call. Now on to our third-quarter results.

We are pleased to report 15% room night growth in Q3, which was a few percentage points better than our expectation. Looking at our year-on-year room night growth by region in the third-quarter, Asia was up about 35%, rest of the world was up mid-teens, Europe was up low-double-digits, and the US was up low-single-digits. Compared to 2019, our Q3 global room night growth was 24%.

The average booking window of Booking.com expanded in Q3 versus the same period in both 2022 and 2019,and was a bit more expanded versus the prior periods than it was in Q2.

In Q3, our mobile apps represented over half of our total room nights for the first time ever. The Q3 mobile app mix of about 51% was 6 percentage points higher than the third quarter of 2022.We continue to see an increasing mix of total room nights coming to us through the direct channel. The direct channel increased as a percentage of our room nights in the third quarter relative to the third quarter of 2022.

The Q3 international mix of our room nights was over 50%, up from about 45% in the third quarter of 2022.The Q3 international mix was in line with 2019 levels, similar to the second quarter.

Our cancellation rates in the third quarter were slightly higher than Q3 2022, but slightly below Q3 2019.Cancellation rates were the same as in Q2.

For our alternative accommodations at Booking.com, our Q3 room night growth was about 24% year-over-year and the global mix of alternative accommodations was about 33%, which is a few points higher than Q3 2022.

Q3 gross bookings increased 24% year-over-year, or 21% on a constant currency basis. The 24% increase in gross bookings was 9 percentage points higher than the 15% room night increase due to about 4% higher accommodation constant currency ADRs, plus about 3 percentage points of positive impact from FX movements, and also due to about 2 percentage points from flight bookings.

Our year-over-year ADR growth was negatively impacted by regional mix due to a higher mix of room nights from Asia and a lower mix of room nights from the US. Excluding regional mix, constant currency ADRs were up about 7 percentage points year-on-year.

Despite the higher ADRs in the third quarter, we have not seen a change in the mix of hotel star-ratings being booked or changes in length of stay that could indicate that consumers are trading down. We continue to watch these dynamics closely.

Airline tickets booked in the third quarter were up about 57% year-on-year driven by the continued expansion of Booking.com's flight offering.

Revenue for the third quarter exceeded our expectations, increasing 21% year-over-year, or about 18% on a constant currency basis. Although we had stronger than expected Q3 from a room night and gross bookings point of view, the outperformance versus our expectations was driven mainly by bookings that are for travel in future quarters. As a result, we did not see all of the revenue benefit in Q3 from these incremental bookings.

Revenue as a percentage of gross bookings in Q3 was 18.4%, which was lower than expected due to this timing effect. Our underlying accommodation take rates continue to be in line with 2019 levels.

Marketing expense, which is a highly variable expense line, increased 13% year-over-year. Marketing expense as a percentage of gross bookings was about 50 basis points lower than Q3 2022 due to higher ROIs in our paid channels and a higher mix of direct business.

Performance marketing ROIs increased year-over-year helped by our ongoing efforts to improve the efficiency of our marketing spend.

Marketing and merchandising combined as a percentage of gross bookings in Q3 was about 30 basis points lower than last year, which was a little better than our expectations, driven by the improved performance marketing ROIs.

Q3 sales and other expenses as a percentage of gross bookings were up about 10 basis points compared with last year, a bit better than our expectations. About 51% of Booking.com's gross bookings were processed through our payments platform in Q3, up from about 40% in Q3 2022. For the total company, 56% of gross bookings were merchant, up from about 45% in Q3 2022.

Our more fixed expenses in the aggregate were up 24% year-over-year, which was below our expectation, due to lower personnel and personnel related expenses. We continued to manage our more fixed expenses very carefully.

On a GAAP basis, our more fixed expenses were up 33% year-over-year, including a $90 million accrual in G&A expense for the termination fee related to the acquisition agreement for Etraveli, this accrual was excluded from our non-GAAP results.

Adjusted EBITDA was $3.3 billion in the quarter, which was up 24% year-over-year, and would have been up 22% on a constant currency basis. This was also ahead of our expectations.

Non-GAAP net income of $2.6 billion in the third quarter resulted in non-GAAP earnings per share of $72.32 per share, which was up 36% year-over-year. Our average share count in the third quarter was 9% below Q3 2022 and 16% below Q3 2019.

On a GAAP basis, we had net income of $2.5 billion in the quarter.

Now on to our cash and liquidity position. Our Q3 ending cash and investment balance of $14.3 billion was down versus our Q2 ending balance of $15.7 billion due to $2.6 billion of share repurchases we completed in the quarter, partially offset by the $1.3 billion of free cash flow generated in the third quarter.

We have repurchased $7.7 billion of our shares through the first three quarters, which represents 8% of our year-end 2022 share counts. The repurchases so far this year take our combined authorization down to $16 billion from the total of $24 billion we discussed earlier in the year.

Our buyback program takes into account our – takes our share price into account and at current share price levels we expect to spend more on buybacks in Q4 than we did in Q3.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 onto our thoughts for the fourth quarter of 2023. In October, we estimate year-over-year room night growth was about 8%, down from 15% in Q3 due in part to a tougher year-on-year compare, as well as the war in the Middle East. When comparing versus 2019, October room night growth was about 20%.

Excluding Israel, October room nights grew about 9% versus 2022 and about 22% versus 2019. The 22% growth versus October 2019 excluding Israel is a little lower than the 24% growth we saw in Q3 versus 2019.

Looking across our major regions, in October we saw Asia year-on-year growth of room nights of about 15%, Europe up about 10%, and the US and rest of world were down slightly. The impact of the Israel-Hamas war is seen most in the rest of world growth numbers.

Israel on a booker plus inbound travel basis is about 1% of our global room nights. The Middle East, including Turkey and Egypt, on a booker basis is about 4% of our global room nights. Globally, we saw a slowdown starting the second week of October due to cancellations and a drop in new bookings after the start of the war in the Middle East.

The cancellation we saw started in the second week of October were concentrated in Israel, but we also saw some impact on travel trends outside the country as people absorbed the news. We were pleased to see room night growth recover towards the end of the month.

Our comments for the fourth quarter make the assumption that room night growth will be up about 9% year-on-year. When comparing versus 2019, this means we expect Q4 room night growth to be about 20%. This outlook assumes there is no further expansion of the war in the Middle East.

We expect Q4 gross bookings to grow about 5 percentage points – about 5 points faster than room nights on a year-on-year basis due to a couple of points from higher accommodation constant currency ADRs, including some pressure from change in regional mix, as well as a couple of points from continued flight bookings growth.

We expect Q4 revenue as a percentage of gross bookings to be about 15%, which would be higher than Q4 last year due to benefits from timing.

We expect Q4 marketing expenses as a percentage of gross bookings to be slightly lower than last year. We expect marketing and merchandising combined as a percentage of gross bookings in Q4 to be slightly higher than last year as we continue to look for opportunities to lean in.

We expect Q4 sales and other expenses as a percentage of gross bookings to be about in line with last year as the higher merchant gross bookings mix is offset by efficiencies in payment costs. We expect our more fixed expenses in Q4 to grow a couple of points faster year-over-year than it did in the third quarter.

Taking all this into account, we'd expect Q4 adjusted EBITDA to be just over $1.4 billion.

Our year-to-date results plus our fourth quarter commentary means that for the full year we expect room night growth to grow in the mid-to-high teens year-over-year. We currently expect full year gross bookings growth of over 20% year-on-year. We currently expect revenue as a percentage of gross bookings to increase year-on-year by about 10 basis points, down from our previous expectation for a 20 basis points increase due to higher bookings growth and a longer booking window, which will reduce the expected benefit from timing.

We continue to expect full year marketing and merchandising as a percentage of gross bookings to be slightly below 2022, and for our more fixed expenses to grow around 25% year-over-year. We manage our more fixed – our more fixed costs 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 that our adjusted EBITDA margins will expand by a couple of percentage points versus 2022.

In closing, we are pleased with our Q3 results, the trends we're seeing into Q4 and with the bookings we have already received for early 2024.

We'll now move to Q&A. So, Bailey can you please open the lines.

QUESTION AND ANSWER SECTION

Operator: Absolutely. [Operator Instructions] Your first question comes from the line of Mark Mahaney with Evercore. Your line is open.

Mark Mahaney
Analyst, Evercore ISI

Q

Thanks. I will ask two questions, please. Glenn, I think just at the very beginning, you mentioned something about March quarter, a visibility into the March quarter. Is there anything in particular that you were trying to hint at or point to there? Is it because the bookings when is a little longer that you get – do you have more visibility into the March quarter than you typically do?

And then secondly, David, the room night growth upside this quarter that came in a little bit faster than your guidance. What would you attribute that to? Was it in particular region that contributed to that? Or was that the alternative accommodations that came in a little bit stronger than you thought? Just the sources of room night growth upside in the quarter. Thank you very much.

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

A

Hi, Mark. I was – I'm not saying that I see more than I normally do. I'm just saying I was very pleased to see this resiliency in global leisure travel demand. I'm saying that, we're looking at 2024, and we're seeing strong growth on-the-books for travel. And that's going to happen in the first quarter. So it's just reinforcing my belief that travel is healthy. And we're looking forward to continue healthy travel.

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

A

Yeah. Mark, to answer your question, it kind of relates a little bit to what Glenn just said. Our upside in the quarter – our room night growth was driven by travel – by stronger travel demand across the peak season and along the booking window. If you remember, we said that coming into Q3, we have exceeded – we see the booking – lengthening of the booking window in Q1, Q2, and therefore, we expected fewer last-minute bookings in Q3. Well, the last-minute bookings in Q3 were a little lower than we would have expected in a year where we didn't have that long booking window.

But what we got were more bookings for longer periods of time out there. So the booking window actually expanded in Q3 and that created the situation that Glenn talked about where we now are looking into the first quarter of next year because of the strong demand we saw for bookings, a lot of which are outside of the quarter plus the window means that our Q1 on-the-books situation is much stronger than it has been prior to the current situation.

Mark Mahaney
Analyst, Evercore ISI

Q

Okay. Thank you, Glenn. Thank you, David.

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

I would also just comment that the over performance we saw versus our expectation was across all different regions. I wouldn't call one region out. We actually did better than we expected in all regions when compared to our guidance, looking at the actuals for the quarter for room night growth.

Mark Mahaney
Analyst, Evercore ISI
Q

Okay. Thank you, David.

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

Justin Post
Analyst, BofA Securities, Inc.
Q

Great. Thanks for taking my question. Maybe one for Glenn and one for David. Glenn, you've been working on Connected Trip for a long time. Obviously, a lot of progress with air and other areas. If this vision really works out, what does it mean for bookings financials? And do you think you're accelerating the pace of progress there?

And then for David, we see the US which reopened first that kind of low-single-digit growth. How are you thinking about Europe comps next year? And can you just remind us of your kind of relative exposure by geography? Thank you.

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

So, Justin, hello. And I have been talking about the Connected Trip for a while because I do believe that really is a differentiator in the long run and why someone would come to us and continue to come to us rather than another way to do their travel. So in the long run, of course, if somebody is coming direct because they really enjoy the way we do it versus an alternative, that of course will lower the marketing cost. You wouldn't have to reacquire that, that customer. It's interesting because we have small data, but we do see people who book more than one element with us currently.

We do see some benefits of the person coming back more frequently and a higher direct. So I like that and I think we can do a lot more with them. Now, one of the things that we're not the only person doing this, of course, and there is competition because I think a lot of people see this. And now on top of this, the whole benefits of generative AI along with all the AI work we've been doing for a long time. And we see the potential to create a much better experience in discovery, planning and executing your travel, in a way that if we do this right, we may be able to greatly accelerate the growth of the company because it really is transformationally different versus just incrementally different. And that's what we're striving for, now that's not going to happen tomorrow, you know that, I know that, it's not going to happen next week, next quarter, it's not going to happen next year.

It's going to take time to get all this built out. But what I'm really pleased about is seeing historically, we said what we're going to do, and we've been doing it and we're showing markers along the way, hitting milestones, hitting a flight growth rate still, 57% of those air ticket booking that I talked about – talking about that's 5 times greater than 2019, we said, we're going to do it and we did it and we're going forward. In so many of these other areas where I believe that people are frustrated in the way they travel now, and if we can do it better, we'll achieve great things both for the traveler of course, we're going to achieve great opportunities for our partners to give them more opportunities to get more business working with us. And then, of course, together, those things will end up with a great derivative, which is more value for the shareholders. That's what we're trying to do and I'm really pleased on where we are.

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

A

Yeah, thank you, Glenn. And then Justin relative to your question, yes, we're pleased to see room night growth year-over-year in the US market. Don't forget that in the US our room nights are over 30% higher than they were in 2019. So, we have made significant strides in terms of advancing our overall position in the US if you compare that with market growth rates that are probably more like recovered versus 2019 not up by 30%.

When we think about next year, I don't want to get into too much detail, but I would give you a couple of things to think about. I'd say that when you look across all the regions, if you look at where travel as a percentage of GDP is going to wind up in 2023, compared to where it was in 2019, it still has some recovery, before it fully gets back to the percentage of GDP it used to be in 2019, so I think that provides upside.

I'd also say that, as Glenn said in his comments, and as we see, we do see consumers continue to, preference travel over other discretionary expense items. We don't see any reason why that should change based upon current trends. And then also I just – relative to our own view of the business, we're still committed to milestones we gave you and said, we will continue to grow faster post-COVID than we were before on the top-line and bottom-line on a constant currency basis, that was 8% bookings on revenue – 8% on bookings, 8% on revenue, 15% earnings per share, all constant currency growth rates in 2019, and whilst we're not talking about anything specific around 2024, we are still sticking to those overall guidelines and outlooks.

Justin Post
Analyst, BofA Securities, Inc.

Q

Right. Thank you, Glenn. Thank you, David. Very helpful.

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

Kevin Kopelman
Analyst, TD Cowen

Q

Thanks a lot. Could you comment on the outsized growth in alternative accommodations that you saw in Q3? I think in Q2, the growth was closer to the overall growth, so what were the drivers there, any regions? And then I have a follow up. Thanks.

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

A

So, Kevin, why don't I start and David can add on anything I failed to add in. Obviously, very, very pleased with that number. That's a really good growth rate, and when we compare it to some other people in the space, I'm very impressed by what we've been able to accomplish. And I'll do a shout out to the whole team that works on alternative accommodations. But this time again, I've been talking about for some time about, we need to improve the product, we need to make people aware of it, and by doing that, we'll get more business, and that's what we've been doing.

Now, I can do all the things I've talked about in the past, and we continue to do things to make it a better product, and there's still a lot of things that need to be done to make it even better, and that's what we're going to keep on doing. There's no magic bullet, there's no silver bullet that's oh, here's how it came about, it comes to a lot of hard work and a lot of different ways of just grinding away, cranking out, making it better, talking with the suppliers who have these properties, making sure we're marketing appropriately when people want that property, they can find it and they see it.

All those things together are what enable us to achieve what I think was a very, very good property growth rate there, but I'll tell you, we're not there yet. And I mentioned, look, I want to increase the supply a lot more. Look, it's great. 9% increase, so I mentioned in my prepared remarks the increase. I'll tell you, 7.2 billion listings, that's great. That's good. So I know there are a lot of areas, we need to add even more, particularly in the United States because that's a place that I want to use our product. Because if I look for anything, I don't see it. Well, to me, that's upside. We're doing great right now and I still see so much opportunity ahead because, for example, we don't have enough properties in certain areas, and there are other product features that we need to improve upon.

All together I look at this as a great opportunity. We're going well, we'll do even better in the future, I hope. And, David, anything specific to add to that? No? Okay.

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

No. Nope. Thank you. That was great.

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

Brian Nowak
Analyst, Morgan Stanley & Co. LLC
Q

Thanks for taking my questions. The first one, let me just ask about the US a little bit. You've made some really good progress in the US post-COVID but it decelerated quite a bit and now it sounds as though you've been down in the most recent months. So, well, I guess the question is, as you look into 2024, what are the keys to sort of reaccelerating that US growth from here to sort of contribute to your goal of growing faster post-COVID than you were pre-COVID? So what drives US growth from here?

And then secondly, any quantifiable metrics or factors you can share with us on progress on Genius and the loyalty program over the course of the summer and into the fall?

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

Yeah, sure. Thank you, Brian. So the US is not that much different than any other geography in terms of the elements that help create growth are providing a better product, enabling people to be able to find the properties they want, at the right price, and easy for them to do. And if anything goes wrong, giving great customer service. That's the playbook. And, yes, some of the numbers look a little funky. And of course, COVID has really created all sorts of things, different geographies come out faster than others. So you're comparing year-over-year, and maybe it looks like a deceleration. And then there's domestic and international.

But, I think, a good way to look at those, like you compare back to 2019. And the fact is we've achieved – we've accomplished some great things in terms of increasing our share in the US. And we keep on doing what we have been doing and that will continue to increase that share. And I just mentioned in the previous question about our alternative accommodations, which is an important part of growing out in the US. And now the same is also you mentioned Genius. So I'll switch over to there.

And that is continuing to develop the Genius program in a way that continues to provide not only great value to the traveler, which of course is an obvious one. But it's providing opportunity for our partners to be able to get incremental demand when they need it, where they need it and how they need it. Working that together is a way for us to find a better opportunity for both sides of this marketplace to achieve greater value for both sides.

And I think that we have that great thing layer on, all those other things we talk about, the whole idea of the Connected Trip, bringing in more of the generative AI stuff, and all together, I think this is a good playbook to try and continue to grow our share in the US. And again, we've been doing it for some time now. So I'm really pleased with where we stand.

Operator: Your next question comes from the line of Lloyd Walmsley with UBS. Your line is open.

Lloyd Walmsley
Analyst, UBS Securities LLC

Q

Thanks. I had a couple if I can. First, it sounds like you're still talking about holding this lean-in posture on marketing with the leverage on I think marketing plus merchandising in 4Q. As growth slows, should we expect to see you all moderate that posture and get more leverage? And I guess looking at markets, like the US growing low-single-digits, are you still holding that posture there? Or are you kind of bifurcating the strategy differently as different markets are perhaps more recovered? Anything you could share there would be great.

And then the second one would just be sort of related, but as more than half of room nights are now booked through the mobile app, should that also be an increasing driver of marketing leverage? Or do you think just escalating pricing in performance channels offsets that, so it's kind of balanced to that. How should we think about that? Thanks.

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

A

So, Lloyd, let me talk a little bit about this and I'll let David add other facts that he wants to add in here. And I want to be very careful here. Obviously, the one thing I don't want to do is give away our all of our ideas and all the things we're going to play with our competitors listening in on this. So you'll understand why I'll be a little bit general on this. But one of the things I continue to try and talk to the team about is we need to be nimble, we need to be agile, and we need to be able to be smart and move into markets where we see opportunities and pull back in other places where we think we're not going to hit the right ROIs.

And whether that be a geography, whether it be a channel, whether it be developing a different type of product, whatever it is, I don't look at any of these in a different way. I look at all together holistically. What we're trying to do is achieve growth at the right type of profitability levels and we're going to continue to do that. Right now, as David said, we have a lean-in position because we see opportunity here.

Time can change – these things can change depending on the time. And certainly, the idea is to say, I'm going to do this for a long-term period. It's a nice thing to say but who knows what the world's going to be like. And as we all see, unfortunately, the world can change very very rapidly.

So we will continue to do this and this is our profile right now, the way David explained those numbers for what we are going to disclose right now. But you should always recognize that we have an overall view of how to do things, but we will be willing to change depending on circumstances. Regarding the mobile app, I talked a lot, David why don't you just take in terms of how that will apply to our numbers going forward?

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

Yeah. Lloyd, I'd add just a couple of points. So first of all, just to kind of pick up on where Glenn left off on the leaning in, we are leaning into a recovery marketplace. I said there's still on one of my other answers, there's still some recovery of travel as a percentage of GDP post-COVID, left to tap into 2024. We haven't seen it fully recover yet. So there are still opportunities to do that. You'll notice though that we are even though we are spending more on marketing merchandising in 2023 than we did in 2019, we are getting leverage relative to what we spent in 2022 as a couple of things happen. One, as our direct mix increases, and of course, mobile is highly correlated to direct mix. The majority – the vast majority of all mobile app bookings are, in fact, direct booking, so that helps as well. And then you did make a reference, I would just say to Q4, and I wouldn't read too much into Q4. Here's how I would explain why we expect to get some deleverage in marketing in Q4 relative to the other quarters, where we show leverage. It's really quite simple.

We're having a strong year and we decided to invest in some additional programs in Q4 that will help us finish the year well, and to build on our momentum going into 2024. So that was us. It's very conscious. Again, we're not going to go into the playbook in terms of what they are or where they are. But we recognize that we're doing well this year financially delivering great EBITDA and results. So we are leaning a little bit in Q4 to position us well to finish the year and going into 2024 strong. Again, that's what we're doing. Not driven by any dynamics in the marketplace. It is our conscious decision. Of course, we'll still create leverage on marketing and merchandising for the full year.

Lloyd Walmsley
Analyst, UBS Securities LLC
Q

Thank you.

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. Glenn, you talked about expecting a strong 2024. Just curious if you have any more color on how you're thinking about the outlook for ADRs next year. I think you said it was a 4% increase in 3Q. But any more thoughts there would be helpful. Thank you.

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

I'll let David talk about what he wants to talk about. I don't think we talked about 2024. I think we talked first quarter. I'll let David clarify whatever he wants to clarify.

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

Yeah. Doug, I mean, the 2024 conversation, we're going to have that when we get into February next year. Really don't want to have that now, we've kind of told you a little bit about the strength of the on-the-books in the first quarter, given the strength of bookings and the booking window. And we talked a little bit about our framework for growth post-COVID hasn't changed. So, I want to keep anything beyond that until we get to see a little bit more. We'll talk to you next time, of course, we'll give you much more insight at that point in time but it's too early to talk about the specifics of line items in the income statement in 2024.

Doug Anmuth
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you, 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. Maybe following up on some of the comments around sort of the vacation rental industry. Can we talk a bit more about sort of the US vacation rental business? Glenn, you talked about growing supply and building product functionality. [Technical Difficulty] (00:43:50) getting these incremental products rolled out and getting supply to the place where you are competitive relative to some others in the market. So how do we think of sort of the timeline and maybe even the investment dollars needed to get that business to the place where you want to get it to?

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

A

Hi, Lee. Well, you won't be surprised that I'm not actually going to give out the details exactly how and what level and what amount of money we're going to put to work out and what the methods are. I will say that the best way to look at this, is look at what we've done historically and where the numbers have been going and how the growth has been going. That's the best indication for you in terms of thinking forward what we're going to end up and the result going to be.

I will say that it's fairly obvious, anybody that looks at our site and tries to find homes in certain properties in certain parts of the US and you can see, perhaps we don't have enough of them in those areas, so would not be illogical to think maybe that's where we'll start going to.

As we've talked in the past, we think that there is a lower hanging fruit for us in properties that are controlled or managed by larger groups of properties, makes it easier for us to get that, so I'm not giving anything away here when I say well, let's go there first and let's make sure we're doing that.

And you – for example, you may have noticed that recently we started doing the request on demand type thing where a person doesn't automatically be able to book instantly and that's a product improvement because some people in, let's say, a higher quality or higher value properties, perhaps the owner or the manager did not want to have an instant booking, wanted to have a chance to do it on request basis, so that's an improvement thing.

So, we'll continue to roll out all these different things that we think will make our property – our product as good as anybody else's, and then apply the money to the appropriate marketing to make sure people are aware of it, and that will enable us to continue the growth that we've seen so far, I hope.

Lee Horowitz
Analyst, Deutsche Bank Securities, Inc.

Q

Helpful. Thanks. And then maybe one follow up on perhaps another area of low hanging fruit. Can you comment at all on anything you're seeing in terms of APAC outbound travel patterns and how much room there may be in this travel quarter to recover back to pre-COVID levels. So, should we be thinking of this travel pattern as a source of premium growth in the medium term?

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

A

I'm not sure the term premium growth, I'll just say what we talked a little bit about, look, we talked some time about different geographies coming back faster than other areas, and Asia was certainly the one who was last, and of course, it looks good when you start getting the nice growth rates from those regions, and the other ones start getting more normalized it's a nice thing to say. And certainly outbound – for example, outbound China, still significantly behind, when you look at any of the industry reports, I need to think how much lift do they have going outbound, et cetera. I think you know that's a small part of our business, not going to make a huge difference, even as it starts to come back.

So, overall, look, we love to see that Asia is going to get back to where all the other parts of the world were, and I really don't see that, understand the term premium that you mentioned, if maybe you could explain that, I could give a better explanation.

Lee Horowitz
Analyst, Deutsche Bank Securities, Inc.

Q

I guess it's faster growth relative to the core.

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

A

Oh, faster. Okay. I thought maybe you were talking about more expensive travel or something. I didn't...

Lee Horowitz
Analyst, Deutsche Bank Securities, Inc.

Q

No, no, no, no.

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

A

Okay. Got it. Sorry. Thank you.

Lee Horowitz
Analyst, Deutsche Bank Securities, Inc.

Q

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 question. Maybe come back to the topic of air where understood on the comments about appealing the Etraveli decision from the European Commission. If we go beyond that appeal and think about how you plan on building scale in air on the supply side, would love to know how are you thinking about some of the investments that are key to build that as opposed to possibly going down the acquisition route in air. And where you've already deployed air, especially markets like North America. Can you remind us of what air has done in terms of growing overall checkout baskets and return on trip size? Thank you so much.

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

A

I'll let David handle that last part. In terms of the appeal, the appeal will take some time. This type of a court action is not going to happen overnight, I can't tell you exactly how long it will take, but it's not going to happen anytime soon. So I would not put anything in terms of what that will mean for our air business anytime in the relative future.

However, we do like the fact that we do have this new agreement with Etraveli going out 2028, that's really great. Also, as you know, it's not just booking at Etraveli, that's one area of our air business, we have Priceline, of course, that company started – Priceline started as an air product. That was the first product. We have lots of good relationships with air travel there.

I obviously am very disappointed by the European Commission's blocking what I believe would have been an extremely beneficial transaction for the travelers, good for them. We're doing good for the partners, good for them, and together, this would create a value, which of course, would come back to all the people involved in the company, whether they be for higher value for our shareholders or higher value for our employees working on this, et cetera.

Very disappointing decision. We've moved on, we'll continue to develop this product and by the way, it's been growing very nicely, even though we didn't actually have possession of Etraveli, and yet we still were able to produce a 57% increase in air tickets.

David, I'll let you, if you want to talk to anything about basket size and things like that if you do.

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

A

No. I can talk about where we are with some of the customer-oriented dynamics around there, Eric, I think would be helpful. So we said this – this is about Booking.com, which is of course where air is still relatively new and growing very rapidly. We said previously that over 20% of air customers are brand-new to us. We've never seen them before. That continues to be the case as the business grows, which is very healthy.

We also see that those new customers who were booking air before who have never booked anything prior to that with us are doing healthy attachment rates from air into accommodation. Of course, these are brand new customers, so you wouldn't expect that attachment rate to be all that high, but it's quite healthy. Not quite as high, for example, as what we're doing with Priceline where we've been doing that for many years, but it's certainly an encouraging attachment rate.

What I would tell you, though, on the other side, of course by definition most of the air that we are selling is to existing customers, which you would expect. And there is a very good attach rate of those air tickets to accommodation because these customers know us from an accommodation background in the first place. What I would also say is that we still have good data that says that customers who buy multiple things from us, whether they be the new customers or the existing customers, buying air and accommodation, we have good data that says that that will drive better frequency, loyalty, future basket size, getting them to kind of up that loyalty and frequency curve that we talked about to the higher value customers.

So the dynamics around air are still healthy, and they haven't changed. We're encouraged about them. And as you can see, they're helping us in multiple different ways.

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

Q

Thank you so much.

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

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks for taking the questions. Glenn, I wanted to ask a little bit more about AI. And just you talked about it a little bit in your script, just consumer adoption of the booking tools, the trip planner. I'm wondering if this adoption is trending as you would have expected. I think we're still relatively early days. And you also mentioned a comment around lower customer care cost because of AI. So any insights there would be helpful.

And, David, we don't hear too much about just the milestones coming out of COVID. I know they're there. We've talked about it. But just remind us a little bit more about the underlying assumptions of maybe the bookings and revenue growth. Thank you.

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

A

AI. We only have so much time. Because I could go on for a long time on this, so I'll try and concise my thoughts on this. So as in all new technologies, the hype is always great. At the very beginning we see this thing is going to be the greatest thing since sliced bread, but then it takes longer than it takes to toast the slice, to actually have it and eat it.

That's the thing about what we're seeing, is that it's really exciting. I absolutely believe it's going to be transformative, but it's going to take a long time. And when I said in my prepared remarks about this is very early, it is very, very early. Now some of the stuff that we are seeing, and we have done enough, so we see some data to see there are going to be some good benefits.

So the example of the customer service example is, for example, you have a customer service agent who actually is able to use a copilot, let's call it, with an AI agent that helps enable that customer service agent to answer the question or take an action much faster than they would've been able to do previously, particularly in terms of number of years the person has been a CS agent. Maybe a CS agent has been there forever. They're instant and know how to do everything perfectly, it's great, and all that. But if you're a relatively new CS agent, this is going to be extremely helpful for that person. As you know, the turnover in CS agents is very great. There's a good efficiency productivity gain there.

Then everybody I'm sure has read lots about how coding can be greatly increased in terms of speed and efficiency using some of these copilots in terms of coding. So there's another area. Again, early stages, just saying it, but we do believe that is going to do something like that.

And then you go on into the things that we have for the customer, and the things like Priceline and their Penny product, where a customer – when they're about to buy something, there's a chatbot where they can put in a question because they're just not sure they want to buy or not. And instead of having to go all the way back up the funnel to find the information and say do they want to buy it or not, using that chatbot they can be instantly given an answer that will help convert that person into a buy much faster and actually not lose them as much.

And the questions [indiscernible] (00:54:01) one of the things that I've noticed is coming a lot is, can I bring my dog to the hotel? And actually it can become quite a conversational type thing where, yes, you can bring your dog. And I say, but my dog is a very big dog. Well, how big is your dog? And it can go back and forth and that sort of thing. And that's using our information that we have. That's all our current tech using an LLM in combination to create this type of chat relationship. That's really good.

And then you can go to the other thing where the Booking.com AI product, which is really trying to create an itinerary, the discovery from the very top and going down, and then when it offers hotels, it integrates with our hotel condos. You can book right there, that's also very good. Now, both those things, relatively small usage of any of these things compared to the overall size of the amount of inquiries we get, the number of bookings we do, in terms of the overall size of the company. But it's very encouraging that this stuff really does matter and it's going to make a difference.

Now, question will be how long until we get sort of that hit that inflection point where people start to say, aha, this is so much better. I didn't know that yet. But we're going to keep on experimenting on all these things, increasing the efficiencies, so we can do things faster, with lower costs, and at the same time increasing things for the travelers to make sure they want to come and use our products and our services versus anybody else's. That's the plan right now and I like it.

And, David, I'm not sure what the second question was.

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

A

Yeah. I will talk a little bit about the framework for post-COVID recovery because I think that's important. So we've committed that when the dust settles and the market goes back to normal growth rates, whenever that is, we will be a larger and faster-growing business, delivering more EPS and faster-growing EPS than we did before. So larger and faster growing on the top line, and the bottom line. So why do we think that is the case? Well, we will have made a ton of progress.

So the comparison point is 2019. If 2024 is the year that we get to normalize growth rates, it will be five years later. If it's 2025, it'll be six years later. But the business is so fundamentally different, the business we had in 2019. I think we need just to step back and remind you of that. So what have we done since 2019? And mainly around Booking.com but other parts of the business have also contributed as well. Back then we were mainly an accommodation, mainly hotel, mainly agency business. So since then, we have added a significant alternative accommodation business, which is now very sizeable and now as we commented before growing quickly.

We have – back then we did very little in payments. Now, over half our business is transacted through payments. So we built out our payments platform, which is enabling better service for customers and partners. We have built our air, taxi and car capability, we didn't have back in 2019. Back in 2019, we were great at performance marketing. We didn't do much around merchandising. We've now developed a big merchandising arm capability. But also, we've refined our performance marketing tools to the level where we really think we can lean into recovering marketplaces and gain share more aggressively than we did back then.

And then, of course, we've added our Genius program and enhanced it significantly. So we believe that we have made huge strides since 2019, which is our comparison point when we grew at 8% on the top line, constant currency, bookings and revenue. And of course, this year, we're going to be a lot bigger than we were in 2019. If you add all those capabilities together and we believe we have a fundamentally different and more competitive businesses providing more value to our customers and partners, and is much, much further towards the vision of the Connected Trip than we had back then.

And that's why we're confident that we can grow faster and have a bigger business that grows faster on the top line and the bottom line than we had in 2019. That is the framework.

Ronald Josey
Analyst, Citigroup Global Markets, Inc.
Q

Super helpful. Thank you both.

Operator: Your next question comes from the line of John Colantuoni with Jefferies. Your line is open.

John Colantuoni
Analyst, Jefferies LLC
Q

Great. Thanks for taking my questions. Couple for me. So as more bookings come through the app, I'm curious how repeat rates have trended among more recent cohorts on the app or whether you're seeing any diminishing returns in stickiness as you move beyond early adopters into the longer tail?

And second, are you seeing any patterns in behavior like demand strength in higher-priced hotels that's giving you confidence in consumers continuation of prioritizing travel spend over other forms of discretionary spend next year? Thanks.

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

Let me just take that last one and I'll let Dave – I'm not sure what we disclosed or what we don't disclose for your first question. Obviously, it's an important one. So we say and we've said this several times several quarters. Essentially, the same question keeps coming up in different forms, so do we see any softening? Do we see anything decline? Do we see a decrease in star rating? Do we see a decrease in length of stay? And things like that. Which is usually, no and no. And that's what it'll be, no and no.

In terms of why we believe that discretionary spending will continue to divert to travel versus other things, that's obvious, a lot different surveys, I can give you a whole bunch of things that are independent third-party where actually people are saying they're going to do, et cetera. Here's something more important though, and I really try and stress this is how important the long term is in terms of how we think about the business and increasing value.

So if we agree that over time GDP for the world will continue to increase and per capita GDP will continue to increase, it's fairly logical that as people get wealthier, they are going to spend more of their money on things that are services or experiences than they are things. Once we become rich enough to have, let's say, an apartment, well, you have one apartment generally. Or you have one sofa. You're not going to buy a sofa each year. What you're going to do as you continue to get more money is you will travel either more frequently or in a higher level of style travel, or you will do both. And we see that over and over again.

You go look at countries and you see what the amount of there – as we look at international travel, which is a higher thing. You know that's maybe a higher level for some people, and you see as the GDP per person there goes up, you see the amount of going outbound travel increases too. So that's why I believe that this at a low run, we have a great tailwind. The travel continues to be one of the things that people always are going to want, and they always want more of it. And us providing a great service, our job is to get a bigger share, a bigger piece of that pie, that is going to continue to grow. And continue to grow a little bit faster than global GDP. That's why I believe we have a great future here. And, David, I don't know what we talk or do not disclose regarding his question regarding apps.

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

A

I will be really quick because we are up at time. But there are multiple ways you can book on our property or on our platforms directly. You can book directly through the app. You can book directly on the mobile web. You can book directly on desktop or laptop.

The app is by far the stickiest of those in terms of repeat rates and return rates. And, of course, the app is where we are designing to optimize the experience around the Connected Trip, because not only do we want you to be able to book all elements through the app, but also it goes with you on the trip. That doesn't usually happen when you book and print something on one of the other platforms. So it's very important for us. It's a big effort. It's where the Connected Trip is moving towards.

And then what I would just leave you with as a final point is, of course, not all customers are created equally. And the higher value customers who do more business with us, spend more of their total spend with us, are higher usage of both app and direct by an appreciable amount compared to the average customers. So the app is very much at the center of that thinking.

John Colantuoni
Analyst, Jefferies LLC

Q

Great. Thanks so much.

Operator: And with that, I will hand the call back over to Glenn Fogel for closing remarks.

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

Thank you. So I want to thank our partners, our customers, our dedicated employees and our shareholders. We appreciate your support as we continue to build on the long-term vision for our company. Thank you, and good night.

Operator: This does conclude the conference call. You may now disconnect.