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Booking Holdings, Inc. (BKNG)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Booking Holdings' fourth quarter and full year 2023 conference call.

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

Expressions of future goals or expectations and similar expressions reflecting something other than historical fact are intended to identify forward-looking statements. For a list of factors that could cause Booking Holdings' actual results to differ materially from those described in the forward-looking statements, please refer to the Safe Harbor 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 an accompanying financial and statistical supplement is available in the For Investors section of Booking Holdings' website at www.bookingholdings.com.

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

Glenn D. Fogel

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

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

I am pleased to report a solid finish to 2023, as fourth quarter room nights slightly exceeded our expectations and grew a bit more than 9% year over year or 11% if one excludes Israel from both periods. When compared to 2019, our room nights grew 21% versus our expectations of 20%. We delivered record fourth quarter revenue of \$4.8 billion and record adjusted EBITDA of \$1.5 billion, which were both ahead of our expectations. Finally, non-GAAP earnings per share in the quarter grew 29% year over year, helped by the reduction in our share count versus last year.

At the start of 2024, we continue to see resiliency in global leisure travel demand. As we look to the year ahead, we see strong growth on the books for travel that's scheduled to take place in 2024, which gives early indications of potentially another record summer travel season. As we noted previously, a high percentage of these bookings are cancelable, and what is on the books today for the summer period represents a small percentage of the total bookings that we expect to ultimately receive. David will provide further details on our fourth quarter results and on our thoughts about the first quarter and full year 2024.

Looking back at the full year of 2023, I am proud of our efforts to drive more benefits to our travelers and supply partners while also delivering record-setting, industry-leading financial results. We reached a significant milestone last year with our customers booking an all-time high of over 1 billion room nights on our platforms, which was an increase of 17% versus 2022. Gross bookings of \$151 billion increased 24% versus 2022.

In 2023, we reached a new revenue record of over \$21 billion, which was 25% higher than 2022. We achieved this strong top line result while improving our profitability with record adjusted EBITDA of \$7.1 billion, an increase of 34% versus 2022, and our adjusted EBITDA margin expanded by over 2 percentage points year over year. Our non-GAAP earnings per share of about \$152 increased 52% year over year and was 48% higher than our prior full-year all-time high back in 2019.

Across all of our key metrics in 2023, we were a meaningfully larger and faster-growing business than we were in 2019. Our ambition going forward in a normalized growth environment for the travel industry is to continue to grow our gross bookings, revenue, and earnings per share faster than we did in 2019. We are confident we will achieve these objectives because we've invested in building a stronger business and better product offerings for our travelers and partners than we had back then. We can see this in many areas, but I will highlight a few examples of where we have strengthened our offering relative to 2019.

We now have a scaled-up merchant platform at Booking.com, which processed about half of Booking.com's gross bookings in 2023. Our merchant offering brings many benefits to our travelers and partners as well as new strategic benefits to us, including the ability to merchandise.

On flights, we have continued to scale up our offering at Booking.com since launching in 2019, with total company air tickets booked in 2023 up more than 400% over that timeframe, primarily driven by Booking.com. We see this vertical bringing new customers to our platform while delivering a more complete offering to our existing customers, making travel planning and booking easier for them and creating opportunities to provide more value to them.

On alternative accommodations, we continue to increase the mix of our alternative accommodation room nights, which reached 33% of Booking.com's room nights in 2023 as we improved our product offering and increased our supply choices with further opportunities ahead, particularly in the US.

While early, we are pleased that for Booking.com, we have created the foundations necessary to offer insurance, attractions, and ground transportation options and expect these offerings to add value to our Connected Trip vision.

On marketing, we've improved our abilities in using performance marketing channels even more effectively and are now better focused on our brand spending.

On loyalty, we have expanded and enhanced our Genius loyalty program at Booking.com to deliver more benefits to more of our traveler customers with more of our property and rental car partners participating.

And lastly, we are continuing to strengthen the direct relationship with our travelers as our mobile app room nights and total direct room nights continue to increase in our mix.

We remain confident in our long-term outlook for the travel industry, which we believe will grow faster than GDP growth across our core markets. With that foundation of industry-leading growth and the improvements we've made to strengthen our offerings, we are positive about our future and believe we are well-positioned to deliver attractive growth across our key metrics in the coming years.

With our long-term positive outlook, solid financial performance, and strong balance sheet, we returned over \$10 billion to shareholders during 2023 by repurchasing our shares. Returning capital to shareholders will remain a high priority for the company going forward, and today we are taking another important step in that journey by announcing that our Board of Directors has declared a quarterly dividend to complement our existing share repurchase program. David will provide further thoughts on our approach to capital returns in his remarks.

In addition to our strong financial results in 2023, we made meaningful progress against our key strategic priorities, which include: advancing our Connected Trip vision; further integrating AI technology into our offerings; supporting our supply partners and growing alternative accommodations; and building more direct relationships with our traveler customers. Let me address the progress we have made in each of these areas.

On the Connected Trips, we continue to take steps towards our long-term vision to make planning, booking, and experiencing travel easier, more personal, and more enjoyable while delivering better value to our travelers and supplier partners. We believe this is important because we know the current travel experience is much more complicated, fragmented, and frustrating to travelers than it should be.

The Connected Trip vision aims to greatly improve that experience for consumers, which we believe will drive further differentiation of our offerings and lead to improved loyalty, increased direct bookings, higher frequency, and a greater share of total travel spend on our platform over time. This is good not only for our travelers but also for our partner suppliers, who will be able to utilize different elements of the Connected Trip to obtain additional business in an efficient, lower-cost way.

As we continue to make progress in developing the Connected Trip, you will see incremental improvements and enhancements to our platform that moves us closer to this long-term vision. This approach allows us to realize benefits while we are building towards that future state. In fact, some of the key improvements to our platform over the last few years that I spoke about earlier were driven by our work on the Connected Trip.

For example, our merchant platform at Booking.com is a foundational base to the Connected Trip, and it helps deliver a more seamless and frictionless booking experience for our travelers. Plus, it enables us to smartly merchandise a variety of partner and self-supplied offers when appropriate.

Another example would be the development of flights at Booking.com, with flights being one of the most important elements of travel outside of accommodations. In 2023, air tickets booked on our platforms increased 58% year over year, driven primarily by the growth of Booking.com's flight offering. We continue to see a healthy number of new customers to Booking.com through the flight vertical and are encouraged by the rate that these customers book other services on our platform.

Outside of flights and accommodations, we made solid progress in expanding the breadth of our attraction supply that is available to our travelers. While we do not expect attractions to be a major financial contributor on its own, we see benefits from a strong attractions offering given the potential bundling opportunities as well as the ability to increase traveler engagement with the app while travelers are in destination.

Overall, we believe we have made great progress in building toward our Connected Trip vision, and we are starting to see early signs of the benefits. We continue to see a growing percentage of transactions which we count as Connected Trips, though these are still a small percentage of our total transactions today.

Importantly, we see these types of customers returning to us more frequently, and we plan to experiment with expanding our Genius program to include all travel verticals in 2024, which we expect will drive more value to travelers across the different elements of the Connected Trip. We plan to continue to build out our Connected Trip vision which we believe will result in increased traveler and supplier engagement with our platform.

In order to achieve the easier and more personalized experience of the Connected Trip, we have always envisioned AI technology playing a central role. Over the last few quarters, I have discussed the hard work our teams have been doing to integrate generative AI into our offerings in integrated ways, including Booking.com's AI trip planner and Priceline's generative AI travel assistant named Penny.

After launching Booking.com's AI trip planner in the US last summer, we expanded the rollout to the UK market in the fourth quarter. At this early stage, the team remains focused on learning more about customers' wants to interact with the tool and what types of questions they will ask. We see the AI trip planner as getting better at answering customers' inquiries, and we are excited to start testing other verticals outside of accommodations.

At Priceline, last week they announced their winter product release, which included several enhancements to Penny following six months of real-world interaction with users that resulted in valuable learnings for the Priceline team. Priceline's AI travel assistant product can now help travelers beyond just the hotel category, as it now covers flights, car rentals, and vacation packages.

While Penny was initially launched at the end of the booking funnel on the checkout page, it is now available on the Priceline home page, where it can help with travel planning, booking, and modifying a trip after it's been booked. This is a clear example of how our teams iterate and enhance our AI-powered products as we learn more through user interactions.

We continue to see encouraging signs that Priceline's Penny product helps lower customer service contact rates across travel verticals and we believe improves the customer experience. Beyond improving customer service

contact rates, we believe that over time we can leverage generative AI technology to help make our customer service agents more efficient across our entire organization.

Outside of customer service, we continue to explore areas where we believe we can use generative AI tools to increase productivity. We have early indications that using generative AI enhances the productivity of our software developers and are encouraged by the results so far. We look forward to experimenting with these and other ways GenAI tools might make our business more efficient in the future.

Turning to our supply partners, we strive to be a trusted and valuable partner for all accommodation types on our platform, and we look to add value for our partners by delivering incremental bookings and developing products and features to help support their businesses. The majority of our partners are small, independent businesses, and we are pleased to see many are reporting significantly improved business performance over the last year. We believe that helping our smaller partners thrive contributes to the long-term diversity and sustainability of our sector.

One area in which we work with many small independent businesses is through our alternative accommodation offering at Booking.com. This is an area in which we have continued to strengthen our business by increasing supply and raising product awareness among travelers. Alternative accommodation room nights grew 19% year over year in the fourth quarter and 24% for the full year, which was faster than our traditional hotel category. We saw meaningfully higher growth in our US alternative accommodation room nights, though this is off a relatively small base.

Globally, alternative accommodations represented about 33% of Booking.com's total room nights in 2023, which was 3 percentage points higher than in 2022. Our strong alternative accommodation room nights growth is benefiting from having more listings available on our platform for travelers to choose from.

We are seeing continued momentum in adding alternative accommodation supply both globally and in the US, with global listings reaching about 7.4 million by the end of 2023, which is about 12% higher than the 6.6 million last year. We're focused on continuing to build on this progress by furthering improving the product for our supply partners and travelers, particularly in the US.

For our travelers, we remain focused on building a better experience that leads to increasing loyalty, frequency, spend, and direct relationships over time. I'm encouraged that in 2023 at Booking.com we had strong growth in our base of repeat bookers, demonstrating strong retention, while we're also pleased with the increase in the number of new users to our platform versus 2022.

We're also strengthening the direct relationship with our travelers as our mix of customers booking directly on our platforms continued to increase year over year in the fourth quarter and when measured for the full 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. Our mix of room nights booked through our mobile apps increased year over year by about 5 percentage points for the full year to 49%.

Booking.com remained the number one downloaded travel app in the world in 2023. In Asia, Booking.com and Agoda are top five travel apps, and in the US, Booking.com, Priceline, and OpenTable are all in the top 10 travel apps. We will continue our efforts to enhance the app experience to build on the recent success we have seen here.

Finally, I want to briefly address a regulatory matter that's impacting the financial results we're reporting today. The Spanish Competition Authority has issued a draft decision alleging infringement by Booking.com of Spanish competition law, and they intend to issue a fine of \$530 million. We could not disagree more with this draft decision and the arbitrarily large fine that they have proposed, which is completely disproportionate to the alleged conduct. If the draft decision were to become final, we plan to appeal.

The success of our business is built on a mutually beneficial and balanced partnership with our millions of hotels and other accommodation partners around the world. We provide exceptional choice, value, and service for travelers, and we provide a marketplace for hotels and other partners that allows them to attract travelers from around the world at lower cost than many other marketing channels. We have a clear track record of cooperating with many competition and consumer authorities to find amicable and workable solutions to their concerns, including working with the European Commission on the Digital Markets Act.

As we have previously disclosed, we plan to file our notification for designation under the DMA soon, and we believe the main concerns raised by the Spanish authority overlap with the DMA. We'll continue to work closely with these regulatory bodies to maintain consistent rules, and most importantly, we'll continue to ensure that we are offering the best possible platform to our partners and our customers.

In conclusion, I am encouraged by the strong fourth 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 experience for our supply partners and our travelers. We are 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 will review our results for the fourth quarter and provide some color on the trends we've seen so far in the first quarter and our thoughts on 2024. All growth rates are on a year-on-year basis unless otherwise indicated. We will be making some references to the comparable periods in 2019 where we think these are helpful. Information regarding reconciliation of non-GAAP results to GAAP results can be found in our earnings release. We will post our prepared remarks to the Booking Holdings Investor Relations website after the conclusion of the earnings call.

One housekeeping item before discussing our results. We have reclassified digital services taxes into sales and other expenses and out of G&A expense. Due to the highly variable nature of DSTs, which are tied to the revenue earned in the countries where DSTs are enacted, we have provided a table with two years of updated quarterly financials in our earnings press release that reflects this change in P&L geography, and all my comments on this call will also reflect the change.

Now, on to our fourth quarter results. Our room nights in the fourth quarter grew 9% year over year and 21% versus 2019, which is slightly better than our expectations of about 9% and 20%. Excluding Israel, Q4 room nights were up 11% versus 2022 and 22% versus 2019.

Looking at our year-over-year room nights by region in the fourth quarter, Asia was up mid-teens, Europe was up low double digits, Rest of World was up low single digits, and the US was flat. All regions improved from October.

The average booking window of Booking.com expanded in Q4 versus the same period in both 2022 and 2019, but was a bit less expanded than it was in the third quarter.

In Q4, mobile app mix of about 53% was about 5 percentage points higher than the fourth quarter of 2022. We continued to see an increasing mix of our total room nights coming to us through the direct channel. The direct channel increased as a percentage of our room nights in the fourth quarter relative to the fourth quarter of 2022.

The international mix of our room nights in Q4 was 50%, up from about 48% in the fourth quarter of 2022 and reaching about the same level as the pre-pandemic Q4 mix.

Our cancellation rate in the fourth quarter was slightly higher than Q4 2022, impacted by the war in the Middle East. As we expected, the higher overall cancellation in October normalized by the end of the quarter.

For our alternative accommodations at Booking.com, our Q4 room night growth was 19% year over year, and the global mix of alternative accommodation room nights was about 32%, which was up versus about 29% in the fourth quarter of 2022.

Q4 gross bookings increased 16% year over year or about 15% on a constant currency basis, which was ahead of our expectations. The 16% increase in gross bookings was 7 percentage points higher than the 9% room night growth due to about 4% higher accommodation constant currency ADRs plus over 1 percentage points of positive impact from each of FX movements and flight bookings.

Our year-over-year ADR growth was negatively impacted by regional mix due to higher mix of room nights from Asia. Excluding regional mix, constant currency ADRs were up about 5 percentage points year over year. Despite higher ADRs in the fourth quarter, we have not seen a change in the mix of hotel star rating levels being booked or changes in the length of stay that could indicate that consumers are trading down. We continue to watch these dynamics closely.

Airline tickets booked in the fourth quarter were up about 46% year over year, driven by the continued growth of Booking.com's flight offering.

Revenue for the fourth quarter exceeded our expectations, increasing 18% year over year or about 17% on a constant currency basis. Revenue as a percentage of gross bookings was 15.1%, which was about in line with our expectation.

Marketing expense, which is a highly variable expense line, increased 9% year over year. Marketing expense as a percentage of gross bookings was about 30 basis points lower than Q4 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 efficiency of our marketing spend.

Marketing and merchandising combined as a percentage of gross bookings in Q4 was about 15 basis points lower than last year which is better than our expectation due to lower merchandising expense, higher direct mix, and better performance marketing ROIs.

Q4 sales and other expenses as a percentage of gross bookings were up about 20 basis points compared to last year and also about 20 basis points above our expectation normalized for DST reclassification, due in large part

to higher accounts receivable provisions related to our decision to delay some collections during the partner payment issue we discussed last quarter. We do not expect this to be an ongoing issue.

Our more fixed expenses in aggregate were up 21% year over year, which was below our expectation primarily due to lower personnel and IT expense as well as due to the DST reclassification. 21% is calculated using our non-GAAP expenses in both Q4 2023 and Q4 2022.

Adjusted EBITDA of almost \$1.5 billion was ahead of our expectation and was up 18% year over year and would have been up about 22% on a constant currency basis. Separately, Q4 adjusted EBITDA was negatively impacted by a \$37 million loss recorded in other income related to the devaluation of the Argentinian peso, which was not factored into our prior guidance. This reduced Q4 adjusted EBITDA margin by almost 1%.

Non-GAAP net income of \$1.1 billion resulted in non-GAAP earnings per share of \$32 a share, which was up 29% year over year. Our average share count in the fourth quarter was 9% below Q4 2022.

Our non-GAAP results exclude \$276 million of expense in personnel related to a ruling in the Netherlands Pension Fund matter and \$530 million of expense in G&A related to a draft decision by the Spanish Competition Authority. I'd like to provide some perspective on each of these.

As Glenn mentioned, we strongly disagree with the draft decision and the totally unprecedented fine proposed by the Spanish Competition Authority, which we plan to appeal if it becomes final. The appeal process could take a few years. During any appeal process, we would expect to implement some changes to our business practices in Spain. We do not currently anticipate that these would have a significant impact on our business.

Turning to the Dutch pension case, in January the Court of Appeal in The Hague ruled that most Booking.com employees in the Netherlands should be enrolled in a travel industry-wide pension fund. The liability we recorded in our Q4 results is for prior periods related to this pension plan. We are working through how we align this travel industry-wide plan with the existing pension plan we offer to our employees in the Netherlands. We expect there will be some increase in our pension plan costs in the Netherlands going forward, but we do not expect these to be material.

On a GAAP basis, we had net income of \$222 million in the quarter.

When looking at the full year, we are pleased to report that our 2023 room nights grew 17% year over year, and our gross bookings grew 24% and about 25% on a constant currency basis. Our full-year revenue was over \$21 billion, which was up 25% year over year and up similarly on a constant currency basis. Full-year revenue as a percentage of gross bookings was 14.2% in 2023, which is up slightly versus 14.1% in 2022.

For the full year, there's more than 0.5 percentage point of positive impact from timing as well as a benefit to take rates from increased revenues associated with payments, but this was mostly offset by an increase into mix of flights, an increase in Asia mix as the region recovered, and by our increased investments in merchandising. Our underlying accommodation take rates continued to be in line with 2019 levels.

For the full year, our marketing plus merchandising at Booking.com as a percentage of gross bookings was 5.6%, down from 5.9% in 2022, driven by marketing efficiencies and direct mix. The 5.6% in 2023 is still up from 5.5% in 2019, as our leaning into a recovered travel market more than offset the benefits of gains due to increased direct mix.

For the full year, the direct channel as a percentage of our room nights continued to increase in mix. When we exclude our B2B, or business-to-business business, our direct mix was in the low 60% range for the year.

Our full-year adjusted EBITDA was more than \$7 billion and was up 34% year over year and up about 37% on a constant currency basis. Adjusted EBITDA margin was 33%, which was a couple of percentage points higher than our adjusted EBITDA margin in 2022 and in line with our expectations at the start of the year.

Our full-year non-GAAP earnings per share was about \$152 a share, which was up 52% year over year and up about 58% on a constant currency basis.

Now on to our cash and liquidity position. Our Q4 ending cash investment balance of \$13.1 billion was down versus our Q3 ending balance of \$14.3 billion due to the \$2.4 billion in share repurchases we completed in the quarter, partially offset by the \$1.3 billion of free cash flow we generated in the fourth quarter. For the full year, we generated \$7 billion in free cash flow.

We repurchased over \$10 billion of our shares in 2023, taking our remaining repurchase authorization down to \$14 billion and reducing our year-end share count by 9% versus 2022 and by 16% versus 2021, which was just before we restarted our share repurchase program.

As we think about our capital structure and allocation framework going forward, we remain focused on appropriately investing in our business and growing returns for our shareholders while maintaining our strong investment-grade credit ratings. Given our confidence in our earnings power, strong free cash flow profile, and our ability to consistently return capital to shareholders, we are announcing today that our Board of Directors declared a quarterly dividend of \$8.75 per share to complement our existing share repurchase program. The dividend is payable March 28, 2024, to shareholders of record on March 8, 2024. We believe the introduction of the dividend will allow us to enhance our capital return program and further expand our base of investors.

In terms of composition of capital returns, we expect that share repurchases will represent the vast majority of our total capital return to shareholders going forward. We continue to expect to complete the \$24 billion share repurchase authorization we announced early 2023 within four years of when we started, which would be before the end of 2026.

We reiterate our previously stated gross leverage target of 2x and our goal to move to a 1x net leverage over time. The initiation of the dividend does not change our thinking around these targets.

Now on to our thoughts for the first quarter of 2024. All growth rates are on a year-on-year basis. Given that we're now beyond the COVID period when granular short-term information was helpful in assessing the path of the recovery, we are returning to our historical guidance approach with outcome ranges for the full quarter ahead and less detail on monthly trends and individual P&L line items.

Based on the solid travel demand we've seen so far in the first quarter, we expect Q1 room night growth to be between 4% and 6%. We expect the ongoing war in the Middle East to have a negative 1% impact on Q1 room night growth. We're also comparing with a strong start to the year in 2023, when we started to see an expansion of the booking window.

January room night growth was above the high end of that range. As we move through the quarter, February room night growth will benefit from an extra day, and March room night growth will be hurt by Easter being in March. We expect these to roughly offset each other.

We expect Q1 gross bookings growth to be between 5% and 7%, about 1 percentage point faster than room night growth due to slightly higher accommodation constant currency ADRs and faster growth from flights, partially offset by about 1 percentage point of FX pressure.

We expect Q1 revenue growth to be between 11% and 13%, faster than Q1 bookings growth due in part to the Easter shift, which we expect to benefit Q1 revenue by about 3 percentage points. We expect a similar negative impact on revenue growth in Q2.

We expect Q1 adjusted EBITDA to be between \$680 million and \$720 million, which at the midpoint would be 19% year-on-year growth and about a 1 percentage point increase in EBITDA margin. We expect EBITDA margin to benefit from marketing expenses growing slower than revenue and growing similar to gross bookings, which we expect will more than offset our fixed OpEx growth growing slightly faster than revenue.

As we turn our thoughts to the full year ahead, I want to first address our longer-term ambition for growth in our business. As we've discussed previously, in a more normalized market environment, we're aiming to achieve constant currency growth rates for gross bookings, revenue, and earnings per share that are higher than what we achieved in 2019. This would mean growing above 8% for each of the top line metrics and above 15% for earnings per share. We believe we'll be able to achieve these levels of growth given the investments we've made to build a stronger business and a better offering for our travelers and partners versus what we had five years ago.

At recent FX rates, we expect changes in FX will negatively impact our reported growth rates by a little more than 1 percentage point.

With that framework and with FX in mind, we expect to grow our full-year 2024 gross bookings slightly faster than 7%, including the assumption that the war in the Middle East will negatively impact our full-year 2024 growth rates by 1%. We expect revenue for the year to grow at a similar rate to our gross bookings growth. We expect our more fixed expense in 2024 to grow in the low to mid-teens. We are planning to leverage from these more fixed expenses in 2025.

We expect 2024 adjusted EBITDA will grow slightly faster than revenue, largely due to expectations for an increased direct mix. We expect adjusted EBITDA margin to expand year over year by a bit less than a percentage point. Lastly, we expect EPS growth to be above 14%.

In closing, we're pleased with our Q4 results, our Q1 outlook, and our expectation in 2024 towards growth faster than 2019 across gross bookings, revenue, adjusted EBITDA, and EPS with expanding EBITDA margins year over year. We expect 2023 to be another strong year for us.

We'll now move to Q&A. Sarah, will you please open the lines?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Justin Post with Bank of America Merrill Lynch. Your line is open.

Justin Post

Analyst, BofA Securities, Inc.

Q

Great, thanks for taking my questions. One for David, and I guess it might be your last call. I'd love to hear where you are on the CFO transition. But the guidance, is January growing above the 4% to 6% for room nights? I thought January might have tougher comps, so maybe talk a little bit about the shape of the quarter.

And then maybe bigger picture for Glenn, I just was wondering. You have so much data as the share leader in room nights. How do you think the AI transition could play out for Booking? And do you think you have some advantages versus search engines or your peers? How are you thinking about that? Thank you.

David Ian Goulden

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

A

Justin, thank you. Let me take the first one and hand it over to Glenn for the second one. So yes, in my remarks, just to reiterate, January did grow faster than the high end of the 4% to 6% range that we talked about. It did benefit, we believe, slightly, maybe in the range of about 1%, from the shift of the Chinese New Year this year, which we expect will be offset in February. And as we said, we would expect, therefore, February and March to have a lower growth rate than January, essentially consistent with our prior guidance of expecting deceleration during the quarter.

Glenn D. Fogel

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

A

Thanks, David, for that. Justin, AI, obviously incredibly important subject for everybody in any business right now. And I think I talked about it the last call and certainly have been talking about it a lot whenever I speak about how important this is for anybody who is looking to the future to create something that could be transformational. We're very early, as I've said in the past, and I like pointing out the things that we've done so far and some of the early signs we see that this is going to be just fantastic for us. Certainly nobody knows how long it will take.

One of the things I love is us being in a position, because of our financial position, because of the number of people we have who have capabilities to look into this. Because of the data we have, as you point out, that people can then be able to use it to create models and use it in ways that are complementary to other people much bigger than us are doing in terms of creating large language models, et cetera, I do believe we have an advantage because of our size and scale and the capabilities of our people to create something in all parts of the business, whether it be, as I discussed, things that help the traveler in terms of sorting our products there, or helping us in the back part of our business, the back office, and making things more efficient all throughout.

I think we do have an advantage. Of course we'll see over time how well and how quickly we can actually translate that into better numbers in terms of margins, in terms of more people coming to us, people increasing loyalty, et cetera. But I am very encouraged what I'm seeing so far, and I certainly believe that we do have the pole position here in the travel industry.

Justin Post

Analyst, BofA Securities, Inc.

Thank you.

Q

David Ian Goulden

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

And, Justin, just going back to the operating expression, I just want to reiterate two other things I said about the Q1 room night guide. This is of course after the impact of about a point of hurt from the Middle East. And of course we are comping against a very strong start to last year when we saw room nights, the booking window moving from a contracted position to an expanded position in the first quarter. That also created some strong results in Q1 last year. So you have to factor those things into account as well.

A

Justin Post

Analyst, BofA Securities, Inc.

Great, thank you. And, David, this is your last call. We'll miss you. Thanks for all the work over the years.

Q

David Ian Goulden

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

Thank you, Justin.

A

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

Kevin Kopelman

Analyst, TD Cowen

Thanks so much. I wanted to ask about marketing. First, merchandising was only up slightly in the mix, or only up slightly as a percentage of GBV, I should say, in 2023. Do you feel that that's reached a steady state in the mix, or do you see incremental pushes this year in merchandising? And then on advertising, are you seeing any changes to the bidding environment?

Q

David Ian Goulden

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

So, Kevin, so we've now I think, as you characterize, our merchandising activity has been something we've been ramping up over time at Booking.com, and I think we now have it deployed in places where we planned to deploy. So it has reached more of only a slight increase in merchandising in total from last year to this year as a percentage of GBV.

A

So when we kind of look at our funnel going forward, we do expect across marketing and merchandising with our continued increase in direct mix that could be a source of leverage for us. And of course, as I mentioned by country about the full year, that will be the biggest driver of our EBITDA margin expansion this year and will be joined by OpEx next year.

And then relative to the competitive environment, it stays competitive. These are very competitive markets, many players in there. I think people realize it's not just the OTAs. There are meta players. There are hotel players. There are chains, you name it. A lot of people bidding in these marketplaces, so I think it just remains competitive, but we're pleased with how we're doing in a competitive marketplace.

Kevin Kopelman

Analyst, TD Cowen

Q

Great, thank you.

Glenn D. Fogel

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

A

And, Kevin, just to reference back to Justin's question about AI and data and merchandising, how we do it, et cetera, one of the great things I really see about our position is that using data, using all the things we know to merchandise smartly, to do it where we think it's going to give us an advantage to not do it when we're just giving away money.

And I really see as all this AI technology develops further, as we begin to optimize over time all the different parts of the Connected Trip, we're going to be able to provide value to both the travelers and be able to get our suppliers to help provide merchandising opportunities, and us doing it in an intelligent way. So it's a win for the traveler, win for the partner, and us as the people who are doing all this, we will also win.

Kevin Kopelman

Analyst, TD Cowen

Q

Great. Thanks, Glenn.

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

Mark Mahaney

Analyst, Evercore ISI

Q

Okay, thanks. Two questions, please. In terms of your guidance for the full year on the margin side, what are you embedding in there in terms of marketing or sales and marketing spend and merchandising spend as a percentage of bookings? Are you assuming a little bit of leverage in there? And I'm sorry if you covered that in your published comments, but if you could answer that.

And then secondly, on the buybacks in Q4, I think they were a little bit lower than in Q3. Was that your intention? Was there a particular reason why you may have been a little less active in the market in Q4? Thank you very much.

David Ian Goulden

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

A

All right. So thank you, Mark. I'll take those. So as I said in the prepared remarks, the biggest driver of leverage we expect this year on EBITDA margin is going to be from our direct mix increase, which means that we'll have a small percentage of the business which is paid a higher percent of mix, and therefore we expect to get some leverage on marketing merchandising.

We'd expect to continue to be aggressive and so we'll lean into the markets where we are spending money on paid marketing. And we don't necessarily, we're not saying anything about our ROI because we don't want to do that to tip any hand, but we would expect it would be the direct mix increase would be the driver of leverage in marketing and merchandising. Therefore, it would be the driver of improvement in our EBITDA margins.

On the buybacks in Q4, I think they're roughly similar in size to Q3. At the start of Q4 when our share price was lower. We said if the share price stays at a lower level, we would buy more in Q4 than in Q3. The share price moved up during the quarter. And we take share price into account when thinking about the level of buybacks. Of course, we take a long-term view, but in the short term we do more based upon how share price moves. So that's perhaps why it might have been a little bit less than you may have expected and a little bit less than perhaps we indicated on the last earnings call, but still a big number and still over \$10 billion for the year. And as you see, significant reduction in our share count over the last two years.

Mark Mahaney*Analyst, Evercore ISI*

Q

Thank you, David. It makes a lot of sense. Thank you very much.

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

Douglas Anmuth*Analyst, JPMorgan Securities LLC*

Q

Thanks for taking the question. I just wanted to follow up on the full-year outlook. It sounds like you're very confident in the business overall. Does the full-year outlook reflect just normalization of trends in 2024? The tough comp and the Middle East impact that you mentioned. Is there anything else to consider here? Thanks.

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

A

I think there's a couple things to bear in mind in the full-year outlook. Bear in mind, we talked about our framework, so we said that we would grow faster than 8.8% and 15% on a constant currency basis, and we're saying we're going to do that even with the impact of the Middle East slowing our business down. So I think that is a positive outlook.

Of course, we've adjusted the numbers to a reported number, so when you include the FX shift at current rates of roughly 1%, then the 8.8%, 15% becomes a 7.7%, 14%. But, again, it's essentially 8.8%, 15% on a constant currency basis, and we expect to be higher than that even with roughly a point of hurt to the business on the top line and the bottom line from what's happening in the Middle East. So it's consistent with our framework and I believe is confident of our position of the travel market and our continued ability to gain share in travel.

Douglas Anmuth*Analyst, JPMorgan Securities LLC*

Q

Thank you, David.

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, guys. I have two sort of on the US. The first one, when you talk about the US being flat, does that include alternative accommodations? So is the hotel business in the US actually declining then? That's the first one.

And then just sort of, Glenn, as you look into 2024, what are the investments you have to make in the US both on the hotel side as well as the alternative accommodations side to sort of drive more durable consistent growth from here?

David Ian Goulden

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

A

Yeah, I'll start with the first one, back to Glenn for the second one. The US was flat for the quarter, but bear in mind it was down in October. And in October it was driven very much by the ripple shock effect of what was happening in the Middle East. So therefore it was back into growth mode in November and December and came out flat for the quarter. So I wouldn't read too much into the whole quarter. You've got to kind of look at what happened in October.

Yes, that does include alternative. As Glenn said, alternative grew very nicely in the US, but it's a much lower mix of our business in the US than it is in other parts of the world. So again, I wouldn't go too much into kind of assuming that means that hotels were negative.

Glenn D. Fogel

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

A

And regarding the question regarding how we're going to do even better in the US, we've talked about the numbers that we've shown so far. I'm very pleased. You look back to 2019 and see what our share was and what our numbers were then and look at them now, it shows really fantastic growth and great work by the team. I think last quarter I gave a shout-out to the team then, and I'll do it again because they're doing fantastic work.

One of the things is, because we under-index, because we are smaller in terms of our share of the US versus other parts of the world, this is a great opportunity for us. And I've talked about we have to continue to improve our product, particularly in the alternative accommodation. And we've been doing that, and that's why we have this large growth rate in the US alternative accommodations. We're very pleased to see that happening.

And continue to provide to our hotel partners what they need, and what they want is incremental demand. They don't want us to be providing demand that they think they can always get.

And one of the great things about our team is working closely with our hotel partners. As you know, a lot of the US is large chains, and we have developed I think a very good relation with them to work together to help them do what they need to do to achieve their results, and us being a provider of those services and getting what we need, which is more bookings. I'm pleased with the results we've done so far, and I think we have a great opportunity to continue to do so for a long time.

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Q

Thank you both.

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

James Lee

Analyst, Mizuho Securities USA LLC

Q

Great, thanks for taking my questions, two here. I think, Glenn, you talked about maybe increasing supply of home accommodations, alternative accommodations in the US. Can you elaborate? Maybe talk about that plan a little bit, help us understand your strategy there.

And also secondly, I think you guys talked about maybe on the loyalty program to include all verticals in 2024. It would be great to provide some details there as well. Thanks.

Glenn D. Fogel

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

A

Thanks, James, and I didn't quite get the second one. Let's start with the first one. Maybe David heard the second one. So it's interesting because in our last call I went into a little bit about what do we need to do to increase that supply of alternative accommodations. And I talked a little bit, and by the way, this wasn't the first time I talked about this, while we are fairly even between urban and rural and such, I have talked in the past though how we don't have as many of the single properties that perhaps some of our competitors have. And that's the area down the road.

But the whole idea is we want to do things efficiently. We want to do things effectively, which means you go through the things where we can get larger groups of properties listing quicker by going to the big property managers who have lots of them. That may be that you're going to end up with more things that are not single-home properties. But then after we've done that enough and that's the low-hanging fruit, after we got that accomplished, then we've got to go out and start getting more of the single homes, et cetera.

And I expressed my own disappointment that when I look for a single property, sometimes I've mentioned at one point on the call about wanting to get something out in the Hamptons in New York for the summer and not seeing enough properties for us. There's lots of opportunity, but I look at this as opportunity, not as a negative. But look how well we're doing even though there's all that other stuff to go out and get. That's the way I feel about it, and I'm pleased about it and pleased the way the team is going out.

Look, 12% increase in our listings. It was 6.6 million. Now we're over 7.4 million. I like the fact that we're increasing those numbers, doing a nice size, and also particularly really like the fact that our growth rate of alternative accommodations was significantly higher than some other people in our space. So I was very happy to see that. And, David, I didn't catch the second part of James's question.

James Lee

Analyst, Mizuho Securities USA LLC

Q

The second part of the question is about your loyalty program, Genius. I think, Glenn, you had mentioned you want to include all travel verticals into the program this year, and I was wondering if you can provide some details on that.

Glenn D. Fogel

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

A

Sure, okay. So what I said is we're going to experiment, as we always do. We always experiment with where do things work, where do we see return for it, where do we see it isn't working so well. So we're going to continue to experiment.

And we do have, for example, rental cars well established into our Genius program. Obviously our combinations. We experiment with all the different verticals and think, is there a way to do it in flights? Is there a way to do it in

attractions? How do we do it in terms of potentially even insurance and all sorts of ways? Our ride business, when people need a ride from the airport to the hotel, or the hotel to the airport, or from their home to the airport?

And this goes back to the first question. I think it was Justin who asked about AI and about how you use data. And that's kind of one of the key things, is when you have these models and you can figure out what the best way to provide a benefit, and that's through our loyalty Genius program doing that in a way that it provides value to the traveler. That's part of the process. That's why they come back to us. That's why they come to us direct. Maybe they use the app because it's so simple to do it.

And at the same time, Genius is almost right now primarily being funded by our partners because they see value in that. They see value in providing a discount or some other type of benefit that we put into the offering so that the traveler will book that supplier, what they want to sell, and doing it together in a scientific way, and doing it in a way that is going to make sure that we're not leaving value out of the cycle in a way that's not going to be beneficial to our supplier partners.

Doing it smartly. That's the thing that I love. And that's how we're going to continue to experiment on that. And I think it's worked so well in hotels and in alternative accommodations. I think this is going to work great in all of it, but we'll see after we experiment.

James Lee

Analyst, Mizuho Securities USA LLC

Q

Okay, great. 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

Thanks so much. Maybe following up on that last question from James, you talked earlier about Connected Trip and feeling optimistic about attach rates there, but still work to do. When you think about what you're trying to accomplish with Connected Trip longer term and you think about rising conversion, reducing friction, what do you put it down to? Is it consumer education? Is it supply? How should we be thinking about the building blocks behind Connected Trip to accomplish your longer-term goals? Thank you.

Glenn D. Fogel

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

A

So if the question is really how do we get from early stage showing good signs but it's still small, to scale and really showing the bottom line and top line and loyalty and all those things, is that the question, really?

Eric J. Sheridan

Analyst, Goldman Sachs & Co. LLC

Q

It is, Glenn. Thanks.

Glenn D. Fogel

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

A

Yes. So, look. One of the things that we have to – and I said this is a long-term path, and the first thing was we had to build the verticals to begin with. One of the fun things was to mention that we started Booking.com, really

got it off the ground in 2019. And now put all flight members together, and you see 400% increase there. That's including, of course, Priceline had flights before that where you just see the growth rate of flights right now. Great. So we got that vertical up, and we got insurances up. And attractions still early, but up. But all of these things, the car rental was up, but we still do more than that, and of course the rides business and others.

All these things are at different levels of development but still relatively new. And along with that, now we have to build all the modeling, all the ways to figure out what's the best way to offer one versus the other and make sure that we're doing it the right way. And then it's working with our partner suppliers to provide and prove out to them that this is worthwhile to them.

All of these things take time, but I do like what we see. We are seeing those signals. We are seeing the numbers. It is early, and I'm sure you'd like me to give you some numbers and say here is what it's going to be tomorrow, here's the next milestone. I'm not going to do that, but I can say I see we are on the right path.

Eric J. Sheridan

Analyst, Goldman Sachs & Co. LLC

Q

Great, thank you. And thank you for everything, David. Congrats on the last call, and good luck with everything.

David Ian Goulden

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

A

Thank you, Eric.

Operator: That is all the time we have for questions. I will turn the call to Glenn 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, our shareholders. And as mentioned by a couple of people on the call, I have to give out a very special thank you to my very good friend and colleague, David Goulden. As you know, after 24 earnings calls as Booking Holdings' CFO, David is retiring from this role and will be working on other areas of the business going forward. We greatly appreciate everything that David has done for this company, and we greatly appreciate everyone else's support as well as we continue to build on the long-term vision of our company. Thank you very much and good night.

Operator: This concludes today's call. We thank you for joining. You may now disconnect your lines.

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