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Booking Holdings, Inc. (BKNG)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Booking Holdings' second quarter 2024 conference call.

Booking Holdings would like to remind everyone that this call may contain forward-looking statements, which are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not 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 statement. Expressions of future goals or expectations and similar expressions reflecting something other than historical fact are indeed to identify forward-looking statements.

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

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

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

Glenn D. Fogel

Chief Executive Officer & Director, Booking Holdings, Inc.

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

I am proud to report second quarter results that exceeded the high end of our expectations for room nights and revenue. The upside on revenue combined with lower than expected fixed OpEx growth helped drive adjusted EBITDA above the high end of our prior guidance range. As expected, the travel market has continued to normalize, and we are pleased with the strength of our underlying business.

Moving to our key metrics in the second quarter, our travelers booked 287 million room nights across our platforms, an increase of 7% year over year. Revenue of \$5.9 billion and adjusted EBITDA of \$1.9 billion both increased 7% year over year. Finally, adjusted earnings per share grew 11% year over year, helped by our strong capital return program, which reduced our average share count by 7% year over year.

In line with our expectations, we saw that the booking window expanded less in the second quarter relative to the first quarter, which negatively impacted room night growth compared to Q1. From a regional perspective, we observed a mild moderation of travel market growth in Europe. However, we believe we are continuing to perform well relative the market in Europe. Looking at our other regions, we continue to see high growth levels in Asia and a slight improvement in growth in the US.

As we look ahead to the third quarter, we believe room night growth will be impacted by a booking window that expands less than it did in Q2 as well as by the more moderate market growth we have seen in Europe, where our growth has remained stable from May through July. We expect that this will result in some deceleration in room night growth compared to Q2. Ewout will provide further details on our second quarter results and our thoughts about the third quarter.

I remain confident in the attractive long-term growth profile of the travel industry, our competitive position over the long term, and our long-term growth and earnings model. We remain focused on what is important for the business for the long term, which means continuing to execute against our strategic initiatives while simultaneously taking actions to drive more cost efficiency in the business.

We continue to see progress across several important initiatives, which include: advancing our Connected Trip vision; expanding our merchant offering at Booking.com; continuing to develop our AI capabilities; growing alternative accommodations; and enhancing our Genius loyalty program. These initiatives all fit together in our ongoing effort to deliver a better planning, booking, and travel experience for our travelers while also benefiting our supplier partners.

We believe that continuing to drive benefits to our supplier partners is critical to successfully operating a growing two-sided marketplace. We are encouraged to see healthy second quarter year-over-year growth in the number of supply partners working with us at Booking.com. We are focused on being a trusted and valuable partner by delivering incremental travel demand and developing products and features to help support these accommodation properties, the majority of which are small and independent businesses. We believe that improving the competitiveness and profitability of our smaller partners and supporting those partners across macroeconomic cycles contributes to the long-term economic health of our sector.

Our alternative accommodation offering at Booking.com continues to benefit from having more listings available for travelers to choose from. At the end of Q2, our global alternative accommodation listings were about 7.8 million, which is about 11% higher than Q2 last year. We believe this greater selection of listings is contributing to the increasing mix of alternative accommodation room nights booked on our platform. We continue to make incremental enhancements to our alternative accommodation offering for both our travelers and supply partners.

For our travelers, we are focused on successfully delivering a better planning, booking, and travel experience over time, which we believe will lead travelers to choose to book directly and more frequently with us. At Booking.com, we are continuing to grow the number of total active travelers, with repeat travelers growing at an even faster rate. In terms of direct booking behavior, we are pleased to see that the direct booking channel continues to grow faster than room nights acquired through paid marketing channels.

As I've stated before, we think it's important for us to remain proactive in paid marketing channels in order to bring new travelers to our platforms so long as we're able to do this at attractive ROIs. In addition, I'm encouraged by the work our team at Booking.com is doing to increase our spend on social media in a disciplined manner, which is an effort that helps to further diversify the channels we utilize while reaching our travelers on platforms they're actively using.

Our Genius loyalty program at Booking.com plays an important role in helping to drive more travelers to choose to book directly with us over time. We see a meaningfully higher direct booking mix for Genius users versus other users, and that direct mix percentage steps up at each higher level of Genius status. So we are encouraged to see continued success in more of our travelers moving into the higher Genius tiers of Levels 2 and 3, which now represent nearly 30% of our active travelers. In addition to a higher direct booking rate, we also see higher booking frequency from our Genius Level 2 and 3 travelers when compared to our overall business.

In Q2, we drove more Genius benefits to our travelers, with a 15% year-over-year increase in benefits. This is primarily driven by accommodation bookings. However, we are seeing growth in benefits in the other elements of travel as well, with triple-digit growth in Genius discounts for car rental off of a small base last year and continued testing of Genius benefits for flights. In addition to these benefits, bookings in travel verticals outside of accommodations contribute to a traveler's Genius Level tier.

We will continue to explore opportunities to enhance our Genius loyalty program and deliver more benefits to our travelers. And we know that Genius is a win-win with our supplier partners, enabling them to get incremental demand when they want it, which is one reason more of our supplier partners are electing to participate.

On the Connected Trip, we continue to take steps towards our long-term vision to make the planning, booking, and travel experience easier, more personal, and more enjoyable while delivering better value to our travelers and supplier partners. In order to achieve the easier, more personalized experience of the Connected Trip, we have always envisioned AI technology at the center of this vision. Our teams of AI experts continue to draw on their valuable experience from using AI extensively for many years as they work to further incorporate this technology into our platforms. We believe our proprietary data along with our resources and scale position us well to build compelling AI-powered offerings over time.

Another foundational element of the Connected Trip is the merchant offering that we continue to expand at Booking.com. Merchant capabilities will help bring the different elements of travel together in a seamless booking experience while also unlocking the ability to merchandise across verticals. The mix of merchant gross bookings

reached 58% of total gross bookings at Booking.com in the second quarter, which is an increase of 10 percentage points year over year and is higher than our prior expectations.

We are pleased to see that processing transactions through Booking.com's merchant offering generated incremental contribution margin dollars in the quarter, though this was still a small percentage of our total adjusted EBITDA. We continue to see growth in transactions that are connected to another booking from a different vertical in a trip. These connected transactions increased by about 45% year over year in the second quarter and continue to represent a high single-digit percentage of Booking.com's total transactions. We believe by providing a better overall booking experience, travelers may choose to book more trips with us, with a higher likelihood of booking directly in the future.

Flights are an important component for many of the Connected Trips that our travelers are booking. In the second quarter, air tickets booked on our platform increased 28% year over year, driven primarily by the growth of Booking.com's flight offering as well as strong growth in Agoda's flight business. We continue to see a healthy number of new customers coming to Booking.com through the flight vertical and are encouraged by the rate that these customers and returning customers see the value of the other services offered on our platform.

In conclusion, we continue our work to deliver a better offering and experience for our supplier partners and our travelers. We remain confident in our long-term outlook for the travel industry. We are positive about our future, and we believe we are well-positioned to deliver attractive growth across our key metrics in the coming years.

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

Ewout Lucien Steenbergen

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

Thank you, Glenn, and good afternoon.

I will now review our results for the second quarter and provide our thoughts for the third quarter and the full year, all growth rates on a year-over-year basis. Information regarding reconciliation of non-GAAP results to GAAP results can be found in our earnings release.

Now let's move to our second quarter results. Our room nights in the second quarter grew 7%, which exceeded the high end of our guidance by 1 percentage point. As expected, we saw room nights growth moderate from the first quarter as we saw less year-over-year expansion of the booking window in the second quarter.

Looking at our room night growth by region, in the second quarter Europe was up mid-single digits, Asia was up mid-teens, Rest of World was up high single digits, and the US was up mid-single digits.

We continued to grow our alternative accommodations business faster than our overall business. For our alternative accommodations at Booking.com, our second quarter room night growth was 12%, and the global mix of room nights was 36%, which was up 2 percentage points from the second quarter of 2023.

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

Mobile app mix of our total room nights was about 53%, which was up 6 percentage points from the second quarter of 2023. We continue to see that the significant majority of bookings received from our mobile apps come through the direct channel.

For our Genius loyalty program at Booking.com, we continued to see a year-over-year increase in mix of room nights booked by travelers in the higher Genius tiers of Levels 2 and 3. These members booked more than half of the room nights over the past four quarters.

Outside of accommodations, we saw airline tickets booked on our platforms in the second quarter increase 28%, about in line with our expectations, driven by the continued growth of flight offerings of Booking.com and Agoda.

Second quarter gross bookings increased 4%, which was approximately 3 percentage points lower than the 7% room nights growth, due to about 2 percentage points of negative impact from changes in FX and about 1% lower constant currency accommodation ADRs. The year-over-year ADR decline was negatively impacted by a higher mix of room nights from Asia. Excluding regional mix, constant currency ADRs were about flat versus 2023.

While room night growth was above the high end of our guidance range, gross bookings growth came in at the midpoint of our range due to about 2% lower constant currency accommodation ADRs versus our expectation. In addition, our gross bookings were negatively impacted by lower flight ticket prices, in line with the recent trends we have heard from many airlines.

Second quarter revenue of \$5.9 billion grew 7% year over year, which exceeded the high end of our guidance by 1 percentage point. Revenue growth was negatively impacted by about 2 percentage points from the change in Easter timing and 2 percentage points from changes in FX. Adjusting for these two items, revenue would have grown about 11%.

Revenue as a percentage of gross bookings was 14.1%, which was slightly higher than expected due to a timing benefit as we saw gross bookings growth decelerate in the quarter and a less expanded booking window than expected. Additionally, revenue associated with payments was higher than expected.

Marketing expense, which is a highly variable expense line, increased 8% year over year. Marketing expense as a percentage of gross bookings was 4.7%, about 15 basis points higher than the second quarter of 2023, due primarily to the timing of brand marketing spend as well as increased spend in social media channels.

Second quarter adjusted sales and other expenses as a percentage of gross bookings was 1.9%, about 15 basis points higher than last year, due to a higher merchant mix and higher transaction taxes.

Our more fixed expenses on an adjusted basis were up 5% and were below our expectation across all three line items, personnel, G&A, and IT. We're very focused on carefully managing the growth of our more fixed expenses and are taking actions to help improve our operating leverage in future quarters.

Adjusted EBITDA of \$1.9 billion was above our expectations, largely driven by higher revenue and lower than expected fixed expenses. Adjusted EBITDA grew 7% despite approximately 5 percentage points of pressure from Easter timing and 2 percentage points from changes in FX. Adjusting for these two items, adjusted EBITDA would have grown about 14%. When looking at our adjusted EBITDA margins for the first half of 2024, which neutralizes the impact of the Easter timing shift, we're pleased to see 160 basis points of margin expansion versus the first half of 2023.

Adjusted net income of over \$1.4 billion was up 3%, slower than the growth in adjusted EBITDA due primarily to higher income tax expenses, which was impacted by some discrete items. Adjusted EPS of \$41.90 per share was up 11% and benefited from a 7% lower average share count than the second quarter of 2023. On a GAAP basis, net income was over \$1.5 billion in the second quarter.

Now on to our cash and liquidity position, our second quarter ending cash and investments balance of \$16.8 billion was up versus our first quarter ending balance of \$16.4 billion due to about \$2.4 billion of free cash flow generated in the quarter, partially offset by about \$1.9 billion of capital return, including share repurchases and dividends.

Moving to our thoughts for the third quarter, we expect third quarter room nights growth to be between 3% and 5%, a sequential deceleration, as we expect the third quarter to benefit less from a year-over-year expansion of the booking window than we saw in the second quarter. For the third quarter, we expect the booking window to be more similar to last year.

Additionally, we have seen a mild moderation in the market growth in Europe over the last couple of months, though our growth in Europe has remained stable from May through July, and we believe we continue to perform well relative to the market.

We expect third quarter gross bookings growth to be between 2% and 4%, slightly below room nights growth due to about 1 percentage point of negative impact from changes in FX. We expect constant currency ADRs to be down slightly year over year and for this to be offset by a slight benefit from flight bookings growth. While we continue to expect growth in flight bookings, we believe this will be less than previously expected due to lower flight ticket prices.

We expect third quarter revenue growth to be between 2% and 4%. We expect third quarter adjusted EBITDA to be between about \$3.25 billion and \$3.35 billion, about flat year over year at the midpoint of the range. We expect adjusted EBITDA to grow slower than revenues due to deleverage from sales and other expenses and from growth in IT expenses related to higher software license fees and increased cloud costs. We expect third quarter revenue and adjusted EBITDA growth to also be negatively impacted by 1 percentage point from changes in FX.

In terms of our outlook for the full year, we're adjusting out gross bookings growth expectation to faster than 6%, which is a bit lower than our prior expectation due to less growth in flight gross bookings as a result of the lower flight ticket prices I previously mentioned. Though flight prices have come down, we still expect strong growth in flight tickets for the year as we continue to expand the flight offerings at Booking.com and Agoda. We expect accommodation ADRs will be about flat to down slightly on a constant currency basis.

For revenue, we now expect revenue growth of more than 7%, which is a bit higher than our prior guidance, based on the outperformance in the first half of the year and our expectation for higher revenue associated with payments. Revenue is impacted to a much lesser extent than gross bookings from the decline in flight ticket prices. We continue to expect about 1 percentage point of negative impact from changes in FX on our top line growth rates.

We're reducing our fixed OpEx growth expectation to low double digits, as we continue to focus on bringing this growth rate down over time. We expect adjusted EBITDA to grow in the high single digits, which is slightly faster growth than our prior expectation given our outlook for increased revenue growth and lower fixed OpEx growth. We continue to expect adjusted EBITDA margins to expand year over year by a bit less than 8 percentage points.

Finally, we're increasing our adjusted EPS growth expectation to above 15%.

In conclusion, we continue to expect 2024 to be a strong year for the company. We remain focused on executing against our strategic initiatives while taking actions to drive greater operating leverage. We're excited about our long-term vision for the Connected Trip and enhancing our offering through technology innovation like generative AI.

And with that, we will now take your questions. Operator, will you please open the lines?

QUESTION AND ANSWER SECTION

Operator: Great, thank you so much. [Operator Instructions] Our first question comes from the line of Mark Mahaney with Evercore. Mark, your line is open.

Mark Mahaney

Analyst, Evercore ISI

Q

Okay, thanks. I wanted to just ask about the European travel conditions. Glenn and Ewout, it sounded like the market may be slowing a little bit, but if I'm capturing it right, your performance there seems to have been pretty steady. That sort of indicates market share shifts, market share gains. Any more color on that, why your performance would be relatively unchanged I guess in a slowing European travel market environment? Thank you.

Glenn D. Fogel

Chief Executive Officer & Director, Booking Holdings, Inc.

A

Hi, Mark. It's Glenn. I agree with what you say. I'm very pleased with where we're sitting right now. We've talked in the past about normalization, and we're happy with the numbers that we're seeing so far.

Your question sort of assumed a softening of the travel business overall. Let's talk about how much and to what extent. Our goal always is to gain share, whether the market goes up or the market goes down. I can't control demand. I can't control economies. What I can control is how well we can provide value to the travelers and to the suppliers. As long as we continue to do that, as long as we continue to provide a reason that people should come to us as a traveler or use us as a way to distribute somebody's travel suppliers, we'll continue to gain. And we've seen this in the long run here, and I expect to continue to see it in the long run going forward. I can't really give more than that right now.

Ewout Lucien Steenbergen

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

A

And, Mark, if may quickly build on the answer that Glenn just gave, it's also important to point out that actually our growth in Europe has been quite steady and stable in the period from May through July. So yes, we are seeing some mild moderation, but it has been relatively stable over the last couple of months.

Mark Mahaney

Analyst, Evercore ISI

Q

Okay, thank you very much.

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

Kevin Kopelman

Analyst, TD Cowen

Q

Great, thanks. Could you maybe give a little bit more color on some of the moderation you're seeing, like other indicators like length of stay or any trading down activity that you might be seeing? And given that things have started to slow, how do you gain confidence that they're not going to continue to slow both in room nights and rates? Thanks.

Ewout Lucien Steenbergen

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

A

Kevin, if you look at the overall conditions of the market, we're not really seeing a trade-down on a global basis. So both in terms of the star ratings as well as in the length of stay, it's relatively stable to what we have seen in previous periods, maybe with one exception. There is a really mild indication of some trade-down in the US, but otherwise globally we see a very steady picture.

Kevin Kopelman

Analyst, TD Cowen

Q

Thanks, and a quick follow-up on ad spend dynamics. With the deleverage expected in the third quarter, is that more of the same in terms of brand and social spend?

Ewout Lucien Steenbergen

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

A

If you look at deleverage in the third quarter, that mostly relates to S&O and fixed OpEx. Marketing, actually we expect to see leverage in the second half of this year and also from a longer-term perspective because we expect to continue to see some benefit from the expansion in the direct mix.

I also would like to point out, we think it's a really positive message for this call, that we are spending more on social media channels. That's a very attractive channel for us where we are expanding now and where we're investing more, and we can do that at very attractive incremental ROI. So really an important point to really highlight with respect to our marketing leverage and the success we are gaining there.

Kevin Kopelman

Analyst, TD Cowen

Q

Fantastic. Thanks, Ewout.

Ewout Lucien Steenbergen

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

A

Thank you, Kevin.

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

Justin Post

Analyst, BofA Securities, Inc.

Q

Great. Glenn, I'd love to hear your perspective on the travel market, bookings growing 3% to 5%. We know Europe has a really tough comp against reopening last year. Is that kind how you're thinking about longer-term market growth, or do you think it's kind of depressed right now on really difficult comps?

And then I'd love to hear about alternative accommodations, really strong growth there and increasing percentage. Are you featuring that more on your website? And do you really like the economics of alternative accommodations? How do you feel about those economics versus hotel? Thank you.

Glenn D. Fogel

Chief Executive Officer & Director, Booking Holdings, Inc.

A

Sure. Hi, Justin. So two separate questions, one just going back to the general sense of the travel market. And we talked about this a lot over many, many, many calls, about how much we believe that the travel market is best influenced by GDP. And that in the long run, GDP goes up, more people travel, more people who couldn't travel get wealthy enough that they can travel, that's a tailwind for us.

And we talked about other things. You mentioned 3% to 5%. Lots of people come up with whatever way you want in terms of global, what's global GDP, what's it going to do to travel. The numbers aren't that different. They're somewhere probably in that neighborhood. Then how much additional can we get out of increasing share because we provide that service? And then of course, there are the other tailwinds of the offline to the online, another one that's a point in our favor.

All these things together, we believe that the growth algorithm that we talked about in the past is totally intact. There's going to be volatility. There's going to be variations. There's going to be events that are going to happen globally, macro events that happen that can influence the quarter or a week or a day. In the long run, we just continue to build what we've been trying to build for a long time, which is a better service. And that's how we do it.

And one of the things we've been building and we're working hard on, I talked about it for a number of years how important it is for us to build an alternative accommodations business that will rival anybody's, and we admit it was taking us time to build it. We started from behind. Another company may have had a bigger head start on us, building it bigger. We think we've done a really good job of catching up.

I love the last call we did a few months ago when we came out and we talked about our homes business, more than two-thirds of the biggest player in the industry. And that last quarter we said how we have grown faster 11 of the last 12 quarters. I don't know if our 12% is going to win or not. At this time, I don't know. I'm pleased with that growth rate given the size of the business.

How are we doing it? We're doing it by doing what we do with all things, is provide a reason. I said this just to Mark earlier, is that continuing to build out a product that gives a person a reason to come and use it. Now, I don't really care whether the customer uses a home or a hotel or a villa or an igloo. I don't care. I care they get what they want. That's the important thing, and then come back.

In terms of the profitability of one versus the other, we can go into that and talk about it. That's not really relevant. What's relevant is making sure that they use whatever they want. We don't try and steer them. We try and just make sure they have the best tools to choose what they need. In the long run, that's the way we'll win and create a great business.

Justin Post

Analyst, BofA Securities, Inc.

Q

Great, thank you.

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

Doug Anmuth

Analyst, JPMorgan Securities LLC

Q

Thanks for taking the questions. Glenn, just curious, first, how you're interpreting the relative tightening of the booking window. And what does that tell you about the state of the traveler into the back half?

And then just curious. In your outlook, how much are you contemplating any impact from the tech issues that we've seen over the last couple weeks and their impact to airlines as well? Thank you.

Glenn D. Fogel

Chief Executive Officer & Director, Booking Holdings, Inc.

A

Great, sure. So the booking window is an interesting thing, and we saw it expanding, expanding, expanding. Of course, at some point it has to stop eventually. It can't keep getting bigger and bigger. One of the things I was wondering is why was it expanding? Was it expanding because of inflation and people trying to book early to get that price locked up, afraid that it was going to be more expensive down the road? And then now maybe they're thinking well, maybe rates aren't going to keep on increasing, so I can wait and maybe I'll get a lower price later. I don't know and I haven't done any data to analyze and come up with what the reason is.

The fact is, the window gets bigger and the window gets smaller. That of course influences any particular quarter. But in the long run, it all averages out, so I'm not going to worry too much about that.

What we do make sure though is make sure that we're spending the right amount of marketing money to try and get the right conversion, do it at the right ROI, and that's what we continue to do, and we're very careful with that. But again, another thing, just like the economy, I can't control what people are going to decide when they want to book.

In regard to the tech thing, tech issues, I assume you're talking about the horrific events that disrupted travel throughout the world, but particularly hit some of our supplier partners significantly. Delta had a horrific event. I saw the CEO's interview on Squawk Box, and I read about what they're planning to do. It's a problem. When you have critical infrastructure breaks down and then disrupts millions and millions of people's lives, that's really unfortunate.

Hopefully it won't happen again. Hopefully people test their products before they put them out into the market. Hopefully, there are backups. Things happen. In travel, we know it happens a lot. Certainly weather happens an awful lot. This is something, though, that wasn't – weather, which you can't control. This was making sure that your infrastructure works. And it will be interesting how that lawsuit turns out.

I will point out it didn't affect us very much though, so we were very pleased about that.

Doug Anmuth

Analyst, JPMorgan Securities LLC

Q

Thank you.

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

Eric J. Sheridan

Analyst, Goldman Sachs & Co. LLC



Thank you so much. Maybe two questions, if I could. First, following up on sort of the demand environment, when you think about the shift from goods to services that has played out in the economy more broadly in the last couple years, do you think elements of stability or maybe reacceleration in terms of demand might be down to price, or do you think it's just time and duration that might have to sort of find a new footing for demand and maybe elements of a potential return to growth? So we'll list them down to sort of suppliers and pricing or elements of a new normal and finding a new level? I'd be just curious for your perspective there, Glenn.

And then in terms of the broader marketing messages, you've been on this journey to sort of rejigger the way you're approaching the marketing funnel and driving more direct traffic. What do you see as the key investment priorities built on some of the learnings from the last 12 months that you want to share in terms of how the marketing focus for the company might continue to evolve beyond just 2024? Thanks so much, guys.

Glenn D. Fogel

Chief Executive Officer & Director, Booking Holdings, Inc.



So on the first more generic question about goods versus services, I think your question, I'm trying to narrow it down, but I think what we're really talking about is we saw a change in people's behavior where they seem to value services significantly more than goods, which of course helps someone like us. And I think the question is, is this a permanent change, or are people going to go back to the balance they had a few years ago, maybe pre-pandemic?

And I think that in the end, again, this is one of those things that I believe, but I don't have proof of, is that as people get wealthier, you end up spending more money on services. And it ends up a lot because people generally have one home, you've got one couch. You don't keep buying more and more. But as your wealth increases, you want to do things, you want to enjoy things, and we see that happening.

There also could be something of the Instagram effect. This is human nature that you want to show off to your friends all the great things you're doing. I think that definitely has some impact because certain parts of the world that people never used to travel to, now they're being overrun. I think that's the Instagram effect there. So that's all good for our business.

I don't know how much further it will go though, because people do need to buy homes, they do need to buy couches, et cetera. And I don't see that as a big swing. But I'm not concerned that it's going to flip back and we're going to end up with lower. That's one.

In terms of the marketing balance, Ewout talked a couple things about it, but I just want to repeat his point earlier about one of the things I'm happy to see is seeing us making some progress in using social. We had a long problem getting that to work for us for many, many years. It just didn't seem to work, but now we're seeing, okay, it's starting to work. We're getting some good ROIs, putting more money into it. Like that, and I think that we'll continue doing that.

Another thing we saw that we don't talk a lot about because I don't want to get too specific, but we saw ourselves using money that we thought was producing a good ROI, and it turned out it really wasn't. And we shut some of these things down. I won't go into exactly what they were. We said, you know, that's really not hurting us. We said, well, that's great. And that's something that over the last year or so that we saw some of the benefit in terms

of our marketing leverage was coming from that. So two good things. I'll let Ewout, anything else to say about marketing there?

Ewout Lucien Steenbergen

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

A

Eric, maybe to give you another perspective, so I'm now 4.5 months with the company. A lot of joy, a lot of pleasure to be here, and a great honor. But I'm also of course looking at some of the perceptions of the company. I think it's still very much an outdated perception out there that we are largely dependent in terms of sales and our business on the paid channels. Actually, we're emphasizing a lot, as you have heard in our calls, around the direct mix and being now in the low 60% level for B2C, which is really a game-changer from my perspective for the company.

Also, we're very much diversifying our paid channels, which is very important because this is a very dynamic world. These paid channels are changing all the time. They are changing their algorithms. I'm really impressed about the science that the company has behind its paid channels, the algorithms that we are adjusting to optimizing all the time the way how we spend our paid marketing dollars and how we're investing that.

And so there's not a silver bullet. It's all the time really the details about the optimization, how to get to the highest number of new customers coming to us through the paid channels in the most optimal way with the most attractive ROIs. And super-impressed how the company is doing that, and I think that gives us really an edge in terms of how we can deal with paid channels also in the future. Operator, I think we're ready for the next question.

Operator: Okay, great. Thank you so much. And our next question is from James Lee with Mizuho. James, your line is open.

James Lee

Analyst, Mizuho Securities USA LLC

Q

Great, thanks for taking my questions here. Two here. First on the loyalty program, it seems like one of your major peers is having mixed success with their loyalty program. And maybe, Glenn, you can once again talk about how your program is differentiated and that would allow you to have very high rate of repeat bookings.

And secondly on advertising, I noticed that your ad revenue seemed to be under-monetized at only 0.7% of gross bookings. Is that a source of opportunity as you're looking to take advantage of scale or your reach? And if so, maybe help us understand what areas you're looking to expand. Thanks.

Operator: Glenn, did we lose you?

Glenn D. Fogel

Chief Executive Officer & Director, Booking Holdings, Inc.

A

Hi. Yeah, sorry about that, thinking of the answer. I'm going to let Ewout handle the ad opportunity. I'll talk about our loyalty program, Genius, which is the Booking.com program, which we talked a little bit about in our prepared remarks. We really haven't talked about it much in terms of numbers in the past, but I was just really pleased to be able to talk about our Level 2 and Level 3 players. Thirty percent of our active users, our active travelers are Level 2 or Level 3, and we talked about that gives us more than half of the Booking.com business, which is really great. We talked about how they come back more frequently and they come back more direct. That's a point that it works.

And one of the great things about it is, for the most part, we're not paying for it. Our partners are supplying almost all the benefit right now, though we talked about we are also putting some benefits in at a time. We're going to experiment with putting more in ourselves. But it's a great thing, why do the suppliers do it? They do it because it gets them incremental demand. It gets them demand when they need it, when they want it. It's very flexible. We work together with them, with these partners, so they can get the demand. And the reason they get the demand is because our high Genius level people are high spending people, and they're going to come and they're going to use those service. It's really a win-win-win. Win for our travelers, win for our partners, a win for us. Not a lot of people are doing a program like that, so we think it does differentiate.

And I'm really happy to see car rental now doing a lot more of it, and we're experimenting with flights. And part of the whole vision of the Connected Trip, the Genius program fitting right into that, coming from all different types of permutations of ways to provide better benefits to travelers and using it in a way, a scientific way, a data-driven way. We're using all of our AI capabilities, all of the data we have so that we can come up with the best solutions for both sides of the marketplace. That is what we're driving to, and I see it happening now in some of numbers we said. I think it gives us a little indication.

And then of course there will be the other thing, which doesn't have anything to do with loyalty, is advertising opportunities are great. And I'll let Ewout talk a little bit about that.

Ewout Lucien Steenbergen

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

A

James, thank you for pointing out the advertising revenues because it is indeed a very attractive potential line that gives us an opportunity in terms of growing our revenues in the future. Today this line is mostly coming from KAYAK and OpenTable, but there are opportunities of course to think about more advertising income from particularly the apps and the active app use that we're having mostly with Agoda and Booking.com.

But as everyone knows, this is a very fine line because if you get too many advertisements as a traveler on an app, while you're interested in something else, that can ultimately also become quite annoying. So finding there the optimal point is really important. But overall, you're right. That is an opportunity to help to drive further growth with the company in the future next to many other opportunities we have because I think that's actually the exciting part for us as a business.

We're not just growing with the market. We have so many opportunities to grow faster, if it is alternative accommodations we discussed or the multiple verticals around the Connected Trip we discussed, or growing geographically in Asia and the US, around payments, around generative AI, and many other opportunities. So definitely I would put this on the same list as well.

James Lee

Analyst, Mizuho Securities USA LLC

Q

Thank you.

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

Stephen Ju

Analyst, UBS Securities LLC

Q

Great, thank you. So, Glenn, I think I heard you talk in the prepared remarks about Connected Trips bookings up I think it was 45% and accounting for a high single-digit percentage of the mix. At this point, is there anything you

can share about how the basket size of a particular trip could be moving around? And presumably, it's up a lot because people are attaching more things. And I guess what the impact to your customer acquisition strategy may be as a result as customer lifetime values go up? Thanks.

Glenn D. Fogel

Chief Executive Officer & Director, Booking Holdings, Inc.

A

Sure. I won't give specifics, but I'll confirm what you say is true, is that if somebody buys two things, it's definitely the basket is going to be bigger than one thing. And also because they bought more things, as we use the science, as we use our data, as we use all the capabilities we have to come up with what is the value from that customer, well, how much should we spend to attract that person is going to change obviously. And it's also the question is in terms of loyalty. We found it makes sense. A more satisfied customer is going to come back more often. And people in the Connected Trip, people who use the Connected Trip, we do see a higher repeat rate for a Connected Trip person, and we see them coming direct.

And the great thing about the Connected Trip too is that in the past with just one vertical, which was the hotel business, we were missing on customers who wanted to start with flights. And now with flights, people are starting at flights, and they come and they buy something else too. And also it's the convenience factor. And that goes into the whole reason why the Connected Trip.

I've heard some people say, well, what makes you different? The truth is, right now we're certainly different because we don't have the full Connected Trip done yet the way I want it to be. But at the end of the day, we all know how frustrating travel is, and we know how much easier it would be if there was just one place, one person who would handle everything for you, put it all together in the way that was the optimal way with all the different things you have to decide upon. And then if anything went wrong, then it would all get fixed.

And now with the benefits of GenAI coming out and the progress I see being made with it, I talked to our people in customer service and what we're putting together there. I believe we will create something that truly is differentiating and that will create a reason that people will want to come to us. And the more people who come to us, the more opportunities we have to work with our partners to provide them opportunities to help build their businesses. Again, I get to use it again. I get to say win-win-win again because that's really what we're trying to achieve here.

Stephen Ju

Analyst, UBS Securities LLC

Q

Thank you.

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

Lee Horowitz

Analyst, Deutsche Bank Securities, Inc.

Q

Great, thanks for the questions. So the modestly softer travel environment that the industry seems to be expecting in the second half of the year seems to be working through models by way of pricing pressures. I guess, Ewout, can you comment some on how you think about flexing your cost structure going forward to the extent that hotel ADR has become a bigger headwind for the industry and by extension your adjusted EBITDA margins?

Ewout Lucien Steenbergen

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

A

Lee, thank you so much for asking the question because we are at this point in time really putting much more emphasis on this particular area and looking for optimal operating leverage for the company in the future. And we should particularly be well-positioned to do that because we have the scale, so we should be able to run much more volume over the same fixed infrastructure that we have as a company in the future, and take advantage of that and take advantage of that in the way that we can reinvest in new growth initiatives as well as of course also benefiting EBITDA margins and return of capital to our shareholders.

So let me give you a couple of examples what we are doing at this moment. We have already done a couple of reorganizations in some of our businesses. We have been looking very carefully at head count in some places, put a head count pause in place. We're looking at some expense benchmarking in some other brands and businesses, looking at procurement and real estate and many other areas. So more to come on that over the next couple of quarters that I can give you more details.

But definitely this has become a really big focus area, and we are pleased that therefore we can also say to you that for the full-year guidance we are now reducing the outlook with respect to fixed OpEx from low to mid-teens to now low double digits, as well as we continue to focus on growing our fixed OpEx at a lower level than the top line growth in 2025.

Lee Horowitz

Analyst, Deutsche Bank Securities, Inc.

Q

That's really helpful, thank you. Glenn, maybe on alternative accommodations, you continue to deliver very healthy supply growth here. Do you feel like you are reaching a point of supply parity relative to your peers in the US, specifically where you can perhaps lean in more aggressively, investing against marketing and discounting within this vertical to sort of accelerate share gains?

Glenn D. Fogel

Chief Executive Officer & Director, Booking Holdings, Inc.

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I have to admit I don't believe we are at that level at all right now. But that to me is an incredible opportunity, the fact that we are performing as well as we are in terms of our overall number, but we still do not have anywhere near the number or the type of home accommodations in the US to be fully competitive. While it's a disappointment to me that it's not done yet, it's an opportunity where we have all this upside still to come.

And we won't be spending huge amounts of money on a subpar product, so not to fear. We're not going to do that. What we're going to do instead is spend the money that we're spending now to make sure we get the properties we need, get the things up and running the way we want the product the way we want it to be. So nobody ever comes to our site and feels disappointed because it wasn't as good as X. That's what we're working on right now.

Clearly, the numbers show that we're doing a good job in many parts of the world, but the US is to me something that is a great opportunity. And for people who live in the New York area, you know. If you are looking for – I use this example all the time because I live in the New York area. If you are looking for a rental, you want a home in the Hamptons this summer, you came to our site, you probably said, gee, there's not a lot here compared to some other people. I don't want that to be. I want us to have as many if not more, and I want it to be easier for them to come. I want their trust coming to Booking is a better way to get that summer rental, and we're going to work on that. And that's good for us, an opportunity for us, but your answer is correct. We're not there yet.

Lee Horowitz

Analyst, Deutsche Bank Securities, Inc.



Great, thank you.

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

John Colantuoni

Analyst, Jefferies LLC



Great, thanks for taking my questions. You mentioned direct bookings were mid-50% of total and low 60% excluding B2B, which I think implies your B2B mix decreased from last year if I'm doing the math correctly. But in general, B2B is a smaller offering relative to your biggest competitor, and I imagine this was a strategic decision. But I'm curious why you're less excited about the opportunity in the B2B relative to some of the other players in the space.

Ewout Lucien Steenbergen

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



John, we are not really recognizing that math, and actually we are really encouraged by the growth of our B2B business as well. You're right that overall it's a smaller business than some other players in our industry, but we have a couple of propositions that are really strong. And all of our brands are actually active in this space. Booking.com is active in this space, Priceline with Getaroom, Agoda with Rocket Travel, and many other propositions that we have in the market. So it is an important part of our commercial strategy, but it is definitely something that is a bit smaller than other players.

John Colantuoni

Analyst, Jefferies LLC



Great, and maybe a second one on alternative accommodations. I think just broadly speaking marketing intensity in the alternative space appears to have escalated a bit year to date. Talk about Bookings' offering and positioning in the vertical and how that positions you to sort of continue delivering impressive growth if the competitive environment continues to ramp over time.

Ewout Lucien Steenbergen

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



John, I think actually our proposition is unique with respect to alternative accommodations because we are putting both traditional and alternative accommodations on our same platform. So we have the benefit of all our brand marketing spend, all our paid marketing spend coming together on the same platform and giving the traveler an opportunity to pick and select their best option. Maybe they're coming in and looking for two hotel rooms for their family and ending up by booking an apartment with two bedrooms, and they're very happy with that, with that outcome.

As Glenn said earlier, we are actually agnostic about which direction this is taking customers because it is important that they're finding the best option for them ultimately how to travel. We're agnostic from an economics perspective about this, and it is all about making sure we have the most attractive proposition in the market. But this is from our perspective a differentiator because we are able to bring all of those supply opportunities together on our platform as a company.

John Colantuoni*Analyst, Jefferies LLC*

Thanks so much.

Q

Ewout Lucien Steenbergen*Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.*

Thank you.

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Operator: Your next question comes from the line of Naved Khan with B. Riley Securities. Naved, your line is open.

Naved Khan*Analyst, B. Riley Securities, Inc.*

Yeah, hi. Thanks a lot. Maybe just on this commentary on booking window kind of not expanding as much, can you maybe just talk about if you're seeing any mix in your cross-border versus domestic bookings, and if that might have anything to do with it?

Q

And the second question I have is on the US room night growth. It seems like it picked up a little bit versus the last quarter. And wondering if it is driven by alternative lodging, or if that's not the case? Thank you.

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

Ewout, why don't you take that first one, and I'll talk a little about the US and the increase we saw in the second quarter versus the first quarter.

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Ewout Lucien Steenbergen*Chief Financial Officer & Executive Vice President, Booking Holdings, Inc.*

Naved, the way how we look at booking window is, as Glenn actually commented on a couple of minutes ago, to some extent it doesn't matter for us. It doesn't matter when a traveler actually books because they will travel at a certain point in time. When they travel, they have the experience, and at that point we will recognize the revenues and the economics to the company.

A

So if you look at the performance of the business over multiple quarters, this is averaging out if bookers book earlier or later ultimately for the same trip, and that can really depend on many factors. It can depend on assumptions of what will pricing do over time or locking in certain flights or locking in certain accommodations or other factors, why bookers might come to us earlier or later for the same trip.

But it is important if any investor looks at us from a medium and long-term perspective, it doesn't matter, because over time it is averaging out, and we'll deliver the same results for our shareholders and continue to build our business over time with all the opportunities we have.

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

In regards to the US and trying to distinguish is it because we did better in homes or we did better in hotels, I really try and stay away from that a little bit. We're trying to provide a traveler with what they need and provide all the different opportunities, whenever. I'm very happy with the second quarter. It accelerated versus the first

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quarter for our US business. That's very good. I'm pleased by doing better over the long run. But I'm not going to say it's because we did X, Y, or Z.

In the end, we have to do well in every single part of this business. That means we've got to provide the homes. Absolutely, I talked about that. We've got to be a good partner to the hotels and provide them with the incremental demand they need when they need it. In addition, the Connected Trip, we've got to make sure we're getting all the inventory we can in terms of flights, making sure we have that ground transportation.

As I always say, nobody goes on holiday to hang out in the accommodation. They want to do stuff, so we've got to make sure we've got our attractions working well and we're putting up the right offers to the person that they want, when they want it, at the right time. And of course, there are all the other things we provide, the insurance and tying it all together in our merchant platform, which we put in our prepared remarks on the numbers. We're very pleased about the increase in that, glad to see it continuing to go up because it provides a great convenience. It makes it easier to do a lot of things in the Connected Trip. All working together to provide the ultimate thing, which is having a better experience for the traveler and providing more opportunities for our supplier partners.

Glad that we're seeing that we did better in America. I'd like to do even better in the long run. I think America, the US, is a great opportunity. We continue to under-index there, which means for me that's a place that we can do better.

Naved Khan

Analyst, B. Riley Securities, Inc.



Thank you, Glenn. Thank you, Ewout.

Operator: Thank you. This concludes our Q&A session. That was our last question. Thank you so much. With that, I will hand the call back over to you, Mr. Fogel, for closing remarks.

Glenn D. Fogel

Chief Executive Officer & Director, Booking Holdings, Inc.

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

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

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