

04-May-2023

Booking Holdings, Inc. (BKNG)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Booking Holdings' First Quarter 2023 Conference Call. Booking Holdings would like to remind everyone that this call may contain forward-looking statements which are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guarantees of future performance and are not 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 statements 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 undertake 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, www.bookingholdings.com.

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

Glenn D. Fogel

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

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

I am pleased to report that in the first quarter, we reached all-time quarterly highs for both room nights of \$274 million and gross bookings of \$39.4 billion and achieved year-over-year growth rates of 38% and 44%, respectively. On a constant currency basis, first quarter gross bookings growth was even stronger at 52% year-over-year. Both room night and gross bookings came in ahead of our previous expectations as a result of the continued strength in leisure travel demand and from a lengthening booking window, particularly in Europe and the US.

The room night and gross bookings outperformance versus our expectations was driven by bookings that will stay in future periods, which is when the revenue will be recognized. And as a result of this timing difference, revenue was approximately in line with our expectations, while adjusted EBITDA was a bit below, given the additional marketing expenses associated with the future stays.

When we look at room night growth versus 2019, we have seen a slight increase in April compared with what we saw in the first quarter, though on a year-over-year basis, growth has decelerated as April last year saw an accelerating travel recovery, making the comparison more difficult.

Overall, we remain encouraged by the continued strength and resiliency of travel demand so far this year, which speaks to consumers' strong desires to travel. We currently see very strong growth of bookings received for travel

during our peak summer period in quarter three, though we note these bookings represent a modest percentage of what will likely be booked for total summer travel, and most of these bookings are cancelable.

While travel booking trends have remained robust, we recognize that there is uncertainty regarding the path of the global economy. However, we believe we are well positioned to navigate any potential near-term economic uncertainty given our highly variable expense structure, solid operating results, substantial liquidity, and strong free cash flow. This allows us to remain focused on what is important for the long-term, which means making the necessary investments to strengthen and grow our business while remaining cost conscious and implementing initiatives across the business to drive cost efficiency.

We continue to make progress on our key strategic priorities including our long-term Connected Trip vision. The Connected Trip is our long-term vision to make booking and experiencing travel easier, more personal, more enjoyable, while delivering better value to our traveler customers and supplier partners.

Our Payments platform at Booking.com ties into our Connected Trip vision as Payments helps deliver a more seamless and frictionless booking experience for our travelers. Though still small today, we are seeing an increase in the mix of transactions that are connected to another booked travel component in a trip.

We believe continuing to build on this progress will improve the booking experience for more of our customers which we believe will help drive increasing customer engagement with our platform.

We continue to focus on further developing our flight offering on Booking.com which provides consumers with another place to book an air ticket. Booking.com's flight offering was an important part of our total Q1 73% year-over-year increase in air tickets, which was an acceleration from the year-over-year growth in Q4 of 61%. We will continue this important work to provide travelers with the best possible flight booking experience.

Though AI has received significant attention recently, we began our investments in AI years ago. We believed then and we continue to believe now that we can build a more compelling and differentiated offering if we can leverage AI technology to deliver a more personalized booking experience, a Connected Trip that will be more responsive to a booker's needs, and help manage different aspects of their trips.

We believe we are well positioned in this area given that we have been using AI extensively for years in order to optimize interactions with our customers who are both travelers and partners. This goes from personalizing interactions and recommendations to machine translation in over 40 languages and dialects, to analyzing the content of pictures provided by customers and partners, to optimizing value for our customers, and many, many more.

Over the years, we have built a strong team of AI experts across the company and we keep current with the latest AI research through Booking.com's collaborations with universities. This enables us to quickly react, adapt, and learn how our traveler customers and supplier partners can benefit from new developments in the field.

We are always looking for new ways to make customer interactions smoother and richer, realizing our ambition to make it easier for everyone to experience the world and to deliver our Connected Trip vision. Much of the recent attention has been on large language models, or LLMs, which provide a multitude of interesting possibilities for improving all areas of travel searching, booking, and experiencing.

Two interesting possibilities are interactive itinerary building and answering traveler's questions, though there are current challenges given current LLMs sometimes produce inaccurate outputs. Nevertheless, we are excited to be exploring how we can make use of these technologies for the benefit of our customers.

Some of our brands like KAYAK and OpenTable are experimenting with generative AI plugins, while others are building ways to integrate the technology into their own offerings. It is, as we all know, very early days, but I am confident in our company's ability to benefit from these developments and improve our products for our customers given our experience in AI, our travel-related data, and our human and financial capital.

Our strategic priorities including the Connected Trip vision and to improve the experience for our customers and drive more value and benefits to them, but it's important to note that when we think about customers, we have two equally important customer groups to consider: our supply partners and our travelers.

For our supply partners, we strive to be a valuable partner for all accommodation types on our platform from traditional hotels to a vacation rental on the beach to everything in between. We believe we can add value to these partners across the spectrum of accommodation types by delivering incremental demand and developing products and features to help support their businesses.

In the area of alternative accommodations, we are seeing encouraging progress at Booking.com with alternative accommodation room nights in the first quarter increasing about 45% year-over-year and representing about 33% of Booking.com's total room nights, which is 2 percentage points higher than in Q1 2022.

In the US, our mix of alternative accommodation room nights, while still low relative to our global mix, has increased meaningfully in the first quarter, reaching its highest level ever and was also our absolute highest room nights in US alternative accommodations ever. We are seeing continued momentum in terms of supply growth both globally and in the US for alternative accommodations, with global listing reaching about 6.7 million by the end of the first quarter, which is about 2% higher than year end 2022.

We have seen great traction with the adoption of our enhanced Payments solution for alternative accommodation partners in the US. We believe rolling out this solution along with other product enhancements last year including partner liability insurance and an enhanced damage policy is helping to bring more professional supply online to our platform.

In addition, we are seeing our alternative accommodation properties across our major regions achieving improvements in productivity, and our new partners are receiving their first booking on our platform earlier. We aim to build on this progress by continuing to improve the product offering to our supply partners and travelers, particularly in the US.

For our travelers, we remain focused on building a better experience that leads to increased loyalty, frequency, spend, and direct relationships over time. Our mix of customers booking directly on our platforms in the first quarter continued to increase and reached the highest first quarter level ever. We see a very high level of direct bookings from the mobile app, which is an important platform as it allows us more opportunities to engage directly with travelers. Just over 45% of our room nights were booked through our apps in the first quarter, which is a few percentage points higher than in Q1 2022.

We will continue our efforts to enhance the app experience to build on the recent success we have seen here.

Another way that we build a better experience and deliver value to our travelers is going through our Genius loyalty program at Booking.com. Simplicity is a core principle of Genius where our travelers get the benefits from the program right away. Over time, we've enhanced these benefits including the creation of a top tier level of Genius, and we will continue to find ways to deliver incremental value to our travelers through this program.

Finally, we published our 2022 Sustainability Report last month which provides an update on the progress we have made against the goals laid out in our Climate Action Plan. We are proud of the emissions reductions achieved and ambitious target set out for our business, but as I've said before, we believe our greatest influence on sustainable travel is through making it easier for travelers to find and book sustainable options. We're addressing this opportunity through our work with our Travel Sustainable Badge and Program which now includes over 400,000 properties that can highlight their sustainable practices to customers on Booking.com, and the program has been expanded to Priceline, Agoda, and KAYAK.

In conclusion, I am encouraged by the continued strength of travel demand we are seeing so far this year as well as our teams' execution against our key strategic priorities. We remain focused on delivering a better offering and experience for our customers, both our supply partners and our travelers alike. We are as confident as ever in the long-term growth of travel and in the opportunities ahead for our company.

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

David Ian Goulden

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

Thank you, Glenn, and good afternoon. I'll review our results for the first quarter as well as our thoughts for Q2 and for the year. All growth rates for 2023 are on a year-over-year basis, unless otherwise indicated. We will be making some references to the comparable periods in 2019 when we think these are helpful. Information regarding reconciliation of non-GAAP results to GAAP results can be found in our earnings release.

We will be posting our prepared remarks to the Booking Holdings Investor Relations website after the conclusion of the earnings call.

Before getting into details for Q1, I want to remind you that our business is quite seasonal. Q1 is typically a strong booking quarter and we incur marketing expenses in Q1 for many bookings that will stay in future quarters which is when the revenue is recognized. Q1 has also historically been our seasonally smallest revenue quarter and adjusted EBITDA quarter. This means that Q1 adjusted EBITDA can be quite sensitive to level of bookings we get in the quarter.

With the increasing mix of payments at Booking.com, Q1 is also becoming a strong cash flow quarter due to high level of bookings.

So now, let me go on to our numbers for the first quarter. We were encouraged to see strong year-over-year room night growth of 38% in the first quarter, which is better than our expectations. For the first quarter, Asia was up 100%, Europe and Rest of World were both up more than 30%. We continue to see growth in the US, which was up high single digits versus the prior year.

Our growth in total room nights versus 2019 increased from 10% in Q4 to 26% in Q1. In the first quarter, US was up more than 30%, and all other regions were up about 25% versus 2019.

The booking window at Booking.com expanded versus 2019 for the first time since the onset of the pandemic driven by Europe and the US. The booking window in the first quarter was longer than we expected due to strong levels of bookings for travel in the summer period. I note that many of these bookings are cancelable.

Our mobile apps represented over 45% of our total room nights in the first quarter, similar to 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 first quarter relative to the first quarter of 2022.

The international mix of our total room nights in Q1 was about 53% which was the highest quarterly mix since 2019 but still a couple of percentage points below Q1 2019. Our cancellation rates in the first quarter were below Q1 2022 and Q1 2019.

For our alternative accommodations at Booking.com, our Q1 room night growth rate was about 45% year-on-year and the global mix of alternative accommodation room nights was about 33%, which was higher than about 31% in Q1 2022. We are pleased with the progress we made in North America alternative accommodations where growth in the first quarter was much stronger than the global average.

Q1 gross bookings increased 44% year-over-year or 52% on a constant currency basis. The 44% increase in gross bookings was 6 percentage points higher than the 38% room night increase due to 9% higher accommodation constant currency ADRs and also due to a couple of points from strong flight booking growth partially offset by the 8 percentage points of negative impacts from FX movements.

Our accommodation constant currency ADRs were negatively impacted by about 5 percentage points from regional mix due to Asia room nights growing the fastest of all of our regions and US growing the slowest. Excluding regional mix, constant currency ADRs were up about 14 percentage points year-on-year due to rate increases in all of our regions.

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

Airline tickets booked in the first quarter were up about 73% year-over-year driven by the continued expansion of Booking.com's flight offering. Revenue for the first quarter was up 40% year-on-year or about 47% on a constant currency basis. Although we had stronger than expected Q1 from a room nights and gross booking point of view, the outperformance versus our expectations was driven by bookings that will stay in future quarters. As a result, we did not see revenue benefit in Q1 for these incremental bookings. The lower than expected take rate in Q1 was entirely driven by timing effects. Our underlying accommodation take rates continue to be in line with 2019 levels.

Marketing expense, which is a highly variable expense line, increased 32% year-over-year. Marketing expense as a percentage of gross bookings was about 30 basis points lower than Q1 2022 due to higher ROIs in our paid channels and a higher mix of direct business.

Marketing and merchandising combined as a percentage of gross bookings in Q1 was about 20 basis points lower than last year, which was better than our expectations of being slightly higher. Relative to our expectations, this was due to better ROIs in our paid channels as well as phasing of merchandising spend which is tied to revenues.

Sales and other expense as a percentage of gross bookings were up about 15 basis points compared with last year, which is better than our expectations. About 45% of Booking.com's gross bookings were processed through our Payments platform in Q1, up from about 34% in Q1 2022.

Our more fixed expenses in aggregate were up 25% year-on-year, which was higher than our expectations due to a few factors that impacted personnel and indirect taxes. The 25% year-over-year growth excludes \$39 million in accruals related to potential settlements of indirect tax matters recorded in G&A. We continue to manage our more fixed expenses very carefully.

Adjusted EBITDA was \$586 million in the quarter which was up 89% year-over-year and would have been up 111% on a constant currency basis. Adjusted EBITDA was lower than our expectations impacted by marketing expenses incurred for the higher than expected gross bookings of stays in future quarters.

February and March gross bookings came in stronger than we expected at the time of our prior guidance. These extra bookings also negatively impacted our take rate more than we expected for the quarter. If we look at marketing and merchandising as a percentage of gross bookings in Q1, to eliminate the timing difference, this was lower than our expectations and lower than both Q1 2022 and Q1 2019.

Non-GAAP net income of \$440 million results in non-GAAP earnings per share of \$11.60 per share, which was up 197% year-on-year. Our average share counts in the first quarter was 8% below Q1 2022 and 16% below Q1 2019. On a GAAP basis, we had net income of \$266 million in the quarter.

As a reminder, every profit metric we highlight in these quarterly earnings reports includes the negative impact of stock-based compensation expense because we view SBC expense as a very real cost of doing business. We continue to manage SBC very carefully and it continues to be a very low percentage of our operating cash flow.

Now, onto our cash and liquidity position. Our Q1 ending cash and investment balance of \$15.3 billion was up slightly versus our Q4 ending balance of \$15.2 billion. Our operating cash flow for the quarter was \$2.9 billion, up 70% year-on-year, and our free cash flow was \$2.8 billion, up 77% year-on-year.

The operating and free cash flow generated in the quarter benefited from \$2.3 billion in change in working capital due to an increase in our deferred merchant booking balance as well as the \$586 million in adjusted EBITDA.

The \$2.8 billion of free cash flow was mostly offset by about \$2 billion in share repurchase in Q1 and the payment of about \$500 million for debt that matured in March.

Now, onto our thoughts for second quarter of 2023. In April, we continued to see strong demand with room night growth versus 2019 that was slightly higher than the 26% growth we saw in the first quarter, with all our major regions growing at similar rates. The booking window in April at Booking.com continued to be longer than it was in 2019. On a year-on-year basis, April room night growth was in the mid-teens, which is lower than Q1 due to a more difficult prior year comparison. You will recall that last year Q1 room nights were 9% below 2019 and April was up 10%.

April 2022 was our first month of growth versus 2019 since the onset of the pandemic.

Our comments for the second quarter make the assumption that room night growth will be up mid-single digits year-over-year. As you'll recall, Q1 last year was impacted by Omicron, and in Q2, we saw a strong recovery

which resulted in Q2 2022 being our highest growth quarter versus 2019, especially May and June which were our highest growth months last year.

Compared with 2019, we would expect future room night growth in 2023 to be just over 20% assuming some moderation from growth from the first quarter in April when room nights were helped by more bookings than we expected for the summer.

We expect Q2 gross bookings to grow about 4 points faster than room nights on a year-on-year basis due to a few points from continued flight bookings growth and slightly higher constant currency ADRs. We expect Q2 revenue as a percentage of gross bookings to be approximately 120 basis points above last year due to a less negative impact from timing and increased revenue from Payments partially offset by an increased investment in merchandising and a higher mix of flights.

We may see less of an increase in our take rate if booking trends exceed our expectations, especially if a higher percentage of these bookings are for stays in future quarters. This would also result in higher than expected marketing expense in the quarter.

We expect Q2 marketing expenses as a percentage of gross bookings to be lower than last year due to increase in direct mix. We expect marketing and merchandising combined as a percentage of gross bookings in Q2 to be about in line with last year.

We expect Q2 sales and other expenses as a percentage of gross bookings to be about 40 basis points higher than last year due to higher merchant gross bookings mix and higher third-party call center costs including the impact of our partnership with Majorel.

We expect our more fixed expenses in Q2 to grow about 25% year-over-year due to higher personnel and related expenses, indirect taxes, and IT expenses. Taking all of this into account, we'd expect Q2 adjusted EBITDA to be around 35% higher than last year.

In terms of our outlook for the year, we are not updating our previous full year commentary at this time. Our strong bookings in the first four months of the year create the potential for some upside, but we want to see how the next few months develop before considering any updated commentary.

We continue to expect that our adjusted EBITDA margins will expand by a couple of percentage points versus 2022.

In closing, we're pleased with our Q1 results and the very strong growth in bookings for the summer. We'll now move to Q&A. And Rob, could you please open the lines?

QUESTION AND ANSWER SECTION

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

Justin Post

Analyst, Bank of America/Merrill Lynch

Q

Great. Thanks for taking my question. I guess two things. First, when you look at ROI in the marketing channels, how do you feel about that going into the summer? Are you seeing some advantages based on changes from some of your competitors?

And then secondly, as you think about your overall use of cash, any reason why you can't just put buybacks to work for the next five years? Anything we should be thinking about on the debt side? Thank you.

Glenn D. Fogel

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

A

Justin, why don't I take the second, and then I'll let David talk specifically about ROIs and marketing and thoughts on that going forward.

So I think we've been fairly clear in the past about how we view the company and how we believe our free cash flow should be used. And the first thing we always want to see is how can we invest that money appropriately in the company, build out services in ways that we can make the way we work with our partners and our traveler customers in a better way to help build this franchise. So that's the first thing, absolutely important.

Then after that, we see, well, if we can't build it organically, is there something outside the company we think that could add value, make things better for both, again, our traveler customers and our partner customers? And then last thing is okay, if we don't see good use of that, then we should be somehow returning that capital to our shareholders which is what we laid out in the last quarter, we laid out our buyback program where we had \$4 billion left in the previous authorization, \$20 billion in the next one that made \$24 billion total, and we said that over the next four years we expect it to be able to complete the full authorization. And I believe we've given out some numbers about our buyback now and I am thrilled with the way we're doing this, but as for long-term, five years, this is what we laid out.

Things can always change, but that's the way we've laid it out. And I'll leave it up to David in terms of ROIs, anything you're seeing differently about the summer. I haven't myself. Maybe you've seen something?

David Ian Goulden

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

A

Yeah, Justin, I think it's hard to predict what's going to happen to ROIs that far out. What I will say is that you can see that we saw some encouraging ROI trends compared to expectations in the first quarter. Those were a little bit related to what happened to our bookings profile. So as we mentioned, we've got a lot of extra bookings for the summer in the first quarter, more than we would have expected, and the ROIs in the paid channels were better than expected due to basically three things: a higher ADR, lower cancellation rates, and a longer than expected average length of stay. So we were bidding – so basically that was tied to the expansion of the booking window.

So, the expansion of the booking window, it quite closely correlates to what we saw in terms of good ROI performance in the first quarter.

I just always maintain the point these are highly competitive channels, many players in them, and relative to your question on competitive dynamic, nothing really to talk about that's different.

Justin Post

Analyst, Bank of America/Merrill Lynch

Q

Great. Thank you. I appreciate it.

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

Mark Mahaney

Analyst, Evercore ISI

Q

Thanks. I just want to ask about Asia-Pacific travel and China travel. Are you already seeing the impact of China outbound travel? And then within Asia-Pacific, it sounds like that's the strongest region. Are there any particular markets that are performing well for you? Thank you.

Glenn D. Fogel

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

A

Hey, Mark. Sorry about that. Let me take that apart two ways, because I know last time I believe you asked about China outbound then too, if I recall correctly.

And so China is not a significant part at all of our very strong Asia growth in the first quarter. I want to make it clear that China is still not anywhere near what it was in 2019 in outbound. It is coming back in terms of overall market coming back, but there's shortages of lift there. It is getting better than it was in January when there was I think a mid-teens number of available air lift out of China outbound. It is coming back.

But I'll be perfectly honest with you, we are seeing more growth obviously in other parts of Asia. We're very pleased with the very strong growth we're seeing. I don't believe that we're going to break down individual countries, but I do see that this is an area of growth for us that I'm very pleased about.

Was there anything else, Mark?

Mark Mahaney

Analyst, Evercore ISI

Q

No, that's it, Glenn. Thank you.

Glenn D. Fogel

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

A

Thank you.

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

Lloyd Walmsley

Analyst, UBS Securities LLC

Q

All right. Thanks. Two, if I can. First, just going back to the higher marketing ROIs, like, how much of that is you all proactively managing to higher targets versus just the competitive market maybe softening up in marketing channels, and like, do you think this is durable and do you think we should think of this as a reflection of kind of normalizing consumer demand?

And then the second one is just anything you're seeing in terms of just price consciousness among consumers either trading down at all or taking shorter trips to compensate for higher ADRs, anything you would call out there in any of your big markets?

Glenn D. Fogel

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

A

Let me take the second one because I do look at that very carefully to see are there any smoke signals coming out of the market giving us any indication of any changes. And I am not seeing any decline in the star ratings that people are going for, nor are we seeing a decrease in the length of stays, either one of which could increase that potential softening in the market. And we have not seen that yet.

And I think we made the remark about the booking window has gone out further indicating confidence. I believe that's one hypothesis one could have is a confidence about the future, willing to put your money down and be willing to book further out. So that could be seen as a positive.

Another thing you're seeing too is that people are concerned about there's not going to be enough availability or they could be concerned that prices are going to continue to rise and they want to lock it in now. That's another way to look at it too. But none of those hypotheses though say anything about a weakness at all.

And in terms of I think your first question, I'll leave it to David.

David Ian Goulden

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

A

Yeah, in terms of – Lloyd, let me just remind you that this is a year that we still expect to be leaning into marketing and merchandising because we believe this recovery in the travel market available to us and I think that our growth rates relative to the market demonstrate that we're making progress there.

If you remember, we started off the year by saying we expected our marketing and merchandising investment to be roughly the same as it was as a percentage of gross bookings roughly the same as it was in 2022. We still expect that to be the case. And remember we said that 2022 was a year in which we were kind of leaning in and making more investment relative to gross bookings than we did in 2019.

And that story for us hasn't changed. We believe that we're going to continue to lean in this year to continue to gain share in a recovering marketplace. And the fact that we saw some improvement in Q1 as I mentioned in my answer to my question to Justin was more to do with the kind of shape of our booking profile and booking window getting more summer bookings with higher transaction values than we were expected to get from a mix point of view in Q1.

Naturally, why the ROIs came in better, but we still plan to be leaning in this year, and as I said, in Q2 and for the full year we still expect that investment in marketing and merchandising to be as it was in 2022.

Lloyd Walmsley*Analyst, UBS Securities LLC*

Okay. All right. Thanks, guys.

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

Brian Nowak*Analyst, Morgan Stanley & Co. LLC*

Great. Thanks for taking my questions. I have two. The first one is on the direct mix of traffic, the percentage of business that's direct. You made a lot of progress on that over the last year or so, couple years, Glenn. If you break it down by region, where have you made the most progress in increasing the percentage of business that's direct? And how should we think about how high that is, and which of the regions do you have the most runway to sort of drive that percentage of the business that's direct up longer?

And then the second one on your forecasting, you guys have a lot of data and you're very good at forecasting. It seems like demand really came through better than you thought throughout the quarter. Which regions sort of drove that outsized demand versus your forecasting? Thanks.

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

All right. So we don't break down the direct mix by region at all. I can repeat things I've said in the past about how important direct mix is for the long-term increase the value of the franchise because of things we talked about with our Connected Trip, getting people in through the app primarily, having them understand all the different things we'll be able to offer to them, give them a real personalized thing that will make them want to always come back to us. The more we learn about them, the more they come back to us, so it's a flywheel effect happening there.

Again, I'm not going to break it down by region, but my goal is to have every region have as many people as possible using the app and coming directly. And that's the first thing.

In terms of how we marry it against our forecast, I don't know how much David really wants to get into that.

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

You can see that we are obviously we did significantly better on the top line and I think that's the place to go to – I'd say it was fairly balanced across all regions. Obviously the place we saw the booking window expand the most was in US and Europe, so that's where we got a higher share of summer bookings than we expected to get in Q1.

But you can see also Asia did very well and in general also exceeded our expectations. But we didn't have the booking window phenomena there, so I wouldn't call out any particular region, but I will call out some of the differences in what we saw across the regions that contributed to the overachievement.

Brian Nowak*Analyst, Morgan Stanley & Co. LLC*

Great. Thank you both.

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

Doug Anmuth*Analyst, JPMorgan Securities LLC*

Thanks so much for taking the question. Glenn, I just wanted to revisit on AI. Can you just talk about some of the advantages that Booking would have in leveraging generative AI versus what other external or potentially new travel services might provide, and do you feel the need to protect the data on your platform to keep it from being used for training broadly across many large language models? Thanks.

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

Thanks, Doug. And it's a very interesting question about them, and I'll break it out into – I'll start off with AI and then we went to a specific subset, the generative AI.

Let's just talk in general about AI first and how important this has been to our business for many, many, years, more than a decade perhaps. Machine learning models that really helped us do a better job making sure that what we're presenting to a consumer for example is really something that they have a higher percentage chance they're going to convert on that, all sorts of ways that we use very sophisticated machine learning models in many parts of the business that have helped us get to where we are today.

Then of course we come out in the fall something that is – something a lot of people were not that aware of is generative AI, large language models, and gee, what can be done with them? And clearly any time there's a major shift in technology, everyone thinks like, well, is this going to be disruptive to the players who are already doing well or not? And I said in my prepared remarks how I feel very confident of where we are in this because of the work we've done in AI in the past, the number of people we've had working on it, the amount of capital we have, our collaborations with universities.

I believe that we are going to be benefiting greatly from this new type of technology in many different areas. There's some we haven't even thought of them yet, and some things are going to be as simple and easiest perhaps increasing the productivity of our developers which we believe is hopefully going to achieve some very good results in the hopefully not so distant future, to things that perhaps are further away, about ways that people interact with us in that Connected Trip vision, the way that you really do are able to recreate that human travel agent into something that is actually an automated player, but that does so much better than the human being did it in the past.

Now, in terms of your very important question about the data and how do we protect it and not let it get out and be used by others, that is a very important thing and everyone from our attorneys to people in our development departments, people who are really working with some of these large language model foundational model people, we are looking very closely. Have they already been using our data and should they be, and I think there's going to be a lot of interesting regulations in this area that nobody knows the answer yet to, but how will people become and say if their data is being used in the past for training purposes or not and I think it's a very open question that nobody knows the answer to yet, but we will be very interested in the results.

Doug Anmuth*Analyst, JPMorgan Securities LLC*

Thank you, Glenn.

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

Kevin Kopelman*Analyst, TD Cowen*

Q

Thank you so much. Yeah, first question, I wanted to ask about ADRs, a big area of interest. With all the strength you're seeing in Q1, could you just – and quarter to date, can you touch on how ADRs have trended generally compared to what you're seeing as of the last call?

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

A

Yeah, so when we gave the data on the call, I mean, ADRs are still trending positively. They're up on a year-on-year basis and they're up across all regions on a year-on-year basis so we're not seeing any slowdown in the ADRs.

And when we kind of – we've been looking at some of the things I'm sure, Kev, behind your question, but we're not seeing a reduction in ADRs in any region on a year-on-year basis or on a year on full year basis so we see ADRs continuing to hold very strongly.

Kevin Kopelman*Analyst, TD Cowen*

Q

Great. And then one other question. Could you talk about – a little bit about the dynamics in the US market, what are you seeing in the US that's causing your growth to be a little bit slower there and how do you feel about your market share in the US?

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

A

We feel that obviously our US business is still growing very, very strongly compared to 2019. And we have seen that growth relative to 2019 come down a little bit but we feel that [indiscernible] (00:40:44) we still feel that when you look at how our business is vis-a-vis 2019 it's significantly bigger than it was before and it's still growing at a very healthy rate vis-a-vis 2019, so we don't really worry about that.

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

A

I would just add, my conversations with our partners, some of our biggest partners and with the senior management, the critical thing for me is are we providing them with what they need? Are we providing incremental business to them that helps them do better in their business and do you feel that we are being valuable to what you need? And I only heard positive things from all the people I speak to in regards to where we are today versus where we were in the past, and it's a much more complementary relationship and I believe that will help us in the future to continue to build on that.

Kevin Kopelman*Analyst, TD Cowen*

Q

Great. Thanks, Glenn. Thanks, David.

Operator: Your next question comes from the line of Lee Horowitz from Deutsche Bank. Your line is open.

Lee Horowitz

Analyst, Deutsche Bank Securities, Inc.



Great. Maybe sticking with some of the comments around direct, you guys continue to post impressive direct bookings results and app growth. Maybe looking beyond this year, how does this process of execution within the direct channel inform the way you're seeing margin progression to beyond 2023?

And then maybe one on VR. Our checks continue to indicate that you guys seem to be picking up some share in the US vacation rental market, an area where you've been perhaps underrepresented. I guess to what do you owe maybe some of the improvements you're seeing within the US VR industry? And then looking forward, what are the things you think you need to continue to do in order to really scale up that business in line with some of your competitors.

Glenn D. Fogel

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



So why don't I start – Lee, if I can start with as you put it out VR, vacation rental, I like to use alternative accommodations. Either ones are great, customer friendly term of course. But let me talk about that and then I'll let David talk about the direct business, what that may or may not indicate, what he's willing to share in terms of margins down the road.

And I talked a little bit about in my prepared remarks about some of the things we are doing in terms of the alternative accommodations area in the US to build that business. And you were very polite to say that maybe – that we may be underindexed. That's very nice to say, because I continually admitted in the past that we have not been hitting that as well as we should and that we are far behind where I thought we should be, especially since we do fairly well in that in other parts of the world, particularly in Europe.

And the things we've been doing are the things that I talked about. First of all is you've got to make sure you're providing a good service to the people who own the homes, who own the apartments, are we doing things like liability insurance? Well, now we have something like that. Damage waiver type stuff, do we have that? Yes, we do.

The last time I talked about how we were testing out an ability to request to book because some people have properties they don't want to have automatic booking. The want to have a request to book. So we are developing out that.

Then once you start getting that in, you have to start saying, well, are people aware of your product, because as I said, there wasn't a lot of knowledge – people didn't have a lot of knowledge that we had such a product, and I always used to joke that if you went down to New York City and you said to somebody on the street and said I need a place in the Hamptons. Where should I go? I can almost guarantee they weren't going to say Booking.com.

Well, we need to get that supply. Once we have it, then we've got to make people aware that we have the supplies. We have to build all that out. So listen, there's nothing miracle about this. This is blocking and tackling, business 101. Get your supply out there. Make it attractive. And then make sure people know about it, and that's what we've been doing. Cranking away at it, and I'm pleased and I said it's really nice to see us starting to hit it. Could we come up with our mix in the US at all-time high in terms of alternative accommodation in part of our total mix along with having the absolute number of alternative accommodations room night bookings.

So I am pleased with the progress that we're making and I know that we have to continue that because I know customers like this product and this is an area where we have growth possibilities.

And then, David, regarding direct, I'll leave it up to you on that.

David Ian Goulden

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

A

Sure. Lee, direct mix is obviously very tied to our strategy. Our strategy is to build a better product, provide better service for our customers and partners and get those customers to come back to us more frequently and more directly after we've acquired them in the first place through whichever channel we bring them into the portfolio first time around.

So it really does tie to us executing against our strategy and lots of things that we do, many things we do contribute to that better product. I could talk about alternative accommodation, I could talk about Payments, I could talk about flights, all these things, just provide a better service for customer. And therefore, more likely to get them back directly, so it's very much tied to our strategy.

It is also tied to our [indiscernible] (00:45:29) because we made a comment last quarter, last call rather in February, that we're obviously not targeting pre-COVID margin levels because of the mix shift in the business for some of these new areas that we're now focused in, but we do expect to be able to grow EBITDA margin above the levels that we're at in 2023. The biggest driver of that would be continue to increase our direct mix. We would also expect to be able to do better from a leverage on a more fixed cost going forward and those themselves would more than offset the pressure from the mix of lower margin businesses as they grow within our portfolio.

So continuing to improve our direct mix is very important for both the strategy and the financial model and will be the major source of us being able to provide some margin expansion beyond where we are this year.

Lee Horowitz

Analyst, Deutsche Bank Securities, Inc.

Q

Helpful. Thank you both.

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

John Colantuoni

Analyst, Jefferies LLC

Q

Great. Thanks for taking my questions. Hoping you could update us on your strategy in the US market. You've had a lot of success gaining share in recent years, but I'm curious if you could update us on your learnings so far about sort of the return on investments and how that's informing your aspiration to continue pursuing that opportunity as aggressively as you have been.

And second, you sort of characterized investing ahead of the travel recovery to gain share throughout 2021 and 2022. I'm curious if that's your strategy in the Asia-Pacific region as that market recovers and if you have any early reads on returns on that investment. Thanks.

Glenn D. Fogel

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

A

Yeah, so I'll start off by saying that I'm very pleased with how the strategy's been working out in the US given our gain in share. As David mentioned, we have a bigger business than we did in 2019. It's been growing nicely. I really do think that it's achieving what we've been trying accomplish which is to not be the under-indexed player that we were in the past, and we're making good progress there.

In terms of the absolute ROIs on these things, we don't break them out by region at all. But I will say that obviously we are very conscious of spending money the right way to get the right return and we are – I came out of a business, previously I was in finance. I know how important it is to make sure that you're getting your money's worth where you're spending it, and we are doing that.

Now, I think going forward, the strategy's working so I see us continuing in the same vein.

And in terms of Asia, it was not dissimilar that that we want to make sure when people are going to start traveling we don't want to wait until you're halfway down the track to get out of the gate. That would not be the best move. Get out in front, be there when the traveler wants to start traveling, and you're providing them with what they want, and that we've been doing, and we just talked a little bit about how we are very pleased with the first quarter for Asia growth and I think hopefully it will continue the same way.

John Colantuoni

Analyst, Jefferies LLC

Q

Great. Thanks so much.

Operator: Your next question comes from Deepak Mathivanan from Wolfe Research. Your line is open.

Zachary Morrissey

Analyst, Wolfe Research LLC

Q

Great. Thank you. This is Zach on for Deepak. Just first on the fixed cost side, 1Q or I guess the first half is kind of tracking above the 20% growth that you kind of outlined last quarter. And the 1Q to 2Q is also kind of sequentially stepping up a little bit here. Just curious on your thoughts of how we should think about the fixed cost growth maybe sequentially kind of into the back half of the year and into next year.

And then second on just the buybacks, I think 1Q came in a bit stronger than we were expecting. Just curious how we should think about kind of the puts and takes in terms of the cadence of buybacks through the rest of the year. Is 1Q kind of a good run rate, or how should we think of that? Thanks.

Glenn D. Fogel

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

A

David, you're the owner of the P&L there, looking that you want to take down on the costs.

David Ian Goulden

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

A

On the cost side, yes, we talked about being 25% in the first quarter. We talked about being 25% in the second quarter. So obviously that's going to put a little bit of pressure on our guidance for the full year. But what I'd say is generally when you look at anything that's in the full year view, we've not updated our guidance. There are going to be some – likely going to be some puts and takes for the full year line item level but we're not going to update the line item details today other than just recommit that we'll have a margin expansion by a couple of points versus 2022.

Remember, next year we said that we do expect our fixed costs to grow more slowly next year than we expect them to grow this year and that continues to be the case.

Glenn D. Fogel

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

A

And regarding buybacks, I think, we laid it out a little bit. You know what our plan is. You know what we're doing. And I'm not sure there's any more color I can give. And we're pleased with where we are.

Zachary Morrissey

Analyst, Wolfe Research LLC

Q

Great. Thank you.

Operator: And your next question comes from the line of Jed Kelly from Oppenheimer. Your line is open.

Q

Hi. Great. This is [ph] Josh (00:50:45) on for Jed. Thanks for taking our question. Just wondering if you can maybe speak to how recent improvements in Payments is resonating with US property managers and their opportunity to increase share.

Glenn D. Fogel

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

A

Sure, [ph] Josh. (00:50:59) Payments is an important part of the business. And I've talked in the past about how it's the glue that brings everything together. Along with making it easier for both the customer traveler and for the partner, and I think the growth in the amount of our business going through Payments is a good indicator that it is working and being accepted well.

Customers have choice. Both the traveler and the partner, both of them can choose to use the Payments or not. The fact that it's going up to me would be a proof positive that people are finding it useful and I believe in the long run it's going to be very, very helpful as we continue to build out the Connected Trip further.

Operator: And your next question comes from the line of Stephen Ju from Credit Suisse. Your line is open.

Stephen Ju

Analyst, Credit Suisse Securities (USA) LLC

Q

All right. Thank you. So, Glenn and David, your merchant booking dollars are now at parity with your agency dollars, so just wondering how much of this is due to ramp in air versus a more proactive choice the consumer may be making in their lodging product selections. To your point earlier, to alternative accommodations, and I guess doing more merchant and the rise in deferred merchant bookings there should improve your free cash flow generation, so does this change your capital allocation plans a little bit? Thank you.

David Ian Goulden

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

A

On the second question, no, the capital allocation plan that we talked about last quarter Glenn summarized earlier, anticipated that we would be continuing to increase our merchant mix so that piece there is no change.

In terms of where that merchant increase is coming from, just to remind us all, it's really coming from a mix shift inside of Booking.com where we are moving from what used to be almost entirely an agency model, now to a much more balanced model. That is the biggest change would be in accommodations. That's still by far the biggest part of our business although as flights grows it's having an impact but what's really driving the changes that you're seeing is the increase in merchant mix across our accommodations business at Booking.com.

Stephen Ju

Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you.

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

James Lee

Analyst, Mizuho Securities USA LLC

Q

Great. Thanks for taking my questions. Two here. Can you guys maybe give us an updated outlook on ADRs? I think previously you talked about expectations being maybe flattish on constant currency for FY 2023. And also, David, maybe you can remind us talk about some of the puts and takes on take rate for your expectation for 2023. Thanks.

David Ian Goulden

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

A

We said that we expect our ADRs for the second quarter just to kind of continue the picture. We expect our ADRs for the second quarter to be up slightly year on year basis. As I mentioned in one of my earlier answers, we're not updating every single line item on our full year guidance but if they continue to hold at the current levels, there may be a little bit of upside compared to what we said on the last call on ADRs. As I said, there will be some puts and takes up and down, our full set of guidance but we're not specifically updating our guidance or giving you anything beyond what we talking about for Q2. We'll have to wait and see how that all develops but I think you can see from where we were in Q1 plus what we're expecting in Q2, things are trending positively.

Operator: And your next question comes from the line of Richard Clarke from Bernstein. Your line is open.

Richard J. Clarke

Analyst, Bernstein Autonomous LLP

Q

Hi. Thanks for taking my questions. Just a first question was what is the ability for you to continue to get discounts from your hotels? I know the Genius discounts tend to be hotel funded. And in this travel environment are they more or less likely to give those, and is that influencing your level of merchandising at all and could that change if the travel environment alters towards the back half?

Glenn D. Fogel

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

A

Hi, Richard. Look, there's no doubt that hotels when they are doing well may see less of a need to use all other ways to distribute and get business than just have them come direct, right? And one of the things they're always looking is what's the return. So with us and Genius it's really being very targeted with them to make sure they

understand how we can get them incremental demand that they wouldn't necessarily be able to get otherwise and then working with them, make sure is this value to them or not.

And something we actually have talked a bit in the past, not much on a call, but our salespeople have worked with hoteliers and talked to them sometimes where we're working with them with Genius program and notice that it's not actually the best use of their money and the best way for them to do business and told them, look, don't think you should use Genius this way, this amount, this time, whatever, other times, et cetera. This is an idea of long-term having a good partnership and it's just not – it's not just knocking down the door of hotels saying give us discounts, give us discounts. That's not how this works. This works with science. This works with data. These are the machine learning stuff I talked about in the past. This is getting the come up with a way that we can come up with a better way to improve their business.

Now, no doubt as travel improves and such there's going to be less of a need as the hotels will find other ways and perhaps less expensive ways or more efficient ways for them, so maybe there will be some places but I am not at all concerned. If your point is that this is going to make a drastic difference to how we do our business in the future, I don't see it. I see this as something that's going to be more and more central as we continue to develop more ways to provide value to the traveler customer and be able to work with the customer supplier partner in ways that are complementary, symbiotic for all of us that we all win in this, the traveler wins, the hotel wins, and we win.

Richard J. Clarke

Analyst, Bernstein Autonomous LLP

Q

Okay. Maybe just a little technical question after this. You talked about you got \$19 billion of merchant bookings in the quarter. You've talked about longer booking windows, but your deferred merchant booking is only at \$4.5 billion. Just trying to square the gap between the \$19 billion and the \$4.5 billion that we see there.

David Ian Goulden

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

A

Richard, you're confusing me on this one.

Glenn D. Fogel

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

A

Both of us. Richard, you stumped us both on that one.

Richard J. Clarke

Analyst, Bernstein Autonomous LLP

Q

The deferred merchant booking line, which is \$4.5 billion on your balance sheet, how does that square with you getting \$19 billion of bookings, merchant bookings in the quarter that you're saying are largely for future quarters.

Glenn D. Fogel

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

A

Richard, why don't we follow up with you offline on that one rather than trying to bog us all down. Just understand the question, make sure we get you the answer. And if there's one just to give us the answer we can follow up with them as well. But we'll touch base with you offline. John will call you back.

Richard J. Clarke

Analyst, Bernstein Autonomous LLP

Okay. Thank you.



Operator: And there are no further questions at this time. Mr. Glenn Fogel, I turn the call back over to you.

Glenn D. Fogel

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

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

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.

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