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Booking Holdings, Inc. (BKNG)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Booking Holdings' Third Quarter 2022 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 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 update publicly any forward-looking statements whether as a result of new information, future events, or otherwise. A copy of Booking Holdings' earnings press release together with 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. Please go ahead, gentlemen.

Glenn D. Fogel

Chief Executive Officer & Director, Booking Holdings, Inc.

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

I am encouraged by the strong results we are reporting today and by the record level of travel during our peak summer season. In the third quarter, our customers booked 240 million room nights, a little under 0.25 billion room nights, which was 8% higher than in Q3 2019. We saw improvement in room night growth during the third quarter from 4% growth in July to 10% growth in both August and September relative to the comparable months in 2019.

We note that sadly, the war in Ukraine continues, and as you know, we suspended our operations in Russia and Belarus shortly after the war began. If we exclude these suspended areas as well as Ukraine, our room night growth for the quarter would have been 11%.

We are pleased that all of our major regions improved in August and September versus July, and room nights in Asia surpassed 2019 levels for the first time in September.

In the US, both our Priceline and Booking.com brands continued to execute well and contributed to room night growth of almost 30% in the third quarter versus the third quarter of 2019. We continue to see very strong accommodation ADR growth which helped drive a 27% increase in global gross bookings in the third quarter, or 41% on a constant currency basis both versus Q3 2019.

Despite the strong pricing environment, we have not seen evidence of our customers trading down to lower hotel star ratings or reducing the length of their trips.

We took another important step in our company's recovery from a profitability perspective with the third quarter being the first time that adjusted EBITDA surpassed pre-pandemic levels. In fact, the third quarter was our highest revenue and adjusted EBITDA quarter ever. Our Q3 revenue and adjusted EBITDA were 20% and 7% higher than Q3 2019 and grew 34% and 25% on a constant currency basis.

More recently, we have seen resiliency in the level of demand from travelers with room night growth improving slightly from September levels to about 12% growth estimated for the month of October versus October 2019.

Gross bookings in October are estimated to be up about 30%, or just over 45% on a constant currency basis. The slight improvement in October was primarily driven by the continued recovery in Asia as well as a slight improvement in Europe.

As we take an early look at demand into 2023 at Booking.com, we see strong growth in gross bookings on the books for travel that will take place in the first quarter of next year. Though I note that a high percentage of these bookings are cancelable. Interestingly, we have strong numbers on our books for early 2023 despite the booking window being shorter than it was at this point in 2019. David will provide further details on our results and on the recent trends we have been seeing.

While there is rising concern around the macroeconomic environment and uncertainty around the spend – consumer spending, we believe the sustained level of demand we have seen through October helps demonstrate our consumers' strong desire to travel. Further, we believe our solid operating results, substantial liquidity, and strong free cash flow position us well to navigate potential near-term economic uncertainty while we continue our work attracting customers and partners to our platform and making progress on our key strategic priorities of Payments and the Connected Trip vision.

Given our confidence and the positioning of our business, the positive long-term outlook for travel, and our strong balance sheet, we have stepped up the pace of our share repurchases since we reinitiated the program at the start of the year. With the $4.2 billion in repurchases for the first three quarters of this year, we have reduced our share count by 5% relative to our ending share count last year.

We remain focused on building a better experience for our customers and addressing their needs of value, choice, and convenience. We continue to focus on our customers, we aim to increase loyalty, frequency, spend, and direct relationships over time. We are encouraged to see our unique active customers at Booking.com above 2019 levels in the third quarter, which was driven by strong growth in reactivated customers who had not made a booking in over a year as well as growth in repeat customers.

Our mix of customers booking directly on our platforms reached its highest third quarter level ever. Our goal over time is to further increase our direct mix through several initiatives including continued efforts to enhance the benefits of our Genius loyalty program, further building out our Connected Trip vision to increase engagement with our customers, and driving more of our customers to download and utilize the mobile app.

The mobile app is an important platform as it allows us more opportunities to engage directly with travelers and ultimately we see it as the center of our Connected Trip vision. About 45% of our room nights were booked through our apps in the third quarter, which is just over 10 percentage points higher than in 2019. Booking.com's app remains the number-one downloaded OTA app globally according to a third-party research firm, and we have

seen increasing levels of downloads in the US. We will continue our efforts to enhance the app experience to build on the recent success we have seen here.

When thinking about addressing our customers' need for value, we believe providing attractive prices on accommodations is very important. As is always been the case, our first priority as we think about providing attractive prices is to source competitive rates from our supply partners. We do this by working closely with our supply partners to get the best prices possible and increase participation in our targeted rate programs to ensure that compelling prices are available to our customers.

Our Genius loyalty program at Booking.com is a great example of a program where hundreds of thousands of our property partners are participating to offer lower rates and other benefits to travelers in ways that meet our property partners' specific revenue needs. In addition to sourcing competitive rates directly from our partners, we have built up our ability to selectively offer discounts and incentives at Booking.com over the last few years.

Visibility for merchandise is another lever that we can now pull as we look to deliver value to our customers through more competitive pricing. We believe this competitive tool helps us attract and retain customers and drive improved conversion on our platform. Importantly, we take a disciplined approach to merchandising by very closely monitoring the incremental return on investment on that spend, and we can adjust the level of our spend according to our desired return objectives. We have been pleased with the levels of incremental return we have seen this year for merchandising and we'll continue to selectively utilize this tool going forward.

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

Alternative accommodation of room nights at Booking.com grew about 11% versus 2019 and represented about 30% of Booking.com's total room nights in Q3. We have continued to make progress with our alternative accommodation offering by increasing our supply base of properties, which has grown by about 300,000, since the end of 2021 and has increased in each of our major regions around the world over that time period.

We aim to build on this growth in our alternative accommodation supply base by improving our product offering to our supplier partners globally with a continued focus on the US market.

Let me now talk about the progress we have made in our interrelated strategic priorities of Payments and the Connected Trip vision. On Payments, 40% of Booking.com's gross bookings were processed through our Payment platform in the third quarter, which once again is our highest quarterly level ever. We believe Booking.com's Payment services drive benefits for both our travelers and our supplier partners across hotels, alternative accommodations, cars, flights, and attractions. Furthermore, we believe that Booking.com's Payment platform helps deliver a more seamless and frictionless booking experience which are important elements of our larger Connected Trip vision.

On the Connected Trip, our long-term vision is to make booking and experiencing travel easier, more personal, and more enjoyable while delivering better value to our customers and supplier partners. We are expanding our offering into travel verticals other than accommodations and then we'll work to link relevant travel components together to provide a more seamless flexible consumer experience.

As a result of this initiative, we believe over time, we will drive increases in customer engagement, share of spend, and loyalty to our platform. We continue to make progress on building foundations on the Connected Trip vision including our work to integrate ground transportation options and further develop our flight offering on

Booking.com. This flight offering gives us the ability to engage with potential customers who choose their flight options early in their discovery process, and over 20% of all of our flight bookings globally are new to Booking.com.

There is much more work to do as we strive to give our customers the best possible trip experience, but we are pleased with the early results we have seen so far.

In conclusion, I am encouraged by our strong third quarter results and the sustained levels of travel demand we are seeing into the fall and into early next year. We continue to make progress in several key areas, including engagement with our app, the Genius program, our alternative accommodation offerings, Payments at Booking.com, and building towards our Connected Trip vision. I believe these initiatives will help us deliver a better offering and experience for our customers and our partners. While there continues to be uncertainty around the near-term macroeconomic environment, 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 will review our results for the third quarter and provide some color on the trends we've seen so far in the fourth quarter. All growth rates for 2022 are relative to the comparable period in 2019, unless otherwise indicated. Information regarding reconciliation of non-GAAP results to GAAP results can be found in our earnings release.

Now, onto our results for the third quarter. In the third quarter, we were encouraged to see room night growth improve to 10% in both August and September, up from the 4% room night growth we previously reported for the month of July. All regions improved in August and September relative to July.

For the full third quarter, global room night growth was 8%, with Europe up high single-digits, the US up almost 30%, Rest of World up over 10%, and Asia down mid single-digits. And September was the first month of room night growth in Asia versus 2019, as the delayed recovery continues in that region.

Our mobile apps represented about 45% of our Q3 total room nights, an increase of slightly over 40% in the second quarter. Total mobile bookings represented over 60% of our total room nights in the third quarter, also an increase from the second quarter.

In the third quarter, we continued to see an increasing mix of our total room nights coming to us through our direct channel versus 2019 and also versus Q3 2019 and also versus Q3 2021. The international mix of our total room nights in Q3 was about 45%, in line with Q2.

Our Q3 cancelation rates continues to be below 2019 levels, as they were in Q2. In Q3, the booking window of Booking.com remained shorter than in 2019, similar to what we saw in the second quarter of 2022. This booking window expanded meaningfully versus the third quarter of 2021 where we saw a higher mix of near-term bookings due to the COVID-19 Delta variant wave.

For our alternative accommodations at Booking.com, our room night growth rate was 11% in Q3 versus 2019, and the global mix of alternative accommodations was about 30% which is slightly higher than Q3 2019. Q3 global mix was about in line with 2021.

Q3 gross bookings increased 27% versus 2019, or 41% on a constant currency basis. The 27% increase in gross bookings was 19 percentage points better than the 8% room nights increase due to 28% higher accommodation constant currency ADRs and also due to 4 points from strong flight growth bookings across the group, partially offset by the 14% points of negative impact from FX movements.

Our accommodation constant currency ADRs benefited by about 2 percentage points from regional mix and about 26 percentage points from rate increases across all our regions, most notably in Europe and North America. Despite the high ADRs in the third quarter, we have not seen a change in the mix of hotel star rating being booked or changes in length of stay that could indicate that consumers are trending down. We'll continue to watch these dynamics closely.

Airline tickets booked in the third quarter were up about 235% versus a small base in 2019 and up 45% versus 2021 driven by the continued expansion of Booking.com's flight offering.

Revenue for the third quarter was over $6 billion, which was up 20% versus 2019 and up about 34% on a constant currency basis. Revenue as a percentage of gross bookings was about 110 basis points below Q3 2019 due to a number of factors including investments in merchandising, which are consistent with our prior commentary about the opportunities to lead into a recovering travel market in the 2022, and also due to an increase in the mix of flights, the slow recovery of our advertising and other revenues which have no associated gross bookings, and some negative impacts from FX rates.

Q3 take rates were down more than our expectation of being down about 70 basis points primarily due to timing differences between gross bookings and revenue recognition driven by the improved bookings in Q3, some of which relate to travel in future quarters. Our underlying accommodation take rates were about in line with Q3 2019 levels.

Marketing expense, which is a highly variable expense item, increased 27% versus Q3 2019. Marketing expense as a percentage of gross bookings was about in line with Q3 2019 which was better than our expectation mainly due to higher than expected direct mix. As expected, our marketing ROIs were lower than in Q3 2019, which was in line with our strategy to lean into a recurring travel market in the Q3 peak season.

Sales and other expenses as a percentage of gross bookings were up about 40 basis points compared to Q3 2021, which was in line with our expectations. About 40% of Booking.com's gross bookings were processed through our Payments platform in Q3, up from almost one-third in Q3 2021.

Our more fixed expenses in aggregate were better than our expectations of 17% versus Q3 2021, primarily due to slower than expected ramp in total IT expenses and lower than expected personnel expenses.

Adjusted EBITDA was $2.7 billion in the third quarter, which is better than our expectations and about 7% above 2019 and would have been about 25% above 2019 on a constant currency basis. Non-GAAP net income of $2.1 billion results in non-GAAP earnings per share of about $53.00 per share which was up 17% versus Q3 2019.

On a GAAP basis, we had operating income of $2.6 billion in Q3. We recorded GAAP net income of $1.7 billion in the quarter, which includes a $336 million unrealized loss on our equity investments primarily related to Meituan as well as $125 million expense related to an ongoing French tax matter.

Now, on to our cash and liquidity position. Our Q3 ending cash and investment balance of $11.8 billion was down versus our Q2 ending balance of $14.2 billion primarily driven by about $2 billion in share repurchases in Q3, as well as the unrealized losses on our equity investments.

The $2 billion in share repurchases in Q3 was a step-up from the $1.3 billion in Q2 as we increased the pace of our repurchases given the pullback in our share price. In October, we repurchased another $595 million worth of our shares, which brings our year-to-date repurchase up to about $4.8 billion and our remaining outstanding authorization to about $5.6 billion.

As Glenn mentioned, we reduced our share count by about 5% since the end of last year, and over the last five years, we've reduced our share count by 20% despite suspending our share buyback activity for 21 months during the COVID-19 pandemic.

We had negative $95 million in free cash flow for the third quarter, as our earnings in the quarter were offset by about a $2 billion decrease in our deferred merchant booking balance following the peak travel season in Europe and North America.

Now, onto recent trends and our thoughts for the fourth quarter. We estimate that October room nights increased about 12% versus 2019, a slight improvement from the 10% growth in September driven primarily by the continued recovery in Asia as well as a slight improvement in Europe.

In October, all regions were above 2019 levels. The US was up almost 35%, Rest of World was up high-teens, and both Asia and Europe were up high single-digits. ADR growth has remained around Q3 levels and we estimate gross bookings were up about 30% in October which includes negative impacts from FX pressures. We estimate the constant currency gross bookings were up just over 45% in October.

While there continues to be uncertainty in the near-term, our comments for the quarter make the assumption that room night growth for the fourth quarter will be about 10% above 2019, which is in line with levels of growth we've seen over the last three months. 10% room night growth in Q4 versus 2019 would also be an acceleration on a year-on-year basis from 31% growth in Q3 2022 versus Q3 2021 to 39% growth in Q4 2022 versus Q4 2021.

We expect the strength in ADRs we've seen in recent months to generally continue to remain in the fourth quarter as well as continued growth in flight bookings. We expect about a 15% difference between the level of room night growth and gross booking growth, less than a 19% gap in Q3 due to more FX pressure in Q4. We expect FX to pressure gross booking growth versus 2019 by about 18% in Q4.

We expect Q4 revenue as a percentage of gross bookings to be about 120 basis points lower than Q4 2019 due to investments in merchandising, an increase in mix of flights, and negative impact from timing differences between gross bookings and revenue recognition.

We expect Q4 marketing expense as a percentage of gross bookings to be a bit higher than in Q4 2019, as we expect to continue to invest in capturing demand and increasing awareness during the continued global recovery of travel demand.

We expect Q4 sales and other expenses as a percentage of gross bookings to be about 40 basis points higher than in Q4 2021 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 aggregate will be about 20% higher than in Q4 of 2021 with personnel, G&A, and IT each up similar percentage year-on-year.

Taking all this into account, we expect the Q4 adjusted EBITDA to be over $1.1 billion. If it were not for negative impacts of FX, we'd expect Q4 adjusted EBITDA to be above Q4 2019.

We are maintaining our full year adjusted EBITDA margin commentary and still expect EBITDA margin for 2022 to be a few points higher than in 2021. And if not for the impact of timing, our expectations for the full year adjusted EBITDA margins would be higher by another few points.

For the full year, we expect our revenue as a percentage of gross bookings to be just over 14% lower than our prior expectations for mid 14% range due primarily to timing differences between gross bookings and revenue recognition driven by stronger bookings than previously expected, some of which are related to travel expected to occur in 2023.

Comparing to the 15.6% take rate in 2019, the expected take rate in 2022 includes almost a full point of negative impact from timing, about 40 basis points from a slower recovery in advertising and other revenue which have no associated gross bookings, and about 30 basis points from increased mix of flights. The benefit to take rates in 2022 from increased revenues associated with Payments is offset by our increased investments in merchandising, each of which impacts our reported take rates by about 1% in 2022 compared with about 0.5% each in 2019. These change in Payment revenues and merchant costs versus 2019 are mainly at Booking.com.

Looking forward into the winter months, the booking window continues to be shorter than it was in 2019, which means that we would expect low levels of future stays already on our books. Given this, we are pleased that the gross bookings we've already received at Booking.com [ph] for stays (26:25) in Q1, up about 25% in euros versus the same time in 2019. Of course we note that a high percentage of these bookings are cancelable. While this represents a relatively small percentage of the total revenue we'll record in Q1, we think it's a helpful early data point to share.

In closing, we're pleased with our Q3 results and the trends that we're seeing into Q4 and early into 2023. We remain confident that our strategic priorities are the right ones and will enable us to provide better travel services for our customers and partners.

We'll now move to Q&A. And Sylvie, can you please open the lines?

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] And your first question will be from Lloyd Walmsley at UBS. Please go ahead.

Lloyd Walmsley
Analyst, UBS Securities LLC

Q

All right. Thank you. Two, if I can. First, it sounds like you're not seeing any consumer weakness right now, but are there any actions you're thinking about taking or approaches to costs to batten down the hatches ahead of what could be a tough year from a macro standpoint and maybe help us think about fixed cost growth and marketing posture for next year?

And then second one would just be can you give us an update on Payments monetization and profitability? I appreciate some of the added disclosure you gave us this quarter, but maybe where are we in the rollout of FX translation and how should we think about impact of that on take rates and profitability maybe over the next year or so? Thanks a lot.

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

A

Hi, Lloyd. Why don't I take the first one, I'll let David talk about Payments who will then add anything he wants in terms of fixed costs going forward.

So, obviously, we are very pleased with the third quarter, and we are very pleased with what we're seeing, albeit it's small numbers into the first quarter. David just talked about that 25% on the books in Europe in euros. I'd like to see that.

Your question is, is there anything we're seeing from consumer sentiment or [indiscernible] (28:53) macro that may be inhibiting growth or may hurt in the future. And something that's very hard to know is what's the [indiscernible] (29:00), and we're doing well. Imagine what it would be if all these terrible things that we read in the newspapers had not been happening, how much better would it be? I can't measure that. I don't know.

What I do know though is that we are seeing good numbers and we're pleased with where we are. We know that we've been through bad times in the past and we were able to do very well. We have made adjustments when we've had to. I've been now at this company for 23 years almost, and we've had some recessions and we've had some real disasters and we have managed this company extremely well, steering it through some very stormy weather, and being able to adjust.

So many of our expenses are variable. So we can adjust very quickly and we adjust automatically almost as volumes change. Well, I'm feeling good right now, albeit the world can change at any time. And I'll let David now talk if he wants thinking about specifically fixed expenses and also about Payments.

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

A

Yeah, thank you, Glenn. I'd just point that about two-thirds of our expenses are variable, which is of course very important starting point. We of course do look at the fixed payments cost very carefully, we just have put that into

context. And then also just to clarify the 25% is actually a Booking.com global number, not just Europe. It's kind of around the whole business.

So, I think Glenn said what we need to say about the expense side. We will – we have an agenda to move forward. We really want to continue enhancing our products and services and obviously that requires continued investments and movement towards [indiscernible] (30:30) Payments and the Connected Trip.

Relative to the Payments platform, of course we're pleased with the progress. We did give you some additional commentary, Lloyd, as you mentioned so you get a feel for what the revenues are for Payments now. Also you get a feel for what the corresponding expenses are in sales and other that offset those revenues. Because as we said, this year we're been running the Payments platform at about break even when you look at revenues and you subtract the sales and other expenses.

What I'd also tell you is that relative to 2019, Payments is having about a 0.5 basis point – sorry about 0.5 point impact on our EBITDA margins, [ph] has that mix of revenue has increased our break even or that mix (31:11) revenue has increased. Now, of course back in 2019 we actually weren't at breakeven but the combined impact to where we were to where we are now is about a 0.5 point of headwind on our margins. But of course it's giving us additional capabilities.

Going forward, our roadmap has not changed. We do expect to turn to profitability in that combination of Payments platform, combination of revenues less sales and other expenses in 2023. We are rolling out FX and other services on a market by market basis and of course testing them as we always do before we continue to push them further. But we have an exciting roadmap. It's a multiyear roadmap of Payments. Don't expect anything to change very rapidly in the course of 12 months. It will be of course multiple years.

But as we look at the surges we can provide for our business today in terms of reducing friction for customers and bookers, and then we can look at how Payments can really help underpin the Connected Trip in the future, we're very encouraged and excited about it. I think with the additional disclosure we gave you today we'll be able to have a more constructive dialogue on how it's doing going forward against those benchmarks.

Lloyd Walmsley
Analyst, UBS Securities LLC

Q

All right. Thank you.

Operator: Thank you. Next question will be from Brian Nowak at Morgan Stanley. Please go ahead.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks for taking my questions. I have two. I appreciate the color on the US almost growing 30%. I guess the question on the US is, as you're sort of looking at the different regions of the globe from a profitability perspective, can you just help us understand where you are at this point from the US from a profit contribution perspective, or is it still sort of very much in investment mode to drive growth? And how do you think about the path to making that a more profitable region for the company?

And the second one, I'm going to mispronounce this, Majorel, I apologize. David, you [indiscernible] (33:11) how do we think about the puts and takes of potential tailwinds of that arrangement into 2023 to the P&L?

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

A

Okay. Brian, we're going to take them in reverse order. So Majorel, you were very close, is basically from a P&L point of view this year it's just moving around geography because also we are going through a transition phase. I think we mentioned that about $25 million of personnel expense a quarter and about $6 million of G&A expense a quarter move out of those lines respectively and into sales and other and that started in June 1, so essentially starting in Q3 and Q4 you see the full impact of that.

As we mentioned, the partnership with Majorel does have some cost benefits to it but really most about flexibility. It's about our ability to flex up and flex down quickly, respond to different market needs, different mixes of languages. So over the longer term compared to continuing to build out ourselves, there are some cost benefits and they'll start occurring in 2023. We haven't quantified them yet. We'll think about whether it makes sense to try and quantify them at all for you next year.

But again, it's not the primary driver. So I'm not saying there are no cost benefits. That's not why we entered into that partnership. What we will say is, the partnership is working exceptionally well. We just completed the summer period, and our customer service results are also solid under the new regime. Of course we did keep some folks ourselves.

On the US, well, of course we are growing, so we're investing. It's no big surprise. We haven't broken out what the contribution margins are in different regions. We don't plan to do that. But obviously we're investing in the US to grow a position, which has continued to increase and as that increases over time we'll be able to deliver higher profitability for it. But we're not in any way displeased with what we're doing in the US and obviously it's a market where people do make money and we do too, it's just maybe not the same rate [ph] as the markets we're not (35:12) investing quite so heavily.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

Thanks, David.

Operator: Thank you. Next question will be from Kevin Kopelman at Cowen. Please go ahead.

Kevin Kopelman
Analyst, Cowen and Company

Q

Oh, thanks a lot. Just a follow-up on the marketing expense. Could you characterize how you see the competitive environment right now on advertising channels over Q3 and quarter-to-date how that compared to earlier in the year and maybe also compared to 2019? Thanks.

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

A

Kevin, why don't I just mention in general and then if David wants to he can be specific.

Look, marketing for travel is always extremely competitive. It's never not competitive, no matter what channel you're spending your money, it's competitive and we're always trying to make the right judgment on how much money to spend, what we think the ROI is going to be, and looking to for the long view in terms of what this does in terms of our overall building the franchise. I can't give any specifics in terms of ups and downs. David can talk

about percentages of amount of marketing spend we've been doing versus gross bookings over the last couple years. But again, the market is never less competitive. It's always competitive, and I think we have performed very, very well regardless.

David, I don't know if you've got anything to add?

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

A

Go ahead, Kevin, please. You had a second question?

Kevin Kopelman
Analyst, Cowen and Company

Q

Just kind of a separate follow-up on investment levels. Can you talk about just how head count has been trending and kind of what you're doing now in terms of hiring and any color on how that looks over the next year?

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

A

Sure. Just to finish up on Glenn's point on the marketing environment, remember that we did say that our ROIs were lower this last quarter of Q3 as we expected. We targeted lower ROIs obviously that we chose to drive ourselves to continue to lead into the recovery.

Also remember our ROIs were actually in fact higher in the first half than they were in 2019. So you have to kind of look at it in that context.

Investment levels, we continue to be, I would say – we continue to, one, invest into the business but of course we do recognize some of the macro factor. We're not going to pull back anything strategic from what we want to do if we have a short-term slowdown. But of course we are looking at how many people we add and where we add them and make sure we're adding them against the things that really matter the most for the business as you would expect us to do.

Kevin Kopelman
Analyst, Cowen and Company

Q

Great. Thanks, David. Thanks, Glenn.

Operator: Thank you. Next question will be from Mark Mahaney at Evercore. Please go ahead.

Mark Mahaney
Analyst, Evercore ISI

Q

Okay. Thanks. Two questions, please. Can you just talk about how you have been able to drive up that mobile app usage? There's obviously got great benefits for the business model. But how have you been able to do it and just – I know you'd like to get it higher. How much higher? What's realistic for how much higher it could get?

And then if you could, please, double-click on the flights business and where are you now in terms of rolling that out and to how many markets, how broadly used is it, how high is the awareness of the product. Just talk about what the growth path is just for the flights product. Thank you very much.

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

A

Hi, Mark. Thanks. So you're very right about the importance of the mobile app. And I say that in every single prepared remarks call we do, I always mention that it's an important part of our platform.

How we are doing it is by creating a great experience for the people who are using it. That's the same thing with all when you're trying to get somebody to use this, provide a great experience, they will come back, and they will tell all the people, et cetera. We're not necessarily doing anything really different than anything anyone else does but just doing it well.

In terms of what would be the top level for it, that's hard to say because as the people who create these mobile devices continue to improve upon it and people find it more advantageous to use that versus their desktops, it's hard to say but it could be an extremely high number that people go to the mobile device, now our job is to make sure people use our app and don't use mobile web search where we have to pay. Which is one of the key things.

We mentioned I think over 60% of our business was going mobile but 45% is at the app, so obviously want to make anybody who's using the mobile device, we want them to use the app is how to direct them.

Regarding flights, I should have checked for the countries. I haven't done that recently. It's an awful lot, but some of the areas, it's relatively low amount because there's very little awareness. I think for example, I'll give you an extreme example. I know we brought Pakistan not that long ago. Not a lot of flights yet in Pakistan. But we are getting out there. The key thing for us again is creating a better experience, and I'll be honest with you. Our flight product is not yet what I would say is good as it should be. We are continuing to improve upon it and make it better than it's been in the past, providing the features that some other of our competitors offer up to consumers that we don't do yet that we want to offer. So there's a lot of upside left in this. I think a tremendous amount of upside. And the numbers are still what we like the growth rates. It's still relatively small.

Mark Mahaney
Analyst, Evercore ISI

Q

Thank you, Glenn.

Operator: Thank you. Next question will be from Justin Post at Bank of America Merrill Lynch. Please go ahead.

Justin Post
Analyst, BofA Securities, Inc.

Q

Great. One for Glenn. Obviously merchandising I think you called out a 1-point headwind, Payments might be offsetting. But can you explain why you think that's a good thing to do? Is it training the consumer? Is this something you have to comp next year? Why do you like that aspect of the business?

And then maybe for David, assuming we don't have a real unusual year for travel, as you think about the unwind of the timing differences and the added marketing spend this year, how do we think about those kind of unwinding next year?

And then maybe last, if you want to call anything out about 1Q. I remember I think we had with COVID slow start to the quarter and then bookings really accelerated in March. If there's anything unusual in Q1 we should be thinking about. Thank you.

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

So I'll talk a little bit about merchandising. A couple things. First thing is so merchandising is – can be an investment that we're making, a way to bring in customers, retain customers, or ways that we feel it necessary to be competitive against other OTAs or suppliers even.

The fact is that we're always looking where to spend the money to get the best return. And merchandising if we see somebody else is offering a lower price, we recognize that one of the most important things is to give a competitive price, and we need to make sure that we're offering that up to the customer. Many times we want to do it by talking with our supplier partners and making sure that they bring us, as I said in the prepared remarks about bringing us the most competitive prices. But if for some reason it's not available and we feel a need, we'll put money in there to make sure that our customers recognize coming to Booking.com will provide them with a great place to do their travel bookings. That's one.

Second thing and I want to make sure everybody understands that merchandising doesn't always mean a discount by us. It can mean lots of things. People offering up some other type of benefit. For example, I'll go with if somebody were to offer up an upgrade in a room. I'll consider that a merchandising technique to do. If somebody offers a free breakfast at the hotel, I'll consider that too. We're not paying for that breakfast, it's a free breakfast.

So lots of ways to do it. Lots of levers to play with. That's one of the things we think is so important is making sure that we are providing the most competitive offering out in the space and in addition, being able to use all of our investments in the right way, at the right time, to get the right return and we will even use a lot of data to see where is it best to be put out.

And I'll let David go with the other two questions.

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

Yeah, thanks, Glenn. Yeah, in terms of just in looking forward, on the timing side, I mentioned that timing is costing us about a point of take rate this year. We think we get most of that back next year, maybe not 100% of it. There probably will be some minor timing impact, but again it's really a function of what the growth rates look like going into and going out of the year, but assuming we get most of that back.

On the marketing and merchandising side combined, that's where we'll be leaning in this year to really take advantage of a recovering travel marketplace. We certainly won't be deleveraging on those lines further next year, but we want to see kind of really what the market looks like in terms of how much recovery there is left. Don't forget we still got Asia recovering and travel recovering. So a few things that have not yet got back to where they were before. So we'll look at exactly what the right level investment is and if we feel that we continue to gain share, which we believe we gained this year, we believe we gained share last year, if we think the share gain out there to be had, then we may maintain those levels for a while until we get back to a more normal market growth rates, and we'll give you more – thinking upon where we are on that spectrum when we get together in February once we've completed our planning process of the year and we've got a bit more visibility into next year.

And then finally on your Q1 question, yeah, the Q1 last year was unusual. Omicron was really having an impact. We'll have to see exactly what happens with the different variants that are out there this year. We wanted to give you that stat about 25% more gross bookings on the books for next year than we had at the same time of 2019 for the first quarter of 2020 as a way to understand the bookings building quite nicely for Q1. Obviously there's a lot

of ground to happen between now and then. It still represents a relatively small percentage of what we'll do in total in Q1 for revenue, but we think it's a positive stat and it's a stat we gave out a couple of – actually for the last two quarters when the number was more like 15% for growth not 25% and in both cases the revenue for the quarter wound up being a fair amount higher than our early indicator as those books built. Now, again don't forget I'm talking about a euro number just to be clear with the 25%.

Justin Post
Analyst, BofA Securities, Inc.

Q

Great. Thank you. Thank you so much.

Operator: Thank you. Next question would be from Doug Anmuth at JPMorgan. Please go ahead.

Doug Anmuth
Analyst, JPMorgan Securities LLC

Q

Thanks for taking the questions. I have two. I know you indicated that you're not seeing hotel trade-down or shortening of trips. Just wanted to clarify is that the case across all geographies, and do you have any more relative stability in the US versus other regions?

And then secondly, how should we think about ADR growth? I know you said it continues to be strong, but as you look into 2023, just factors around FX and any relevant mix factors and like-for-like potential pressures as well. Thanks.

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

A

So, Doug, I'll start with the hotel trading down. Stars were [indiscernible] (46:30) I have not seen anything in any sort of geographical area that would make anything stand out differently. We're seeing people who want to travel have a significant amount of savings over this COVID period, and they want to travel, and some are even traveling longer length of stay and enjoying it regardless of what the economic situation is. So we – I've not seen anything, and David, you can correct me if you saw it. I haven't seen anything that were – [ph] you can talk about (47:00) what we're seeing for ADRs going forward. I'm not sure what we're going to say publicly.

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

A

Yeah, on the mix – on the trade-down, Doug, as you mentioned, we're not seeing that in Europe [indiscernible] (47:12) where sometimes people are asking the question. But we're not seeing it global either. So it's not a factor. But particularly it's also not a factor in Europe either.

On the ADRs, obviously there will be puts and takes into next year. We're talking constant currency because it's difficult to know exactly how exchange rates are going to move on us. We're not really – so the 28 points of constant currency ADR mix we saw in Q3 and we saw continue roughly same level into October was 26 points from rate and only 2 percentage points from mix. So as ADR continues to rebound, we'll lose that 2 points of mix which is really what's driving right now the fact that Asia adds a lot of mix [indiscernible] (47:58) so that will go away. But obviously most of what we're seeing is rate driven.

And as we talk to our property partners, they continue to be facing the same expense pressure, inflation pressure that many people are facing in terms of utility, energy, labor, et cetera. So we'll see how the environment develops

and we have no other color on that to give at this point in time. We'll update you again when we get to February if we see anything differently.

Doug Anmuth
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you both.

Operator: Thank you. Next question will be from Eric Sheridan of Goldman Sachs. Please go ahead.

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

Q

Thanks for taking the question. Maybe a few, if I can, on the alternative accommodation space where you made some interesting comments there. When you think about supply growth, are there any areas of either geographic focus or mix or types of properties or types of duration of stays that are greater levels of target for supply growth as you look out into 2023 and beyond in terms of alternative accommodations?

Is there any color also you can give us on, as you have more of that type of supply to show to the consumer what that might do to either traffic conversion or ROI in the platform as you have a wide array of inventory to show the consumer?

And the last piece would be, is there any element of either mix or size of the business you're sort of thinking about in terms of striking the right balance between traditional inventory and alternative accommodation inventory over the long-term? Thanks, guys.

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

A

So, Eric, basic concept for us has always been more is better. More supply is better, and it's always the consumer's choice of what they want to stay, where they want to stay. They want to stay in a home, a villa, an apartment, or a hotel [indiscernible] (49:39).

So in terms of overall, we do need to continue working hard at getting more supply of all types. And I've talked many times in the past about our need for the single property, the home specifically that we need to build. I talked geography. I've always talked about we need to build the US even better and one of the things is creating a better onboarding experience for people who own these properties, improving the payments for these people, coming up with ways they feel better about having somebody stay in their property with an insurance type property, these are some of the things that we have been working on that we brought out and we're going to continue to roll things out down the road to make it better for the owners and the managers of these properties to be willing to put it up on our platform.

Now, I believe the – and this is what we've seen over many, many years is that as we bring more and more supply in, that will help us build the business. And I absolutely think that this is something that is not something that is going to require some rocket science or some great thing that can't be invented. People are doing this. We just need to continue to work on it, put the people to work, create the things necessary, and we are going to be able to roll this out albeit it's taking longer than I would like, but I'm very pleased with where we are and I think some of the numbers that we've talked about are encouraging.

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

Q

Thanks, Glenn.

Operator: Thank you. Next question will be from Naved Khan at Truist Securities. Please go ahead.

Naved Khan
Analyst, Truist Securities, Inc.

Q

Yeah, hi. Thanks a lot. Glenn, I think you mentioned you see opportunities to enhance the experience in the mobile app. Can you give some examples of what kind of things we could see there? And then I don't know if you guys updated us on the mix of urban and cross border, but any stats there would be pretty helpful.

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

A

I'll let David talk about any stats you want for urban or cross-border. I'll let him do that. But in terms of the app, I'll give you one right off the bat that I think is actually – again, I look at, as a traveler, I say what am I missing? Why am I not getting this? Something as simple as, as you know we have attractions and we're building that up right now.

But when I'm in destination, I need to have things being popping up on my screen from our app telling me great things to do, maybe the discount or skip a line, things that will make somebody say, gee, using Booking.com for this travel experience is much better because I'm getting so much more. And I can go through so many different examples of that.

The great thing about the mobile app is it's in people's hands or in their pocketbook or in their pocket where they're carrying it with them. And that gives us the connection to be able to provide them with better service, better things to do, better value. And that's why it's such an important part of this Connected Trip vision.

David, I don't know if you want to give any numbers or any stats.

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

A

No stats on urban other than to say that historically urban is, we've had a heavier rate of mix in urban than non. So as urban recovery continues, as people go back to cities and/or locations that usually is a positive for us. But no stats on mix.

On cross-border, we did tell you that we're back up to 45% of our bookings now in the third quarter for international. That's down from a little over 50% on a pre-pandemic basis. So there's still some decent recovery left there to be had as things continue to normalize back to where they were.

Naved Khan
Analyst, Truist Securities, Inc.

Q

Got it. Thank you, Glenn. Thank you, David.

Operator: Thank you. Next question will be from Lee Horowitz at Deutsche Bank. Please go ahead.

Lee Horowitz
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks. Two on margins, if I could. When you think about margins beyond this year, how does the strength in direct [indiscernible] (53:30) impact the way you think about the long-term margin profile of your business, particularly with some of your growth initiatives like flights having lower margins than your core? Could direct [indiscernible] (53:41).

And then when we think about the shift in margins perhaps next year, how if at all should we be thinking about APAC being potentially a source of premium growth impacting the overall margin profile of the business in 2023? Thanks so much.

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

A

Yeah, Lee, I'm going to try and avoid talking to you about 2023 margin today. That's really a conversation for next February and maybe longer term, is a place to have – to kind of recap on what we're thinking and save the 2023 commentary for Glenn.

So as we said, our strategy here is to build a better product and better service for customers and partners, so they'll come back to us more frequently and more directly. And obviously our direct mix is super important, and that direct mix is tied heavily to frequency and to people who do more with it. People who buy multiple things from us are much more likely to come back to us directly or through paid channels.

So, yes, of course there are some headwinds to our margin profile because of our business mix changing. It's changing from almost a pure accommodation business to having a higher mix of payments, a higher mix of flights, and those of course are lower margin businesses. We've had that conversation before.

But the most important thing we can do to keep on the margins in a strong position is to continue to drive that mix of direct up and that will impact all parts of the business. But as we said before, we'll be industry leading profitability in margins because of the mix factors. We do not have a – we believe that medium term the margins will be a little bit lower than they were in 2019, but will have a faster growing business with more EBITDA, more earnings per share that's growing faster on the top line than bottom line. We think that's the most important thing.

Lee Horowitz
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

Operator: Thank you. Next question will be from Mario Lu at Barclays. Please go ahead.

Mario Lu
Analyst, Barclays Capital, Inc.

Q

Great. Thanks for taking the question. The first one is on the room night guide in the fourth quarter, the 10% versus 2019. I guess can you talk a little bit more about what you saw in October? Did the trends within the month get worse as we exited the month? Just trying to tie that 10% versus the 12% in October. Thanks.

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

A

So, yeah, sure. This 10% room night guide, it's 10% room night, it's really a framework what we're giving you for Q4. There's still a lot of volatility and honestly we can't predict exactly what is going to happen to room nights in November and December given the macro out there. But what we did was say, look, we grew – we've been growing at 10% and increased up to 12%. It's a nice round number to kind of pin our commentary to – for Q4 to explain to you what the shape of the P&L might be. It does not indicate that there was a slowdown at the end of October. In fact, room night growth was fairly linear at 12% throughout the entire month of October.

So it's more of a framework than it is a hard guide. But of course we give you numbers to kind of think about when building your models. But it's not reflective of anything we're seeing in October either slowing down or speeding up. It's just a way to think about the shape of the income statement and how things might look in Q4.

Mario Lu
Analyst, Barclays Capital, Inc.

Q

Great. That's helpful. And then just one on alternative accommodations. You guys mentioned as a percentage of total it's around 30%, slightly higher than 3Q 2019. I guess are there any low-hanging fruit or opportunities ahead to kind of increase this percentage over the next couple years?

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

A

Well, I mean, we could easily increase that if we didn't do so well in hotels. It's one of those things where we think of this holistically. We want to get more bookings, as I mentioned earlier. This is really a case where the consumer makes the decision, not us.

We think one of the great advantages of our platform is that we offer all the different types of accommodations, and we have seen the data where people come to our site, and the first thing they're looking at may be one type of accommodation, let's say a hotel. They end up booking with a home because they saw that in the search results and they were going back and forth looking around.

It's really something that we are very pleased to have that ability to offer up all the types of accommodations to the customer. So I don't see anything to try and artificially try and drive more people to the alternative accommodations necessarily a thing that's going to increase the value of the company. I think providing the customer with what they want, what they need, what they think is best for them is really the right way being consumer-centric and really driving that is the best way to build the company.

Mario Lu
Analyst, Barclays Capital, Inc.

Q

Got it. Thank you.

Operator: Thank you. Your last question will be from Stephen Ju at Credit Suisse. Please go ahead.

Stephen Ju
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey. Thank you so much. So, Glenn, your unit growth commentary in the US was actually very interesting. So can you talk about the relative size of your user base for Booking.com in the US versus, say, Priceline? And presumably as booking continues to grow, do you think it's necessary to support both brands longer term? And if you were to take one step out and zoom out more globally, there was always a sharper line in the sand between

the consumer experience on Booking and Agoda, so do you think as you do more merchandising in Connected Trips should we be thinking about a unified brand position under Booking.com? Thanks.

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

A

Yeah, so let me talk in general about why we have different brands. We have different brands because they offer a different user experience to the consumer and they have different things they're aiming to do, different strategies. We totally understand the issue of are we causing excess costs. Are there ways to save money by doing things that are not duplicative? So we are – we understand that, and we are working all the time looking at those things that we can try and improve upon.

But at this time, I do not see any reason I'd want to separate out and say, well, we're going to eliminate one of these and just go under one brand. Some of our competitors have done that, and to me that may be their strategy. Our strategy is to continue with the differentiation among these brands and continue to build them out the way they're doing them.

In terms of the actual numbers US for Priceline versus Booking, I don't believe we've ever disclosed anything of that nature, so I think we're going to sit tight with that and keep going the way we are.

Stephen Ju
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you.

Operator: Thank you. At this time, I would like to turn the call back over to Mr. Fogel. Please go ahead.

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

Thank you. And 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 the company. Thank you, everyone, and good night.

Operator: Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending, and at this time, we do ask that you please disconnect your lines.