

28-Oct-2025

Booking Holdings, Inc. (BKNG)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Booking Holdings' Third Quarter 2025 Conference Call.

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

For a list of factors that could cause Booking Holdings' actual results to differ materially from those described in the forward-looking statements, please refer to the Safe Harbor statements in 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 is available in the For Investors section of Booking Holdings' website. www.bookingholdings.com.

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

Glenn D. Fogel

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

Thank you. And welcome to our third quarter conference call. I'm joined this afternoon by Ewout, our CFO. I'm pleased to report another strong quarter that underscores the power of our platform, the discipline of our execution, and the momentum we're building for the future. Our room nights, gross bookings, and revenue, all exceeded our prior expectations.

Beyond the financial results, I am very encouraged by the progress we have made on our strategic priorities. We are at a moment where advances in AI are just beginning to create new ways that people plan and experience travel. With our history of innovation, scale and data that helps us understand what customers want and when they want it, we are well positioned to harness these developments to drive more value for both our travelers and partners.

I'll share specific examples from the quarter shortly. But before diving into those, let's review our third quarter financial highlights. We delivered double-digit gross bookings and revenue growth, reflecting robust demand across our globally diversified business. Our third quarter room nights reached 323 million, an 8% year-over-year increase. This exceeded the high end of our prior expectations, driven by healthy demand across all of our major regions. Of particular note was the US, where growth accelerated to high single digits, supported primarily by stronger outbound travel and momentum in our B2B business.

The better-than-expected room night growth helped drive third quarter gross bookings up 14% and revenue up 13%. Adjusted EBITDA reached \$4.2 billion, up 15% from the prior year quarter. All three metrics were above the high end of our prior guidance ranges. Finally, adjusted earnings per share in the quarter grew 19% year-over-year. Consistent with our prior earnings guidance, I want to note that FX benefited our growth rates by approximately 400 to 500 basis points. As we enter the fourth quarter, we continue to observe stable levels of global leisure travel demand. Ewout will provide more detailed financial insights shortly, including our outlook for this quarter and for the full year.

Beyond the headline numbers, I'm excited about the meaningful progress we're making on key initiatives. We're advancing our Connected Trip vision, strengthening our loyalty programs, and building AI capabilities that create more value for both travelers and suppliers. Asia and alternative accommodations continue to remain growth drivers. Together, these efforts are reshaping our people plan, book, and experience travel, and how we are unlocking greater value for our partners.

Let me start with the Connected Trip. We continue to advance on our long-term vision to make the planning, booking, and traveling journey simpler, more personalized, and with less friction, while providing new opportunities for our partners through data-driven insights. Today at Booking.com, travelers can already book accommodations, flights, rental cars, prebooked rides and attractions on our platforms, and we continue to invest to expand these verticals and to deliver a more seamless experience. For example, we enhanced our home screen to adapt dynamically to each traveler's most recent search, making it easier to move across verticals and transition smoothly from planning into booking. And we continue to broaden our flight supply, most recently adding new partnerships with Ryanair in Europe and Southwest in the US, giving travelers even more choice.

These efforts are resonating. Connected Trip transactions, meaning a trip that includes more than one travel vertical, grew mid-20% year-over-year in the third quarter, and now represent a low double-digit percentage of Booking.com's total transactions.

Our other verticals also continue to deliver strong growth, with flight tickets up 32% year-over-year and attractions up close to 90%, albeit from a relatively smaller base. Most importantly, travelers who choose to book multi-vertical trips with us also choose to come back to us for future bookings more often, which reinforces the long-term value proposition of the Connected Trip vision.

Now, I'd like to spend some time on Booking.com's Genius loyalty program, which plays an ever more important role in attracting and engaging travelers and stands out as one of our core differentiators. The purpose of Genius is straightforward, reward our most loyal customers with extra value while delivering real benefits for our partners. Genius members book more often, convert at higher rates, book further in advance, cancel less, and choose to come back more consistently than non-Genius customers. In fact, in the third quarter, travelers in Genius Levels 2 and 3 made up over 30% of our active base, and accounted for a mid-50% range of our room nights over the last four quarters, increasing from last year's levels.

Today, Genius is available in over 200 countries and territories. The program spans our range of supply, from large global hotel chains to independent properties, and increasingly, alternative accommodations and our other verticals. What sets Genius apart is that travelers get immediate, tangible benefits such as tiered discounts or perks like free breakfast or room upgrades. We're continuing to invest to make these benefits more personalized, data-driven, and relevant to each traveler's journey.

On the partner side, we carefully designed Genius so that it provides incremental value rather than simply shifting existing demand. Our data shows that Genius members submit reviews more often, driving higher property visibility and increasing occupancy rates for participating properties, particularly during off-peak periods. That helps partners optimize their revenue management. At the end of the third quarter, over 850,000 partners had chosen to participate in Genius. Looking ahead, we see several opportunities to continue strengthening our Genius offering. We're already expanding our offering across verticals and exploring ways to provide additional benefits.

Loyalty programs remain a core pillar across our brands, not just at Booking.com. Most recently, OpenTable enhanced its program, which is now called OpenTable Regulars. The updated program offers new ways for diners to redeem points on experiences and introduces a new loyalty tier that provides enhanced benefits, such as one named Priority Notify Me, which will alert diners to last-minute tables earlier than others, with additional benefit launches planned over coming quarters. For restaurants, it helps encourage more repeat visits from high-value guests.

Let me now turn to GenAI, which we continue to believe represents a major opportunity to enhance the traveler and partner experience. While there is certainly a lot of excitement in the industry, our approach has been disciplined and focused on where AI can make a real difference for our customers, our partners, and our business.

On the customer side, we saw encouraging developments this past quarter. At Agoda, for example, we launched an AI-powered chatbot that provides travelers with prompt hotel-specific answers. By cutting through complexity and delivering precise information quickly, it helps travelers make timely and more confident booking decisions, reducing uncertainty, and improving the overall experience.

Another example is KAYAK's AI mode, a natural language search experience that combines KAYAK and large language model data to deliver smarter, contextual results, right from the home page. And at Booking.com, we've begun integrating new features into our app to assist travelers earlier in their planning process. These include natural language search capabilities that offer more inspiration such as destination highlights. As we further

develop our agentic capabilities, combine them with our data-driven insights on when to offer relevant suggestions, and advance our Connected Trip vision, we believe travelers will increasingly recognize the value proposition of our platform.

We also see important opportunities for AI to create more benefits for our partners. By driving better personalization and conversion, AI helps generate incremental demand across our verticals. Just as importantly, we are applying AI to make partner-to-guest communication faster, more streamlined, and more intuitive. A core strength of our business has always been the unique value we bring to our supply partners, and AI is enhancing these capabilities.

As an example, Booking.com continued to add to its robust suite of GenAI tools for partners, including Smart Messenger and Auto-Reply. Smart Messenger uses intelligent response generation and automated workflows to bring together relevant partner, property, and reservation information, knowing when and what to suggest to support accommodation partners in their communications to guests.

Auto-Reply takes this further, allowing partners to set custom reply topics that deliver instant, personalized responses to both common and unique guest questions. Early results have shown an increase in partner satisfaction compared with our prior messaging tools, underscoring how AI can provide tangible differentiated value to our partners.

Beyond our internal efforts, we're also building relationships with leading AI organizations, reflecting our ambition to remain at the forefront of this rapidly developing field and to broaden our potential sources of customer traffic. We recognize that GenAI is transforming how travelers research and find inspiration for their trips, and we are committed to continue to expand, evolve, and meet them wherever they choose to search.

Most recently, we were one of the first wave of apps available in OpenAI's ChatGPT App Store after being one of the launch partners for their operator platform earlier this year. Our strong relationship with companies such as OpenAI, Google, Amazon, and Salesforce, combined with our disciplined approach give us confidence that GenAI will be an important driver of the long-term value for our travelers as well as our partners.

On alternative accommodations, we are continuing to strengthen our offering. In the most recent quarter, listings grew to over 8.6 million, up approximately 10% year-over-year, with double-digit room night growth. Travelers value choice, and the breadth of supply across hotels, homes and unique properties differentiates us as a platform. Alternative accommodations remain a long-term growth opportunity. Customer demand for alternative accommodations is healthy across every region, and our ability to combine that breadth of supply with our marketing reach and payments capabilities makes us well positioned in this segment.

Finally, I want to touch on Asia, which remains a driver of growth for us and is one of our most exciting long-term opportunities. It is the fastest growing major travel market in the world, with industry growth expected to remain in the high single digits over the next several years. And our ambition is to grow even faster than the market.

Our offering in the region is built on the complementary strengths of Agoda and Booking.com. Agoda is a strong local player with consumer trust across Asia, while Booking.com brings global reach and brand recognition. Together, they create a combination that allows us to serve both local and outbound travelers across the region.

As we look forward, we know we are operating in a period of rapid change driven by geopolitical developments, macroeconomic uncertainty and accelerating technological innovation. What gives us confidence and makes me optimistic about the future is the strength of our value proposition. Through the Connected Trip, our Genius loyalty

program, and our relationships and innovations in GenAI, we are building products that engage travelers, generate incremental demand and value for our partners, and create differentiators.

With that, I'll turn it over to Ewout to walk through the financial results in more detail. Ewout?

Ewout Lucien Steenberg

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

Thank you, Glenn. And good afternoon, everyone. I'm pleased to walk you through our results for the third quarter and share our current outlook for the fourth quarter and full year. All growth rates are on a year-over-year basis, and the reconciliation of non-GAAP to GAAP financials can be found in our earnings release.

Now, let's turn to our third quarter performance. Our room nights in the third quarter grew 8%, a positive result versus a strong prior year comparison, and exceeded the high end of our guidance by nearly 3 percentage points. This outperformance was helped by an expansion of the booking window beyond our prior expectation and what we experienced in the second quarter, resulting in more room nights being pulled forward into the third quarter.

We saw broad-based strength in room night growth across all major regions, and each region exceeded our expectations. Europe and the US were up high single digits, and Asia and Rest of World each delivered low double-digit growth. Our globally diversified portfolio proved its value once again as we continued to see robust growth in certain travel corridors, including Canada to Mexico and Europe to Asia, which effectively offset softer demand in certain inbound corridors to the US.

Notably, our US booker room night growth accelerated meaningfully from the second quarter, driven by solid improvements in domestic and outbound growth, and we believe our growth once again outpaced the broader US accommodations industry in a meaningful way. We're also encouraged by the growth in our direct channel in the US.

We saw the booking window in the US normalize in the third quarter, which is also an encouraging improvement from the second quarter. That said, in the US, we continue to see slightly lower ADRs and a shorter length of stay versus the prior year, which may indicate that some US consumers are continuing to be thoughtful on their discretionary spending. More broadly, global ADRs on a constant currency basis were up about 1% year-over-year, which was an improvement from the second quarter, and the global average length of stay remained similar to last year.

While we are pleased with our third quarter results, we remain focused on accelerating our long-term earnings potential and are energized by the progress we are making across many key strategic initiatives. We continue to strengthen our direct relationship with our travelers and see tangible progress with increases in our direct mix, mobile app mix, and loyalty mix. Over the last four quarters, our B2C direct mix was in the mid-60% range, which was up versus the low-60% range one year ago.

The mobile app mix of our room nights was in the mid-50% range over the last four quarters, which was up from the low-50% range one year ago. We find that the significant majority of bookings received from our mobile apps come through the direct channel.

We continue to drive engagement in our Genius loyalty program that delivers value to both our travelers and partners. The mix of Booking.com room nights booked by travelers in the higher Genius tiers of Levels 2 and 3 was in the mid-50% range over the last four quarters, and this mix increased year-over-year. These Genius Level

2 and 3 travelers have a meaningfully higher direct booking rate than our other travelers, which demonstrates the strength of the program's value proposition.

We also see continued momentum in diversifying and expanding our business into growth areas such as alternative accommodations, payments, flights and attractions. For our alternative accommodations at Booking.com, our room night growth was about 10% and growth outpaced our overall business in each of our major regions. The global mix of alternative accommodation room nights was 36%, which was up 1 percentage point from the third quarter of 2024.

Our total merchant gross bookings increased 26% year-over-year in the third quarter. Over the last four quarters, merchant gross bookings surpassed \$123 billion in total transaction value, representing about 68% of total gross bookings, an increase from about 61% one year ago. Our merchant payments business is foundational to the Connected Trip, offers more flexibility for our travelers and partners, and generates incremental revenue and contribution margin dollars for our business.

We marked another quarter of solid growth in our other travel verticals, reaffirming our strategic focus on building on our Connected Trip vision. During the third quarter, over 17 million airline tickets were booked across our platforms, representing an increase of 32% year-over-year, driven by the continued growth of our flight offerings at Booking.com and Agoda. We also delivered another quarter of meaningful expansion of our attractions vertical with tickets booked on our platforms growing nearly 90% year-over-year from a relatively smaller base.

As Glenn mentioned before, we're seeing healthy growth in Connected Trip transactions, and our data shows that travelers who book more than one travel vertical with us, more frequently choose to book directly with us in the future. The progress across all these initiatives is interrelated, and the combined effect is helping us expand the number of customers who choose to come to us directly and book with higher frequency.

Before turning back to our third quarter results, it's important to note that the third quarter has historically been our seasonally highest absolute quarter in terms of revenue and earnings. Gross bookings of \$50 billion increased 14% year-over-year or about 10% on a constant currency basis. The constant currency growth rate was approximately 2 percentage points higher than room night growth due to about 1 percentage point from higher bookings growth from flights and other travel verticals as well as an increase in constant currency accommodation ADRs of about 1%.

The increase in gross bookings exceeded the high end of our guidance by about 4 percentage points, driven by the room night outperformance as well as about 2% higher accommodation ADRs versus our expectations. The impact from changes in FX was about in line with our expectations.

Third quarter revenue of \$9 billion grew 13% year-over-year, which exceeded the high end of our guidance by about 4 percentage points, in line with the outperformance on gross bookings. Constant currency revenue growth was about 8%. Revenue as a percentage of gross bookings of 18.1% was lower by about 30 basis points year-over-year due to an increased mix of flight bookings as well as increased merchandising contra revenue, some of which was tied to bookings made in prior quarters. This was partially offset by higher revenues from payments.

Marketing expense, which is a highly variable expense line, increased 9% year-over-year. Marketing expense as a percentage of gross bookings was a source of leverage, driven by changes in traffic mix and lower brand marketing expenses as a percentage of total gross bookings. We continue to make disciplined investments in social media channels at attractive ROIs.

On a combined basis, marketing and merchandising as a percentage of gross bookings also had leverage in the quarter. As expected, third quarter sales and other expenses as a percentage of gross bookings were slightly higher compared to a year ago, driven by an increasing merchant mix, resulting in higher payments expenses, partially offset by increased efficiencies in customer service.

Adjusted fixed operating expenses increased 10% year-over-year, or mid-single digits after normalizing for changes in FX. The year-on-year increase was also impacted by increased cloud costs. We continue to drive efficiencies in our fixed expenses through our ongoing cost-optimization initiatives, while at the same time, reinvesting into the business to effectively drive long-term growth.

Adjusted EBITDA of approximately \$4.2 billion grew 15% year-over-year, which was about 6 percentage points faster than the high end of our guidance, due primarily to stronger revenue growth. Adjusted EPS of \$99.50 per share was up 19% year-over-year, faster than the growth in adjusted EBITDA, helped by the benefit of a 4% lower average share count.

During the third quarter, we realized approximately \$70 million of in-quarter savings from the Transformation Program, primarily in sales and other expenses and in personnel expenses. We also took further actions during the quarter to advance certain efficiency initiatives into the implementation phase. And as a result, we now estimate in-year savings for 2025 will exceed \$225 million, and we have enabled approximately \$450 million in annual run rate savings, surpassing our prior expectations. For the full program, we now expect to deliver about \$500 million to \$550 million in run rate savings, and we estimate the aggregate transformation cost will be approximately 1 time the run rate savings.

In the third quarter, we incurred \$105 million in transformation costs, which were excluded from our adjusted results. As a reminder, we're reinvesting approximately \$170 million above our baseline investments in 2025 to support our strategic priorities for long-term value creation. This reinvestment is funded by the savings generated from the Transformation Program, combined with additional operational efficiencies in our ongoing operations.

Now, turning to our cash and liquidity position. Our third quarter ending cash and investments balance was \$17.2 billion compared to our second quarter ending balance of \$18.2 billion due to a reduction of \$2.4 billion from deferred merchant bookings and other current liabilities. We generated \$1.4 billion in free cash flow, offset by capital return activities, including about \$700 million in share repurchases and about \$300 million in dividends. Additionally, we paid \$1.5 billion to redeem high-coupon debt that was originally due in 2030.

As we look ahead to the fourth quarter, while there remains some uncertainty in the macroeconomic and geopolitical backdrop, we're pleased to see continued momentum with steady travel demand trends in our business so far in the fourth quarter. As always, we will continue to closely monitor the travel environment for any changes.

Our guidance for the fourth quarter assumes recent FX rates for the remainder of the quarter, including the euro/US dollar at 1.17. We estimate changes in FX will positively impact our fourth quarter US dollar reported growth rates by about 5 percentage points. We currently expect the fourth quarter room night growth to be between 4% and 6%. We expect growth to moderate from the third quarter as we expect the booking window to be less expanded in the fourth quarter.

We currently expect fourth quarter gross bookings to increase between 11% and 13%, including about 2 percentage points of positive impact from higher flight ticket growth. We expect constant currency accommodation ADRs to be about in line with last year.

We currently expect fourth quarter revenue growth to be between 10% and 12%, lower than the increase in gross bookings due to a higher mix of flight bookings. We currently expect fourth quarter adjusted EBITDA to be between \$2 billion and \$2.1 billion or about 14% growth at the high end. We currently expect fourth quarter adjusted EBITDA margins to be slightly higher than last year, driven by leverage on adjusted fixed operating expenses.

Turning to the full year 2025. With a strong third quarter on the books, steady trends to-date, along with improved visibility for the fourth quarter, we're increasing our full year guidance. Assuming recent FX rates will remain steady for the remainder of the year, we estimate changes in FX will positively impact our full year reported growth rates by about 3 percentage points for gross bookings and revenue and by about 4 percentage points for adjusted EBITDA and adjusted EPS.

On a constant currency basis, our latest expectations are above our long-term growth ambition of at least 8% gross bookings and revenue growth and 15% adjusted EPS growth. On a reported basis, for the full year, we now expect room nights to be up about 7%; gross bookings to be up about 11% to 12%; revenue to be up about 12%; adjusted EBITDA to be up about 17% to 18%; adjusted EBITDA margins to expand year-over-year by about 180 basis points, higher than our prior expectation of about 125 basis points; revenue to grow faster than both marketing and adjusted fixed operating expenses; sales and other expenses to grow similar to revenue; and adjusted EPS to be up slightly more than 20%.

In conclusion, we're energized and highly motivated by the clear momentum in the business. Our continued progress reinforces our confidence that our loyal customers and global supply, along with our technology and data, all powered by our people, are industry-defining assets that will fuel our long-term success. Thank you to all of my colleagues across the company for their shared commitment and extraordinary work.

With that, we'll now take your questions. Operator, will you please open the lines?

QUESTION AND ANSWER SECTION

Operator: Thank you. And we will now begin the question-and-answer session. [Operator instructions] And our first question comes from the line of Kevin Kopelman with TD Cowen. Your line is open.

Kevin Kopelman

Analyst, TD Cowen

Q

Thanks so much. I was hoping to dig in on your US acceleration in Q3. Could you talk about your B2B initiatives in the US that you mentioned, and maybe globally? And then it sounds like B2C also accelerated in the US, so any additional color on what you saw as the key drivers there would be great. Thank you.

Glenn D. Fogel

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

A

Hi, Kevin. So obviously, we were very pleased about our US acceleration. I haven't looked at the numbers, so I guess this is three quarters in a row that we had some acceleration, which is always good to see, and it is both B2B and B2C. And we are pleased about what we're doing in the B2B region.

We haven't talked about it a lot in the past. We're not there beating our breasts about how great our B2B is, but it's pretty darn good. And we've been winning some contracts. We don't make big announcements about them, but they are good. And we're continuing to advance.

So, we're very pleased with where we are. There's nothing really specific to talk about right now. We have talked a little bit about bringing together, become more efficient. We have many different B2B units around the world because we have different brands, have different B2B units, we're going to create things that are more efficient, really bring the best of all breeds together. So, we really have something that's even better for our partners and our travelers.

In regards to the B2C area, also good numbers there. We're really pleased to see what we're doing, but this has been a very long-term process that we've been talking about for many, many years about how improving the product will improve the results. And that's what we've been doing. There's nothing that's a miracle. There's no magic bullet happening, et cetera. It's bringing the brand together. It's doing the product better.

I mean, just to give some examples, I hope people watching the baseball have seen some of our branding there. I certainly have gotten some calls from people. And that's the thing, make people aware that we have a great product and then execute and do what's necessary. If anything goes wrong, provide that great customer service that really brings people back because they love using it.

I don't know, Ewout, if you have anything more to add to that?

Ewout Lucien Steenbergen

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

A

Yeah. Let me add a few other data points there, Glenn. Kevin, clearly, we saw healthy growth domestically in terms of travel as well as outbound saw some healthy growth. So, both were doing well from a US perspective.

Another important thing that I would like to point out, and I think we're really positive and really excited about this, this is the growth of our direct channel in the US. So, what we're seeing is clearly a payoff of our brand awareness that is getting stronger in the US, more familiarity, and therefore, more customers coming now direct to us in the US. So that is really something that has seen quite a step-up in the third quarter. And we see that as a really positive trend.

And ultimately, that is all the result of all the investments we have been making over the last number of quarters and years, investments in product, investments in supply, in marketing and in brand. So overall, indeed, thank you for pointing it out, we're very happy where the US is this quarter.

Kevin Kopelman*Analyst, TD Cowen*

Q

Thanks, Ewout. Thanks, Glenn.

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

Doug Anmuth*Analyst, JPMorgan Securities LLC*

Q

Thanks for taking the question. I know you were early in the test program with OpenAI as well, but can you talk about your thought process heading into the app integration and what you're seeing in the early days? And just how should we think about economic impact if bookings were to shift from direct traffic or from Google? Thank you.

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

A

Hi, Doug. Well, it's a question I would have expected. Of course, you sort of gave the answer there about how early it is, so it's a little difficult to talk about anything besides and say, it's early. We're very happy to be in the first wave of apps with OpenAI. I think that says something about us and the value we bring to partners that they would do it with us to get it going.

It's one of those areas that, obviously, we want to explore every area where a traveler may want to begin their discovery, their inspiration, et cetera, and then be able to provide that traveler with what they need in terms of actually executing what they want to accomplish in their travel needs.

Your question is really, what will the future be if more and more people started OpenAI? That obviously is the old, I think it used to be called the \$64,000 question. I think it's probably much bigger nowadays. It's something that a lot of people don't know. But what I am very confident of is that even though people may change over time, how they want to start their travel inspiration discovery, I believe that we will always be there in the area to provide what is really necessary, which is going beyond that and executing and doing the actual transaction fulfillment, the working to make sure they're getting the best value, the area of making sure you're doing the right types of payments, the area of making sure you're following all the regulations, very complex.

It's one of those things where people sometimes are a little naive about how incredibly complex this travel business is. And it's not so easy. You just throw something, oh, it's easy. You just put up a name and somebody's going to be able to book across and disintermediate someone. That's not the way the world works. And if it did work that way, we [ph] wouldn't disappear in (00:37:46) a long time ago. Google would have taken this thing over a long time ago.

Look, we're very proud of where we are right now, but we're even more proud of how we are building out even more value. And that goes into things like the Connected Trip, being able to bring together all the different verticals in a way that the traveler really sees the reason they want to come to us because they really are getting more benefit from using us.

And of course, the other side, being able to use our Connected Trip in a way that the partner is able to – be able to get more incremental demand. And it's using science. It's using data. It's using proprietary knowledge that we have that we don't share with people. Those are some of the things that we have that we believe are key, that will keep us at the forefront of the travel industry.

And I don't know, Ewout, anything you want to add?

Ewout Lucien Steenbergen

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

A

Yeah. Maybe a couple of points, Doug, just you also asked about the economics and some of the data. So first of all, what we are seeing in terms of traditional search, that we still see volume growth. So, travel clicks that are coming to us from traditional search are still going up year-over-year. That, of course, might change over time, but I think that is an important data point.

The other is the number of leads that we are receiving from large language models, relatively small, but it is growing. And probably over time, these two worlds might become more hybrid because we are seeing, of course, more AI being built into browsers at this point in time.

What are we measuring in terms of impact? Ultimately, faster search, better conversion, lower cancellation rates, and higher customer satisfaction. Very early signals we're having around it. But overall, very encouraged we are with what we are seeing at this moment.

Doug Anmuth

Analyst, JPMorgan Securities LLC

Q

Great. Thank you, both.

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

Lee Horowitz

Analyst, Deutsche Bank Research

Q

Great. Thanks for the question. Maybe sticking with the AI topic. There's obviously a lot of noise in the market around some of your hotel partners looking to partner directly with some of the generative search players in order to perhaps increasingly bypass platforms like yourselves. I guess, how do you contextualize this particular risk? And what tools do you think you have at your disposal to maybe mitigate this kind of disruption? Thanks so much.

Glenn D. Fogel

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

A

So, for a very long time, Lee, as you know, hotels have found a way that they can be shown for, let's say, Google. And some people will go to Google and will go directly to a hotel. That happens. We would love for people to come to us first, and we continue to try and create something that is a better reason for them to come to us, so they just want to go directly to one of our hotel partners.

That will probably happen in LLM world, too. Some people will do that, too. I wouldn't be surprised. But this idea that that is going to cause this giant shift, I just think that that's not the way the world is going to work. And again, proof is that it hasn't happened in the old day of Google. And so far, we're seeing that I don't think it's going to happen in an LLM model.

One of the things, again, comes into what do we bring to the table? Why do customers still continue to come to us? And they come to us direct. That's the point Ewout made about that mid-60% number of people come to us direct in the B2C area, and it continues to grow. It continues to increase. Why is that happening? It's happening because we do a lot of things for the customer that they feel is the best way for them to execute their travel needs.

And really, a lot of it comes down to trust. It's giving more value. It's making sure that it gets the best way to do it. And of course, having our Genius program, which Ewout also talked about, and think about that. More than 30% of our active customers in Genius Levels 2 and 3, mid-50% of the room nights at Booking.com, this is a program that really gives incredible value, which is why somebody instead of going direct, they come to us. And as we continue to build that out and are able to provide the exact perfect, perfect offer to that traveler, working with the partner to make sure it's going to be incremental to them, that's a win, win, win, win for the traveler, win for the partner, win for us.

Now, think about trying to do that in OpenAI or any of the large language models, that isn't happening. So obviously, I don't disagree. Some people are going to go to a large language model. They'll see a hotel. They'll go directly there. Sure. But I think that is an overblown threat at this time.

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

Mark Mahaney

Analyst, Evercore Group LLC

Q

Okay. Thank you. I wanted to ask two topics, please. First is social media. I think you mentioned kind of leaning into social media marketing. I think you've been talking about this for a year, and maybe two. Could you spend a little bit more time on that? Is that now become a material, let's say, a double-digit percent of your performance marketing coming from there? And do you find that the returns have been continually improving?

And then Asia, you riffed on Asia in the opening comments. So, could you peel that back a little bit? Are there particular parts within Asia that have really started to perform better for you? You've been – I know that the region as a whole has got the world's highest travel growth rates. But do you feel like with the GoTo booking that you've been particularly able to penetrate certain markets better than others? Thank you very much.

.....
Ewout Lucien Steenbergen

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

A

Hello, Mark. This is Ewout. First, on the social media. We continue to experiment and invest and – with the social media channels, whilst we also continue to stay very disciplined with respect to ROIs, which is really important because these channels, the ROIs can really fluctuate a lot. So, we are very much focused on really being able to measure incremental ROIs in a very clear way.

We see different stages of where the social media channels are. Some are more leaning in than others. So, changes will happen there over time with all the different channels. I prefer not to go too much in detail which

ones are really better working for us than others, because obviously I don't want to make others smarter than they are at this point in time. But what we like is really diversifying our multiple social media platforms because expanding our performance marketing channels overall is a positive.

In terms of spend, you should think about that it is a couple of hundreds of millions, which is meaningful, of course, a total number. But if you look at the total marketing spend for us, it's of course still a smaller percentage of the overall spend.

In terms of Asia, very clearly, we are very happy with the growth we're seeing in Asia. We have two strong brands, two different strategies. Agoda is very much focused on localization, and they really present themselves as a Korean company in Korea and a Japanese company in Japan. Booking has far more the global reach, the global model, the global optimization that they bring to the region.

We're making a lot of investments in terms of our product, in terms of our marketing, in terms of our supply. And overall, we are happy with the growth we are seeing. And we're really – despite, of course, always healthy competition we're having in Asia, we're really holding up very well in that overall environment.

Asia is, of course, from a medium- and long-term perspective, the most important market. That is where we will see over the next few decades, the largest growth in the world because the GDP growth is going to be the highest there. There will be very large parts of the population that will start to travel and travel more in the future. So, the fact that we are already the market leader outside of mainland China and being able to be focused to hold that position is going to be positioning us very well for the next couple of years.

Mark Mahaney

Analyst, Evercore Group LLC

Q

Thank you, Ewout.

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

Ronald Josey

Analyst, Citigroup Global Markets, Inc.

Q

Hey. Thanks for taking the question. I have two, please. Glenn, as entry point to the web and Booking evolve here, given just newer tools and OpenAI being one of them, just talk to us how maybe this evolves or changes your strategy to attract to call it 30%, 35% or so of traffic that's not direct. So, question about how the frontend is changing and sort of thoughts there.

And then on the product side, look, seeing tons of innovation with AI Trip Planner, Penny, hotel search, AI mode, concierge, I think you talked about the home page as unique now for user, talk to us about the impact this might be having on other cancellation rates, conversion rates, things along those lines. Thank you.

Glenn D. Fogel

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

A

Hey, Ron. I'll let Ewout talk your second question. Your first question you want to hear, and make sure I understand your question right, you want to hear more about how are we going to deal with trying to get that last 35% come direct. Is that kind of the question? Maybe give me a little more sense of what you're asking.

Ronald Josey

Analyst, Citigroup Global Markets, Inc.

Q

That's exactly right. I guess I'm wondering how much – how more important brands are going forward as OpenAI goes through this app strategy and as users' frontend to the web evolves?

Glenn D. Fogel

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

A

Yeah. So that is a good question. And of course, as we all know, you don't want to go to 100% direct because you may be missing out on a lot of unknown customers who may come from a different channel. There's some sort of optimization that we should be doing. And obviously, right now, we still enjoy getting a higher direct coming to us.

And how do you do that? Again, it goes back to the simple things as all people who deal with retail-type services should be giving more value to that customer. And it's not just having a better travel service. It's, as I said earlier, you got to make people aware of it. And I know I just got some interesting advertising brand data recently. And in certain areas of the world, US, for example, our brand awareness is still not where I want it to be. And as I've talked many times in the past on these calls about how certainly in the homes area in the US, we are not where I'd like to be in terms of brand awareness.

So, it's not only improving the products, it's also making people aware of it. That is something that is not something that is impossible. It's actually very possible. It just requires us to continue to do what we've been doing, which is why we've been grinding it out and increasing, albeit not as fast as I'd like, but it hasn't happened. That's increasing the service and putting more brand power behind this. There's nothing really secret about it. There's nothing unique about it. This is just continue to do the work, so to speak.

And that, we've been doing it for – I've been here now 25 years, and that's how we've gone from a nothing company, to now, many, many hundreds of millions of cost satisfied customers. That's basically all we can really say without giving away, here's what we're going to do next quarter, and that's another thing, I don't want to tell my competitors what that's going to be. But we're going to keep on doing it, and I am pleased with the progress we've made.

Ewout, you want to give on a second question.

Ewout Lucien Steenberghe

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

A

Sure. Ron, we're seeing a couple of things. First, conversion. Definitely with all the new tools that we're having, we're seeing that people have an opportunity to find easier what they are looking for, can be more targeted, have a faster path to ultimately get to a booking, and that is helping conversion levels.

Then also what we are seeing at the same time is that cancellation rates are a bit lower. Every period, if you look at it, it's slightly lower than in the comparable period one year ago. And that's also a positive. And we believe that this is not a coincidence. This is also because people can find exactly what they are looking for. So, they don't need to continue to search, and ultimately, cancel one booking and book somewhere else or book something else with us. So, they are satisfied with what they have booked. So, cancellation rates slowly coming down, also clearly a huge economic effect.

And then if something goes wrong, what we're also seeing is that customer service is seeing a huge benefit in what we can deliver, reduced contact rates, faster handling time, and higher customer satisfaction. I think it's

actually remarkable if you look at our results this quarter, our customer service costs are down year-over-year, are down year-over-year in absolute terms, despite volume growth of close to 10%. So, the average cost per booking is coming down very rapidly and the satisfaction scores are going up.

So, all of these things are interrelated. It's interrelated with all the elements that Glenn said, people come more direct to us, are booking more often with us, are booking more across multiple verticals, are canceling less, are having higher satisfaction, like to come back and book more direct. So, all of these things are interrelated and really strengthening each other.

Ronald Josey

Analyst, Citigroup Global Markets, Inc.

Thank you, Ewout. Thank you, Glenn.

Q

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

Justin Post

Analyst, BofA Securities, Inc.

Great. A couple. First, I'd like to dive into the US. It really seems like the OTA industry is maybe taking some share here. Just wondering if it's the loyalty program, leisure growing faster than business? What's helping the industry take share, and you specifically take some share?

And then on the algorithm, just wondering, there's a lot of stuff going on with Connected Trip, obviously payments and more air. Just could you help us think about how both bookings could grow relative to nights and also how you're thinking about revenue take rates over the next couple of years? Thank you.

Q

Glenn D. Fogel

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

Sure, Justin. I'll talk about the first one, and I'll let Ewout talk what kind of specifics he wants to give about the numbers regarding Connected Trip and et cetera, the questions you asked. So, on the US, we talked a little bit about this already how pleased we are with those numbers. And I did mention brand is obviously important, improving the service and product. That's important. You asked about consumer versus business. Obviously, we get both, but we do tilt much more to consumer. So clearly, we are doing well in that area.

Now, as you know, there's a lot of debate about what's going on in the US economy right now. People, some people saying, well, we have a two-speed economy where the higher ends of the economic strata are doing very well and they're spending a lot of money, and areas of the bottom part of the economic strata are suffering a little bit more, not being able to purchase as many services as perhaps they wanted to, et cetera. It's interesting because we play the entire gamut of the economy. We are able to sell at the top. We sell a more economy of products and services, too. So clearly, for us, we are able to benefit, whether it's a strong economy or not a strong economy, we're doing well.

Look, I can't say anything that is more specific than the fact that we continue to execute well, making sure the service is good, making sure all the things that we talked about are working well, making sure we're getting that brand in front of people, making sure if anything goes wrong, we fix it. That's how we do a good job. And it adds on itself, and Ewout used that word, flywheel. More people become aware of it. They've had a good experience. They come back. Yeah, the awareness is not where I'd like it to be, but it is improving. This is the way we do it.

A

And I've been talking about this with you, Justin. We've talked about this for many, many years. I said, I want to be bigger in the US and that we would grow. And here's how we're going to do it, and we're doing it. It's blocking and tackling, day by day, improving it. No, as I said already once, I said there are no silver bullets in this business. It's just continue to execute day after day after day.

Ewout, you can talk about numbers if you like on the Connected Trip stuff.

Ewout Lucien Steenbergen

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

A

Justin, when we speak about Connected Trip, I would like to make a distinction between what we're seeing now and then really where we're heading to in the future. So, what are we seeing now? We're seeing a lot of our other verticals growing in a very healthy way, flights, 32%; attraction, 90%. We see our payment-related bookings going up in the mid-20%. We see our Connected Trip transactions, so where someone books more than one vertical for the same trip, going up mid-20s. Of course, the direct element is a part of that. So, all of these metrics looked really in the direction that customers like to really bring those elements together, because it's peace of mind. It's all in one platform. And we deliver a lot of value for them as a consequence.

But if we think about generative AI, this is really the opportunity for us. We can make the real Connected Trip come to life over the next couple of years. And what I mean with that is building an intelligence layer that all these elements of the trip naturally fit together, are interrelated, all personalized based on what we know, and what you like to do, and how you'd like to travel, and where you like to dine. If something happens, everything can automatically be updated.

It means that people will be more frequently using our app. We can become more proactive in what we offer to you, and more and more value can be created as a consequence. So actually, that is our big opportunity around generative AI. And I think the value we can generate in that way is really going to be even more than what we are seeing today. So that's where I am personally really excited about.

Justin Post

Analyst, BofA Securities, Inc.

Q

Maybe one quick follow-up. Do you think the gap between bookings growth and room night growth can grow?

Ewout Lucien Steenbergen

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

A

Yes. There's, of course, always a few things that go in the mix, take FX aside, what our ADR is doing. That is, of course, one element there. It's the growth in other verticals that is going in there. But generally, we would say, yes, because if we take room nights plus ADRs plus other verticals, we would like to, of course, see that total gross bookings will grow faster than room nights on average over time.

Justin Post

Analyst, BofA Securities, Inc.

Q

Great. Thank you.

Operator: And our next question comes from the line of Trevor Young with Barclays. Your line is open.

Trevor Young

Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Glenn, maybe a bigger picture one for you. From a competitive standpoint, do you foresee competitive intensity picking up over the next two years to three years? It seems as though a major Asia player has aspirations in Europe, while an accommodation competitor is making a big push into traditional hotels and adjacencies. Meanwhile, consumers will have a new channel via AI tools to make travel all that much more accessible. And if you do see competitive intensity picking up, how are you evolving your strategy to better position Booking for that environment?

Glenn D. Fogel

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

A

Yeah. It's a good question, Trevor. But I have to say that this business, this industry, and I take to the regulators all the time in Europe, has always been one of the most competitive of any industry than I've ever experienced. And sure, there are new things to look at now. And there were old competitors in the past, and they're no longer there.

I remember once upon time, every time, what about Tripadvisor? Well, where is Tripadvisor now? No offense to them, but they're not the threat they were at one point. Or what's going to happen with Meta? And I can go through over different things where we have had to face incredible competition time after time after time. So sure, there's a lot of competition right now.

And I know you're alluding to Trip.com, Ctrip in China, yeah, it's a very good competitor. And sure, now we have AI as a competitive threat, but also – and that one is a little different because that gives us incredible benefits, too, incredible power because of the incredible scale we have and the incredible engineering talent, et cetera, in AI, this is actually a competitive advantage, I would say, in a net/net situation.

But in the long run, I believe it's the same way it's always been. We just have to keep on grinding out better things for our services. Look, there was a time there was no such thing as mobile. Mobile comes in. We had to immediately create a great mobile site for our customers, which we did. Well, now we have AI and lots of great things working on to make it even better.

One of the really good things about being the scale that we are and the data we have, that proprietary data that we have, and the incredible number of customers and partners, and all these new things we've already begun to do in all the different verticals. And in addition, things that we don't talk about a lot. Things like insurance, for example, we don't talk about that a lot. Or things we're doing in terms of providing advertising opportunities for our partners, we don't talk about that one, too.

There are so many things that we are just beginning to really put together. And putting it all together, using, as I said before, the data, the science, being able to build these things in a way that's much better than smaller players cannot possibly do, that's an advantage we have. So I see actually, yeah, it's extremely competitive. But I said this, I don't know which quarter, recently I said about, I find this is the most exciting time for us ever. I actually see us in a much better position than we were years ago, decades ago.

I see this as an opportunity for us to create, as Ewout was just talking about, bringing it all together in a way that we could really accelerate the growth factor here, if we do it right over, and you pointed out, a five-year type horizon. That's what we want to do. And I believe we can do it, and it's up to us to make sure it does happen.

Trevor Young

Analyst, Barclays Capital, Inc.

Great. Thank you.



Operator: And ladies and gentlemen, that concludes our question-and-answer session. I will now turn the conference back over to Mr. Glenn Fogel for closing remarks.

Glenn D. Fogel

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

Thank you. And I'm glad to end it on that exciting thing of the future. It's so great. So, I want to express my gratitude to our partners, our customers, our dedicated employees, and our stockholders. We truly appreciate your support as we continue advancing our long-term vision.

Thank you, and good night.

Operator: And ladies and gentlemen, this concludes today's call, and we thank you for your participation. You may now disconnect.

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