

Transcripts

Services



# Booking Holdings Inc. (BKNG) CEO Glenn Fogel on Q2 2022 Results - Earnings Call Transcript

Aug. 03, 2022 9:05 PM ET | **Booking Holdings Inc. (BKNG)**



**SA Transcripts**

129.22K Followers

## Q2: 2022-08-03 Earnings Summary

**Play Call**

**Press Release**

**10-Q**

EPS of \$19.08 **beats by \$1.41** | Revenue of \$4.29B (98.80% Y/Y) **misses by \$55.85M**

Booking Holdings Inc. (NASDAQ:[BKNG](#)) Q2 2022 Earnings Conference Call  
August 3, 2022 4:30 PM ET

### Company Participants

Glenn Fogel - Chief Executive Officer

David Goulden - Chief Financial Officer

### Conference Call Participants

Mark Mahaney - Evercore

Justin Post - Bank of America

Lloyd Walmsley - UBS

Kevin Kopelman - Cowen

Brian Nowak - Morgan Stanley

Doug Anmuth - JPMorgan

Naved Khan - Truist

Lee Horowitz - Deutsche Bank

## **Operator**

Good afternoon, everyone and welcome to Booking Holdings' Second 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 guaranteed 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 at the end of Booking Holdings' earnings press release as well as Booking Holdings' most recent filings with the Securities and Exchange Commission. Unless required by law, Booking Holdings undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. A copy of Booking Holdings' earnings press release, together with an accompanying financial and statistical supplement, is available in the For Investors section of Booking Holdings' website, [www.bookingholdings.com](http://www.bookingholdings.com).

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

## **Glenn Fogel**

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

I am pleased to announce that we reached another milestone in our company's recovery with room nights for Q2 being the first quarter in which we have surpassed 2019 pre-pandemic levels. Our customers booked 246 million room nights in the second quarter, so just shy of 0.25 billion room nights, which represented an increase of 16% versus Q2 2019 and a significant improvement from the 9% decline in Q1. We continue to see very strong accommodation ADR growth, which helped drive an even higher 38% increase in gross bookings in the second quarter or 48% growth on a constant currency basis. Both our room nights and gross bookings in Q2 were our company's highest quarterly amounts ever for these metrics.

While we continue to see bookings growth in July versus 2019, the pace of growth moderated to about 4% for room nights and just over 20% for gross bookings or about 35% growth on a constant currency basis with room night and gross bookings growth slightly improving in the back half of the month versus the comparable weeks in 2019. For the remainder of the summer period through the end of Q3, we see higher gross bookings on the books than at this point in 2019, which we believe will result in a record revenue for the third quarter, which is our seasonally largest revenue quarter.

Looking towards the rest of the year, Booking.com, we see solid gross bookings for the fourth quarter, which are about 15% higher than at this same point in 2019 on a euro basis. Though I note that a high percentage of these bookings are cancelable and current FX rates will negatively impact that growth rate in dollars by about 10 percentage points. The booking window remains shorter than it was at this point in 2019, which somewhat limits our visibility into how Q4 will continue to develop. And although conditions could change rapidly, we are cautiously optimistic on the data we are seeing so far. David will provide further details on the recent trends we have been seeing.

Now, we recognize that there is uncertainty around the macroeconomic environment and questions about the strength of consumer demand through the end of this year and into next year. And while it is extremely difficult to accurately predict the near-term economic environment, I am as confident as ever in consumers' strong desire to travel, the attractive long-term growth profile of the travel industry and our improving longer term competitive position. With our industry leading margins, high-quality earnings, strong free cash flow and liquidity position and solid balance sheet, we believe we are well-positioned to navigate any potential near-term economic uncertainty and continue our work attracting customers and partners to our platform, while making progress on our key strategic priorities of payments and the connected trip vision.

In terms of attracting customers to our platform, our unique active customers at Booking.com surpassed 2019 levels in the second quarter, driven by very strong growth in returning customers who have not made a previous booking over a year as well as growth in repeat customers. Our mix of customers booking directly on our platforms reached its highest second quarter level ever. We aim to build on increasing our direct mix through several initiatives, including by continuing 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.

In our mobile app, we see the strongest direct repeat customer behavior when compared to our other platforms like desktop or mobile web. Consistent with the first quarter, over 40% of our room nights were booked through our apps in the second quarter which is about 10 percentage points higher than in 2019. Booking.com's app continue to set new records in terms of monthly active users in Q2 and remains the number one downloaded OTA app globally according to a third-party research firm. As I said before, the app is a critical 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. We will continue our efforts to enhance the app experience to build on the recent success we have seen here.

For our supply partners, we strive to be a valuable partner to all the combination types on our platform by delivering incremental demand and developing products and features to help support their businesses. Alternative accommodation in room nights, Booking.com grew about 25% versus 2019 and representing about a third of Booking.com's total room nights in Q2. We continue improving our alternative accommodation product globally with an additional focus on the U.S. market.

In the first quarter, we launched partner liability insurance for our alternative accommodation supply partners with global coverage. In the second quarter, we launched enhanced payment solution for professional property managers in the U.S. and have made progress increasing adoption by our partners. Finally, we started rolling out the damage policy option for partners in the second quarter and have continued expanding this option to more countries in the third quarter. Each of these initiatives helps add important features to our alternative accommodation offering, which we believe strengthens our efforts to attract more properties and partners onto our platform.

In the second quarter, we saw the largest sequential net increase in alternative accommodation properties since 2019 and we now have 6.6 million alternative accommodation listings on Booking.com. We are encouraged by the increase in alternative accommodation supply that we have seen so far this year and we aim to further build on this growth as we move through the second half of the year.

Let me now talk about the progress we have made in our interrelated strategic priorities of payments and the connected trip vision. Of this, 38% of Booking.com's gross bookings were processed through our payment platform in the second quarter, which is our highest quarterly level ever. We continue to increase adoption of payments by our property partners, with over 60% of our total Q2 gross bookings coming from properties that have adopted payments. So, this means that about two-thirds of the bookings at payment-enabled properties are being processed via payments. 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, I think it's a helpful reminder to talk to what we are hoping to achieve with this vision. Our vision for the connected trip strives to make booking and experiencing travel easier, more personal and more enjoyable while delivering better value to our customers and a way to provide marketing opportunities to our supplier partners. And as a result, we believe over time we will drive increase in customer engagement, share spend and loyalty.

First, we are looking to increase the engagement of customers on our platform by solving more of our customers' travel problems than just finding the right accommodation of Booking.com as we have done in the past. A simple example of solving a problem and driving additional engagement would be proactively suggesting options for top attractions that can be booked seamlessly in our app while our travelers are at a destination and looking for something to do. Another example is our testing of discounted transportation from the airport to the hotel for say a high-value accommodation customer. And the ground transportation supplier might in the future be providing a discounted price that is specific for our customer, because we are able to provide incremental business.

Second, we see the opportunity to increase our share of customers' travel spend. We estimate that pre-pandemic, our customers' annual spend on Booking.com represented only about 25% of their total travel spend on average. We believe that by making it easier to book multiple elements of the trip in one place, we can take more part of that travel spend onto our platform. Even in core accommodations and even with top customers, we believe there are opportunities to improve our share of spend over time. And we want to increase customer loyalty and drive a higher direct mix through our app over time.

We believe by addressing our customers' critical needs of value, choice and convenience through our connected trip vision we will deliver an improved experience and increase the likelihood that our customers come back to us again on a direct basis. This year, we continue to make progress as we work on building the foundation of the connected trip, including developing a 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 allows us an opportunity to suggest other services to these flight bookers. Flights continue to be a source for new customers with about one quarter or 4 of our flight bookers globally being new to Booking.com with an even higher share of new customers in the U.S.

In conclusion, I am encouraged by our strong second quarter results and the record level of summer travel we are seeing now. Our teams are working hard to continue making progress in several key areas, including the app, the Genius program, our alternative accommodation offering, payments at Booking.com and building towards our connected trip vision. Through this work, we believe we are building a better offering for our customers and partners while strengthening our long-term competitive position. While there is 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 Goulden**

Thank you, Glenn and good afternoon. I will review our results for the second quarter and provide some color on trends we have seen so far in the third 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, on to our results for the second quarter. Room nights in the second quarter were up 16%, a 25 point improvement from Q1 and our first full quarter of room night growth versus 2019. On our May earnings call, we discussed how we started off the quarter with a 10% increase in room nights for the month of April, which was a 14 point improvement from March. As we move into May, we saw further strength in room nights resulting in 22% growth for the month. June room night growth of 14% landed between April and May.



For Q2 on a regional basis, room nights in Europe were up over 20%. The U.S. was up about 30%. Rest of world was up in the mid-teens, and Asia was down high single-digits with all regions improving from Q1 levels. The improvement from Q1 was helped by all regions with Europe and Asia contributing the most. Mobile bookings, particularly through our apps, represents about 60% of our total room nights in the second quarter. Our apps were over two-thirds of our mobile bookings and over 40% of total room nights, which was in line with the first quarter.

In the second quarter, we continued to see an increasing mix of our total room nights coming to us through the direct channel versus Q2 2019 and versus Q2 2021. The international mix of our room nights in Q2 was about 45%, an increase from about 40% in Q1. Q2 international room nights were up mid single-digits compared to Q2 2019 levels, which was the first quarter of growth versus 2019 for international. And these international room nights drove most of the overall improvements in room night growth from Q1 to Q2. The improvement in international room nights we saw continue to be driven by travel within Europe and these cross-border room night bookings continue to have on average longer length of stay and a shorter booking window than comparable bookings in 2019. In Q2, we also saw an encouraging improvement in long-haul international room nights, which almost recovered to 2019 levels. We saw very strong growth in our domestic room nights in the second quarter, also an improvement from Q1.

We were pleased to see our cancellation rates below 2019 levels in Q2. You will recall our Q1 cancellation rates were about in line with 2019. In Q2, the booking window of Booking.com moved closer to 2019 levels than it was in Q1, but remained shorter than 2019 across all major regions. The booking window expanded versus the second quarter of 2021. Our alternative accommodations of Booking.com, our room night growth rate was 25% in Q2 versus Q2 2019 and the global mix of alternative accommodation room nights was about 32%, which was about in line with Q2 2021 and a couple of percentage points higher than Q2 2019. Within Europe, our mix of alternative accommodations continues to be meaningfully higher than the global average. In North America, our mix of alternative accommodations remains low relative to global average. However, we did see an encouraging increase in mix versus Q2 2021 in that region.

Q2 gross bookings of about \$35 billion increased 38% versus Q2 2019 or 48% on a constant currency basis. The 38% increase in gross bookings was 22 percentage points better than the 16% room night increase due to 25% higher accommodation constant currency ADRs and also due to a few points from strong flight booking growth across the group partially offset by the 10 percentage points of negative impact from FX improvement – from FX movements.

Our accommodation constant currency ADRs benefited by about 2 percentage points from regional mix and about 23 percentage points from rate increases across all of our regions, most notably in Europe and North America, especially in high-demand, leisure-oriented destinations. Constant currency ADR growth versus 2019 accelerated from 18% in Q1 to 25% in Q2 due primarily to higher rates in Europe. Despite the higher ADRs in the second quarter, we have not seen a change in the mix of hotel start rate levels being booked or changes in length of stay that could indicate that consumers are trading down. We will continue to watch these dynamics closely.

Airline tickets booked in the second quarter were up about 190% versus a small base in 2019 and up 31% versus 2021 driven by the continued expansion of Booking.com's Fly platform. Consolidated revenue for the second quarter was \$4.3 billion, which was up 13% versus 2019, up about 20% on a constant currency basis. Revenue as a percentage of gross bookings was about 275 basis points below Q2 2019, down more than our expectations due primarily to the timing differences between gross bookings and revenue recognition driven by stronger bookings than we expected in Q2. Our underlying accommodation take rates were about in line with Q2 2019 levels.

Marketing expense, which is a highly variable expense item, increased 27% versus Q2 2019. Marketing expense as a percentage of gross bookings decreased by about 40 basis points versus Q2 2019, which is better than our expectations, mainly due to higher than expected marketing ROIs in a high-intent travel environment. Additionally, our direct mix was a little higher than we expected.

Sales and other expenses were up 87% versus Q2 2019 due to a higher volume of merchant gross bookings and higher third-party call center costs. 38% of Booking.com's gross bookings were processed through our payments platform in Q2, up from 16% in Q2 2019. Compared with Q2 2021, sales and other expenses as a percentage of gross bookings were up about 40 basis points, slightly better than our expectations of up 60 basis points. Our more fixed expenses in aggregate were better than our expectations, up 7% versus Q2 2021 primarily due to a slower-than-expected ramp-up in terms of our G&A and IT expenses.

Adjusted EBITDA was \$1.1 billion in the second quarter, which is better than our expectations. If we were to normalize for negative timing impact on revenue in the second quarter, our adjusted EBITDA would have been meaningfully higher than in Q2 2019. In addition, the changes in FX rates are negatively impacting the translation of our EBITDA to U.S. dollars. Our Q2 EBITDA would have been about 10% higher if FX were in line with Q2 2019. Non-GAAP net income of \$776 million results in non-GAAP EPS of about \$19 a share, which is down 19% versus Q2 2019. On a GAAP basis, we had operating income of \$1 billion and net income of \$857 million in Q2.

Now, on to our cash and liquidity position. Our Q2 ending cash investment balance of \$14.2 billion was up versus our Q1 ending balance of \$12.8 billion, primarily driven by \$2.6 billion of free cash flow, partially offset by about \$1.3 billion in share repurchases in Q2. The increase in free cash flow included a \$2.1 billion benefit from change in working capital due to the increase in our deferred merchant bookings and other current liabilities, partially offset by the increase in our accounts receivable.

We continue to return capital to shareholders and more recently have increased the pace of our repurchase given the pullback in our share price. In addition to the \$1.3 billion of share repurchase in Q2, we repurchased another \$840 million of our shares in the month of July, which brings our year-to-date repurchases to just over \$3 billion and our outstanding authorization to about \$7.4 billion. Given our recent increased pace of share repurchases, we now believe we will complete our current authorization in about 2 years from when we started the repurchasing back in January.

Now on the recent trends occurred for the third quarter. Juliet room nights increased about 4% versus 2019 or about 7%, excluding Russia, Belarus and Ukraine. Growth fluctuated a bit in July and were strong in the second half of the month versus the comp we reached in 2019. ADR growth remained at Q2 levels, and gross bookings were up just over 20% in July, including some help from flights, partly offset by negative impacts of FX pressure. In July, constant currency gross bookings were up about 35%. Compared with June, growth rates in July moderated in all regions with North America showing the smallest change. In July, Europe room night growth was up mid-single digits and up low double-digits, excluding Russia, Belarus and Ukraine. Growth in the U.S. was up 25%. Rest of world was up low single digits, and Asia was down about 10%, all versus 2019.

When thinking about the rest of Q3, we realized there continues to be volatility in the environment, and our commentary assumes that room night growth for the fourth quarter will be at the same level we saw in July. We do expect the strength in ADRs restore in July to continue for the remainder of the third quarter as well as continued strength in price and flight bookings. We expect the difference between the level of room night growth and gross booking growth for the fourth quarter to be a few percentage points less than the 22% it was in Q2 due to factors, including more FX pressure in Q3. We expect FX pressure gross bookings by about 12% in Q3.

In July, the overall booking window Booking.com remained strong than it was in 2019, similar to Q2. We expect Q3 revenue as a percentage of gross bookings to be about 70 basis points lower than in Q3 2019 due to investments in merchandising, consistent with our prior commentary about the opportunity for us to lean into a recovering travel market in 2022 and due to an increase in the mix of flights and some impact from FX rates. We expect our underlying accommodation take rates to remain stable.

We expect Q3 marketing expense as a percentage of gross bookings will be slightly above Q3 2019 as we expect to invest in capturing demand and increasing awareness during the peak travel season. We expect Q3 sales and other expense as a percentage of gross bookings to be about 40 basis points higher than it was in Q3 2021 due to higher gross booking mix and higher third-party call center costs, including the impact of our partnership with Majorelle. We expect our more fixed expenses in aggregate will be about 20% higher than Q3 2021 with personnel up about 10% and both G&A and IT up meaningfully versus Q3 of last year. The year-on-year increase in G&A is driven by higher dual sales taxes, which are tied to revenue as well as increased personnel-related expenses due to return to a hybrid work environment.

We expect IT expenses to increase year-over-year at a similar rate to what we saw in Q2. Taking all this into account, we would expect Q3 adjusted EBITDA to be slightly above Q3 2019. As I noted for Q2, the comparison of our Q3 EBITDA expectations to Q3 2019 is negatively impacted by changes in FX rates. At current exchange rates, we expect that our FX-neutral Q3 EBITDA growth versus 2019 will be about 15 percentage points higher than our expectation on a reported basis. We know there is a lot of interest in what will happen beyond the summer. Booking.com's gross bookings for the Q4 travel period are over 15% higher than they were at this time in 2019 but with a high percentage of cancelable bookings. The booking window is still shorter than it was in 2019, which reduces the amount of gross bookings that we expect on the books for Q4 at this time. The shorter booking window limits our visibility into Q4, and we recognize that conditions could change rapidly. Please note these Booking.com gross booking trends for Q4 period are on a euro basis. On a dollar basis, these growth rates would be about 10 percentage points lower.

We are maintaining the full year EBITDA margin commentary we provided in February and May, and we still expect EBITDA margin for 2022 to be a few points higher than in 2021. As a reminder, timing mainly impacts adjusted EBITDA and EBITDA margins for the year. If it were not for the impact of timing, our expectations for the full year EBITDA margins would be a few points higher than our guidance for the year.

As the year has progressed, we revised our allocation of our growth investments between marketing and merchandising. We now expect marketing spend as we're saying to gross bookings to be about the same as it was in 2019 and expect to spend more on merchandising. This higher merchandising, along with a higher-than-anticipated mix of flights and some negative FX impact, means we expect our take rates for the year will now be in the mid 14% range. Our underlying accommodation take rates remain about the same as we were in 2019.

In conclusion, we're encouraged by our strong Q2 results and by the continued growth above 2019 levels we have seen in July. We remain confident that our focus on customer acquisition and our strategic priorities is the right approach for 2019 – sorry, for 2022.

We will now take your questions. Michelle?

## **Question-and-Answer Session**

### **Operator**

Thank you, sir. [Operator Instructions] Your first question comes from Mark Mahaney of Evercore. Please go ahead.

### **Mark Mahaney**

Let me ask two questions, please: one long-term, one short-term. Long-term, how do you increase, Glenn, that your share of annual spend per customer? If it was 25% in the past, what do you think the best way to increase that is? And what's a reasonable number? Is it 50%? And then secondly, just near-term on the room night, so this deceleration from May to June and then continuing into Q3, could – is this – it doesn't sound like you're seeing macro issues. So is that a comps issue? Or is it just that you've had this really material recovery in travel and now that's starting to fade and become more – is starting to become more of a normal growth environment? So just what's your interpretation of why we're seeing that deceleration in the room night growth? Thank you.

### **Glenn Fogel**

Thank you, Mark. And question actually has some interrelated themes. So let's start a little bit with, I'm going to repeat how happy I am. When we spoke last time, and I talked about April being the first month that we were able to say we were recovered beyond 2019. And now we have a full quarter where we've done very, very well. As you point out, very strong there. And yes, we see that there is been some moderation, but I will repeat, July gross bookings, 35% on a constant currency basis. That's pretty strong. And yet we know that the recovery is not fully done yet. We know there are countries around the world that are still somewhat inhibiting travel, making it more difficult. And we know we hear about people saying how hard it's been in some airports. We read about some of the travelers with cancellations and the crowds and you have to come 5 hours before on the airport, all these things.



So, why the deceleration? Hard to say and we can all hypothesize about what that is and why and all that. But I do believe there is tremendous opportunity still in this recovery. And then going into your first question about what share we can get, that is something that we will get even more of because I believe in our future, the idea is that we know travel is going to continue to increase in the long run. We don't know how steady it will be. We know the volatility we see the last 2 years. This recovery is not a linear straight line up. They are ups and downs, up and downs. And now we have some economic things people are talking about and certainly what the mill pandemic. There is a war, as David pointed out, what things would have been without Russia, Belarus. Look, there is a lot of uncertainty in the short run that's understood, but the long run is fairly certain that travel will continue to increase.

Our job is to continue to improve our products and our services so we get that higher share of our current customers get more customers and get a lot of their share to. How do we do that? All the things I talked about. I talk about building out that connected trip. I talk about making the app better. We talk about payments. We talk all things we're doing. And we're seeing us gain think that share and we see it has improved. Now what is the ultimate – what we talk 25 should that go? Somebody individual look, this is the average. Some customers, I'm certain, were getting a huge amount of it, some customers less so. And it certainly depends on what kind of product our customers are looking for. And we've mentioned in the past that we know in some parts of the world, our alternative accommodations, is not where I want to be yet. We're working on that to make that better. So sometimes uncertain customers say, I'm going to use Booking.com this type of stay, and I'm going to use some competitor for this other type of stay. That's an area we can do better and get more share. So I'm not going to come back and say, my goal is x percentage but will come back and say, I absolutely we're on the right path, and we are growing that share, and we're going to continue to do that in the long run. David, anything you want to add to that?

**David Goulden**

No.

## **Mark Mahaney**

Thank you, Glenn.

## **Operator**

Your next question comes from Justin Post of Bank of America. Please go ahead.

## **Justin Post**

Great. Thank you. It looks like your bookings-to-ad spend ratio was about 19.9% in Q2. That's up from 18.3%. So it looks like getting progress there, but maybe investing more in merchandising and that's impacting your take rate. Can you explain why you think this is the right strategy for the company shifting a little bit to merchandising? And then second, it does appear you could be gaining some share of room nights in the U.S. And just trying to think about how you think about those customers repeating. Do you have confidence that spending and getting market share is going to result in better repeat rates next year and you'll be able to keep those customers? Thank you.

## **Glenn Fogel**

Yes. So actually, your last question actually applies to the earlier part, which is part of our decision how we spend our money, whether it be dollars, euro again, whatever, how do we spend it? To point people to our platform and get them to buy something is factored by what do we think we're going to get in terms of the return. And when they return is, are they going to come back? Or else they going to come back? Are they coming back direct or not? Do they now make want to pay from the cannot? All of these types of things go into our calculations around our machine learning, all the science we bring in to try and decide what is the best use of the money? And we're looking, obviously, the markets are dynamic. I haven't used that word in a while, but we're going to use it today right now. These markets are dynamic. And whether it's a performance marketing market you're looking at or any other type of market in terms of what is the best way to put that money to work to get the best long-term value for our company. And that's what we're doing right now. And clearly, David pointed out that we're leaning more toward some merchandising right now because we believe that is the appropriate use of our money right now to get the best return in the long run for the company. And obviously, one factor is getting to come back again and again, and that's the important point in trying to make sure that we use the money correctly.

**Justin Post**

Great, thank you. And maybe a follow-up, are you seeing higher repeat rates? I know it's early in the transition, but are you seeing higher repeat rates?

**Glenn Fogel**

Well, I'm going to say that we believe the repeat rates are appropriate for the money we're spending, and we're comfortable with how we're spending it. How about that?

**Justin Post**

Great. Great, thank you.

**Operator**

Your next question comes from Lloyd Walmsley of UBS. Please go ahead.

**Lloyd Walmsley**

Thanks. So you guys have talked in the past about looking to grow room nights in 2023 faster than what you were doing in '19. I guess, is that still your ambition? Does the macro make it harder to kind of expect that? And any kind of medium-term outlook you can share? And then secondly, recognizing there is a balance with using the margin for merchandising, but what is the latest update around payments margin, turning that to profitability maybe with FX translation or other value-added services? Are you guys starting to roll those out, thinking about it? What's the latest thought process and timing there? Thanks.

**David Goulden**

Yes. Lloyd, let me take both of those. So our goal is absolutely to when we have a fully recovered marketplace, whenever that is, and that gets back to your question about 2023, will that be the case? We don't know yet. But our view is that when we get back to a more stabilized market growth level, at that point in time, we would expect to be growing faster than we were in 2019. That's still very much our strategy, our statement based upon the things that Glenn talked about moving forward with the product, building out the connected trip, having a more comprehensive offering and also doing more with payments, which gets back to the second part of your question. So that goal is absolutely out there. Our goal is to be growing on the top line and the bottom line faster than we were in 2019 when we're into a fully normalized recurrent market environment. So we believe that we can do that. In terms of where are we on the payments platform, we continue to be pleased with the progress that we're making. We expect to run our payments platform very close to breakeven this year. And we expect to start seeing some positive returns to the payments platform in aggregate in 2023. Some of that will just come through better economics in the core processing of payments, and some of that would be from starting to introduce in a bit more scale. Some of the payment-oriented products that we're currently experimenting rolling out, we're currently working on FX options for our customers, paying your own currency-type solutions, buy now, pay later type offerings. Those are the first two we're experimenting with in different markets right now. We expect to roll it out a little bit more fully in 2023. And the combination of that and some things will also add in 2023 on top of that will move us into a positive position relative to getting a return from payments platform next year.

**Lloyd Walmsley**

Okay, thank you.

**Operator**

Your next question comes from Kevin Kopelman of Cowen. Please go ahead.

**Kevin Kopelman**

Great. Thanks a lot. Just follow-up on the marketing question, you talked about in the second quarter the kind of high-intent environment. Can you dig into that? Exactly you were seeing there that allows that add ROIs to outperform in Q2 and how has that trended into Q3? And then I have a quick follow-up.

**Glenn Fogel**

Did you guys – he kind of broke up.

**David Goulden**

No. I missed the last part, Kevin. How does that turn into and then you cut out?

**Kevin Kopelman**

Sorry, so if you could dig into the high-intent environment that you described in the second quarter and how – what the drivers were and how that has looked into the third quarter.

**David Goulden**

Thank you. Let me take that, Glenn, add some color. So we would please see the ROIs better than our expectation in the second quarter and to get some leverage on that marketing spend. It's obviously the biggest single line in our income statement. And we characterize it as a high-intent environment in Q2 because there is no single factor that kind of led to that. It's a multiplicity of things. As you know, the calculation of ROI is based upon many, many different variables. Some of the ones that made a difference to the positive in the second quarter, having a lower cancellation rate helped with ROIs. We saw some strengthening length of stays versus what we were expecting and also versus 2019. And some of the ADR trends also helped us. There are other factors as well. But I'd point out those three as ones that certainly had a meaningful impact on the overall ROI environment. And just to a lot of people, a lot of volume in environment. And as we said, people were booking and they weren't canceling. That's going to be part of what we mean by high intent.

In the third quarter, we still expect that to be the biggest travel season from a room state point of view. It always is. The market is still recovering. As Glenn said, it's not linear. But the trend line is certainly going up positively, which is what we like to see. And like last quarter, we think there'll be an opportunity to attract bookers to the platform. Bear in mind for a number of people still be a couple of years since they have made their last booking, and they may not automatically come back. So we've got to regain some existing customers. There is the opportunity to win new customers in the peak travel season. So our plan is still to lean in as we said we would do at the start of the season. We expect, in total, that leaning in on marketing to be a little less impactful on the P&L than we did for the full year and been on our merchandising to be a little more, but we will still have both of them turn up pretty high in the third quarter.

**Kevin Kopelman**

Great. And then a quick follow-up on the merchandising in the mix, how should we be thinking about that as a percentage of the mix? What is the kind of level you're looking at? And would you – as it's gotten more important, is this something you consider disclosing?

**David Goulden**

Again, I missed the first part of the question. I think Glenn, did as well. I apologize.

**Kevin Kopelman**

Apologies. So, could you give us a sense of merchandising, how big it could be in the mix or what you are envisioning? And then as it's become more – is it something you would consider disclosing? Thanks.

**David Goulden**

Yes. Thank you. I got the question, merchandising. Obviously, it's something that we use selectively. We will think about further disclosure as it grows. Obviously, this year is something that we will – but think of it as something we are leaning into this year in a recovering marketplace, just like marketing. As and when things have recovered, we may not have to lead in quite heavily. So, we kind of see this may also fluctuate. We have not broken it out. Yes, it does obviously have a bit of an impact upon take rates. And probably the way to give you some flavor on it in the future is to give you a bit more flavor as to how it's impacting take rate, but nothing more to disclose at this point in time.

**Glenn Fogel**



I would say one thing in turn generally in merchandise. But in general, when we talk about one of the values in the connected trip, and I mentioned in my prepared remarks about providing a marketing platform for suppliers to be able to do what they feel is appropriate in terms of maximizing their value and us providing them an opportunity to do their own way to merchandise and offer up different types of offers to our customers. And we will use all sorts of important scientific analysis of where it's really incremental for them. And that I believe is something that's going to be very helpful going and run, particularly if we are in a less of a hot market where everybody feels we can sell at maximum price. When things start getting a little more interesting, that will be another opportunity for us to provide value to our supplier partners.

### **David Goulden**

And just final, as we build out the elements of the connected trip, that gives us more ways to merchandise. At the moment, a lot of our merchandises through pricing type activity, but as Glenn mentioned, we are looking at providing incentives or other benefits to our high-value accommodation customers, if they are buying more elements of the total trip. So, the mix of how we merchandise on our side will also change over time as well.

### **Kevin Kopelman**

Appreciate it.

### **Operator**

Your next question comes from Brian Nowak of Morgan Stanley. Please go ahead.

### **Brian Nowak**

Thanks for taking my questions. Good evening guys. So, just a couple I wanted to follow-up on. Pretty strong U.S. numbers and you are talking about the 30% growth and even the 25% growth in July. Maybe just talk to us about what are sort of some of the unique drivers around that U.S. business at this point. Are you seeing outsized Genius adoption? Is the merchandising having an impact there? Is air a disproportionate driver? Like what is sort of one or two of the key funnel drivers you are seeing in the U.S. for that type of growth is the first one. And then the second one, and maybe you said it, I know you guys gave so many helpful numbers. Can you just sort of talk to us about the growth rates you are seeing on cross-border travel versus intra-continental travel across the entire company? Thanks.

**Glenn Fogel**

Sure. So, let me take the first one, and David can do the second one. I know he talked a little bit in what sort of details you want to give on that second one. On the first one, I will make the point that several years ago, I said that it was just hard for us to do better in the U.S. That would be a strategic priority for us to get more share we are under-indexed in the U.S. We felt we have a very good product, but now improve upon it. And that is something that we should be doing better we would. And now we are beginning to see some of that. We are seeing these kind of growth rates that you just mentioned, and that is something that I am very happy that the team has executed well. Now what is the silver bullet, there is no silver bullet. It's a lot of things. There is a tremendous number of different things being worked out by so many different teams. And I can – we can spend all through the rest of this call talking about all the things that have been done by the different people to improve so we can get higher share. And you have seen some of it yourself. You see our brand marketing. You see the things that we are doing in terms of app. You see us in terms of being payments out. We have Booking.com and have payments in the space, and we have that. And assuming those things is the blocking and tackling every day, working with the suppliers, achieving better relationships so that we work together so we can offer up to travelers something that really fits what their needs are. And I can't come out and help you in terms of – this is the biggest part, the next part and the next part. What I can say is that this is something that has been something that's been important to us, but I am glad to see the results starting to come through. It's not done by any way, shape or form. There is a lot more to be done, and I continue to repeat myself about we got to do better in the alternative accommodations in the states. Not enough people know about it, and we have enough supply and all those areas we want to improve upon there. And obviously, flights started up for Booking.com in the States and is doing well, but a lot more to do there. And all those things that connected trips. So, lots more to be done there, but that is an area where we are going to continue. As I said, it's one of our priorities, one of the things we are working hard on it. And I am happy to see to be able to show people, here is what the growth – the progress that we have made so far.

## **David Goulden**

Yes. Thanks, Glenn. Brian, yes, on international travel, Q2 is probably the best place to come look because we have got the full quarter numbers to talk about. International, that was the first quarter that we saw growth in international travel in total vis-à-vis 2019. So, in Q2, international travel in total was a mid-single digit growth. Of course, the room nights in aggregate were up 16 points. Obviously, domestic was still strong, very strong, but it was the first quarter we saw return to growth of international travel in aggregate. And to your point, within international travel, we saw better-than-average growth in the – within regional travel, so travel within Europe and Asia, etcetera. And the long-haul international travel was still down mid-single digits, but was – still was almost recovered back to 2019 levels. So, I think it's an encouraging trends as we move through the quarter. As I mentioned, in terms of the overall improvement from Q1 to Q2, international travel drove most of that improvement.

## **Brian Nowak**

Thank you both.

## **Operator**

Your next question comes from Doug Anmuth of JPMorgan. Please go ahead.

## **Doug Anmuth**

Thanks for taking my questions. Glenn, can you just elaborate a little bit around your thoughts on ADR strength and the sustainability and just kind of how things get a little bit more interesting? I think as you said, in a potentially less hot market. And then, David, I just want to ask about payments. I think you said kind of close to breakeven this year, some positive returns in '23. Can you just talk about how you are kind of working through the initial dilutive nature there from a margin perspective? Thanks.

## **Glenn Fogel**

So, a couple of thoughts about ADR. Obviously, we talked about ADR, a very global average-type thing. But it's interesting, when you look around the world, it's not the same everywhere. In Asia, very different than what's happened in States, let's say, differences in Europe, too. It is interesting that in almost all the time I have been in the travel industry, when you had lower occupancy rates, that would usually end up with lower ADRs. People try to fill up those last rooms because the margin that would drop to the bottom line was huge. Yet, that is not what's happening here. You see occupancy rates, for example, in the States, still not at historical highs, yet we all know ADRs certainly are. And that's an interesting change from how they have been in the past. And now your question is a good one. Well, what's going to happen in the future? Are these things going to come back – are these ADRs going to come back down now at some point, if demand does drop, are we going to see that come back down, or are the hoteliers going to continue what they have been doing with us saying, look, I can't even service for all of my rooms. So, I am not going to try and fill them. But I don't want to know on labor or labor cost. It's better or doing better by doing this higher ADRs and not trying to fill everything. That's happening in some of the places. The truth is, nobody knows what's going to happen in the future. I do know, though, that we have flexibility ourselves, that we work well when there is – ADRs are high, as you have seen with the numbers we just printed, which is great. And also when ADRs are dropping because the suppliers need more demand, we are there to help them. We did better than most of the people in the industry coming straight out of the depth of the pandemic because we worked really hard with these suppliers to find a way to get the demand, and we did that. And that's really our role with them is to make sure we are putting heads and beds for them at the price that they think is right. And that's what we are going to continue to do. So, I can't tell you what's going to happen in the future. I can tell you, we will continue to execute well under either scenario.

**David Goulden**

And Doug, on payments, I think that is not a new story. The fact that we are going to have some revenue streams that are going to be growing faster than the current average because they are newer and they will be less profitable from a profit margin point of view. We talked about payments of flights earlier during the year that are both going to be significant contributors to the business in the future will result in incremental EBITDA dollars – incremental EBITDA dollar growth, but will be dilutive to margin rates. And I don't think that's anything new. And I think that's a good thing for the business. It means we will have faster EPS growth for having those businesses than we would without. So, I think it's a conversation we had a few times in the early part of the year and hopefully nothing new. We are making progress and getting payments into the position we talked we thought we might be able to go into 2023. So, I view that as encouraging.

### **Doug Anmuth**

Great. Thank you, both.

### **Operator**

Your next question comes from Naved Khan of Truist. Please go ahead.

### **Naved Khan**

Yes. Hi. Thanks a lot. Glenn, in the past, heat waves have hurt bookings. I go back to 2018, 2019, I think that has happened. And this year, do you think there is any impact on the heat wave or maybe flight cancellations in the July trends that you just shared? And just give us your thoughts on that. And then if we just look at the U.S. room night growth, how should I think about the contribution from get it room? Is that – how much of a factor is that?

### **Glenn Fogel**

So, I can answer the second one first because I heard that one well, and I want to go back and get that first question again. Again, we are very pleased with how it's working, very nice, but that is not a big driver at all in these numbers. So – and I will let David work sort of specificity, but I would say do not – that is not the – it's nice. It's good. I am very happy how we are doing. I am pleased. I love the guys, doing great. It is very helpful in our B2B strategic partnership area. Helping us build out that part of our business to be a very competitive part of the business with others too, it's one element. We had that part of the business for a long time before. This is just one addition to our overall B2B area. So, that's something I am there. I will let – David, do you want to say on that and get...?

**David Goulden**

Sorry. Fine. It's only a few points of incremental growth in the U.S.

**Glenn Fogel**

Yes. So, if we can, can you say the first question because I think I heard flight cancellations. I am not sure what you said. Could you go back to?

**Naved Khan**

Yes. It's really about if there is any impact from either the heat wave in Europe or flight cancellations that we are seeing in the July numbers, just give us some color.

**Glenn Fogel**

Oh, I have got it now. Okay. So, it goes back to me trying to explain and talk about the non-linearity of the heats [ph] in January because yes, we see the change, and I talked at the beginning about that. And one hypothesis, certainly, somebody in the past, people have definitely talked about, well, when it's hot, people don't travel as much. That's true. There is definitely there that in there. And there certainly is the cancellation of the Air Force Macassar, and that probably played a factor too. There are a lot of things that are probably played – and we want to look at how strong May was. And did that take some bookings from July we ended up in May because people were just – as soon as the pandemic levels went down, and so I am calling it down. People say I am going right away and won't they would have waited. There is so many potential hypothesis. I can't tease them all out. And in fact, I would say it's actually not that – it's not that important because we are talking for the long run, one month versus another month. In my mind, yes, I know there was going to be volatility in these things, variability. But we are looking at the long run. Are we achieving what we want to continue to open the long run, build this business? And we are doing that. And I see that. So I can't really help you on whatever guess is you would like yourself, but what's more important in my mind is are we executing, creating a better product, a better service that we will get more share as the travel recovery continues, which it is. And again, I emphasize this recovery from the pandemic is nowhere near done yet. When you look at countries like, in Japan, there are a lot of places where it's not where everybody isn't just traveling as they used to at all. In Asia, we mentioned Asia. It's not a full recovery yet. Look at China, lots of places where the pandemic has not totally disappeared. Everybody is living like they did in 2019 at all, but there is a lot of room to come back just from recovery, and we are looking forward to that.

**Naved Khan**

Great. Thank you for your thoughts.

**Operator**



Your next question comes from Deepak Mathivanan of Wolfe Research.  
Please go ahead.

**Unidentified Analyst**

Thanks for taking my question. This is Jack Halpert on for Deepak. I just wanted to ask, can you guys talk about any shifts in the consumer demand you are seeing between your alternative accommodations and hotels booking as things sort of normalized a bit from COVID? Thanks.

**Glenn Fogel**

Well, I think we talked a little bit about what share of our business in the alternative accommodations now and how we saw a couple of percentage points better than 2019 to more accommodations versus hotels. That's steady improvement that we are pleased we are seeing. We talked a little bit about the U.S. and the mix there. It's still low in terms of the share that's going to internal accommodations, but we are pleased with the mix is improving. It's on the right path. I am not sure in terms of general, though I think I know your question is, is this going to be – are people going back to where they formerly had done a lot more hotels and are they going to switch back there? I don't think anybody knows or not. But what I emphasize is how important it is to offer both. And that's why we think we have an advantage because we know, and I mentioned this in previous calls, we know people come to our site thinking they want one type of accommodation, yet we see by the way they search and the way they look at different potential places to stay, that there is actually a lot of uncertainty. And by offering both a hotel and a home or apartment or avail, whatever it is, we are providing better information to the travelers to be able to make the right choice and have a higher opportunity that they will buy from us because we are offering these different types of services. So, I don't know what's going to happen in terms of people's behavior going back. I can guess. I think that people who have enjoyed a home they never get before, they are going to continue to look at that home. And I am fine with that because we offer it. So, it's okay by me if that's what's happening. What I would like to do, of course, is make our home products be top brand – be as good as anybody else's and make sure that nobody ever says, I gave you all of that, here are some things you don't have yet. That's something I want to get rid of.

### **Unidentified Analyst**

Got it. Thanks so much.

### **Operator**

Your next question comes from Lee Horowitz of Deutsche Bank. Please go ahead.

## **Lee Horowitz**

Thanks for the questions. Two, if I could. Can you comment at all on how hotel attach rates are pacing for your air product relative to your expectations and how you think about continuing to improve those from here? And then just one on costs, if I could. Just given the directional commentary you have given us on fixed costs for this year, looking beyond this year, how do you think about the kind of sustainable level of fixed cost growth into a more normalized demand environment? Thanks so much.

## **Glenn Fogel**

Well, I will take the first one. I will let David do the second one. And what we have said, and it hasn't changed, what we said in the past is that we are a meaningful percentage of bookers who first book a flight then book an accommodation. And we are saying for new customers, we see that an encouraging percentage of them are attaching an accommodation to the flight booking, which is what I said in the past and I will say the same because it's pretty much the same. And David, on your side?

## **David Goulden**

Yes. On my side, obviously, the base element in our fixed cost is personnel. And in recent years, with the current inflation rates and obviously wage inflation, that has been pressured particularly for tech and technology people and product people, the marketing folks, etcetera, engineers. So, that's been under pressure for a little while. We believe that when we get back to this post-COVID steady state and we get to the situation where we are gaining share, growing top line faster than we used to grow in the bottom line faster than we used to, we believe that we can start looking at the right time of getting leverage from our fixed costs. But at the moment, we are obviously facing some short-term pressures.

## **Lee Horowitz**

Okay. Thank you.

**Operator**

Ladies and gentlemen, I will now turn the conference back to Mr. Glenn Fogel for closing remarks.

**Glenn Fogel**

Well, thank you. So, after the difficult situation in the last 2.5 years, we are very pleased to arrive at where we are today. And I want to thank our partners, our customers, dedicated employees and our shareholders. We greatly appreciate the support as we continue to build on our long-term vision for our company. Thank you everyone and good night.

**Operator**

Ladies and gentlemen, this concludes your conference call for this afternoon. We would like to thank everyone for their participation and ask you to please disconnect your lines.