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Booking Holdings, Inc. (BKNG)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Booking Holdings' Fourth Quarter 2020 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 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.

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

Glenn D. Fogel

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

Thank you, and welcome to Booking Holdings' Fourth Quarter Conference Call. I am joined this afternoon by our CFO, David Goulden.

Despite a travel environment that continues to be very challenging, we closed out 2020 by delivering fourth quarter results that were a bit better than the expectations we talked about on our last earnings call. David will provide the details on the fourth quarter results in his remarks.

For my time, I will first briefly reflect on our execution during the extremely difficult year of 2020. Then I will share our thoughts and strategic priorities for 2021 and beyond.

Without a doubt, 2020 presented the biggest disruption to modern global travel the world has ever seen and our results for full year 2020 were down substantially from 2019; however, travelers still booked 355 million room nights through our platform during 2020, and we remained profitable by generating approximately \$880 million in adjusted EBITDA. Delivering these results during this unprecedented and unpredictable year is a credit to our team's relentless efforts to provide the best value and service to our traveler customers and to our supply partners while all the time remaining incredibly focused on operating efficiently.

When we spoke to you on our earnings call in May of 2020, we outlined a series of plans that would help us navigate through the COVID-19 crisis. First, we said we would stabilize the business from the immediate shock of the crisis. Second, we said we would optimize the business for the expected decrease in travel demand over the next few years. And third, we said we would position the business to be able to capture travel demand when it returns. Based on our accomplishments in 2020, I can confidently say that we executed well against these plans.

In the beginning of the crisis, we successfully stabilized the business by taking several immediate steps, including quickly closing offices and smoothly transitioning to a distributed work environment to protect the health and safety of our employees which was, and continues to be, a top priority; working closely with travelers and supply partners to process the unprecedented level of travel changes and cancellations; and bolstering liquidity and preserving cash by halting stock buybacks, cutting non-essential costs and raising over \$4 billion in capital through a debt offering. And we began the process and have almost entirely completed our work to optimize the business for the decrease in travel demand through the restructuring actions we have taken at each of our brands across the company.

As a result of these actions, our 2020 year-end head count decreased approximately 23% versus 2019, primarily in volume-related positions. We expect these reductions to result in annualized cost savings of about \$370 million in personnel expenses with about \$110 million of savings recognized in 2020. Although our work is never done in terms of finding opportunities for cost efficiencies, we believe the head count reductions needed to optimize the business for the current demand environment are now generally behind us. Finally, we believe we have positioned the business well for when travel demand returns.

We continued to make progress against our key strategic priorities during 2020, and this progress has continued as we have moved into 2021. We remain active in performance marketing channels and are being agile in adapting our approach to this very uncertain environment, and we will leverage our learnings from the past year to continue to capture demand in these performance channels at appropriate ROIs. In addition, our marketing team has been working hard to develop campaigns and messaging that we will deploy when we believe the time is right to encourage people to travel once again and use our services.

As we think ahead about 2021, there is considerable uncertainty regarding the exact shape and timing of the recovery for travel. The rate of recovery will depend heavily on the rate of new COVID-19 cases, including new, potentially more transmissible and more dangerous variants, and on the timing of effective and broad-based vaccine distribution, which we believe will be a key step in helping people feel safe to travel again. We are tracking early signs of encouraging summer booking trends in Western Europe, primarily the UK and Germany, relative to what we are seeing globally, although in each case, gross booking levels are still below where we were at the same point in time in 2019.

While seeing green shoots of the summer booking season as positive, it's uncertain whether these trends will continue and whether we'll see this summer booking strength expand into other countries and regions and, of course, whether these advanced bookings will turn into stayed room nights or will be canceled. What will be most helpful will be continued government action around the world to accelerate vaccine distribution while providing direct and indirect support to the entire travel and hospitality industry.

Additionally, international travel remains extremely depressed and recovery will not be possible until government restrictions on international travel are lifted or modified so that travelers who can show they are safe travelers are allowed to travel freely. As you know, our international business has been a great advantage for us historically, and we expect it will be in the future, but we anticipate this to be a longer recovery.

We know that people have a very strong desire to travel. We saw this firsthand in 2020, when we witnessed a strong improvement in our booking trends from the lows in April through the peak summer travel season driven in part by pent-up demand as people came out of lockdowns. The travel that was booked last year was much more domestic-oriented than in prior years as many people adapted to the restricted travel environment and still found a way to take a trip. With many travel restrictions now in place around the world, we believe there is once again a high level of pent-up demand for travel, but when this demand will be fully unlocked is, of course, difficult to predict and will depend on vaccination rates and other factors.

While the timing of the pickup in travel demand is beyond our control, we are focused on the things we can control, primarily, better positioning our business by continuing to invest and execute against our key strategic priorities, including expanding the payment platform at booking.com, building out our Connected Trip capabilities and growing our market share in the United States.

Our integrated payment platform at booking.com provides payment options favored by both travelers and our supplier partners across hotels, alternative accommodations, cars, flight and attractions. It is strategically important as it enables merchandising capabilities that we haven't had access to historically at booking.com but we expect to utilize selectively in the future to help drive growth. In addition, this payment platform is foundational for enabling our Connected Trip strategy.

We continue to make progress expanding the payment platform with approximately 22% of booking.com's gross bookings in 2020 processed on the platform. This is up from approximately 15% in 2019, and was less than 4% back in 2017, so this is a dramatic shift in our large-scale business. We are optimistic about recent improvements in our booking.com US payment platform, which will enable increased utilization of payments in this critical market. We expect to see a higher percentage of booking.com's gross bookings processed on the payment platform in 2021 as compared to 2020 and expect these increases to continue beyond 2021.

Our Connected Trip vision is a multiproduct offering including accommodations, flights, ground transportation and attractions and dining, connected by our seamless payment network and ultimately supported by personalized intelligence to provide a frictionless experience for our bookers all the way from the initial booking to experiencing

their trip. We're building towards this vision because we believe that Connected Trip will drive increased loyalty and frequency and will enhance the growth of our accommodation business through additional customer acquisition and merchandising opportunities.

Developing a robust flight product at booking.com remains an important strategic component of the Connected Trip as it gives us the ability to engage with flight bookers early in their travel journey and allows us an opportunity to cross-sell our accommodation and other products to those bookers. In the coming years, we expect flights will represent an increasing mix of our overall business, which will help drive incremental revenue and EBITDA dollars.

As mentioned in the past, growing our share of the US travel market remains a key strategic priority for our company as the US is one of the largest travel markets in the world, and we have historically under-indexed there. We are taking several steps to increase our competitiveness in the US market and are focused on making sure we are offering great value to our customers, improving our payments platform to enable bundling and merchandising opportunities, increasing overall consumer awareness of our booking.com through marketing and expanding our alternative accommodations supply.

While we have built a large and competitive alternative accommodations business globally, we believe we have a significant opportunity for improvement in the United States, which will involve product improvements, supply acquisition and raising consumer awareness of this type of inventory on booking.com.

Continuing to invest and execute against these three strategic priorities as well as capturing demand as travel recovers will be our focus in 2021. We believe successful implementation of these priorities is key to achieving higher-growth rates, increasing market share and eventually building a larger business with higher earnings than we had prior to COVID. We expect this larger business to have a higher mix of merchant transactions and non-accommodation products, both of which will negatively impact our EBITDA margin rates, but we expect it to continue to lead the travel industry in this metric.

Finally, I want to address the European Commission's initial proposal from the Digital Markets Act and Digital Services Act released in December. The European Commission has proposed regulations aimed at keeping the markets fair and open, which is an ambition that we support; however, at the present time, it is not known for certain what the ultimate rules will be, how they might be applied or what the impact will be on us and other market participants. We are engaged with stakeholders to work towards regulations that tackle the legitimate problems of the large gatekeepers in the digital economy, of which we believe we are not one. We'll update you in the area during future calls.

In conclusion, there are still tough days ahead of us and everyone in the travel industry. COVID case counts remain high and the wider global distribution of vaccines is still too slow; however, I am more confident than ever in our long-term future. And we will, at some point, see a strong recovery in travel demand.

I firmly believe that our company is very well-positioned to capture this demand as it comes back. In the meantime, we will focus on what we can control. Namely, investing in our business and executing against our strategic priorities to ensure we exit this crisis on a strong footing which will enable us to build a larger and faster-growing business over the long run.

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

David Ian Goulden

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

Thank you, Glenn, and good afternoon. I will review our operating results for the fourth quarter, provide some color on the trends we've seen so far in the first quarter and then discuss our expectations for 2021 and our longer-term operating model. To avoid the comparison to the initial spread of the pandemic in 2020, all growth rates for 2020 and 2021 are relative to comparable periods 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 the results for the fourth quarter.

On our November earnings call we discussed the trends we saw throughout the third quarter and into early November, including the year-on-year decline in reported room nights worsening from about 43% in the third quarter to about 58% in October and then further deteriorating to about 70% over the seven days leading up to our November earnings call, driven by rising COVID case counts and many European countries and governments beginning to respond with impositions of travel restrictions. As a reminder, reported room nights include the impact of cancellations.

The worsening trends we saw in early November improved a little, resulting in our reported room nights declining 60% for the fourth quarter. November proved to be the low point for the quarter. The decline in room night growth rates versus Q3 were driven by Europe, where growth rates declined quite considerably.

Looking across the other regions, North America was similar to Q3 and Asia and the rest-of-world both improved compared to Q3. North America was the strongest region in Q4 with a significantly lower year-on-year decline in room nights than the other regions. Mobile bookings, particularly through our apps, continued to gain share in the fourth quarter and represented over two-thirds of our total room nights in Q4 and about two-thirds of 2020.

We also continued to see greater than 50% of our total room nights come to us through the direct channel. Domestic room nights represented about 85% of our reported room nights in Q4, up significantly versus 2019, which was just below 50%. Our cancellation rates continued to be up year-over-year in the fourth quarter and also increased versus Q3.

We continue to monitor other changes in booking.com's customer booking behavior. The mix of customers booking alternative accommodations in Q4 was slightly lower than Q4 2019, while the full year was up slightly versus 2019. The slight decline in the overall mix of alternative accommodations in Q4 was due to the underperformance of the European region, which is where we have our highest mix of alternative accommodations. The mix of alternative accommodations continued to increase year-over-year within Europe in Q4. Booking.com's alternative accommodations represents about 30% of its reported room nights for the full year 2020.

The booking window contracted versus 2019 in the fourth quarter at about the same rate that we saw in the third quarter, as customers continued to focus mainly on their short-term travel needs. Gross bookings declined 65% in Q4, which is a greater decline than reported room nights due to the average daily rates for accommodations decreasing about 15% year-over-year on constant currency basis.

Consolidated revenue for the fourth quarter was \$1.2 billion and decreased 63% year-over-year. As we expected, revenue in the quarter was less negatively impacted than gross bookings due to the fact that revenue benefited from check-ins in Q4 from bookings we received in the relatively strong third quarter.

Our full year revenue was also significantly less impacted than our gross bookings, driven by differences in the timing between fees and revenue, which is recognized at check-in, primarily related to 2019 bookings that checked in in Q1 2020.

As a result of these [indiscernible] (00:18:53) factors, our full year revenue as a percentage of gross bookings was 19.2%, which is significantly higher than the 15.6% in 2019 and 2018. If our revenue as a percentage of gross bookings in 2020 had been in line with 2019, revenue would have been more than \$1 billion lower for the full year. The difference between 15.6% and 19.2% is almost entirely explained by this timing difference.

The 63% reduction in revenue resulted in adjusted EBITDA loss of \$38 million in the fourth quarter. While we significantly reduced our variable expense lines like marketing, sales and other, our more fixed expenses decreased to a lesser extent in Q4. As Glenn mentioned, we've almost entirely completed our restructuring actions, reduced personnel expenses to align our cost structure with the new demand environments. The savings recognized in our personnel expense line related to these actions was about \$70 million in Q4 and about \$110 million for the full year. We recorded charges of \$74 million and \$149 million related to these actions in the restructuring and other exit costs line for Q4 and the full year respectively.

Marketing expense, which is a highly variable expense line, decreased 61% year-over-year as we saw a significant reduction in demand in paid channels. In addition, we substantially reduced our brand marketing spend in response to the diminished travel demand environments. Sales and other expenses decreased 45% year-over-year primarily due to reduction in expenses associated with payments transactions, partially offset by a mix shift in customer service to outsourced call centers.

Personnel expenses decreased 13% year-over-year, primarily due to restructuring actions I mentioned previously. G&A expenses decreased 36% year-over-year, largely driven by reduced discretionary spend in such areas as T&E, lower indirect taxes and lower office expenses due to employees working remotely. Information technology expenses were up 1% year-over-year in the fourth quarter due to investments in software license fees related to cybersecurity and privacy software.

Finally, we've broken out restructuring charges separately in operating expenses in the P&L and I'll that note these restructuring charges are included in our non-GAAP results.

We recorded a non-GAAP net loss of \$23 million in the quarter. Our full year non-GAAP tax rate of 42% was meaningfully higher than our 2019 tax rate of 19% due to the greater impacts of non-tax-deductible expenses on a lower base of earnings as well as the geographical distribution of earnings and losses. Our Q4 non-GAAP tax rate was driven by a change in our full year tax provision following better-than-expected pre-tax results in the fourth quarter.

On a GAAP basis, we had an operating loss of \$153 million in Q4. We recorded a GAAP net loss of \$165 million in the quarter as the benefit from the unrealized \$553 million pre-tax gain on our equity investments primarily related to our investment in Meituan was offset by income tax expenses of \$410 million, \$98 million of interest expense and \$61 million of FX remeasurement losses on our euro bond. We excluded the unrealized gains and the remeasurement losses from our non-GAAP results.

The \$410 million of income tax expenses is primarily due to the discrete tax expense related to the Meituan unrealized gain and a change in our full year tax provision following better-than-expected results in the fourth quarter. Our full year GAAP tax rate of 90% was meaningfully higher than our 2019 tax rate of 18% due to the

reasons mentioned for our non-GAAP tax rate with the non-deductible goodwill impairment charge driving an additional significant impact.

Now, on to our cash and liquidity position. Our Q4 ending cash and investment balance decreased to \$14.8 billion from our September ending balance of \$14.9 billion due to an operating cash outflow largely offset by the unrealized gains on our long-term investments. We had a \$557 million operating cash outflow in the quarter driven primarily by changes in working capital which represented a use of cash of about \$400 million in the quarter as well as the net loss recorded in the quarter. The change in working capital driven by seasonal effects that were amplified by the slowdown in bookings from Q3.

We will continue to focus on maintaining a strong liquidity position in the high level of uncertainty created by the COVID pandemic and consistent with our comments last quarter, we halted repurchases of our stock and will not initiate repurchases until we have better visibility into the shape and timing of a recovery.

Now, on to our reports for the first quarter, and I should remind you we'll make comparisons with 2019 unless otherwise indicated. There continues to be considerable uncertainty about the shape and timing of the recovery for travel, which means we're unable to provide detailed guidance at this time.

January room night declines were slightly worse than Q4 driven by an increased spread of COVID-19, including the new strains with associated additional travel restrictions; however, somewhere near the middle of January, we saw an improvement in room night declines driven by domestic travel bookings in most parts of the world, and we see this improvement continuing into February. In recent weeks, some regions have improved back to positive domestic room night growth.

While difficult to predict with accuracy, if the domestic room night trends continue to improve, Q1 room night declines could be a few percentage points better than Q4. To give you a snapshot of what we're seeing recently, room night declines of less than a day were about 50%.

In Q1, the overall booking window has contracted versus 2019 although to a lesser extent than we saw in the fourth quarter. In Western Europe, in January, we saw an expansion of the booking window versus 2019, and we have seen this expansion continue into February as the share of further out bookings, including those for summer travel, has increased.

As Glenn noted, in Western Europe, particularly in the UK and Germany, we have recently seen stronger summer booking trends relative to what we're seeing globally and in these countries, gross bookings for the summer period are within 25% of where they were at the same time in 2019. These stronger booking trends in Western Europe are currently being offset by weaker near-term booking trends in the region due to extensive travel restrictions and we remind you that the significant majority of the summer bookings are cancelable.

We're also encouraged to see that some countries are making notable progress with vaccinations including Israel, UAE and the UK. We are confident that when vaccinations are broadly available and when travel restrictions are lifted, people will return to travel. We saw this happen recently in Israel where vaccination rates are the highest in the world and after the national lockdown within Israel was eased on February 7, we quickly saw domestic bookings return to solid double-digit growth versus the same period in 2019.

Turning to the income statement. As I said we expect Q1 room night declines could be a few percentage points better than Q4. We expect Q1 gross bookings to decline a few percentage points more than room nights due to

continued pressure on local currency ADRs. We expect Q1 revenue to decline slightly more than gross bookings assuming bookings continue to improve for the rest of the quarter.

We expect marketing expense in Q1 will decline at the same level as gross bookings. We expect sales and other expenses in Q1 will be similar to what we were in Q4 on a dollar basis with some variability based upon where Q1 volumes land. We expect personnel expenses in Q1 will be slightly higher than they were in Q4 on a dollar basis primarily due to increased SBC expenses and seasonal increases in benefit costs partially offset by a higher amount of savings in Q1 related to restructuring actions we've taken. We expect that almost the full run rate from our personnel restructurings will be realized in Q1.

We expect G&A expenses in Q1 will be about the same as they were in Q4 on a dollar basis. We expect that IT expenses will be higher than they were in Q4 on a dollar basis, primarily due to increased investments in security, data privacy and some operational system enhancements. We currently estimate the remaining restructuring charges related to our actions at booking.com will be about \$40 million and we expect to record more than half of these remaining charges in the first quarter. About half of the \$40 million relates to personnel-related actions and the other half relates to real estate.

Given what we just explained, and reminding you Q1 is our seasonally lowest revenue quarter, we expect to report a greater EBITDA loss in Q1 than in Q4.

For the full year 2021, I want to briefly walk you through some factors that we expect will impact our top-line operating margins for the year. We expect the environment for travel will improve during 2021 but the shape and timing of that recovery remains uncertain. We expect occupancy rates to remain below where they were pre-COVID, putting continued negative pressure on ADRs, which will result in our gross bookings being lower than our room nights.

As I noted earlier, our revenue was less negatively impacted than our gross bookings in 2020 due to timing factors which benefited our 2020 revenue by more than \$1 billion. The opposite dynamic will happen when we experience an acceleration in bookings which will lead to our gross bookings recovering faster than revenue. Said another way, if we see this acceleration in 2021, there will be more bookings made in 2021 that will check in in 2022 than there were bookings made in 2020 that checked in in 2021. This timing factor could have a meaningfully negative impact on our revenue as a percentage of gross bookings, but exactly how meaningful this impact will be depends on how quickly our room nights and gross bookings accelerate in 2021.

Due to these differences in the timing of bookings versus check-in, we also expect deleverage in our marketing expenses in 2021 as we incur the majority of our marketing expenses at the time of booking. The most significant expense item is sales and other, our payment processing costs and outsourced customer service expenses. We expect sales and other to be lower in 2021 than 2019 but the reduction will be smaller than the reduction in revenue.

A few comments to help you think about our less variable expenses for 2021 and how they'll most likely compare with 2019. We expect G&A to be down double digits versus 2019 driven by T&E, office and occupancy expenses, with some variability from GST taxes if new ones are enacted during the year.

Personnel expenses are likely to be quite similar to 2019 on a dollar basis. To help you understand this better, there are a few factors that contribute towards this. Our personnel expense run rate immediately before COVID hit was about \$200 million higher than 2019 actual personnel expenses. Less than half of this was an annualization of people expense we added during 2019, and the rest was from people expense added to the business in the

first quarter of 2020. Our restructuring actions will reduce head count expenses by approximately \$370 million. So the impact of these two together will be to reduce personnel expenses by \$170 million versus 2019.

As we continue to invest in the business, we expect 2021 year-end head count to be a little higher than at the end of 2020, with a mix shift towards product and technical positions. This will add about \$100 million in personnel expenses in 2021. And finally, SBC is expected to be higher than 2019 due to a few factors including the modification of some stock awards in Q1 2021 and the issuance of stock options in 2020.

Finally, IT expenses in 2021 will be higher than 2019 due to investments in security, privacy and operational system enhancements to support our Connected Trip strategy. As we think beyond 2021, we're looking forward to being a larger business with more diverse offerings and with more earnings than we had prior to COVID. We're also focused on the potential for higher growth and market share. We continue to believe it will be years and not quarters before travel returns to pre-COVID-19 levels. And when considering the shape of the business at that time, I'd like to draw your attention to two factors.

The first is a mix shift within the business. The continued growth of payments and the growth of flights and other Connected Trip verticals will add revenue and EBITDA but at much lower margin rates than traditional accommodations. Payments will add to revenue with offsetting expenses in sales and other, plus some additional personnel and other expenses. Flights and other Connected Trip verticals will add to bookings and revenue, but at lower take rates than accommodations and will also require added personnel and other expenses as the business scales.

The second is personnel. The restructuring actions we took in 2020 were mainly in volume-related functions including customer service and credit collection. This means that as volumes grow beyond the levels we expect in 2021, we'll need to add expenses back to business. As we've mentioned before, we'll look to do this in cost-efficient ways but the work will come back. We think it's important to include these considerations when thinking about the future shape of the business. As Glenn said, we expect to continue to have industry-leading EBITDA margin rates albeit most likely at levels below those in 2019.

In conclusion, we remain focused on what we can control and continue to execute against our strategic priorities. We're now more confident than ever that through these actions we will emerge from this crisis in a stronger position.

We'll now take your questions. And, Grace, I'll turn it over to you to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Lloyd Walmsley from Deutsche Bank. Your line is open.

Lloyd Walmsley

Analyst, Deutsche Bank Securities, Inc.

Q

Thanks for the questions. I guess a couple. First just following up on those last comments you made, David, on the margins. I guess obviously, a lot of the reductions you've seen, as you said, have been kind of variable related to business. Is there anything that you're kind of just learning to do better or more efficiently that might result in kind of better cost line items as a percent of revenue coming out of this on the other side? And then I guess the second one, curious if you guys expect any impact to your performance, marketing spend efficacy from kind of upcoming changes in Apple's iOS 14 that may impact retargeting, anything you guys expect there? Thanks.

David Ian Goulden

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

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Yeah, why don't I take the first one, and then, Glenn, we'll see if you want to take a start on the second one. So on the efficiency side, we're always looking for ways to become more efficient within the business. As I mentioned, we have reduced these variable costs to the tune of about \$370 million. As they come back, we will look at more efficient ways of getting that work done.

The work will come back. It won't come back this year. We've basically right-sized ourselves through what we think will be through 2021, but as volumes extend beyond what we think 2021 is likely to bring, those costs will come back. So we will look at more efficient ways to do some of those variable activities in terms of location, technology, whether we do it on the inside or whether we deploy more partner resources et cetera.

And we also, Lloyd, continue to look at how we can drive efficiency in our fixed-cost part of the business. That's not been a major focus the last 12 months, the major focus being surviving COVID. I think we've done a good job of that. But we do continue to kind of look at our costs across our personnel base, across our real estate, across our [indiscernible] (00:35:49) portfolios, across things like procurements, where we can continue to drive efficiencies within the business. So when we get to a more normalized environment that's something else we could also take a look at driving as well. And Glenn?

Glenn D. Fogel

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

A

And, Lloyd, your question's a good one, because we continue to see changes not only by companies like Apple making changes that you just mentioned, but Google doing differences and governments certainly talking about laws and regulations about cookies and all sorts of things that impact different ways that people do marketing, in particular performance marketing and different things. And that can impact companies, certainly in the short term, and we're all just looking, trying to evaluate what do we think this will mean for any one of these things and kind of – but the thing I'd really focus on is that change can also be good.

We believe that we have some of the best marketing people in the world in terms of digital marketing, so when changes happen, we can make adjustments. We can make changes. We can do things faster and better. And we have so much data to test with that we believe we can actually come out of these things sometimes better off than

we were in the past. So right now there's nothing I can say in terms of impact or not, except as so far as to say we've been adapting and changing as this world of digital marketing has been changing for 20 years, and we've kept on top of it. And so I'm so confident that we'll be able to make any adjustments we need to make for the future.

Lloyd Walmsley

Analyst, Deutsche Bank Securities, Inc.

All right. Thank you.

Q

Operator: Thank you. And your next question comes from the line of Justin Post from Bank of America. Your line is open.

Justin Post

Analyst, BofA Securities, Inc.

Great. Thank you. A couple questions. First, Airbnb's success has been hard to miss, but just wondering how you think about your market share within Europe and your position with larger hosts maybe than smaller individual hosts and what that means in a recovery. And then secondly, Glenn, would love to hear about your thoughts on suppliers. Obviously a lot of pain in the travel industry. How can you help suppliers in the recovery? And do you think you'll be getting more promotional activity from suppliers, maybe better take rates, anything we could think about on that front? Thank you.

Q

Glenn D. Fogel

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

Sure. So with regards to the home or alternative accommodations we like to call it in Europe, I don't think we've talked much about regional exact share. And I'm not going to here. But I certainly, we talked a little bit how Europe is our stronghold in that area, we're better there in the home area than other areas. But throughout the world, I think I can say to you that we are better in things that are less single property. We always want to increase the single property because we know that's an area where we can improve upon. So that is an issue right now.

A

And with the pandemic there certainly was a bit of a shift for some people that they wanted to be isolated away from other people, so certainly there was more demand than in the past for the single home area. That showed up much more in the US for us, say, than the Europe, because Europe, we do have a – greater amount of our home supply is the single property than say in the US. But it's an area we're going to continue to focus on and I do believe right now in the environment there is, that is a great product to have up on the shelf. That being said, in the future we'll see how much that maintains or things go back more towards they used to be where there's a different split between homes and hotels.

In regard to your second question about relationship with hotel suppliers, obviously, we're doing everything we can to help our partners. And that's coming up with new ways to come up with promotions that they want to do, telling them when we think there are spots in demand that they can come up with different types of closed user group prices that can help get them more demand, coming out with ways they can put together things in content in terms of safety and health so that a traveler who looks on our site and sees their hotel and sees that is a safe place to go, doing all different things with them to try and prove their business. It's very difficult right now as you know though because, let's face it, unless there's demand that you can have the greatest content in the world, but if people don't feel it's time to travel, they're not going to travel. But we're going to continue to do that.

I do believe in terms of relationships, certainly as a distributor, when there is less demand, we are more valuable as a partner to them. In at a time where there's very, very high occupancy rates, any hotel would say well, I don't need the distributor nearly as much. But when they don't have as much occupancy rate, then they start looking for demand and we have the benefit of being the largest platform for hotel demand in the world. So we are the place for them to come and get some more of that incremental demand and we're continuing to work with them to make sure they do their best together.

Justin Post

Analyst, BofA Securities, Inc.

Great. Thank you.

Operator: Thank you. And your next question comes from the line of Kevin Kopelman from Cowen. Your line is open.

Kevin Kopelman

Analyst, Cowen and Company

Great. Thanks a lot. I just had some follow-ups on your comments about gaining market share in the US. Can you talk more about your focus there? Do you consider it an increasing priority for the company compared to the past year or two? And on the marketing side of that, that you mentioned, do you anticipate being focused more on brand or performance marketing?

Glenn D. Fogel

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

Well, let me start with the first one, Kevin. We absolutely have begun to focus more on the US. It's always been a priority, so don't get me wrong in that area. But certainly we've made a couple of changes that are focusing more specifically in the US. Now, as we scaled the company over many, many years, we had a very global presence and we tried not to make changes solely for any particular market, really believing that scaling the business, keeping everything the same, was the best way to achieve a very, very large global share of the business. That being said, we've come to a state where we recognize that we continue to be under-indexed in the US and maybe we need to make some changes there, which we are doing. And I think that we will make some progress in that.

In terms of whether we're going to do it in brand or in terms of performance marketing, I'm not going to give away the playbook here. I will say though we absolutely are doing the things I talked about in my prepared remarks in terms of obviously we do want to increase awareness, we obviously want to increase the total amount of supply, increase our alternative accommodation, doing all the things that are necessary to make sure we are getting the share of the business that we believe we should be getting.

Kevin Kopelman

Analyst, Cowen and Company

Got it. That's great. And then just a quick clarification on the statistics you gave about the past week being down 50%, is that a – year-over-year numbers? And if you're looking at 2020, were those numbers affected by the initial COVID waves at all?

David Ian Goulden

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

Kevin, as I said, everything is a year over two years number.

Kevin Kopelman

Analyst, Cowen and Company

Okay. Perfect.

Q

David Ian Goulden

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

Everything I gave you, because that way you can make a direct comparison with how things are doing relative to how they're doing in Q4 and continue the trend line. And you can do the math yourself to figure out what it meant on year over year, but it was [indiscernible] (00:43:06) number, everything was.

A

Kevin Kopelman

Analyst, Cowen and Company

Perfect. And the regional numbers that you gave, was that based on where the accommodation is located or where the customer is located?

Q

David Ian Goulden

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

We gave you regional flavor, not color. That is typically based upon where the customer is located. It's a booker region view.

A

Kevin Kopelman

Analyst, Cowen and Company

Perfect. Okay. Thank you so much.

Q

Operator: Thank you. Next up we have Eric Sheridan from UBS. Your line is open.

Eric J. Sheridan

Analyst, UBS Securities LLC

Thank you so much. Maybe two if I can. Following up on the comments you've made around brand and maybe some of the changes we'll see in digital advertising, whether it be first-party data or third-party data, how important do you see the concept of sort of aligning your brand with consumer, maybe even building greater depth in loyalty and rewards programs going forward, especially if you're aiming again sort of a wider revenue pool and a wider product set? Love to get your thoughts there, Glenn.

Q

And where the world has begun to open up a little bit, where you have some exposure, can you give us a little bit of sense of how you've sort of – the pace of leaning back in to marketing channels and that deleverage that maybe you guys are calling out as things get better, just so we could better understand a little bit of the timing mismatch there. Thanks so much.

Glenn D. Fogel

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

So, Eric, loyalty is a important thing because it really talks about something that we talk about a lot is bringing people home direct to us. And we've talked about this numerous times, how we believe getting people to come back to us directly is a critical part of the strategy going forward. And certainly one of the ways we do that is by

A

providing our loyalty version, which is our Genius program booking.com, which really does, we believe, give some real value to consumers.

And that's something that we're going to continue on because in the end, it could cost an awful lot of money, as we know, to get a new customer. It's cheaper to keep them. So we're going to keep on doing all the things we can to keep people coming back direct. And you're right about first part – could be third party, it'd be all these different ways that we worry about how we're going to get people to come in the future, certainly important to get new customers but also real important to keep them coming back.

In regards to your second question, one of the things I mentioned about how uncertain the world is right now, and one of the things you're trying always to do is make sure you're spending money, that that's going to create revenue. One of the issues, you pay the money upfront, person books but because so much of the business nowadays being done on things that are cancelable, you don't know when change happens; all of a sudden money you spent doesn't up increasing the revenue you thought it was and your ROI ends up very different.

So we have to look at this very carefully and we are approaching it in a cautious light. But on the other hand, we don't want to be slow to the increase in demand. We certainly look at all the data very, very closely, and that's about the best I can say is that's how we're handling it right now. We can't say anything more now because we don't know what the future's going to be quite yet.

[indiscernible] (00:46:12)

David Ian Goulden

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

A

And then, Glenn, just to build on that. Eric, just to give you a little bit more color to the answer. The deleverage you mentioned in 2021 on – towards marketing is not us calling ROIs per se, it's to do with the timing that I talked about whether that we expect to basically spend money in 2021 for lower revenue or revenue in 2022. And that phenomenon is what will drive the deleverage in 2021 we talked about for performance marketing, just to clarify.

Eric J. Sheridan

Analyst, UBS Securities LLC

Q

Understood, thanks. Thanks for all the color.

Operator: Thank you. Next up we have Doug Anmuth from JPMorgan. Your line is open.

Doug Anmuth

Analyst, JPMorgan Securities LLC

Q

Great. Thanks for taking the questions. Glenn, just because travelers are coming back to the platform and some of them for the first time perhaps in several months or a year, just curious what you think they'll see that's most significant in terms of how the product has changed or the experience has changed? Is it Connected Trip or something else? And then secondly, just wanted to get your view on some of the subscription-based programs that we're seeing across the space for travelers? Thanks.

Glenn D. Fogel

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

A

Sure. So one of the things that somebody may not have seen before and we talked about last quarter is booking.com selling flights, for example. That's a great thing that in the past we didn't do; now they come back, and they're oh, look they sell flights, which is a great thing.

Another thing that we continue to build-out in our attractions area, not a lot of people are actually buying attractions right now. But we haven't stopped getting more and more places and more and more content so that when people do come back, they'll have attractions they can buy from us. And what they obviously will see would be the labor combining this, putting things together, I mean, the way we're trying to create value for our consumers. So I think that's part of it.

And we're really still in the very, very early parts of this journey, but it's something that is pretty exciting to beginning to see it build out and seeing those people are buying flights and such.

With regards to the subscriptions model that people are beginning to explore and such, I don't really have a lot of comment on that. It's something that different people are doing and such. We'll see how it plays out. I don't know, David, do you have anything you want to say on that?

David Ian Goulden

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

A

Nope. Nope. No further comments, we'll see how they play out. I think our model, the way we have it, is the model we think is certainly very attractive and has been successful for us. And as you say, we'll watch what happens in these other spaces.

Doug Anmuth

Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: Thank you. Next up, we have Naved Khan from Truist Securities. Your line is open.

Naved Khan

Analyst, Truist Securities

Q

Yeah. Hi. Thanks a lot. I just wanted to ask a question on air bookings. So your air tickets sold number was positive, and that in this kind of environment I think is pretty impressive. Maybe are there any insights you can share with – in terms of the early results you might be seeing on integrating air tickets on your booking.com site in Europe? And then the other question I have is just on the attractions and experiences. With the increased connection that you are driving, is it mostly through partnerships or are you signing up your own direct relationships? How should we think about that?

Glenn D. Fogel

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

A

So in terms of air bookings and the question got a little muddled at the end so if I don't cover it completely, David, maybe you heard it better and can fill out there. But, yes, we were pleased to see that positive number there. One of the things to point out is as I just talked about a little bit though in the past, we didn't have air tickets coming from booking.com and from also by the way, our Agoda brand also sells air tickets too. Priceline of course has been selling air tickets since the start of the companies more than two decades ago, so it's easier when you add two more of our brands selling air tickets that hadn't done it in the past to have a positive number. And if I want to

point out, this is very early and these are very, very, very small numbers. So it's pleasant to see, but I wouldn't take too much in it, except that we are on our journey.

In regards to attractions for booking.com, so it's yes. These are coming from third-party suppliers. We are partnering with them. They give us the inventory to sell and we sell it. And we have a commercial relationship and we're pleased, that's the way to go forward. Again, one can be anything or you can decide which ones you want to do first but it's a lot – you can't be everything. So it's a lot easier when you want to do a lot more things to partner with other people for things – for people who have already set up the things you need to get. So I'm pretty pleased about that. Again, I'll be even more pleased when people actually are back to traveling and start buying attractions more.

David, I don't know if I missed anything on the air ticket, air stuff.

David Ian Goulden

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

I think you got it, Glenn.

Naved Khan

Analyst, Truist Securities

Thank you.

Operator: Thank you. Next up we have Stephen Ju from Credit Suisse. Your line is open.

Stephen Ju

Analyst, Credit Suisse Securities (USA) LLC

Okay. Thank you. So, Glenn, 20% of bookings running through your own payment rails suggest that it's now 70% of your merchant bookings, so it seems like you're pretty close to full adoption there. So is this primarily for alternative accommodations or flights? Or are you seeing that higher platform usage because of other use cases, whether it's non-credit card users or otherwise?

And I guess over the coming months as you start more formally entering a recovery phase it's probably going to feel like you're working at a hypergrowth startup, so with that in mind, I mean you spent the last year restructuring and reducing head count. So wanted to get your latest thinking on whether you feel like your property restores at this time or do you feel like you can spin up hiring and bump resources very quickly? Thanks.

Glenn D. Fogel

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

So let me start with the second one and I'll turn it over to David in terms of payments, in case he wants to add any more color to that. In terms of people, and we've talked about this. We've been through the restructuring, I think we both said in our prepared remarks how we are satisfied with where we are right now, but we also made the very important point how much of the restructuring dealt with jobs that related to volume. And that as volume comes back, we need to bring people in to help cover it, but hopefully in a much more efficient way over time, so that thing.

In terms of being a hyper startup, yeah, look, we're always working incredibly hard in trying to get as much progress as we can on our strategic vision, because we know that the travelers are going to come back and we

want to get ahead of them as fast as we can so we can give them the greatest value and the greatest different types of way to travel as soon as we can.

I don't see any major change in 2021, but we'll see how fast business comes back and we'll see what happens in 2022 and we'll see the rate of progress in all our strategic different things we're working on. And I'll let David talk about the payments platform.

David Ian Goulden

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

A

Yeah, on payments, let me clarify because I wasn't quite sure what you said, but let me try and clarify where we are on payments and the evolution of payments at booking.com. So as we said in the prepared remarks, the percentage of our gross bookings processed on the payments platform at booking.com was 22% last year. That's up meaningfully from the 15% in 2019. That still means that the vast majority of bookings are not being processed via our payment transaction. They are still in the agency model, so we expect that payments adoption to increase above the 22% for this year and beyond.

Payments is really super important for us for a number of reasons because we think we can deliver benefits to our customers and our partners across all the different channels – hotels, alternative accommodations, flights, attractions, et cetera. It's also very important to enable merchandising which we'll use on a selected basis in certain markets. And it's also fundamental to enabling the Connected Trip, where we want to have everything be able to be paid in one place.

I'll give you an update on where we are from an income statement point of view relative to the evolution of payments. I'm pleased to say that our payments at booking.com was approximately breakeven in 2020. We've said in prior years we are still making that investment in the platform and we're focused upon still scaling it out but expect to stay in that breakeven level as we scale out and grow the payments platform from here, obviously with some potential minor differences year-in, year-out. But we are now out of the breakeven situation on that payment platform, which is an update from where we were before.

Stephen Ju

Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you.

Operator: Thank you. Your next question comes from the line of Mario Lu from Barclays. Your line is open.

Mario Lu

Analyst, Barclays Capital, Inc.

Q

Great. Thanks for taking the questions. Two on alternative accommodations. So I believe you mentioned on the segment had a healthy profit margin throughout 2019, so as we look forward to 2021 and beyond, how should we think about how quickly you can close the gap between the alternative accommodation margins compared to hotels? And secondly, you guys mentioned that you're trying to fix the single home supply in the US. How would you describe the strategy there, is it mostly investing behind your own sales force or is it through acquisitions? Thanks.

Glenn D. Fogel

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

A

So they actually go a little together, those two questions, because one of the things, I believe, why we did have that healthy profit, as you pointed out, was perhaps because we didn't have as much of a mix of the single home property, because the single home property does cost more for the company because you do end up with more contacts. It's just by nature. It's not as professionally run and you do end up with more costs. So we do though know that this is a product that people want, and we need to have it and we need to have more of it and that's absolutely correct.

The great thing about this though is there is a trend towards more professionalization of that single home property, where the person in the past may have gone on to a platform and just signed up on their own and tried to orchestrate it all by themselves. What you are seeing in the industry is more and more people who want to rent out their single properties going to different people who will do it for them, looking at all of the elements of it.

And those people who are running these kind of, we won't call them channel managers but they are like a channel manager since they are able to bring these different single property owners and put them on to this site, that then is able to direct that to or provide that supply to us or to somebody else, the great thing about it is these people are much more professional, and they are more easy to deal with. They are able to understand the right things you need to do. So because of that professionalization of the industry, I believe we will be able to pick up more of the single home properties faster than we had to in the past.

In regards to M&A, as you know, we don't comment on future M&A activity.

Mario Lu

Analyst, Barclays Capital, Inc.

That's helpful. Thank you.

Q

Operator: Thank you. And our last question comes from the line of Jason Bazinet from Citi. Your line is open.

Jason B. Bazinet

Analyst, Citigroup Global Markets, Inc.

Yeah. I just had two questions. If I posit that COVID is going to cause alternative to be larger than otherwise would be and cause business travel to be structurally lower than otherwise would be, what is the implication for your business as you move to Connected Trip and payments in a more forceful way? Can you just – do you mind just expanding on that a bit?

Q

Glenn D. Fogel

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

So we'll go with the hypothetical [indiscernible] (00:58:14) happening here. So people who perhaps in the past never would have thought of using alternative accommodations, perhaps last summer they did use it or they looked at it or something. And now, it is in the consideration set. So going forward what has happened is now there's a much larger amount of supply for any traveler to go look at. And what that means is any individual supplier in the marketplace is now facing more competition. Now, as a distributor, I talked about a little bit earlier why that is beneficial to the distributor now, [indiscernible] (00:58:50) our business, which is so great because we have both a great amount of the home product, that alternative accommodations, and we're one of the largest people that have the hotels.

A

So we have this great thing where the consumer, when they come, they can come to one place, us. And they are able to compare and contrast all the different types, all the different prices, understand all the different comments

and reviews being left by people who have previously stayed there. That gives us a great, great benefit. So I am pleased with the way this is happening.

And I – will it go back? What will happen? How much will the mix be of home in the future versus hotel? I don't know, I don't think anybody can really guess. I think over many years we've seen the trend going more and more people interested in alternative accommodations, so the pandemic step-functioned it up higher. I don't know if that's now going to be a pause, maybe a dip down or continue upward, I don't know. But from my point of view it's not that relevant in the sense that we provide both, and we're going to keep getting both, so for me I'm feeling pretty good about it.

Jason B. Bazinet

Analyst, Citigroup Global Markets, Inc.

Q

And then on the enterprise side, B2B travel?

Glenn D. Fogel

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

A

Well, the B2B travel, I don't think there's a lot to talk about that. David, I didn't hear exactly what the question was, maybe you did.

David Ian Goulden

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

A

I didn't hear it either, so why don't you clarify the question, Jason?

Glenn D. Fogel

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

A

Yeah. Could you repeat the question, just the B2B question? Just repeat it.

Jason B. Bazinet

Analyst, Citigroup Global Markets, Inc.

Q

Yeah, the question was if COVID causes a structural shift in B2B travel, how does that influence sort of your focus on payments and focus on the Connected Trip? Is it good? Is it bad? Does it have no bearing on your level of investment and enthusiasm around those two long-term initiatives?

Glenn D. Fogel

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

A

When you say B2B travel, are you talking about...

Jason B. Bazinet

Analyst, Citigroup Global Markets, Inc.

Q

Business travel.

Glenn D. Fogel

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

A

Business travel, got it. Okay. Got it. Look, I have been saying for a long time I think it's going to be a while before corporate travel picks up the same way leisure will pick up. It's going to be – it's going to take longer. And as the share of total travel, it may never get back, in which case – yes, eventually because businesses will continue to

grow and the industry – obviously people will travel. Eventually business travel will be larger in an absolute measure than in the past, but it may always be a smaller share. We don't really know yet, but certainly, the trends that are going, go that way.

What that does to certain high ADR hotels that cater to the business traveler, they are going to have to make some shifts because they aren't going to get as many of those high ADR customers anymore. And they need to get more leisure travelers. Well, we have a higher percentage of leisure travelers than business travelers. We are, again, that point where people can come and get that leisure demand, so again, it's another thing why I feel good about our long-term future.

Jason B. Bazinet

Analyst, Citigroup Global Markets, Inc.

Super helpful. Thank you.

Q

Glenn D. Fogel

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

Okay.

Operator: Thank you. And that is all the time that we have for today. I will turn the call over back to our CEO, Mr. Glenn Fogel, for any closing remarks.

Glenn D. Fogel

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

Thank you. So in closing, I want to note that it's been a little more than a year since the pandemic began, and we have sadly lost 500,000 mothers, fathers, brothers and sisters, grandparents, and so tragically, children in the United States alone; and globally, more than 2.4 million lives have been lost. Our hearts go out to all who mourn.

I also want to reiterate my deepest condolences to the family and friends of Arne Sorenson, as well as to the entire Marriott organization. He left a profound mark on the travel industry and will be greatly missed. And it is so sad, he will not see the recovery of the industry that he dedicated his life to. And the travel industry will recover and we are working so very hard to bring travel back as fast as we can.

So I want to end by giving one last thank you to our partners, our customers, and most of all, to our dedicated employees, who throughout the horrible year of 2020, rose to the challenge, met it and got us to where we are today, well-positioned for a better tomorrow. Thank you. Please be safe. Good night.

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

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