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# Booking Holdings, Inc. (BKNG)

Q1 2021 Earnings Call

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**David Ian Goulden**

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

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to Booking Holdings' First Quarter 2021 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 a companion 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, Glenn Fogel and David Goulden. Go ahead, gentlemen.

## Glenn D. Fogel

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

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

I am pleased to start by reporting further improvement in our accommodations business with first quarter room nights declining 54% versus Q1 2019, which was 6 percentage points better than our fourth quarter 2020 decline. This improvement was driven by solid signs of increasing travel demand in certain countries and by our team's strong execution. David will provide the details on our first quarter results in his remarks.

As we have said before, we believe that the rate of recovery for travel will depend heavily on the rate and severity of new COVID-19 cases, the timing of effective and broad-based vaccine distribution, and hopefully, even more effective treatments in the future. While the pace of vaccine distribution remains frustratingly slow in most places around the world, Israel, the UK, and the US are benefiting from successful vaccine distribution programs. In each of these countries, we have seen encouraging booking trends, which supports our view that vaccine distribution is a key to unlocking pent-up travel demand. In our own survey work earlier in the year, we found that over 70% of Americans said that the early distribution stage of COVID-19 vaccines made them feel more hopeful and optimistic about traveling in 2021.

As countries ramp up vaccine distribution, which we are now starting to see in more European countries, we believe that we will start to see booking strength expand to more parts of the world. While there are encouraging signs of recovery in some countries right now, the current situation in other countries, such as India, where we are seeing staggering increases in COVID-19 cases and an enormous human tragedy happening reminds us that recovery is not underway everywhere and unfortunately in some countries the situation is getting worse.

Last week, the World Health Organization warned that the pace of the pandemic is accelerating. We are mindful that governments may continue to take actions such as general area lockdowns or reintroducing travel restrictions including barring people from high infection locations from entering the country. Any of these actions can have an impact on our performance, and it's difficult to predict when and to what extent such actions may be taken in the future. Furthermore, international travel must recover for there to be a complete global travel recovery, and many governments may be cautious in fully opening international travel for some time.

Focusing on the US, where the vaccination program is going well, I am very pleased with our first quarter results in the US and the strong rebound in US travel demand. For Q1 in the US, we had positive room night growth versus Q1 2019, and it was our strongest-performing major country. These results were driven by domestic bookings as our international business is still very slow. We were pleased to see improvements in our US room night trends each month in Q1 and these improvements continued into April. The strength in the market benefited all of our travel products and helped drive the highest number of air tickets ever booked in a single quarter for our company, and we note that both Priceline and Booking.com had good US results during the first quarter.

In this improving environment, we continue to press ahead with one of our most important strategic strategies, strengthening the Booking.com brand in the US. You may have seen Booking.com's US Back to Travel promotional campaign that we launched in April which offered a \$50 post-stay promotional travel credit for US travelers who activated the promotion in the Booking.com app and booked travel by the end of May. This is just one example of the marketing methods that we will be employing to increase awareness of the Booking.com brand in the US, and in this case, drive further consumer engagement with our app.

We also remain focused on expanding the supply of Booking.com's alternative accommodation offering in the US, and we targeted and signed new properties to the platform in the quarter. However, we recognize there is more work to be done to improve the breadth of this product in the US.

During the first quarter, we continued to execute against other key strategic priorities such as expanding Booking.com's payment platform and building the Connected Trip vision.

Regarding our integrated payment platform at Booking.com, we have made recent progress primarily through increased adoption by our supply partners in the US. As I have mentioned previously, this platform provides payment options favored by both travelers and our supplier partners across hotels, alternative accommodations, cars, flights, and attractions and is foundational for enabling our Connected Trip strategy.

The Connected Trip is our vision of a multiproduct offering including accommodations, flights, ground transportation, attractions, and dining connected by our payment network and ultimately supported by personalized intelligence to provide a frictionless, seamless experience for our bookers all the way from first thinking about the initial booking to experiencing their trip to arriving back home.

Building out our full Connected Trip vision will be a multiyear endeavor. However, we expect that our business will benefit from the steps we are taking to achieve this vision long before reaching the ultimate end state. For example, developing a robust flight product at Booking.com 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 services to these bookers. We have not had these opportunities historically at Booking.com given its accommodation-only focus in the past.

As we think about the journey for building the Connected Trip, this year, we'll be focused on enabling travelers to book the major elements of their trip in one place on Booking.com. This means we will be working to build up our non-accommodation products like flights, ground transportation, and attractions by increasing supply as well as exposing more of our customers to these products. And Booking.com's flight offering, we are now live in 18 countries with the most recent launch in the UK. We can now expose a large segment of customers to flights as these 18 countries collectively represented more than half of Booking.com's room nights booked in 2019.

Booking.com's flight offering is now fully native in the app and while early, we are in the process of beginning to utilize marketing channels to bring potential customers to the product. On attractions, we have continued to expand the breadth of supply available to our travelers through our recent partnership with Viator along with our ongoing partnership with Musement that was announced last year. We see real benefits of a strong attractions offering given the potential bundling opportunities as well as the ability to increase traveler engagement with the app, while travelers are in destination.

Across many of our key strategic priorities, I have mentioned the app, which indicates the importance of the app for our business. We have been investing in the app platform for some time and will continue to invest as the app becomes the center of our Connected Trip experience. In addition, we see better customer loyalty, lower customer acquisition costs, and more opportunities to engage directly with travelers through our app. Booking.com was the most downloaded travel app globally in the first quarter according to a leading third-party research firm. We now see over two-thirds of our bookings come through the mobile devices, a majority of which are on the app.

One of Booking Holdings' goals is to do well in the area of sustainability. I was very pleased to recently make public our 2020 Sustainability Report, and one achievement that I am particularly proud of is Booking Holdings

becoming operationally carbon-neutral in 2020. This is a significant milestone for our business and one we were working towards even prior to the pandemic. We intend to remain carbon-neutral in our operations in the future and look forward to making progress on our sustainability strategy, including diversity and inclusion and sustainable travel.

In conclusion, the exact shape and timing of the full recovery for travel remains uncertain. However, I am encouraged by the signs of recovery we are seeing in some countries and am confident that we will eventually see a strong recovery in travel demand globally. That being said, we are likely to experience volatility between now and then with some countries recovering well, others beginning to recover, and unfortunately, some getting worse. I'm proud of the actions that our teams across Booking Holdings continue to take to strengthen our company's position and execute against our strategic priorities. We are thinking about our business beyond just getting back to 2019 levels of demand, and we are focused on building a larger and a faster-growing business that generates more earnings after the recovery and for the long run.

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

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## David Ian Goulden

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

Thank you, Glenn, and good afternoon. I'll review our operating results for the first quarter and provide some color on the trends we've seen so far in the second quarter. To avoid a comparison to the initial spread of the pandemic in 2020, all growth rates 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. I also want to remind you that during the period that bookings are recovering, revenue will recover more slowly than bookings due to timing differences, and this will impact our booking to revenue take rates.

Now on to our results for the first quarter. On our February earnings call, we discussed the improvements in trends we saw starting in the middle of January and continuing into February driven by domestic travel in most parts of the world. The improving trends continued into March, resulting in our Q1 reported room nights declining 54% versus Q1 2019, which was a 6% improvement versus the decline we reported in Q4. As a reminder, reported room nights include the impact of cancellations. The improvements in the Q1 room night decline rate versus Q4 was driven by the US and Europe, while Asia and rest of world declines were about the same in Q1 as they were in Q4.

The US was the strongest performing major country in Q1 and had a positive room night growth versus 2019 for the full quarter. The trends in the US improved through Q1 with very strong room night growth versus 2019 for the month of March. Spring break was a contributor to growth in March. US domestic room nights growth was positive for each month of the quarter with very strong growth for the full quarter. In Q1, other countries also experienced very strong domestic room night growth including Russia and Australia, and we saw continued strengthening in domestic bookings in Israel.

While Europe improved for the full quarter compared with Q4, we did see trends soften towards the end of March driven by rising COVID case counts and new impositions of travel restrictions. Europe was the least recovered region in terms of room nights booked in Q4, and it remained the least recovered region in Q1. Mobile bookings particularly through our apps continued to represent over two-thirds of our total room nights. Our direct channel gained share both sequentially and year-on-year. Domestic room nights represented about 85% of our reported room nights in Q1, in line with our Q4 2020 mix of room nights and up significantly versus 2019.

Our cancellation rates continued to be elevated versus 2019 in the quarter but improved from levels we saw in Q4. The booking window of Booking.com remained shorter than it was in the first quarter 2019 as we continue to see a higher mix of near-term bookings. However, the booking window contracted less than it did in the fourth quarter. As we noted on the last call, in January and February, we saw an expansion of the booking window versus 2019 in Western Europe, and this expansion continued into March as the share of further out bookings including those for summer travel increased versus the same time in 2019. Due to the situation in Europe with new COVID cases, vaccination rates, and travel restrictions, bookings are generally either very near-term or for the summer period.

The overall mix of customers booking alternative accommodations on Booking.com in Q1 was about the same as Q1 last year. As we noted last quarter, Europe is where we have our highest mix of alternative accommodations, and Europe was the slowest-growing region in the first quarter, which negatively impacted our alternative accommodation mix on a global basis. The mix of alternative accommodation bookings in Europe increased by several percentage points year-over-year. Gross bookings declined 53% in Q1, which is less than the decline in reported room nights, primarily due to strong performance in our flights business and partially offset by a 1% decline in average daily rates for accommodations versus 2019.

Airline tickets booked in the first quarter were up 49% versus 2019 driven by strong growth at Priceline and by flight bookings at Booking.com and Agoda, both of which did not have flight products in Q1 2019. Our accommodations average daily rates only declined 1% versus 2019 benefiting from a higher mix of North America, which is a higher ADR region. Excluding regional mix effects, ADRs were down approximately mid-single digits. ADRs in the quarter were helped by the higher mix of summer bookings in Western Europe, which typically have higher ADRs.

Consolidated revenue for the first quarter was \$1.1 billion and decreased 61% versus 2019. Revenue in the quarter declined more than gross bookings due to bookings made in the quarter that are expected to check in in future quarters at which point in time the revenue will be recognized. Take rates in Q1 were a little less than 10%, largely driven by these timing differences. As you recall, we discussed the impact of timing on take rates in 2020 and 2021 during our last call. We expect timing to impact take rates all year assuming the booking growth continues to improve during the year.

The 61% reduction in revenue resulted in an adjusted EBITDA loss of \$195 million in the quarter. We significantly reduced our variable expense lines like marketing, sales and other. Our more fixed expenses in Q1 were broadly in line with the commentary we provided on our last call. Marketing expense, which is a highly variable expense line, decreased 61% versus 2019. Marketing expenses declined more than gross bookings due to an increase in our direct mix and slightly higher ROIs in paid channels. Sales and other expenses in Q1 were lower than they were in Q4 on a dollar basis, which was slightly better than our expectations.

Personnel expenses were in line with our expectations. Q1 expenses were higher than they were in Q4 on a dollar basis due primarily to increased stock-based compensation expenses and seasonal increases in benefit costs partially offset by a higher amount of savings in Q1 relating to restructuring actions we have taken. G&A expenses were lower in Q1 than they were in Q4 on a dollar basis versus our expectation for them to be about in line due to lower-than-expected personnel-related costs and professional fees. Information technology expenses were higher in Q1 than they were in Q4 on dollar basis but were lower than our expectations due to timing of spend.

Finally, we recorded \$8 million restructuring charges in Q1, which was lower than our prior expectations primarily due to timing of real estate restructuring charges. I note these restructuring charges are included in our non-GAAP results. We recorded a non-GAAP net loss of \$215 million in the quarter. Our Q1 non-GAAP tax rate of

38% was meaningfully higher than our 2019 tax rate of 19% due to the greater impact of non-tax deductible expenses on a lower base of earnings. On a GAAP basis, we had an operating loss of \$311 million in Q1. We recorded a GAAP net loss of \$55 million in the quarter helped by an income tax benefit of \$223 million. Our Q1 tax rate of 80% was meaningfully higher than our 2019 tax rate of 21% due to the impact of non-tax deductible expenses on a lower base of earnings and the impact of discrete items recorded in the quarter.

Now on to our cash and liquidity position. Our Q1 ending cash and investment balance of \$16.4 billion benefited from the \$2 billion raised in our euro bond offering completed in March. In April, we used all the proceeds from the euro bond offering to redeem two higher-coupon senior notes that we issued earlier in the pandemic last year. These refinancing actions we took will result in approximately \$70 million of annualized interest rate expense savings and were [ph] NPD (20:51) positive transactions. Adjusting our Q1 ending cash investments for the redemption of the two senior notes that happened in April will result in a balance of \$14.4 billion, which is down from our December ending balance of \$14.8 billion.

We had a \$207 million operating cash outflow in the quarter driven primarily by a change in working capital, which represented a use of cash of about \$216 million in the quarter. We will continue to focus on maintaining a strong liquidity position given the high level of uncertainty created by the COVID pandemic. And consistent with our comments over the last year, we've halted our 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 thoughts for the second quarter. There continues to be considerable uncertainty about the shape and timing of the recovery for travel, which means that we are unable to provide detailed guidance at this time. April room nights declined about 43% versus 2019, which was better than the decline in March. Domestic room night growth was about flat versus 2019 for the month of April, the best monthly result for domestic room nights since last summer. On a regional basis, the US continued to have very strong room night growth in April and was above March levels. Europe room nights declines were better in April than in March, recovering from a softening of trends we saw at the end of March and the first week of April. Room night declines in Europe were down over 50% in April.

Asia room night declines worsened in April versus March as outbreaks in new cases increased, vaccination progress had been slow, and governments continued to impose restrictions on travel. Asia was the least recovered region in April. The rest of world declines were about the same in April as they were in Q1 and Q4.

While difficult to predict with accuracy, if current trends continue, Q2 room night declines could be a few percentage points better than in April. To give you a snapshot of what we are seeing recently, room night declines over the last seven days of April were about 38%.

As I noted earlier, in Western Europe, the booking window expanded in Q1. This expansion continues into April and we continue to see positive summer booking trends in Western Europe. Across all of Western Europe, gross bookings for the summer period are now within 30% of where they were at the same time in 2019, and for the UK, they're now at about the same level as they were at the same time in 2019. We remind you that the significant majority of summer bookings are cancelable.

Turning to the income statement, as I said, we expect Q2 room night declines could be a few percentage points better than the decline in April. We expect Q2 gross bookings to decline slightly less than room nights driven by the same trends we saw in the first quarter. We expect Q2 revenue to decline more than gross bookings due to timing factors we have discussed. As a result, we expect our Q2 revenue as a percentage of gross bookings will improve from Q1 but will be a few percentage points lower than in Q2 of 2019.

We expect marketing expense in Q2 will decline a little more than gross bookings but less than revenue. We expect sales and other expenses in Q2 to be up significantly versus Q1 on a dollar basis and will be a higher percentage of revenue due to higher gross booking volumes in the second quarter as well as an increase in the mix of gross bookings processed on a merchant basis. We expect personnel expenses in Q2 will be about the same as they were in Q1 on a dollar basis. Compared with Q1, SBC and benefit expenses are expected to be less, but this is offset by an increase in bonus accruals, which are recorded proportional to revenue. We expect G&A expenses in Q2 will be higher than Q1 on a dollar basis driven by higher personnel-related costs such as recruiting and T&E as well as higher professional fees and digital service taxes.

We expect IT expenses in Q2 will be higher than Q1 on a dollar basis due to increased investments in security, data privacy, and some operational systems enhancements including some deferred expenses from Q1. We currently estimate the full year restructuring charge related to our actions at Booking.com will be approximately \$30 million and we expect to record about half of these charges in the second quarter.

Given what we just explained, especially the timing difference between recovery of bookings and revenue, we expect to record an EBITDA loss in Q2, albeit less of a loss than recorded in Q1. Depending upon how demand develops during the quarter, this could potentially be a small EBITDA loss in Q2.

For the full year 2021, we continue to expect that the overall environment for travel will improve during the year, but the shape and timing of that improvement remains uncertain. As Glenn mentioned in his remarks, while we're seeing recovery and other encouraging signs in some countries, other countries and regions are struggling with a rapidly growing COVID wave. Globally, the number of new cases reported is increasing, with a record 5.7 million new cases recorded the week of April 19. This is directly impacting our business across much of Asia.

As a reminder about mechanics of our model during the recovery, we continue to expect that if we see continued recovery 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 and also drive deleverage in our marketing expenses in 2021 as we incur majority of our marketing expenses at the time of booking. To remind you, in 2018 and 2019, our revenue as a percentage of gross bookings was approximately 15.6%. This increased to 19.2% in 2020. We expect this percentage will be well below 15.6% in 2021 and the faster the recovery occurs, the lower this percentage will be.

Before closing, there's been a lot of interest in our commentary in February about the longer-term model for our business. I want to reiterate what we said previously and also provide some more color. We continue to believe it will be years, not quarters, before we see a full recovery of the travel market, especially international travel. Looking beyond 2021, we continue to look forward to being a larger business with more diverse offerings and with more earnings than we had prior to COVID. We also remain focused on the potential for higher growth and market share. We expect to continue to have industry-leading EBITDA margin rates, albeit most likely at levels below those in 2019 driven by mix shifts within the business that I discussed on the last call.

As a reminder, these mix shifts include the continued growth of payments and the growth of flights and other Connected Trip verticals which will add revenue and EBITDA but at much lower margin rates than traditional accommodations. As we think about the future shape of our accommodation business, there are a few factors to consider. As discussed on the last call, we expect our personnel expenses in 2021 to be about the same as in 2019 as the savings from restructuring actions taken in 2020 are expected to be offset by personnel run rate investments made pre-COVID and personnel investments expected in 2021. Of course, some of these investments are to support payments and the Connected Trip.

As we look beyond 2021, the \$370 million in savings from our restructuring actions were mainly in volume-related functions, meaning that as volumes grow back to levels we expect, which means if volumes go beyond levels, we expect in 2021, we'll need to add expenses back to the business. As we mentioned before, we'll look to do this in cost effective ways, but the work will come back, and when added to our 2021 personnel cost base, will put pressure on our accommodation business EBITDA margins relative to 2019 at the same level of volumes we had in 2019 and at the same growth rates. Of course, there are offsetting factors that could improve margins including variable cost efficiencies for additional scale as we grow beyond 2019 volumes and fixed cost efficiencies and from increased direct mix.

The last thought I'd like to leave you with on this topic is we believe the recovery of the travel market will create opportunities to invest to gain share in accommodations, which could put pressure on margins during the period of share gains.

In conclusion, we were pleased to see the recovery we discussed in February continue into March and April in some parts of the world leading to improvement in our topline metrics. We're also watching the spread of COVID and the distribution of effective vaccines very carefully and realize this may lead to volatility, continued volatility ahead. We remain confident that we can emerge from this crisis in a stronger position.

With that, we'll take your questions. And Grace, we'll hand 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 Justin Post from Bank of America. Your line is open.

**Justin Post**

*Analyst, BofA Securities, Inc.*

Great. Thanks for taking my questions. I think a couple things would help. Can you give us any updates or your thoughts on mix between US, Europe, and Asia, just so we can think about the recovery? And then can you remind us what happened in Europe last summer when cases came down? Did you see a rapid increase? And are you seeing bookings pick up as people are vaccinated right now in Europe? Thank you.

**Glenn D. Fogel**

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

David, why don't you take that?

**David Ian Goulden**

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

Yeah, Justin, let me take that. So just to remind you of our historic mix, we have basically said that Europe is of course our largest region historically if you think roughly 50% or maybe a little bit more, you wouldn't be far off being correct. Asia, we said historically, again, pre-COVID, was about 20% with no single country being more than low-single digits, and that means that you've really got 30% left for US and rest of world combined. So that is our pre-COVID mix. Obviously, that mix changed a little bit with the dynamic of what's happened recently. Obviously, the US has gone up as that's been the most recovered marketplace. So, that's the historic reference points.

In terms of last summer, we saw a couple things. We of course did see after the first wave came down, we saw people getting more confident with traveling. Of course, vaccines were still not available at that point in time, so people were kind of traveling quite carefully and traveling locally. What we have seen, and we saw in several places what we've seen so far is a very consistent trend that when cases come down, when vaccination rates go up, when government restrictions start to lift, good things happen. We see that happening in the US right now. We see that happening in Israel. We mentioned a couple other areas that are doing better than average, so our expectation is that we'll see those positive trends start to occur in other parts of the world, particularly in Europe as things are starting to improve. As we mentioned, we are seeing things improving April versus March, and Europe is now no longer the least recovered region.

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**Justin Post**

*Analyst, BofA Securities, Inc.*

Q

Got it. And maybe one follow-up. You mentioned share gains maybe for Glenn, opportunities. Maybe you can give us a little more color on that, and do you think your US bookings are trending above kind of industry averages right now?

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**Glenn D. Fogel**

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

A

Well, as I said, I'm very pleased with the Q1 results in the US. I mentioned both Priceline.com and Booking.com doing well, so we are very happy about that. We're not done with the quarter yet, so we don't have industry-wide numbers to go against, so I'm just going to say I'm pleased with what we're producing, and we'll see after everybody's reported how we did.

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**Justin Post**

*Analyst, BofA Securities, Inc.*

Q

Great. Thank you.

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

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**Kevin Kopelman**

*Analyst, Cowen & Co. LLC*

Q

Great. Thanks a lot. A couple of follow-ups on the US growth. Can you give us any more of a sense of how much Q1 improved versus Q4? And obviously, the overall industry improved in the US in the first quarter quite a bit, but was Booking.com or bookings growth in the US also a product of any specific decisions you made in the first quarter along the lines of your new increasing strategic focus on US share gains? For example, changing the way you're doing marketing or anything like that?

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**Glenn D. Fogel**

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

A

So, why don't I talk generally about our strategy, and then, David, if you want, I'm not sure he wants to disclose anything more about specific numbers and gains. I will say this. I've said this in several calls in the past, actually many, about increasing our performance in the US is a strategic priority. And we have said that we under-index in the US. So, we are doing many, many things to try and improve that, and everything from the basics of being sure we have the right selections of properties that people want, to making sure it's the right price, making sure we're competitive.

I talked about how we had to have the US payments platform up and running for Booking.com, so we can do creative new thing such as our Back to Travel promo, which of course wasn't in Q1, but just another example of things that we're doing. And there's a lot of just blocking and tackling done by both teams, Priceline.com and the people at Booking.com, working with our suppliers, coming up with the ways that we can help them get more customers. So, it's so many different things. There's no one thing to say that was the silver bullet, and I expect that we'll be able to continue to do this, I hope to be able to continue to do this in the future. It will remain a priority for us.

And, David, if you want to talk about numbers...

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**David Ian Goulden**

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

A

I will just, Kevin, reiterate what we said and give you a little flavor and make sure you understand where the emphasis was. So, things did improve significantly sequentially in the US during the quarter, and we had positive room night growth in the US year-on-year, which is great because obviously the international business was still down a fair amount. When we got into March, that room night growth in the US was very strong, which I characterized that as above any of our normal growth rates. That strengthened further into April. So, very strong plus.

And then if you just kind of double-click down and look at just the domestic, recognizing there is some substitution effect in there, the growth rate in the US was very strong for the entire quarter, positive for each month of the quarter and getting stronger, and was again stronger in April than it was in March.

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**Kevin Kopelman**

*Analyst, Cowen & Co. LLC*

Q

Okay. Great. And if I could just one follow-up on that. You did the \$50 travel credit promo in April. You see that as kind of an ongoing tactic or strategy that you might use, and how much would this shift, be a shift in cost from marketing spend to contra-revenue?

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**Glenn D. Fogel**

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

A

Well, we just put it out. I mean, people still have opportunities to book on that one. It goes until the end of May for US people. They can still do a booking. They had to do the – and in April, they had to actually activate it. So, we don't have a lot of data yet to tell you what we think that's going to be. It certainly is something that – it's one different thing and I brought it out not because it's a huge driver but just an example of things that we haven't done in the past that we will do in the future, and in fact just to – you may have noticed it, we started it very similar though not exactly the same program in the UK yesterday or maybe it was two days ago. The point being that we're trying to be more creative going forward coming up with different ways to bring those customers to us, show them what a great product we have, great service we have, and make sure they come back to us in the future, albeit not with the promotion.

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**Kevin Kopelman**

*Analyst, Cowen & Co. LLC*

Q

Thanks, Glenn. Thanks, David.

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

**Mark S. F. Mahaney**

*Analyst, Evercore ISI*

Q

Okay. I guess I've got two questions. I want to first start off, I think, Glenn, you made some comments about the mix of alternative accommodations and being I think relatively similar in the March quarter versus a year ago, and I guess I would have thought that it would have been kind of structurally higher that somehow because during the COVID crisis, I know you talked about that, that mix increasing. Do you expect it to recover back, or do you expect it to revert back to where it was before, that is alternative accommodations as a percentage of your lodging mix, or would you expect it to be somewhat elevated post-COVID just because of the greater exposure that a lot of consumers had to that during the crisis?

**Glenn D. Fogel**

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

A

So, Mark, I'm going to – I'll answer your question first about the general what I expect in the future, and then I'll let Dave talk about the mix and he can talk about because we have more in Europe and for the US. I'll let him go through that [indiscernible] (39:14) why we are where we are.

In terms of the future, here's the situation. We've been saying for many, many years, and everyone's aware of this that people have been more interested in the alternative accommodation. This is a global phenomenon. It's been going up at a steady rate for some time. COVID created a step functional change where people who may have never thought about an alternative accommodations now they're thinking, I want to go to a home that's not near people, maybe near the beach or near the mountains, and I feel safer there.

Now, having tried that in the future, the question you just asked is will people go back to their former habits of some people going to hotels, some people homes, it will be a more gradual increase, and will it be a drop-back first and then back up? I don't think anybody really knows. But I would make the guess that people having tried the alternative accommodations during the pandemic will forever have it in their consideration set and they may not always use it, they will choose what type of property fits their needs, but now because it is part of their consideration set, I think there is a functional change in increased mix in the long run.

That being said, for us, we do both. We have the greatest selection of both hotels and non-hotel accommodations together combined, so we feel we are very well positioned globally for that, though I have spoken in the past in some regions we are definitely insufficient supply that we need to build up.

And, David, if you want to explain again about the issue because of mix in terms of geographies and the mix in properties.

**David Ian Goulden**

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

A

Yeah, Mark, let me just explain that maybe a slightly different way. So starting with Europe, if you just looked at our business within Europe, you only look at that lens, you would see alternative accommodation mix in Q1 this last year up a fair amount compared to Q1 of 2020 and also versus Q1 of 2019. So within Europe where we have our largest mix of alternative accommodation, we see an increase in mix.

But you also remember, I said that Europe in Q1 was our lowest performing region, and of course, the highest performing region was the US where we have a much lower mix of alternative accommodation. So that mix effect

means in total our alternative accommodation mix did not increase but in Europe, for example, where it's the largest, it did increase a fair amount. So mix effect is really the biggest reason.

In total, in Q1 the mix of alternative accommodations was very similar to the 30% number we gave out for all of FY 2020. So again, within different regions, there are mix shifts occurring.

**Mark S. F. Mahaney**

*Analyst, Evercore ISI*

Q

If I could ask one follow-on question. I think you talked about a better ROI in paid marketing channels and just your guess as to whether that's sustainable or not. Thanks a lot.

**David Ian Goulden**

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

A

Yeah, it's a good question. There are many things going on in ROI. So, yes, we did see slightly improved ROIs on the paid channels. We also saw an increase in direct mix and those two together led us to have marketing grow less than bookings in the quarter. But there are many factors that go into accounting ROIs, including cost per click, conversion rate, cancelation rates and we're still in a period of I'd say high volatility across all of those. So it's not reasonable to point at any one factor as to why ROIs were up, but they were up slightly, so we wanted to point that out. And it's only just one quarter. So given the volatility of things happening, we wanted to point it out but too early to call a trend.

**Mark S. F. Mahaney**

*Analyst, Evercore ISI*

Q

Okay. Thank you, David. Thank you, Glenn.

**Operator:** Thank you. Your next question comes from the line of Lloyd Walmsley from Deutsche Bank. Your line is open.

**Chris Kuntarich**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Hi. This is Chris on for Lloyd. Thanks for taking our question. Can you just talk a little about I guess booking frequency associated. It sounds like there has been meaningful pick-up in share within your guys' app. Just kind of talk to us a little about booking frequency on app and how that compares to non-app users. Thanks.

**Glenn D. Fogel**

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

A

David, I don't know if you ever disclosed anything in terms of frequency on the app.

**David Ian Goulden**

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

A

No, Chris, let me tell you what we have talked about and see if that answers the question. And then maybe we're not kind of – maybe we haven't got your question completely right. But just to kind of remind us where we are right now, over two-thirds of our bookings are mobile. The majority of those are on app. Our app booking customers are our most frequent bookers relative to other direct channels, because obviously we can have a direct booking through a mobile web direct booking or through a desktop booking and the app bookers are the most loyal and the most returning.

But we really haven't gone into frequency. And also I'd say right now in the current environment where we're still very much recovering, frequency metrics are not the most critical ones that we're focused on right now. It's more the overall top-line growth rates. But we are pleased with what we're seeing with the trend towards app usage, the increase in the app mix, and the repeat behavior of app users, those are all positive things for us.

**Chris Kuntarich**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. Thank you. That's helpful. And just want to make sure – more of a housekeeping question. I saw a little bit of repurchase activity that was not related to you guys starting up your buyback again. Is that correct?

**David Ian Goulden**

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

A

No, that was related to employee stock purchases.

**Chris Kuntarich**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Very good. Thanks.

**Glenn D. Fogel**

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

A

That was not buyback related.

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

**Alaxandar Wang**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. This is Alax Wang on for Brian. Thanks for taking our question. First, just on flights, appreciate the update on the rollout to 18 countries. Maybe any early learnings you could share with us particularly in the US, and potentially attach rates that you could share? And sort of what do you foresee as the key two or three incremental investments to sort of execute on flights as we progress through the year?

**Glenn D. Fogel**

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

A

Sure. So we don't give away – I don't believe we ever talked about the actual attachment rates, but I will say that that is an important reason we do flights. And that getting that booker upfront is important so that we can then get them to buy something that will have a higher margin.

The 18 countries that Booking.com is now working in, we are getting initial – we've been doing it for some time, I guess a year now, approximately, we are getting some learnings, how can we improve it, how can we make it better. We really haven't marketed this at all in terms of the way we market our hotels offering because we want to get it right before we start spending a lot of money. We don't want to waste money, as you know.

I am very pleased though with the very limited effort that we've done that people are using it and we are getting feedback that people are coming back, so that's good.

It's something that's important for the long run. And I want to emphasize how much this is a long game we're playing here. Because as you know, the number is still very, very, very small and this is very early, but we hope in the long run that this Connected Trip which was not just the flights, but it's also the ground transportation and the attractions and the dining, all the things that people do when they are traveling to create something that makes them want to always use our app more than anything else. When they think of travel, they come back to us. So it's critical that we have that first thing which is important to a lot of people, flights. And we're going to continue to make investments into it to make sure that it is absolutely a great, great service.

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**Alaxandar Wang***Analyst, Morgan Stanley & Co. LLC*

Q

Just one follow-up. I think a couple quarters ago you guys had tested a digital brand campaign, I'm not sure if there's anything you can share on that, but maybe bigger picture, as we look at the performance channels ex-search, do you see any opportunities to sort of lean into more of the non-search performance channels with online video as we're seeing increasing sort of digital transformation as a result of the pandemic?

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

A

Well, we recognize that's where the eyeballs are going, so we need to make sure that we are putting our name appropriately in front so people when they think of travel, they think of us. So we're cognizant of that fact and we are working on that. So, yes, we will continue to work with that.

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**Alaxandar Wang***Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thanks.

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

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**Mario Lu***Analyst, Barclays Capital, Inc.*

Q

Great. Thanks for taking the questions. I have one on agency versus merchant bookings, and then one on payments. So the one on agency versus a merchant, it looks like the merchant bookings recovered to a level much quicker in 1Q compared to agency. Is there anything to kind of call out there to explain the quicker recovery?

And then on payments, you guys mentioned you guys are north of 20% of bookings. Is there a specific target you guys plan to reach in the long term, and how should that flow through to, say, revenue and operating margins over time? Thanks.

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

A

Dave, why don't you talk to him about his agency merchant question, and I'll talk about the long vision on payments.

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

A

Sure. So actually we saw a slightly lower mix of merchants in Q1 this year than in Q1 last year both in total and at Booking.com because bear in mind you're kind of comparing essentially an almost a non-crisis quarter last year, of course Q1 in March things got worse, but most of the quarter was not crisis, and now you're talking about comparing it with a quarter that is very much still in the crisis with recovery mode. So people in the short-term looking at the more flexible agency paid hotel model because that has just an attractive proposition, and at times the flexibility becomes very important.

We do expect the merchant business to actually increase during the year at Booking.com where we have obviously the biggest mix shift happening, and we still think that the merchant business in total in 2021 will be a slightly higher mix than it was in 2020. But of course flexibility is one of the factors that is important as people are looking at bookings in this environment. So that's what's going on this year.

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**Glenn D. Fogel**

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

A

In the long view, we'd like to get as much business as possible on payments because we believe we will create a better service for both our customers who are traveling and our supplier partners to be able to do all sorts of things that you can't do when it's just a straight agency play, and we believe we can provide value to everyone in that way.

And I get it, for example, earlier but we couldn't do a Back to Travel promotion if we didn't have a payment product to do that. And there are many ways we're going to be able to merchandise people's or supplier partners different ways to merchandise their offerings in ways that you can really only do well with a payment platform and of course putting things together, bundling, all different things.

So obviously we'd like to get as many people in because it's good for everybody who comes into it, both the customer and the supplier. That being said, we know that we'll never get it to 100%. There will be – still be lots of people who will say, you know, all I need is hotel, I like this agency thing, I'd pay at the desk this whole time, we'll see if that happens, whatever.

But even in that situation, we may actually do the payment for the hotel in a way that we can save their money. So it's a great opportunity for us. But it is the long view and it's going to take some time to get there.

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**David Ian Goulden**

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

A

Yeah, and then just to kind of reiterate what we said before about how it plays out in the income statements, we get additional revenue from providing the payment service. We have a variable cost related to that sitting in sales and other which is where you see the biggest offsetting cost element to offset, to match the revenue. There are some incremental expenses obviously in our other lines as well relating to running the payments program, but the biggest variable cost is sitting in sales and other.

As we mentioned in 2020, the payments business operated very close to breakeven when factoring particularly the variable cost into account which is an improvement from what it was before and it's obviously an enabler of the business as Glenn just articulated, so we want to continue to grow the mix and maintain that breakeven profile as we are growing it out, recognizing in the future we recognize there are monetization opportunities that can lead to incremental EBITDA from the payments business which we expect albeit at lower margin rates than core accommodations.

**Mario Lu**

*Analyst, Barclays Capital, Inc.*

Great. Thank you.

Q

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

**Dae Lee**

*Analyst, JPMorgan Securities LLC*

Great. Good afternoon. This is Dae on for Doug. Thanks for taking the questions. My first one is on your alternative accommodation product. You talked about works needed to improve the product in the US. Is that just inventory and awareness that you talked about in the past, or are there other areas where you see opportunities to improve?

Q

And then just on the room night growth and booking growth, it seems like there's been a sizable divergence in trajectory. Kind of feel like it could be affecting that but are there anything else notable that's driving that, and how should we think about the relationship between the two going forward?

**Glenn D. Fogel**

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

So I'll take the first, and Dave, why don't you take the second? So in terms of the alternative accommodations in the States, and the things you mentioned are very, very important. So, we've got to have the right properties for the customer and I talked about this in the past, that we under-indexed with the private homes, the single homes in the states, and that has been a popular product in the states because of the pandemic and that's something that we are continuing to work on in the future.

A

It's also just the process in general, how we get people on-board, who we're dealing with to get them to come in and we currently are using the multiproduct property managers more than, say, some of our competitors who go out and get individual properties. So there's a difference in how we're doing it right now.

I do believe this is a very, very achievable goal to be as competitive as anybody else. As David mentioned earlier about mix, we do a great business in Europe in the alternative accommodations area, a very good business, and there's no reason we shouldn't be able to do the exact same thing here in the states. Though it is taking time.

**David Ian Goulden**

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

Yeah, and on what's going on between the dynamic between room night growth and booking growth, there are a couple factors going on here. One I mentioned the fact that we're doing – that we're seeing better booking growth performance from flights because of volume.

A

And also we're doing even though the units are down 4% to 6% in car, there's actually fairly good increase in rates for cars, so total bookings, the TTV is down better for both flights and cars than it is for accommodations. But the biggest factor is really what's going on with ADRs and there has been a bit of a shift in what we've seen even in the last couple months and we saw the ADRs in the quarter were only down 1%.

Now, I would say that a couple things. The like-for-like ADRs are absolutely still under pressure due to lower occupancy rates. But there are some mix benefits that really impact the year-on-year comparison. The first mix benefit was the mix shift towards the US, the US really started to accelerate particularly in March. You saw a really fast pick-up in growth rates in March that we were not forecasting when we last met you, so that was a positive for room night growth but also for ADRs, and also in Europe what's happening right now because there are still a lot of restrictions, people booking today are booking generally more often for the summer holiday and the summer holiday period in Europe has higher ADRs than most short-term stays.

So those two mix effects are really helping the ADR picture. And we expect that both the phenomenon that I talked about in terms of air and car and ADRs are likely to go through to 2Q as well.

But we do think that ADRs will start to be driven down again in the second half due to a couple of reasons, again, the like-for-like ADRs are under pressure. As an example, our stayed ADRs in the first quarter were down mid-teens if you exclude regional mix. That's more of a like-for-like comparison.

So that like-for-like comparison is more likely to kind of be exposed in the second half. Regional mix may continue to help. But then we do think that this earlier booking of the summer benefit – of the summer bookings will fade and the reported ADRs will become more comparable with the underlying stayed ADRs and those will converge back together more in the second half than they did in the first half.

So some interesting phenomenas going on with mix and with booking window in Europe driving what we're going to see in Q1 and Q2.

**Dae Lee**

*Analyst, JPMorgan Securities LLC*

Great. Thank you both.

**Operator:** Thank you. And your last question comes from the line of Deepak Mathivanan from Wolfe Research. Your line is open.

**Deepak Mathivanan**

*Analyst, Wolfe Research, LLC*

Great. Hey, guys. Thanks for taking the questions. Just a couple ones. So first, wanted to go back to your comment about investing to gain share with the margin opportunity. How should we think about your approach strategically? Is it on variable marketing channels? Obviously there's a few products that you have talked about before, but are there any other initiatives that you would note as something that could be impactful during this recovery period?

And then the second question is on the labor market situation here in the US. Obviously it's very tight and some of the hotel operators have called out the challenges there as well. How do you think this affects your business, if at all? Maybe broadly talk about how supply side is evolving during the recovery?

**Glenn D. Fogel**

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

So I'll start with the second part, labor, and I'll let David go back to margins and how things can look over as we continue to go for the future.

So certainly we've all read and heard news articles about shortages right now popping up in different areas of the hospitality industry, and some of the leaders in the industry, particularly some of the hotels and restaurants saying just can't get workers. But I don't believe that's going to impact where people aren't going to be able to find a place to stay at all. Right now, there is no shortage in my mind of great places for people to go to, and I don't see that happening.

Yeah, some property types may be short at certain times during high season, particularly some of the very popular areas in the summer as leisure comes back in some parts of the world. But overall for the business, I don't see this as a significant or even a small risk to the business at all.

And David, you can talk a little bit about margin.

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**David Ian Goulden**

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

A

Yeah, I mean, clearly in a business like ours there's always a trade-off between growth and profitability or growth and margins, particularly in the short term. And the areas that we would expect to be leaning into, there are a number of initiatives that we can drive to lean into to drive further growth.

Obviously we need to be smart. We need to be nimble. We need to look at where the pockets of opportunity are. But we continue to be I think a very good marketeer in the paid channels and look at those demand opportunities and really have the opportunities to lean into them where we think we can and where we think we can actually gain incremental traffic.

We can do things with merchandising. And we can also do things with things like promotions like Back to Travel. Also there are areas like brands. So there are multiple levers we can pull to believe there are opportunities to do so.

And we believe that the recovery obviously presents a very dynamic environment for everybody and we want to make sure that we are taking advantage of opportunities that we can either make or are made for us and those are things that would in the short-term impact margins.

Bear in mind as we talked about what's happening this year, during periods of time when bookings are growing faster than revenue, that impacts the business because generally our expenses are associated upfront with capturing the booking and the revenue comes later, so those are all the things that go into the dynamics around growth versus margin in the accommodation business.

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**Deepak Mathivanan**

*Analyst, Wolfe Research, LLC*

Q

Got it. That's very helpful. Thank you so much.

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**Operator:** Thank you, everyone. And that's all the questions that we have for today. I will turn the call over back to our CEO, Glenn Fogel, for any closing remarks.

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**Glenn D. Fogel**

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

Thank you. So in closing, I want to thank our partners, our customers, our dedicated employees, and our shareholders. We appreciate your support as we continue to navigate through these better, though still difficult

times. And we want to continue to build on the long-term vision for our company, and thank you. Thank everyone, and please be safe. Good night.

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

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