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Booking Holdings Inc. (BKNG) CEO Glenn Fogel on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-07-19 Earnings Summary

Press Release

EPS of $45.36 beats by $0.93 | Revenue of $5.04B (3.94% Y/Y) misses by $-30.82M

Earning Call Audio

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Booking Holdings Inc. (NASDAQ:BKNG) Q3 2016 Results Earnings Conference Call
November 7, 2019 8:00 AM ET

Company Participants

Glenn Fogel - Chief Executive Officer and President

David Goulden - Executive Vice President and Chief Financial Officer

Conference Call Participants

Mark Mahaney - RBC Capital Markets

Deepak Mathivanan - Barclays Capital

Kevin Kopelman - Cowen and Company

Lloyd Walmsley - Deutsche Bank

Naved Khan - SunTrust Robinson Humphrey

Brian Nowak - Morgan Stanley

Stephen Ju - Credit Suisse

Justin Post - Bank of America Merrill Lynch

Douglas Anmuth - J.P. Morgan

Eric Sheridan - UBS

Heath Terry - Goldman Sachs

Brian Fitzgerald - Wells Fargo Securities

Jed Kelly - Oppenheimer & Co.

James Lee - Mizuho Securities

Operator

Welcome to Booking Holdings Third Quarter 2019 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 Holding's 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'd like to introduce Booking Holdings' speakers for this afternoon, Glenn Fogel and David Goulden. Go ahead, gentlemen.

Glenn Fogel

Thank you. And welcome to Booking Holdings third quarter conference call. I'm joined this afternoon by our CFO, David Goulden. We executed well in our busiest quarter of the year as we booked $223 million or almost a quarter of a billion room rights, which is up 11% year-over-year and exceeded the high end of our guidance range.

We're pleased that room night growth has been reasonably consistent this year. We produced over $5 billion in revenue and approximately $2.5 billion in EBITDA, which are year-over-year increases of approximately 7% and 8% respectively on a constant currency basis.

While we believe these financial results show that we have meaningful size and scale, we note that, against a very large global travel market opportunity, we are still a small share of the marketplace, which means we have substantial opportunity in front of us.

I am pleased that our performances this quarter delivered better-than-expected room night growth, driven by solid growth in our direct channel, though I note that we continue to witness slower growth in our paid channels. And while we look to find ways to drive growth through the paid channels, we will remain disciplined and will invest only if we like the quality of traffic and the associated return on investment.

We remain firmly in execution mode as we work to deliver against our goal of extending our lead in core accommodations market through key initiatives in customer acquisition, merchandising, our payments platform and improving the selection of properties on our websites. We expect these initiatives to improve customer conversion and drive incremental growth from our existing demand channels.

We continued to execute against our long-term strategy of building the connected trip with Booking.com recently launching a flight offering in certain European countries. The launch is still in its very early days and we will continue to make product enhancements and improve the customer experience to create what we believe will be a better offering over time.

We remain excited as our long-term vision of the connected trip is being translated into new Booking.com services. We believe the connected trip has tremendous potential to create a more robust travel ecosystem that will result in greater loyalty and engagement for Booking.com's very large active customer base. And it is an opportunity for our large supplier base to merchandise their offerings.

In conjunction with Priceline.com, Agoda has also launched a flight product that is initially focused on select countries in the APAC markets, which we believe will complement its existing accommodations offering.

I am proud of our inter-brand cooperation development of this product, which demonstrates how we are able to leverage our deep travel expertise across our company to build new services. We look forward to introducing other areas of collaboration across the brands in the future.

We are also excited to announce our partnership with Grab is now showing tangible benefits to our customers. One of the goals of the partnership is to give Booking.com app users access to the largest fleet of drivers across eight countries in Southeast Asia, providing our customers traveling in these countries a frictionless experience, removing language and currency barriers.

Right now, Booking.com app users can access Grab services in Singapore, and we will be expanding this service to Indonesia and Thailand by the end of the year and to the remaining markets by early 2020.

Another point to note about the partnership is Grab previously introduced a connection to hotel bookings through its own Grab app using both Agoda and Booking.com.

In our alternative accommodations business, Booking.com continues to build richer content for both its customers and supply partners. Booking.com recently announced a series of new tools and product enhancements specifically designed to help professional short-term rental partners more effectively market and simplify the day-to-day management of their properties on Booking.com's platform.

In terms of our listings count, Booking.com's total alternative accommodation listings now stand at over 6.2 million as of September 30. A key goal continues to be improving both the quality and variety of our listings in this area. We are encouraged with the progress in alternative accommodations business and continue to witness growth outpacing our overall business, while maintaining solid profitability.

In regards to the overall global travel market, we believe it is generally healthy, but see some mixed results in geographies throughout the world.

Europe remains stable, but is still impacted by somewhat sluggish GDP growth, which is consistent with what we have seen throughout most of the year.

Southeast Asia continues to grow nicely. However, markets like China, and particularly Hong Kong, are placing pressure on our overall growth rate due to certain macro events.

International travel to the United States has been negatively impacted by a strong dollar.

Like this year has shown, though, our global scale has helped us navigate a tricky macro environment and we remain confident that we will continue to do so in the future.

In conclusion, I am very pleased with our performance in the third quarter and we remain confident that the efforts we are making now will support the long-term growth prospects of the company.

I want to thank our over 26,000 employees for their hard work and dedication during the busy third quarter, providing unparalleled service to both our customers and supplier partners around the world.

I will now turn the call over to our CFO, David Goulden, for the detailed financial review.

David Goulden

Thank you, Glenn. And good afternoon. I'll review our operating results for the third quarter and then discuss our guidance for the fourth quarter. All growth rates are relative to the prior-year comparable period unless otherwise indicated. Information regarding reconciliation to GAAP can be found in our earnings release.

Now for our results for the quarter. Our booked room night growth of 11% for the quarter exceeded the high-end of our guidance range. Our room night growth in Europe continued to exceed our expectations this quarter despite a macro environment that remains cautious.

Room night growth rates for the rest of the world also exceeded our expectations and grew approximately in line with Europe in Q3.

Average daily rates for accommodations, or ADRs, were down about 3% year-over-year in Q3 on a constant currency basis, which was a larger decline than our guidance of down about 2.5%. The year-on-year ADR decline was impacted by decreases in rates within several key markets such as the US, Japan and Hong Kong as well as an increased mix to faster growing, lower ADR markets.

The increase in pressure on ADRs we're seeing in the second half of the year is influenced by lapping about a 1% growth in ADRs in the second half of last year and by a number of macroeconomic-driven factors, including less travel in key international corridor due to trade and political issues, as well as the strength of the US dollar.

Changes in foreign exchange rates reduced Q3 growth rates in US dollars by approximately 3 percentage points versus last year. We estimate the changes in FX rates impacted gross bookings, revenue, EBITDA and EPS growth in Q3 by a similar amount.

Q3 gross bookings grew by 4% expressed in US dollars and grew by about 7% on a constant currency basis, coming in above the high-end of our guidance range.

Consolidated revenue for the third quarter was $5 billion and grew by 4% in US dollars and about 7% on a constant currency basis. Advertising and other revenue, which is mainly comprised of KAYAK and OpenTable, grew by 12% in Q3.

Adjusted EBITDA for Q3 was $2.5 billion, which exceeded the high-end of our guidance range and was up 5% year-over-year on a reported basis and about 8% on a constant currency basis.

Performance marketing expense declined 2% year-over-year, which helped drive leverage of about 150 basis points in the quarter. This leverage was driven by an increased mix in room nights from the direct channel, which continued to grow faster than our paid channels.

While we'll keep working to grow our direct channel over time, we continue to see performance marketing channels as an efficient way to acquire customers and we'll maintain our approach to spend rationally in these channels.

We spent $124 million on brand marketing in the quarter, which represented a decline of 22% versus Q3 last year, contributing about 80 basis points of leverage. As we mentioned on our Q2 earnings call in August, we are refining and focusing our brand spend in the second half of this year.

Sales and other expense grew 13% versus Q3 of last year and contributed about 50 basis points of deleverage, primarily due to the growth of our payment platform at Booking.com.

Sales and other grew slower than merchant gross bookings at 36% in the quarter due to lower growth in certain payment-related expenses.

Personnel expense came in slightly lower than our forecast and contributed a small amount of deleverage in the quarter.

Finally, G&A expenses increased 41% year-over-year on a non-GAAP basis. Note that non-GAAP G&A expenses in Q3 last year excluded a $23 million travel transaction tax charge, which negatively impacted GAAP results in the prior year.

Non-GAAP G&A expenses contributed about 120 basis points of deleverage in the quarter, driven by a $29 million year-to-date impact from the French digital services tax, as well as an additional $10 million related to travel transaction taxes from prior periods.

Our non-GAAP EPS was $45.36, up 20% versus the prior year. Adjusted for currency, non-GAAP EPS grew about 24% in the quarter.

Non-GAAP net income reflects a non-GAAP tax rate of 18.8% in Q3, which is lower than the prior year due to a provision of a tax act which was clarified in Q4 of last year. Our 10% lower share count in Q3 benefited EPS in the quarter.

On a GAAP basis, operating income increased by 5% and GAAP operating margin increased by 70 basis points compared to Q3 last year.

Q3 GAAP net income amounted to $1.95 billion or $45.54 per share, up 23% from Q3 2018. Our Q3 GAAP net income includes $49 million. Our pre-tax unrealized losses on our equity investments in Ctrip and Meituan and $72 million of FX remeasurement gains on our eurobonds. We excluded these unrealized losses and remeasurement gains from our non-GAAP results.

We had a GAAP tax rate of 17.5% for the quarter, which decreased from 21.1% in the prior year due to beneficial adjustments made in Q3 2019 related to the tax act that were excluded from our non-GAAP results and from the factors I mentioned that impacted non-GAAP tax rates.

In Q3, we generated $1.9 billion of operating cash flow, which decreased 6% compared to Q3 last year. Our free cash flow for the quarter was $1.8 billion, which decreased by 4% compared to the prior year, mainly due to seasonal effects from a higher mix of merchant revenues and the impact this has in the third quarter due to a high concentration of check-ins. During the course of the year, we expect the growth of our merchant business will be a modest positive driver of cash flow.

We purchased $1.3 billion of our stock in Q3, bringing the amount remaining under our $15 billion repurchase authorization to about $12.9 billion at the end of the quarter. We continue to expect to complete this authorization in the next two to three years, assuming stable business and market conditions.

We ended the quarter with $11.8 billion in cash and investments and $8.6 billion of outstanding debt.

Before turning to our guidance, we note that the returns from our growth investments for the year are tracking in line with what we said last quarter and we still expect these investments to impact EBITDA growth for the full year by a few percentage points.

Let's now turn our attention to Q4 guidance. Foreign exchange rates are expected to negatively impact year-over-year growth rates for gross bookings, revenue, EBITDA and non-GAAP EPS by approximately 1.5 percentage points.

We use a dollar to euro exchange rate of $1.11 when setting our Q4 guidance. Our Q4 outlook does not anticipate any change in the macro environments.

Based on where we are in the quarter and looking at all other factors, we are forecasting booked room nights to grow by 6% to 8% in Q4. We forecast gross bookings to grow 2% to 4% on a constant currency basis and about 150 basis points less in US dollars. Our Q4 forecast assumes constant currency ADRs for the company will be down about 4%, driven by the same factors that impacted Q3 ADRs. A number of these factors are occurring in Asia and Asia is a seasonally larger quarter in Q3.

We forecast Q4 revenue to be up 1% to 3% on a constant currency basis and by about 150 basis points less in US dollars.

Q4 adjusted EBITDA is expected to range between $1.21 billion and $1.235 billion, which is approximately flat year-on-year on a constant currency basis.

We are forecasting continued leverage from the performance marketing expense line in Q4, reflecting lower volumes in paid channels and our continued focus on acquiring high quality traffic.

We expect to see continued leverage of brand spend in Q4. Although we've reduced our brand spending in the second half of the year, we still expect to grow our brand spend for the full year.

We expect growth in personnel expenses to reduce EBITDA growth by several percentage points in the quarter due to unexpected lower year-end reversal of bonus accruals than we experienced last Q4.

Sales and other expense is expected to grow slower than merchant bookings growth, but faster than overall revenue growth.

We are forecasting Q4 non-GAAP EPS of approximately $21.50 to $22 even. Normalizing for constant currency, we estimate Q4 non-GAAP EPS to decrease year-over-year by approximately 1% to 3%. This range for Q4 implies a full-year constant currency non-GAAP EPS growth rate of about 13%, which is in line with our full-year expectation for low double-digit growth.

Our non-GAAP EPS forecast for Q4 includes an estimated income tax rate of approximately 19%, which is significantly higher than Q4 last year due to one-time adjustment of approximately $72 million in Q4 2018 related to a provision of the tax act that was clarified by regulatory guidance issued in Q4 of 2018. If we exclude the one-time benefit from Q4 last year, our EPS growth in the quarter will be about 7% higher.

We expect our full-year non-GAAP tax rate to be approximately 19% compared with 18.3% last year.

Our Q4 non-GAAP EPS guidance assumes a fully diluted share count of approximately 42.2 million shares, which is 9% below Q4 of last year. We forecast GAAP EPS between $20.40 and $20.90 for Q4. Our GAAP EPS guidance for Q4 assumes a tax rate of approximately 19%.

We have hedge contracts in place to substantially shield our fourth quarter EBITDA and net income from any further fluctuations in currencies versus the dollar between now and the end of the quarter, but the hedges do not protect our gross bookings revenue or operating profit from the impact of foreign currency fluctuations.

We'll now take your questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question comes from the line of Mark Mahaney of RBC Capital Markets. Your line is open.

Mark Mahaney

Great, thanks. Two questions please. Could you talk about whether you're seeing any pressures in SEO channels, whether that's become less viable for you as a source of traffic? And then, Glenn, you talked about paid marketing channels and trying to diversify amongst them. Could you talk about how you do that? I know this is something that the company has looked to do for many years. Just how many options are there in order to do that? Thanks a lot.

Glenn Fogel

Hi, Mark. Well, regarding SEO, we saw some headwinds in the SEO channel that did create some modest pressure, but it's a small channel for us.

Your second question, I wasn't quite following. I don't recall saying something. So, could you say that again?

Mark Mahaney

I think, early on, you talked about paid leads were coming in a little more slowly than maybe you would want it or less ideal. I think this is something that, for a while, you've been looking for faster channels of paid – high-quality paid leads. Can you just talk about your ability to find those? How do you find faster growth paid leads?

Glenn Fogel

Yeah. Okay, I see where you're coming from. Actually, what we said – I know. I figured out what you're saying. We've talked about this for some time that there has been a deceleration of the paid channels that's been going on for a long time. Now, we'd like to obviously find – we'd like to find more customers from those channels. My point being more importantly that no matter what we're doing, we're going to try and maintain our discipline and only do it when we see the right ROIs. There's, obviously, lots of things that I want to always work to improve their paid channels, particularly in terms of trying to increase conversion is the primary thing you can do.

And there are also things and looking out in different ways where we want to shift the money among the different paid channels. These are dynamic markets, as you know. And what we do will influence what other people do. So, it's always a bit of a strategy game going on. But you've seen our results so far and we're pleased with where we are right now with the paid channels.

Mark Mahaney

Okay. Thanks, Glenn.

Operator

Your next question comes from the line of Deepak Mathivanan of Barclays Capital. Your line is open.

Deepak Mathivanan

Great. Thanks for taking the question. So, first, what is driving the outperformance in the Europe room night growth versus your expectations? The macro data points, at least if you look at the industry third-party sources, appear to be sluggish. And also, the commentary from suppliers kind of seem to be the same. Is there a counter cyclicality aspect that's benefiting your room night growth or would you just attribute it to better execution during the quarter?

And then, the second question, sounds like the partnership with Grab is off to a good start and is doing really well. How are you planning to replicate similar strategies in some of the developed markets? Are there more partnership-based opportunities that you would look at that? Thank you very much.

Glenn Fogel

Sure. So, I don't think we're in the area of counter cyclicality yet. We mentioned at the beginning that we see the travel industry in general around the world – I use the word generally healthy. So, we're not in an area of recession that would then stimulate some type of counter-cyclicality. So, I think your other point of good execution, I'd like to ascribe a lot of that just to good execution and give a shout-out to our 26,000 employees who are executing very, very well.

In regards to the Grab partnership, I agree, I'm pleased with what we're doing there. I like what's happening there. It's, obviously, very small still, but it's growing and going the right way.

And as you know, at about the same time we made a deal with Didi. And I mentioned, we're going to bring that one out similarly in the sense of being able to provide a seamless, frictionless ground transportation solution for our customers in China and other places where Didi operates over time.

And also, the other way, the same with Grab is being able to expose our offerings of hotel accommodations, home accommodation, all the other things that we're going to offer to the very, very large customer base that Didi has.

And, of course, what one wants to do is go out and replicate that in other parts of the world with other players and that's what our affiliate or strategic partnership teams are going out and doing and I'm pleased with the progress they're making in that area.

Deepak Mathivanan

Okay. Thanks, Glenn.

Operator

Your next question comes from the line of Kevin Kopelman of Cowen and Company. Your line is open.

Kevin Kopelman

Great. Thanks a lot. So, it seems like you've – last few quarters, you've been settling into a nice kind of stable growth rate recently on nights and top line. So, with that as a backdrop, can you tell us how you're thinking about investments in non-ad operating expenses as you move forward into 2020? Thanks.

Glenn Fogel

We've talked in the past about the importance to grow our business, having a balance between the amount of money that we're going to invest to help grow out the future, at the same time maintaining discipline to provide an appropriate bottom line return for our shareholders. We're just going to continue to do that, and that's the way we do it.

And we've talked many times about some of the things that we want to build. We've talked a lot about the connected trip and how, we see in the long run, that's the winner for us, the differentiator, the thing that will make customers come back because they will see a better experience, improve the loyalty, lower the amount of money that we have to spend on the advertising spend. These are all things that we are continuing to work on and we're going to continue to maintain that balance.

Kevin Kopelman

Okay. Thanks, Glenn. And then, just a quick follow-up on Mark's question about SEO. You mentioned it's a small channel for you. Can you help us put a finer point on that? Is it safe to assume that SEO is a single-digit percentage of your overall revenue? Thanks.

Glenn Fogel

I think I'm going to stick with my qualitative term. Small.

Kevin Kopelman

All right. Thanks, Glenn.

Operator

Your next question comes from the line of Lloyd Walmsley of Deutsche Bank. Your line is open.

Lloyd Walmsley

Great, thanks. Two if I can. First, Glenn, you all have made couple of investments in rideshare companies over in Asia. You've got a good history of leveraging M&A. Any interest in making more investments in the rideshare space? There is some public assets on sale. Would it make sense to use some of your capital to do more in the rideshare space?

And then, secondly, on the payment side, I think you all have said it's kind of shifted from a drag to neutral and then eventually it will be a tailwind to EBITDA next year. Can you kind of talk about how that will flow through the P&L? Is that just basically higher effective revenue as you start to charge for payments more broadly, offsetting the cost? And then, what kind of profit center do you see payments becoming as the merchant business scales over the next few years and get your rhythm on the payment side?

Glenn Fogel

Well, in regards to the first question, I think we're all familiar that we don't discuss potential M&A transactions publicly. So, I'll have to pass on that one. And I'm going to pass over to Dave in turn to talk about how the funds flows work and why the numbers will be what they'll be.

David Goulden

Yeah. Lloyd, on the payment side, as you know, there are many moving parts. There are multiple different aspects of revenue in the payment stream and there are multiple aspects of costs. And essentially, as we've discussed, we've been using this both to help the business and as a marketing tool, but also building all the mechanics then to be able to optimize both sides of that equation, revenue and cost as the payment platform builds.

So, next year, we do expect payments compared to this year to be a contributor to EBITDA growth. And it will come from both sides, both the higher revenue recovery and also through better cost efficiency as we roll the platform out, as we generate more scale, as we continue to refine the underlying structure of the product.

As we said, long term, we certainly view that it can be not only a contributor to EBITDA growth, but also a profit center, but we don't want to quantify that right now. And as we go into next year, we'll probably give you a little bit more color as to how the payments business has progressed as a percentage of our mix, but it's continuing to increase nicely from the approximately 10% of Booking.com we talked about in 2018.

Operator

Your next question comes from the line of the Naved Khan of SunTrust. Your line is open.

Naved Khan

Yeah. Thanks a lot. Just a couple. So, I think, Glenn, in passing, you had mentioned that maybe the Hong Kong unrest and maybe some travel restrictions in parts of Asia were a drag on the growth. I would think that having a global business like yours, people basically switch destinations if they want to travel. So, on the whole, are you seeing that as still a drag? How does that play out?

And then, on the connected experience side, I guess you're testing this on the air bookings in Europe with one or two partners. How do these partners kind of different from KAYAK in terms of how they go to market with you?

Glenn Fogel

So, the first one, you're absolutely correct in terms of a global company like ours, we do get some benefit when one particular area becomes a place that people don't want to travel to, there will be a certain portion that will shift to another place and we will get that business.

That being said, another percentage of that business will unfortunately not travel. They had a specific reason to travel to that region or they just decided that they just didn't want to travel. That's what they wanted to do and now they're not going to do it. So, there is a drag even though we are global. And I'll point out that some of the areas which we mentioned in the last Q are still going on.

The China outbound to the US is still down from where it was a couple of years ago. That is a drag. We had good business there. Certainly, we've all seen on TV what's going on in Hong Kong and that also is a drag on the economy. And there are other places like that. So, while we enjoy the benefits of a global business, there is no doubt that we would do better without these types of problems.

In regards to your other question about air in Europe, we have been experimenting with lots of different ways. KAYAK is one of the ways in the past. We had a click out to part of a company called Etraveli that was – their offering was called Gotogate. And we now have a more accomplished, more fulsome relationship with Etraveli and doing a much more true integrated seamless type air product.

The difference between doing a matter [ph] with KAYAK and having it actually integrated as a true OTA offering enable us the connected trip. You see it was all that data that we get from the actual conversion, all the booking data, all the things the person is doing to be able to offer them some seamless and – we like to talk about – holistic offering.

So, one of the benefits with something like this is you can offer connected trip car rental or other types of ground transportation much more efficiently. And I would point out, just as a separate, and this is not related to the air product because that is relatively recent, but one of the things I'd like to see – I like that we've seen recently is what's going on in our rental cars business.

And if you look at the statistical summary at the end of our release, you'll see that this recent quarter, we've had a nice uptick in that car rental, and that is partially due to the connected trip. Well, we are now offering that car rental much more connected with our Booking.com accommodations customers. So, that's another one of those instances where I see the connected trip beginning to come to fruition and see what we really can do.

Naved Khan

That's great. Thanks, guys.

Operator

Your next question comes from the line of Brian Nowak of Morgan Stanley. Your line is open.

Brian Nowak

Thanks for taking my questions. Hey, Glenn. I have two. So, the first one, sort of a bigger picture question to you. You sort of talked about how you're witnessing slower growth in paid channels for a little while now. You guys look at so much data, you have such good visibility into the market, why do you think that's happening? Is it because you're seeing a deceleration in people coming online and why is that happening? Are you seeing fewer clicks to bid for? What do you think is driving this? And what do you think could cause a reacceleration in paid channels over time?

And then, the second one on the alternative accommodation business. Any update or help on sort of how big that business is now and how to think about its contribution to growth from a room night perspective? Thanks.

Glenn Fogel

So, talking about the paid channels, certainly, as people went online years ago, there is a much larger number of people I think who were – particularly in the area that we really have some of our sweet spot, Europe and other developed areas, people jumped online and they went to these paid channels. A lot of those people are already there. Now, you start going to other areas of the world where people are going online, but they may not perhaps go to some of our traditional paid channel areas.

I'll give you a perfect example. We talk a lot about China is a great opportunity for us for the long run. Google does not operate in China. So, all those new people coming online to buy travel, we've got to find another way to get them. So, that would be an example. And there are other places like that. So, I think that's probably the primary reason for it.

Whether or not this will reaccelerate, let me know if Google is going to start having a full service in China, in other areas. That's one of the things that we know it's – in the end, what's most important for us to get customers to come to us directly. We've talked about this a lot in the past. It's one of the things that I think is very important. For us to have our own future is to create a service that is so wonderful, so good that people just naturally will come back to us directly. And we will not be dependent on other – we will not be as dependent on other sources of traffic. What was your second question?

Brian Nowak

Alternative accommodation. Sort of how to think about – any help on its sizing from a room night perspective or contribution to growth in the quarter?

Glenn Fogel

Well, we continue to talk about how it grows faster than our core hotel business and we're pleased about that. In terms of actual sizing, we gave you some data a couple of quarters ago. We're not updating that right now. And in terms of the overall industry, there is a lot of data around the world. And I'll say the swing from the people who give the lowest estimates to the people with the highest estimates is a pretty wide range. So, I wouldn't even attempt to try and come up with which one or where is the exact true number. We know it's a big business and we know it's an area that's important for us for the future and that's why we continue to devote time, resources and money to it.

Brian Nowak

Great. Thanks, Glenn.

Operator

Your next question comes from the line of Stephen Ju of Credit Suisse. Your line is open.

Stephen Ju

Thank you. So, Glenn, I'm wondering if you can elaborate a little bit about how the operating environment in Southeast Asia may be changing, especially as it regards to Agoda? You've been there for some time now. And it seems like around you, online connectivity, adoption of e-commerce and payment frictions are all coming down in the region, which conceivably should serve as tailwinds. Are there any structural constraints that you can see that may slow the rate of adoption of online travel in the region?

And secondarily, just wondering how the consumers there behave. Is there a greater propensity to buy packaged products versus hotels and air ticket separately, which may be informing your decision to, I guess, invest in what is more of an intermodal product? Thanks.

Glenn Fogel

So, I would say that Asia in general is one of the opportunities for us for a very, very long time to continue to build out our business and have good growth. And one of the ways one can look at that is Boeing and Airbus both put together some very detailed – 10-year projections, I believe, they are. And even further perhaps. And you just look at the number of planes that they are going to expect to be delivered there.

Another way you could do it is look at the number of airports being built in the region. And those things all show that travel is going to continue to be a growth industry in that part of the world, one.

Two, the different ways that people buy in Asia – and Asia, obviously, is somewhat of a generic term. It's different in different countries. What happens in Japan is very different than, let's say, what's happening in Vietnam. But there are some similarities that I would say that we look at. And one is that price is very, very important. It is a very competitive world out there in terms of price. Also interesting, and I think we're all familiar with this is that many people who are just coming online are skipping desktop entirely. Everything is lived on the phone and that's very, very important.

The next thing is the super apps that are prevalent there are very important in terms of how you're going to try and get busy. If you're not part of one, you're at a disadvantage. I would also say that it's not just the super apps, but you see people who go to many different apps to compare price because price – actually download numerous different travel apps and then go through each one. Not the most effective or efficient way to find out what the lowest price is, but people do do that.

These things are really important. And I would say that it's something we're going to continue to do. David, anything else you – David, do you want to add anything?

David Goulden

Yeah. The only thing I'd add is that, whilst alternative payment methods are certainly something that's a function that's happening, you see it happening around the world, you see more of them in Asia. And the ability to transaction in multiple currencies, pay-in, pay-out in different currencies, particularly pay-in for the travel point of view in alternative payment methods is a factor that is more prevalent in Asia than elsewhere.

Glenn Fogel

Absolutely correct. People in the developed areas of the world use credit cards, people in developing worlds are using all different payment products and it's very important that we be able to use every single one because our customers are used to using those. They want to use those. And if we don't have them, they'll go somewhere else.

Stephen Ju

Thank you.

Operator

Your next question comes from the line of Justin Post of Bank of America. Your line is open.

Justin Post

Thank you. A couple of questions. It looks like pretty good ad leverage in the quarter. Just how do you feel about the advertising situation as you look forward as far as your ability to drive direct traffic and need to spend and maybe ramp up the brand campaign again?

And then, second on ADRs, obviously, a headwind in Q4. Are there any events or areas that really showed an inflection in ADR growth and something that would tell you this is very temporary and could rebound? Just wondering how to think about that for 2020. Thank you.

Glenn Fogel

So, I'll talk about the advertising. Dave, you can talk about ADRs. So, in terms of brand advertising, and I've talked about this in the last quarter, I would like us to be doing better. We are not spending as much at the beginning of the year I may have thought we would have. But as I've always said, we're going to be careful with our shareholders' money. We're not going to spend blindly. We're going to always test and learn. And if I don't see the results the way we want them, we're not going to spend until we get it right. So, I'm a little disappointed where we are. That being said, it's okay. It's not terrible. It's just not as great as I would like it to be.

I am very pleased that we have a new CMO at Booking.com. He has been there for just a few months. And I am looking forward to working with him very closely to come up with better creative and better campaigns in a way that we will achieve greater results for our brand marketing. And that brand marketing is not only TV brand marketing. It's video. It's all of the different things that one does in terms of producing a good brand campaign and I'm looking forward to doing this going forward.

David Goulden

Yeah, Justin. Thanks for the question. I'll give you a little bit more color on what's going on with ADRs because there are a number of factors. I mentioned a couple in my prepared remarks, but let me give you a little bit more flavor.

So, in the third quarter, constant currency, we saw about a 3% decline; in the fourth quarter, expecting about 4%. When we look at that, about half of that decline is due to lower rates in key countries. And the ones I call out would be US, Japan and Hong Kong being the largest contributor to that piece of it. And about half of the decline is due to a mix shift towards lower ADR countries away from higher ADR countries.

Now, some of that is affected by macroeconomic factors and those are impacting both rate and mix, and I'll describe what they are and I'll give you a flavor as to how we think they're actually playing out relative to just underlying trends.

So, for example, less China into the US is impacting ADRs in the US with less inbound international travel. So is less and less expensive travel from Europe into the US due to the strong dollar. So, factors driving US ADRs on the right level. Less travel from South

Korea into Japan is impacting ADRs in Japan. And, of course, travel into Hong Kong generally is down considerably that impacts both occupancies and ADRs there.

But these economic factors are also impacting mix as well. They don't only impact rate. They impact mix, with less travel into high ADR markets – I mentioned US and Hong Kong – and more travel to some of the lower ADR markets, for example, other markets in Southeast Asia.

So, you kind of put it all together and there are many factors that are impacting these global ADRs. It's difficult to be exactly precise, but we estimate about half of what we're seeing in the second half of this year is driven by external macro factors and about half of it is due just to underlying changes in our business. And remember also, we're comparing against two quarters where we saw unusual ADR increases last year. So, you kind of put all that together and you say, adjusted for that compare, our constant currency ADRs are down about 2% in Q3, about 3% in Q4, and about half of that we can attribute to macro external factors that should normalize over time.

Justin Post

Great. Thank you, David. Thank you, Glenn.

Operator

Another question from the line of Douglas Anmuth of J.P. Morgan. Your line is open.

Douglas Anmuth

Great. Thanks for taking the question. Glenn, I just wanted to ask if anything has changed just in terms of your role as you're Booking.com CEO as opposed to the CEO of the overall group, if anything has changed or just how you're thinking about the business? And then, any early learnings around the flight offerings in some of the newer geographies that you're in? Thanks.

Glenn Fogel

So, I'll answer the second one first. The flight thing is so early. It's literally just a couple of – there is nothing to be said about that yet, but I hope to be able to talk more about it in the future.

In regards to the new role being both the CEO of Booking Holdings and Booking.com, we talked about that in the last call. And one of the things I pointed out was, because of my experience in bringing all of the companies that are part of this organization in to be part of what was originally just priceline.com and knowing all the management teams and knowing what's good and what needs some help and where the strengths and weaknesses are and personalities of the management teams, I felt that I would have a better opportunity to try and bring together the company closer and help us work more efficiently with all of our assets.

And I'm pleased to say that I love the way things are beginning to come out the way it's good for our customers and our suppliers and our shareholders too. And I pointed out, in my prepared remarks, that Agoda and Priceline working together created that flight offering for Agoda right now. And I mentioned a little bit of the nice thing that we're seeing in our car rental business where by integrating rental cars into the Booking.com operation, beginning to see some upticks there.

I can go on and on. And I mentioned how we're going to have more of this cooperation come up with new services because the connected trip requires us to be able to use all of our assets together.

I've always talked about the reason why OpenTable was not because we just wanted to have a reservation system, a restaurant reservation system, but because we know every single customer traveling needs to find a place to eat because they're not eating at home. And by putting these things together, all the data we have from the travel part, all the things we know about what they like in terms of where they like to eat at home from OpenTable and creating merchandise offerings to these customers in a holistic seamless way is just a much, much better experience than going from site to site to site.

We have a center in Tel Aviv that has a whole bunch of machine learning experts, AI geniuses who are coming up with different ways to put together the different offerings. And we're going to continue to push that forward and that will create – and I said it earlier tonight about the differentiated service that will be able to bring people back with more loyalty, to enjoy a better experience than is being experienced before. That's what I'm so excited about. And seeing it to start come to fruition is just thrilling.

Douglas Anmuth

Great. Thank you.

Operator

Another question from the line of Eric Sheridan of UBS. Your line is open.

Eric Sheridan

Thanks so much. Maybe a few follow-ups on some of the topics you've talked about on the call tonight. In terms of avenues of investment on the marketing side, how are you differentiating between driving desktop traffic versus mobile traffic? And within mobile, web versus app? And where you're seeing the highest ROI as you think about some of those channels across investing versus driving conversion?

And then, going one layer below to conversion, what are sort of the big differentiators you're seeing that drive higher conversion when you do see traffic to your properties? Is it the payments mechanism? Is it depth of inventory, especially shared accommodations? Or is it some of what you talked about on the experiences in the local side that might be areas where you want to invest additional layers to drive more conversion as we look out not only end of this year, but out over the next couple of years? Thanks so much guys.

Glenn Fogel

Well, we're not going to disclose much in terms of where we're putting the marketing money and which ones are giving us the best ROIs. I think you'll understand our reticence to do that.

In terms of conversion, I haven't actually done – looked at the data, but I'm going to make a bet that the thing that gives the highest conversion is having a great price. That's probably the number one thing that you can improve conversion is to offer a better price.

I'm not sure how much more detail I can really go into here. I'll defer if there's anything you want to add, David?

David Goulden

No. Conversion is a multi-faceted fact. Obviously, people look for choice. They look for companies. They look for support. They look for quality reviews. They look for just the quality and the trust of the site and the products and there's a lot of good data science that goes on behind testing all those and they all have a factor. Good news is that there are many levers that we can pull to continue to improve conversion. And as Glenn said, price and value are key ones of all.

Glenn Fogel

And I'll just add to what David said. And one of the things again that you'll – that we do do and I think it is one of the advantages of being a very large player who can afford lots of data scientists and there's been a lot of money in trying to figure out what is the best personalization for a traveler and whether this person has come before or even not, but we know something about cohort. To be able to really offer them something that is what they want to buy and that's something that's very important because if you just throw up a search result that has no relevance to what they really want, you're not going to get much of a conversion.

But because of the data we have, and we have more data probably than most any other travel player around, we use that in a way to make sure that we're offering up to our customer what they want and that's how you can help create that higher conversion. They're happier. It was an easy way for them to get what they wanted that builds the loyalty, they come back, we get more data.

And again, circling back to the connected trip, the more we learn about our customer, the more we're able to then present to them all the things they wanted to know. If it's a leisure trip, what other things do they need. If it's a business trip, what things do they need. And that is just such an advantage of a smaller player and it's an advantage over any individual supplier in the travel ecosystem because they only see a small portion in their data of what the person was.

So, even the largest hotel chain doesn't know anything about their customer in terms of what sort of ground transportation they want or what sort of restaurant reservations they like to make or what kind of air they generally want to do and what kind of attractions they want. That's the advantage that a full OTA like us has.

Eric Sheridan

Great. Thank you.

Operator

Another question from the line of Heath Terry of Goldman Sachs. Your line is open.

Heath Terry

Great. Glenn, I guess at some level this is a little bit more of a philosophical question, but it relates to the answer that you gave on the brand ad spend question. But you grew revenues 4% this quarter. It wasn't that long ago that the company was growing 25%. Given the margins you're generating and what you're spending on buybacks, it's clearly not a question of resources. Are the incremental returns on investment that bad? Are you okay with long-term growth at these levels? Or is there a path back to 20% growth that you could see the company getting to?

Glenn Fogel

Well, I don't want to go to any specific number, but I do believe that it's important we create services that people want to come back enough that we can accelerate. I'd like to do that. That's part of the reason we're making these investments. And I think in the long run, the thing is creating that great service that gets us loyalty from the people who currently come and keep coming and then creating that brand marketing of us, if you'll know about this better system and come to us and then use it. It's one of those things that, in these network economies, that when you create something that really is differential and better, the uptick can be very, very rapid. So, hopefully, and I believe we will be able to do this, creating these better services, creating this better experience, being able to provide an opportunity for all of our suppliers, this incredible breadth of suppliers in all different parts of the travel ecosystem, offering them an opportunity to reach out to our customers in this merchandising ways, different packages, different types of prices, different types of value and being able to present it to, on the other hand, our demand side which is so huge make it so much better that then creates that flywheel effect and have it start cranking up again. That's what I'd like to see.

Heath Terry

Okay. And is there – anything you can add just sort of on what you are seeing in terms of the incremental returns in the areas of investment, particularly on brand advertising? As a percentage of sales, this is the lowest you've spent in, I think, nearly three years. Given how important you've called out driving direct traffic is, I guess, I'm just surprised that you haven't tried to push that a little bit further?

Glenn Fogel

Well, I guess – and you asked for philosophically and I'll go back to that then. Philosophically, I'm against wasting money. And I want to make sure that we're getting the return for the money we spend. And again, our brand campaigns are fine. They're just not as good as I'd like them to be. So, when I say I'm disappointed, I'm not saying [indiscernible]. I'm just saying they're not as good as they could be. Some of the brand health metrics that we've seen have been good. Some have not been as good. I am very excited though about our new CMO. He had nothing to do with the old campaigns. These are new things that we're working on now and I'm looking forward to seeing some good results in the future with him.

Heath Terry

Okay, great. Thanks, Glenn.

Operator

Next question comes from the line of Brian Fitzgerald of Wells Fargo. Your line is open.

Brian Fitzgerald

Thanks, guys. You talked to these questions, but maybe I just want to parse out a little differently. David, you highlighted direct traffic is growing faster than paid. And, Glenn, you talked to the importance of – a number of times on the call, the importance and the continued focus on direct traffic. How would you assess the magnitude and/or the quality of your direct traffic and the initiatives that you're exercising there? How much runway or leverage do you feel you have to execute against getting more direct traffic into you? Thank you.

David Goulden

Brian, in terms of just quantification, just to recap, I think everybody knows us, but we've been clear that, for a while, direct traffic has continued – has been over 50% of our bookings and continues to increase from that data point. So, that's where it is from a sizing point of view and continues to move nicely each quarter. I don't think we have – for the capital and where we think that can go, there will always be a mix. We think that's – as we said, the performance channels, albeit growing more slowly, are a very efficient way for us to capture new customers and we like what we see there. When we see growth opportunities, we lean into them and we think it's a combination of both. And then, of course, as Glenn said, the more we build, the better flywheel, the better the conversion will be from those performance-led customers into direct customers and repeat customers. So, that's the way the business now operates, but there's not really a lot of new data to give you other than reiterate the points that we've already made.

Brian Fitzgerald

Great. Thank you, David.

Operator

Next question comes from the line of Jed Kelly of Oppenheimer. Your line is open.

Jed Kelly

Great. Thanks for taking my question. Just on one. In the US, how do you view the opportunity of sort of getting more for by owner or that inventory that's a little – has a little more friction and bringing that over to your side or would that help your brand campaign in the US? And then, any commentary on Ctrip investing in TripAdvisor? Thank you.

Glenn Fogel

So, we've talked in the past about how we think we are under indexed in terms of the single property owner in the US. We know that's an area where we need to add inventory to have a fully competitive source of inventory against people who want that type of a place to stay. And we came to work on that. Obviously, we have a lot of different ways that we try and bring people on to the site and get – make it less burdensome to have people come on. That's something we're going to continue to do. It's blocking and tackling. And we're slowly building it out. So, that's the best I can say there. It continues to grow as we continue to add that type of inventory into the website and the inventory.

In regards to the Ctrip deal that we saw announced, we continue to create partnerships ourselves. And we have a good partnership with Ctrip and they sell our hotels and we make money and we're happy about that. We also, though, said an agreement with Meituan, which is Ctrip's big competitor and we have good business and we have a good relationship with them too and we have a relationship with Didi, which is another Chinese player. And we have – as you know, we invested in Grab, as I talked about earlier, and we've put an investment into another APAC player, Serko, down in New Zealand. So, we continue to make those kind of investments and partnerships.

It is not surprising that our competitors or other people in the space would also be thinking about doing those type of deals, et cetera. And I don't begrudge anybody who wants to improve their own position. That is the obligation of any corporation, to try and improve their business for their shareholders. And I suppose that's what they've done, but I have no details exactly about what the deal is. So, I really can't comment on the specifics.

Jed Kelly

Thank you.

Operator

Your last question comes from the line of James Lee of Mizuho Securities. Your line is open.

James Lee

Glenn, is there any way you can give us an update on your current transition to the merchant business model here and what is the coverage now relative to total market at this point?

And maybe help us understand which regions you're seeing success? And do you also expect US hotel partners to adopt this model soon?

And just curious, given the slowdown in the market, is this business model giving you the price control to help you to be more resilient during the current environment? Thanks.

Glenn Fogel

Well, let me talk about the resilience in the travel business in general. In the past, when there have been slowdowns, the distributors have achieved greater success because of the need for the suppliers to get more customers. So, that is something that we believe will happen again when and if there is a true slowdown. As I pointed out, the industry is still, I believe, generally healthy around the world with pockets that we've described earlier.

I do believe that, in the long run, the growth in the industry will continue to exceed GDP by a few points and that is the way we always plan it out. So, there's going to be always some ups and downs in the long run. But, yes, we may gain a little more when there is a recession. And when occupancy rates are very, very high, there obviously is less need for a distributor like us.

But in the long run, we'll continue to provide greater services and greater benefits to both sides of this two-sided marketplace that will allow us to achieve the success that we think we should. And, David, anything about the merchant stuff?

David Goulden

Yeah. James, on merchant – and, obviously, just to clarify, the shift we're talking is the kind of rollout of the merchant platform of Booking.com at Agoda and Priceline and we do a lot of business on the merchant model already today. Booking.com, we continue to make progress. We gave you a data point a couple of quarters ago as to how many countries we're live in. We're continuing to add to that. We're continuing to add merchant capabilities in the US and make those available to a wider range of our property partners here as well. So, continuing to grow, as I mentioned earlier Mix increasing from 2018, but we're not going to give you a new data point on that just yet. At some point in time, we'll give you an update.

So, we're pleased with how that is progressing and we're pleased with how it is giving us some additional flexibility in the business. And, of course, it's very important to underpin a lot of what Glenn talks about with the connected trip because if you want to really have a connected trip, you want to also be able to connect and aggregate the way that you pay for that and also be able to do things around packaging, pricing, payments, et cetera, through – and the merchant platform provides a mechanism for that as well. So, we are pleased with it. It's making progress today and it will be a bigger driver for us in the future.

James Lee

All right. If I may ask a follow up question, Glenn, maybe help – give us an update on your view on China. I know you've been bullish for a long time. Now, given the fact that looks like global payments happening in China that allow you to work with Didi as a way to provide additional service to Chinese consumers domestically. And maybe help us understand what other steps that you're taking to improve your service. Is it more the customer segment type of strategy where you feel you have an edge in certain segment or consumer within China or is it more of the blanket strategy to go after big TAM in China specifically? Thanks.

Glenn Fogel

And we've said this many times, how important China is in the long run. And, yes, there are some economic headwinds in China right now that have impacted travel in general there. And, certainly, we've talked a little bit earlier about some of the outbound impacts. We have a multi-leg approach and we do everything from building out our own brands there to partnerships with OTAs, like Ctrip or Trip.com as it's now known or Meituan or ground transportation like Didi or many other B2B players where there is places where we can get customers.

We have almost 1,000 employees in China. We are doing all different types of brand marketing and other ways to try and to get people to see our services and get people to come to us directly. Or as I just said, we also get customers through the B2B method too.

I will emphasize, though, China is a very competitive marketplace. And we have to always be trying to create the best services with good prices to be successful there. But we're going to continue to develop and work there because we do know that, for the long run, we need to create something that will be – something that the customers in China will want to use. And I'm pleased with where we sit right now. And I hope we continue to grow in the future.

Glenn Fogel

So, thank you, everybody very much. I'd like to say that we're pleased with the quarter. We're excited about the future. And we look forward to talking to you again in the New Year. Thank you very much.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.