BERNSTEIN

Global Hotels & Leisure

The Long View: Hotels vs OTAs - America's next top (business) model

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Our recent launch on the Online Travel Agencies (Online Travel Agencies (OTAs): No more worlds to conquer. Initiation of coverage) led to some asking why we, hotel analysts, are covering internet stocks? For us the response to this is that the lines between hotel companies and the OTAs have blurred, with the hotel companies (Hilton, Marriott) now asset light and primarily distribution channels for 3rd party owners and the OTAs increasingly investing in loyalty programs and even soft brands. This Long View looks at the deeper comparison between the two sets in terms of fundamentals, customer proposition, hotel owner proposition and the impact of the growth of Google and Airbnb in travel. Our resultant conclusion is that we see the hotel groups as better placed, with the stickiness that comes from a contractual relationship with hotels, a distribution model that enhances hotel profitability, growth visibility from material pipelines and less to fear from Airbnb and Google.

Lines are blurring between hotel groups and OTAs. Historically, hotel groups owned and operated the hotels, but this is becoming increasingly rare and are positioning themselves as distribution, loyalty and technology platforms for 3rd party hotel owners. The OTAs were historically just distribution platforms but they too are investing in loyalty and technology as services to owners/guests. With soft brands (e.g. Autography Collection, MGallery) the brands are even stepping back from standardised formats as a sales point, whereas Kayak (owned by Booking) and Fliggy (owned by Alibaba) have both showed OTAs can even launch their own hotel brands. Even the business/leisure lines are beginning to blur. The fragmented and growing travel market leaves room for all, but this note explores who is best placed over the long term.

Simplistically – Hotels vs OTAs - a choice of distribution channel. From a guest's point of view the advantages of OTAs are clear (choice and efficiency); however, it is not the consumer that chooses the channel, but the owner who either chooses to join a franchise network and rely on the brand to support distribution (e.g. Hilton's loyalty program supports >60% of bookings) or remain independent and rely on the OTAs as the primary distribution channel. From a purely financial point of view, we see clear advantages to joining a branded network, leveraging the group's scale to drive margin uplift in distribution, procurement and operations. However, hospitality is rarely solely a profit chasing industry and likely some hotels will prefer the independence and control that selling through the OTAs affords them.

Market opportunity within lodging greater at hotel brands than OTAs. The last 15 years have seen the OTAs materially outpace hotel groups – in 2006 Booking was 10% the size of Marriott but is now 40% bigger. However, we see the big hotel groups able to continue their 7-8% revenue CAGRs (2% RevPAR, 5-6% unit growth) for another 30-40 years, both through new builds and accelerating conversions. This growth is also naturally accretive to margin as it comes at near zero incremental opex or capex. For Booking & Expedia, the drivers of growth (online penetration, wins from direct, consolidation of the OTA market) are beginning to slow and any growth from here is likely to be slower and/or at diminishing margins. At similar valuations today we would be more favourable towards hotel groups.

Analyst Page   Bernstein Events   Industry Page

BERNSTEIN TICKER TABLE

Ticker	Rating		15 Mar 2021 Closing Price	Target Price	TTM Rel. Perf.		EPS Adjusted 2020A	2021E	2022E	P/E Adjusted 2020A	2021E	2022E
BKNG	U	USD	2,401.04	1,890.00	23.9%	USD	3.26	32.94	75.53	737.5	72.88	31.79
EXPE	M	USD	174.59	156.00	107.7%	USD	(8.78)	(1.88)	5.12	(19.88)	(92.83)	34.12
TRIP	O	USD	59.79	58.00	226.6%	USD	(1.24)	0.53	1.83	(48.33)	112.9	32.69
AC.FP	O	EUR	34.58	46.00	3.0%	EUR	(4.38)	(0.64)	1.76	(7.89)	(53.66)	19.64
IHG.LN	M	GBp	5,178.00	5,000.00	15.0%	USD	0.31	1.13	3.01	230.4	64.07	23.94
HLT	O	USD	126.10	137.00	14.5%	USD	0.10	3.03	4.52	NM	41.64	27.92
MAR	M	USD	150.20	144.00	13.0%	USD	0.18	2.76	5.70	829.8	54.46	26.34
MSDLE15			1,703.71				71.46	95.97	110.48	23.84	17.75	15.42
SPX			3,943.34				170.56	196.84	196.84	23.12	20.03	20.03

O - Outperform, M - Market-Perform, U - Underperform, N – Not Rated

BKNG,EXPE,TRIP,HLT,MAR close date is 03/12/2021;.

INVESTMENT IMPLICATIONS

We rate Booking Holdings as Underperform, Expedia as Market-Perform, Tripadvisor as Outperform.

We rate Hilton and Accor as Outperform and IHG and Marriott as Market-Perform.

Further reading:

+ 2020 Blackbook on the Covid impact and beyond: Global Hotels: Back on the Road or Up in the Air?
+ Blackbook on Hotels vs OTAs: Global Lodging: Hotels vs. OTAs - BLACKBOOK
+ Initiation on the OTAs: Online Travel Agencies (OTAs): No more worlds to conquer. Initiation of coverage
+ Google's role in the travel space: Online Travel Agencies: Alphabet Soup. Why Google matters? The key question post initiation
+ Addressing Airbnb's TAM and its relevance to other players: The "TAM"inator: Sizing market, fears, and dreams - is Airbnb's monster TAM open to other travel companies?
+ Debating the case for pent-up demand: Global Travel: The case for and against pent up demand
+ Top picks – Tripadvisor: Tripadvisor: A positive review. Deep dive into our Outperform thesis
+ Top picks – Accor: Accor: La vie en rose - Outperform thesis deep dive
+ Deep dive on our anti-consensual view on Booking Holdings: BKNG: Booking.yeah or Booking.beware? Our bear case - and how the bulls respond

DETAILS

HEADLINE SUMMARY TABLE

EXHIBIT 1: **Hotels vs OTAs: summary table**

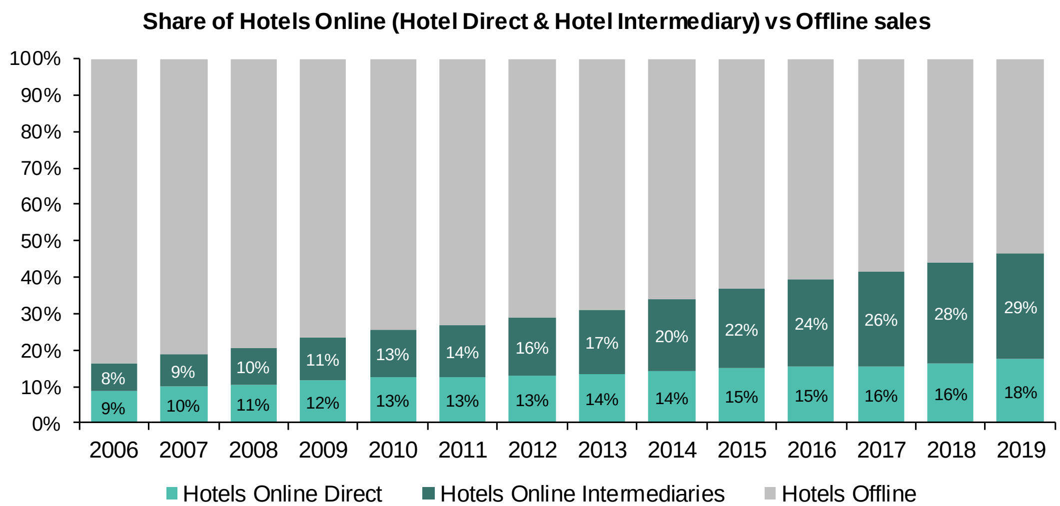
		Hotel Brands		OTAs	
		Hilton (OP)	**Marriott (MP)**	**Booking (UP)**	**Expedia (MP)**
Structure	What do they do?	The hotel brands are fundamentally asset-lights, not owning the hotels, but instead franchising them from third party hotel owners. They are in the business of distributing the branded hotels to customers.		The core business for the OTAs is facilitating a booking between a hotel (branded or independent) and customer. They also have a presence within private rentals, flights, metasearch, car rentals and restaurants (Booking with OpenTable).	
	Business Model	The asset-light hotels collect franchise and management fees from third party hotel owners.		(1) Merchant Model: OTA buys rooms from the hotel and sells on at a marked up price (2) Agency Model: OTA collects commission from the hotel	
	Stock thesis Overview: *We are confident on the asset-light hotel brands, and more cautious on the OTAs*	The beauty of the asset light business allows growth to come at near zero incremental cost, allowing the hotels to quickly gain market share. The **hoteliers will also come out of the pandemic stronger**, with increased conversions, higher exits from independents and increased direct bookings (aided by improved tech). We see Hilton as best-in class: (1) less cyclical franchise model compared to Marriott and (2) higher unit growth (6.4% in 2019 comapred to Marriott's 4.8%) with better visibility on constructions and brand launches.		The **core hotel distribution is slowing** as online penetration saturates, OTA intermediary bookings start to revert to direct-to-hotel (aiding Hilton, Marriott) and market share gains slow. Booking is most concentrated within lodging (90% of revenues) and suffers the most from the slowdown. Expedia, though also exposed, is more diversified with presence in B2B, flights and private rentals (VRBO) as well as having better cost savings abilities.	
Revenue	2019 Revenue ($mn)	$9,452	$20,972	$15,066	$12,067
	3-year revenue CAGR (2017-19)	5.1%	0.8%	13.5%	11.2%
EBITDA	2019 EBITDA ($mn)	$2,308	$3,575	$5,855	$2,134
	2019 EBITDA Margin	60.8%	66.5%	38.9%	17.7%
	3-year Margin expansion (2017-19)	6.7%	3.9%	0.5%	-0.4%
Covid impact	FY20 Revenue growth (YoY)	-54.4%	-49.6%	-54.9%	-56.9%
	FY20 EBITDA Margin	51.7%	54.1%	13.0%	-7.1%
Forecasts	2019-2024E Revenue Growth	10.2%	12.2%	6.2%	8.2%
	2019-2024E EBITDA Growth	25.5%	26.8%	-7.6%	29.6%
	2024E EBITDA Margin	65.9%	70.7%	33.8%	21.2%
Other	Number of hotels (2019)	6,110	7,349	460,000 hotels, 2.12m private rentals	835,000 hotels, 2.1 private rentals
	Business/Leisure Mix	75% Business, 25% Leisure	50% Business Transient, 20% Group, 30% Leisure	OTAs predominantly leisure pureplays: ~90% leisure, ~10% business	
	Domestic/International Mix	95% US travellers domestic	96% US travellers domestic	~30% domestic, ~70% international	~50% domestic, ~50% international
	"Take Rate"	~15%	~15%	15.6%	11.2%
Valuation	EV/EBITDA (NTM+1)	18.2	17.5	17.2	12.8
	Rating	**OP**	**MP**	**UP**	**MP**
	Our current TP	$137	$144	$1,890	$156
	Current Share price	$125	$149	$2,362	$171
	Potential upside/downside	9.9%	-3.2%	-20.0%	-8.8%
	Current Market Cap ($mn)	$34,607	$48,283	$96,754	$24,612

Source: Company reports, Bloomberg, Bernstein analysis & estimates. Note: EBITDA margin for Hilton and Marriott excludes cost reimbursement from revenue. Number of hotels for Marriott and Hilton include those from timeshare.

BATTLE FOR THE BOOKING – THE CUSTOMER'S PERSPECTIVE

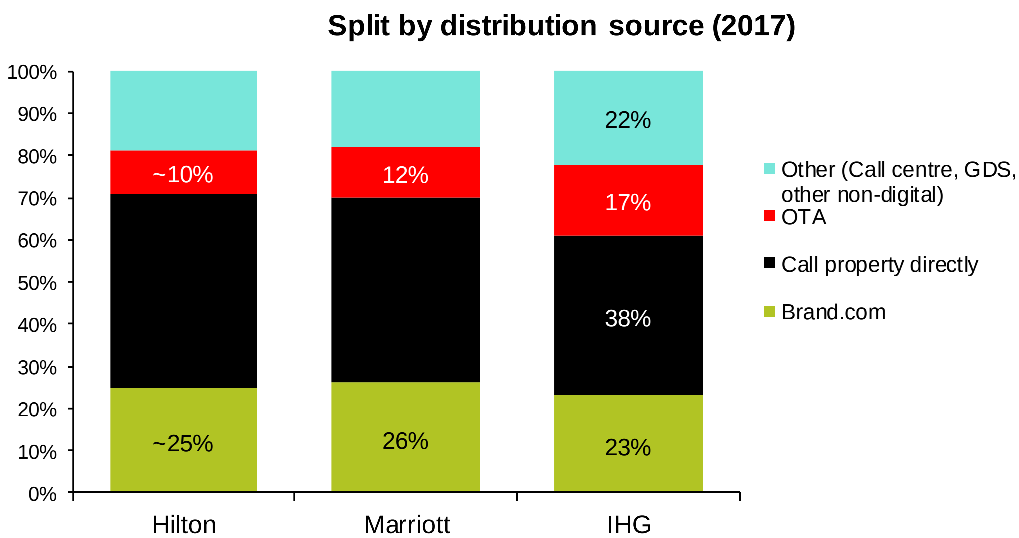
In the last ~15 years, we have seen the rapid growth of the online travel intermediaries, who have grown their market share of the hotels market from 8% in 2006 to 29% in 2019, benefitting from a rapid shift to online bookings. Direct hotel bookings have also grown their share, but at a much slower rate, from 9% in 2006 to 18% in 2019. As the OTAs have grown, so has the hotels' reliance on them for bookings. Hilton and Marriott have said ~10-12% of their revenues are sourced from OTA partners, but with a large majority of bookings still going through their respective websites or by customers calling the hotel directly (Exhibit 3). IHG gives a historical time series of their distribution split, showing that % revenue from OTAs has grown from 2% in 2005 to 18% in 2018 (Exhibit 4).

EXHIBIT 2: **The hotels market has seen a rapid shift to online, primarily led by the online intermediaries (OTAs) who have outpaced hotel direct bookings in the last decade**



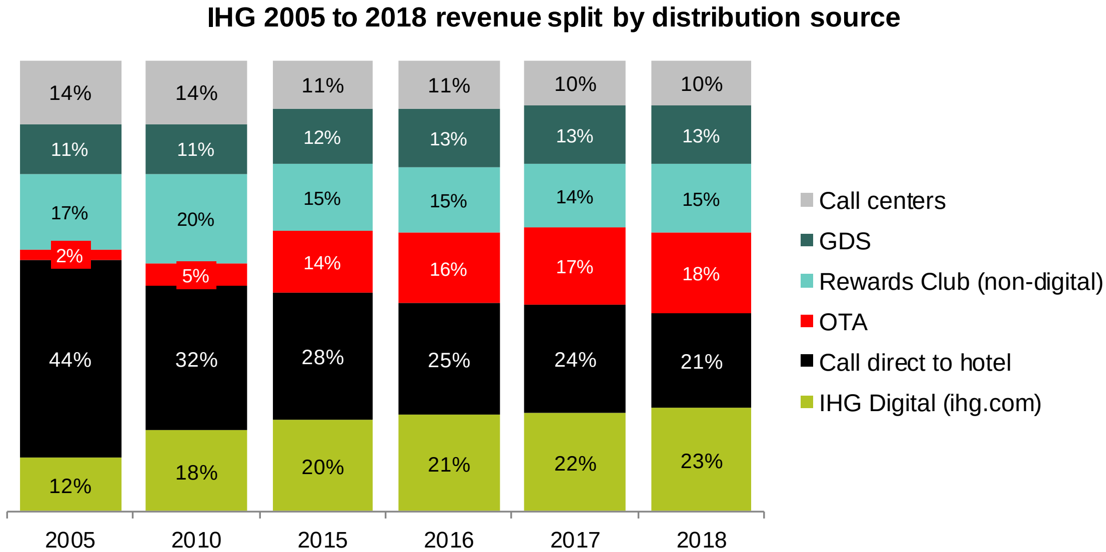
Source: Euromonitor, Bernstein analysis

EXHIBIT 3: **: Hilton and Marriott have similar reliance from OTAs at ~10-12% of revenues. IHG is the most reliant at ~17-18% of revenues from OTAs, but is more exposed to China and Europe which are further along the curve to online penetration than the US**



Source: Company reports, Company conference calls, Bernstein analysis. Note: The companies (bar IHG) do not explicitly give out % of revenue by distribution source, but we can get an idea from conference call comments

EXHIBIT 4: **A historical progression of revenue by distribution source shows that traffic from OTAs and ihg.com has mainly taken share from calling the hotel directly (though this has reversed during Covid as more people call up directly to ensure the hotel is open, ask for local knowledge and ensure cancellation flexibility)**



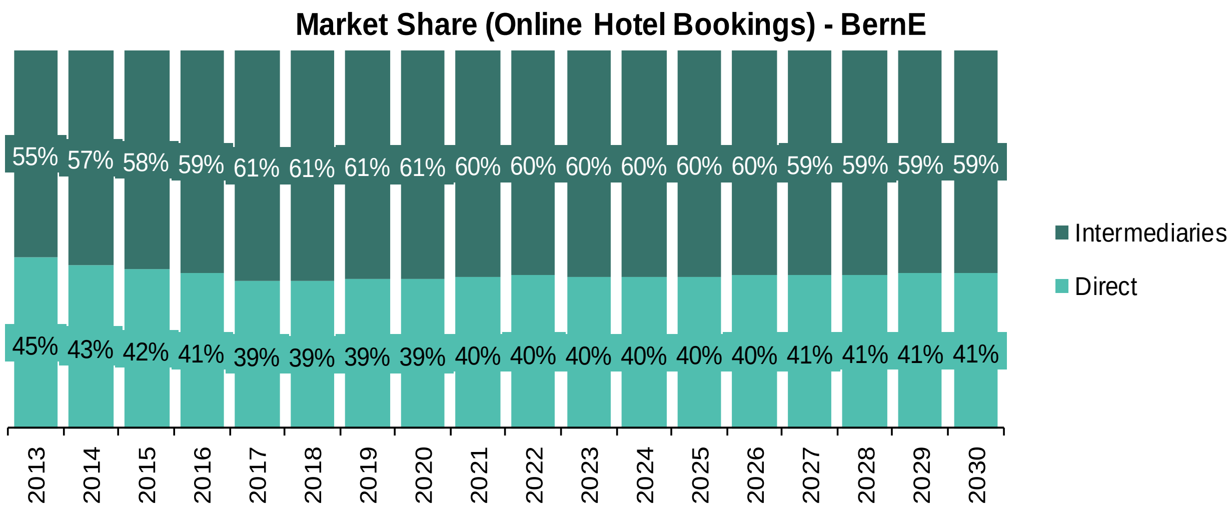
Source: Company reports, Bernstein analysis

Though the OTAs grew rapidly in the last decade, direct bookings are fighting back, reversing some of the share losses in the last decade. Exhibit 5 shows that recent trends of slowing intermediary share of online hotel bookings will see a reversal of direct bookings winning more of the pie. Furthermore, as brand penetration rises (accelerated by increased independent conversions to the branded network, growing loyalty programs and advancements in hotel tech), we see a direct correlation with online bookings made direct (Exhibit 6). The brands are also working harder than ever to drive direct bookings by offering increased perks/optionality if you book direct (mobile check in, choose your own room, access to ancillaries), Exhibit 7. This combined with increased brand penetration will likely work against OTAs gaining share. The hotel brands are also seeing a shift back towards direct bookings throughout the pandemic:

+ In Q220, IHG said "**customers are really liking to book direct**. Many of them had some very bad experiences in the downturn where they hadn't booked direct and had used third parties and had very difficult times getting refunds and cancellations through those third parties".

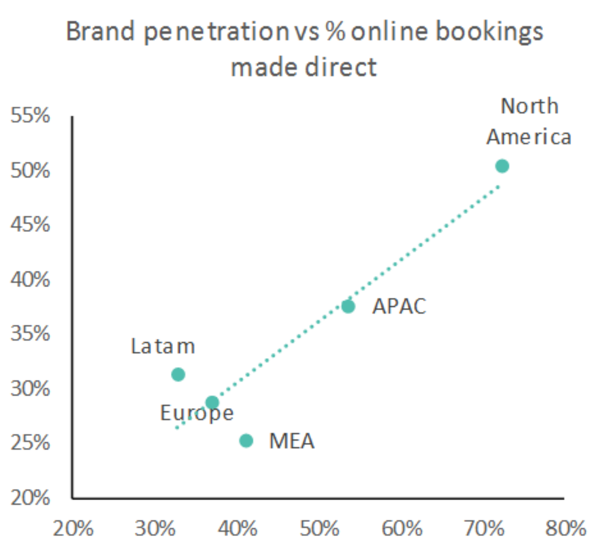
+ Hilton said: " In this environment, …, the biggest bucket of demand is the lower priced leisure demand, that would typically favor OTAs. That is typically what we have used over time the OTAs for, to supplement the other pools of our demand that we have very direct access to. And so, you would think this would mean that our distribution channel mix would be shifting in that way. But reality is it has not… the OTA business, from a distribution point of view, has held relatively constant. **Our direct channels are growing at a faster pace**. And that is, as I said, that is because of our actions. Not so much in what we're doing with the OTAs, but very much how **we're spending our marketing dollars and how we are orienting our Honors programs to access that type of [leisure] customer".**

EXHIBIT 5: **The last few years has seen slowing intermediary share gains of hotel bookings, with this trend suggesting a reversal of direct winning more of the online pie**



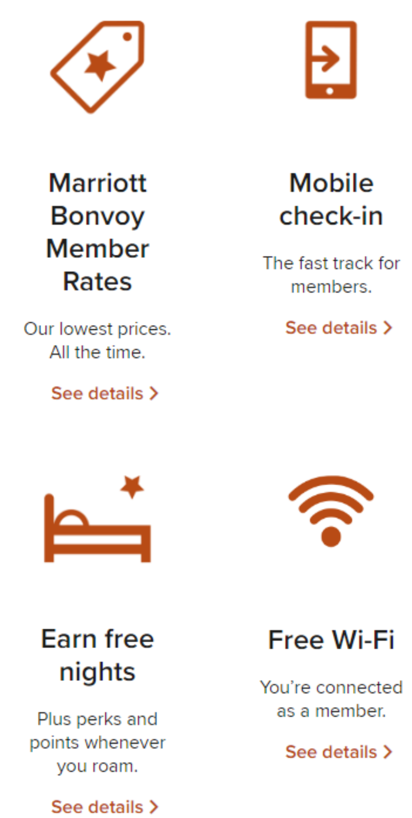
Source: Euromonitor, Bernstein analysis

EXHIBIT 6: **We can see that as brand penetration increases, more bookings go direct**



Source: Euromonitor, Bernstein analysis

EXHIBIT 7: **Marriott's "It pays to be direct" perks for Bonvoy members**



Source: Company website

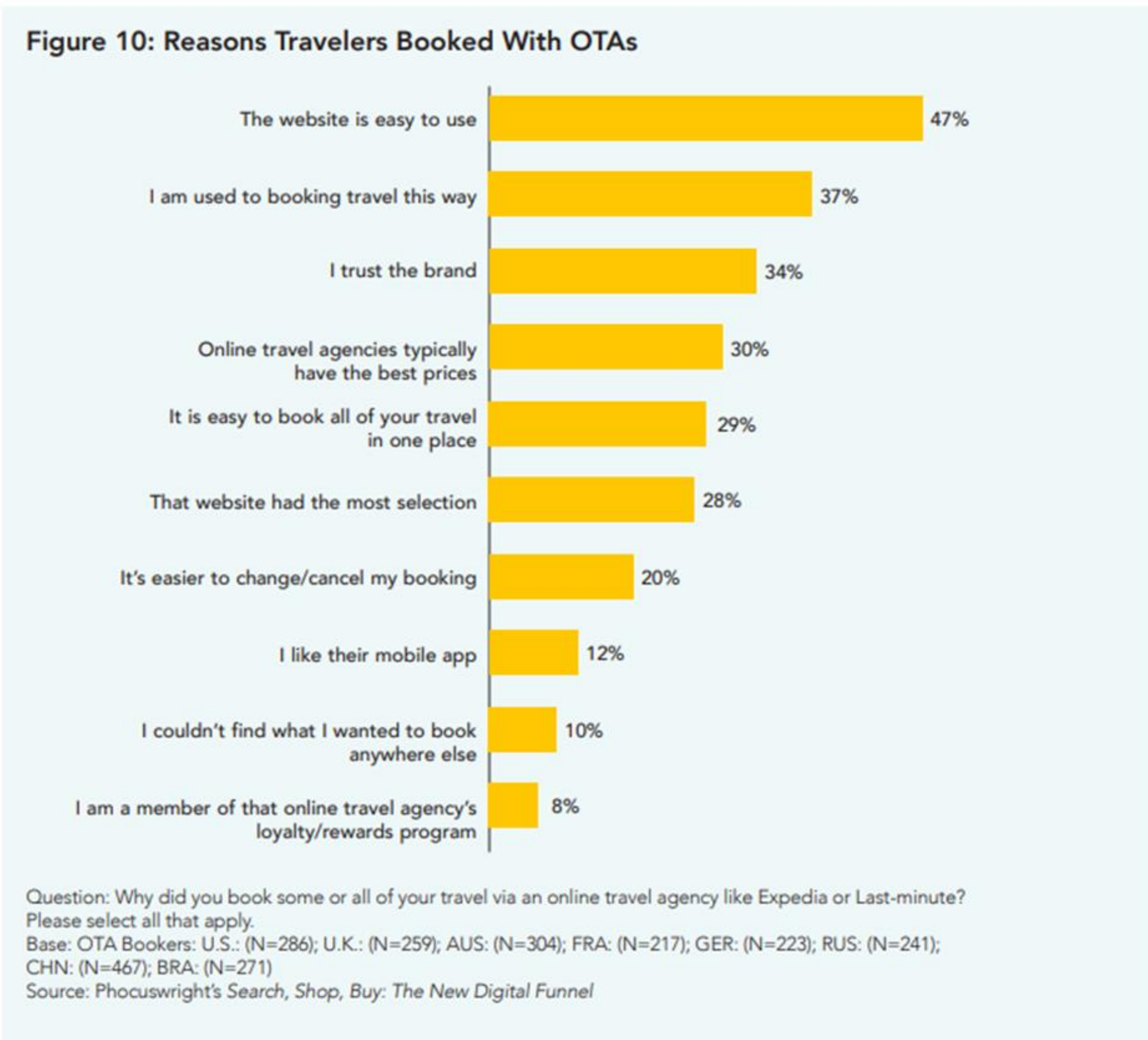
For guests, the OTAs provide more choice, slicker booking experience, and (the perception of) lower prices

The OTAs and metasearch business model relies on being the go-to site to compare and book hotel rooms – so why do consumers use them?

According to the large survey run by Phocuswright in 2015, there are multiple reasons given with the most prominent being (Exhibit 8):

+ Ease of use of the websites
+ Trust the OTAs, and familiarity with booking with them
+ Best prices (or perception thereof)
+ Most choice

EXHIBIT 8: **Ease of website use is cited as the number one reason by travellers booking with OTAs, followed by brand trust and pricing**

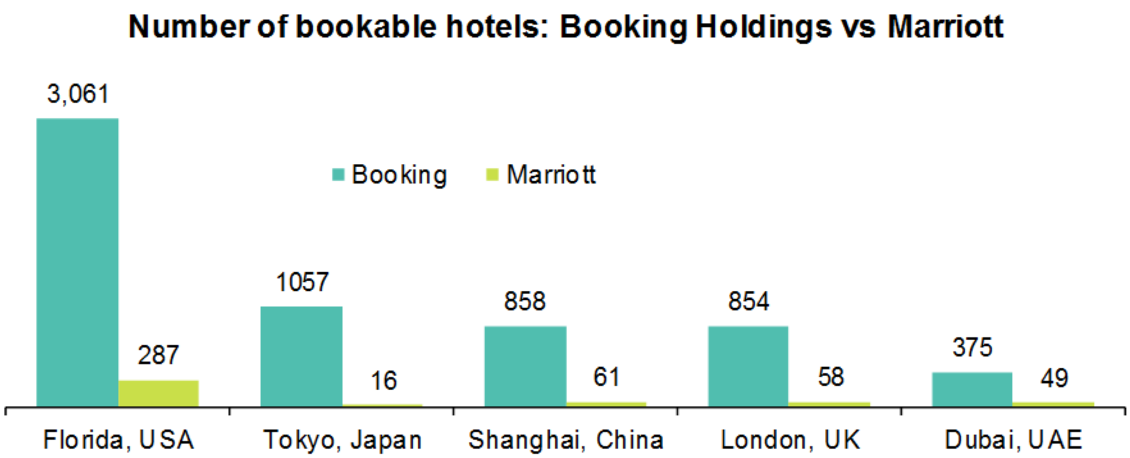


Source: Phocuswright

OTAs offer guests a wider choice of hotels than brand websites

+ The key differentiator for the OTAs from a consumer point of view is the breadth of choice their sites can offer compared to going directly to hotel brand websites.
+ In its Q3 2020 10-Q, Booking Holdings describes its 450k hotel listings (including motels and hostels), which is almost 60x higher than the 7,579 hotels in the Marriott system globally at Q3 2020.
+ Conducting a web search yields similar results: in most cities or regions, Booking.com offers >10x as much choice to travellers looking for a hotel than Marriott's website does (Exhibit 9).
+ Google's entry into the metasearch space provides the greatest challenge to this, as they can act as a primary search tool with even greater choice than the OTAs.

EXHIBIT 9: **Even excluding Booking's non-hotel accommodation listings, it still offers >10x the number of hotels on its site than the largest hotel group, Marriott**



Source: Company websites (search conducted November 19th, 2020), Bernstein analysis

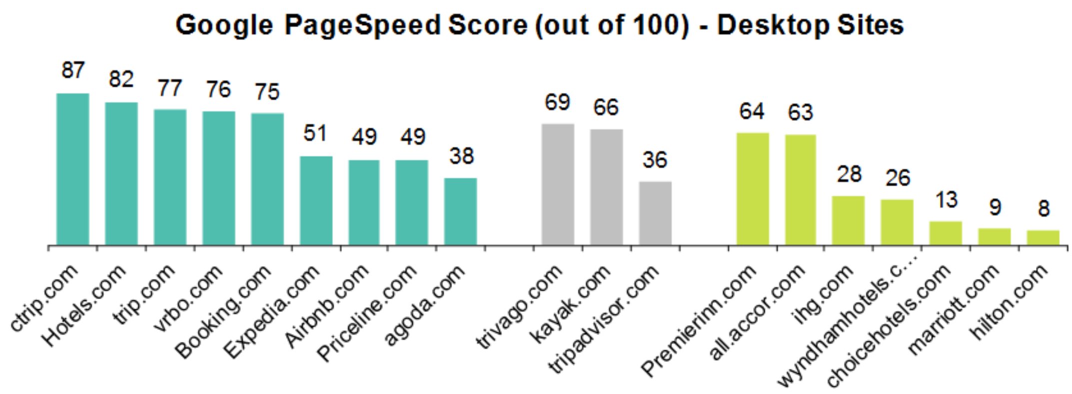
Google, however, is able to replicate that choice advantage, see the section below.

Better websites

In addition to a wider array of inventory, the OTAs have clearly been successful and have devoted more capital into designing more functional websites which are favoured by consumers. One aspect is loading speeds: we ran a speed test using Google's PageSpeed tool and found that while most OTA sites scored above 75 out of 100 on speed metrics (Exhibit 9), the hotel direct sites scored as low as 8 out of 100 (Hilton.com), which likely puts off consumers and encourages OTA bookings.

This would also extend to better apps: booking.com and Hotels.com both have a 4.8/5 average score on the Apple App Store, whereas Accor has a 4.5 score.

EXHIBIT 10: **OTA websites are typically highly functional, and we found scored higher on website loading speeds: this aids conversion and ease of booking via an OTA compared to direct**



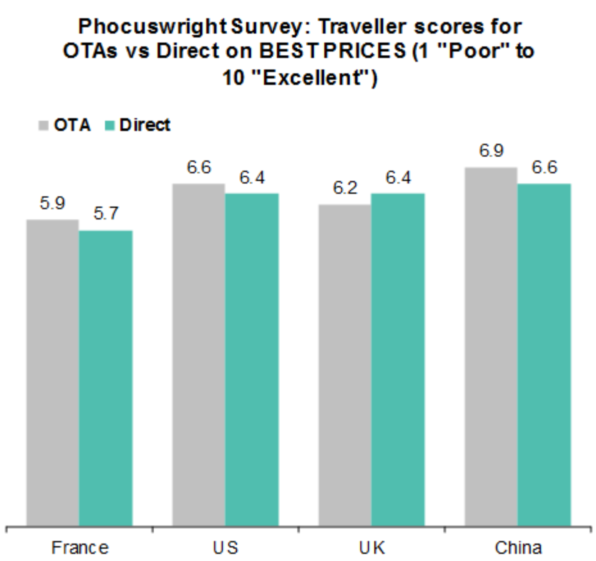
Source: Google PageSpeed, Bernstein analysis
Speed test analysis run on November 9th 2020

Perception of better prices

As we mentioned above, OTAs are most typically used by price-sensitive customers: implying that customers shopping for a deal think they are more likely to find one on an OTA than by going directly to a hotel. This is a common finding in most surveys: there is a perception among consumers that OTAs offer discounted prices compared to direct bookers.

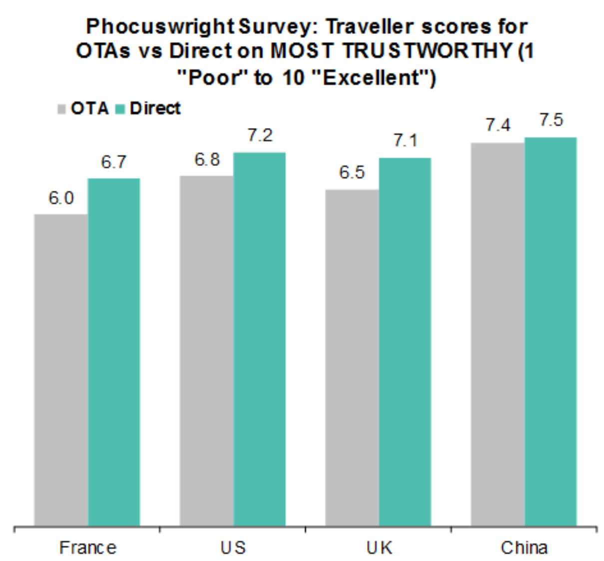
+ In Phocuswright's survey in 2015, it found that traveller scores on OTAs for "best price" favoured OTAs in France, the US and China (although interestingly not in the UK, perhaps a result of the market leader, Premier Inn) (Exhibit 11). This was despite consumers considering OTA sites less trustworthy than direct (Exhibit 12).

EXHIBIT 11: **Travellers tend to score OTAs higher on better prices than they do hotel direct**



Source: Phocuswright, Bernstein analysis

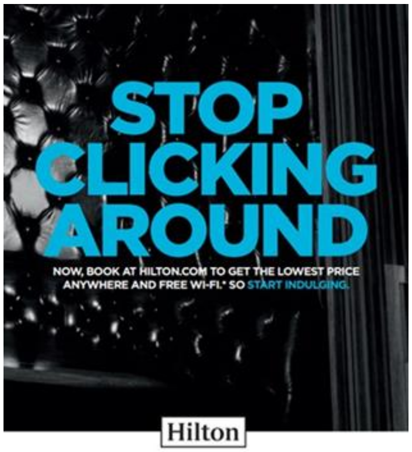
EXHIBIT 12: **With the opposite true on how much they trust the two sources**



Source: Phocuswright, Bernstein analysis

Hotel groups have invested significantly in recent years to correct this perception and drive direct bookings by marketing their loyalty rates (which can only be accessed directly) and encouraging users to "stop clicking around". Hilton and Marriott have both run prominent ads in recent years (Exhibits 13 & 14), and have seen direct bookings increase.

EXHIBIT 13: **Hilton's direct booking campaign helped drive direct bookings**



Source: Company website

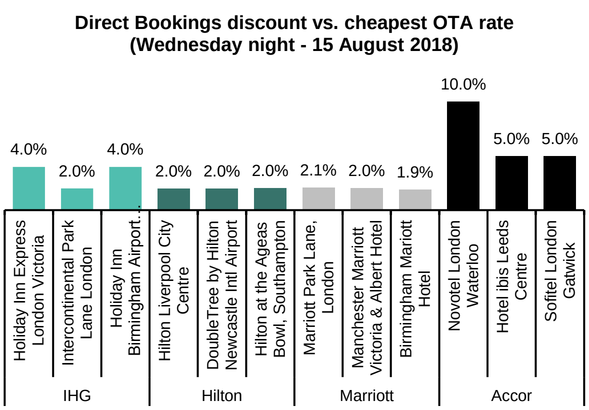
EXHIBIT 14: **Marriott was also successful with a similar strategy to promote direct booking**

Source: Company website

In general, and likely against perceptions, booking direct does tend to offer discounts, particularly at big brands where wholesale rates can be controlled and loyalty schemes carved out of price parity rules (Exhibits 15 & 16).

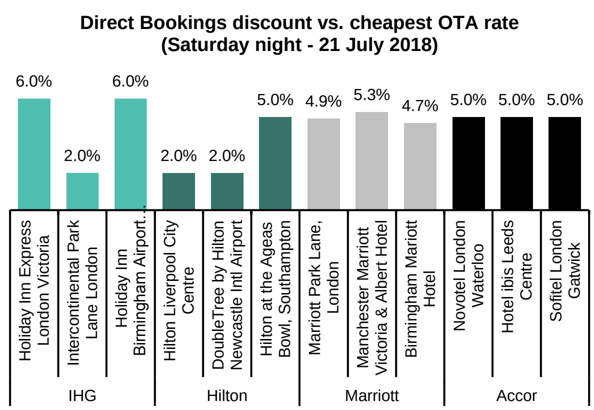
This was unlikely to be an issue for the perception of price parity for the OTAs without Google now giving visibility to that cheaper direct rate, challenging the perception of price leadership.

EXHIBIT 15: **In general it is 2-5% cheaper to book direct than via an OTA**



Source: Company websites, Bernstein analysis

EXHIBIT 16: **With bigger discounts at the more leisure heavy weekends**



Source: Company websites, Bernstein analysis

Loyalty Schemes

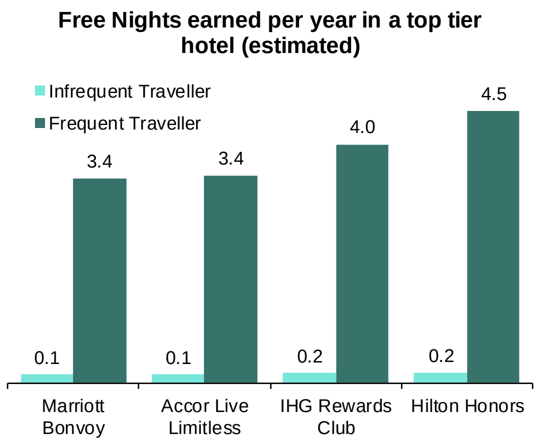
Guest loyalty schemes have been a vital tool that travel suppliers (airlines, hotels) have used to increase direct bookings and also increase the value of their networks to hotel owners. These have moved from being solely earn & burn points based offers which benefit the most hardened travellers (<50 nights per year) to being much more rounded offers, allowing members to earn higher status, spend points on experiences, upgrades, F&B which has made them more applicable to a wider range of guests, both business and leisure.

We have written in the past about the value of the hotel loyalty schemes to consumer

+ Weekend Consumer Blast: Hotel loyalty ... or what money can't buy
+ Weekend Consumer Blast: What does loyalty to a hotel brand really get you?

As we found in the top piece from February 2020, to get the most value out of hotel loyalty points redemptions, it pays to be a frequent traveller (Exhibit 17). The assumptions behind this analysis assumed a member earned points in lower tier hotels as a business traveller, and wanted to redeem nights in the highest tier luxury hotels (Exhibit 18).

EXHIBIT 17: **Hilton Honors earns the most free nights for a frequent business traveller (60 nights), but none of the programmes offer enough points for infrequent travelers (~7 nights per year) to earn a free night in a luxury hotel**



Source: Company websites, Bernstein estimates & analysis

EXHIBIT 18: **Our analysis looks only at points earned and redeemed through stays, and does not include credit card deals (which can be significant for earning points)**

IHG Rewards Club	Normal leisure traveller	Business warrior
Stays	7 stays at Indigo	60 stays at InterContinental
Status	Club	Spire Elite
$ value of one night	160	210
Points value of one night	1,600	4,200
Points earned per year	11,200	277,000
Redeem	1 night at Regent	1 night at Regent
Point cost	70,000	70,000
Free nights earned	0.2	4.0

Accor Live Limitless	Normal leisure traveller	Business warrior
Stays	7 stays at Pullman	60 stays at Sofitel
Status	Classic	Platinum
EUR value of one night	150	260
Points value of one night	375	1,144
Points earned per year	2,625	68,640
Redeem	1 night at a Fairmont	1 night at a Fairmont
Point cost	20,000	20,000
Free nights earned	0.1	3.4

Hilton Honors	Normal leisure traveller	Business warrior
Stays	7 stays at Tru	60 stays at Hilton
Status	Silver	Diamond
$ value of one night	160	300
Points value of one night	1,920	6,000
Points earned per year	13,440	360,000
Redeem	1 night at a Conrad	1 night at a Conrad
Point cost	80,000	80,000
Free nights earned	0.2	4.5

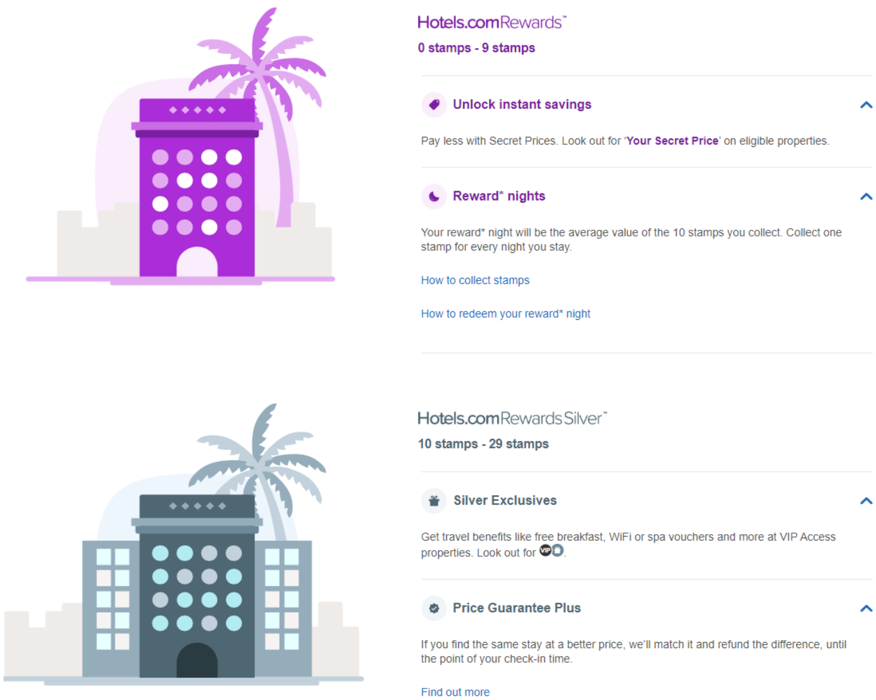
Marriott Bonvoy	Normal leisure traveller	Business warrior
Stays	7 stays at Moxy	60 stays at Marriott
Status	Standard	Platinum Elite
$ value of one night	160	320
Points value of one night	1,600	4,800
Points earned per year	11,200	288,000
Redeem	1 night at a Ritz-Carlton	1 night at a Ritz-Carlton
Point cost	85,000	85,000
Free nights earned	0.1	3.4

Source: Company websites, Bernstein estimates & analysis

OTA Loyalty Schemes

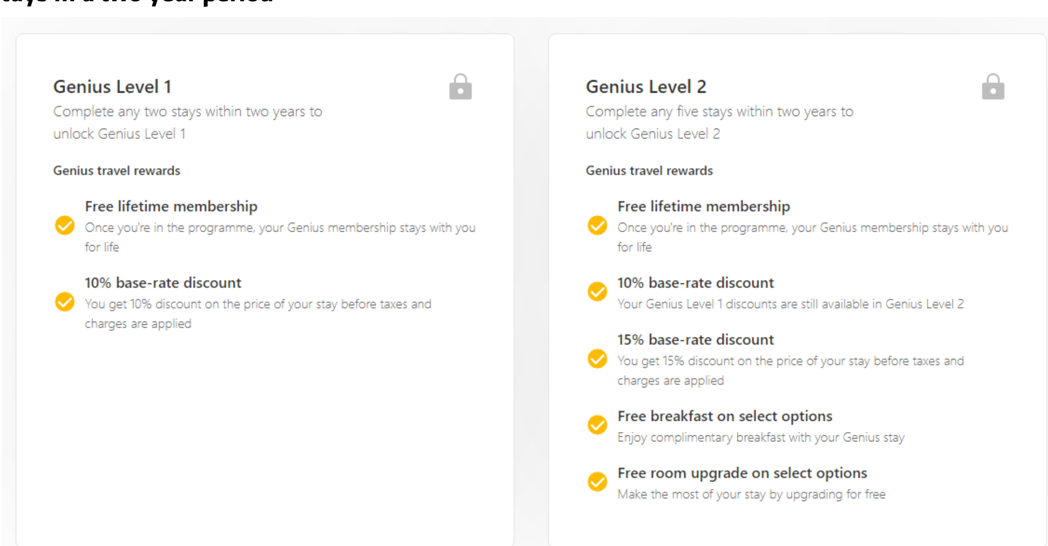
The OTAs have also invested in loyalty schemes across some of their brands, primarily offering discounts on future stays within the schemes or the earning of points to fund future discounts.

EXHIBIT 19: **Expedia's Hotels.com Rewards scheme earns members 1 stamp per stay, which equates to a free night after 10 stays, and further rewards beyond this**



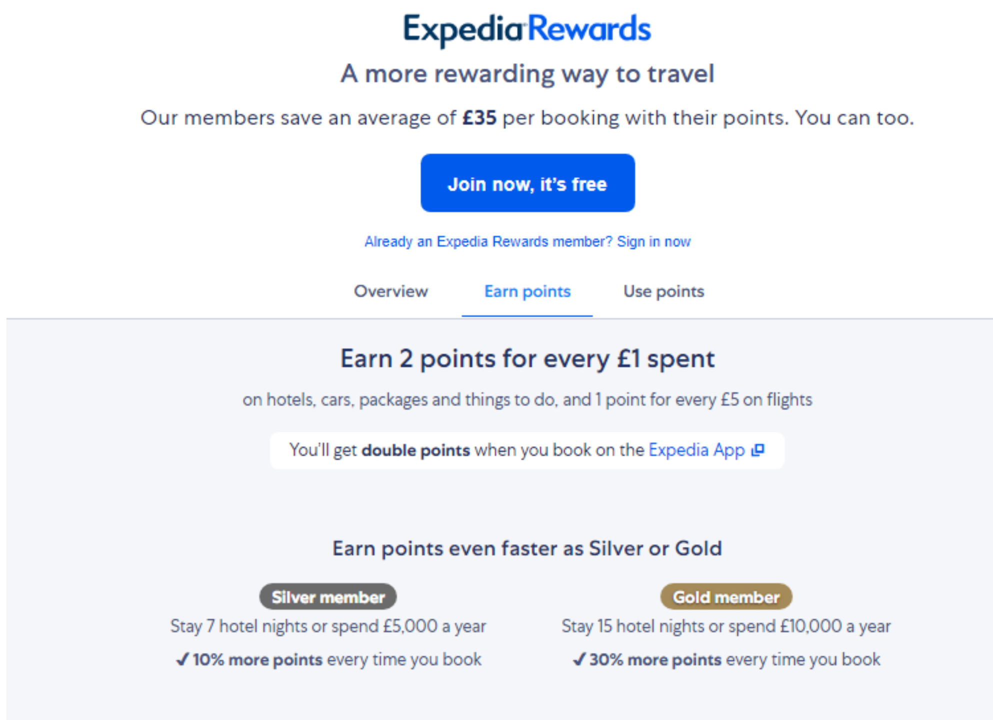
Source: Company website

EXHIBIT 20: **Booking's Genius programme offers a 10% discount for members with 2+ stays, and 15% beyond 5 stays in a two year period**



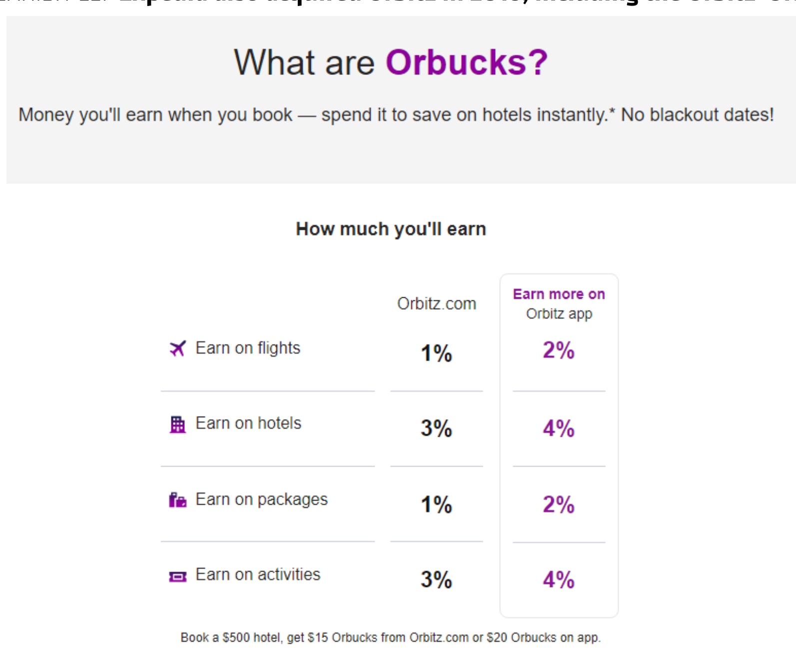
Source: Company website

EXHIBIT 21: **Expedia also runs Expedia Rewards, earning 2 points for every point spent, which can then be redeemed at £1 = 140 points**



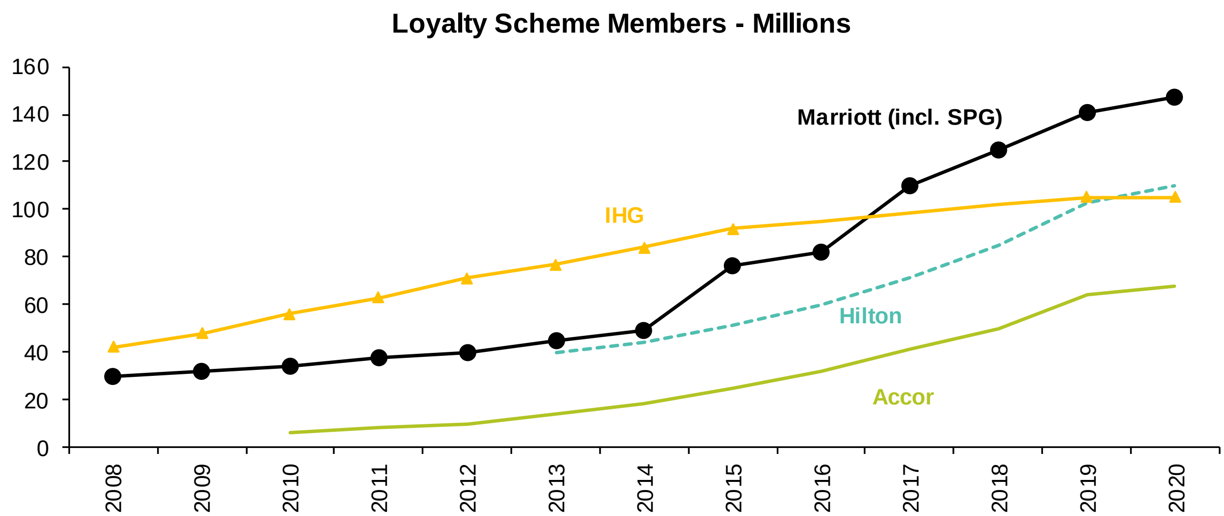
Source: Company website

EXHIBIT 22: **Expedia also acquired Orbitz in 2016, including the Orbitz 'Orbucks' reward scheme**



Source: Company website

EXHIBIT 23: **Hotel group loyalty schemes have been growing rapidly in recent years, with Marriott & Hilton now the largest in terms of members**

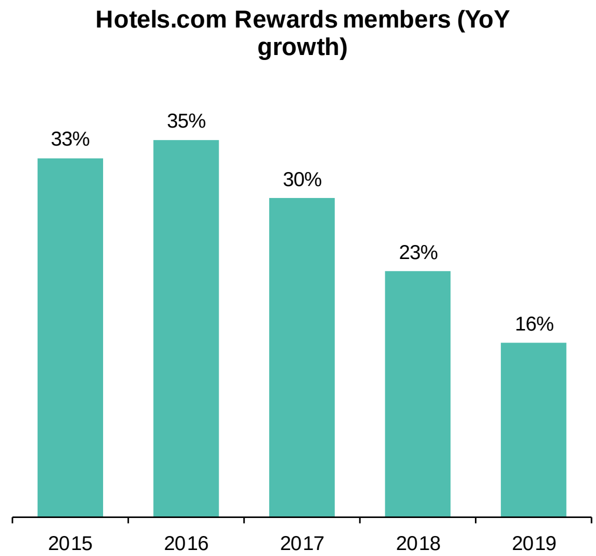


Source: Company reports, Bernstein analysis
N.B. Since 2015, IHG has only disclosed "over 100m members"

EXHIBIT 24: **Expedia's Hotels.com Rewards has also been adding members quickly, reaching 50m in 2019**

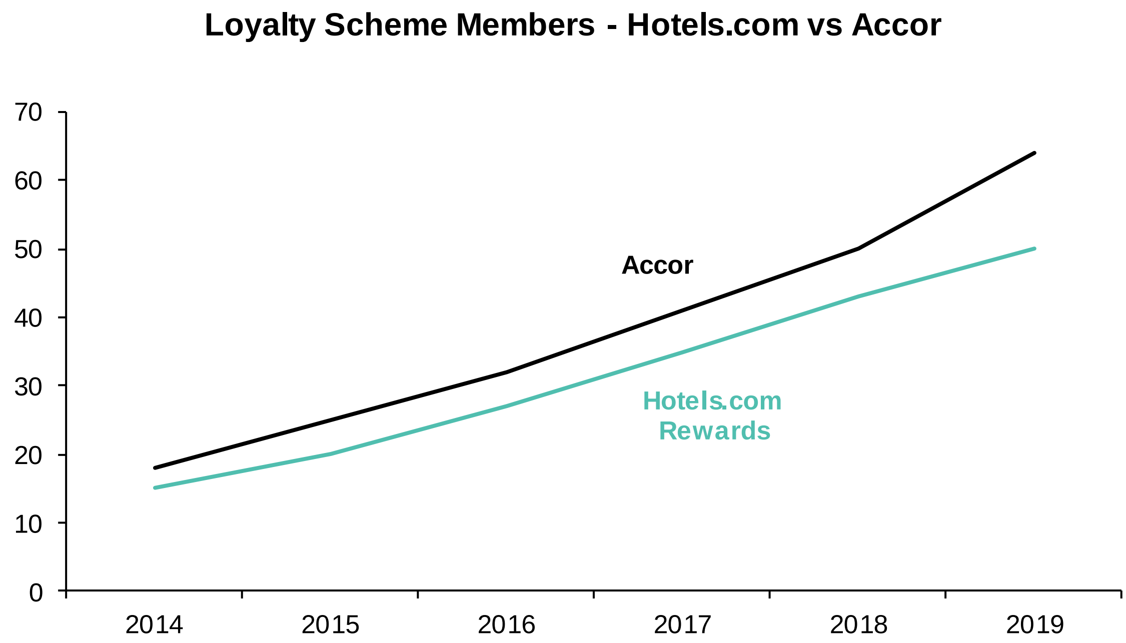
Source: Company reports, Bernstein analysis

EXHIBIT 25: **Member growth remains in the double-digits, but has decelerated since 2016**



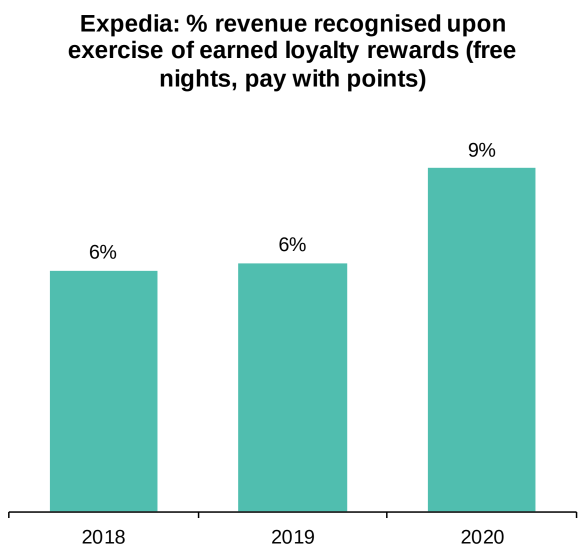
Source: Company reports, Bernstein analysis

EXHIBIT 26: **The Hotels.com scheme is most similar in size to Accor, and Accor has accelerated growth away from Hotels.com Rewards since the launch of Accor ALL in 2019**



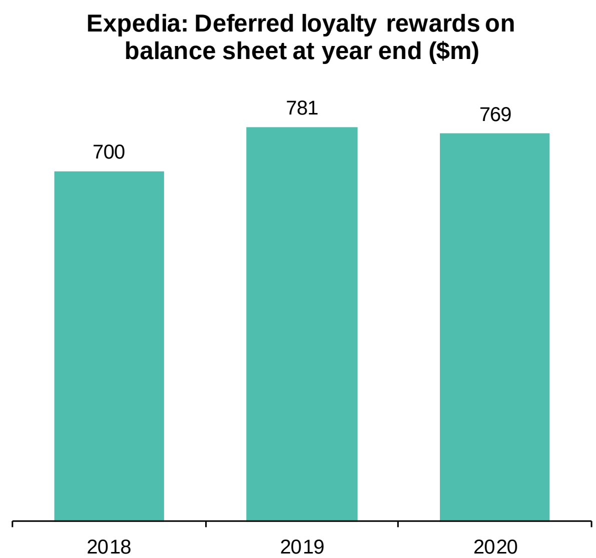
Source: Company reports, Bernstein analysis

EXHIBIT 27: **Points redemptions make up a high single-digit portion of Expedia's recognised revenue, and this increased in 2020**



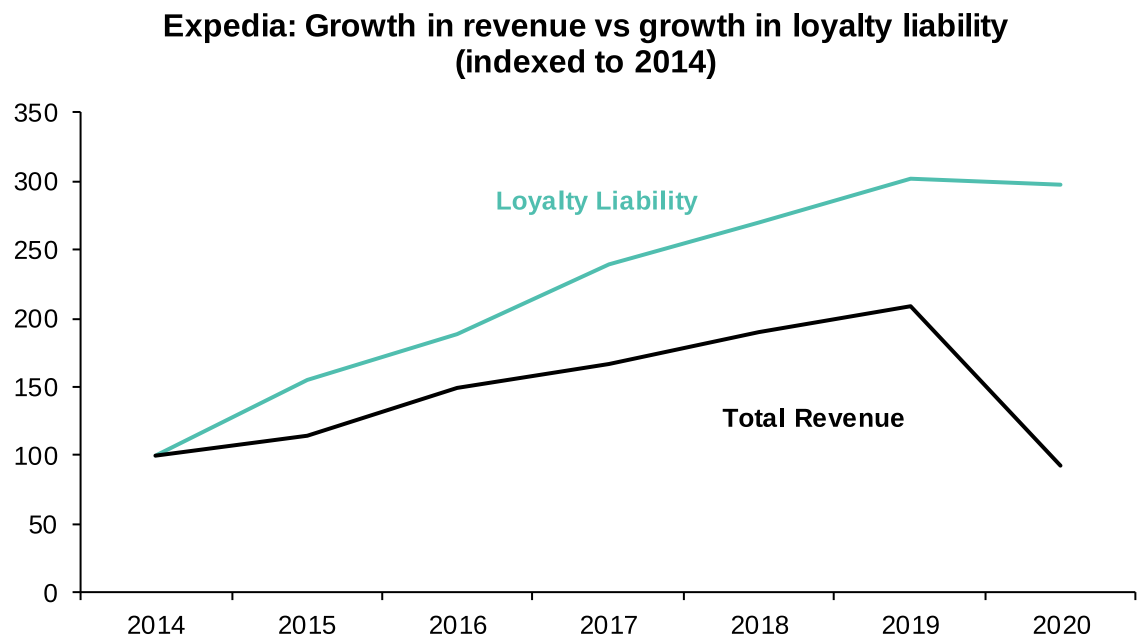
Source: Company reports, Bernstein analysis

EXHIBIT 28: **Expedia's deferred loyalty liability on the balance sheet only declined by $12m in 2020, despite the large revenue reduction, after they extended the expiry of stamps until December 2021**



Source: Company reports, Bernstein analysis

EXHIBIT 29: **The loyalty liability has grown ahead of total revenues since 2014, showing a larger portion of Expedia's revenue are coming from Rewards members**



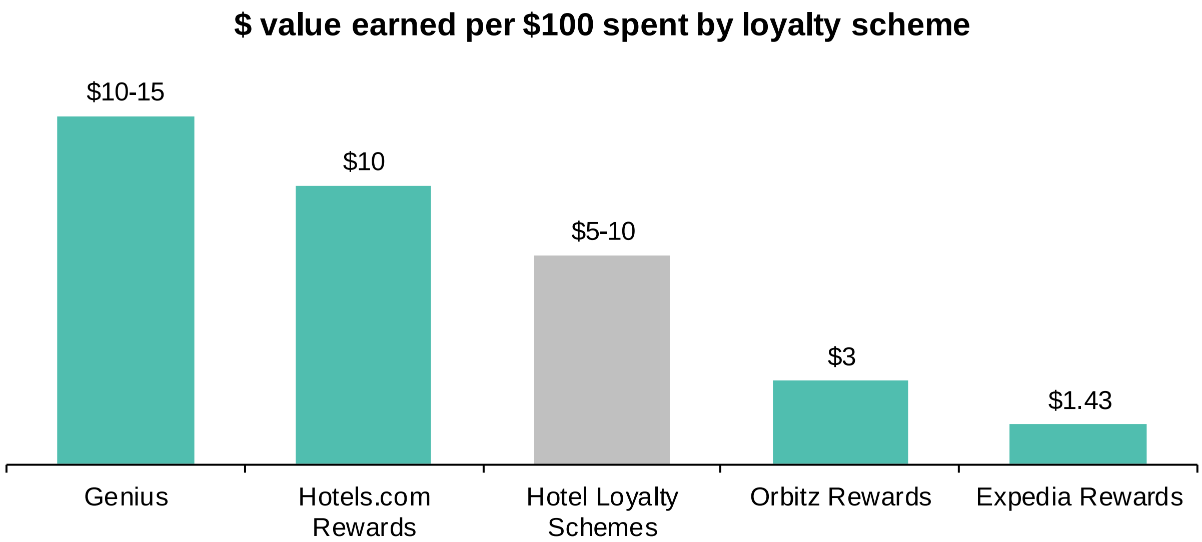
Source: Company reports, Bernstein analysis

Hotels vs OTAs

Comparing the offers of the hotel group loyalty schemes vs the OTAs:

+ **Redemption value earned per night highest for Genius & Hotels.com, but hotel schemes not far behind.** The OTA loyalty schemes are targeted at their core leisure customers, and are therefore slightly better value for guests who stay under 10 nights per year in hotels. The effective $ value earned for those two programmes exceeds $10 per $100 spent (in terms of current/future stay discounts), and this is higher than the hotel groups, where effective redemption terms mean more like $5-10 per $100 spent. It is notable to us that the hotel group schemes are still better value to leisure guests than the Expedia/Orbitz offer.
+ **Points spending flexibility for hotel schemes.** The hotel groups have worked at loyalty partnerships to make their schemes more relevant to leisure guests, and these mean you can now e.g. spend your Hilton points on goods from Amazon.com or on ordering Lyft cars. The OTAs have not got the same schemes – and interestingly Orbitz (which has a significant flights business alongside hotels) only allows points to be redeemed on hotel bookings not flights purchased on Orbitz.com, making the points earned less flexible.
+ **Additional benefits.** As well as earning points, hotel group loyalty members are given greater functionality in their hotel stay (mobile doorkeys, control of in room entertainment via the app, contactless check in and check-out), which is harder for OTAs to offer given the lack of control in property. Both have status levels, and give some level of higher rewards for higher status guests (late check out, complimentary breakfast, room upgrades).
+ **Who funds the scheme?** For the hotel groups, the loyalty scheme is funded by hotel owners. For each booking made by a loyalty scheme member, the hotel pays an additional fee into a loyalty scheme 'pot', and when a hotel receives a booking by a guest who is redeeming their points earned, the hotel is later reimbursed for the cash amount. For the OTAs, the discounted rates for loyalty members are taken as a reduction to revenue (lower take rates), and in effect are funded by them not the hotel. Typically for this reason, loyalty scheme bookings for OTAs will be under the merchant model, where they receive the cash from the guest and pay the hotel after.

EXHIBIT 30: **Our analysis suggests the most popular OTA schemes afford users greater $ discounts per trip booked, with the effective points earned from hotel loyalty schemes worth $5-10 per $100 night stay**



Source: Bernstein analysis

Conclusion

From a guest's perspective, the value of the OTAs is clear: more choice, better websites and, for some, the perception of better prices.

To some extent the platform used by the customer is less relevant for the brands, who earn their fee however the hotel is booked, but there showing direct booking strength will be a key part of the pitch to owners. The brands can't match on choice (although Google can), so rely on loyalty schemes to encourage the customer to use their platform. The financial benefit of loyalty programs is fairly similar across hotel groups and OTAs, but the hotel groups have the advantage of being able to offer status: i.e. room upgrades, better service for more loyal customers.

SO, YOU WANT TO OPEN A HOTEL? – THE OWNERS PERSECTIVE

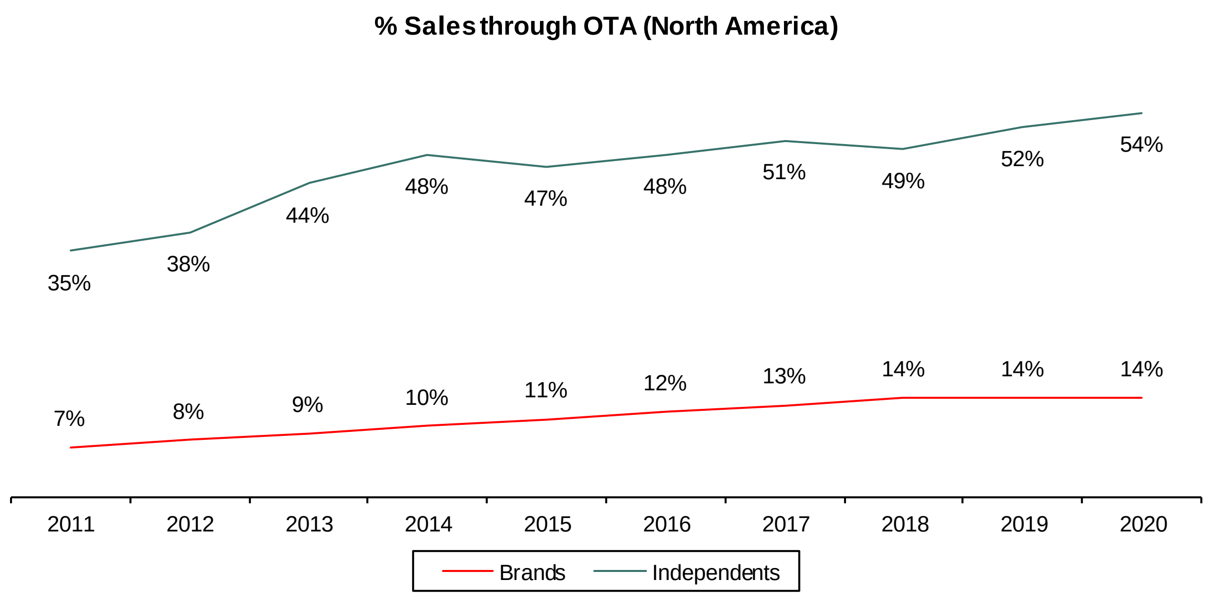
From an owner's perspective: OTAs vs Hotels is contractually a very different relationship

- A hotel's relationship with a brand is contractual, a 15-30 year franchise / management agreement where the owner agrees to give up 5-6% of the top line to the brand owner regardless of where the booking comes from
- A hotel's relationship with an OTA is just a sales relationship, where they pay a commission just on the bookings that an OTA provides.

However, in terms of distribution, an owner of a hotel faces a simplistic choice:

- Join a brand, and the brand's platform will be your primary distribution network – for example Hilton states a 60% loyalty contribution, i.e. 60% of guests are active members of the loyalty program.
- Remain independent, and on average, you will be reliant on the OTAs for distribution. We estimate that in North America, independent hotels get >50% of revenue through the OTAs (Exhibit 31) and this number has been steadily increasing.

EXHIBIT 31: **As an independent hotel, you would be reliant on OTAs for ~50% of revenue**

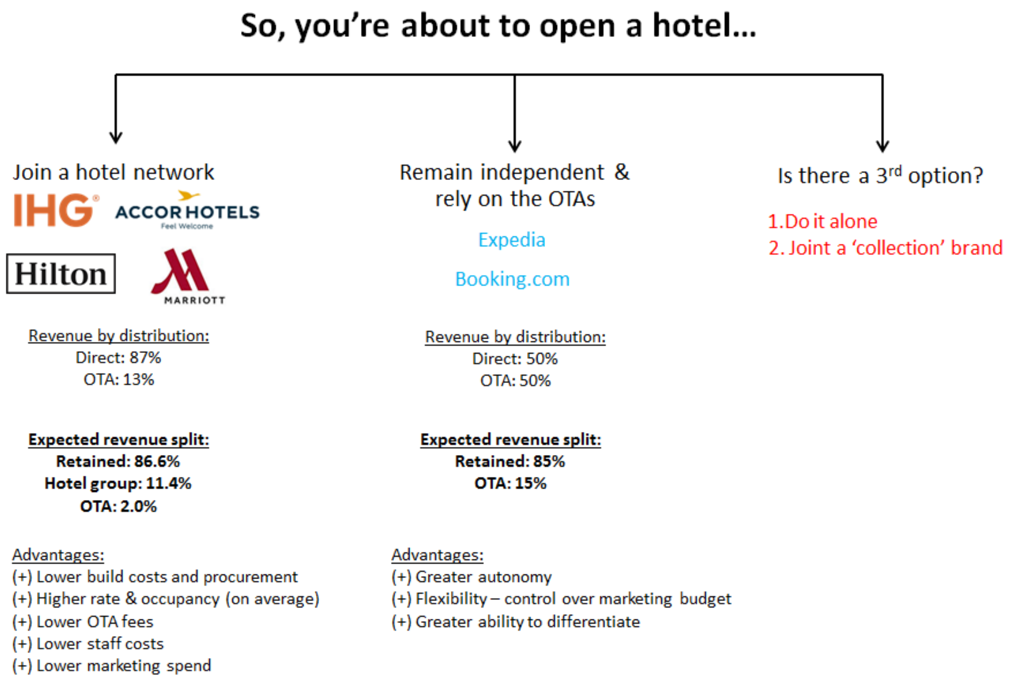


Source: Euromonitor, Bernstein analysis & estimates

One of the first decisions a new hotel owner must make is whether they wish to join a hotel brand network, requiring conformity to brand standards, or whether they prefer to maintain greater autonomy over their hotel by remaining independent. If the hotel ownership is a labour of love, it is unlikely that styling it as a Holiday Inn or Marriott will satisfy; however, as a financial transaction, for the average owner we see brand membership as favourable (and we note that soft brands are making joining a brand but retaining design autonomy now easier).

Exhibit 32 summarizes how this decision will impact an owner's distribution channels and revenue split, and points out the respective advantages of both options. If you choose to operate as an independent hotel, you are effectively suggesting (with few exceptions) that OTAs will be your chosen distribution channel, as the average independent hotel generates >50% of its bookings via OTA, compared to 14% for the average branded system. Even if an independent hotel has the financial clout to set-up and operate a sophisticated website, an OTA accounts for more online bookings at the average independent hotel than it does for the average branded hotel.

EXHIBIT 32: **The choices facing a new hotel owner today**



Source: Bernstein analysis, company reports

As shown in **Exhibit 32** above, the benefits from membership of a brand network extend well beyond that of simply providing access to a distribution channel (as is the case with the OTAs). Brand networks also provide access to a ready-made customer base through the loyalty scheme, the expertise of hotel management and the scale benefits applied to both procurement and marketing. The choice of the hotel owner will therefore take all these factors into consideration, not simply whether it wishes to receive greater distribution from a branded network or an OTA. **Exhibit 33** further explores the pros and cons of joining a brand versus remaining independent.

EXHIBIT 33: **Advantages of joining a hotel network versus remaining independent**

Advantages of joining a hotel network	Advantages of remaining independent
Lower build costs and procurement. Given the standardization of build and internal fittings etc, along with benefitting from the hotel corp's economies of scale in procurement, we estimate that the total build costs for a branded hotel will be c. 10% cheaper than its independent equivalent.	**Greater autonomy.** Given the reduced conformity to brand standards, independent hoteliers have far greater control over the design, layout and features of the hotel, as well as marketing budgets.
Higher rate and occupancy. Through the access to loyalty scheme members and brand loyal customers, branded hotels are able to charge a higher room rate and have higher average occupancy than independent hotels, giving owners a RevPAR uplift.	**Less overhead cost in terms of chain revenue contribution and marketing fees.** Given there is no requirement to pay a % of revenues earned to the franchise owner to support marketing budgets, centralized functions etc., independent hotels have a lower overhead cost.
Lower OTA fees. A branded hotel will get a lower % of bookings via OTAs than an independent, and also pays a lower fee per booking due to the greater negotiating power of the brand owner.	**Ability to differentiate.** Being an independent hotel gives a 'good' hotel greater opportunity of standing out from the crowd, as opposed to being part of a chain, when perception is likely to be influenced by prior experiences at other hotels under the same brand name.
Lower staff costs. Due to the brand owner's ability to invest heavily in technologies which drive efficiency, branded hotels can employ a lower number of staff per room, which makes them more profitable.	
Lower marketing spend. Compared to branded hotels, which fund their marketing using the marketing fee (2% for IHG) they pay to the brand owner, independent hotels must fund their own marketing which we estimate to be c. 10% of sales.	
Established reputation. Branded hotels are held to strict brand standards which help to maintain a reputation for quality/value for money.	
Distribution optionality. If you go with a brand network, you give yourselves two options: ideally the brand.com website will drive direct bookings (on which you pay no incremental commission) and you will still be on the OTAs.	

Source: Bernstein analysis

Hotel owners can approach the brand vs. independent the decision from many angles. In the following pages we assess the decision along three key dimensions:

+ Firstly, and most importantly – the financial comparison between a brand network and an OTA
+ Secondly, what advertising budget they can operate

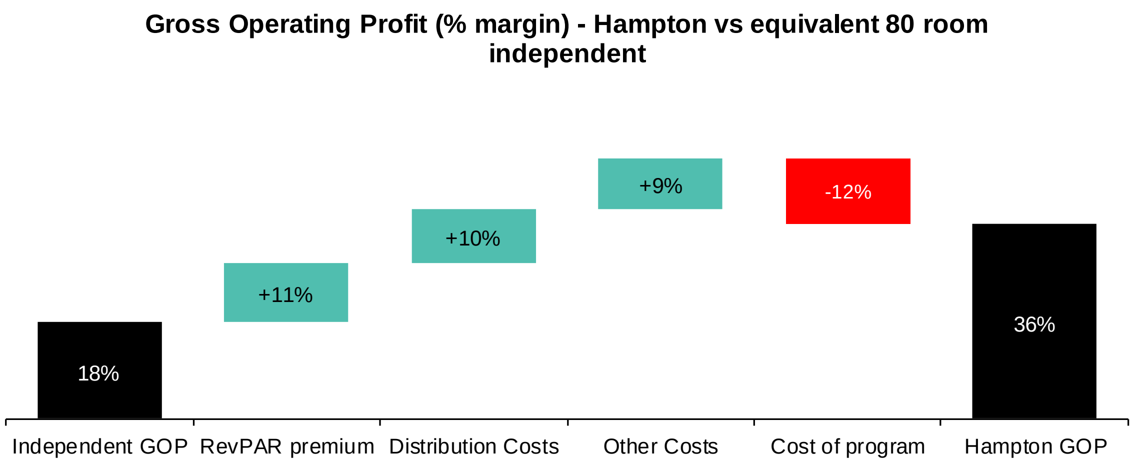
+ Thirdly, what customer profile (business vs leisure) they would like to focus on

1) The financial comparison:

An ROI analysis favours brand membership over being independent. We believe that for the majority of hotels joining a branded network would make clear economic sense. Exhibit 34 shows that equation, that joining a branded network would give you a close to double operating margin compared to remaining independent. This is driven by RevPAR premia, lower distribution costs and other cost saving The primary drivers of that conclusion relate to (1) higher occupancy from being brands, (2 the disparity in OTA payments between formats, which is a function of direct booking % and the rate of commission being paid to OTAs, and (3) other cost savings, including procurement and property management.

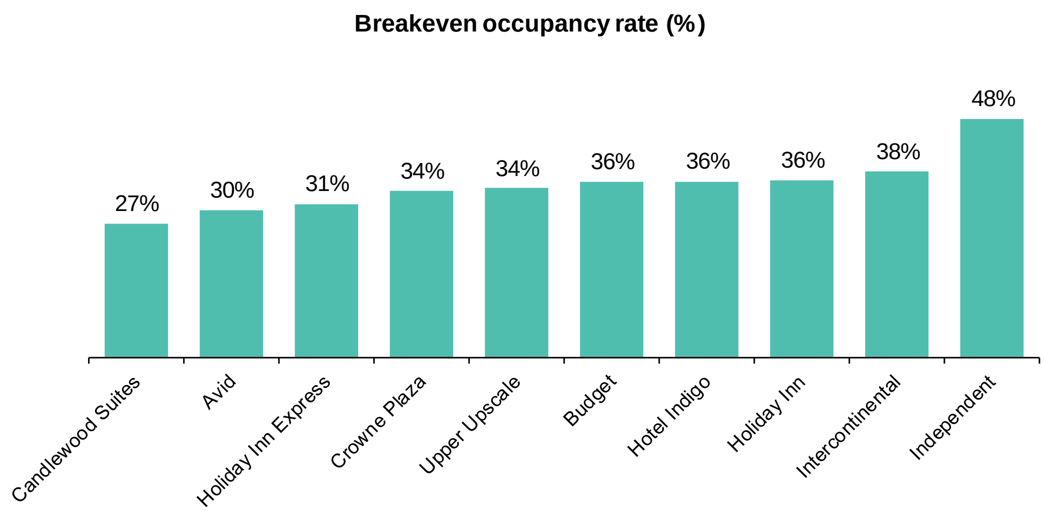
We run through each factor below, but pertinent to the current Covid situation is that this higher profitability leads to lower breakeven occupancy, with more brands having break even occupancy 30-40%, 10% lower than independent hotels.

EXHIBIT 34: **We estimate that joining a branded network can approximately double a hotel's profit margin**



Source: Bernstein analysis

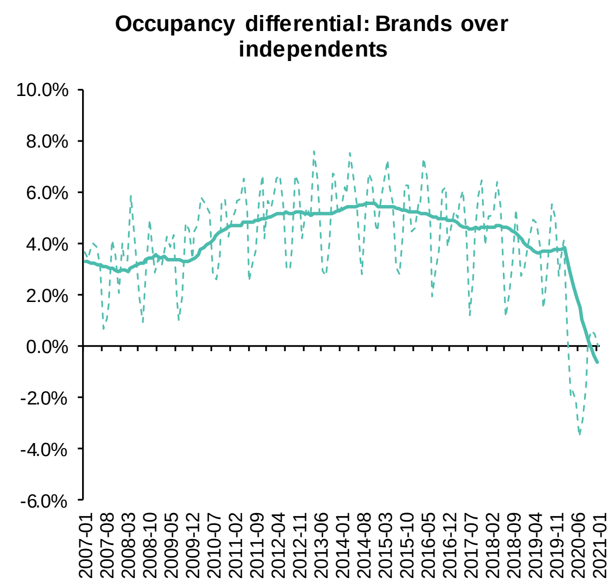
EXHIBIT 35: **All branded formats offer materially higher returns than remaining independent. Extended-stay (Candlewood Suites) offers the highest ROI across the segments, with limited-service upper midscale (Holiday Inn Express) the next best**



Source: Franchise Disclosure Documents, Company Reports, Bernstein estimates & analysis

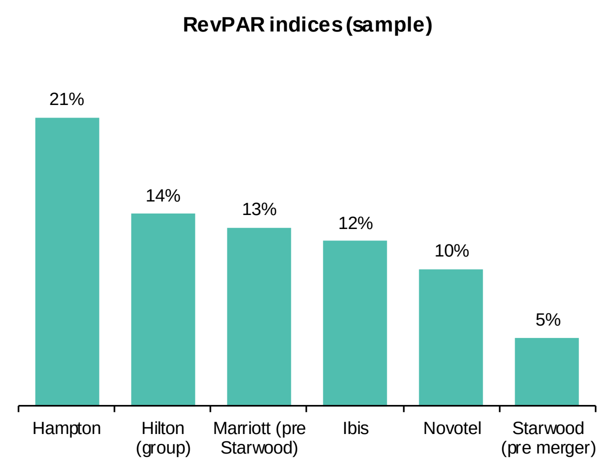
- **RevPAR premiums.** Although RevPAR premiums have been eroded over time (Holiday Inn used to claim a >30% RevPAR premium), they are still very much present. Pre-pandemic, branded hotels still enjoyed a 4% occupancy premium and the big brands tend to claim high RevPAR premiums (Exhibit 37). These RevPAR premiums are likely explainable by (1) better brand recognition alongside support of the loyalty program, (2) better pricing algorithms to maximise RevPAR and (3) access to better locations through relationships with owners.

EXHIBIT 36: **In "normal times", brands enjoy a material occupancy premium over**



Source: Bernstein analysis

EXHIBIT 37: **Big brands claim 5-20% RevPAR indices**



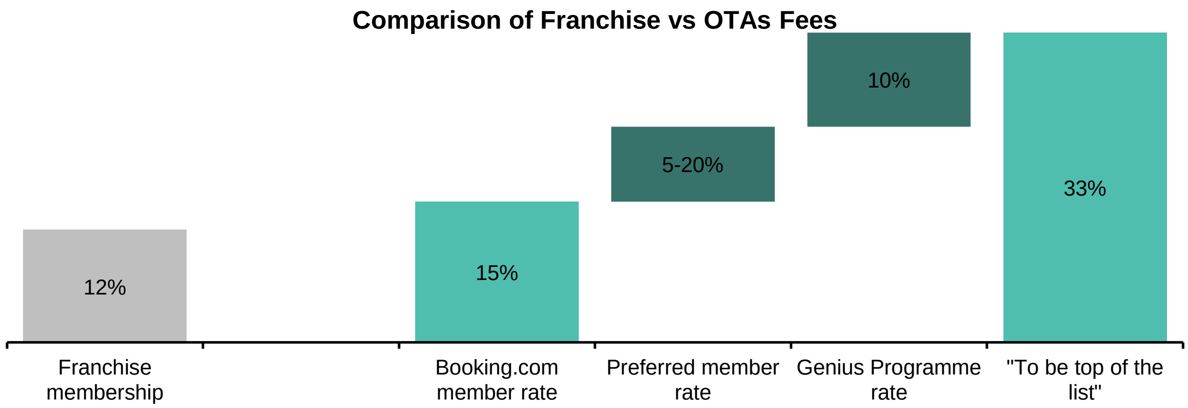
Source: Bernstein analysis

- ***Franchising saves on OTA fees***. For years, OTAs have been taking an increasing share of bookings from independents. We estimate independent hotels are remitting 10-15% of revenues over to the OTAs, all in (20% to 25% commissions on 50-60% of bookings). The large brand managers, by driving direct bookings and negotiating a lower charge from OTAs, can save owners on distribution costs.
- Furthermore, OTA distribution fees are not as straightforward as we suggest above. At face value, franchise fees (12%[1] including all loyalty fees and marketing fees) are not materially different than the base OTA fee (15%, but charged on the gross room rate, franchise are on net) before consideration of other branded system benefits. However if you want to realistically generate bookings through the OTAs, you have to pay uplifts to be a "preferred member" (puts you up the list) or to join the "genius program" (gets you in the marketing emails) (**Exhibit 38**). These uplifts could add up to 18% to a hotel's distribution cost.
  - Regular member rate: 15% - this base rate is charged to all hotels appearing on the booking.com website (even if they are on page 20 of the search).15% is the standard but this can be higher in some geographies.
  - Preferred member rate: 5-20% - while the preferred member rate starts at an additional 5%, this can increase to up to 20% depending on hotel size, location, competition and how high up the default 'our top picks' page the hotel wishes to appear.

[1] Median "all in" Franchise Cost from HVS Franchise Fee Guide

+ Genius programme rate: 10% - for booking.com's most frequent customers it offers its Genius programme, offering a 10% discount at registered hotels; a further cost for participating hotels.

EXHIBIT 38: **OTAs are expected to take up to 30% of Hotel owners' revenue**



Source: Company reports and websites, Bernstein analysis

This is supported by third party research: Kalibri Labs analysis[2] of over 25,000 hotels in the US from 2011-2016, direct brand.com bookings are significantly more profitable than OTA bookings, with their analysis indicating brand.com bookings are roughly 9% more profitable before factoring in ancillary spend which can take this to almost 18%. The study finds hotel owners face lower costs from brand.com bookings compared to OTA bookings, driving this higher profitability. In addition, the study found the acquisition costs for direct channel customers has decreased over time, while those for OTA customers have remained stable or even increased as commissions rise. Hotels pay the same commissions to an OTA for repeat customers; however, when part of a larger hotel group, the overall marketing costs are reduced as loyalty scheme members grow.

Direct bookings focus: One could argue hotel brand companies took their eye slightly off the ball with respect to the driving direct bookings as they shifted to asset light; economically it makes no difference to the brand owner how the guest books, it receives its franchise fee either way.

+ Case in point is Whitbread. Its asset-heavy structure (with all its Premier Inn hotels either owned/leased) has meant its economics are more adversely affected by the loss of direct bookings to OTAs. Whitbread has always been very careful to limit its exposure to OTAs by managing the release of inventory to this distribution channel. As a result, it has been able to limit OTA exposure to just 6% of total bookings (**Exhibit 39**), well below the average 13% for all brands.

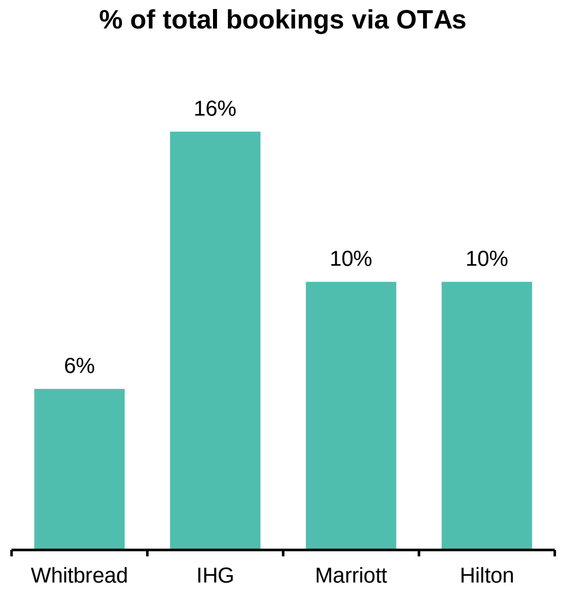
However, asset-light brand systems are increasingly pushing direct booking initiatives as OTA penetration have increased and the benefits of owner profitability have become more central to strategies for growing brand footprints.

+ For the better part of a decade, there has been a continued rise in the share of OTA bookings, even for branded hotels (**Exhibit 40**). For IHG hotels, the share of OTA bookings trebled from 5% in 2010 to 15.6% in 2016 (**Exhibit 41**). Marriott has increased its reliance on the OTA channel similarly over that same time period. If distribution is one of the main services an owner expects of a brand, reliance on a third party for distribution is something that needs to be addressed.

+ In response, brand owners have done the following: (1) offer a lower rate for booking direct, (2) heavily advertising that fact (**Exhibits 42** & **43**), (3) offering membership perks for booking direct (loyalty points, drinks, wifi); and (4) more choice (room, pillow, breakfast) if you book direct.

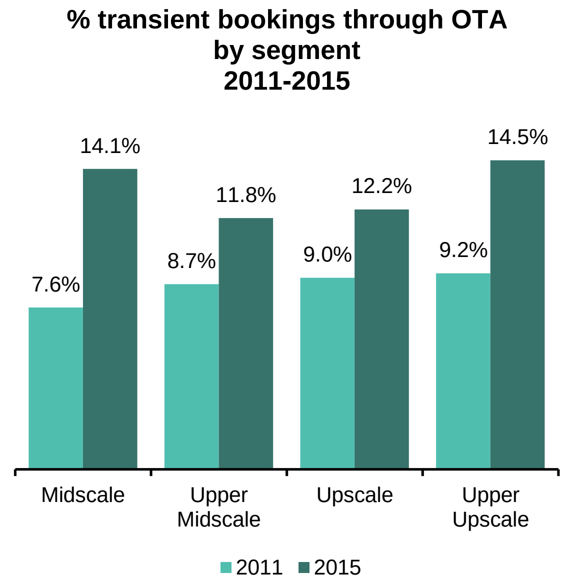
[2] https://www.kalibrilabs.com/demystifying-distribution/2016/12/21/book-direct-the-numbers-tell-the-story

EXHIBIT 39: **Whitbread, an asset-heavy company placed earlier effort on minimizing OTA exposure, leaving it far less reliant on OTAs for distribution than its peers**



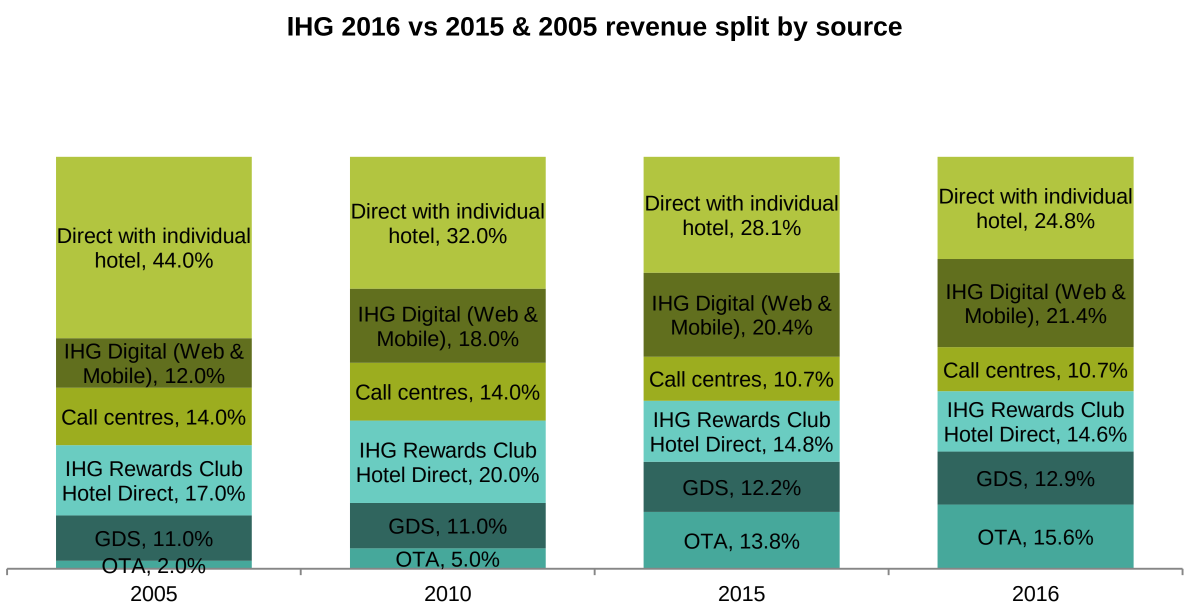
Source: Company reports, Bernstein analysis

EXHIBIT 40: **There has been a notable increase in OTA bookings in recent years**



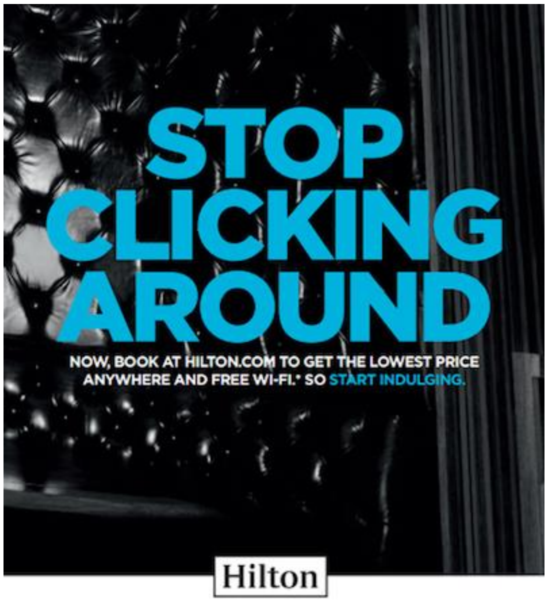
Source: Kalibri Labs, Bernstein analysis

EXHIBIT 41: **OTA sourcing has trebled for IHG over the last five to six years**



Source: Company reports, Bernstein analysis

EXHIBIT 42: **Hilton heavily advertised that the cheapest price (and free wi-fi) was available only if one booked direct**



Source: Company presentation

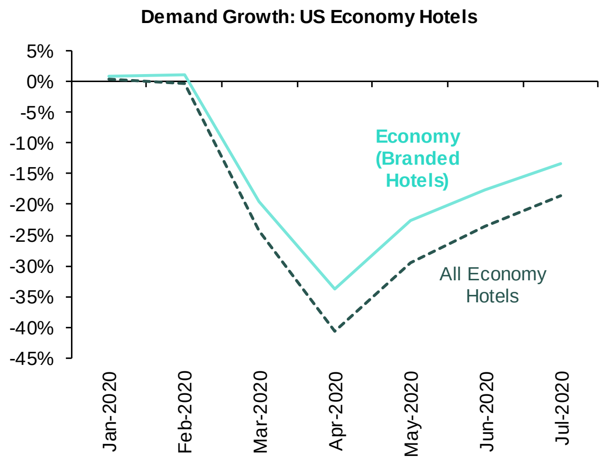
EXHIBIT 43: **IHG similarly suggested you could save money and earn more points if you booked direct**

Source: Company presentation

+ More RevPAR resilience in a downturn

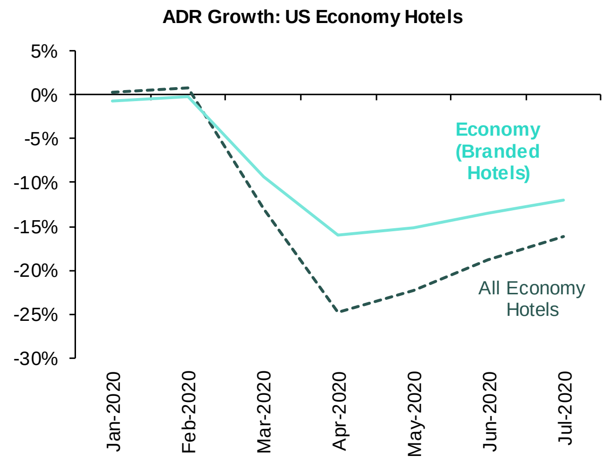
Although overall, independent prices have looked more resilient, this is due to a location (more rural) and chain scale (more economy) demand advantage. Adjusting for this, brands have seen more stability. Within the economy segment, independent hotels have seen a greater decline in room demand than branded hotels since March (Exhibit 44). Branded hotels have (perhaps unsurprisingly given a smaller demand hit) been able to hold pricing better (Exhibit 45), however even when we adjust for the relative demand decline, pricing has still been more resilient in branded vs independent (Exhibit 46).

EXHIBIT 44: **The decline in stayed room nights was worse for independent economy hotels than branded**



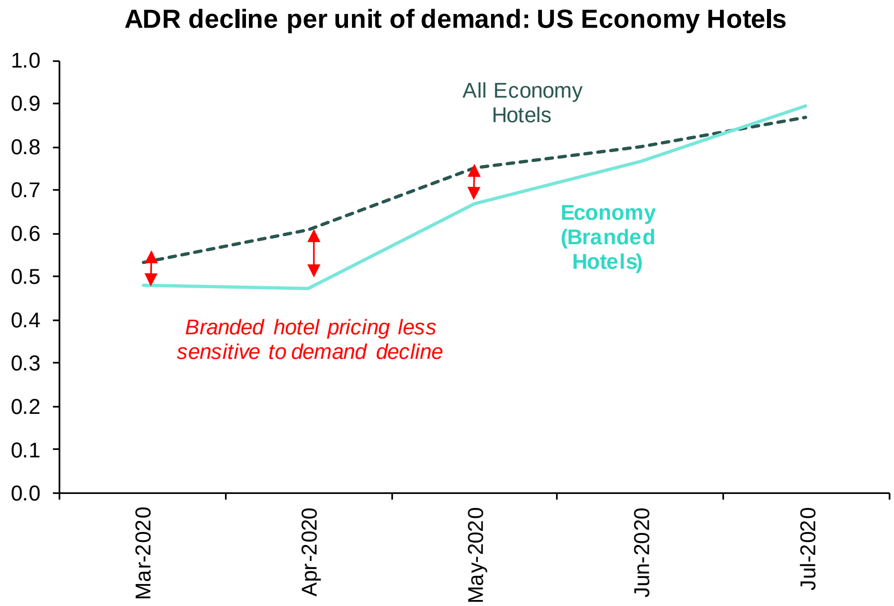
Source: STR, Bernstein analysis

EXHIBIT 45: **And the ADR decline in branded hotels has been more resilient, falling 15% at trough vs 25% for the overall economy market**



Source: STR, Bernstein analysis

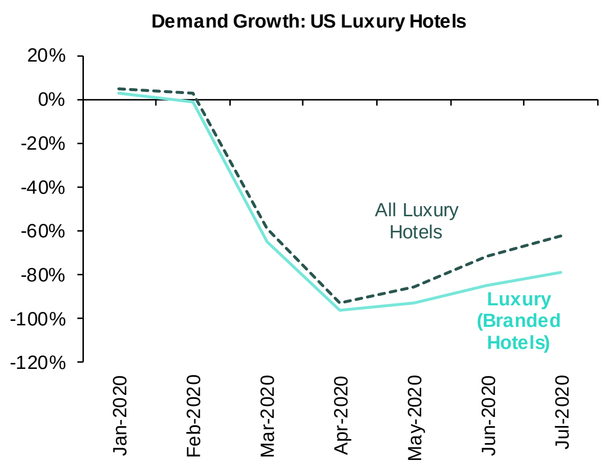
EXHIBIT 46: **Per unit of demand decline, branded hotel pricing has been less sensitive than independent ADR**



Source: STR, Bernstein analysis

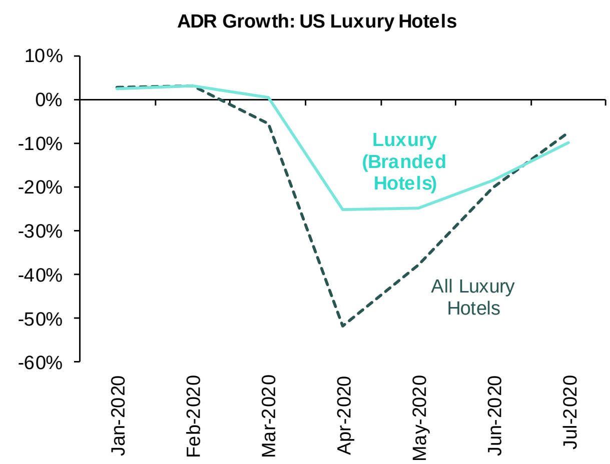
In luxury, branded hotels saw a steeper decline in demand than independents (generally they are more reliant on business travelers and urban areas) (Exhibit 47). However, despite seeing demand decline more, luxury branded hotels have seen a smaller drop in ADR than independents (Exhibit 48), meaning a significantly higher sensitivity of price to demand declines in the independent sector.

EXHIBIT 47: **In luxury, the demand decline was worse for branded luxury than independents**



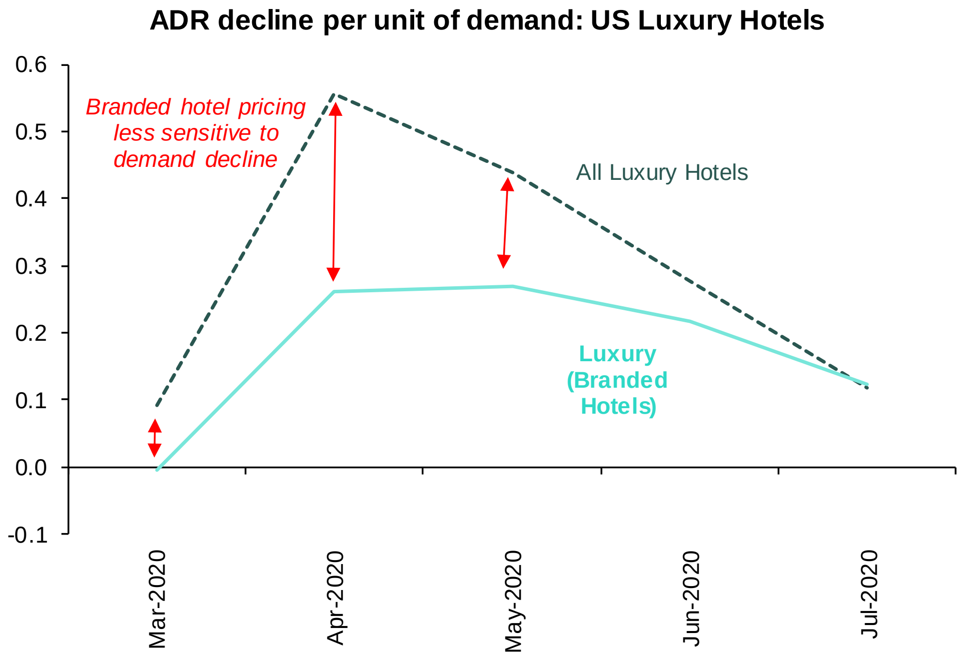
Source: STR, Bernstein analysis

EXHIBIT 48: **However even in this market, ADR performance has been better for branded hotels**



Source: STR, Bernstein analysis

EXHIBIT 49: **Per unit of demand decline, branded luxury hotels are holding prices much more successfully than independents**



Source: STR, Bernstein analysis

+ **Other profit advantages from branding.** In the catch all "other cost savings", we would include.
  + Technology advantage. Hotels joining branded networks can enjoy the brand's economy of scale where it comes to investing in technology, such as Cloud based Guest Reservation Systems, Revenue Management Systems, centralised concierge systems, mobile phone door entry and connected rooms
  + Centralised recruitment
  + Centralised procurement
  + Shared best practice
  + Centralised call centres, website development etc.

2) Hotel owner's advertising budget crucial in determining what format is best:

The size of the hotel owner's budget can be a crucial factor in deciding when to operate as an independent hotel or become part of a larger system. Clearly advertising budgets do not exist in isolation and will depend on the customer desired (see point (3) below) and the overall scale and profitability of the hotel or hotel group. However, the below serves as a general rule:

For those with large budgets and hence willing and able to purchase a listing which will see their hotel ranked at the top of "our top picks" list at booking.com or the "recommended" one at Expedia should receive a significant volume uplift from the OTA websites. We sampled six global cities and found that for Expedia.com, five of the cities saw an independent hotel top of the "recommended" list (**Exhibit 50**); presumably because these independent hotels have agreed to pay more commission in order to sit top of this list. We saw a more balanced result at booking.com (**Exhibit 51**), with three of the six cities having an independent hotel at the top of its "our top picks", while three were branded (but normally smaller brands). For many hotel owners, however, it is unlikely they feel it financially viable to pay the higher fees required to appear on these preferential hotel lists, in which case joining a large hotel group with a global marketing reach, sizeable loyalty schemes and an established brand name which does not require a significant marketing budget to build/maintain may prove the wiser option.

Brands do not feature heavily on these preferential lists, with just one of the six cities (Philadelphia) having a branded hotel in Expedia's top 10 recommended (ironically the Holiday Inn Philadelphia was ranked #1) and in several cases (New York, London, Paris) at least one of the hotel groups saw none of its brands listed within the top 150 recommended. Given their scale (IHG has 5,221 hotels as an example) large hotel groups are able to negotiate far more favourable commission rates with an OTA than an independent hotel would be able to, but this is unlikely, in most cases, to see branded hotels sit at the top of these preferential lists. Brands obtain c.13% of revenues from OTAs vs up to 60% for independents, and hence are less reliant on this distribution channel and more focused on driving direct bookings, something they are able to do without preferential OTA listings or featuring high in the results of a generic "New York hotels" Google search, something far more important for the OTAs, with an OTA website the first result in five of the six cities we sampled (**Exhibit 52**).

Additionally, the OTA system creates somewhat of a prisoner's dilemma. Only one hotel can sit atop the New York search list, and booking.com can effectively keep layering more fees on top so long as there is a willing buyer. The differential to drop off page one is likely to be huge, so those committed to an OTA distribution strategy will likely have to pay it.

Finally, being an independent hotel gives the owner no leverage with the OTAs when fee negotiations occur. While a hotel may be afforded a nice introduction rate when it first signs up to the OTAs, when the time comes for the fee to be renegotiated it will have no leverage in order to drive a better rate. This is in contrast to the large hotel groups, with giving it significant scale to drive a more favourable rate.

EXHIBIT 50: **What # listing is its first brand on expedia.com?**

	New York	London	Paris	Edinburgh	Philadelphia	Atlanta
Marriott	150+	150+	51	100	7	41
Hilton	150+	150+	150+	20	17	49
IHG	50	140	150+	69	1	25
Accor	41	53	150+	65	15	n/a
Is an Independent top?	Yes	Yes	Yes	Yes	No - Holiday Inn	Yes

Source: Bernstein analysis. . NB – weekend used: 4th November-5th November (1 night, 2 adults), Date analysis performed: 1st September 2017

EXHIBIT 51: **What # listing is its first brand on booking.com?**

	New York	London	Paris	Edinburgh	Philadelphia	Atlanta
Marriott	10	147	150+	54	9	8
Hilton	16	6	150+	15	8	3
IHG	61	13	12	6	12	6
Accor	73	44	6	22	16	n/a
Is an Independent top?	Yes	Yes	Yes	No - Jurys Inn	No - Wyndham	No - Wyndham

Source: Bernstein analysis. NB – weekend used: 4th November-5th November (1 night, 2 adults), Date analysis performed: 1st September 2017

EXHIBIT 52: **What page does each company's website appear on a Google search?**

	New York	London	Paris	Edinburgh	Philadelphia	Atlanta
Marriott	Page 2	Page 2	Page 2	Page 2	Page 2	Page 1
Hilton	Page 6	Page 3	Page 5	Page 5	Page 2	Page 2
IHG	Page 5	Page 10+	Page 3	Page 3	Page 2	Page 2
Accor	Page 3	Page 4	Page 2	Page 5	Page 1	n/a
Whitbread	n/a	Page 2	n/a	Page 3	n/a	n/a
Is an OTA top?	Yes	Yes	Yes	Yes	Yes	No - Marriott

Source: Bernstein analysis. Date analysis performed: 1st September 2017

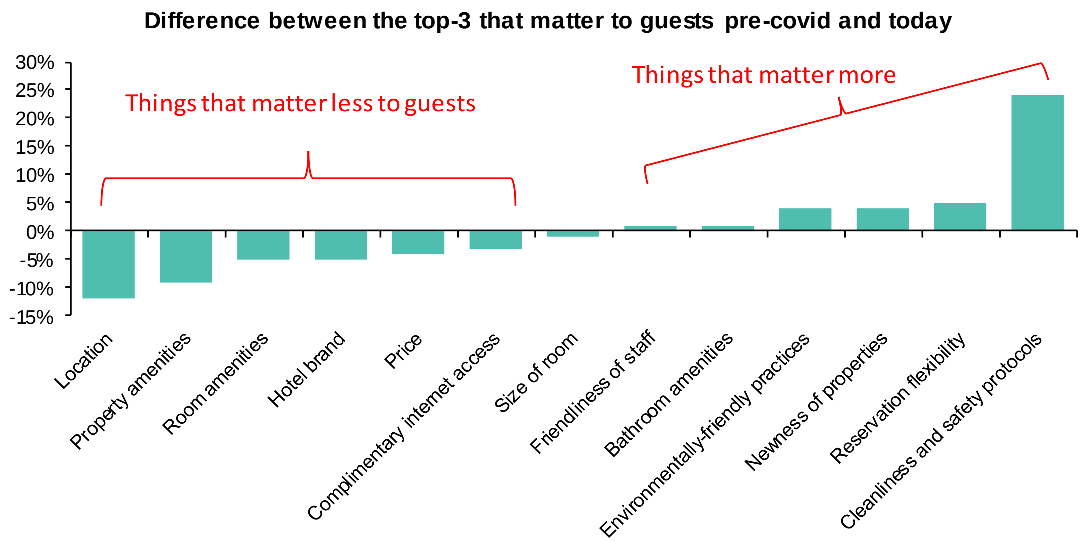
3) What type of customer are you hoping to attract?

Another important consideration on whether to operate as an independent or franchised branded hotel is whether your core customer base is likely to be business or leisure-based.

The standard rule of thumb is that business travellers are likely to be members of loyalty schemes and therefore have a brand bias in order to obtain loyalty points to gain free stays, whereas leisure customers are likely to be more swayed by uniqueness, something far easier to achieve as an independent hotel than as a franchise, which are held to specific brand standards.

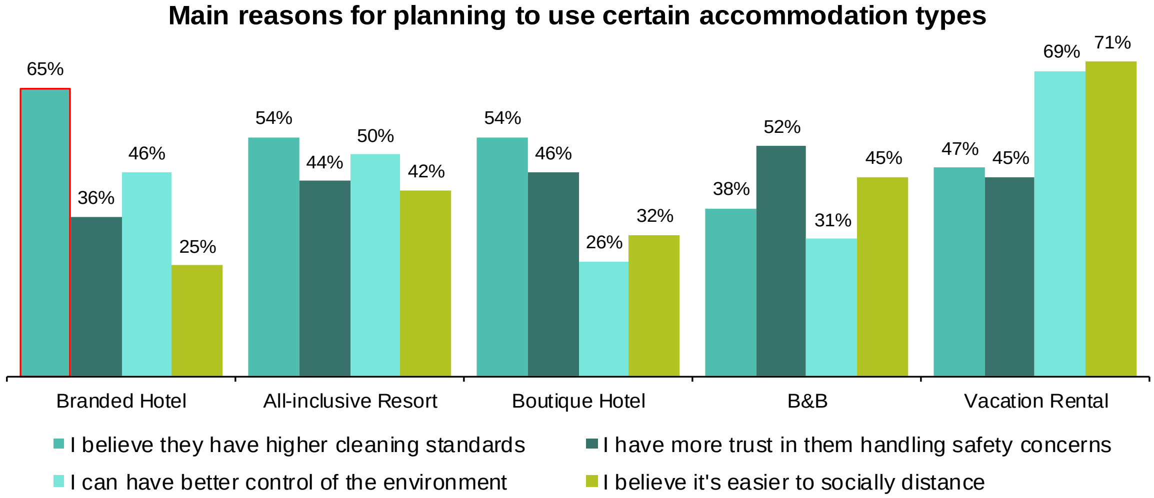
However, we are seeing some convergence. OTAs are launching loyalty programs to tie independent hotels together and brands are increasing growing via soft brands, which both allow more design control/uniqueness for the owner. Further accelerated by the pandemic and a shift in consumer demand toward technology and cleanliness (Exhibits 53 & 54), we have begun to see more leisure hotels choose brands.

EXHIBIT 53: **Increased consumer focus on cleanliness, newness and flexibility, might see more hotel owners choose brands**



Source: Ecolab, Bernstein analysis

EXHIBIT 54: **Brands tend to be more trusted on cleanliness**



Source: Skift, Bernstein analysis

Accor's footprint in leisure travel has even helped them win conversions from hotels which are primarily more business focussed. For example, Hotel Mirici Sittard in the Netherlands signed a franchise agreement with Accor in October 2020 (link) saying *"In our regional market, which is strongly dominated by business and is still developing in the leisure area, we were looking for a partner that is commercially strong. Our choice fell on Accor. And* ***with a brand that also ties in well with the leisure market*** *and the appearance of our product from our hotel in Sittard, Mgallery".* Other examples of branded leisure focussed hotels include

- Hilton has signed the new Virgin Hotel in Las Vegas to the Curio Collection. Other recent wins to the brand include the first Warner Brothers Hotel in Abu Dhabi.
- Marriott has recently signed a block of 19 All Inclusive Hotels in the Caribbean.
- Luxury Almenara Hotel in Spain has signed a management contract with SO Sofitel (Exhibit 56), with an emphasis on leisure (offering three golf courses and three polo clubs), link.
- Hôtel Perle d'Orient Cat Ba signed a conversion to the MGallery brand in June 2020. In a post Covid world, its location (accessible by ferry) and offering of a private beach will appeal to travellers avoiding overcrowded destination (Exhibit 57).

EXHIBIT 55: **The pool at the Virgin Las Vegas, a Hilton Hotel**

Source: Company website

EXHIBIT 56: **Luxury Almenara Hotel in Spain, newly converted to join the SO Sofitel brand**

Source: Company website

EXHIBIT 57: **Hôtel Perle d'Orient Cat Ba, now part of the MGallery brand is accessible by ferry and offers a private beach and a multitude of outdoor adventure activities**

Source: Company website

The flip side of this is that OTAs are providing more of the support a brand might historically provide

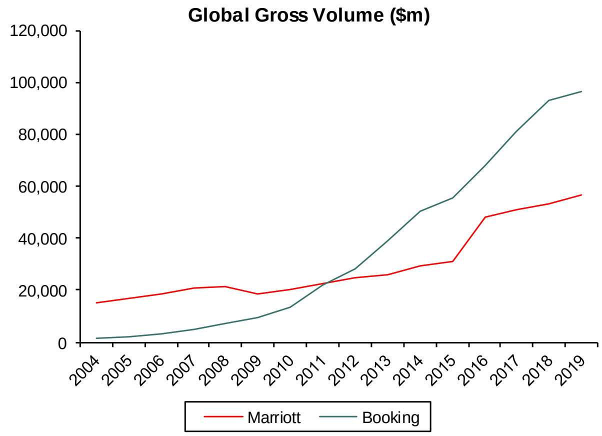
- Revenue management assistance
- Expedia has a business booking subsidiary, Egencia
- Booking, through its subsidiary brand Kayak, has launched its own brand, the Kayak Hotel that provides a full suite of technical hotel features, closer to directly competing with the brands. Alibaba'a FLyZoo hotel is similar in concept.

THE FORWARD GROWTH OPPORTUNITY – WHICH ONE CAN DOUBLE?

The last 15 years have seen faster growth for the OTAs than for hotel companies.

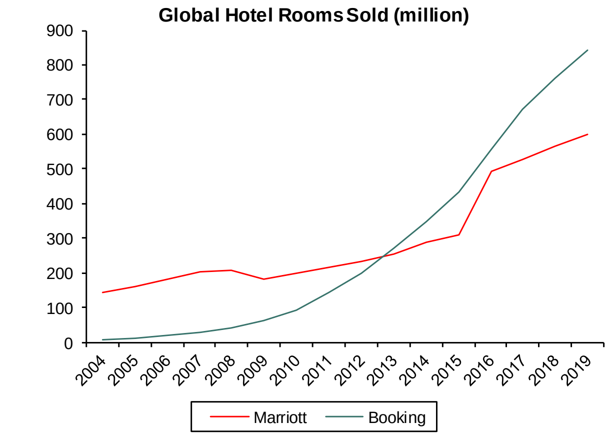
+ Exhibit 58 shows our estimate of Gross Bookings at Booking and Marriott, the largest OTA and hotel groups respectively. We estimate Marriott was 3x the size of Booking in 2008, Booking overtook Marriott in 2012 and now is 70% larger.
+ In terms of room night sold (i.e. fixing for Booking's volume in flights etc.), we estimate Marriott was 10x the size in 2006, Booking overtook Marriott in 2013 and is now 40% larger

EXHIBIT 58: **We estimate Booking overtook Marriott in 2012 and now is 70% larger**



Source: Company reports for Booking, Euromonitor 2011 to 2019 (Marriott), Bernstein estimates earlier, Bernstein analysis

EXHIBIT 59: **In hotel rooms sold, Booking overtook Marriott in 2013 and is now 40% larger**



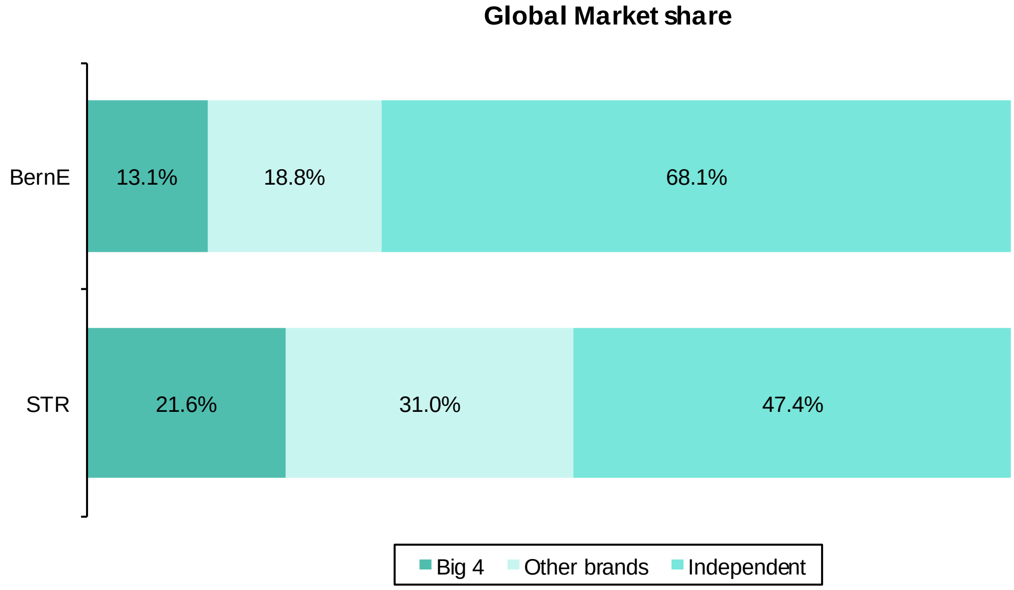
Source: Company reports for Booking, Euromonitor 2011 to 2019 (Marriott), Bernstein estimates earlier, Bernstein analysis

However, our view is that while the major brands can continue a similar growth trajectory, the growth trajectory for OTAs will slow. Notably Marriott grew gross bookings in 2019 at 6% faster than Booking (4%).

The market opportunity for brands: 35 years of 6% unit growth

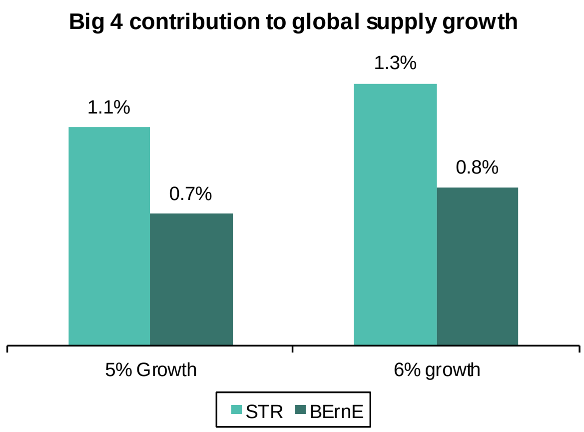
STR's database concludes that 53% of hotel rooms in the world are under branded network, our analysis concludes it is far lower at 32%. For our coverage companies (Accor, Hilton, IHG, Marriott), STR would suggest a global 22% market share; we estimate it is 13%. This means a much larger market share opportunity for our coverage, albeit only a smaller slice of this is suitable for conversions. Our coverage growing units at 6% would only equate to 0.8% industry growth, showing that it will be possible to continue that level for many years to come. We estimate the four companies could grow at 6% for 35 years, and would still only have a 50% market share.

EXHIBIT 60: **We estimate that the big-4 (Accor, Hilton, IHG and Marriott) have a much smaller market share than most expect**



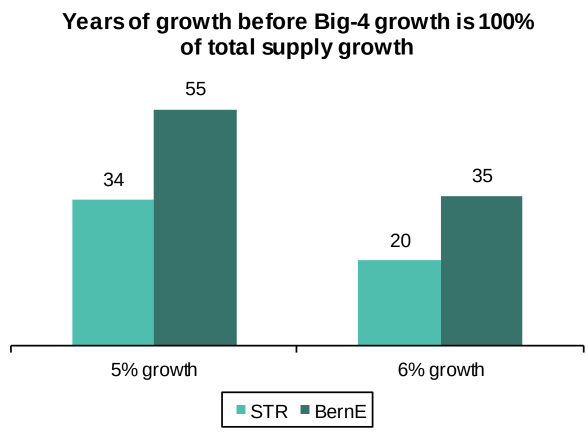
Source: STR, Bernstein analysis

EXHIBIT 61: **This means that the Big-4's unit growth is a far smaller impact on global supply growth…**



Source: STR, Bernstein analysis

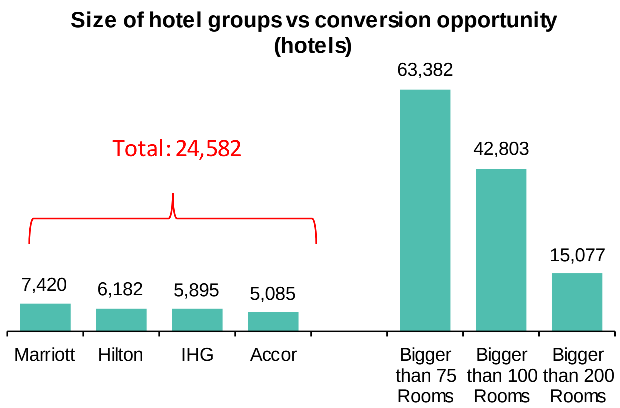
EXHIBIT 62: **… and means there is a far larger runway for high growth, over 50 years at 5%**



Source: STR, Bernstein analysis

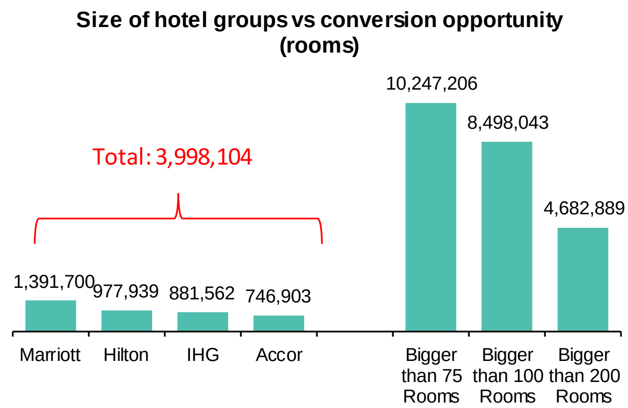
However, this would capture only new build growth, whereas conversion is a vast additional opportunity; we estimate that are over 10m rooms in our opportunity set (Exhibit 64) compared to just 4m rooms across our four coverage companies (Accor, Hilton, IHG, Marriott). Interestingly the average hotel size in our opportunity set (162 keys) is extremely similar to the average size across our companies (163 keys), showing this is a good fit. We expect conversions are accelerated by the Coronavirus pandemic.

EXHIBIT 63: **Our sized opportunity is >100% growth at more than 100 room cut off**



Source: Company reports, Bernstein analysis

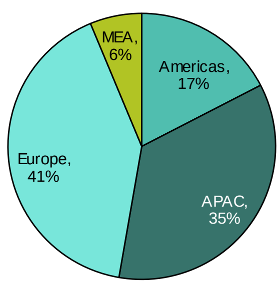
EXHIBIT 64: **It is 250% growth opportunity by # rooms**



Source: Company reports, Bernstein analysis

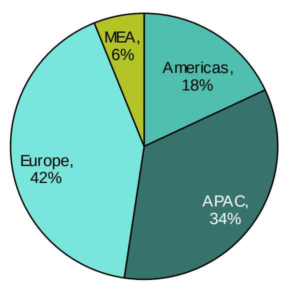
It is notable how skewed the opportunity is to Europe and APAC with around 75% of the opportunity in those markets alone.

EXHIBIT 65: **Split of opportunity (>75 rooms)**



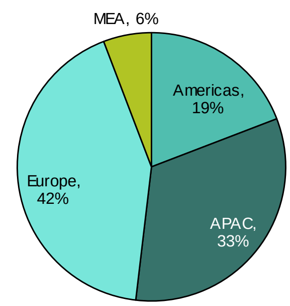
Source: Bernstein analysis

EXHIBIT 66: **Split of opportunity (>100 rooms)**



Source: Bernstein analysis

EXHIBIT 67: **Split of opportunity (>200 rooms)**



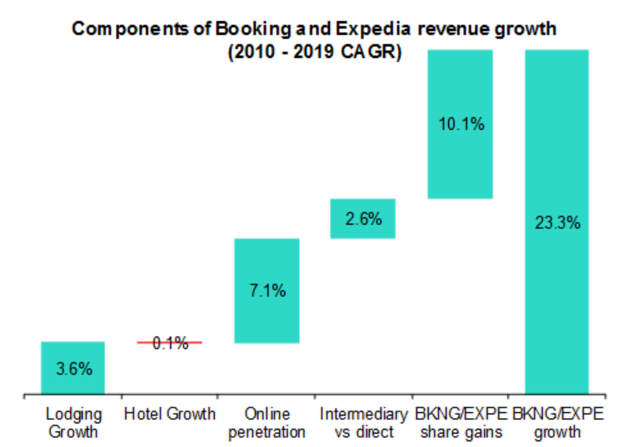
Source: Bernstein analysis

Market opportunity for hotel OTAs - diminishing

Booking and Expedia have been highly successful over recent decades, growing revenues at a combined 20% ahead of the wider lodging market from 2010 to 2019, driven by a triple tailwind of (1) increasing online penetration, (2) a shift within online from direct bookings to those through intermediaries and (3) market share gains from other OTAs. (Exhibit 68)

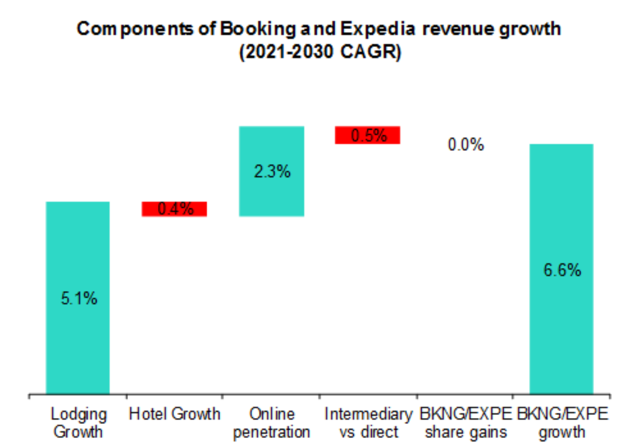
However, looking forward we think two of those tailwinds, i.e. direct to intermediary and market share gains from other OTAs have likely run their course and online penetration growth will likely slow. This will make the largest component of growth for the OTAs industry growth, which will be rapid for a number of years as travel recovers from the Covid-19 pandemic, but won't last forever; at normalized growth levels (3-4%) we would only expect the core Hotel-OTA to grow at ~6%.

EXHIBIT 68: **Up to 2019, three tailwinds drove OTA growth ahead of the hotel industry...**



Source: Euromonitor, Bernstein analysis

EXHIBIT 69: **...that looks set to slow to one**



Source: Bernstein estimates

Going through each component…

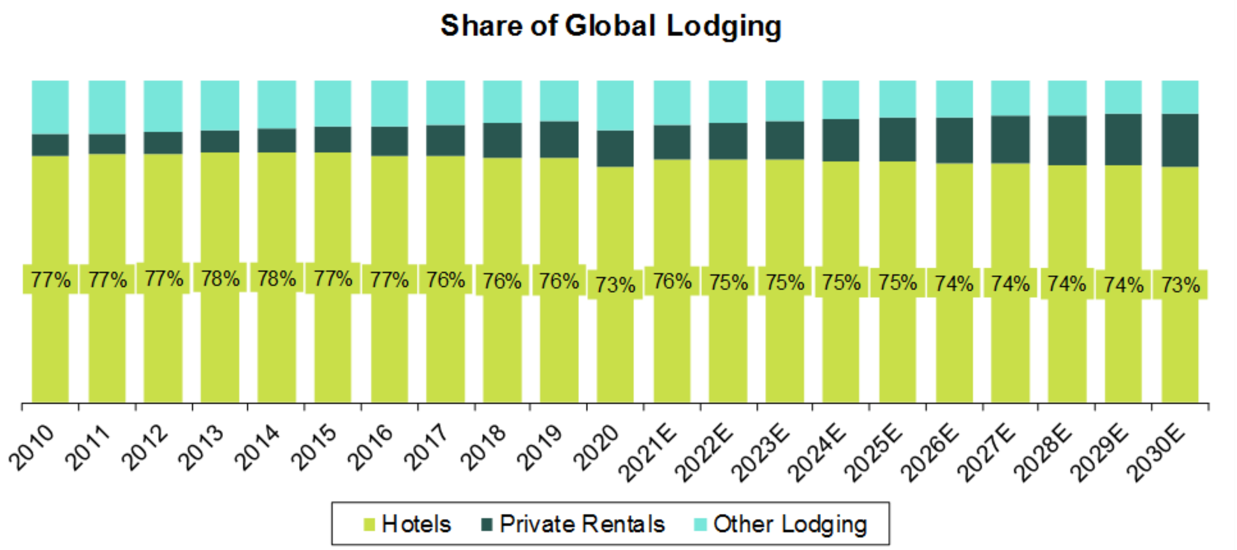
Industry growth

This is underlying growth in the hotel industry. We model lodging as a % of GDP and then assume that hotels will lose some share within lodging to rapid growing private rentals. In most markets, Lodging spend has been a fairly consistent % of GDP, gaining some share in Europe, Latam and MEA. Over the longer term, we assume these trends continue with lodging spend gaining a small share of GDP as populations age, consumer expenditure tends towards experiences and EM middle classes grow.

However, the 2020 pandemic has impacted lodging spend far more than GDP with Euromonitor (quite correctly) forecasting that lodging spend will fall from 0.92% of global GDP in 2019 to 0.4% in 2020. We expect this to take until 2024 to recover back to 0.92% of global GDP. From a 2020 or 2021 base therefore, we expect rapid growth for a number of years.

Within lodging spend, the biggest market share shift, i.e. from camp sites, hostels to private rentals, has largely passed the hotel sector by. However, since 2014, hotels have been slowly losing share to private rentals as Airbnb has ramped up growth (Airbnb: Pre-IPO Part 1 - A deep dive into Private Rentals). We assume this continues, with hotels' share of global lodging recovering from the 2020 dip but then once again slowly losing share.

EXHIBIT 70: **We expect Hotels will continue to cede small amounts of market share to Private Rentals through 2030**



Source: Euromonitor, Bernstein estimates & analysis

Online penetration

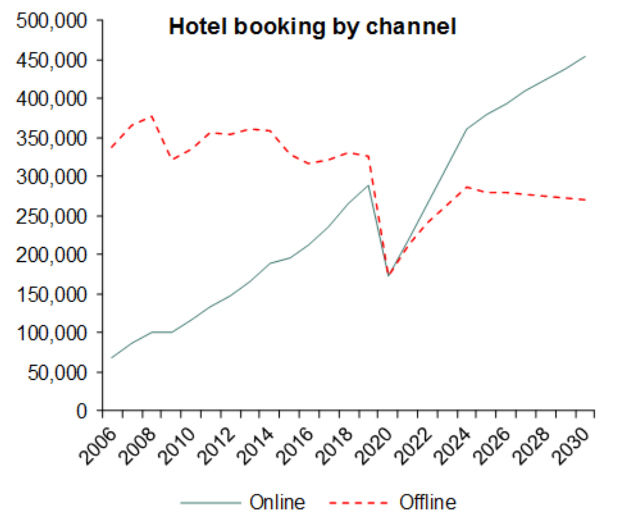
The second largest growth driver for the Hotel OTAs between 2010 and 2019 was the growth in online penetration. Between 2006 and 2019, online penetration for hotel bookings rose from 17% to 47% with online bookings growing at a 12% CAGR and 2020 is likely to be the first year that more bookings are made online than offline.

There is little sign of this trend abating.

+ The most online savvy country, Australia, has 80% online penetration, suggesting most markets have a long way to catch up. Private rentals are over 80% online in many markets, suggesting this level is possible.
+ There remains a large generational gap. For example, in the UK 59% of 25-34 year olds purchase accommodation online, but just 28% of 65+

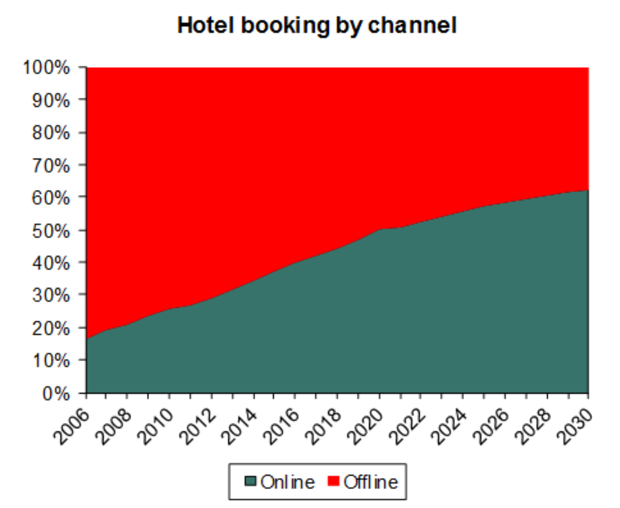
We expect that online penetration continues to grow, but at a slower pace and likely trends towards 80% over a prolonged period of time.

EXHIBIT 71: **Online hotel bookings have growth at a 12% CAGR, while offline has slowly declined**



Source: Euromonitor, Bernstein analysis & estimates beyond 2021

EXHIBIT 72: **Online penetration has gone from 17% in 2006 to 47% in 2019**



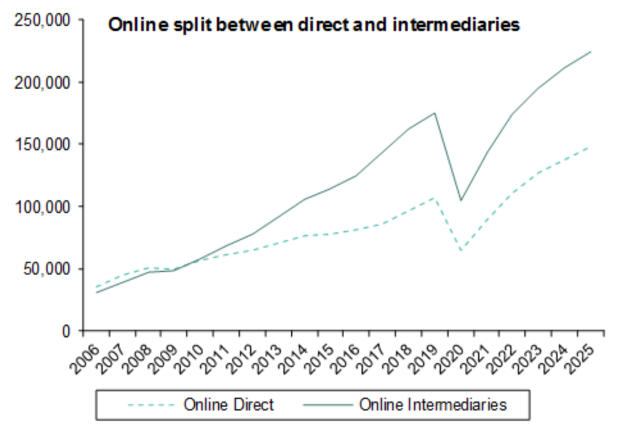
Source: Euromonitor, Bernstein analysis & estimates beyond 2021

Online split between direct and intermediaries

OTAs have gained from a market share shift from direct online bookings (at brand.com or a hotel's own website) to the usage of intermediaries. In 2006, 53% of online bookings were made directly with a hotel/brand; by 2017 this had dropped to 39%. We can see a similar pattern at specific hotel companies: IHG, for example, got 86% of its online bookings through direct channels in 2005, by 2015 this had fallen to 59%. However, in recent years, the trend has stabilized and slightly reversed, with direct gaining 1% share of online bookings in 2019. Looking forward the expectation is that direct online growth will outpace OTA. This we believe is likely:

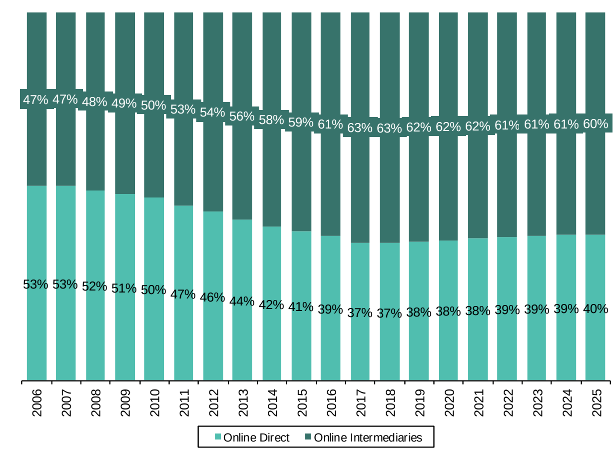
+ ***Increased brand penetration will drive more direct travel*** There is a strong correlation between brand penetration and direct bookings. We expect brands will gain share in all markets (The Long View: Global Hotels - the rise (and fall) of the asset-light hotel empires), which looks set to rise direct share of online bookings
+ ***The efforts of the brands.*** The big brands are working harder than ever to drive direct bookings. The brands will offer increased perks/optionality if you book direct (mobile check in, choose your own room, access to ancillaries). This combined with increased brand penetration will likely work against OTAs gaining share.
+ ***Google.*** Google is increasingly directing traffic to hotel websites ahead of OTAs (see metasearch section)
+ ***Covid.*** Early evidence from post Covid is that direct bookings are growing ahead of OTAs. This may be a temporary response to more domestic travel or a need for more on-the-ground information, but hotels will try and hold onto that direct relationship.

EXHIBIT 73: **Over the longer time frame, intermediaries have outpaced direct online bookings**



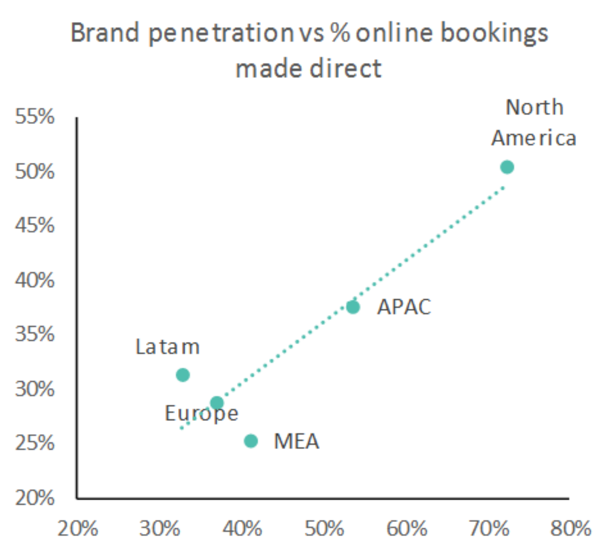
Source: Euromonitor, Bernstein analysis

EXHIBIT 74: **...but recent trends suggest a reversal with direct now winning more share of the online pie**



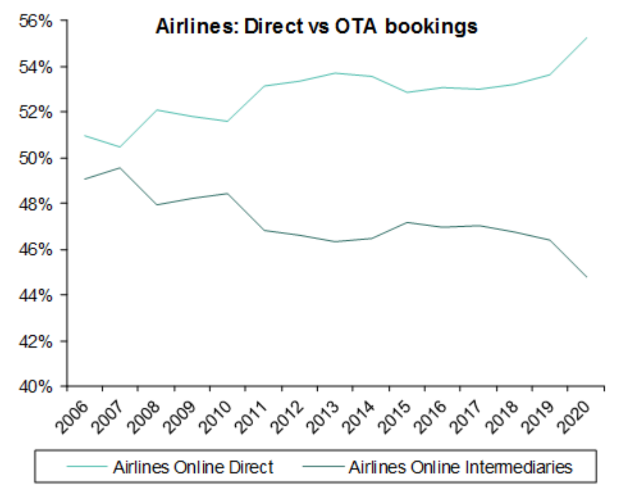
Source: Euromonitor, Bernstein analysis

EXHIBIT 75: **We can see that as brand penetration increases, more bookings go direct**



Source: Euromonitor, Bernstein analysis

EXHIBIT 76: **The airlines, as they consolidated, saw more bookings go direct**

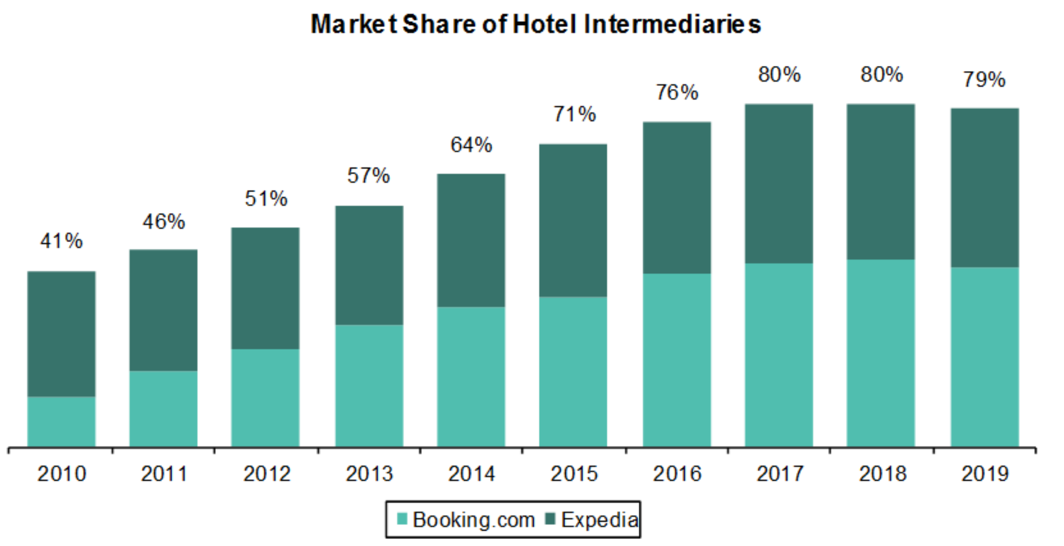


Source: Euromonitor, Bernstein analysis

Market share within intermediaries

Our simplistic global market share model suggests that Booking and Expedia have rapidly doubled their market share of online intermediaries from 41% in 2010 to ~80% today (Exhibit 77).

EXHIBIT 77: **Booking and Expedia have consolidated the OTA market, organically and through M&A. In 2019 (likely as a result of Trip.com's growth) they ceded some market share**

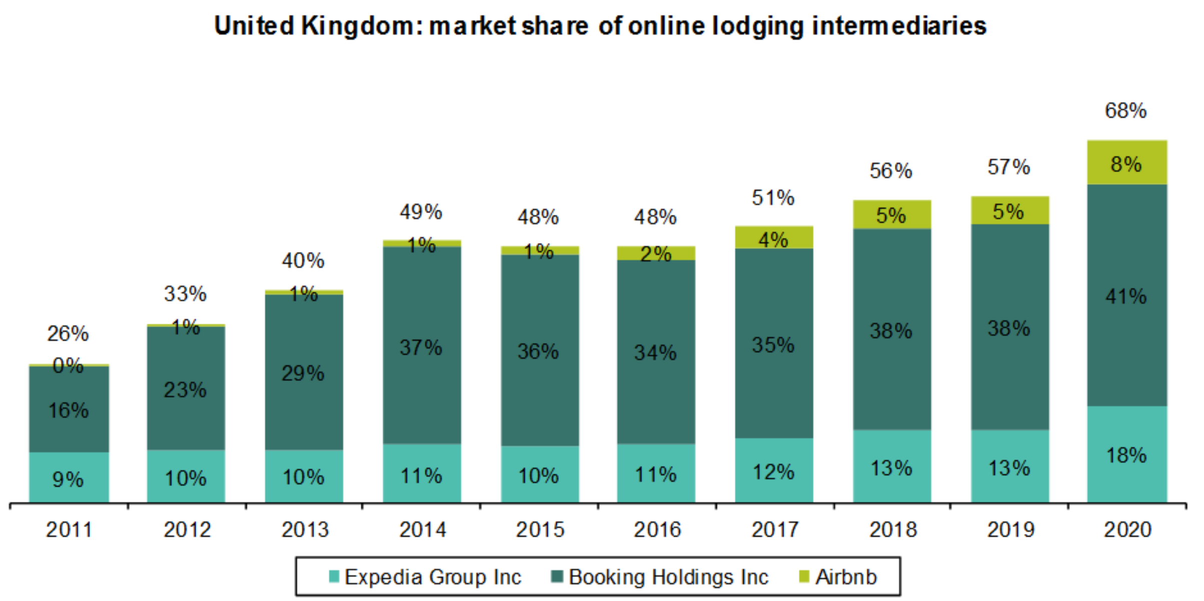


Source: Company reports, Euromonitor, Bernstein analysis

Two other pieces of analysis show that the market share opportunity is now limited.

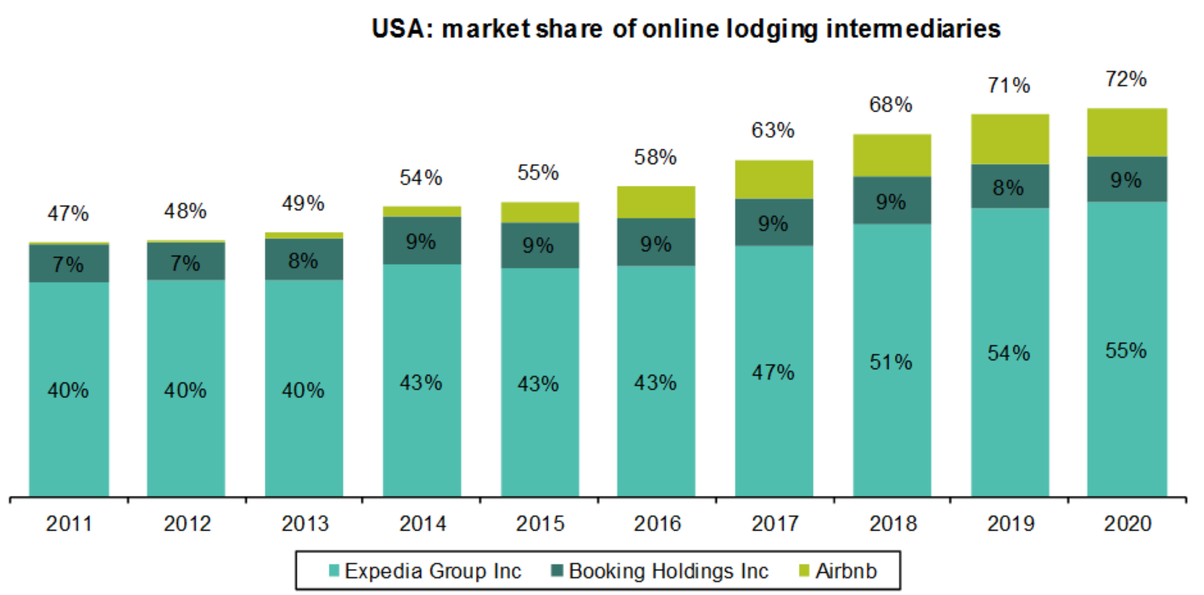
+ We have built a "**Major country market share model**" (available on request), which shows the lodging (i.e. beyond just hotels) market share of the major intermediaries in major markets. This shows spend by those countries rather than spend within those markets. In general, this shows that market share of intermediaries is stalling. We present a few examples below for the UK, US and Italy. There are markets where market share is much lower, e.g. Japan, India and China, but here high-quality incumbents are present.
+ Secondly, we have undertaken a **major Google Hotels scraping** exercise, looking at >4,000 hotels across regions and which booking engines come out on top of the Google Hotel Finder auctions. As expected, there is a difference between geographies, with Expedia dominating US auctions and Booking brands dominating European. There is scope for some niche OTAs such as Stayforlong.com, lastminute.com or hostelworld.com but very little presence from smaller standard OTAs. There may be some small market share to be won from ZenHotels, Hurb, Destinia but very unlikely to see the same tailwind from share as in the past.

EXHIBIT 78: **Booking and Expedia did not increase market share in 2019 in the UK**



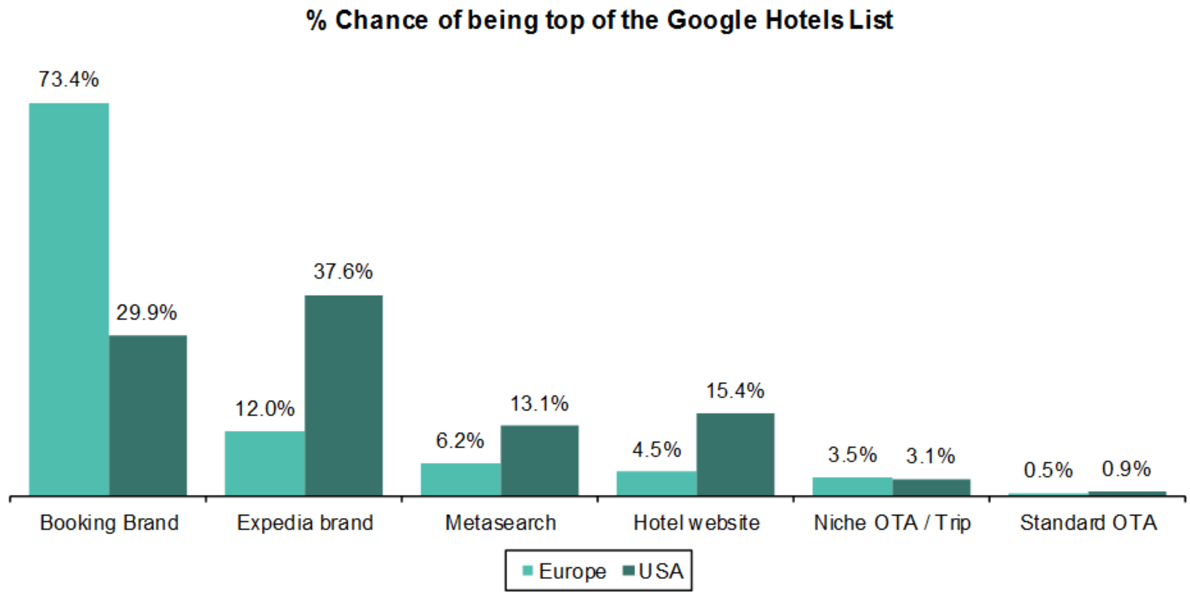
Source: Bernstein Major Country Market Share Model

EXHIBIT 79: **Expedia gained some market share in the USA in 2019 (helped by VRBO) but Booking lost share**



Source: Bernstein Major Country Market Share Model

EXHIBIT 80: **Expedia and Booking brands dominate the top spot in Google Search auctions. Metasearch (just a steppingstone to OTA websites) and Hotel Direct website have a presence, but other OTAs have barely any share**



Source: Bernstein Google Hotel Scraper, Bernstein analysis

Overall conclusion: Hotels 3-4% ahead of market growth, OTAs 1-2% ahead without margin investment

We expect steady state growth as follows

+ For the big-4 branded hotel groups, we expect they can continue to grow units at 5-6%; alongside RevPAR of 2%, they should growing 3-4% ahead of the market. This growth is also margin accretive as it leverages a fixed cost base. We expect 1% margin increase per year

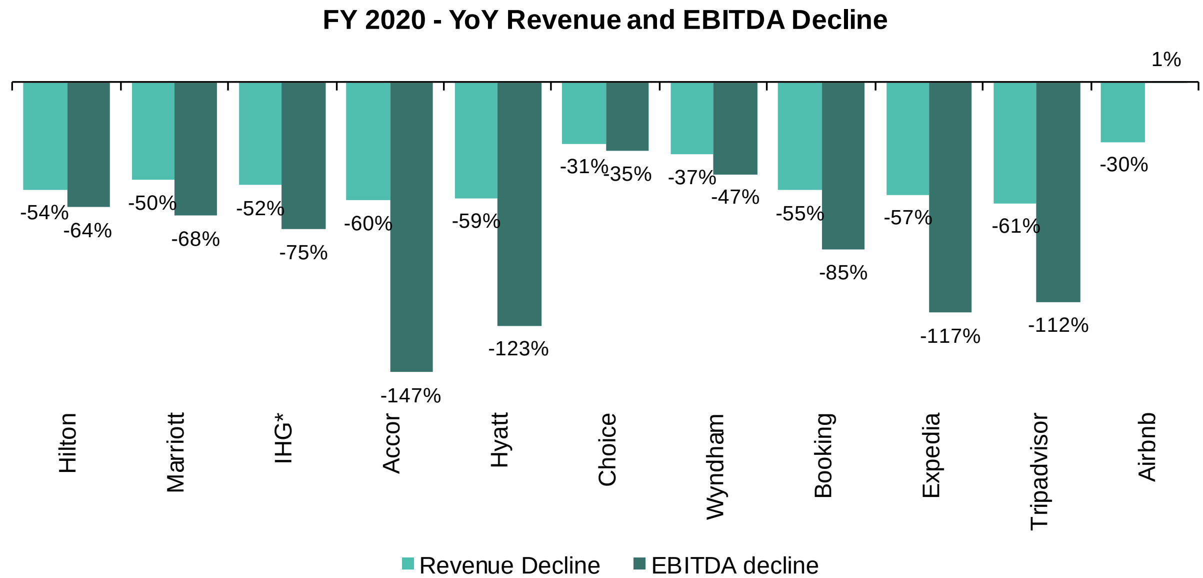
+ For the OTAs, the opportunity is slowing. We expect online penetration increases will see growth 1.5% ahead of the market at steady margin. Any growth above that (into new verticals, new territories etc.) will likely see margin dilutive.

THE COVID IMPACT - WHO BENEFITS MORE?

The hotels showed greater resilience than the OTAs throughout the pandemic

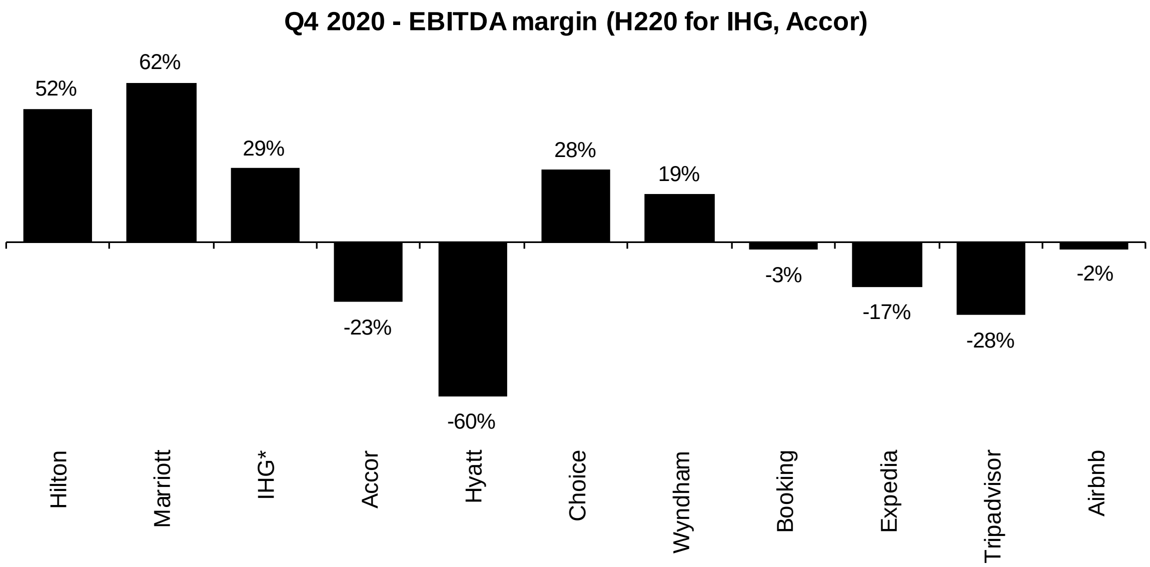
Exhibits 81 and 82 show the headline revenue, EBITDA and margin performance across the travel names in Q4 and FY. Whilst FY revenue declined -50% to -60% across the companies (except names such as Choice, Wyndham, which skew to mainstream brands in the US and Airbnb, which benefitted from private rentals outperforming), there was a much wider ranger in EBITDA decline, with the hotel groups generally showing more cost flexibility than the online travel agents. For Hilton and Marriott for example, EBITDA decline was -65% for Q4 vs a revenue decline of -60% (MAR) and -62% (HLT), whilst the OTAs all saw >100% EBITDA decline vs a ~-65% revenue drop in Q4. In general, the hotel companies also had positive EBITDA in Q4, whilst the OTAs all reported negative margin.

EXHIBIT 81: **Headline FY 2020 Revenue and EBITDA – the hotel groups generally showed great resilience, with EBITDA decline in line with revenue decline in comparison with the OTAs, which saw a >100% EBITDA decline**



Source: Company reports, Bernstein analysis
*EBIT used for IHG. Note: Hyatt, Choice, Wyndham and Airbnb are uncovered.

EXHIBIT 82: **Hilton and Marriott showed the most flexibility throughout the Covid, reporting positive FY EBITDA, whilst the OTAs all reported negative EBITDA margin**

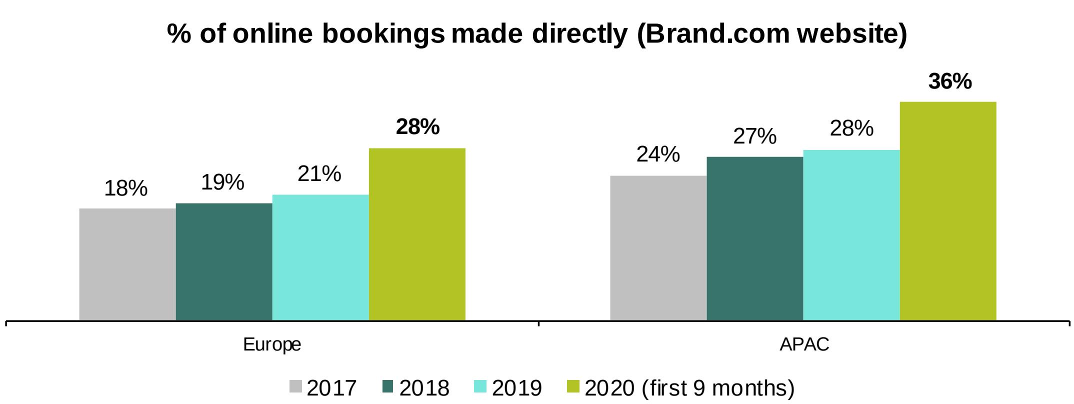


Source: Bernstein analysis
*EBIT used for IHG. Note: Hyatt, Choice, Wyndham and Airbnb are uncovered.

Brands are gaining back control of distribution

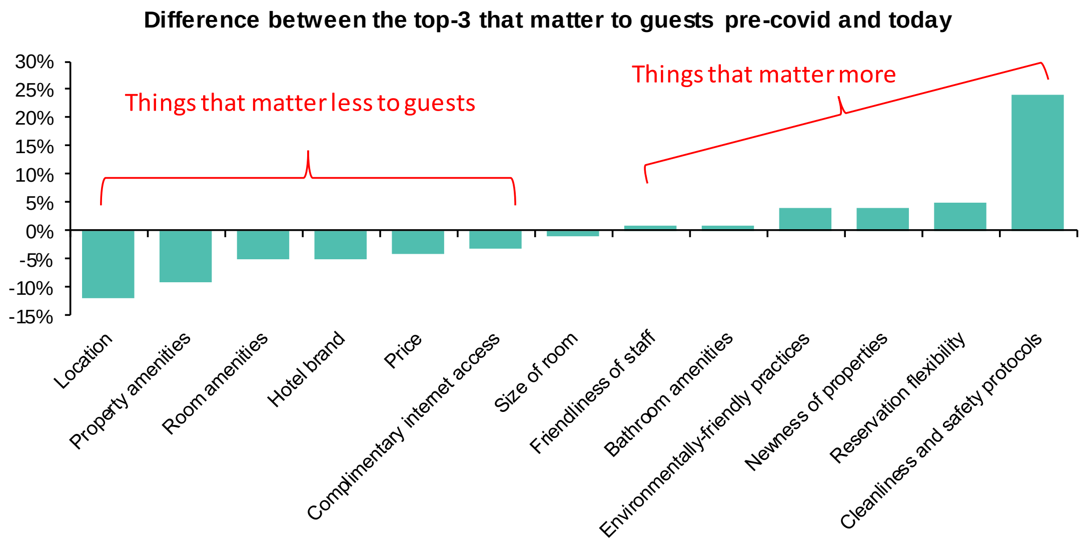
Throughout Covid, brands have been focusing on direct traffic, and have seen some success in increasing direct distribution vs OTAs pre-Covid (Exhibit 83). During the pandemic, hoteliers were given a unique chance to reevaluate their distribution mix, and we think focusing on direct bookings and more loyal guests (moving away from a pure focus on RevPAR and occupancy) will likely be where many hotels go. In 2020, direct bookings increased as travellers looked to open a direct communication line with hotels to have certainty over cancellation policies, flexibility, and local travel advice (Exhibits 84 to 86). This – which Expedia directly acknowledged on their Q3 call – goes against the preconception that the OTAs will perform better during crises, a message the OTAs were pushing themselves publicly until Q2 2020. We forecast more consolidation at the hotel supply level will provide a continuing headwind to OTA share of bookings.

EXHIBIT 83: **In the crisis, direct bookings have outperformed OTAs**



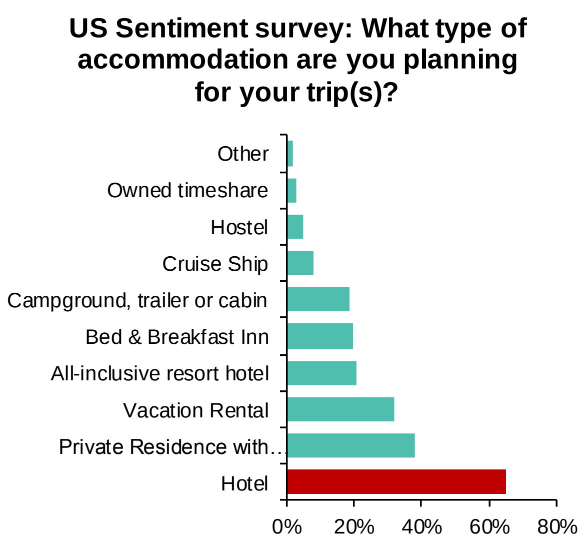
Source: D-Edge, Bernstein analysis

EXHIBIT 84: **Consumers are prioritizing reservation flexibility and cleanliness over price**



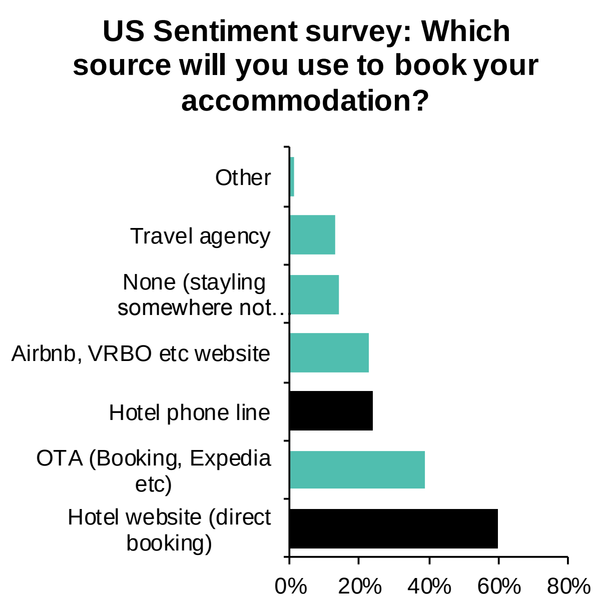
Source: AH&LA, Bernstein analysis

EXHIBIT 85: **Travel sentiment for 2021 show hotels as the most popular type of accommodation...**



Source: Pegasus US Travel sentiment survey, Bernstein analysis

EXHIBIT 86: **...booked directly through the hotel website**

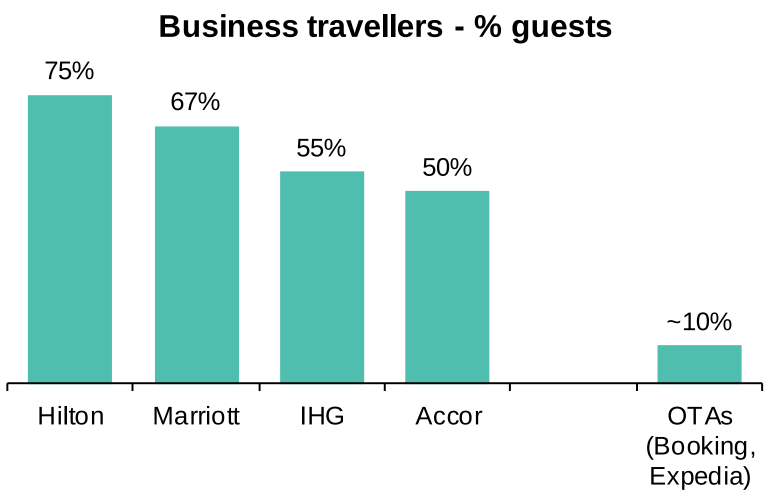


Source: Pegasus US Travel sentiment survey, Bernstein analysis

Leisure, domestic travel, led by pent up demand, will lead the recovery

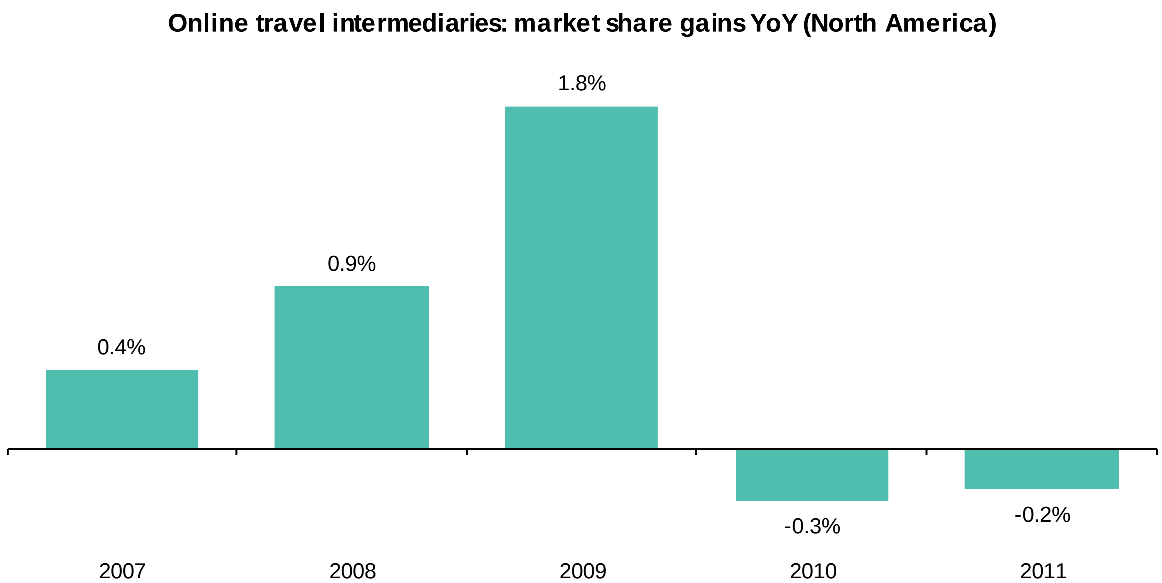
The OTAs, being primarily leisure pure plays (Exhibit 87) outperformed in the last crisis (Exhibit 88), and the key debate is whether they will do that again this time round. We see a more level playing field, with the hotel brands significantly outperforming the OTAs on app usage throughout the pandemic (Exhibit 89), with consumer preferring branded hotels for their stamp of approval on cleanliness/hygiene, helped by the brands' push towards contact-free tech such as mobile check-in, contactless payment and smartphone door locks.

EXHIBIT 87: **The OTAs are predominantly leisure pure plays, whilst the branded hotels have a higher business exposure...**



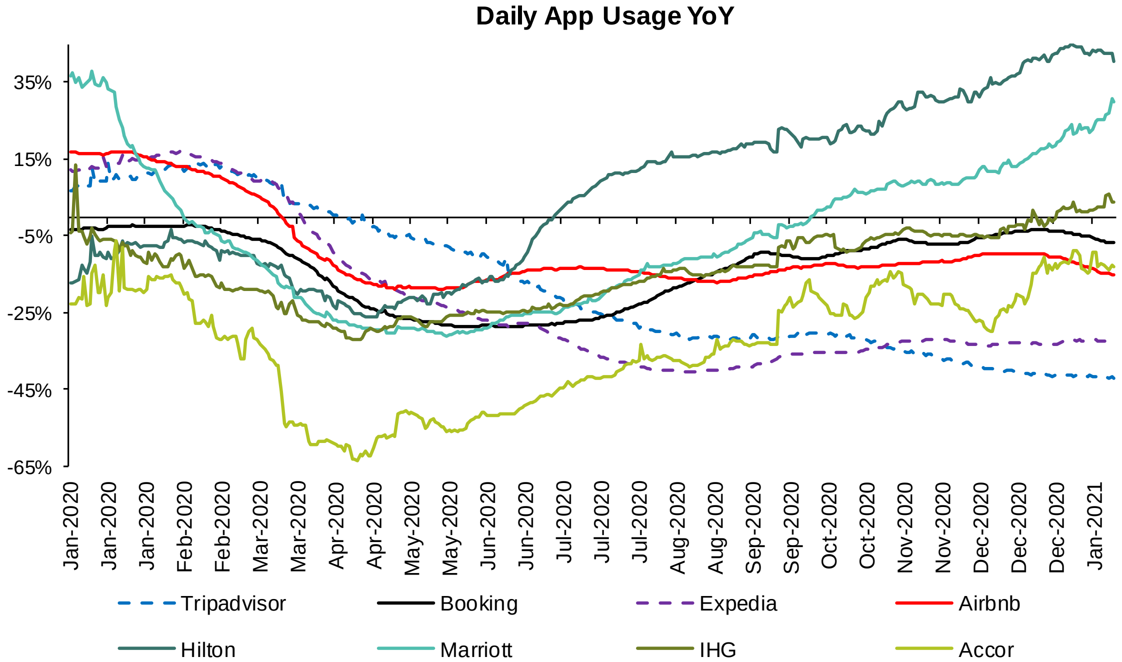
Source: Company reports and conference calls, Bernstein analysis

EXHIBIT 88: **In 2009, the OTAs recorded record market share gains (giving some of that back in future years)**



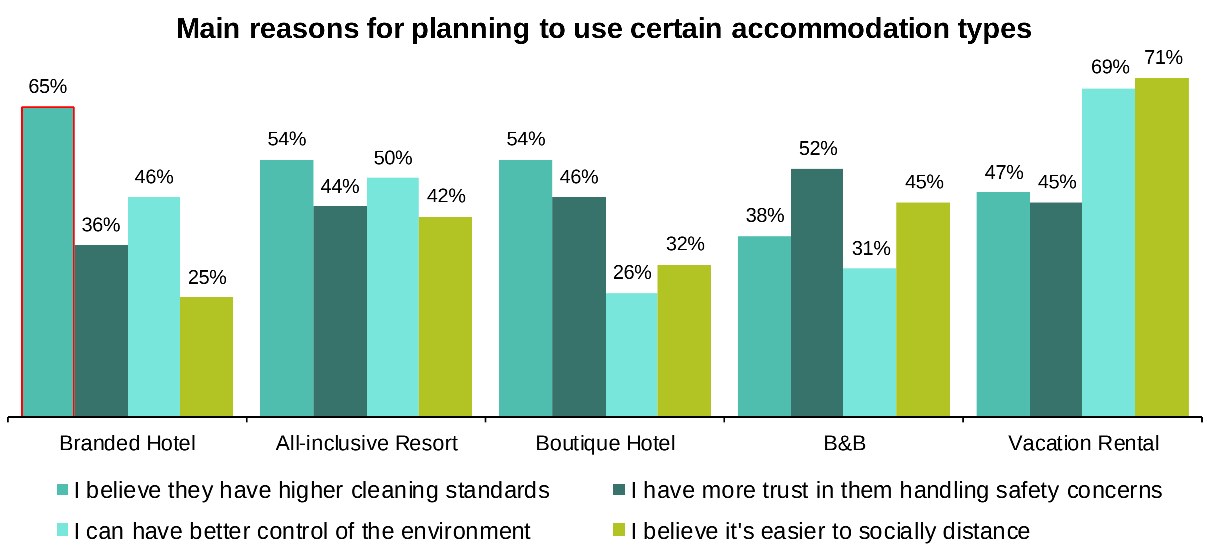
Source: Euromonitor, Bernstein analysis

EXHIBIT 89: **...however, despite this, we have seen the hotel names (Hilton, Marriott in particular) significantly outperform the OTAs on app usage throughout the pandemic...**



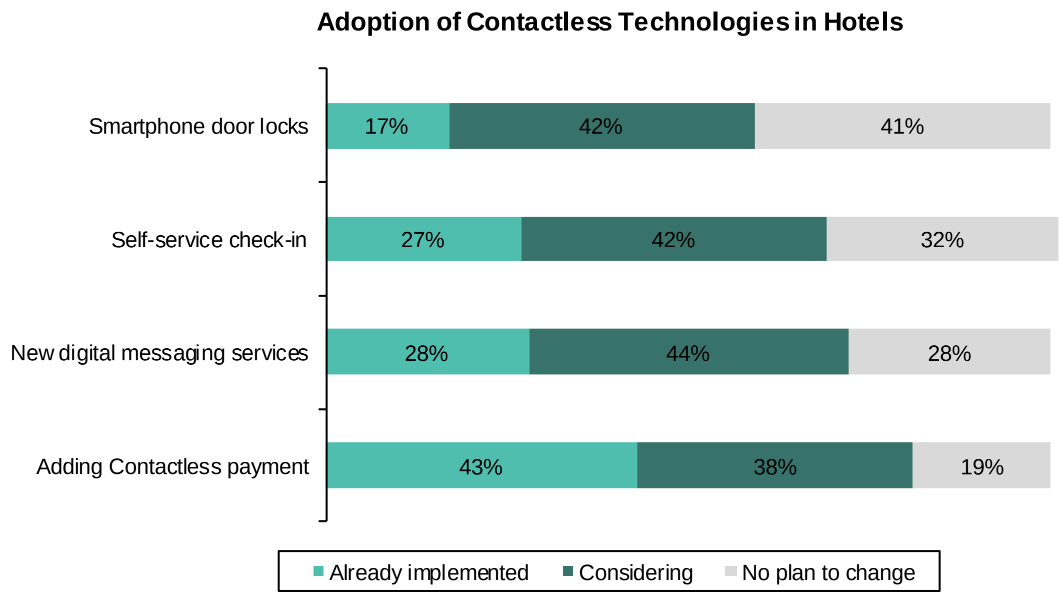
Source: Apptopia, Bernstein analysis

EXHIBIT 90: **...with customers preferring brands for their approved stamp on cleanliness...**



Source: Skift, Bernstein analysis

EXHIBIT 91: **...and from increased use of mobile app check-in/contactless payment/smartphone door locks etc, all of which position the hotels as clean, contact-free and safe places to stay during (and post) Covid-19**

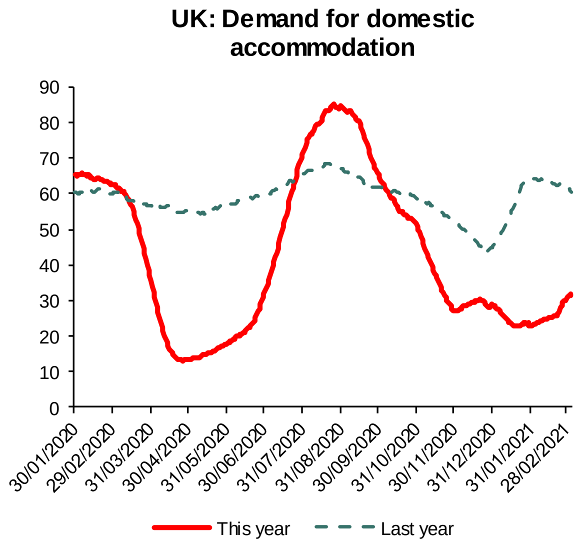


Source: Skift, Bernstein analysis

The hotel brands are also actively pushing towards increasing their leisure mix (see Weekend Consumer Blast: A weekend in the Hampton (Inn) - how the hotel brands can pivot towards leisure demand, with Accor signing the Ennismore deal (Comment: Accor begins simplification drive) in its bid to be the "biggest lifestyle operator", Marriott expanding its all-inclusive resort offering and Hilton and others prioritizing loyalty programs in order to capture leisure staycation demand as well the growing 'bleisure' trend.

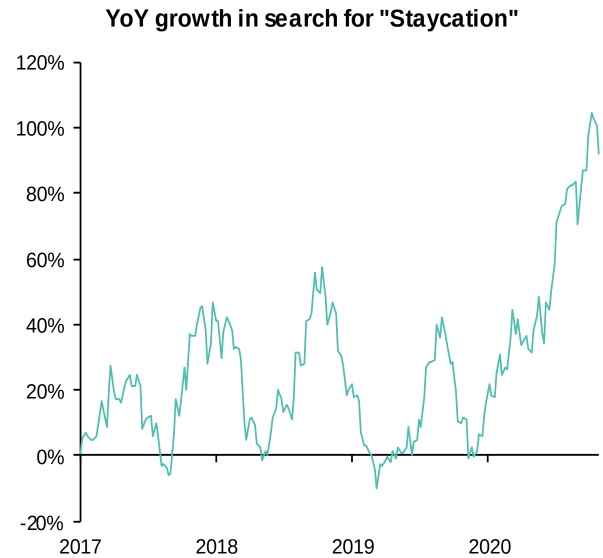
Domestic travel will also be the defining part of the recovery, with demand for domestic holidays and "staycations" booming in 2020 and with international travel still heavily restricted, we can expect a repeat in 2021 too (Exhibits 92 and 93). The hotel brands are ~95% skewed to the domestic customer, whilst the OTAs are far more reliant on international travel (Exhibit 94).

EXHIBIT 92: **Demand for domestic accommodation surged in the summer of 2020, up YoY**



Source: Google Travel Insight Tool, Bernstein analysis

EXHIBIT 93: **Demand for "staycations" remain strong into 2021 with domestic travel dictating the recovery**



Source: Google Trends, Bernstein analysis

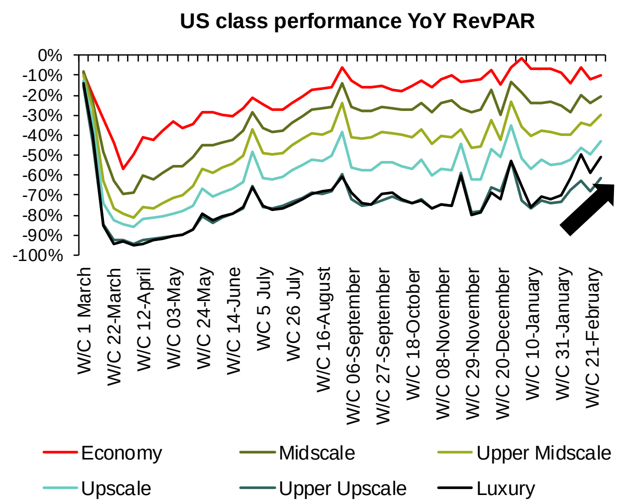
EXHIBIT 94: **The hotel brands are very much skewed to the domestic guest (in US), whilst the OTAs are more reliant on international travel bookings**

Source: Company reports and conference calls, Bernstein analysis

Pent-up demand led reversion to higher chain scale benefits the hotels more

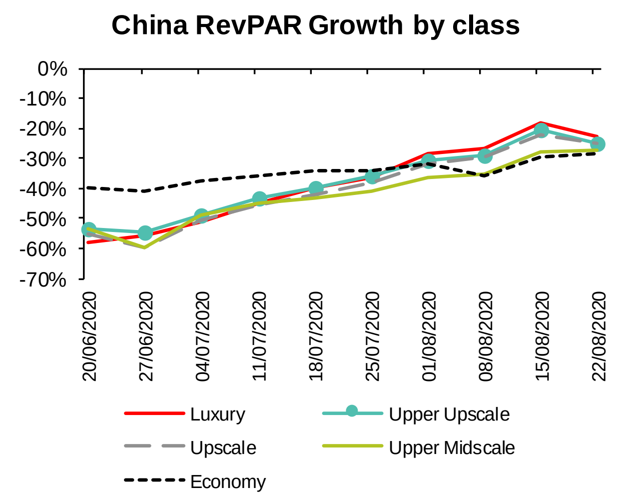
We are also beginning to see signs of luxury and upper upscale recovering faster than economy, midscale in the US (which led the recovery throughout 2020), with latest data showing luxury RevPAR up nearly 20% in the last month to -51% , whilst economy scale's recovery has been more stagnant (Exhibit 95). We also saw similar luxury outperformance in China in the summer (see Global Hotels: Recovery check-in. Part 1 - why is the recovery so different in China and the US?), with consumers growing more confident of a recovery within their borders, and thus repatriating luxury spend (Exhibit 96).

EXHIBIT 95: **Within the US, luxury and upper upscale have started to recover faster than lower chain scales**



Source: STR, Bernstein analysis

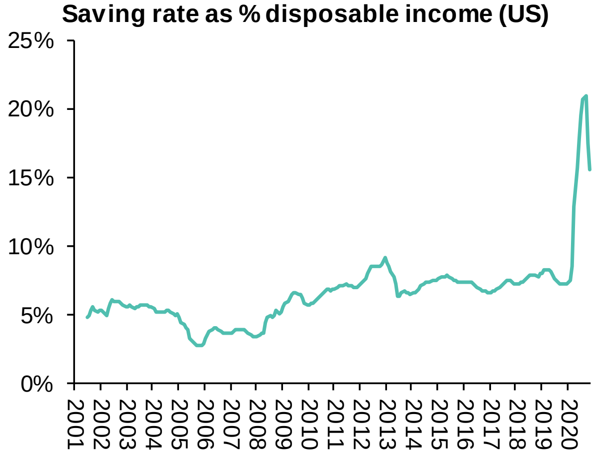
EXHIBIT 96: **...we saw a similar luxury outperformance in China last summer**



Source: STR, Bernstein analysis

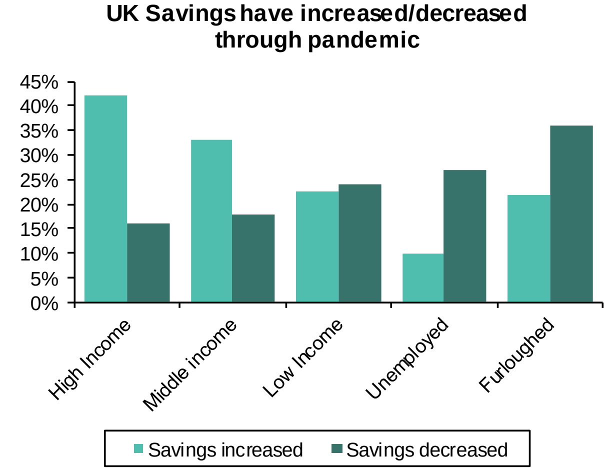
We expect such a chain scale reversion as consumers have saved a large part of income during the pandemic and will contribute to spending on more upper scale travel on a recovery backed by pent-up demand. There is certainly some evidence that consumers who do want to travel will have more savings to throw at trips this year than normal: in the US, the savings rate as a % of disposable income hit >20% in 2020 and remains well elevated vs historical levels (Exhibit 97). These savings rates are skewed towards higher earners (Exhibit 98) who tend to be those who spend the most on travel (Exhibit 99). In the US, nearly half of stimulus checks have either been saved or used to pay down debt, meaning there should be fire power for when travel restrictions are eased (Exhibit 100).

EXHIBIT 97: **Savings rates have increased during the pandemic, showing there will be money to spend**



Source: Department of Labor, Bernstein analysis

EXHIBIT 98: **These savings rates are skewed toward the higher earners...**

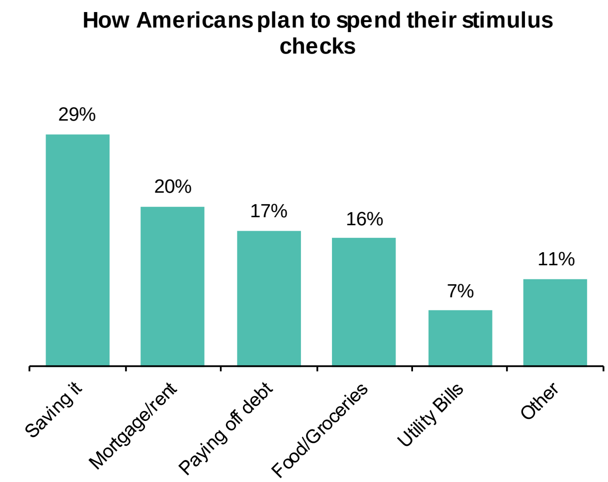


Source: Bank of England, Bernstein analysis

EXHIBIT 99: **...who tend to spend more on travel anywhere**

Source: Statista, Bernstein analysis

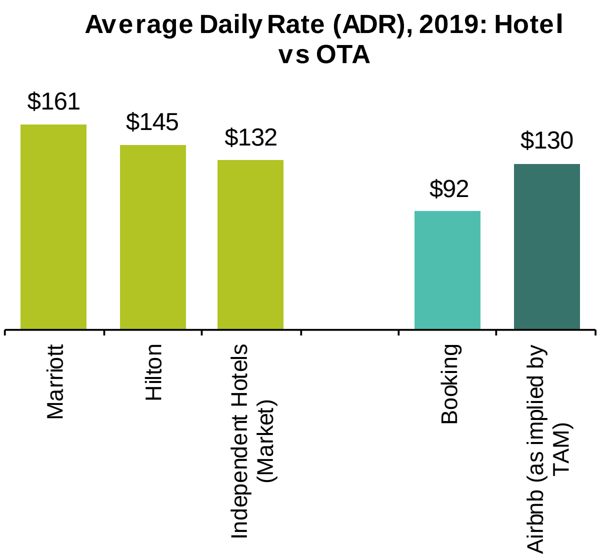
EXHIBIT 100: **46% of Americans will have either saved their stimulus checks or used them to reduce debt**



Source: CNBC, Bernstein analysis

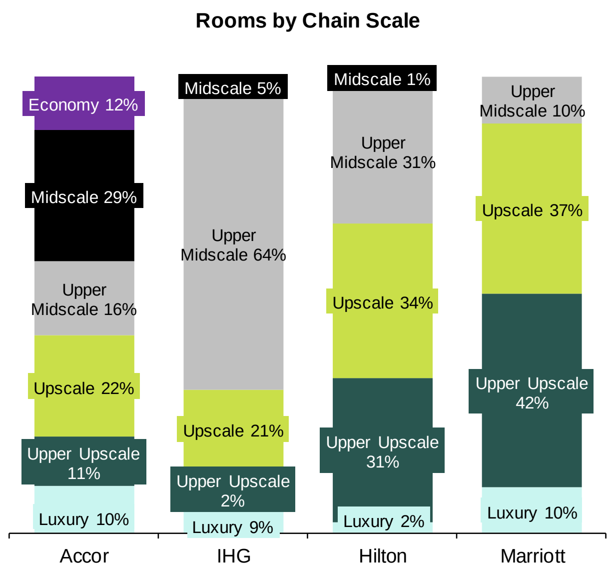
A chain scale reversion to higher end travel brands will benefit the hotels more than the OTAs, with the branded hotels under our coverage skewing to higher system-wide ADRs vs the OTAs (Exhibit 101), with the OTAs sending the majority (~80-90%) of booked room nights to independent and small group hotels which tend to be at lower price points vs the branded players.

EXHIBIT 101: **The branded hotels (Hilton, Marriott) have the highest ADRs**



Source: Company report, STR, Bernstein analysis.

EXHIBIT 102: **...skewing more to upper end chain scales**

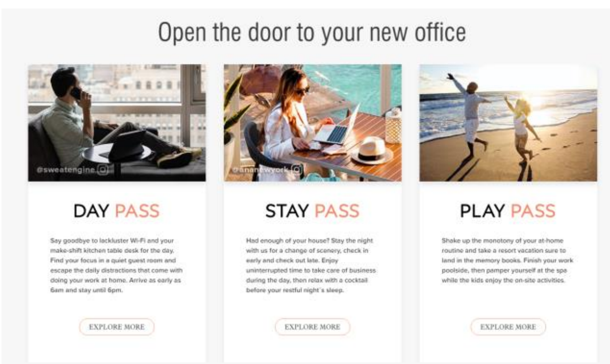


Source: Company reports, STR, Bernstein analysis

Hotel brands are better placed to capture the "Work from anywhere" trend

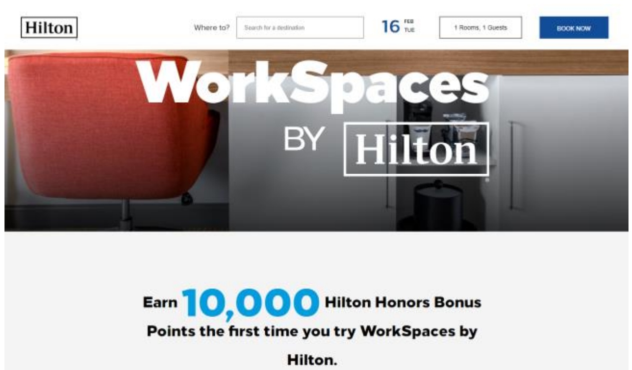
The impact of the Covid pandemic on remote working has led the hotel brands (Exhibits 103 & 104) & OTAs (Exhibit 105) to expand their offers and allow guests to use hotel rooms to work, either sold with a stay or as a day pass.

EXHIBIT 103: **Marriott launched its Work Anywhere with Marriott Bonvoy last year, offering various packages for working within its hotels**



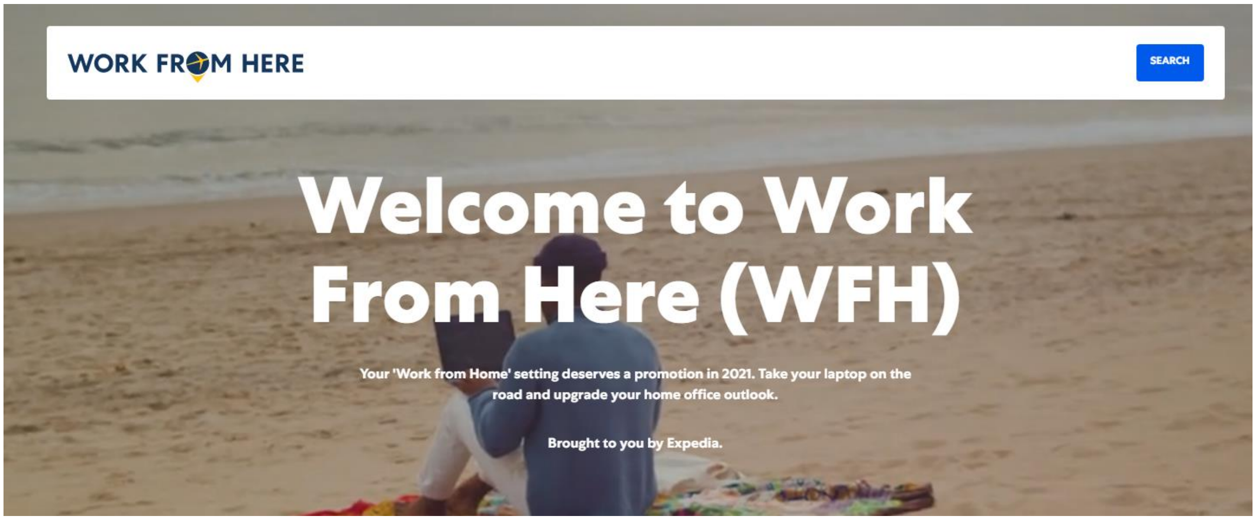
Source: Marriott website

EXHIBIT 104: **Hilton has a similar WorkSpaces by Hilton offer**



Source: Bernstein analysis

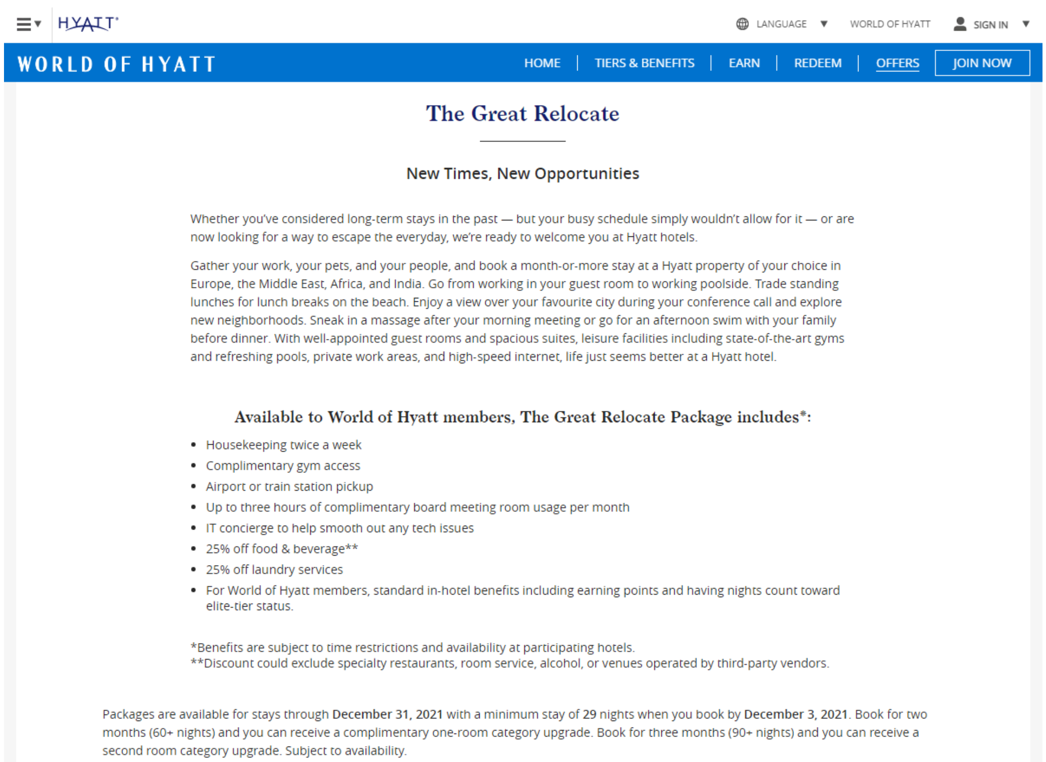
EXHIBIT 105: **Expedia has set up a separate website called work from here, although this seems to be limited to stays up to 28 nights**



Source: https://workfromhere.expedia.co.uk/en/

Hyatt has gone one step further into the extended stay market, offering its loyalty members package rates for stays >28 nights long, and additional upgrades and benefits for stays over 3 months (Exhibit 106)

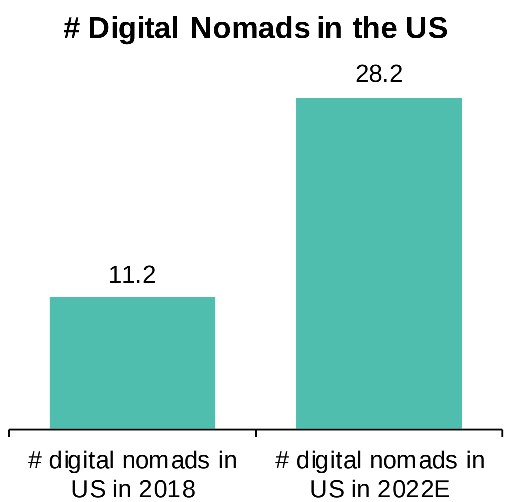
EXHIBIT 106: **Hyatt's 'The Great Relocate" offers its members the chance to relocate and work in its hotels across EMEA and APAC, getting special package rates and deals on F&B**



Source: Company website

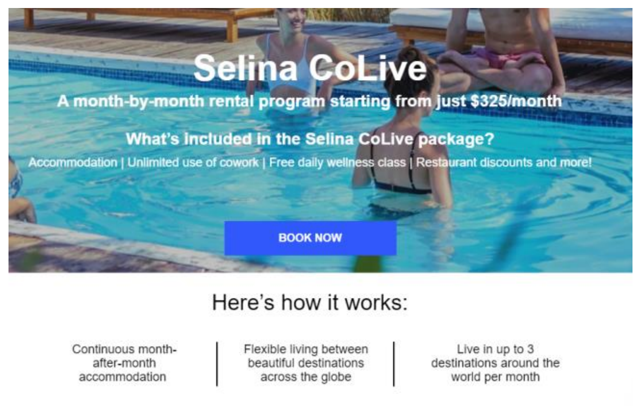
Increased remote working, the rising popularity of a "digital nomad" lifestyle (Exhibits 107 and 108) and office downsizing will lead to augmented demand for clean, hygienic and professional working space. Exhibit 109 shows that the vast majority of corporate travel managers see hotels as the preferred accommodation for their employees, since hotels can provide hotel safety certificates and cleanliness standards. Accor, with its Wojo co-working brand (Exhibits 110 and 111) can also capture increased demand for meeting spaces from offices which have downsized post-Covid. The hotel brands are also now capturing the "hybrid working" environment with Accor launching ALL Connect (link) in partnership with Microsoft Teams (Exhibit 112) which will "enable seamless physical & virtual meetings", Hilton with 'EventReady hybrid solutions for events and meetings' (link), Marriott with 'Connect with Confidence' (link) and IHG with 'Meet with Confidence' (link).

EXHIBIT 107: **The popularity of the digital nomad lifestyle is rising, with a survey conducted in 2018 showing number of digital nomads was expected to double in 3-4 years, and now likely accelerated by Covid**



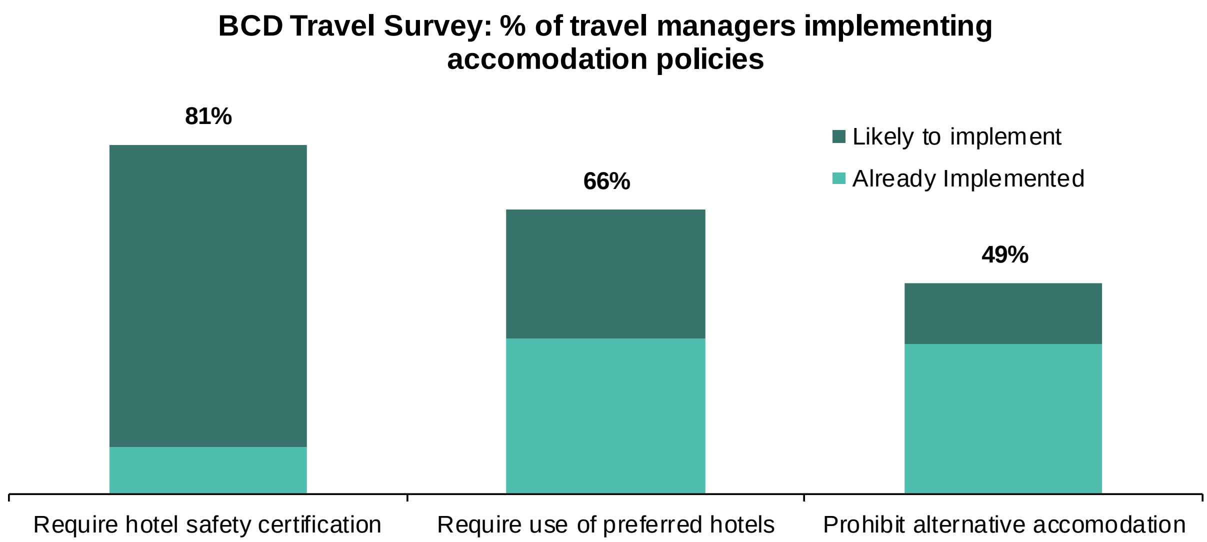
Source: MBO Partners, Bernstein analysis

EXHIBIT 108: **Co-living subscription programs such as Selina have been launched to accommodate a growing number of digital nomads**



Source: Company website (https://stay.selina.com/colive/)

EXHIBIT 109: **While business travel looks set to be lower in 2021, the brands can take some optimism from corporate travel manager surveys indicating the need for hotel safety certification, mandating the use of preferred hotels, and also prohibiting alternative accommodation**



Source: BCD Travel survey (September 2020), Bernstein analysis

EXHIBIT 110: **'Wojo Corner' utilizes lobby and lounge space (Novotel Le Havre Centre Gare Hotel)**

Source: Company website

EXHIBIT 111: **Wojo Corner in Mercure Paris Montmartre Sacre-Coeur**

Source: Company website

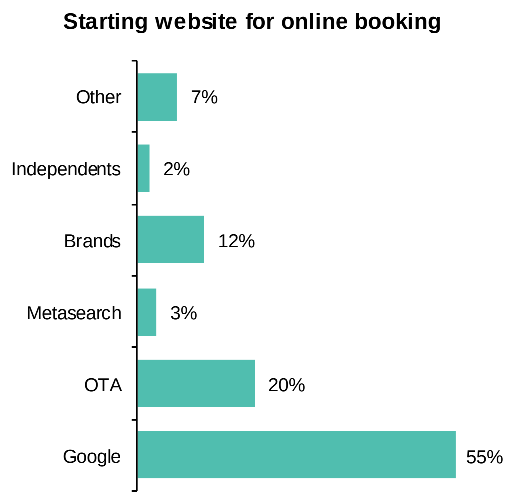
EXHIBIT 112: **Accor's ALL Connect launch captures trends in hybrid working and meetings**

Source: Company website

GOOGLE: THE COMMON ENEMY?

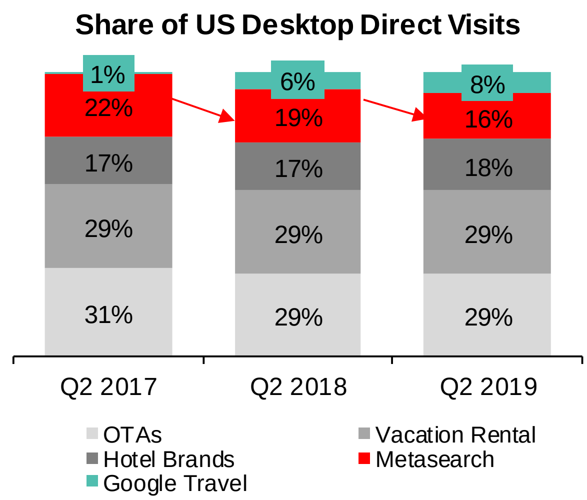
Our thesis for the OTAs is that the core business is set to slowdown. A key part of this is that we expect a shift in market share from online intermediary bookings (i.e. OTAs) to online direct bookings through brand.com or a hotel's website. Google is a central to this argument, as Google Hotel Ads gives a branded or independent hotel a fighting chance of getting a direct booking that they wouldn't get through any other platform. Even prior to investing in Google Hotel Ads, Google was pivotal to the travel booking industry. Our estimate (Exhibit 113) is that Google is the starting point of 55% of online hotel bookings, far more than any other platform. In the last two years it has gained market share of desktop visits (Exhibit 114), primarily from the meta-search engines (Tripadvisor, Trivago, Kayak etc) to which Google is the biggest threat. We note that share to the hotel brands has increased in this period, from 17% to 18%, whilst it has decreased slightly for the OTAs, from 31% to 29%.

EXHIBIT 113: **We estimate Google is that starting point for ~55% of hotel bookings**



Source: Simliarweb, Bernstein estimates & analysis

EXHIBIT 114: **Google has gained share of desktop visits (from 1% to 8% in two years), primarily from metasearch players**

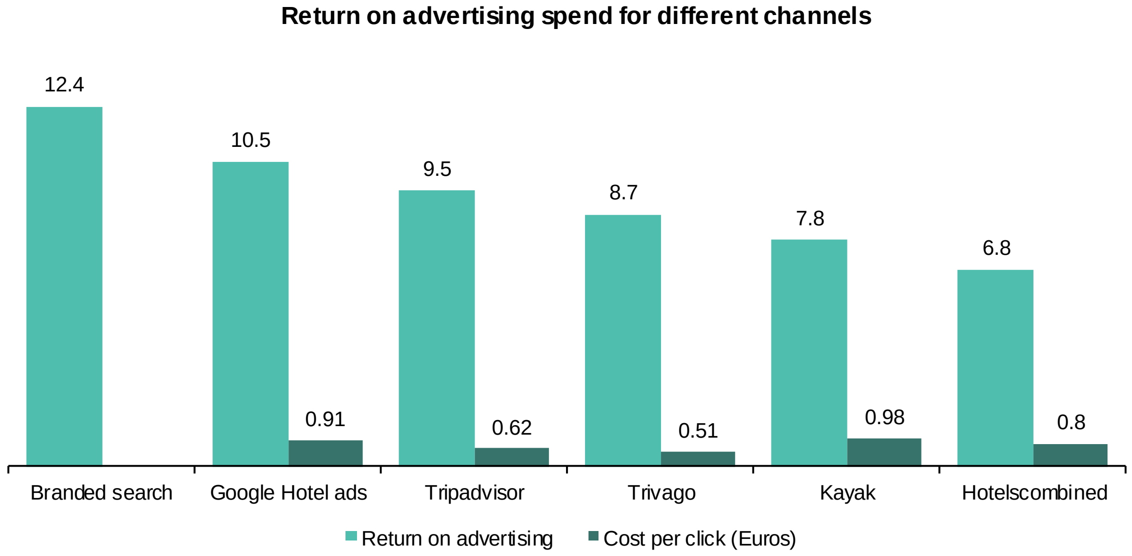


Source: SimilarWeb, Skift, Bernstein analysis

The key pushback we have got from investors is that though Google as a metasearch platform is a threat to the likes of Tripadvisor, Trivago and Kayak, it is not a disruptor to the OTAs. The argument is that Google is not trying to become an OTA, even switching off the "book through Google" option and it is just another channel to the OTAs, and in fact a higher profit channel than the prior metasearch engines it is replacing. There is data support for this view, with a D-Edge report (Exhibit 115) showing the hotels it analyses as having had a higher return on advertising spend on Google Hotel Ads than on Trivago, Kayak or Tripadvisor. However, we feel this misses key factors:

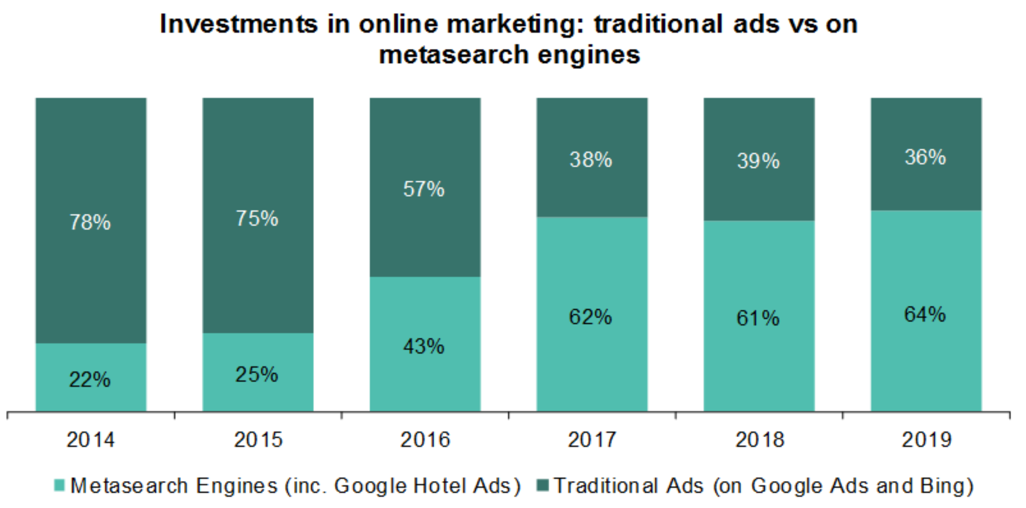
+ Google Hotel Ads is not just taking share from other metasearch engines, but also from the more conventional search. Conventional search is still the highest return on advertising spend channel in hotels, so this mix negatively affects profitability. It is worth noting that the data point that conventional search is higher returning is based on D-Edge data, which is a sample Google has managed to show in other segments that the visual search tools can offer higher conversion rates and therefore ultimately have a higher returns on advertising spend than conventional search. Either way, Booking and Expedia still get a large slice of traffic from organic "free" traffic (Exhibit 117), so any move to charge more for traffic is detrimental, as there is more share to lose.

EXHIBIT 115: **Google does show up as a higher return on advertising spend channel than other metasearch**



Source: D-Edge, Bernstein analysis

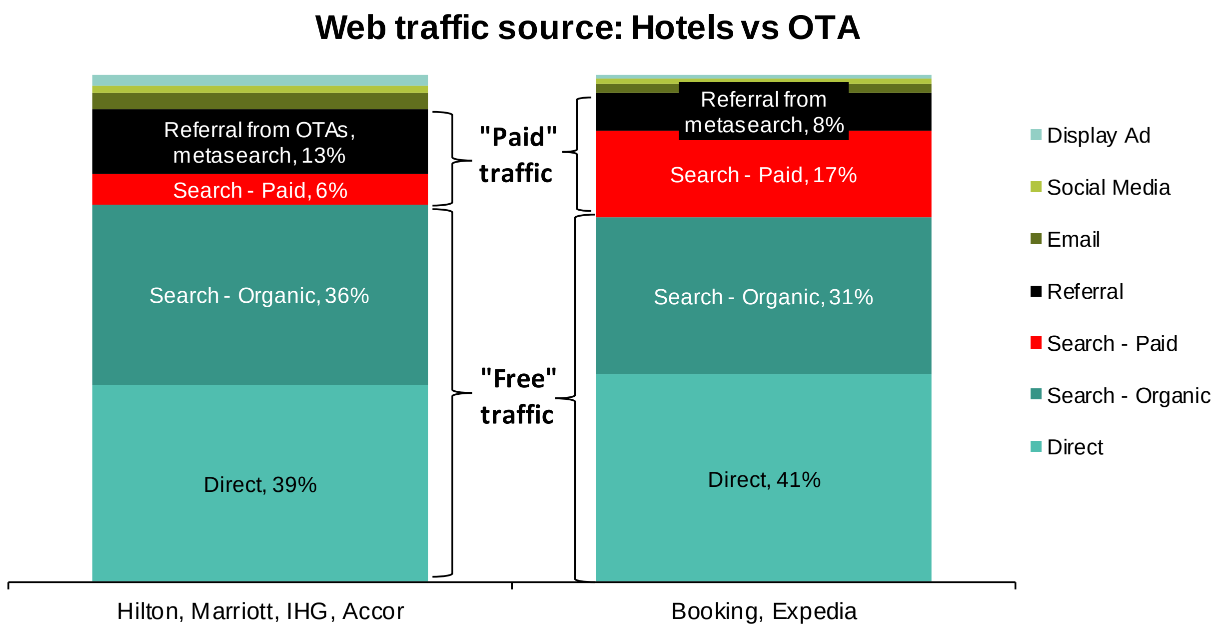
EXHIBIT 116: **Google's investment in the hotel space has seen a notable shift in marketing spend away from traditional ads to the Google Hotel Ads tool**



Source: Phocuswire (link), Mirai, Bernstein analysis

Note: These are investments Mirai (a hotels digital marketing agency) has managed since 2014, which we can use as a case study and proxy for the market

EXHIBIT 117: **The hotel brands and the OTAs receive a similar 70-75% of their traffic from "free" sources (direct and organic search), but the OTAs are more reliant on "paid" traffic (paid search and referrals from metasearch) than the hotels. We expect the hotels to see increased direct bookings post Covid, further weaning them off the OTAs**



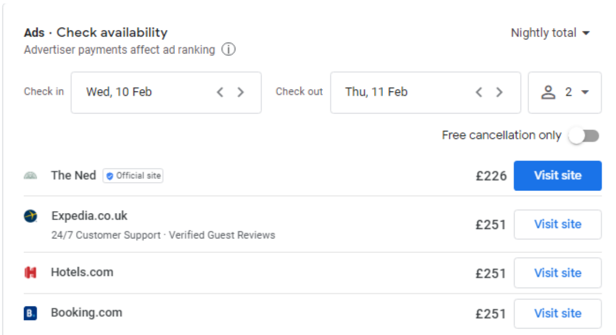
Source: Similar Web, Bernstein analysis. Note: data from Feb 2021

+ A larger factor, however, is not cost but the impact on market share. Our core OTA launch thesis focussed more on slowing growth than profitability. Google is materially different from prior meta search platforms because it provides visibility of direct bookings to independent hotels. Exhibit 118 give the example of the Ned, a large independent hotel in London. On Google this shows a direct booking option, whereas no such option appears on Tripadvisor or Kayak. Analysis from Fornova (Exhibit 121) shows that 79% of Google Hotel auctions contains a direct option, much higher than prior channels.

+ Brands could list on other platforms, but here Google is different in that it gives visibility to the cheaper loyalty rates. Exhibits 122 and 123 give the example of the De Wit hotel in Chicago, a Hilton hotel. On Google the cheaper direct rate is visible but not on Trivago or Tripadvisor; both include the direct rack rate but not among their top list.

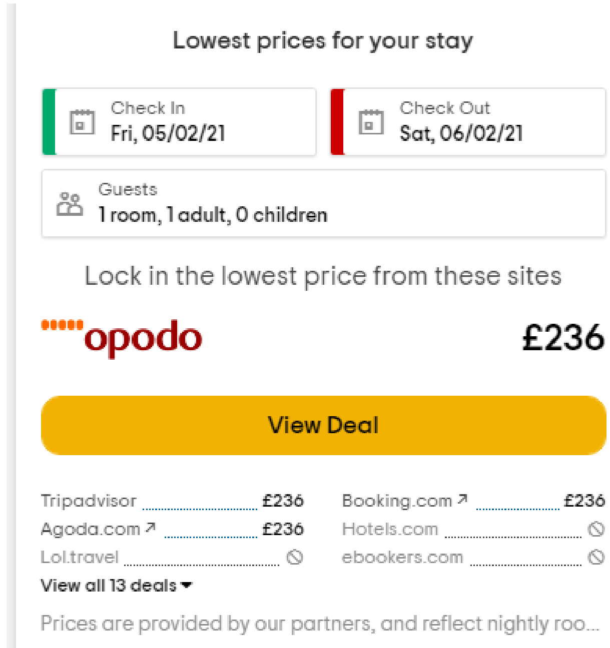
Therefore, whereas previously any search for a hotel would very likely send a customer to an OTA to book it, Google Hotel Ads gives a hotel a fighting chance of getting the booking direct. Additionally, in another move to help hotels drive increased direct bookings, Google, in the last week (link), changed the way it charges hotels and OTAs to list their price on Google Hotel Ads. Whilst previously, there was a fee to list a hotel price on Google, these fees have now been removed, with just the top four listings on a paid ad basis. Google is also building an extranet site to make it easier for hotels to plug into the system directly without the need for sophisticated tech partners.

EXHIBIT 118: **For an independent hotel, Google provides visbility of a direct booking option ...**



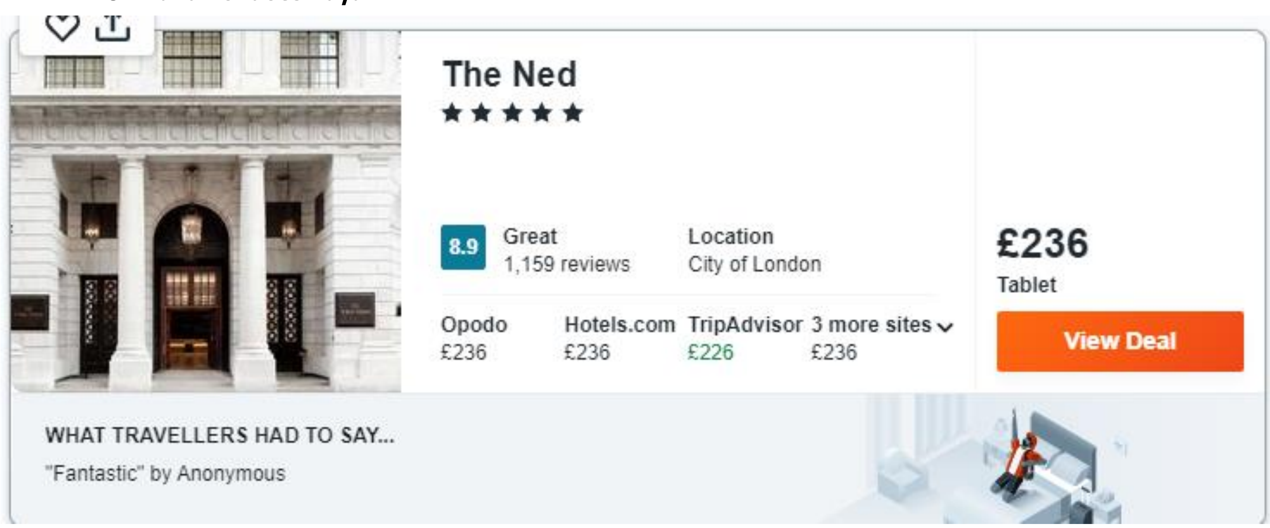
Source: Company website

EXHIBIT 119: **Tripadvisor does not...**



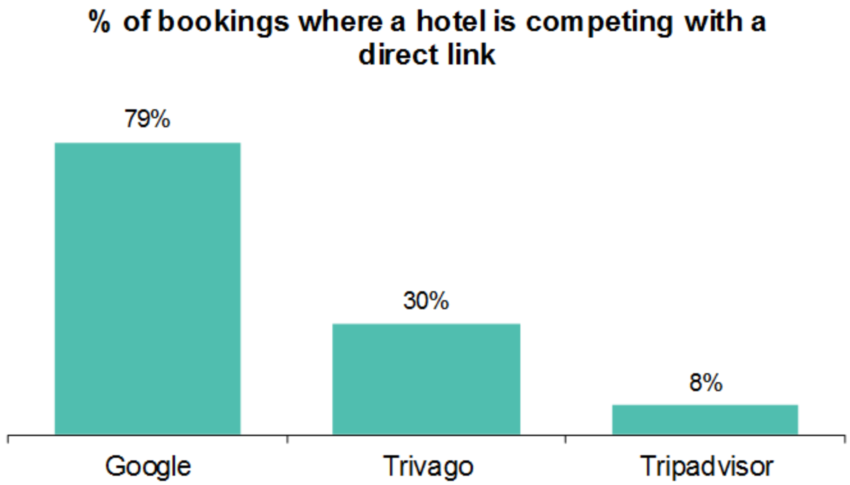
Source: Company website

EXHIBIT 120: **...and nor does Kayak**



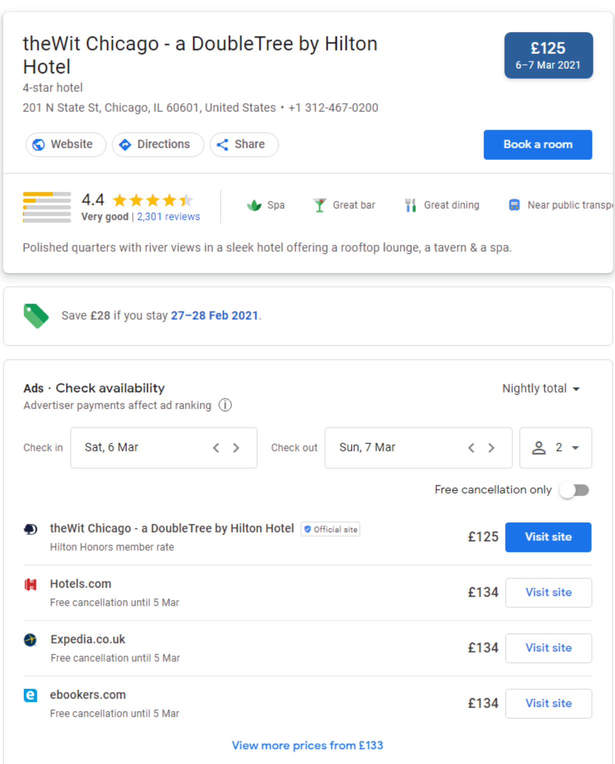
Source: Company website

EXHIBIT 121: **Hotels prefer to market their offerings on Google vs other metasearches: 79% of all bookings made on Google Hotels has a hotel directly competing with an OTA, whilst this is only 8% on Tripadvisor**



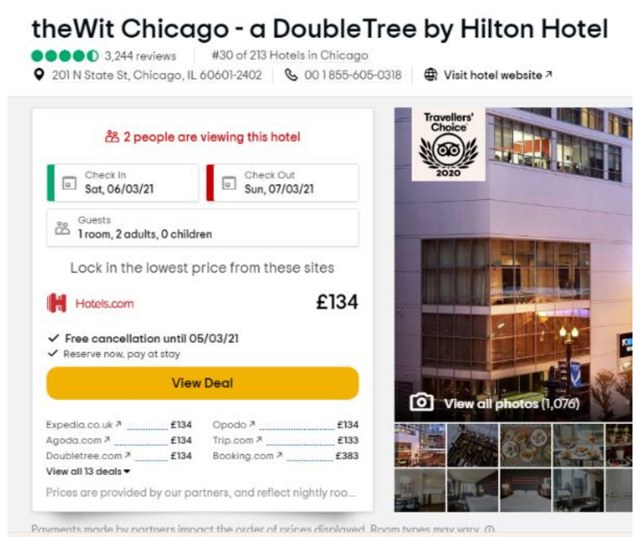
Source: Fornova Distribution Intelligence Data 2018 (link), Bernstein analysis

EXHIBIT 122: **For theWit in Chicago, Google shows the direct booking rate top of the list ...**



Source: Company websites

EXHIBIT 123: **Tripadvisor shows a direct rate, but not the lower loyalty rate and one #4 on the list ...**



Source: Company websites

Google: the common enemy?

It is also worth noting that whilst we see Google Hotel Ads as a beneficiary to the hotels since it allows increased direct bookings for the hotel and weans off their reliance on the OTAs, Google is to some extent also a common enemy between the hotel groups and OTAs. For example, in 2019, Marriott and Expedia announced an agreement such that Expedia would become the sole distributor of Marriott's wholesale rates to bedbanks (WebBeds, Hotelbeds etc.) and then sold onto tour operators, travel agents and airlines to package and distribute to their customers. The rates tend to be lower than those advertised straight to customers and it had been a bane of the industry that these rates would be leaked back onto OTAs and Google to be directly distributed to customers.

IS AIRBNB MORE OF A THREAT TO OTAS OR BRANDS?

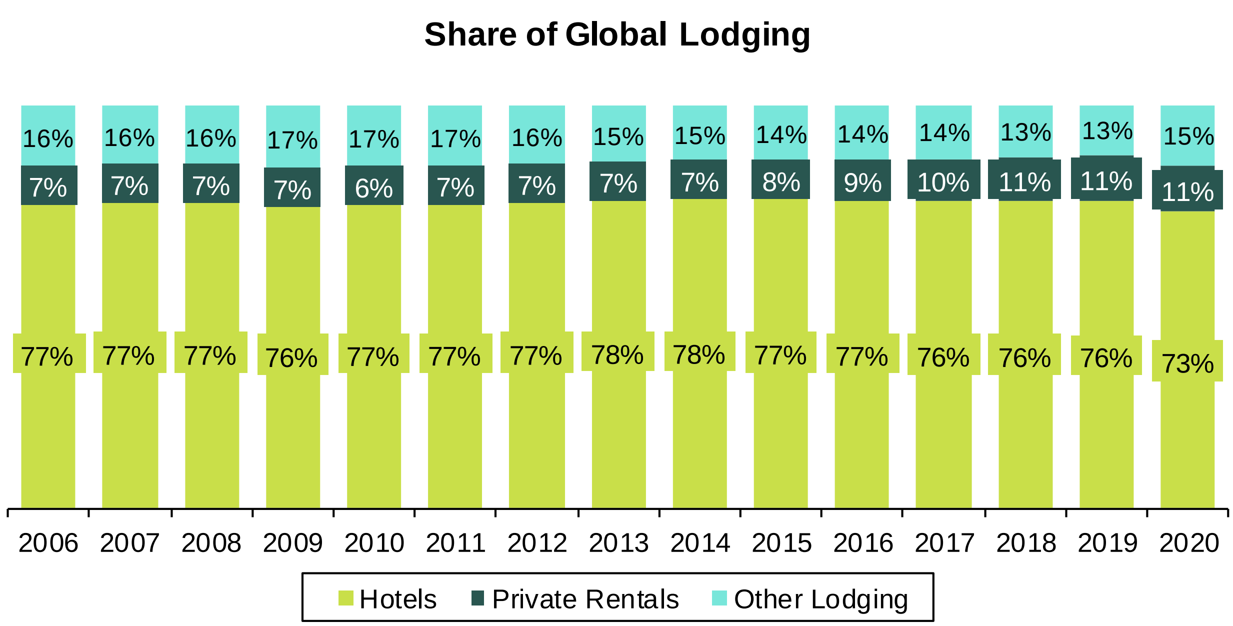
Airbnb is the company most likely to shake up the hotel distribution landscape. There are two potential ways it might do this

+ **Increases the penetration of private rentals, taking share from hotels**
+ **Becomes a wider hotel distributor, taking share from OTAs … or potentially leading to a commission price war**

Risk of private rentals grabbing market share

Private rentals have been gaining share within the lodging market, growing from a 7% share in 2014 to 11% in 2019. Over the longer term, the evidence is that most of the share gains have come from "other lodging", i.e. camping, hostels etc. however in recent years there are signs that private rentals are beginning to gain share from hotels as well. Airbnb presented the entire lodging market as their addressable market (The "TAM"inator: Sizing markets, fears, and dreams - is Airbnb's monster TAM open to other travel companies?) showing that they expect more share gains to come.

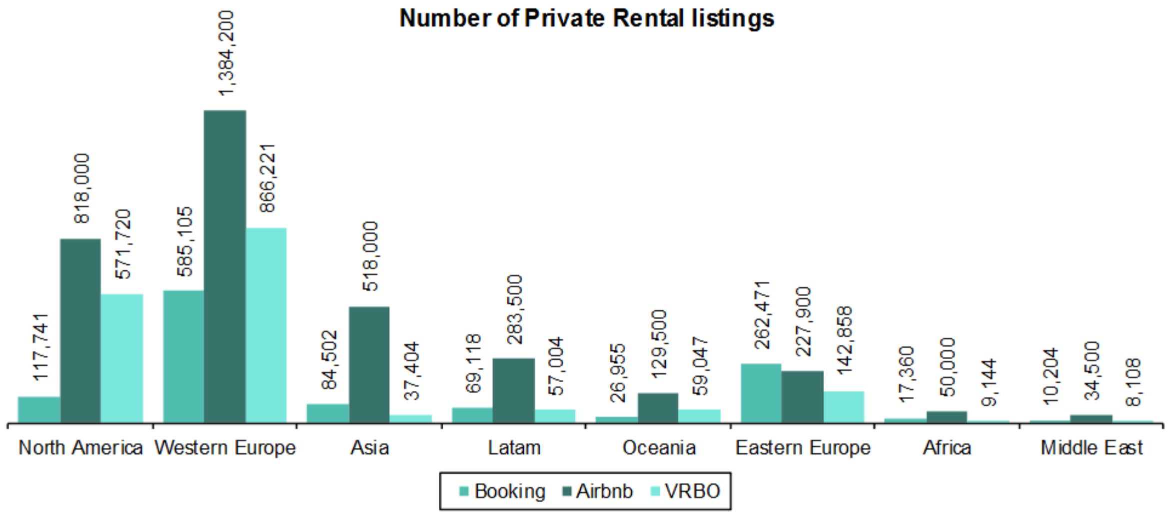
EXHIBIT 124: **Private rentals have gained share of all lodging,**



Source: Euromonitor (including 2020 estimate), Bernstein analysis

The further growth of the private rental sector would have more impact on the hotel sector, which would lose share, whereas the OTAs have material private rental business (Exhibit 125) that are a similar share of their revenue to the wider accommodation market, and can hence participate in that shift, albeit at potentially lower margin.

EXHIBIT 125: **On a listings basis, Airbnb leads peers in every region bar Eastern Europe**



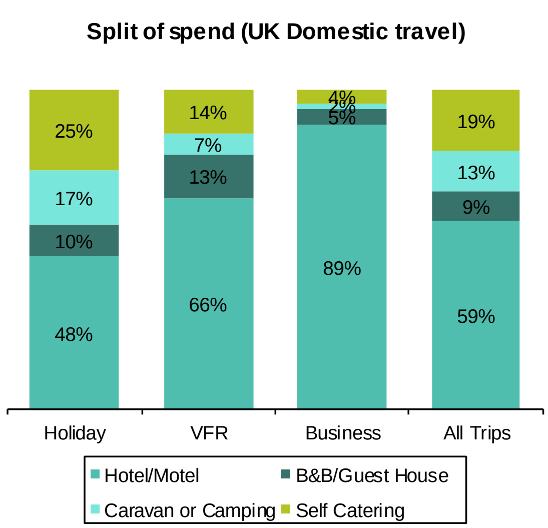
Source: Company reports, Bernstein analysis

The branded hotel companies do have positions in the private rental sector (e.g. Marriott Homes & Villas, OneFineStay (Accor) and Accor Apartments & Villas) but these are largely just a feature of the loyalty program and would be <1% of revenue and would be unlikely to directly participate in any acceleration in private rentals. However, as private rentals skew away from business travel (Exhibit 126) and shorter stays (Exhibit 127), where branded hotels over index, it may encourage more owners to join the networks to insulate from private rental growth.

+ In Airbnb's major cities, we are seeing Airbnb unit growth begin to reverse, while brands continue to grow supply (Exhibit 129)

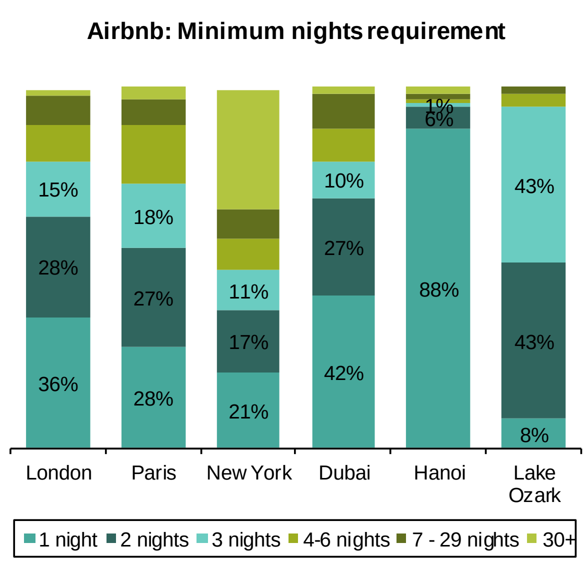
+ And overall, branded hotels have gained more market share in the last 5 years (to 2019) than all private rentals, suggesting both are gaining share from independents. (Exhibit 130)

EXHIBIT 126: **Private rentals skew away from business travel, where brands are strongest**



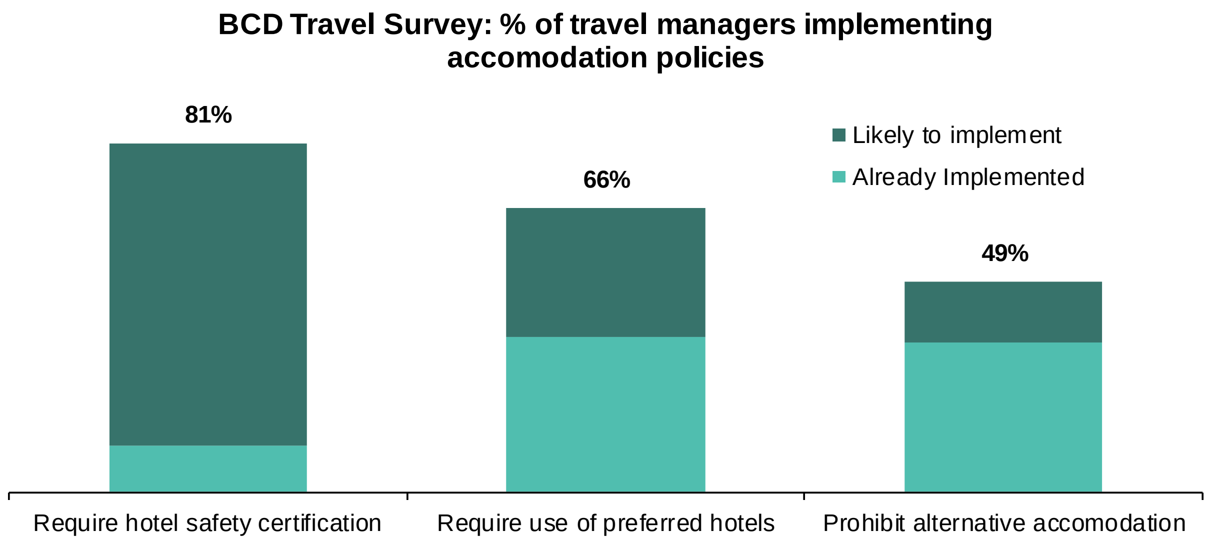
Source: Visit Britain, Bernstein analysis

EXHIBIT 127: **Airbnb is less suitable for shorter stays, where brands are more convenient**



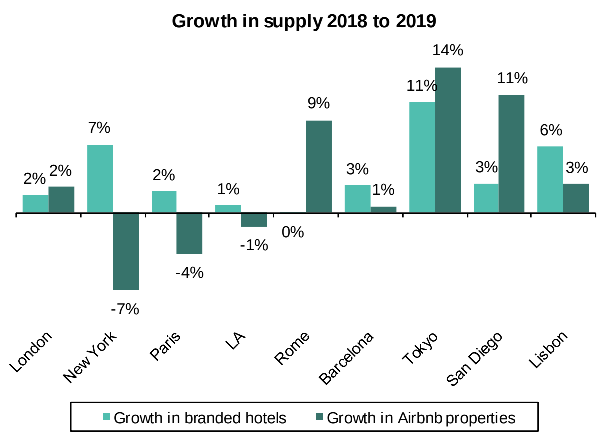
Source: AirDNA, Bernstein analysis

EXHIBIT 128: **In light of the pandemic, some travel managers may prohibit alternative accommodation**



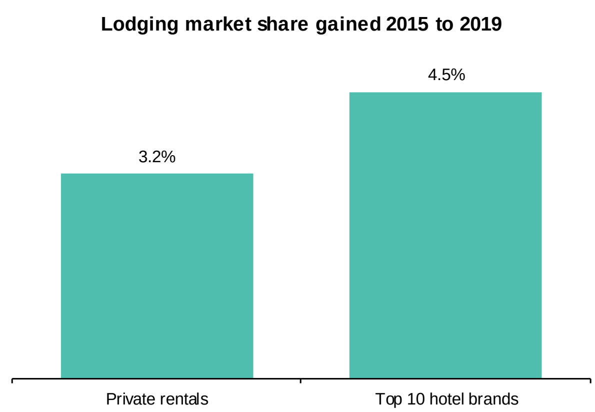
Source: BCD Travel survey (September 2020), Bernstein analysis

EXHIBIT 129: **In many of Airbnb's top cities, supply is shrinking, while brands continue to grow**



Source: AirDNA, STR, Bernstein analysis

EXHIBIT 130: **Overall, both brands and private rentals have gained market share**



Source: Euromonitor, Bernstein analysis

Airbnb become a more competitive hotel distributor

Airbnb is increasingly selling hotel rooms alongside its private rentals. In 2019, Airbnb announced that hotel listings had grown at 152% on the previous year. Choosing a couple of isolated cities to avoid definitional issues:

+ In Perth, Australia, Airbnb lists 71 hotels for the 8-9 May compared to 192 on Booking.com
+ In Inverness, Scotland, Airbnb lists 58 hotels compared to 140 on Booking.com

Hotels are also increasingly more prominent, with 8 of the top 20 listing in New York for 8-9 May a hotel room, and 7 in Paris. The less mature markets have less presence from hotels.

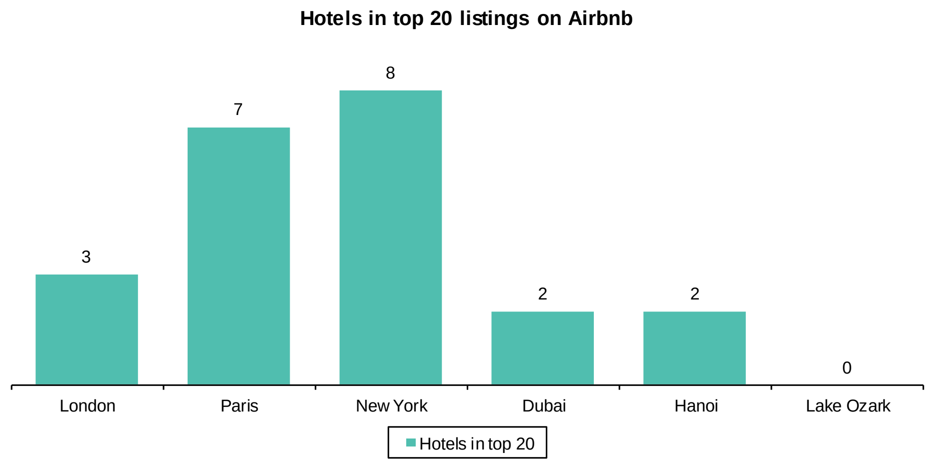
Amazingly, and we would caution how much of this due to short term covid-related effect, Airbnb shows up as the cheapest booking channel in 5 of the 7 hotels we analysed in New York.

This growth into hotel distribution is more of a direct effect to OTAs, as it challenges their duopoly of the hotel OTA market. Potentially for a small leisure focussed hotel, Airbnb with its customer base and fixed commissions structure would be a better distribution platform than the incumbent OTAs. This could lower market share, but also potentially squeeze commissions.

For the branded hotel operators, the Airbnb risk is more indirect

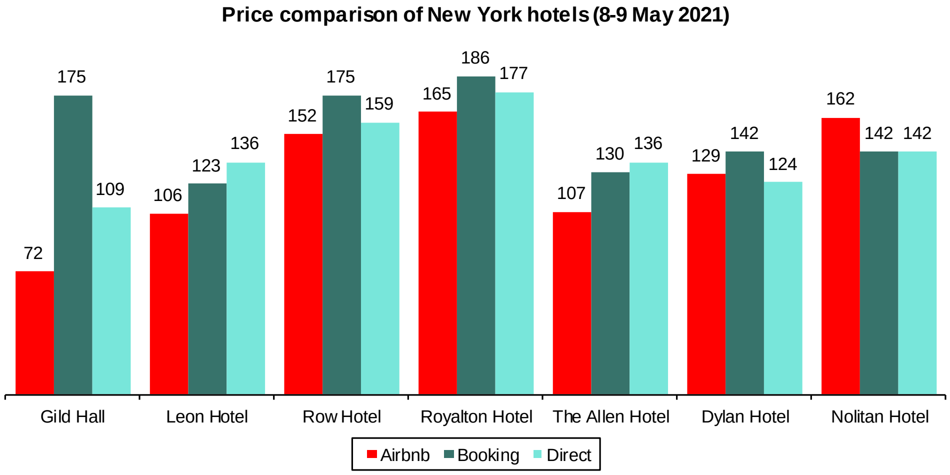
+ If OTA commissions come down or OTA begin offering more support to differentiate, this may challenge the relative advantage of joining a brand
+ Airbnb has historically sold more independent/boutique hotels, more so than OTAs, which may limit the brands' exposure for leisure guests. However, recently we have seen more branded hotels on the platform (Exhibit 133)
+ Airbnb does not list its properties on Google Hotel Ads, which may reverse some of the advantages we have seen to brands of Google's entry into the market (**Online Travel Agencies: Alphabet Soup. Why Google matters? The key question post initiation**)

EXHIBIT 131: **Hotel rooms are prominent on Airbnb, especially in the most mature urban markets**



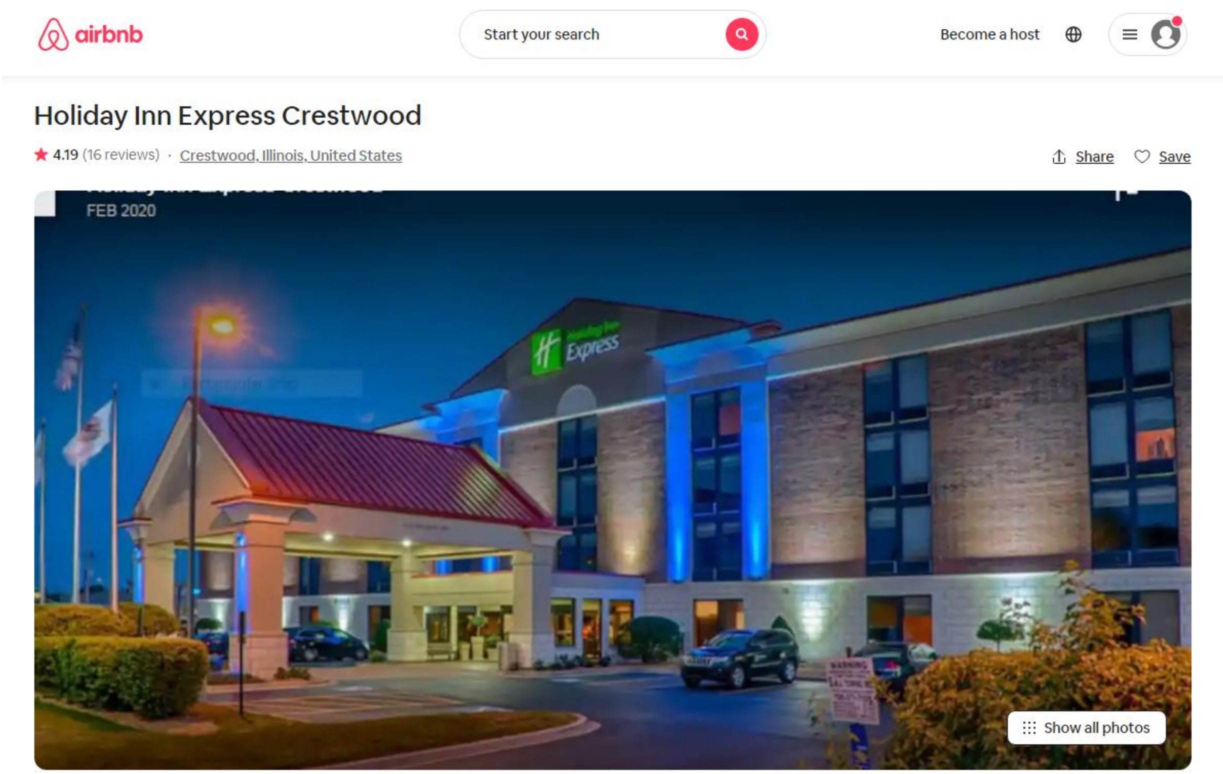
Source: Company website, Bernstein analysis

EXHIBIT 132: **Airbnb is (amazingly) the cheapest booking channel for five of the seven hotels we analysed in New York**



Source: Company websites, Bernstein analysis

EXHIBIT 133: **While hotel supply is primarily independent and boutique hotels, Airbnb is adding more conventional hotel supply and competing more directly with the large OTAs**



Source: Company website

REGULATION RISKS

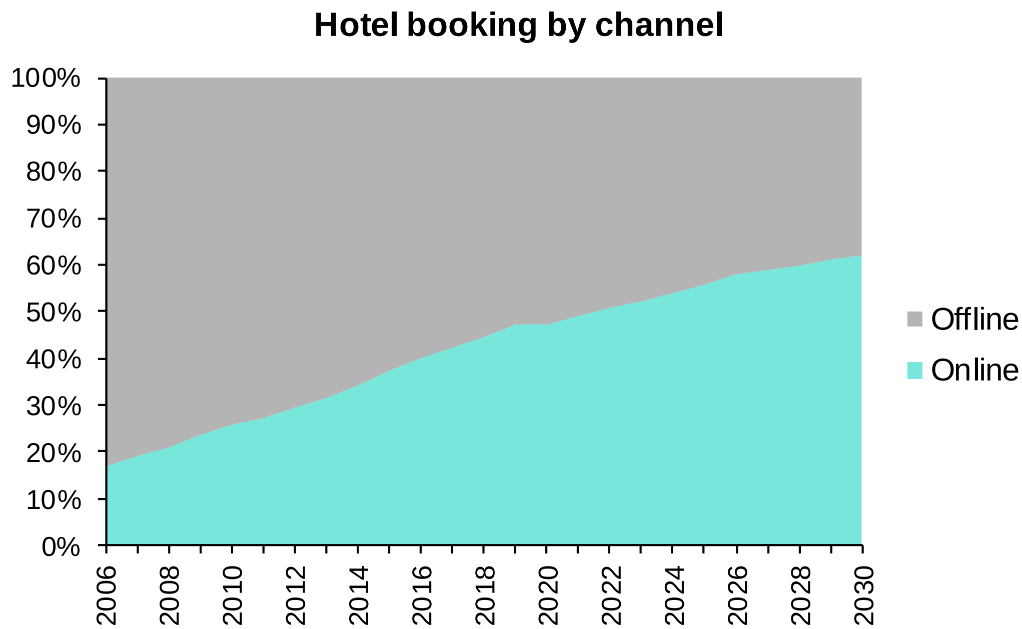
While the business models for hotel groups and the OTAs are converging, the regulatory risks associated with both are notably different: and most of this stems from the fact that the industry has consolidated much faster at the distribution stage (OTAs) than at the hotel level (brands).

Data privacy

Data privacy performance and personalized advertising are both a core competency and tail risk for hotel owners, large branded hotel groups, and OTAs (online travel agents).

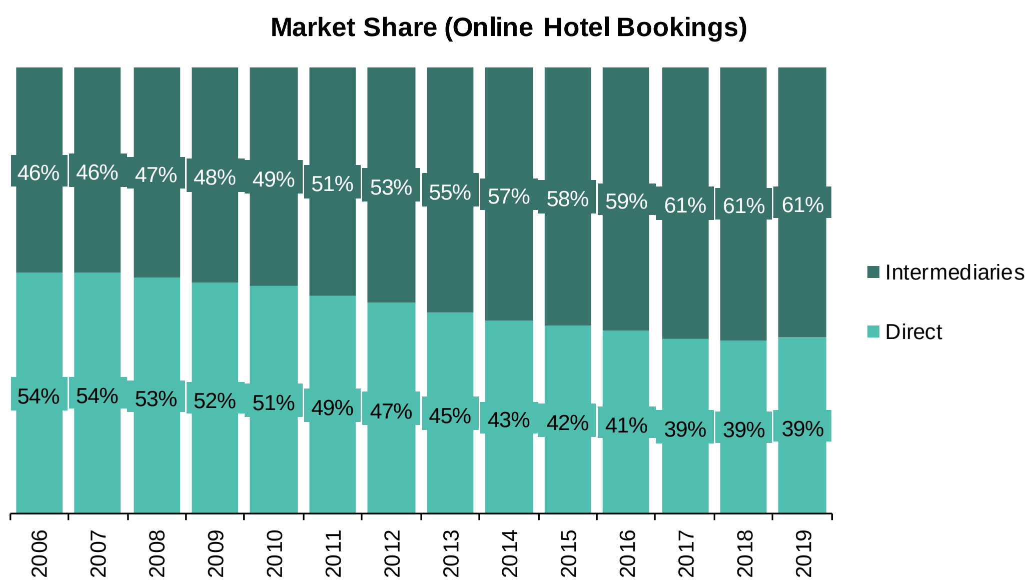
+ **Marketing is one of the highest operating expenses for hotels.** After labor and property costs, the primary cost hotel operators face is the cost of selling their rooms. As bookings continue to move online (Exhibit 134), these hotel operators must optimize distribution across a wide number of sources (direct web traffic, OTAs, metasearch, tour operators, bedbanks), and failure to use customer data in a smart way can have a material impact on margins and revenues.
+ **Hotel owners have lost control of customer data by ceding bookings to OTAs, who don't share it.** Over the period 2008-2018, direct bookings went from 53% of all online hotel bookings to 39% (Exhibit 135), as intermediaries like Booking and Expedia took market share with their aggregated websites favored by consumers. As they 'own the booking', they tend to keep the customer data, sharing only the legally required (and often time limited) customer data with the hotels, but retaining the majority of transaction-informative data about the customer's search trends and booking preferences. This has made it harder for hotels to build a direct relationship with their guests online, reducing the ability to target offers and future stays to them.
+ **Using data to intelligently target customers has huge potential to increase revenues & boost hotel margins.** High commissions to OTAs mean direct bookings come through to hotels at higher margins if they can access them. Before the option existed to intelligently target certain customers on Facebook, Instagram or Google, hotels used their marketing budgets to buy sponsored listings on Booking.com or blanket sponsored keyword advertising on Google, which in some cases has seen OTA commissions rise to >30% of the final room rate. Targeted marketing by hotels to guests on social media is still at a nascent stage (OTAs & Google still provide the vast majority of bookings & traffic to websites), but could be an effective earnings driver in future, if data can be used effectively, and stored securely. See Hotels vs OTAs Pt 2: Is there a 3rd way? Data-led direct booking and Google Hotel Ads as an alternative to Priceline and Brands.
+ **This will require strong data controls and appropriate use.** Hotel bookings require more customer data than most sectors: often obtaining passport & security numbers and home addresses. This information is also given to the hotel well in advance of the date of travel, necessitating the need for strong data controls and appropriate use of this data. Unlike the OTAs and tech companies referenced in this note, the lack of modern IT and technology systems is still a huge problem for hotels (particularly small independent hotels) to overcome.

EXHIBIT 134: **As bookings continue to move online, these hotel operators must optimize distribution across a wide number of sources (direct web traffic, OTAs, metasearch, tour operators, bedbanks), and failure to use customer data in a smart way can have a material impact on margins and revenues.**



Source: Euromonitor (including estimates), Bernstein analysis

EXHIBIT 135: **Over the period 2008-2018, direct bookings went from 53% of all online hotel bookings to 39%, as intermediaries like Booking and Expedia took market share with their aggregated websites favored by consumers, and these intermediaries now control the customer data as well**



Source: Euromonitor, Bernstein analysis

For Hotel Brands:

- **Could branding be the answer?** One way for a small independent hotel to both boost their direct bookings and navigate the technological issues around data protection is to join a branded network (Marriott, Hilton, Accor). The brands deliver more direct bookings to their hotels through loyalty schemes and strong corporate travel relationships, which will mean more effective opportunities for hotels to give relevant offers to customers. In addition, we expect technology to be a determinant of independents switching to brands in the coming years (Global Hotels, OTAs & Travel in 2021. Ready, set...), and this will include access to centrally developed booking and IT systems with better data controls. As a result, we expect the large hotel groups to be well placed as regulatory scrutiny over data protection increases, which also will make their data controls and technology a key determinant of performance.
- **The data risk is primarily a regulatory one, not seemingly one that impacts customer demand (yet).** We argue that effectively using customer data to engage with and sell rooms to customers directly is a huge potential margin and revenue opportunity as distribution costs can be cut by selling directly to the end consumer. Regulatory approval to do this will be critical, and will rely on strong demonstrated data protection by hotels across the whole industry. The large Starwood data breach from 2014, which Marriott was found liable for having acquired Starwood two years later, had regulatory consequences in the form of a fine but also brings additional scrutiny. Interestingly, that breach did not lead to customers leaving the brand – on the contrary Marriott has now become the largest hotel loyalty program in the world at over 100m members, and continues to generate occupancy rates above the industry average, so we view the likely direct customer demand impact from data breaches as low.

For OTAs:

- **Operating purely as an agent between a guest and the hotel they stay at, there will always be a question about data rights.** The OTA business model differs from e.g. retail platforms as they simply connect a customer and a provider, and do not even offer any logistics or future support with the sale. Does a customer staying in the InterContinental Hong Kong's data belong to the hotel or belong to Booking.com – the website where they originally made the booking? Who owns the customer?
- **Customer data is a key competitive advantage for the OTA business model.** Expedia's Media Solutions (advertising) website lauds its "billions of travel intent and booking data points" to entice hotels to advertise listings on their pages. As well as being able to optimize search list ordering, marketing offers etc. to drive higher conversion rates, the OTAs can also use the long lead times on hotel & flight bookings to market other services to them (e.g. car hire) with the knowledge of exactly where someone is travelling on an exact date. This makes them more invaluable to hotels (who don't have the same access to traveler data), and keeps the virtuous cycle going.
- **For now, Hotels do not appear to have the ability to advertise to specific customer segments on OTA websites.** We would point out, however, that the OTAs don't really seem to allow hotels to target customer segments within their sites very easily – with most campaigns or bids tending to simply get a hotel to the top of a list for a certain location search (e.g. Hotels Miami) or offering discounts to all members of the Hotels.com loyalty scheme. A future revenue opportunity for the OTAs would be to allow hotels to target certain offers specifically at certain customer groups (e.g. those that have previously searched for hotels in their area, or just to married women between the ages of 30-45), but this may bring them clashing with data regulators.
- **Insufficient data controls would pose a risk to market share, as both guests and hotels can bypass them.** Unlike the hotel brands themselves, where the main risk to data security are regulatory only, the OTAs would likely see more of a customer backlash from a data breach. Guests have plenty of sites to book their hotels on, and tend to be less loyal to OTAs (where price is the main factor) than to brands. In addition, hotels may choose to restrict content on certain OTA sites if their data protection was less good. Given how important data is to the OTA value proposition, and the amount they have invested in tech and IT, we expect their internal data protection is far stronger than for hotel websites.
- **We expect hotels will look to drive direct bookings in future, in part to get access to more customer data (aided by tools like Google Hotel Ads).** The OTA market share gains stopped in 2019, turning negative for the first time in over a decade. Google is one of the primary reasons for this – its hotel booking tools level the playing field for smaller hotels and give them a way to reach guests directly. In our view, Google poses a material risk to the market shares of OTAs for this reason, and they may therefore look to share more underlying data with the hotels in order to prevent this from happening. On the

converse side, if Google and social networking sites face regulatory headwinds in their ability to target customers by their historical activity – as suggested in this note – this may have the unintended regulatory consequence of giving distribution power back to the OTAs, harming the smaller independent's hotels ability to compete for bookings online.

Competition & Antitrust

Towards the end of December 2020, the EU released its first draft for proposals to limit the power of tech giants (or "gatekeepers") introducing its Digital Markets Act and Digital Services act. These Acts, which are still being debated and there is no certainty on outcome at this stage, *could* have strong ramifications for Booking Holdings in Europe.

+ In this sector, the relationship between hotels (largely owned by individuals and small businesses) and their online distribution partners - the OTAs & increasingly Google – is becoming ever more important as bookings move online, and many players have a keen eye on how things shake up. While the regulations are far more wide reaching than just the travel sector, we offer a few introductory thoughts on impacts to our sector.
+ **Booking could fit the definition of a 'Gatekeeper'.** The EU considers a platform as systemic if they reach >10% of the EU's population (i.e. 45m people). Booking disclosed on October 26th that 13% of European hotel revenues are booked via its sites (when it described the tougher regulations as "crazy"), and could therefore fit the EU's gatekeeper definition. Interestingly, Expedia, which only has under ~10m unique monthly users in Europe (for Expedia.com), might not be subject to the same Gatekeeper restrictions on its business.
+ **Expect more data sharing between hotel & booking provider.** Historically, 'owning the customer' has been a contentious issue for hotels when bookings are made on platforms like Booking.com or Expedia. One of the reasons for this is that the OTAs have historically shared little data with hotels and have kept themselves as the communication platform between guest and hotel even after the booking has been made. This limits the hotel's ability to market to that customer in future, with the OTAs retaining the customer data (and this rich customer data is one of the key value propositions OTAs make to hotels to sign them up to their platform). Under the EU's Digital Markets Act "*Gatekeepers need to provide the companies advertising on their platform with access to the performance measuring tools of the gatekeeper*" and also "*need to provide their business users with access to the data generated by their activities on the gatekeeper's platform*".
+ **Impact on Google Hotel Ads unclear.** One of the principles behind the new legislation is limiting the largest companies from forcing users to their own platform at the expense of other providers. In recent years, Google's introduction of the hotel ads function drives users to this widget (as the old paid links at the top of the page have disappeared), and the legislation may reverse some of these changes; although we note the EU has already made Google add a "Find results on" banner above its widget, which may mean this is resolved. In our view, rolling back Google Hotel Ads would actually have a negative impact on competition: Google's tool creates a more level playing field for hotels to achieve direct bookings, whereas the OTAs are more dominant in paid & unpaid search links, and would likely see more market share if Google's hotel ads tool was rolled back.

VALUATION

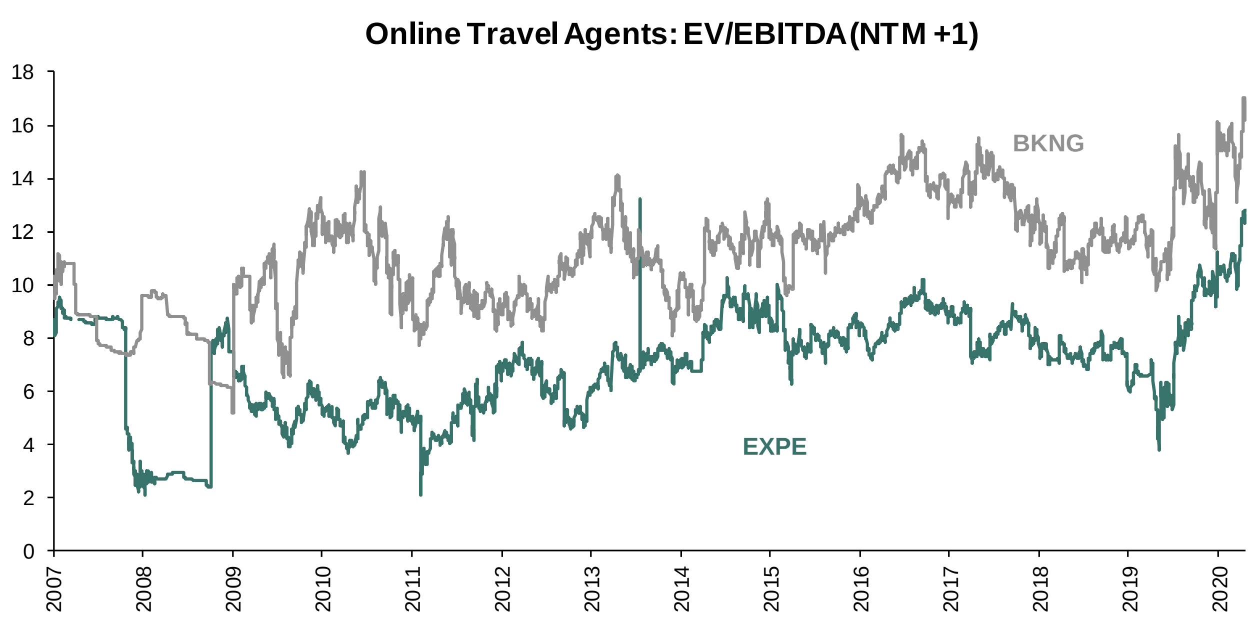
As the hotel companies have made the shift to being almost fully 'asset-light' businesses, their business models have converged to the model of the online travel agents, with distributing hotel rooms for hotels (which they don't own) a primary part of the business. There are key differences however, which could impact on valuation:

+ **Hotel groups have contracted revenues, OTAs do not.** When a hotel joins a branded system, it either signs a franchise contract (paying a royalty fee on all room bookings for the use of the brand) or a management contract, where alongside using the brand, the hotel group will manage the hotel as well. Franchise contracts are 20 years long today by industry standard, and management contracts are longer at 30-50 years. These contracts also usually remain in place if the hotel operator goes bankrupt, with the foreclosure/new owners being obligated to honour the existing brand contract (and usually wanting to as well). The OTAs, on the other hand, charge commissions only on the bookings that they provide, and while they will contract merchant rates with hotel suppliers in order to be able to offer discounts, there is no exclusivity for hotels and hotels are free to take inventory off the OTA platforms at any time.
+ **OTAs fund their marketing expenses, loyalty schemes through their P&L, hotel groups are reimbursed by hotel owners.** Marketing & advertising is the largest cost item for the OTAs, paying to acquire customers by bidding on Google, Tripadvisor, Trivago etc for hotel searches. Their 15%+ commission rates are their compensation for doing this. Hotels in branded networks benefit from central marketing spending by hotel groups, but are charged fees for marketing/service each month to fund this, with investments in loyalty schemes and online ad campaigns rarely being funded by the hotel groups themselves, instead just spending the fees they receive from hotels.
+ **OTAs provide bookings & some technical support, hotel groups are much more hands on.** Alongside filling rooms, OTAs also do provide assistance with payments and customer support if hotels choose to opt for it (merchant bookings). The hotel groups offer much more wide ranging support for their system hotels, providing revenue management (for a fee), CRM and booking software, invest in other technology (e.g. mobile door entry), and also train hotel staff for franchisees as well.

Historical valuation

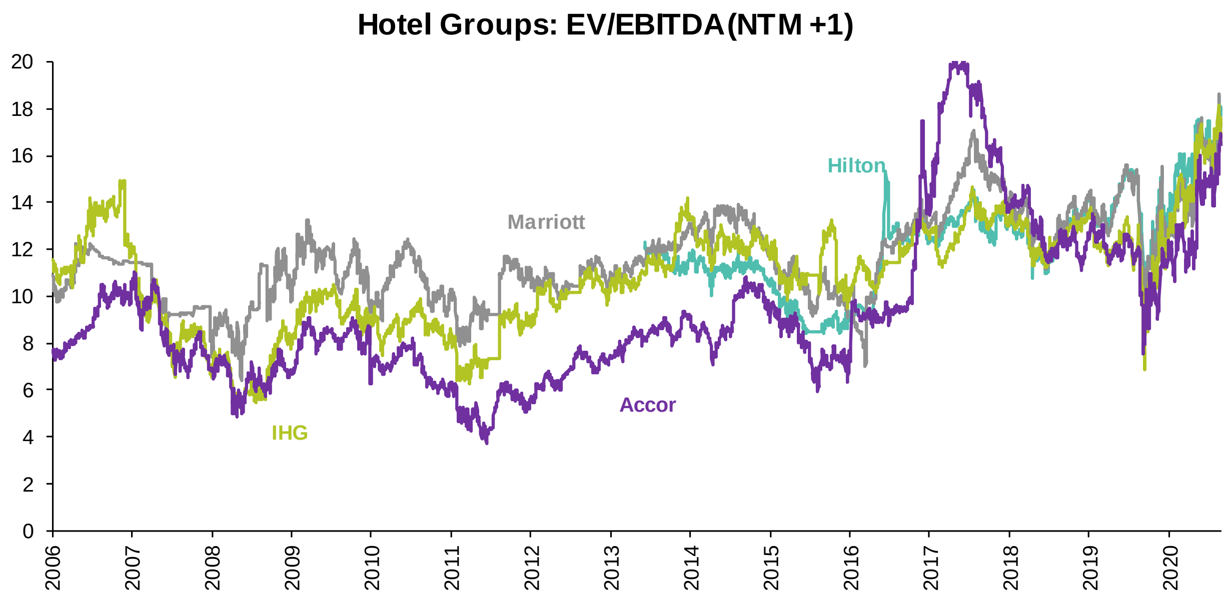
Despite the differences in growth profiles and business models, there has historically been quite a close correlation between hotel groups and OTAs, particularly with Booking & Marriott (the two largest) showing a high correlation over time (Exhibits 136 to 139).

EXHIBIT 136: **Historically, Booking has traded at a premium to Expedia, in the ~12x NTM+1 range**



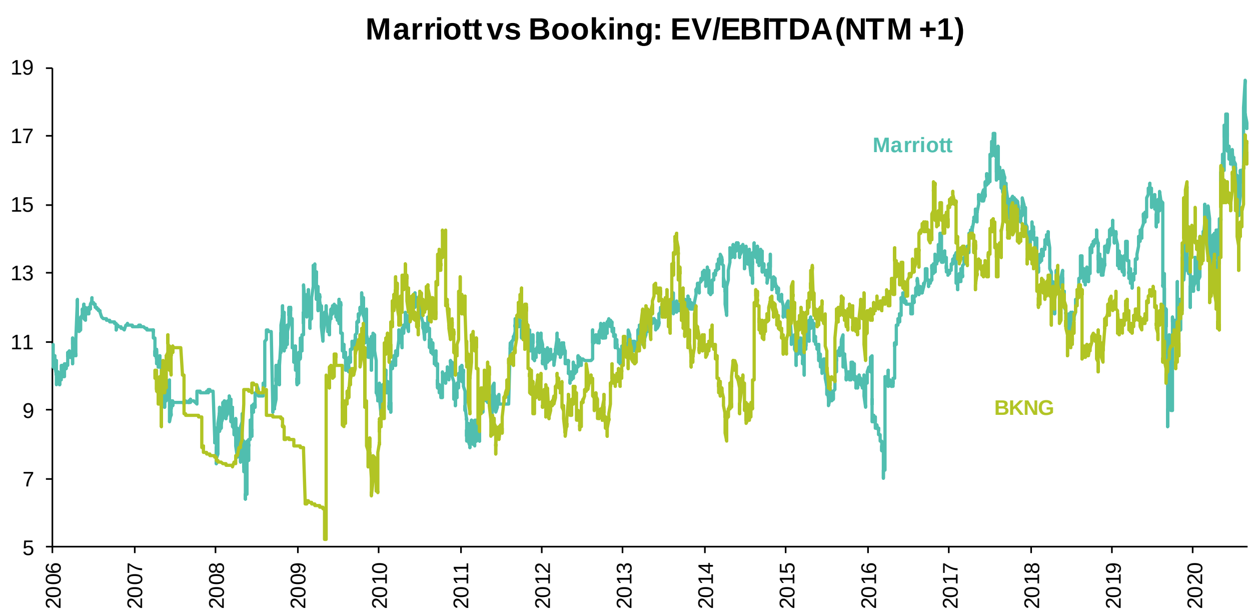
Source: Bloomberg, Bernstein analysis

EXHIBIT 137: **Marriott has traded at a premium to IHG historically, with Hilton now trading above both (since IPO in 2013) and Accor at a discount**



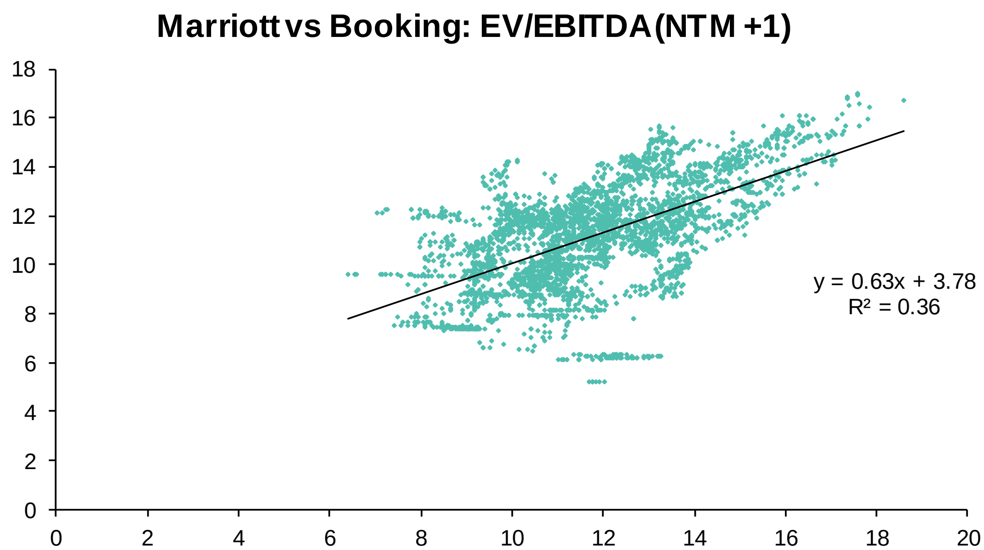
Source: Bloomberg, Bernstein analysis

EXHIBIT 138: **Marriott & Booking have largely tracked each other in terms of valuation multiple in recent years**



Source: Bloomberg, Bernstein analysis

EXHIBIT 139: **With a 36% r-squared between the two**

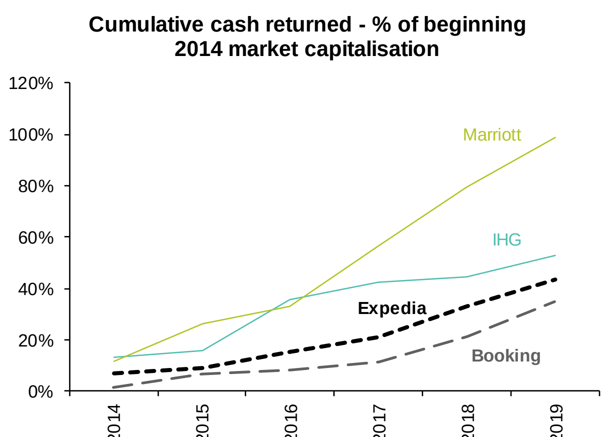


Source: Bloomberg, Bernstein analysis

Cash returns

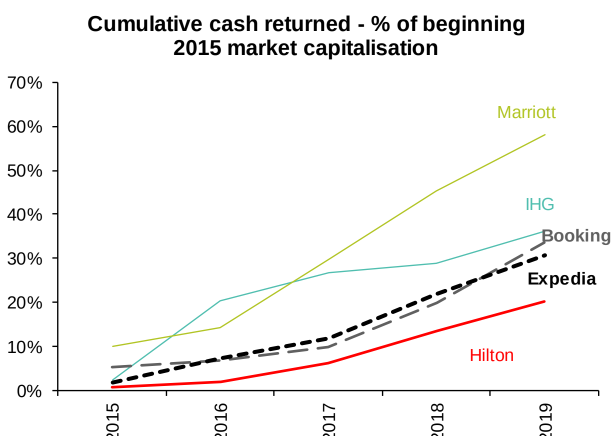
Both sets of companies are asset-light and high margin, and their fee-driven models mean cash generation is high. Hotel groups and OTAs have historically returned plenty of cash to shareholders via dividends and buybacks, generally keeping a consistent leverage target, and matching the EBITDA growth each year with new debt to return to shareholders. The hotel groups have been more accretive cash returners than the OTAs in the past, with Marriott returning 100% of its 2014 market cap to shareholders who owned it from YE 2014 within 5 years of holding it (Exhibit 140).

EXHIBIT 140: **Since 2014, hotel groups have returned more cash relative to their market cap than OTAs**



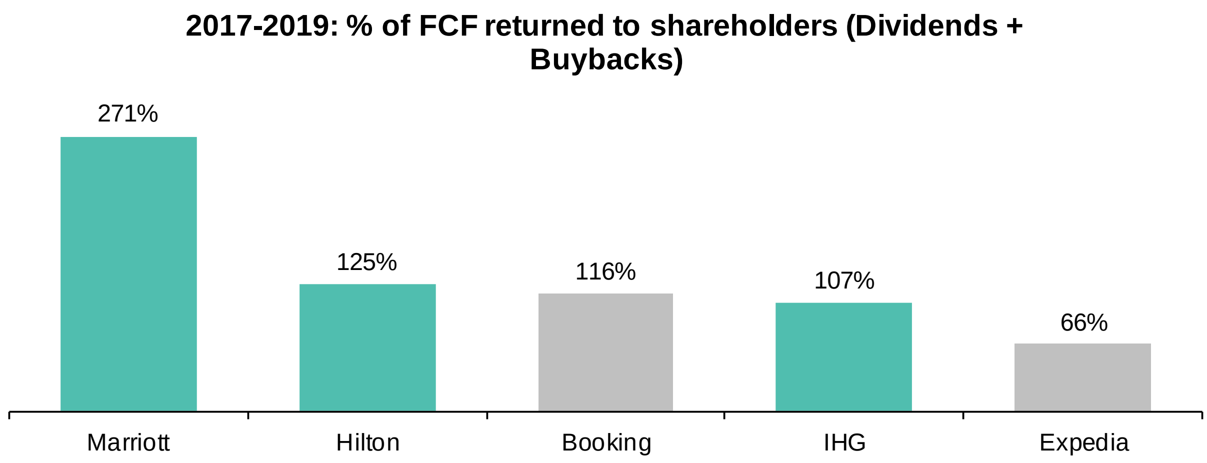
Source: Company reports, Bloomberg, Bernstein analysis

EXHIBIT 141: **Marriott is the standout in recent years**



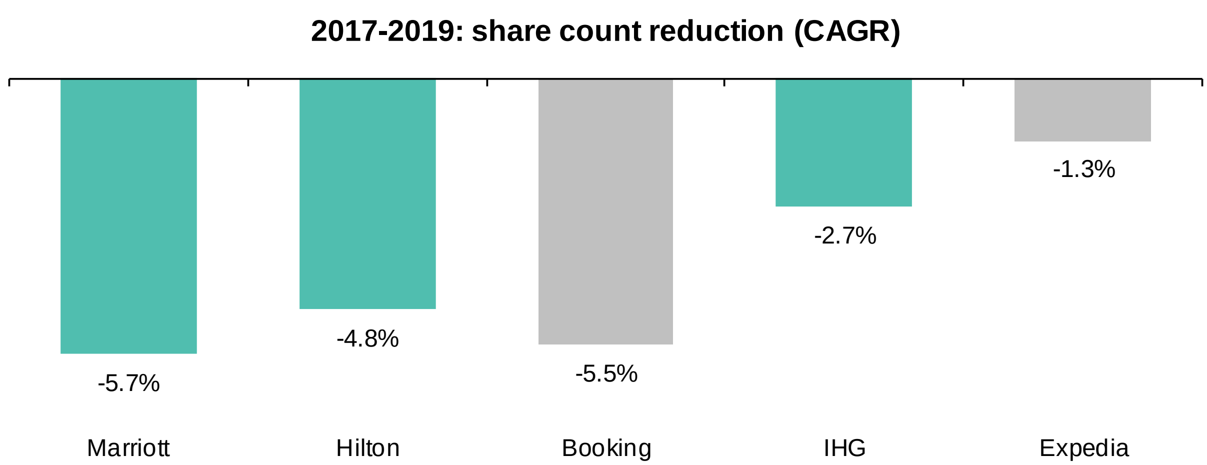
Source: Company reports, Bloomberg, Bernstein analysis

EXHIBIT 142: **Based on their ability to take on new debt and return it to shareholders, the hotel groups have returned >100% of FCF in dividends and buybacks in recent years**



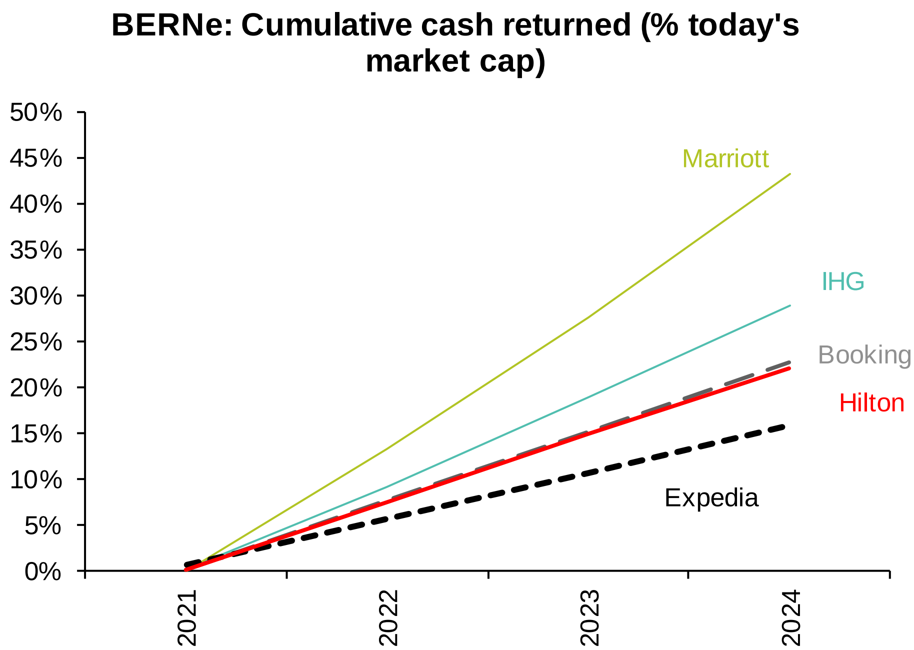
Source: Company reports, Bernstein analysis

EXHIBIT 143: **Marriott & Booking have shrunk their share counts by 6% per year boosting EPS and FCF per share growth, while Expedia (who pay more share based comp) has only achieved a 1% pa reduction**



Source: Company reports, Bernstein analysis

EXHIBIT 144: **We expect Marriott to retain its leadership on cash returns, with Hilton overtaking Expedia and matching Booking to 2024**

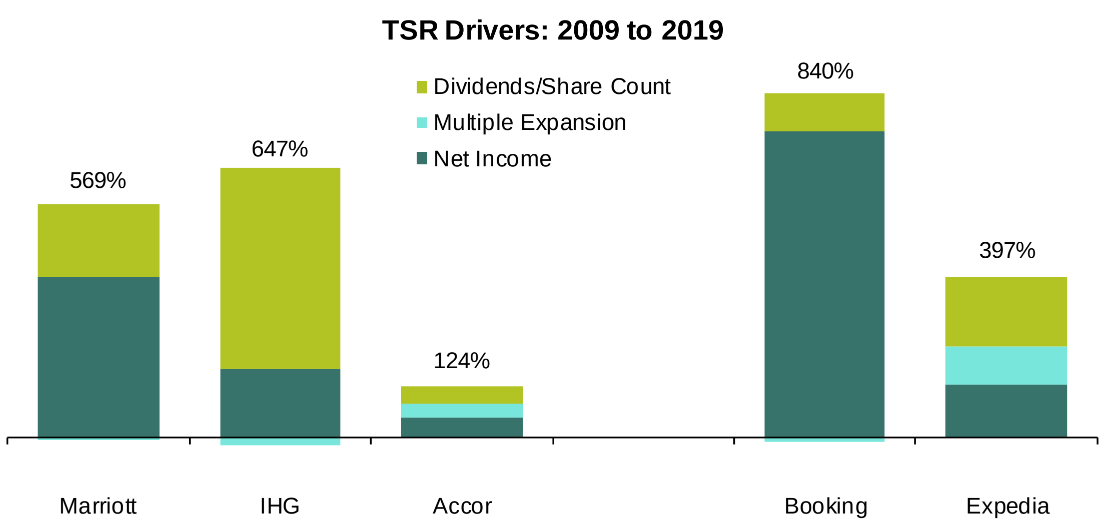


Source: Bernstein estimates & analysis

TSR

Over the longer term, the hotel groups and OTAs have seen little to no multiple expansion, with the entire total shareholder return made up of earnings growth and shareholder cash returns. Comparing the two groups, hotels have been more reliant on cash returns for TSR, while almost all of Booking Holdings' >800% 10y TSR to 2019 was earnings growth (Exhibit 145).

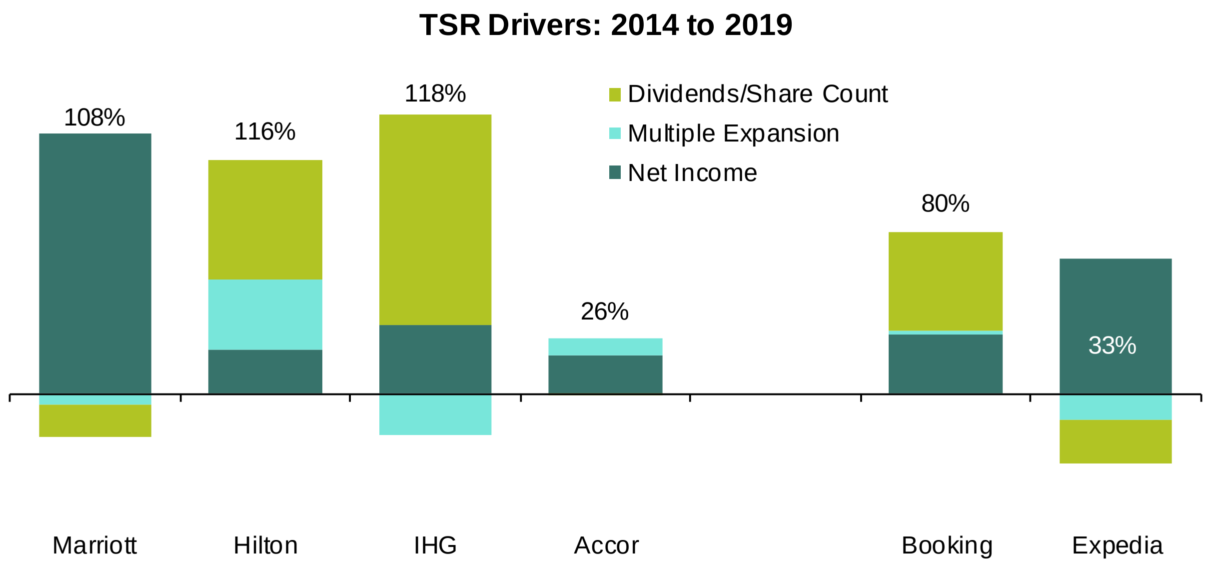
EXHIBIT 145: **Booking's TSR since 2009 leads the pack, driven by earnings growth and some cash returns. The hotel groups broadly have been more reliant on cash returns to drive TSR**



Source: Bloomberg, Bernstein analysis

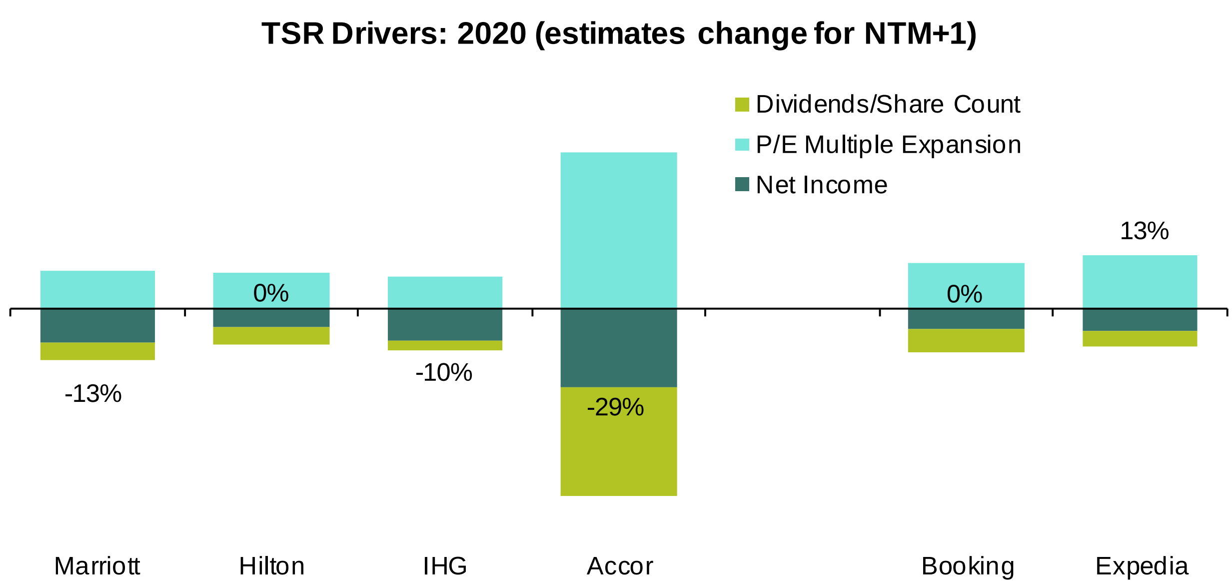
In more recent times, OTA TSR has dropped below the hotel groups as earnings growth has slowed down and the cash returns haven't been enough to offset that (Exhibit 146). Through 2020, the OTAs outperformed on TSR, driven by a higher expansion in forward multiples and smaller earnings downgrades (Exhibit 147).

EXHIBIT 146: **In the last years however, the OTAs have lagged the hotel groups on TSR**



Source: Bloomberg, Bernstein analysis

EXHIBIT 147: **In 2020, the OTAs saw smaller consensus earnings downgrades and a larger multiple rerating, driving better TSR**



Source: Bloomberg, Bernstein analysis
Implied share count impact negative due to reduced cumulative buybacks

VALUATION METHODOLOGY

Global Hotels & Leisure

We primarily value our companies using a combination of EV/EBITDA, relative P/E and discounted cash flow analysis. Our target price is a subjective combination of the approaches. We benchmark our PE and EV multiples against peer companies adjusting, where appropriate, for cost of capital, relative growth and ROIC. For our DCF we do 5 years of fully detailed estimates, a further 5 years of estimates where we only consider changes to revenue growth, NOPAT margin and ROIC and then calculate a terminal value beyond that.

RISKS

Global Hotels & Leisure

The leisure sector is reliant on consumer spending and therefore is susceptible to changes in consumer spending and the broader macroeconomic environment. Any slowdown in these trends will affect revenues and earnings and market sentiment towards our coverage. For the Hotel and Travel stocks particularly, there is a risk of terrorism or other geo-political events changing the demand for international and domestic travel. There are a wide range of disruptors who pose a potential risk (Airbnb, Expedia, Uber Eats) to our coverage and any increase in their in roads into our segments could result in market share losses and revenue/earnings declines.

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- On and after close of business on December 31, 2020, as part of an internal reorganisation of the corporate group, Sanford C. Bernstein Limited transferred its business to its affiliate Autonomous Research LLP. Subsequent to this transfer, Autonomous Research LLP changed its name to Bernstein Autonomous LLP. As a result of the reorganisation, the research activities formerly conducted by Sanford C. Bernstein Limited were assumed by Bernstein Autonomous LLP, which is authorised and regulated by the Financial Conduct Authority (FRN 500498) and now publishes research under the Bernstein Research Brand.
- Please note that all price targets, recommendations and historical price charts are unaffected by the transfer of the business from Sanford C. Bernstein Limited and have been carried forward unchanged to Bernstein Autonomous LLP. You can continue to find this information on the Bernstein website at www.bernsteinresearch.com.
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  Outperform: Stock will outpace the market index by more than 15 pp in the year ahead.

  Market-Perform: Stock will perform in line with the market index to within +/-15 pp in the year ahead.

  Underperform: Stock will trail the performance of the market index by more than 15 pp in the year ahead.

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12-Month Bernstein Rating History as of 03/14/2021

Ticker	Rating Changes	
AC.FP	O (RC) 06/18/19	
BKNG	U (IC) 11/30/20	
EXPE	M (IC) 11/30/20	
HLT	O (IC) 09/10/19	
IHG.LN	M (RC) 06/01/20	O (IC) 05/02/17
MAR	M (IC) 09/10/19	
TRIP	O (IC) 11/30/20	

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