Booking Holdings Inc. (BKNG) CEO Glenn Fogel on Q3 2021 Results - Earnings Call Transcript

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Q3: 2021-11-03 Earnings Summary

Play Call Press Release 10-Q

EPS of $37.70 beats by $4.67 | Revenue of $4.68B (77.12% Y/Y) beats by $385.44M

Booking Holdings Inc. BKNG Q3 2021 Earnings Conference Call November 3, 2021 4:30 PM ET

Company Participants

Glenn Fogel – Chief Executive Officer

David Goulden – Chief Financial Officer

Conference Call Participants

Justin Post – Bank of America

Kevin Kopelman – Cowen and Company

Deepak Mathivanan – Wolfe Research

Mark Mahaney – Evercore ISI

Eric Sheridan – Goldman Sachs

Stephen Ju – Credit Suisse

Doug Anmuth – JPMorgan

Operator

Good day, and thank you for standing by. Welcome to the Booking Holdings Third Quarter 2021 Conference Call. Booking Holdings would like to remind everyone that this call may contain forward-looking statements which are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are not guaranteed of future performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed, implied, or forecasted in any such forward-looking statements. Expressions of future goals or expectations, and similar expressions reflecting something other than historical fact, are intended to identify forward-looking statements.

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A copy of Booking Holdings earnings press release, together with an accompanying financial and statistical supplement, is available in the for Investors section of Booking Holdings website that's www. bookingholdings.com. And now I'd like to introduce Booking Holdings speakers for this afternoon, Glenn Fogel and David Goulden. And I will turn the call over to Glenn Fogel your CEO. Please go ahead, sir.

Glenn Fogel

Thank you and welcome to Booking Holdings ' Third Quarter Conference Call. I'm joined this afternoon by our CFO, David Goulden. I am pleased to be reporting strong results today for our peak travel season. Compared with 2019, Q3 room nights were down 18% which was an improvement from the 22% decline we previously reported for the month of July, and the 26% decline in Q2. The improvement since July was primarily driven by stronger room night trends in Europe. In the United States, room night growth in Q3 was strong, but lower than Q2.

Asia room night declines in Q3, were about an online with Q2 and remain down significantly versus 2019. International travel, which is important to our business, drove the overall sequential improvement in room night trends from Q2 to Q3. Nevertheless, our international room nights remain significantly depressed versus 2019. Q3 consolidated revenue of $4.7 billion, was more than double the amount of revenue in Q2.

The third quarter was also our most profitable quarter since Q3, 2019, with $2.1 billion of adjusted EBITDA and a 45% adjusted EBITDA margin. Moving into the fourth quarter, we have seen a further improvement in our room night trends in October, including early signs of a pickup in room night trends in Asia. Now, well, recently rising COVID case counts in many countries, including several important European countries, adds to the uncertainty around how November and December trends will progress.

David will provide additional details on our third quarter results in what we are seeing so far in the fourth quarter, in his remarks. The improvement in trends we saw in the third quarter. And so far in the fourth quarter following the negative impact for the Delta variant in July and August, once again, demonstrates the resilience of leisure travelers, who are looking to travel, when it is safe to do so, and restrictions are lifted. We are confident that we are on the path to the eventual strong recovery in travel demand globally.

As the global recovery continues, we are making progress, strengthening our core accommodation businesses support its long-term growth. As I said before, the strength of our core business comes from driving benefits to our traveler customers and our supply partners alike. For our customers, we are aiming to create a superior booking experience and build stronger relationships, which we believe is accomplished by addressing our customers critical needs of value, choice, and ease-of-use.

We continue to see Booking.com's pre-pandemic customers coming back and booking with us, while we're also attracting new customers. Importantly, we see our top customers from before the pandemic were turning to us at a meaningfully higher frequency than other customers. Providing attractive prices on accommodations is a key component of offerings value for our customers.

We work closely with our supply partners to increase participation in our targeted rate programs to ensure that compelling prices are available to our customers. Our Genius loyalty program at booking.com is a great example of a program where hundreds of thousands of our property partners are participating to offer lower rates and other benefits such as complementary practice, room upgrades, and discounted airport taxi to our large customer base.

In addition to offering lower rates on accommodations, we have recently extended lower rates on rental cars to our Genius customers. This is just 1 example of the way we continue to innovate and add value for our Genius members. With about 2/3 of our room nights booked on mobile devices, and the majority of those booked through the app, it's critical that we provide our customers with a positive booking experience on our app.

The app is an important platform as it allows us more opportunities to engage directly with travelers and ultimately, we see it as the center of our Connected Trip experience. In the third quarter, booking.com was once again the number one downloaded OTT app globally, according to a third-party research firm. Also, in the third quarter, we surpassed 100 million monthly active app users for the first time. The recent growth of Booking.com's app is encouraging, and we are working hard to continue to build on this success. In the third quarter, we saw a higher mix of our customers booking directly with us than in the third quarter of 2019.

A direct mix improved even as we leaned into performance marketing channels during our peak travel season. While we will continue to invest in performance marketing, we will also look to expand the diversity of our marketing and customer acquisition channels, as we aim to drive incremental traffic to our platform and increase consumer awareness of our brands. For example, with our ambition to acquire more customers in the medium intense space, we've made progress in strengthening our foundations for digital marketing, including social channels.

Though us spend so far has been small. However, we're increasingly confident in the potential for these channels. And as we see positive results, we expect to raise our level of participation there. Remaining active in investing effectively across marketing channels, is made even more important by the opportunity to acquire focus for new to online booking channels. Travel, like many industries during pandemic, has seen a meaningful shift from offline to online according to third-party data.

And this has increased our addressable market. For our support partners, we are focused on bringing incremental demand to their properties from a broad audience of potential customers on our platform. In a certainty of 600 small and medium hoteliers in Europe conducted earlier this year, 85% percent of respondents agreed that online platforms are a cost-efficient way to increase the reach to their hotel and source more diverse, yes. We agree with this statement and believe it applies more broadly.

Whether we are working with a small and medium hotel in Europe, or an alternative accommodation, or a large global hotel chain, we strive to be a valuable partner to all accommodation types on our platform. With our chain hotel partners, we are continuing to see increased engagement relative to 2019 levels, which shows up in higher levels of participation in our programs that enable them to differentiate and promote themselves on our platform. For our alternative accommodations, the global mix of room nights in Q3 of about 30% was up slightly from Q3, 2019.

This increase in [Indiscernible] recombination share of our business in the quarter was less than it was in Q2 as we saw a greater sequential improvement in demand for hotel room nights in Europe from Q2 to Q3. Our property counts of about 2.4 million and reported listings of over 28 million on booking.com remains stable relative to the prior quarter. Let me talk more about some of our key strategic priorities. Payments, and the Connected Trip, both of which we believe will further enhance the strength of our core accommodations business, and support its continued growth.

Turning to payments of Booking.com. Last quarter, we spoke about the organization of all of our payments, initiatives and efforts within a new Fintech unit at booking.com The recently established Fintech nearly enables booking.com to have a dedicated focus on enhancing payments in our core business to both customers and partners, as well as monetizing our overall transaction flows, be a new payments, related products, and services. Adoption of our payment solutions by our supply partners in both the U.S. and Europe continues to grow. Adoption in the U.S. has seen significant increases recently, driven by the additions of some major hotel chains in the second and third quarters, which we will look to build on in the fourth quarter.

In Europe, more customers are choosing to pay using booking.com 's payment platform when finalizing their booking as an attractive and localized options are provided. This will result in nearly a third of booking.com 's total gross bookings in Q3 being processed through our payment platform, which is up from about 22% for the full-year 2020. The Fintech unit is also driving continued payments innovation to ensure that growth is sustained into the future.

This includes offering a low-cost payout choice to our suppliers, as well as partnering with third-parties to provide payment solutions to our buckets, such as, buy now pay later. We believe these efforts help position booking.com as near transit and trusted payment intermediary for all parties on our platform. On our Connected Trip vision, we've been focused this year on enabling travelers to book the major elements of their attributing one place on Booking.com.

We continue to work on scaling up our robust flight platform on booking.com which will give us the ability to engage with flight bookers early in their travel generally, and allow us an opportunity to across LOR accommodation and other services to these bookers. Booking.com's for the product is now live in 27 countries. Total Company air tickets in the third quarter was up 131% versus Q3 2019, primarily driven by strength in Priceline's, but also helped by Booking.com slight offering, which continues to meaningfully exceed our expectations. Wallet remains early days for Booking slight product.

We're seeing that over 25% of Booking's flight bookers, are entirely new customers. With these new customers, we are seeing an encouraging attach rate of accommodation bookings. However, there is more work to be done to further optimize the cross-sell opportunity. The early signals helped demonstrate though, that our flight offering can drive incremental new customers to the platform to which we can cross-sell our combination product.

We are beginning to test initiatives targeting these new flight customers, including, for example, encouraging account creation to activate Genius status, and in some cases, offering additional incentives for them to book accommodations. We remain focused on continuing to test and innovate in order to build on the early successes, we're seeing with flight at Booking.com. We're also continuing to run test using offerings from our verticals like rental cars and taxis.

Before closing, I do want to note that as world leaders assemble this week in Glasgow for the cop26 Summit discussing the urgency of tackling the global climate crisis. I cannot overstate the importance for our industry to come together to work for the goal of carbon neutrality by 2050. De - carbonization is a major challenge for the entire industry. Excelling this challenge requires the commitment of all stakeholders. I am proud to say that our Company, Booking Holdings, is committed to addressing this challenge.

We recently released a report that we commissioned with EY-Parthenon that looks into what will it take to get the accommodations industry specifically to a carbon-neutral future. While a big task, data shows it is achievable. At booking.com, we are working on making it easier for travelers to find and choose sustainable accommodation options with booking their travel. In addition, we're working with our accommodation supply partners by sharing guidance, insights, and best practices to enhance sustainability initiatives at the property level.

Of course, there is much more that must be done, but we believe that we are taking important steps to contribute to a more sustainable future for our industry. And finally, we plan on publishing a Booking Holdings, climate transition plan in early 2022, which we'll speak more about at that time. In conclusion, we executed well and produced strong results in our peak travel season, which is a credit to the hard work and support provided by the many teams across our Company. I'm encouraged by the signs of recovery we are seeing in many parts of the world.

And I'm confident that we are on the path to an eventual strong recovery in travel demand globally. We continue with our important work to strengthen our Company's position and execute against our strategic priorities. As I said before, we were thinking about our business beyond just getting back to 2019 levels of demand, and we are focused on building a larger and faster growing business that generates more earnings after the full recovery, and for the long run. And now turn the call over to our CFO, A - David Goulden, David [Indiscernible] David is dialing back in, I think.

David Goulden

Yeah, I'm calling back in Glenn. Sorry, have you just finished?

Glenn Fogel

Yes. I just finished.

David Goulden

All right. Perfect timing, thank you. I was cut off and I'm back in again. Thank you, Glenn, and good afternoon. I will review our results for the third quarter, provide some color on the trends we've seen so far in the fourth quarter. To avoid comparisons to the pandemic impacted periods in 2020, all growth rates are relative to comparable periods in 2019, unless otherwise indicated. Information regarding reconciliation of non-GAAP results to GAAP results, can be found in our earnings release. Now onto our results for the third quarter.

On our last earnings call, we discussed the improvement in trends that that we saw throughout the second quarter driven by the U.S. and Europe, followed by loss pullback in July. After our earnings call, we saw our overall trends improve in August and continue to get better in September, which resulted in Q3 reported remise declining 18% versus Q3 2019, which was ahead of the 26% decline in Q2 and the 22% decline in July.

September was the strongest month in the third quarter, we remise declining for 14%, about the same level as June. The improvements in the Q3 room night decline versus Q2 was driven primarily by Europe, which benefited from strong cross-border travel with a duration. In Q3, room night in Europe, were down mid-single-digits versus 2019 with room night trends improving in August versus July, September was similar to August.

You will recall the room night growth pulled back from June to July in Europe due to concerns over the Delta variance. Rest-of-world also improved from Q2 to Q3. In the U.S we --, Q2 to Q3. However, the U.S. still have strong growth in the quarter and remained our strongest performing major country in Q3. Within the U.S. we saw a meaningful slowdown in August from the very strong growth we experienced in July, followed by a recovery to strong growth in September. The slowdown in the U.S. in August with due to concerns about the Delta variance.

Asia room night declined in Q3, or about in line with Q2. Room nights in Asia was still down significantly from 2019 levels. Mobile bookings primarily through our apps, represented about 2/3 of our total room nights are. Our apps continue to represent an increasing percentage of our mobile bookings. In Q3, as Glenn mentioned, we achieved an important milestone in use of our app at Booking.com, surpassing 100 million monthly active users.

We are also pleased to see the number of unique customers booking via our app in the quarter, grow strongly compared with Q3 2019. Our direct channel as a percentage of our room nights, year-on-year, and relative to Q3 2019, increased. While international room nights remain down versus 2019, we saw no sequential improvements in our international trends, with international mix of our room nights increasing to about 33% in Q3 from about 25% in Q2, and about 15% in Q1. Most of this improvement in international room nights came from bookings for travel within Europe.

We continued to see double-digit growth in domestic room nights in Q3, but at a slightly lower level than in Q2. The pickup in international travel in the quarter was a driver of the improvement in overall room night trends from Q2 to Q3. However, international room nights were down almost 50% compared with Q3 2019 levels. Our Q3 cancellation rate was slightly above Q3 2019 levels. However, cancellation rates improved in the quarter and September was slightly better than 2019 for the month. Percentage of our 2,000 -- of our Q3 2021 bookings, made with flexible cancellation policies, remains significantly higher than in Q3, 2019.

The booking window of Booking.com remains shorter than it was in the third quarter of 2019 and contracted more they did in Q2, as we saw a high mix of near-term bookings during our peak summer season. All regions had a shorter booking window in Q3 than in Q3, 2019. alternative accommodations that the global mix of room nights in Q3 of about 30% was up slightly from Q3, 2019. The increase mix alternative accommodations in the quarter was less than it was in Q2, as we saw, a great sequential improvement in demand for hotel room nights in Europe from Q2 to Q3.

I will turn into Cornish room nights in Europe grew slightly in August and September versus 2019 down for the quarter were about in line with Q3 2019. We believe we benefited from the strength of our portfolio Europe where we could respond to solid demand for alternative accommodations and an improving demand for hotels. Gross bookings declined 6% in Q3, which is less than the decline in room nights due to the increase in average day rates for accommodations of about 10% versus 2019 on a constant-currency basis.

And also due to a couple of points of benefit from changes in FX rates and strong performance in our flight business. Our accommodations constant currency ADR benefited by just over 5% points for an increased mix of business in North America, which is a high ADR region, and a decrease of mix in Asia, which is a low ADR region. Excluding regional mix effects, constant currency ADRs were up just about 4%, driven mainly by rate increases in Europe and North America across many destination-types with notable strength in beach-oriented leisure destinations.

[Indiscernible] figures booked in the third quarter were up 131% versus 2019, driven by very strong growth of Priceline. [Indiscernible] flight bookings at Booking.com We're encouraged to see another quarter of triple-digit growth from a [Indiscernible], which are key components of our multi-product Connected Trip strategy. [Indiscernible] revenue for third quarter was 4.7 billion, which was 7% below Q3, 2019, and was more than double the amount of revenue in Q2, 2021, a far greater sequential improvement in 2019. Our Q3 revenue as a percentage of gross bookings was about in line with Q3 2019, which was in line with our expectations.

We experienced even more revenue seasonality in Q3 2021 than normal due to the concentration stays in Q3 from bookings made in the quarter and also for bookings [Indiscernible] when customers could book accommodations, but could not stay due to restrictions and other COVID related concerns. The strong top-line performance for performance resulted in adjusted EBITDA of $2.1 billion in the third quarter, which is 15% below Q3, 2019. Marketing expense, which is a highly variable expense item, decreased 3% versus Q3, 2019.

Marketing expense declined by few points less than gross bookings, due to slightly up low ROI in paid channels of the invested into capturing demand during the peak travel season. Sales to our expenses in Q3 were significantly higher than they were in Q2 on a dollar basis, due to higher volume of merchant gross bookings, which increased as a percentage of our total gross bookings in the third quarter. Our Booking.com announced a gross bookings process to our payment. Payment platform in Q3 was over $6 billion, which was almost 1/3 of Booking.com's business, up from about a quarter in Q2.

Our more fixed expense categories in Q3, in aggregate, came in 3% lower than Q2, after $136 million of personnel expense in the second quarter related to our decision to repay the government aid was mostly offset by an increase from Q2 to Q3 in our bonus accruals and digital service tax expense, both of which are crude proportional to revenue. Our non-GAAP EPS was $37.70, down 17% versus Q3 2019. non-GAAP net income of $1.6 billion reflects a non-GAAP tax rate of 21%, which is higher than the 19% in Q3 2019 due to a high proportion of non-tax-deductible expenses in relation to lower pre -tax income versus 2019.

On a GAAP basis, we had operating income of $2 billion in Q3. We recorded GAAP net income of $769 million in the quarter, which includes a $1 billion pre -tax realized loss on our equity investments primarily relates to our [Indiscernible], as well as income tax expense of a $199 million. Now onto our cash and liquidity position, our Q3 ending cash investments balance of $15.4 billion was down versus our Q2 ending balance of $16.1 billion at the $1.5 billion of free cash flow was more than offset by the repayments for $1 billion convertible note matured in Q3 and the $1 billion unrealized loss on our equity investments.

The return of capital to shareholders, has and will be an important component of our value creation strategy. Throughout the COVID pandemic, we said that we will start returning capital to shareholders when we saw that our 3 largest regions, we're no longer a meaningful risk of [Indiscernible] reversal due to COVID, and also become more predictable. Assuming that travel recovery continues, we plan to restart returning capital in early 2022 under our remaining authorization.

Assuming continued recovery, we'd expect to complete this organization within 3 years from restarting. Now onto our thoughts for the fourth quarter. Our total room nights declined 10% versus 2019, which is better than the 14% decline in September. The improvements in October were driven mainly by Asia. Although the region comes -- a lot of the region remains down from suitably visiting. 2019. The improvement in Asia was led by domestic travel with the many countries and was driven by an improving vaccination progress and governments easing restrictions on travel.

Room night growth in the U.S. improved little from September to October and remains strong in October. Rest of the world also improved little in October, and was back close to 2019 levels. We were declines in Europe were about the same in October as they were in September, but weaken towards the end of the month. This resulted in overall room night declines being higher in the last week of October than the average for the month.

The slowdown at the end of October in Europe was driven by a number of countries that have seen recent increases in COVID infections, including Germany, Russia, and Italy. Given the ongoing uncertainty around COVID, it's difficult to predict how room nights in November-December will compare with the 10% reduction we saw in October. Looking forward to November-December, the rising case counts across many important Western European countries and across much of Eastern Europe, as well as the start of the winter season in the Northern Hemisphere, which in 2020 contributed to an increase in COVID cases, creates unpredictability.

Also, pre -pandemic contribution of Asia to total room nights was highest in November and December, and Asia is still our least recovered region. On a more positive note, since the U.S. announced in late September the plans to ease travel restrictions in November for international travelers who are vaccinated, we've seen a significant improvement in room nights booked by Europeans to travel to the U.S. as well as the reverse.

Also, we're pleased to see more gross bookings on the books for the Christmas, New Year periods, that we saw at this time in 2019 in the U.S. and Western European. Change to the Income statement, we expect Q4 gross bookings to decline by a few points, less the room nights, driven by higher reported ADRs and flight bookings versus 2019. We expect less of an increase in our ADRs in Q4 than Q3 due to less of benefit from regional mix of the Asia region continues to recover, but also due to low occupancy rates after the peak travel season. We expect Q4 revenue to decline more than gross bookings due to a couple of factors.

The first, is due to short booking window in Q3. A low percentage of Q3 bookings [Indiscernible] normal will stay in Q4. The second, is due to our expectation that the booking window will contract less in Q4 than it did in Q3, resulting in more bookings made in the quarter that are expected to check-in in future quarters. As a result, we expect our revenue as a percentage of gross bookings to be more than 1% below Q4, 2019. This also means we expect Q4 revenue to have a greater sequential decrease from Q3, that we saw in 2019, and we expect Q4 revenue to decline more than it did in Q3.

We expect Q4 marketing expense as a percentage of gross bookings increased slightly versus 2019, as we expect to invest in capturing demand and increasing awareness during the continued global recovery of travel demand. We expect Q4 sales or expenses to be lower than they were in Q3 due to lower merchant transaction volumes. However, we expect sales or expenses in the fourth quarter to be higher than in Q4 2019 due to higher merchant, volumes, and mix.

We expect our more fixed expense categories in Q4 in aggregate to be about in line with Q3 on a dollar basis. We expect Q4 EBITDA to be positive but driven largely by the higher, the normal seasonal decrease in revenue, we expect a much greater seasonal sequential decrease in EBITDA from Q3 to Q4, the normal. In conclusion, we're pleased with our recovery and the top-line in Q3, which led to strong finance results for the quarter. The financial strength we saw in Q3 was [Indiscernible] by the concentration of stage in the quarter, which will lead to some differences in the comparison of Q4 to Q3 relative to what we've seen in prior years.

October room night trends improve relative to September, driven by some encouraging trends at Asia. However, recently, the rising case counts across Europe increases in certainty about how trends will progress in November and December. In closing with confidence in our ability to capture demand as the global recovery continues and execute against our strategic projects. With that, I will now take your questions and Eli, I'll turn over to you to open the line for questions.

Question-and-Answer Session

Operator

Thank you, sir. Reminder to our audio attendees [Operator Instructions] Please stand-by while we can open the Q&A line. The first question is from the line of Justin Post of the Bank of America. Your line is now open.

Justin Post

Great. Thank you for taking my questions. Great to see Europe recovering. With room nights down 10% versus '19, Glenn, maybe you could go through what needs to happen from here to get above '19. What areas still need to come back strong and not just Asia, but your thoughts on that. And then David, maybe you could talk about core business margins versus '19. Let's ignore payments and take your trip for now. But how are you thinking of the puts and takes on the core business versus '19. Thank you.

Glenn Fogel

Hi, Justin. I don't think it's a very hard answer really what we need. What we need is, obviously, more of a recovery against this pandemic, because that's clearly what's driving the problem than in many industries, ours particularly. For us, we've talked about this a few times. We talked about, our business has done well with international, and international generally has been hard hit, albeit we are seeing some better things. But that the long haul is still a problem. Yes, we're seeing some numbers coming up in Asia, great. I love it. The fact that people are getting more vaccinated in Asia, that's great. The fact that vaccines are being distributed more broadly and getting around, that's great.

The fact that the pharmaceutical Companies are coming out with new ways to combat against this terrible virus with pills now, that can help people who have caught it, end up being hopefully healthier quicker, all good things. But what we need really, is for everyone who can get a vaccine, to please go out and get that vaccine. If you're medically able to and you're capable getting it, please get. That will help hasten the recovery for not only the travel industry, but the entire world. And that's what we hope will happen.

Obviously, we're doing everything we can, so we're prepared when that day comes, which it will, we can't say when, but we know will come. And we're preparing by doing all the things that Dave and I have been talking about. Preparing with our partners, and getting our marketing prepared, and doing all the steps that you know we've been doing to make sure that when travel comes back to above 2019, we're getting the share we want to be getting. And David, you want to [Indiscernible] -- you're going to answer the second question and answer mine too.

David Goulden

Yeah. So now, I [Indiscernible] as great, we'd actually be [Indiscernible] relatively quick on the puts and takes in the core combination business. Our underlying take rates have been solid, and obviously, the reported take rates are a function of timing, so that continues to go well for us. As we get to -- back to 2019 levels, there will be some inflation refresher on the personnel line. Everybody knows there's a war for tech talents out there, and we've had two for years whether the merit increases in other expenses in -- other increases in our cost base.

Of course, we did take expenses out, but there are variable expenses. So, they will come back with some efficiency over time, but there will be some pressure on the personnel line. But there are other things that are in the model that we can use to offset that pressure. We can get extra economy to scale as the business growth is beyond 2019 levels on both the fixed costs and on the variable cost side as well. There are opportunities in our direct mix, which of course is very important. And of course, a key element.

And this will grow happens to off over ROIs. And on the front marketing side where we saw some increase in the first half of the year, we saw some small compression in the second-half of this year, but those markets are very variable and very dynamic, and we're pleased with how we're doing in those markets. The last thing I want to leave you with on that topic is that within our core business, there's always a trade-off between growth market share, and profitability.

So, to the extent we see opportunities, we leaning in. We want to try and drive market share increases where we think that we can, that will pressure the business in the short-term as we lean into making those investments. And also, as the investment in marketing and other areas were basically be a leading indicated relative to revenue. So, there will -- we do believe that we're -- there are opportunities for us to gain share in accommodations through this -- the recovery and beyond. So that would be an additional factor in the mix and how we think about the long-term business margin in accommodations.

Justin Post

Great. Thank you.

Operator

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

Kevin Kopelman

Great. Thanks so much. Hoping to dig into ad spend trends a little bit. So, spend is going up a little. How much of that is Booking getting more aggressive as demand picks up versus a more competitive overall ad environment? And then compared to 2019 as distribution in brand and performance changed meaningfully. And lastly, can you give us an update on the kind of merchandising and promotion -- some of the merchandising promotion tests that you've done over the past couple of quarters? Thanks.

Glenn Fogel

David, why don't you take the first 2, about the aired competitiveness, and I think some brand question? And I will talk a bit about some of the merchandising.

David Goulden

Exactly. Thank you. Let us do that. So, Kevin, if you remember we -- on the last call, we said that we expect to see some reduction in our rise in Q3 versus 2019 and actually, our rise came out very much where we expected them to. Actually, our direct mix was slightly better than we expected in Q3. And that's why those less of a compression in the difference between gross bookings and marketing that we actually expected in Q3.

So that's positive. If it really -- something that we -- I say that was more what we did because we expect that to be the outcome. Of course, these markets are dynamic and as recovery continues, more, more play will come back into the marketplace. But basically, what happened in Q3 was very much in line with what we've told you a quarter ago would happen. The mix in between brands and the performance has not materially changed. If you recall, back in 2019, around 9% of all marketing spend was in imports, marketing.

We are looking to move up -- to move the brand spend up a little bit over time. But of course, brand has been very much shut down in 2020. It's not going back on in 2021. So, we're not in a very different position than where we were in 2019, but we do see the opportunity to continue to trend a little bit more towards brands, some of which might go on at the mid-funnel (ph.) market opportunities that Glenn talked about. And then Glenn, I'll turn -- hand over to you to talk about the 3rd one.

Glenn Fogel

Yeah. So, Kevin, obviously, merchandising is a very important reason why we built out, and are continuing to build-out, our payments platform in booking.com. Just making sure that we're able to compete and provide great value to our customers. And what's really important is not doing just out of our own pocket, but working with our partners, coming up with the right time to the right consumer, the right offer and helping them.

Our supply partners, also provide some of that, let's say, added value. For example, we may do flash sales. You may hope or you've seen some. Hope you've gotten some, hope you actually booked some of them. That's an example. One of the things, for example, when somebody is getting in accommodation and we are able to offer them either lower cost or even free sometimes, right from the airport to the hotel.

In a [Indiscernible], different variations that we can do with the different verticals in coming up with the best combination, trying to do as much as we can with our suppliers' money, but sometimes using our own too to come up what really is an attractive offer. So, the consumer knows that when it come to our site, they're getting the best value, because value really is one of the key strategic objectives for us, always through providing that.

Kevin Kopelman

Thanks Glenn. Thanks David. Really helpful.

Operator

Your next question is from Deepak Mathivanan from Wolfe Research. Your line is now open.

Deepak Mathivanan

Thanks. This is Zack on for Deepak. Thanks for taking the questions. First on pent-up demand. Obviously, it's been a nice tailwind for your business so far and general travel demand over the last few quarters. But just curious how you're thinking about whether there's another leg to run on the level of pent-up demand.

Asia is still depressed, as you noted, and across border restrictions are easing. So, as we look into next year, how are you guys thinking about the level of pent-up demand? And then second, when we dig a little further into the current trends, is there any reversal in terms of urban versus suburban or shorter versus longer-term [Indiscernible] you could call out? Thanks.

Glenn Fogel

Zach, so just to make sure I understood your first part of your question. You're just asking a little bit about how we're going to get the demand that's coming in the future, do I have that correct?

Deepak Mathivanan

Just -- I guess like understanding whether the level of pent-up demand that you guys' kind of expecting as we move into next year given there's still current travel restrictions, especially on the cross-border side --

Glenn Fogel

Right.

Deepak Mathivanan

You just --

Glenn Fogel

Okay.

Deepak Mathivanan

Remain depressed.

Glenn Fogel

Yeah.

Deepak Mathivanan

So, as we look into next year, should we see another --

Glenn Fogel

Right.

Deepak Mathivanan

Kind of books.

Glenn Fogel

I got it.

Glenn Fogel

Okay. Why don't you about first half, but I'll let David say wherever we are -- what we feel, we can disclose regarding any of the trends regarding different parts of the business. So, we absolutely know there's huge pent-up demand by of course any time, any government, let's go restriction. We see immediate, immediate demand. So, for example, the announcement of the November 8th opening for people to come to the U.S. Immediately, we saw demand. In the U.K. when they changed restriction, immediate demand. So, we know it's there.

Absolutely. Now, how much have we don't have a way to quantify it, but we do note if you look at particularly in the U.S., when you look at what people savings rates are right now, you have been able to save a lot of money during this pandemic and they want to spend it. And one thing people have not been able to do as much they want to, is go travel.

So, I believe there is a significant amount of demand there, just waiting to come out. But of course, you'd have to -- we have to have these restrictions for the long-haul international travel open up. And we also -- we know that it's important that we always provide the best value so that when they do travel, they come to us and David what you can say about suburban and local far what you can say.

David Goulden

Yeah, Zach (ph.). Q3 saw strong recovery across the geographies that we talked about. So, I'd say there's still a bias towards more leisure outdoor-oriented activity, particularly beach-oriented properties did very well in the summer months in the Northern Hemisphere.

But we do see some recovery into the cities as well, and I think this -- we all know that anecdotally, if you want to book a hotel room night in a city, it's becoming increasingly hard. So, we are seeing recovery across the board, although still more entry (ph.) towards the outdoor beach-oriented leisure locations.

Deepak Mathivanan

Great. Thank you.

Operator

All right. Your next question is from Mark Mahaney on the Evercore ISI, your line is now open.

Mark Mahaney

Thanks. Three quick ones, please. Any impact at all from IDFA. Secondly, those 100 million mobile app, MAUs, do you have enough history to know if those are actually materially different? Are they more or less profitable? They more or less loyal than, more or less likely to convert than the users that you had coming at you from other platforms.

And then third, please, the rolling out of the air products to more market. you have it in 21 markets, you rolled out some good statistics here about how 25% of the customers are new. And there was something you said about add-on sales. If you could just repeat what that was. But it all sounds like that's a really good product addition. So, I guess the action question is, why aren't you out -- how long will it take you to roll it out fully across our markets, given how positive it's been so far?

Glenn Fogel

Thanks Mark. Why don't I take -- let me do the air question first, then I'll talk a little bit about IDFA, and I'll let David what he wants to say about our app and I'm not sure how -- I'll let him be streets if you wanted to be or not about what we see ensuring profitability, etc. You're absolutely right about the air business very exciting for us, of course, and we've been working on it. And it's interesting because I happen to have noticed that in the first quarter call in 2020, just as things started going very bad for the whole world.

We're talking about the -- just starting out the air business at Booking.com in the fourth quarter of 2019. And I mentioned about we're striving to get to that 50% coverage of Booking.com customers. I was looking forward to hopefully doing that for 2020. And of course, that didn't quite happen exactly we wanted, but the question and it wasn't from you, Mark, who is another analyst to ask that why not a 100%. And I said, well, the 15% was just don't want to get to that year. [Indiscernible] of course, we want to get to a 100% and that still is the same thing. Yes, we're 27 countries, of course, we want to get to every single country, to anybody we currently deal with.

We want to be able to provide them with an air ticket, but it takes time. It's not something you just flip a switch. You have to actually go to regulation is to get licensing and all sorts of things. So, we're enrolling out as we can, as we should, and we will get to a 100% at some point, I do want to point out though we are at that over that 50% number right now. So, I am pleased to where we are with that. I also want to say though it's still so early, we're not doing big marketing yet, real big marketing. There are a lot of opportunities to get a much higher number of people come into this air product.

And the reason that we like it, is not only the 25% new customers, of course fantastic, but it’s that attachment rate, which I haven't given a number. But I'm pleased with where we are with that right now. And again, that's something we have not optimized yet. There's a lot of opportunity there to optimize that and get an even higher attachment rate. And that's part of the overall vision of being able to bring new customers in from different verticals, different ways than we've done in the past, which is primarily pay for performance marketing and delivering a lot more customer. And as we talked a little bit earlier in a previous answer about being able to provide them with a lot more value.

Your first question about IDFA, but these privacy related changes, they only impact a small part of our marketing, and it's obviously not unique to our Company. We know that very confident, we can manage through this. And as we know -- as you know, most of our marketing primarily paid marketing channels like PPC and [Indiscernible] and that's not going to be directly impacted by any of these kinds of changes. Our focus has always first-party data. We want to leverage the data into marketing, any of these changes to privacy, like the IDFA -- thing is this does not really impact us.

And I think you would know, we chose not to show us the app -- track and opt-in back in April 20 -- April 21 this year, April, while the IDFA specifically decided not to do that. And of course, you've seen our results since then, so I really don't think this is a big deal for us. Very proud of the team in our whole marketing. They will be able to work and come up with, I would say, privacy-oriented ways to continue to be able to market with good tracking and ROIs. And David, I think you had number 2, which is about the monthly active users through mobile.

David Goulden

Yeah, I got number 2. And Mark, what I can tell you is we kind of watch very carefully how different types of direct user response. And obviously, the more direct we can get, the better. And the more those direct customers returned and there are three types of direct customers. The direct customers using the app, the direct customers that come to us on the mobile web, the direct customers who comes to us on desktop.

And perhaps not too surprisingly, the direct customers on the app measured by the [Indiscernible] you just talked about, are most [Indiscernible] of their customers. It's a good thing. We will get more of that. And a lot of our marketing that we do these days [Indiscernible] oriented. I'd getting people to download and use the app because it's sticky.

Mark Mahaney

Thank you, Glenn. Thank you, David.

Operator

Next, we have Eric Sheridan from Goldman Sachs. Your line is now open.

Eric Sheridan

Thanks so much for taking the question. Want to come back to the comments you talked about a little bit earlier around the dynamics around hotel room night growth with traditional hotel supply room night growth versus alternative accommodations.

Curious what your view is on how the landscape on both the supply and the demand side might evolve as we move into a post-pandemic world and aim towards summer of 2022, and how you think about making investments on supply to match up the way in which there might be a more normalized travel environment in '22. Thanks so much.

Glenn Fogel

Thank you. I'll give my first comments and I'll let -- David can always add if he'd like. So, we saw before the pandemic an increase in the alternative accommodations business as they became a larger and larger share of the total combinations business. And we're just going on a pretty steady rate going up. And pandemic happens and you get a step change. As people desire safety, being away from crowds and they go there. And now we've seen for ourselves, we've seen people liking hotels in that. I think the long-term trend that will continue.

And I think if you look five years in the future, I think alternative combinations will be a higher share. That means of course for us. We talked about this in the past how important is that we go out, make sure we get the best supply we can get. And that means working hard on that and making sure that the people own these properties, see us as a platform that they want to use, and it's first in their mind that this is a great way to fill up their properties, and that's something that we are working on absolutely.

The demand side similar. Go to Europe, and we've talked about in the past, and says, where can I get a villa? In the south of France, people will say, I think booking.com 's a great place. You went to the U.S. and we said, hey, I need a vacation place to ski. They may not think of booking.com first. We got to get that awareness up and I've talked about that in the past and that's what we have to do also. But one of the truly great things about booking.com is we offer more of both. Nobody offers -- you put together hotels and alternative accommodations, you put that together, were the ones that have both of those.

And I really believe that's a superior way for somebody to decide what they're going to choose in terms of accommodation. And we see this in our data. We see people come, they look -- first, start looking at one type and then they end up booking another type. And they're able to compare and contrast both. They'll see the reviews on both. Look at the prices on both. What are they going to get from one, what are they going to get from the other? That's why we believe we have a superior offering to the consumer.

And I do believe though that is something that absolutely, it's going to continue. But on the other side, you all see the hotels they're making some moves themselves. And they're coming up with ways to offer a better wall frame, providing some of the benefits of an alternative accommodation. Two of this silver, particularly so they are prepared as people work in a new way in the future and want to have both the benefits of the hotel but perhaps more room or more services that you can get in terms of making sure you have good WiFi or a place you can do your work at. And that's some nice, see also hotels are definitely be getting to that space. David, I don't know if you want to say anything more to that.

David Goulden

That was good. I just point out that to your point, that does strengthen that balance in both clearly contributed to us having a strong Q3 because we saw strong demand in [Indiscernible] to continue that we saw sequentially, a much bigger increase from Q2 to Q3 in hotels that we could off the book.

Eric Sheridan

Thanks so much for the color.

Operator

Next, we have Stephen Ju of Credit Suisse. Your line is now open.

Stephen Ju

Okay. Thank you so much. Glenn, I think in the past we've talked about your payment’s product helping to expand your term by their on-boarding those users who may not necessarily be using credit cards and instead online payment services. Given the overall, I guess, depressed state of travel in Asia, maybe much of that value of lock is still in front of us, but are you seeing evidence in other regions of the world that this is helping to bring in that incremental user? And also, just the rising ability for you guys to merchandise as you do more the Connected Trip, but -- opens up a greater opportunity for you guys to run promos and change prices, enhance -- flex your gross margins up and down to drive growth on top of what has always been a more of a performance marketing-driven growth. So, is there still a pretty material gap in ROI from doing one versus the other at this point in terms of what you perceive?

Glenn Fogel

So, I'll talk about the first one about our payments. I'll let David talk about ROIs on our merchandising approach and how we're doing that. So, you're absolutely right. If somebody doesn't have the ability to pay for something because they don't have the appropriate payment method then they're not going to be able to buy from that person or in that Company like us. So, we always have to do that. So, if you are in Southeast Asia and let's say somebody is using most of the Grab, who is a partner of ours and they're using GrabPay.

Well, we're not able to use GrabPay for the hotel, taking the money in from the consumer, that person is not going to use us, they're going to use somebody else. We have obviously GrabPay our partner working on that. Or if you look at other ways, people who say they go and look, it's not their favorite, they could use it another way, they still decided not to use us. There's something else we've seen which is really interesting, is that just having more ways to accept payments seems to increase conversion sometimes.

I don't know why, I can give you a science, I just see data. This is a lot interesting. The other side is making sure we're paying the supplier the way they want to get the money. Because sometimes they say, you know I don't want to get it the way you're doing it with virtual credit card or I don't want to get it in terms of a bank transfer, I want to get it some other way. So, we've got to be able to do that, and that improves our relationship with the suppliers. If it particularly approves with the supplier when the method that we can get the money to them is cheaper than the method they are currently using.

That's a great thing when we can do that, that's another value add to that hotel or any other types of suppliers, lots of ways that we're going to do that and there are all other things we're working at, the ThinTec part of our business that we're just starting out. We talked last time about saving up that unit. There are a lot of opportunities there and we talked about how in 2019 we did over a $100 billion with a gross booking. And our idea is to -- let's find ways that we can monetize that better. And let's find ways we can provide value to both consumers and suppliers. And David, I don't know if you want to add a little ROIs and how we're doing merchandise.

David Goulden

Sure, as Glenn said, payments is increasingly becoming heart of the core value proposition that we offer at booking.com in particular to both customers and partners. It's no longer just kind of we think as add-on, it really is solving problems for both all of them in cost-effective ways and risk reduction ways, they couldn't do as efficiently themselves. So as much as ROI is growing so rapidly, changing all that mix. Now, you're right, Steve. Once we're on payments, we can participate in merchandising.

Of course, with the most efficient way to get rates, is to source great rates, which Glenn talked about, frame out additional lines. But if we need to participate over and above sourcing and driving promotional targeting particular users. and particular markets, we can with payments platform. And we now have enough experience under our belt, enough instrumentation around that, that we can treat that as you mentioned, as a marketing investment.

And look at it in a very similar way to the way we look at spend in the performance channels for example, count, compare ROI s one versus the other, and decide what the right mix is. So correct, with payments becoming a bigger piece of all proposition, where we can, where we need to, where we think it makes sense. We can look our merchandising through a strong ROI [Indiscernible]. We can be quite proactive in that area and compare it directly with other forms of spending and marketing.

Stephen Ju

Thank you.

Operator

Next, we have Doug Anmuth, of the JPMorgan. Your line is now open.

Doug Anmuth

Thanks for taking the questions. I just wanted to ask about social advertising and if the dollars there are still small, but just curious what gives you the confidence and that working to the point of potentially adding some real dollars there? It's an area you've tried before, so just curious kind of what's different now? And then secondly, David, if you could just walk through those 4Q sequential revenue dynamics again, and if there's something that's particularly different, as opposed to just the normal seasonality? Thanks.

Glenn Fogel

Hi, Doug. Yes. So absolutely small numbers right now, and I think I said that in my prepared remarks. These are small, small numbers right now. But obviously, there are a huge number of potential customers who are in those areas where we want to reach out, make sure they're aware of us, they're coming to us. So, it's a place that we're not going to ignore.

Now, we onset to come up with the right method, the right way to present and offer it, the way we are going to present our brand and be able to get them to come to us, and that means we've got to be able to measure, are we getting a good return or not. And I don't want to give too much in terms of sales, how we're doing what we're doing, but I'm feeling good about how we're building it up. And if we see the right returns, the right ROIs, because we are always very conscious of spending that advertising money the right way, then we will scale up and spend more money.

And then as I said in the prepared remarks, I feel good about where we are now because a great thing about our business, our Company, the way we think is, we're not dogmatic. We don't think just because we thought it first this would be great but then we absolutely do it. We're going to do it experiment, put money to work, see the results, test, and then we'll learn, and if it's great, we're going to put more money. If not, we'll come up with another way. That's how we built this Company, that's what we're doing in the future. And David, I think there's a question for you there.

David Goulden

Yeah. Doug, let me explain that -- re-explain that whole seasonality thing because this is quite important than we can explain it high level. So Q3 was very strong. It was always artificially strong from a revenue for me because you've got two things naturally healthy it. First of all, remember a lot of bookings in Q1, Q2 that we're always stay in Q1, Q2 stayed in Q3. So, we got that benefit compared to the normal Q3.

On top of that, in the quarter, more bookings in Q3, the normal stayed in Q3. So, because of what you window while so short, so Q3 got topped up two ways from Q1, Q2 and in Q3. So now when you think of Q4 and you are now comparing it against a very top up Q3, Q3, and some of that top of in Q3 directly impacts Q4. So Q4 gets impacted by comparing against a strong Q3. But I think some those Q3 bookings that normally would stay in Q4 stay in Q3, to now book, if you like a double factor driving the comparison between Q3 and Q4.

Also, we believe the booking window will start expanding Q4 so more than bookings in Q4 will actually leak out of Q4 than did in Q3 relatively. So, you've got these two factors kind of driving a very unusual comparison between Q3 and Q4. So, a fair amount more sequential revenue decline. It's all timing and all mechanics. But think of it as a Q4 comparing a Q3 on steroids. And some of the reason why Q3 was in steroids will directly impact Q4 because that's what's going on.

Doug Anmuth

Got it. Very helpful. Thanks for the clarity there.

Operator

And that concludes the Q&A session. I will now turn the call back to A - Glenn Fogel for closing remarks.

Glenn Fogel

Thank you. So, in closing, I want to repeat what I said at the close of last quarter's earnings call, and reiterate our strong belief that our industry's full recovery will be hastened by everyone who can get a vaccine, going out and getting it. We urge all people who are approved for and medically able to be vaccinated, to do their part, to make our society safer.

And we urge all who were advised to get a booster, to go get one. And as always, I want to thank our partners, our customers, our dedicated employees and our shareholders. We appreciate your support as we continue to build on the long-term vision for our Company. Thank you and please be safe. Goodnight.

Operator

This concludes today's conference call. Thank you all for your participation. You may now disconnect.