

# Booking Holdings

## An opportunity to own part of the world's leading online travel agency

### **BOOKING HOLDINGS IS AN ONLINE TRAVEL AGENCY WITH A PLATFORM BUSINESS MODEL**

The Group provides online travel & related services to consumers and local partners in over 230 countries through six primary brands: Booking.com, KAYAK, priceline.com, agoda.com, Rentalcars.com, and OpenTable.

The Group operates a platform business model, which tends to be capital light in nature (i.e. they do not own any of the properties, and carry no inventory). Through their platform, Booking Holdings connects consumers (demand) and travel service providers (supply), and earns a commission for facilitating transactions between the two. Through one or more of their brands, consumers can: book a broad array of accommodations (including hotels, motels, resorts, homes, apartments, bed and breakfasts, hostels and other properties); make a car rental reservation or arrange for an airport taxi; make a dinner reservation; or book a cruise, flight, vacation package, tour or activity. Approximately 87% of Booking Holdings revenue is generated by charging commissions for facilitating travel reservations.

Consumers can also use the Group's meta-search services to easily compare travel reservation information, such as airline ticket or hotel reservation, from other online travel platforms. The Group also offers various other services, such as certain insurance products to consumers and restaurant management services to restaurants.

### **BOOKING HOLDINGS IS A GOOD BUSINESS BENEFITING FROM STRONG NETWORK EFFECTS**

As a platform business model, most of the investment will be upfront creating the platform, including high marketing spend to attract both consumers and suppliers, with the goal of creating a strong network effect. A network effect is a very powerful competitive advantage - Booking Holdings has built more partnerships with hotels, motels, and other accommodations etc., compared to their competitors, and therefore offer consumers greater choice. As this greater choice attracts more consumers, so it will attract more travel service providers, which in turn will attract even more consumers, resulting in a positive feedback loop, with every new user increasing the value of the network.

This enables the business to grow earnings and cash flows with very little incremental capital being deployed. This results in a capital light business model that earns very high returns on capital, and generates large amounts of free cash flow (FCF) that can be used for acquisitions or returned to shareholders. The Group has an excellent track record in converting profits to cash with a FCF margin of 31%, while the free cash flow to net income ratio has averaged over 100% over the past decade.

### **WHAT ABOUT THE CORONAVIRUS?**

The travel industry is no doubt feeling the pain from the coronavirus and may take some time until people feel comfortable to travel again. This will obviously impact revenues and cash generation for a company like Booking Holdings in the short term, but the Group had a strong balance sheet heading into the pandemic, and have taken further measures to boost liquidity.

The Group will also be able cut back on expenses during this time, as they benefit from a highly variable cost structure that naturally declines in periods of low travel demand (their largest expense is performance marketing i.e. the advertising costs they pay to the likes of Google).

Over the medium-to-long term, we don't believe that the coronavirus will have changed people's desire to travel, go on family vacations, visit new countries etc., and we think that Booking Holdings, as the industry leader, is best positioned to steal market share as smaller competitors exit the industry. There are already signs that domestic travel is picking up, while international travel is still constrained due to travel restrictions. As with previous recessions, hotels and other accommodation providers will be struggling with low occupancy rates, and will turn to Booking Holdings to drive volumes as demand recovers. »

## VOLATILITY CREATES OPPORTUNITY

During the global market crash in March, the share price dropped as low as \$1 152 per share as investors overreacted to the pandemic. We were able to take advantage of this opportunity and added to our position. The share price has subsequently recovered somewhat, and is now trading around \$1 800 per share. We continue to believe that Booking Holdings has attractive long term prospects, and our clients should benefit from owning this compounder over time. •