KeyValue

ASSET MANAGEMENT

EQUITY RESEARCH

ANALYSIS OF BOOKING HOLDINGS

DATE :
September 5th, 2024

keyvalueam.com

Booking Holdings (BKNG)

BUY: 4.345,54 (+13,94%)

Summary

Informations		
Country		Norwalk, Connecticut
Tax Rate		14%
Sector		Hotel and Travel
Date		04/09/2024
Last Price	$	3.813,78
Target Price	$	4.345,54
+/- Potential		13,94%
Ticker		BKNG

Capital structure	
Market Cap	136.190
Enterprise Value	130.291
Shares O/S	36
Interest cover Ratio	6,61
Debt/Equity	10,10%

($mnl)	FY22	FY23	LTM
Revenues	17.090	21.365	22.002
Gross Profit	14.625	18.071	18.625
EBITDA	5.313	6.429	6.808
EBIT	4.862	5.925	6.287
Net Income	3.058	4.289	4.799

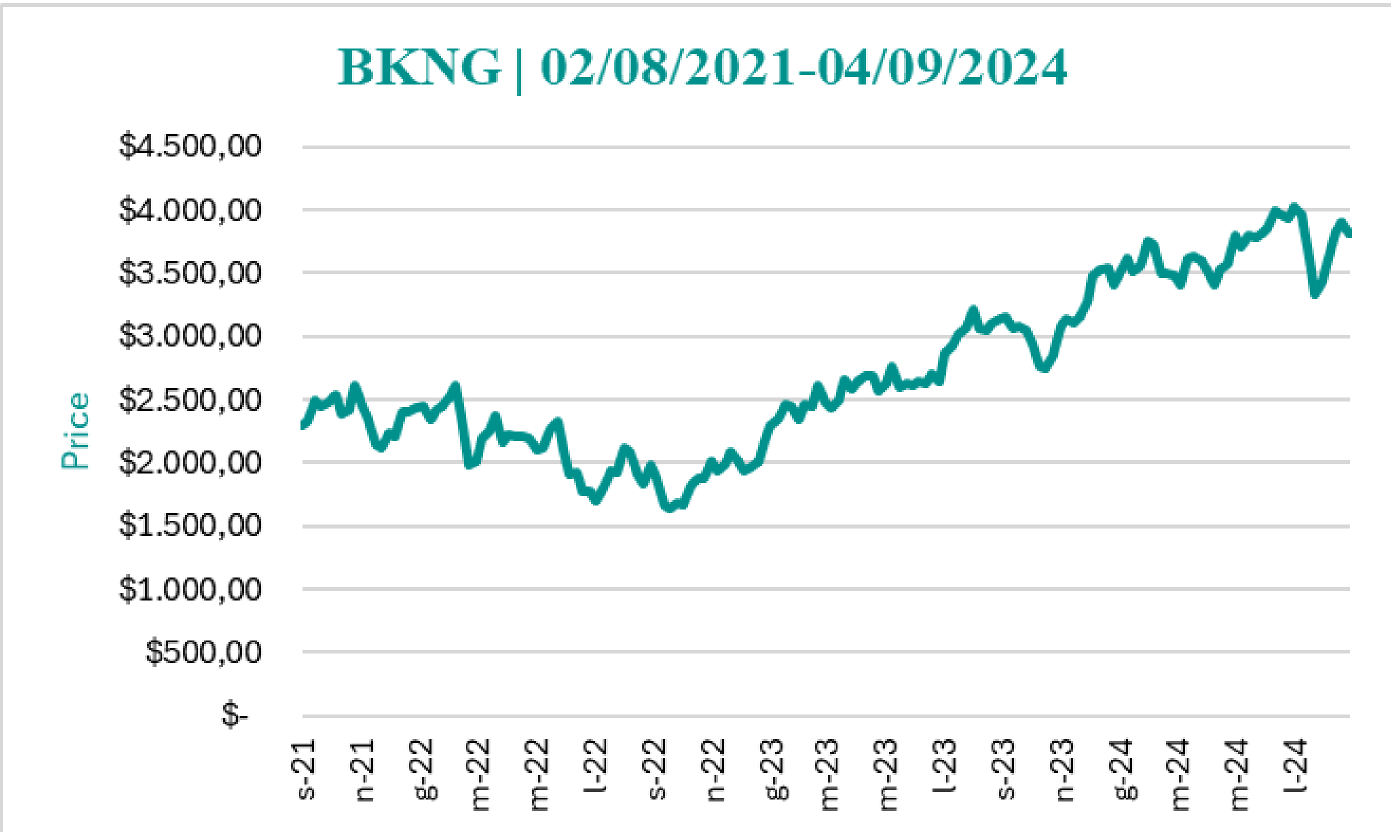
Market Data	
52-Week High	4144,32
52-Week Low	2733,04
Avg. 3 Month Volume	0,22 MM
5 Yr Beta	1,40

Market Data	
Revenue Growth (Cagr 3 yr)	46,49%
Revenue Growth (Cagr 5 yr)	8,02%
Price Return (ytd)	9,30%
Price return (1 yr)	31,40%
Price Return (5 yr)	107,60%

Analyst

Simone Moretti
simone.moretti2@studbocconi.it

Marco Tempestini
Info.tempestini@gmail.com



I. OVERVIEW

II. EXTERNAL ANALYSIS

III. FINANCIAL STATEMENT

IV. VALUATION

OVERVIEW

Introduction

The company was founded in 1997 by Jay Walker under the name Priceline.com, which achieved success as a hotel and airline booking site, mainly thanks to the innovative “Name Your Own Price” (NYOP) system, which involves a sort of reverse auction in which it is not the seller who sets a price for the goods being traded but the buyer who suggests an offer, which can be accepted or not by the seller. The system works and only a year later, in 1998, Priceline.com goes public with an IPO and reaches a capitalization of 12.9 billion dollars on its first day, breaking the record for value achieved on the first day of trading. It will be necessary to wait until 2001 before the company produces profits. In 2003, after a new CEO takes office, the company decides to put aside the NYOP system and enter the traditional retail sector. It was during these years that two European hotel booking sites were acquired: ActiveHotels.com and Booking.com, giving rise to what would later become the driving force of the Group's business (now called The Priceline Group), also expanding into Asia with Agoda.com (also for hotel bookings).

Over the years, the Group has continued its expansion strategies by acquiring sites such as Rentalcars, KAYAK and OpenTable, gaining international prestige and entering the American S&P500 index. In 2016, Glenn Fogel became CEO and President of the Group, while Jeffrey H. Boyds, his predecessor, was elected Executive Chairman of the Board of Directors. In the following years, the Group pursued both geographic expansion policies, acquiring numerous leading companies in their respective countries in the travel and transport sector, and at a business level, incorporating and rationalizing its network to exploit synergies with other types of businesses (for example, OpenTable, originally designed for restaurants, is also used for supermarkets). In 2018, the Group changed its name to Booking Holdings, with Fogel holding the role of CEO and President. In 2020, the Group generated $880 million in EBITDA, obviously reduced in the years to come due to COVID. Current development plans focus on ESG and gender equality aspects.

Business Model

Booking Holdings' business model is based on the activity of facilitating interaction and exchange between travel service providers and travellers through an electronic platform. Revenues are divided into three main macro-classes, depending on the type of service offered by the Group: Intermediation revenues, Agency revenues and Advertising revenues.

Brokerage revenues

constitute the majority of the Group's revenues, which it earns through commissions on bookings made through its platforms (Booking.com, Agoda.com, KAYAK, etc.) and through a difference between the price proposed by the hotel and the price paid by the customer. In addition, revenues from travel insurance policies are also included in this item. It should be noted that the vast majority of these revenues come from Booking.com

Agency Revenue

are all those revenues related to intermediation and facilitation of contact between traveler and host, with the difference compared to the intermediation revenues that in agency revenues the Group does not provide an integrated payment system**.** They mainly derive from Booking.com

Advertising revenue

They mainly come from KAYAK and OpenTable and are all those revenues linked to the sponsorship of restaurants or references at travel agencies, as well as the classic advertising banners visible on various websites.

Going into the specifics of the main sites owned by the Group, these are essentially three:

Priceline

is the first idea of the founder Jay Walker, which comes from the fact that airlines could only fill two-thirds of each flight and that the number of empty rooms in hotels was very high. A change of perspective was necessary and Walker thinks that a market in which demand regulates transactions can be successful. And so it was. Through the bidding mechanism called Name Your Own Price (NYOP), the user could establish the price he was willing to pay for that service, managing to maximize the rate of utilization of the infrastructure for both hotels and airlines. Priceline operates mainly in North America.

	Revenues				
Segment	**2023**	**%**	**2022**	**%**	**Incr/Decr**
Merchant revenues	10.936	51%	7.193	42%	52%
Agency revenues	9.414	44%	9.003	53%	5%
Advertizing and others	1.015	5%	894	5%	14%
Total	21.365		17.090		25%

Business Model

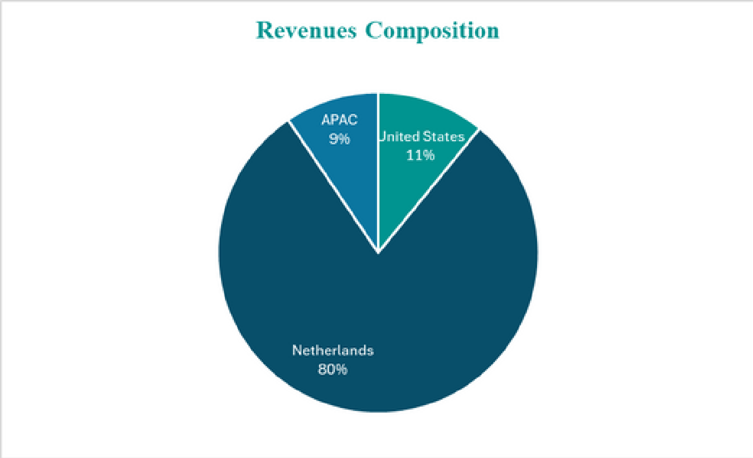
Booking.com
is the Group's flagship. The idea is to do online what was previously done by travel agencies, with consequent cost reductions and shorter organization times.

Agoda
Similar to Booking.com, Agoda is the industry leader in Asia.

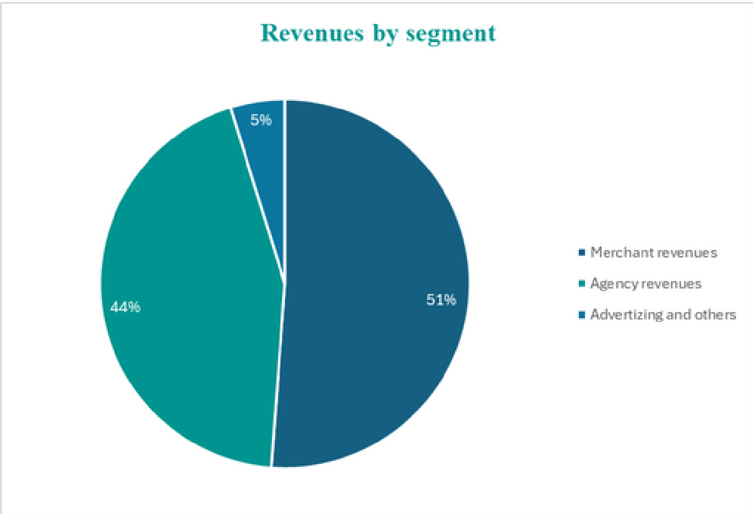
Kayak
is a real travel search engine, which compares offers and products with other options available on the web and then redirects the user to the service provider, which could be an airline or a third-party retailer. Indexing works in a very similar way to classic generalist search engines.

OpenTable
the site allows you to book restaurants directly from the web, without having to contact the restaurant owner or show up on site. The site retains a percentage of the reservations and receives money in exchange for greater visibility for those who want to sponsor it.

A key focus for the Group in managing the various platforms is branding. Each brand is strongly characterized both graphically and in terms of offering, ensuring that the various businesses are clearly identified and separated from each other, despite there being clear synergies between some of them. A clear and clean image of each brand is crucial to ensure abundant and constant cash flows in the future.



Source: Booking Holdings Annual Report



Source: Booking Holdings Annual Report

Quality of management

The management of Booking Holdings is composed of four figures who have allowed it to establish itself as a global leader in the online travel booking and related services sector, and are represented by the CEO, the General Counsel, the CFO and the CHRO. The CEO since 2017 is Glenn Fogel, a graduate of Harvard Law School after obtaining a Bachelor's degree from Wharton University (Pennsylvania). Before joining the company, he worked as a trader in a global asset management company and before that he worked in investment banking with a focus on the aviation sector. The experience acquired allowed him to lead the Group in the strategic acquisition operations of Booking.com, Kayak, OpenTable, RentalCars.com and Agoda.com under the role of Head of Worldwide Strategy and Planning. The other members of the executive management are Peter J. Millones Jr. (General Counsel), Ewout Steenbergen (CFO) and Paulo Pisano (CHRO).

Compensation and share ownership

In 2024, the compensation plan for executive management has changed, in particular with regard to the bonus awarded which has been capped at 200%. and the redistribution of the equity mix from 75% PSUs and 25% RSUs to 60% and 40% respectively and reflects the Committee’s view that the majority of shares should be tied to performance in contrast to the trend of peers who have an average relative equity mix of approximately 50/50. In 2023, stock-compensation was less than 0.7% on stockholder dilution, positioning itself in the bottom quartile of their peers. Stock-based compensation weighs approximately 87% of the total compensation received by executive management. In 2023, total compensation for executives was $92.8m, marking a growth of 56.5% compared to the previous year, mainly supported by an increase in stock-based compensation of approximately 65.7% compared to 2022. This growth is mainly explained by the increase in EPS between 2022 and 2023, from $76.7 to $119 (approximately +55%).

Internal shares at 2023 are equal to 549,953 (sum of unvested RSUs, unvested PSUs and employee stock options) and represent 1.58% of the outstanding shares at 2023 (equal to 34.73M), up 0.17% compared to 2022 data.

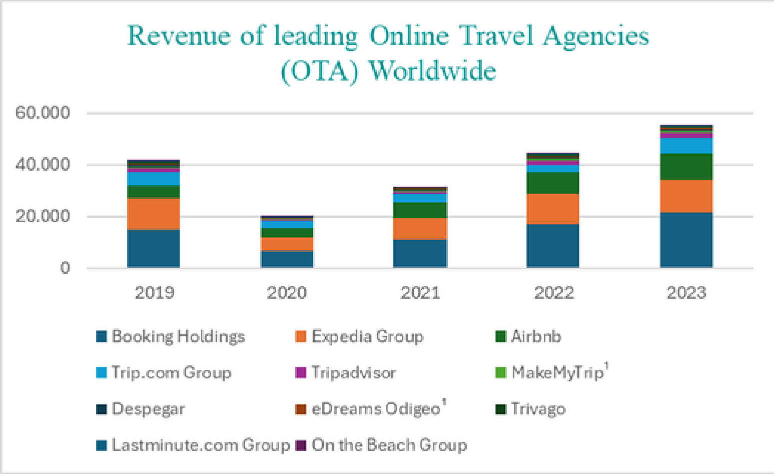
Management

The succession of acquisitions made by the management seems to follow a very clear strategic line. Priceline was born as a site that promotes a pricing policy to the advantage of the customer, who will therefore end up paying less. The acquisitions of TravelWeb and ActiveHotels in 2004 and Booking.com in 2005 have established the line defined by the leadership: to focus on network externalities (the so-called network effect). By managing to acquire all similar companies, the Group has managed to consolidate its presence in the world (in reality, in Europe since Booking.com was the largest European site). The combination of Booking and TraverWeb proves to be a winning one and the group manages to overtake Expedia, a historic competitor. From here, the product synergies lead to complementary products. Rentalcars.com, KAYAK and OpenTable are acquired: providing ancillary services to those offered by Booking.com allows to increase the offer and offer a complete service, almost an integrated platform that allows you to manage every aspect of the trip. Finally, international expansion has been the driver in the acquisition of Agoda, a leader in booking hotels, hostels and apartments in Asia. In the future, management could focus on the markets of India and China, still poorly served by the Group and with very valid competitors.

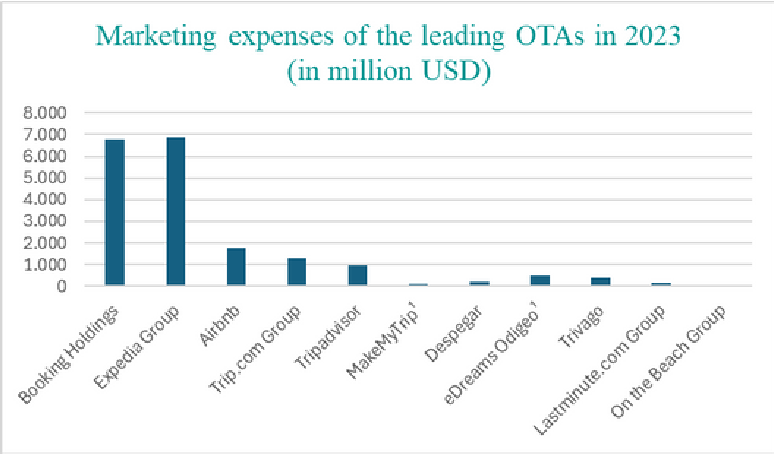
A further consideration on management can be made in terms of attention to social and ESG issues: the Group has been awarded several times in this respect and has implemented concrete awareness initiatives on the topic. Just think of the collaboration with the Duke of Sussex in the launch of Travalyst (a sustainable travel platform), the awards received from Forbes, the fact that 38% of the Board is made up of women and since 2020 the Group has become carbon neutral in all its brands.

The sector in which Booking Holdings operates is clearly travel, but we must not overlook the digital component that it drags along. It is no coincidence that the Group itself identifies competitors in its 10k report with companies such as Alphabet and Netfilx, both of which are strong indicators of the general trend of the digital economy.

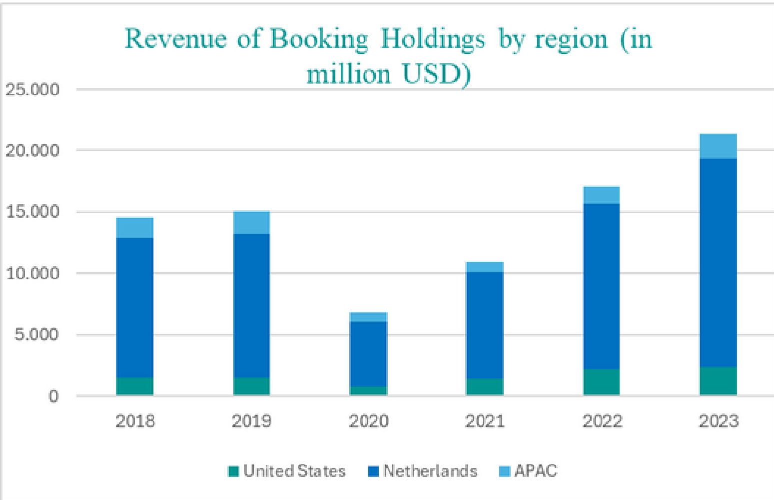
The travel sector is booming, especially following the collapse of the years 2020-2022 which saw the turnover practically zero due to the restrictions caused by the ongoing pandemic. In 2019, the global tourism market accounted for 10.3 trillion dollars (10.4% of global GDP) and estimates for the years to come see 2024 at 11.1 trillion and 2034 at 16 trillion (10% and 11.4% of global GDP respectively). The macro-trends underlying these figures are mainly two: a greater interconnection of countries and people which highlights a greater need for travel and the development of countries that are currently unable to guarantee their citizens incomes sufficient to be able to afford to travel but which in the years to come will have an ever-increasing spending capacity. The number of travellers has been growing steadily since the 1950s and reached 1.65 billion international arrivals in 2020.



Source: Statista



Source: Statista

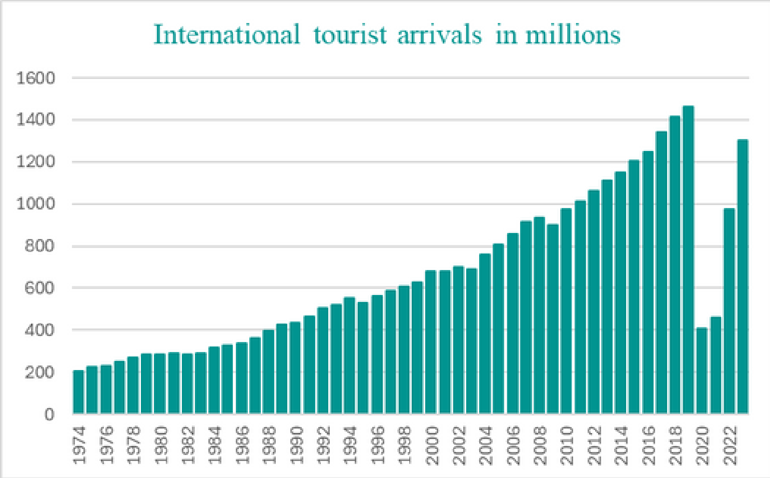


Source: Booking Holdings Annual Report

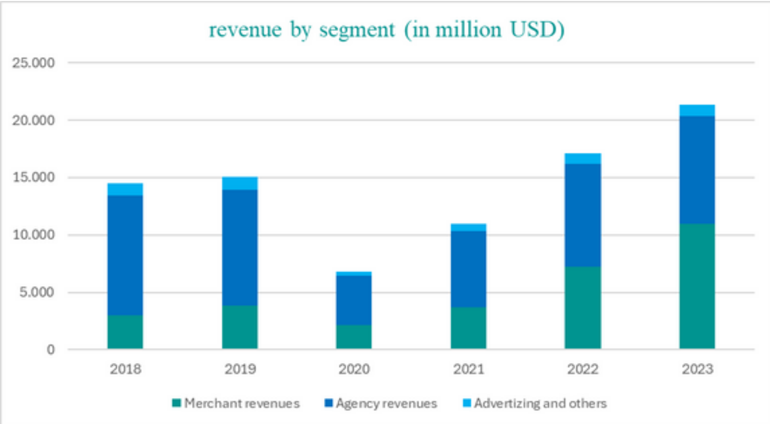
Sector

2020 marked a peak of only 406 million arrivals, but the trend is currently growing strongly and has returned to pre-pandemic levels. In addition, the travel sector is driven by the United States, China, Europe and Japan, which are also the largest sources of income for the Group.

As for the digital sector, the pandemic has instead been a driver of development. The post-COVID world is more interconnected than ever, many activities that were previously done in person are now almost entirely online and the stock market indices for companies operating in the digital sector are constantly growing. For example, the recovery of cinemas is strongly threatened by the services offered by web streaming platforms such as Netflix and Amazon Prime. Booking Holdings, holding a portfolio of websites that offer services that aim to facilitate operations by leveraging the digitalization of the service itself, can clearly benefit from this macro-trend.
The travel sector is therefore in strong recovery and growth after a dark two-year period (2020-2022), but estimates are particularly optimistic for the future.



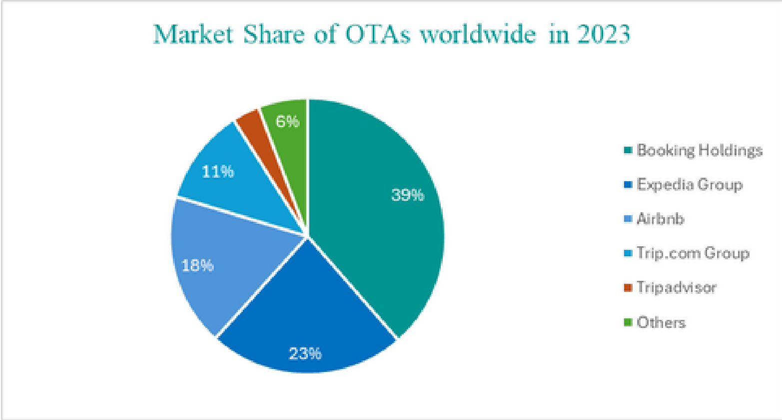
Source: Statista



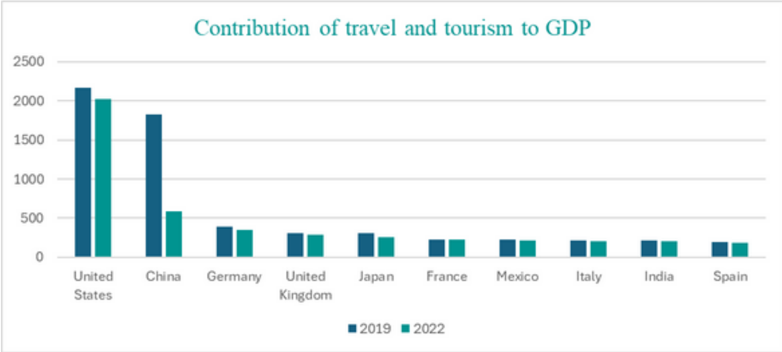
Source: Booking Holdings Annual Report

Market Shares

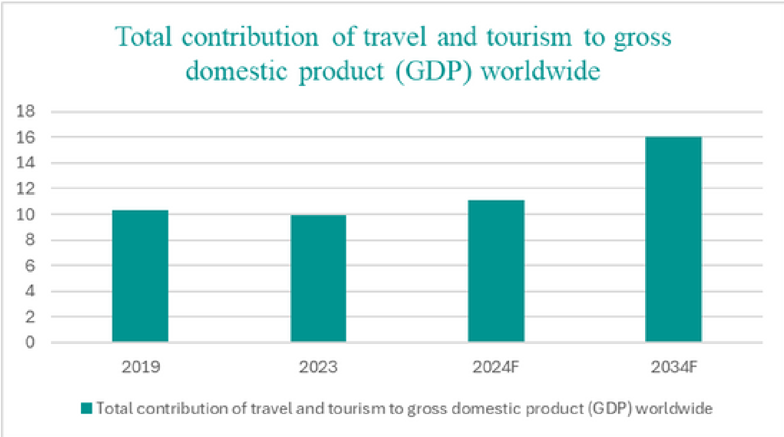
The Group is the most important player in the world since it holds in its portfolios the leading platforms of the market in the major countries, namely the US, Europe and Asia. Booking Holdings boasts a turnover of 21.37 billion dollars. In second place is the Expedia Group, with about half of the revenues of Booking: 12.8 billion dollars. Overall, the sector is very concentrated as the top five players (Booking Holdings, Expedia Group, Airbnb, Trip.com Group and Tripadvisor) cover approximately 94% of the market share. Booking Holdings alone covers more than 38.5% of the market, making the Group the undisputed leader in the online hotel and travel booking sector. An interesting fact is the economic effort that the Group is putting in to maintain this market share: in 2023, almost 7 billion dollars were spent in marketing expenses alone, even if Expedia spent slightly more. Beyond that, the Group is certainly the largest exponent both in terms of the amount of money invested and in terms of cash flows and number of bookings made.



Source: Statista



Source: Statista



Source: Statista

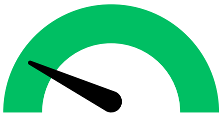
EXTERNAL ANALYSIS

Porter's Five Forces

1. Rivalry between Existing Competitors

Rivalry between existing competitors is high, especially given the ease of access to the various services by users and the ease of developing a platform with capabilities at least comparable to those that represent the current standard. The services offered by Booking Holdings are very similar to those offered by Airbnb, Tripadvisor, Trip.com, etc.

2. Threat of New Entrants

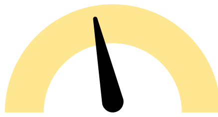


The barriers to entry in the sector remain high mainly due to the network effect (also known as network externalities), which consist in the fact that the customer base is already large and the fact that everyone uses it limits the ability to change platforms. In fact, if all hotels are listed on Booking.com (for example), a customer who wants to book a hotel will not be able to avoid using the service. Furthermore, a key asset in the online shopping sector (especially if sporadic high-value purchases such as travel) is reputation, which is built over the years and with huge investments to cover the damage due to physiological accidents along the way. Booking Holdings currently enjoys an excellent reputation and trust from its customers, who are particularly loyal, making it very difficult for new entrants to enter the sector.

3. Bargaining Power of Suppliers

The bargaining power of suppliers is limited, to the point that they often find themselves having to use the services offered by the Group in order not to be excluded on the market. Competition between suppliers is high (for the same level of comfort offered) and this greatly limits the possible restrictions that suppliers (i.e. the hotel owners in the case of Booking.com) can impose on the platforms.

4. Bargaining Power of Customers

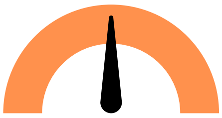


The bargaining power of customers is generally low since the customer does not negotiate on the price offered. However, it is important to note that in an era where social networks are accessible to everyone and actions that disrupt competition and the market are pursued not only by local legislation but also by public opinion with mass actions (especially if the business is digital), the bargaining power held by customers should not be overlooked.

EXTERNAL ANALYSIS

Porter's Five Forces

5. Threat of Substitute Products



Substitute products in and of themselves are not particularly dangerous because there are currently no great opportunities for development in terms of service offered but rather volumes handled. Therefore, substitute products should be identified in the innovation that the two-year period of COVID has brought to the world of work and business travel: smart working and videoconferencing are a substitute product for travel and as such can seriously undermine the prospects for growth and stability of the Group's financial flows.

Competition

The competition is played out at the cost level: all the major players in the sector aim to offer the best service at the lowest cost, with advertising banners in which they make it clear that (sometimes) there is no surcharge on the booking charged by the platform (in reality it will be the platform itself that will recover the cost from the operator by asking for an agency commission to be recognized). The competition is, therefore, downwards on the price. The main competitors are the Expedia Group (which shares many businesses with Booking Holdings: from hotels to airline tickets, as well as ground transportation and car rental), the Airbnb housing platform (even if it is not strictly a hotel sector, but rather private homes or small bed and breakfasts run by private individuals and not necessarily professionals), the Trip.com platform, the Tripadvisor platform (which also offers services that overlap with the restaurant business offered through OpenTable).

While it is true that price competition usually makes the industry very competitive, it is also true that Booking Holdings enjoys very large economies of scale. The Group competes with Airbnb in the private short-term rental sector (BnB, single rooms, etc.), while it shares the hotel and travel business with Expedia and Trip.com. Although market leadership seems established, the growth of the Expedia Group in recent years should not be underestimated: the trend must be maintained with constant investments in innovation, security and communication, as well as obsessive attention to the customer.

Competitors services quality

Company	Hotel Booking	House rental	Car rental	Airfare	Organized trips	Activities
Booking Holdings	Excelent	Excelent	Great	Great	Excelent	Excelent
Expedia Group	Excelent	Great	Great	Great	Great	Great
Trip.com Group	Great	Good	Good	Good	Good	Decent
Airbnb	Great	Excelent	N/D	N/D	N/D	Great
Tripadvisor	Good	N/D	Good	N/D	N/D	Excelent
MakeMyTrip	Good	N/D	Decent	Good	Good	Good

Price comparison

Company	Hotel Booking	House rental	Car rental	Airfare	Organized trips	Activities
Booking Holdings	Competitive	Competitive	Competitive	Competitive	Good	Competitive
Expedia Group	Competitive	Competitive	Expensive	Competitive	Good	Competitive
Trip.com Group	Competitive, great in Asia	Competitive, great in Asia	Good	Competitive	Good for Asia	Competitive for Asia
Airbnb	Competitive	Competitive	N/D	N/D	N/D	Competitive
Tripadvisor	Expensive	N/D	Competitive	N/D	N/D	Competitive
MakeMyTrip	Competitive, great in India	N/D	Competitive	Competitive	Good	Competitive for India

SWOT

Strengths

Booking Holdings is distinguished by a strong and established portfolio of brands, including multiple related services. With brands such as Booking.com, Agoda and Kayak, it covers a wide range of travel needs, from accommodations to flights and personal vehicle rentals. Personalized experiences are guaranteed through the use of high technology and data analysis capabilities: highly diversified models are offered to the customer, who can customize their trip thanks to the variety of offers available. Booking's significant market share and reputation allows it to negotiate favorable terms with suppliers, maintaining high levels of customer loyalty.

Weaknesses

Operating in a cyclical market, its heavy dependence on the travel sector makes it vulnerable to fluctuations due to economic problems, pandemics (such as the recent Covid pandemic, which has seriously affected the sector) or geopolitical events (such as the RUS/UKR war). The extensive presence of competitors can threaten the company's operations. Another significant issue to consider is that attributable to regulatory changes in international laws, which could cause complications. Finally, the significant dependence on technology could lead to problems in the event of data breaches or technical difficulties.

Opportunities

Recent studies have highlighted that artificial intelligence (AI) is the main area with the most emerging innovations in the next two years globally in the hotel industry. Therefore, by investing in AI and machine learning, the company would be able to improve personalized travel experiences and efficiency. The rise of sustainable travel offers another opportunity to exploit in the years to come, as ESG has also emerged as one of the main emerging innovations.

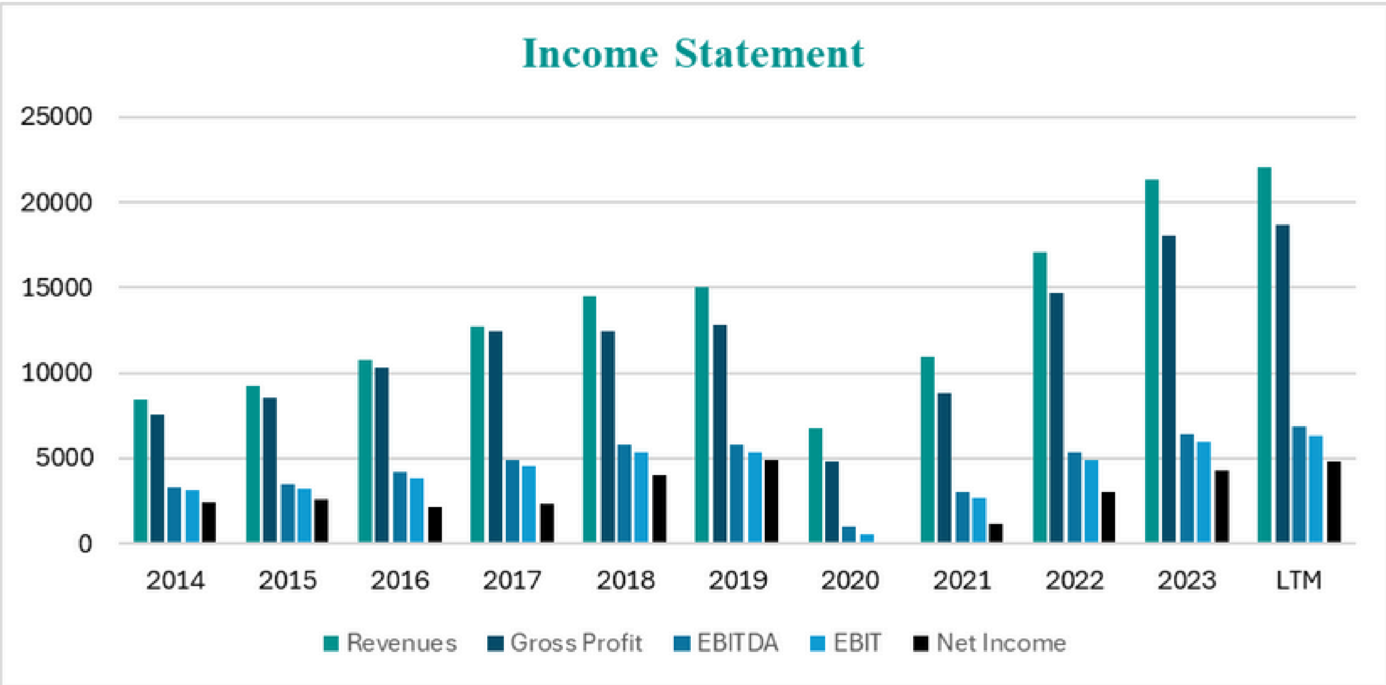
Threats

As for what could represent a possible threat to the holding, we have a curious factor that can be traced back to the post-Covid pandemic situation: the phenomenon of smart working. Workers are now skilled in remote working methods, which allow them to easily collaborate with other people around the world without having to leave their home setup. For this reason, people no longer feel the need to travel to reach clients or colleagues to do their work. This can have a great impact on the market in which Booking Holdings operates.

FINANCIAL STATEMENT

Income Statement

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	LTM
Income Statement											
Revenues	**8.442**	**9.224**	**10.743**	**12.681**	**14.527**	**15.066**	**6.796**	**10.958**	**17.090**	**21.365**	**22.002**
% YoY Growth		9,26%	16,47%	18,04%	14,56%	3,71%	-54,89%	61,24%	55,96%	25,01%	2,98%
COGS	(858)	(662)	(415)	(242)	(2.042)	(2.248)	(2.017)	(2.178)	(2.465)	(3.294)	(3.377)
Gross Profit	**7.584**	**8.562**	**10.328**	**12.439**	**12.485**	**12.818**	**4.779**	**8.780**	**14.625**	**18.071**	**18.625**
% YoY Growth		13%	21%	20%	0%	3%	-63%	84%	67%	24%	3%
Operating expenses	(4.504)	(5.325)	(6.481)	(7.896)	(7.144)	(7.473)	(4.272)	(6.148)	(9.763)	(12.146)	(12.338)
EBITDA	**3.288**	**3.509**	**4.156**	**4.906**	**5.767**	**5.814**	**965**	**3.053**	**5.313**	**6.429**	**6.808**
% YoY Growth		7%	18%	18%	18%	1%	-83%	216%	74%	21%	6%
Depreciation & Amortization	208	272,49	309	363	426	641	642	599	607	665	681
EBIT	**3.080**	**3.237**	**3.847**	**4.543**	**5.341**	**5.345**	**507**	**2.632**	**4.862**	**5.925**	**6.287**
% YoY Growth		5%	19%	18%	18%	0%	-91%	419%	85%	22%	6%
Other Expenses/Income	(2)	52	(926)	110	(237)	879	416	(833)	(548)	453	750
Interest Expenses/Income	(88)	(160)	(208)	(254)	(269)	(266)	(356)	(334)	(391)	(897)	(922)
Income Tax Expense	(568)	(577)	(578)	(2.058)	(837)	(1.093)	(508)	(300)	(865)	(1.192)	(1.316)
Net Income	**2.422**	**2.551**	**2.135**	**2.341**	**3.998**	**4.865**	**59**	**1.165**	**3.058**	**4.289**	**4.799**
% YoY Growth		5%	(16%)	10%	71%	22%	(99%)	1875%	162%	40%	12%
Supplementary Data											
Effective Tax Rate	(19%)	(18%)	(21%)	(47%)	(17%)	(18%)	(90%)	(20%)	(22%)	(22%)	(22%)
Diluted Shares Outstanding	53	52	50	50	48	44	41	41	40	37	36
EPS	45,68	49,45	42,65	46,87	83,26	111,81	1,43	28,17	76,35	117,41	134,39
% YoY Growth		8%	(14%)	10%	78%	34%	(99%)	1865%	171%	54%	14%
Dividends per Share	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	8,75
Payout Ratio	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	7%
R&D Expense	0	0	0	0	0	0	0	0	0	0	0
Selling and Marketing Expense	2.902	3.365	4.228	5.113	5.786	5.922	2.934	4.780	7.979	9.517	9.718
EBT Incl. Unusual Items	2.989	3.128	2.713	4.399	4.835	5.958	567	1.465	3.923	5.481	6.115



Income Statement

The sales revenues of the various platforms owned by Booking Holdings are constantly growing, net of the results obtained in the two-year period 2020-2021 which inevitably discounts the devastating impact of the pandemic on the travel sector. 2023 closes above 21 billion dollars, divided fairly equally between agency and intermediation revenues, leaving only about a billion for advertising or other sources. It is interesting to note how the trend has reversed compared to previous years, when the predominant component was given by agency revenues (in 2024, intermediation revenues are the main component). From a cost point of view, the Group spends about 6.7 billion dollars on marketing: it is the largest cost item, which is also quite understandable since the travel sector is mainly aimed at the end user. Personnel, sales, general and administrative expenses amount to about 7.5 billion, which leads to an EBITDA of 6.3 billion. It emerges that the profitability from an operational point of view is very good. The Group manages to achieve a positive result. In addition, depreciation, equal to 504 million dollars in 2023, is increasing compared to previous years, signaling an increase in investments that aims to produce greater income in the years to come. Financial management is good, with interest expenses amounting to 897 million.

However, 543 million is the amount of interest income and dividends received net of losses on equity investments and exchange losses. The net result of 4.3 billion dollars suggests an encouraging future for the Group, which improves the trend of previous years and seems to have recovered from the years of the pandemic. The diluted EPS amounts to 117 dollars per share, a figure that is growing compared to previous years and that will grow in the future due to the growing net income and the decrease in shares in circulation due to a large share buyback program. It should be noted, however, that the estimates for the near future are uncertain. Although in the June quarterly results, analysts' forecasts were beaten with an EPS of $41.90 against a forecast of $38.20, the estimates for the future were revised downwards. The stock therefore suffered on the stock market with a fall.

Balance Sheet

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	LTM
Balance Sheet											
Cash and equivalents	3.149	1.477	2.081	2.542	2.624	6.312	10.562	11.127	12.221	12.107	15.629
Short Term Investments	1.142	1.171	2.219	4.860	3.660	998	501	25	175	576	362
Cash and short Term Investments	**4.291**	**2.649**	**4.300**	**7.402**	**6.284**	**7.310**	**11.063**	**11.152**	**12.396**	**12.683**	**15.991**
Total Receivables	644	645	860	1.218	1.523	1.680	529	1.358	2.229	3.253	3.296
Inventory	0	0	0	0	0	0	0	0	0	0	0
Prepaid Expenses	178	258	240	392	575	479	337	404	477	644	737
Other current Assets	0	0	1	2	4	344	257	206	666	426	452
Total Current Assets	**5.114**	**3.553**	**5.402**	**9.035**	**8.407**	**9.833**	**12.206**	**13.145**	**15.798**	**17.034**	**20.476**
Net PP&E	199	275	347	480	656	1.358	1.285	1.318	1.314	1.489	1.468
Long term Investments	3.756	7.994	9.599	10.873	8.408	4.477	3.759	3.175	2.789	440	443
Goodwill	3.326	3.375	2.397	2.738	2.910	2.913	1.895	2.887	2.807	2.826	2.815
Other intangibles	2.335	2.168	2.039	2.228	2.172	1.954	1.812	2.057	1.829	1.613	1.553
Other long-Term Assets	20	35	32	56	83	467	462	505	211	646	973
Total non-current Assets	**9.657**	**13.867**	**14.437**	**16.416**	**14.280**	**11.569**	**9.668**	**10.496**	**9.563**	**7.308**	**7.252**
Total Assets	**14.771**	**17.421**	**19.839**	**25.451**	**22.687**	**21.402**	**21.874**	**23.641**	**25.361**	**24.342**	**27.728**
Accounts Payable	281	323	419	668	1.134	1.239	735	1.586	2.507	3.480	3.268
Accrued Liabilities	599	681	856	1.139	1.374	1.254	1.005	1.426	2.192	3.238	4.556
Long-Term Debt due within one year	37	0	968	711	0	988	985	1.989	500	1.961	3.462
Current Portion of Capital Lease Obligations	0	0	0	0	0	161	159	147	146	186	0
Other Current Liabilities	461	436	615	980	1.022	1.566	367	917	2.249	3.290	5.371
Total Current Liabilities	**1.379**	**1.439**	**2.859**	**3.498**	**3.555**	**5.366**	**3.425**	**6.246**	**8.474**	**13.330**	**16.832**
Long Term Debt	3.824	6.158	6.202	8.813	8.649	7.640	11.029	8.937	11.985	12.223	13.438
Other non-current Liabilities	104	135	136	1.398	1.328	1.125	1.034	1.018	851	642	667
Total non-current Liabilities	**4.826**	**7.186**	**7.160**	**10.692**	**10.347**	**10.103**	**13.556**	**11.217**	**14.105**	**13.756**	**14.948**
Total Liabilities	**6.204**	**8.625**	**10.019**	**14.190**	**13.902**	**15.469**	**16.981**	**17.463**	**22.579**	**27.086**	**31.780**
Common Stocks	0	0	0	0	0	0	0	0	0	0	0
Additional Paid in Capital	4.923	5.185	5.483	5.783	5.445	5.756	5.851	6.159	6.491	7.175	7.330
Retained Earnings	6.641	9.192	11.327	13.939	18.367	23.232	23.288	24.453	27.541	31.830	32.304
Treasury Stocks	(2.738)	(5.827)	(6.855)	(8.699)	(14.711)	(22.864)	(24.128)	(24.290)	(30.983)	(41.426)	(43.330)
Comprehensive Income and Other	(260)	245	(135)	238	(316)	(191)	(118)	(144)	(267)	(323)	(356)
Total Equity	**8.567**	**8.795**	**9.820**	**11.261**	**8.785**	**5.933**	**4.893**	**6.178**	**2.782**	**(2.744)**	**(4.052)**

Analyzing the assets first, the cash position is obvious. A good 12.1 billion dollars in liquid assets (cash and cash equivalents) are available in the very short term, as often happens in the retail sector thanks to the short collection times (almost immediate from customers). Even the receivables from customers, net of the provisions for losses on receivables, constitute a significant item (3.2 billion). About half of this amount derives from receivables claimed from payment intermediaries, while the remaining part is actually a receivable from customers. The fixed assets are relatively low. Intangible assets and goodwill constitute the two main items. A preponderant part of the balance of these accounts is due to the acquisition of KAYAK and OpenTable. In fact, the intangible assets are mainly composed of brands and supply contracts and distribution, for a total of 1.6 billion at the end of 2023. The total value of the assets is over 24 billion dollars.

In terms of liabilities, financial debt amounts to approximately $12.2 billion, leading to a net financial position (financial debt - cash) very close to zero. Current liabilities amount to over $13 billion and include debt to customers and various funds, as well as a limited amount of short-term debt. In total, liabilities amount to $27 billion, leaving equity in negative territory (i.e. in deficit). In fact, the amount of the shareholders' deficit is approximately $2.7 billion, also following retained earnings of $31 billion. This is due to the fact that the group is buying back its own shares at a value much higher than the nominal value of the shares, holding them on the balance sheet as Treasury Stocks.

Cash Flow Statement

Cash Flow Statement	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	LTM
D&A	208	272	309	363	426	641	642	599	607	665	681
Asset Writedown & Restructuring Costs	0	0	941	0	0	0	1.062	0	0	0	0
Stock-Based Compensation	189	249	250	261	331	325	255	376	404	530	561
Change In Accounts Receivable	(182)	(69)	(284)	(270)	(319)	(323)	891	(1.002)	(1.228)	(1.330)	(1.673)
Change In Inventories	0	0	0	0	0	0	0	0	0	0	0
Change In Accounts Payable	204	166	514	687	0	0	0	0	0	0	0
Cash from Operations	**2.914**	**3.204**	**3.984**	**4.662**	**5.338**	**4.865**	**85**	**2.820**	**6.554**	**7.344**	**7.159**
Change in Net Working Capital	**25**	**8**	**(214)**	**(1.578)**	**(125)**	**541**	**1.020**	**(269)**	**(1.795)**	**(1.709)**	**(937)**
CAPEX	(132)	(174)	(220)	(288)	(442)	(368)	(286)	(304)	(368)	(345)	(387)
Cash Acquisition	(2.496)	(140)	(1)	(553)	(273)	(9)	0	(1.185)	0	0	0
Divestitures	0	0	0	0	0	0	0	0	0	0	0
Cash From Investing	**(2.358)**	**(3.895)**	**(3.333)**	**(4.202)**	**2.215**	**7.050**	**2.637**	**(998)**	**(518)**	**1.486**	**(31)**
Total Debt Issued	3.260	2.624	995	2.045	25	400	4.108	2.015	3.621	1.893	4.852
Total Debt Repaid	(1.120)	(373)	0	(286)	(1.487)	(425)	(1.244)	(3.068)	(1.880)	(500)	0
Issuance of Common Stock	16	21	16	0	0	0	0	5	7	134	35
Repurchase of Common Stock	(750)	(3.089)	(1.012)	(1.828)	(5.971)	(8.187)	(1.303)	(163)	(6.621)	(10.377)	(10.083)
Common & Preferred Stock Dividends Paid	0	0	0	0	0	0	0	0	0	0	(299)
Cash from Financing	**1.429**	**(831)**	**(1)**	**(79)**	**(7.431)**	**(8.220)**	**1.528**	**(1.239)**	**(4.897)**	**(8.909)**	**(5.563)**
Net Change in Cash	**1.849**	**(1.671)**	**604**	**481**	**82**	**3.687**	**4.250**	**570**	**1.099**	**(116)**	**1.492**
% YoY		-190%	-136%	-20%	-83%	4396%	15%	-87%	93%	-111%	-13,862069
Free Cash Flow to the firm	**2.597**	**2.746**	**2.902**	**915**	**4.275**	**5.178**	**1.429**	**2.119**	**2.234**	**3.247**	**4.291**
FCFE	2.525	2.616	2.739	779	4.053	4.961	1.392	1.853	1.929	2.546	3.567

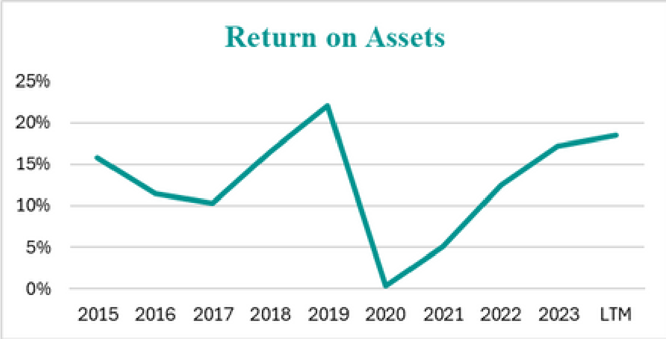
The Group's financial statement for 2023 reveals an excellent ability of the various companies belonging to Booking Holdings to convert income into cash flows and money management. In fact, the cash flow from operating activities is largely positive and equal to over 7 billion dollars. Furthermore, it is interesting to note how this result is consistent over time (even the forecast years show a positive flow from operating activities). This result is due, among other things, to a decrease in accounts receivable and an increase in operating liabilities, in addition to an excellent net income of 4.2 billion dollars. The investment activity also generates cash (1.4 billion), especially thanks to the disposal of the investments made upon maturity. As regards financial management, this amounts to almost -9 billion dollars.

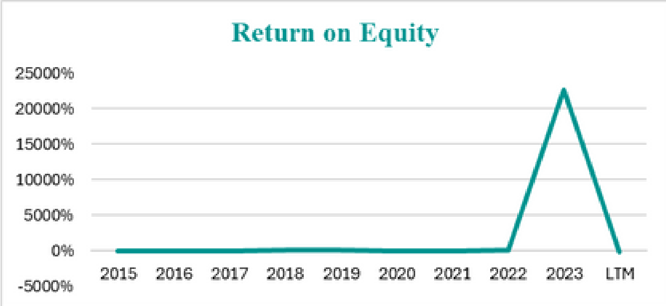
This result is mainly due to the share buyback that has been ongoing since 2022 and which has intensified in 2023 (and will intensify in the years to come until 2026). The overall result is very good, with the Group effectively managing liquidity and managing to improve the payment and collection conditions agreed with customers and suppliers year after year. As evidence of this, it can be noted that the payment days are increasing and the collection days are decreasing.

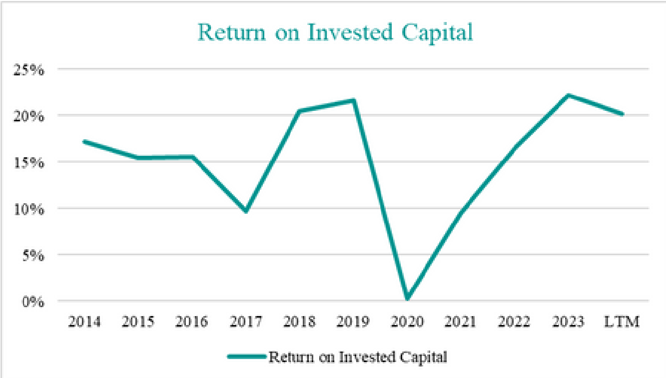
Profitability, Efficency and Financial Solidity

Profitability

Profitability trends in recent years inevitably reflect the impact of Covid, which has virtually wiped out revenues in 2020 and 2021. However, analyzing other years, we can see that the trend is growing. This is due to a constant increase in turnover over the years, compared to a small change in total assets (given that Booking Holdings' assets are mainly goodwill and intangible assets). The return on risk capital is good, but 2023 is marred by the large divestment and buyback of own shares. This clearly causes ROE to skyrocket, but this is just an illusion. ROIC is also good, settling around 15% on average, slightly decreasing in recent years due to a progressive reduction in invested capital. Needless to say, in this case too, 2020 is the result of a strong reduction in operating income.

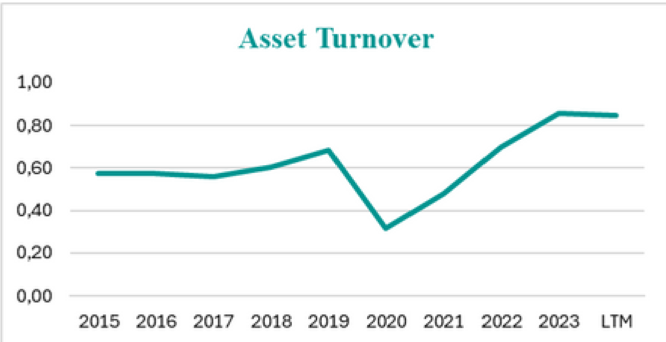






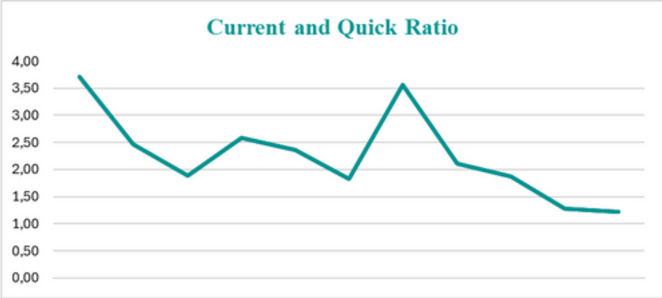
Efficiency

Asset turnover, defined as the ratio between revenues and the average level of assets between one year and the next, is constantly growing. This trend is mainly due to the increase in revenues (which have almost tripled since 2014), rather than a reduction in assets: in fact, total assets have still grown over time, but have only doubled, going from 14 billion in 2014 to 24 billion in 2023. The index is around 0.80 but in a decreasing trend in the last two years.

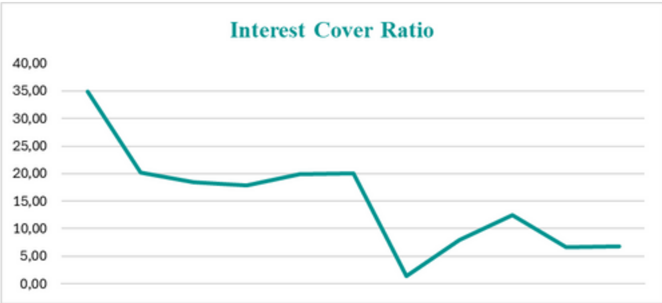


Financial Strength

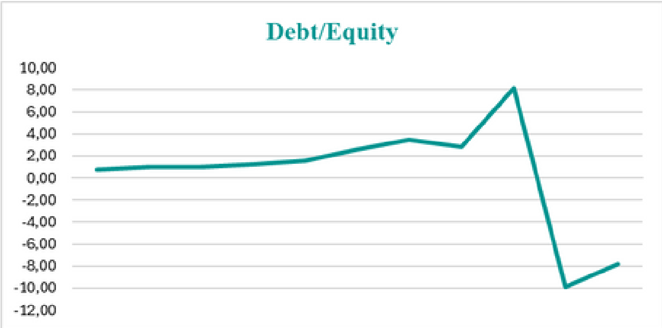
The Current Ratio and the Quick Ratio, defined respectively as the ratio between current assets and liabilities and the ratio between assets net of inventory and current liabilities, coincide in this case since the Group's inventory is zero. In any case, the level of the index is decreasing but well above 1, considered the threshold value. In fact, current assets are approximately 1.2 times current liabilities in 2023, a sign that the group is able to meet short-term liabilities using current assets (easily mobilizable).



The Interest Coverage Ratio compares operating income net of depreciation (EBIT) and interest expenses. The group has an absolutely balanced financial leverage, as can be seen from the high values of the index, which stands between 35 and 10. However, it should be noted that this index is constantly decreasing over time, indicating greater recourse to debt (also because, except for the two-year period 2020-2021, EBIT is constantly growing).



The Debt to Equity Ratio, which measures the proportion of total debt to total assets, also called leverage, remains positive and around 1 for the period 2014-2017 (equal use of debt and equity capital), and then increases following a greater use of financial debt. In recent years the ratio becomes negative mainly due to the negative equity resulting from the large buyback program promoted by management.



Valuation

Multiples analysis

A necessary premise is that the prospect of comparable companies is flawed by the lack of groups of equal size and turnover within the sector. Furthermore, it was decided to add a leading company in the digital sector to give representation to the general trend of the digital infrastructure market. Moving on to the analysis of multiples, it can be immediately noted that the EV/EBITDA multiple (19.1x) is significantly lower than the sector average (31.6x), as is the EV/EBIT multiple. This may be due to lower growth estimates compared to competitors, who are generally much smaller. Therefore, the market expects that competitors will grow much more in the future and value this growth. The Group, on the other hand, has already reached a significant size, so its growth will slow down. The EV/Sales multiple (5.9x) is a different story, as it is higher than the market average (4.4x): the ability to generate income in a healthy and profitable manner is well-valued by the market. Turning to price multiples, Booking Holdings' P/E ratio (25.2x) is fairly aligned with the market (27.3x).

Considering that the sector as a whole is generally growing, it is a good sign that the profitability of the stock is aligned with the sector. A P/E multiple that is too low would have suggested high earnings for modest prices, a typical characteristic of mature companies (the so-called cash cows). Furthermore, since the P/E is the inverse of the cost of risk capital for the company, a multiple that is too low would mean that shareholders demand a very high remuneration. Another interesting piece of data is the MC/FCF multiple, equal to 28.2x and significantly higher than the market average (13.8x): it means that Booking Holdings manages to generate a cash flow that attracts many more investors, managing to increase the market capitalization. The analysis concludes by noting the high volatility of all indices due to two reasons: the intrinsic uncertainty in the market due to the general trend of the world economy and the lack of comparables of similar size in terms of turnover and market capitalization. Therefore, the exclusive use of a valuation method based on multiples is not recommended and a fundamental analysis is recommended which has a predominant role in the valuation.

	EV	Market Cap	Ev/Sales	Ev/Ebitda	Ev/Ebit	P/S	P/E	P/BV	P/TBV	MC/FCF
Simple Average	37.645,70	38.068,04	4,4x	31,6x	53,4x	4,4x	27,3x	5,4x	-5,5x	13,8x
Weighted average - EV	-	-	7,5x	33,8x	38,1x	7,4x	41,8x	9,2x	-8,9x	5,1x
Weighted average - MC	-	-	7,5x	34,6x	41,3x	7,4x	40,8x	9,1x	-8,1x	5,2x
Median	8.875,31	9.319,44	2,3x	22,0x	27,8x	1,8x	16,6x	3,6x	1,2x	11,5x
Standard Deviation			4,16	26,16	76,46	4,33	74,96	4,80	25,94	35,07
(% Average)			95%	83%	143%	99%	275%		477%	254%
High	273.221	263.353	13,8x	81,2x	266,0x	13,8x	197,2x	103,4x	1383,4x	84,4x
Low	62	143	-0,2x	-1,8x	-1,9x	0,3x	-125,6x	-1,3x	-76,4x	-59,9x
Price based on multiples			3.605,26	4.377,32	7.345,44	3249	4252,069571	226,327445	NC	1072,03

DCF

WACC

To calculate the average cost of capital, the 10-year American bond (US10Y) was selected as the risk-free rate, which has a yield of 4.5% at the valuation date 04.09.2024. The country risk and the market risk premium were calculated as a weighted average based on the turnover of the individual country risk premium and market risk premium of the countries/geographical areas. The beta was calculated as a weighted average between the Bottom Up method (40%) and its direct correlation with the S&P 500 (60%). Finally, the cost of debt was calculated as the historical average of interest actually paid on the debt contracted, year by year.

Capital Structure	
Equity	90,83%
Debt	9,17%
Wacc Calculation	
Cost of Equity	**9,84%**
Risk-free Rate	3,38%
Country Risk Premium	0,12%
Market Risk Premium	4,70%
Levered Beta	1,35
Net Cost of Debt	**8,10%**
Cost of Debt	10,31%
Tax Rate	21,43%
WACC	**9,68%**

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Term
Sales (% growth)		8,0%	8,4%	8,8%	9,2%	9,6%	10,0%	8,4%	6,8%	5,2%	3,6%	2,0%
Optimistic Scenario		10,00%	10,40%	10,80%	11,20%	11,60%	12,00%	10,10%	8,20%	6,30%	4,40%	2,50%
Base Scenario		8,00%	8,40%	8,80%	9,20%	9,60%	10,00%	8,40%	6,80%	5,20%	3,60%	2,00%
Pessimistic Scenario		6,00%	6,40%	6,80%	7,20%	7,60%	8,00%	6,70%	5,40%	4,10%	2,80%	1,50%
Gross Profit margin		86,0%	86,0%	86,0%	86,0%	86,0%	86,0%	86,0%	86,0%	86,0%	86,0%	86,0%
Optimistic Scenario		88,00%	88,00%	88,00%	88,00%	88,00%	88,00%	88,00%	88,00%	88,00%	88,00%	88,00%
Base Scenario		86,00%	86,00%	86,00%	86,00%	86,00%	86,00%	86,00%	86,00%	86,00%	86,00%	86,00%
Pessimistic Scenario		84,00%	84,00%	84,00%	84,00%	84,00%	84,00%	84,00%	84,00%	84,00%	84,00%	84,00%
Ebit Margin		30,0%	30,0%	30,0%	30,0%	30,0%	30,0%	30,0%	30,0%	30,0%	30,0%	30,0%
Optimistic Scenario		32,00%	32,00%	32,00%	32,00%	32,00%	32,00%	32,00%	32,00%	32,00%	32,00%	32,00%
Base Scenario		30,00%	30,00%	30,00%	30,00%	30,00%	30,00%	30,00%	30,00%	30,00%	30,00%	30,00%
Pessimistic Scenario		28,00%	28,00%	28,00%	28,00%	28,00%	28,00%	28,00%	28,00%	28,00%	28,00%	28,00%
Depreciation & Amortization (% sales)		3,2%	3,2%	3,2%	3,2%	3,2%	3,2%	2,9%	2,7%	2,4%	2,2%	2,0%
Optimistic Scenario		3,40%	3,40%	3,40%	3,40%	3,40%	3,40%	3,06%	2,75%	2,47%	2,22%	2,00%
Base Scenario		3,20%	3,20%	3,20%	3,20%	3,20%	3,20%	2,91%	2,65%	2,41%	2,20%	2,00%
Pessimistic Scenario		3,00%	3,00%	3,00%	3,00%	3,00%	3,00%	2,77%	2,55%	2,35%	2,17%	2,00%
Capital Expenditures (% of sales)		2,4%	2,4%	2,4%	2,4%	2,4%	2,4%	2,2%	2,0%	1,8%	1,6%	1,5%
Optimistic Scenario		2,60%	2,60%	2,60%	2,60%	2,60%	2,60%	2,33%	2,09%	1,87%	1,67%	1,50%
Base Scenario		2,40%	2,40%	2,40%	2,40%	2,40%	2,40%	2,18%	1,99%	1,81%	1,65%	1,50%
Pessimistic Scenario		2,20%	2,20%	2,20%	2,20%	2,20%	2,20%	2,04%	1,89%	1,75%	1,62%	1,50%

Base Case

In the baseline scenario, moderate revenue growth of 8% per year is expected for the first few years, 10% per year from 2029 and then reaching long-term growth of 2.00%. This growth is consistent with both quarterly reports and analysts' estimates. This is a fairly conservative outlook, considering that the average growth over the last 9 years has been 16%, a number that grows above 30% if the outlier years between 2020 and 2022 are excluded. The Gross Profit Margin is also assumed to be constant at 86% (in reality, this hides growth due to the fact that revenues grow over time at a rate between 9% and 10%), a choice that is considered optimal from a prudential perspective. The same argument can be made for the EBIT Margin: since the group is already largely consolidated, large variations in efficiency in the provision of services are excluded, thus leaving the Operating Income Margin unchanged (here too, actually growing with revenues). D&A and Capex are also assumed to be constant, also on the basis of historical data found in recent periods. Once again, the fact that the sector is quite mature and that the gap between the Group and its main competitors is actually very high, has led to the choice of stationarity in the level of both depreciation and Capex (a choice, moreover, consistent in the sense that if depreciation increases, Capex should also increase, and vice versa). This should not be understood as a cessation of investments, since the level is in any case related to revenues. Stationarity is intended to be related to revenues, i.e. a growth in invested capital proportional to the growth in revenues.

Optimistic Case

The optimistic scenario sees a more pronounced growth in revenues, which grow by 10% in the first five years and then move to a higher growth of 12%. This assumption may seem strong but it seems to be the most likely scenario, also in light of the trends in the travel sector according to the consensus of analysts. In fact, several studies (Statista) have highlighted that the travel sector is in great expansion and a large rebound is expected (as has actually happened) following the restrictions on travel due to the pandemic. If the macroeconomic situation allows it, an improvement in the real national economies can give greater spending opportunities to families who, consequently, will increase consumption. Furthermore, a better performance of the economy as a whole implies greater flows for companies and greater opportunities for international development, giving impetus to the business travel sector.

Pessimistic Case

The pessimistic scenario sees a sharp reduction in revenue growth, which will increase year after year “only” by 6% at the beginning and 8% thereafter. Although these numbers may seem high, in reality they have few historical precedents (excluding the two-year period of Covid) and presuppose a decrease (currently unexpected) in the volume of business in the travel and online agency sector.

DCF

Fair Value

Booking Holdings is undervalued at current levels with a value of $4345.54 compared to the price of $3813.78 on 04/09/2024. It should be noted that both the base case and the optimistic case suggest an undervaluation of the stock, which is not the case with the worst case scenario.

	Worse	Base	Optimistic
Value	3.538,97 €	4.345,54 €	5.398,50 €
+/- %	-7,21%	13,94%	41,55%

Final Outlook

Currently, by cross-referencing the evaluations carried out, Booking Holdings appears to be undervalued compared to competitors and shows good growth potential in optimal scenarios. In light of the analyses carried out and taking into account the uncertainty of the market, also proven by the uncertain results of the communications of the quarterly results of 01/08/2024, the thesis of the analysis is BUY.

Sensitivity Analysis

		Wacc				
	$4.345,54	8,68%	9,18%	9,68%	10,18%	10,68%
Growth Rate	1,0%	4345,54	4472,26	4472,26	4345,54	4135,88
	1,5%	4234,30	4345,54	4345,54	4234,30	4048,18
	2,0%	4234,30	4345,54	4345,54	4234,30	4048,18
	2,5%	4345,54	4472,26	4472,26	4345,54	4135,88
	3,0%	4617,96	4787,23	4787,23	4617,96	4345,54

References

- Booking Holdings Annual Reports
- TIKR.com
- Booking Holdings Press Release
- Booking Holdings Quarterly filing
- Statista
- ChatGPT