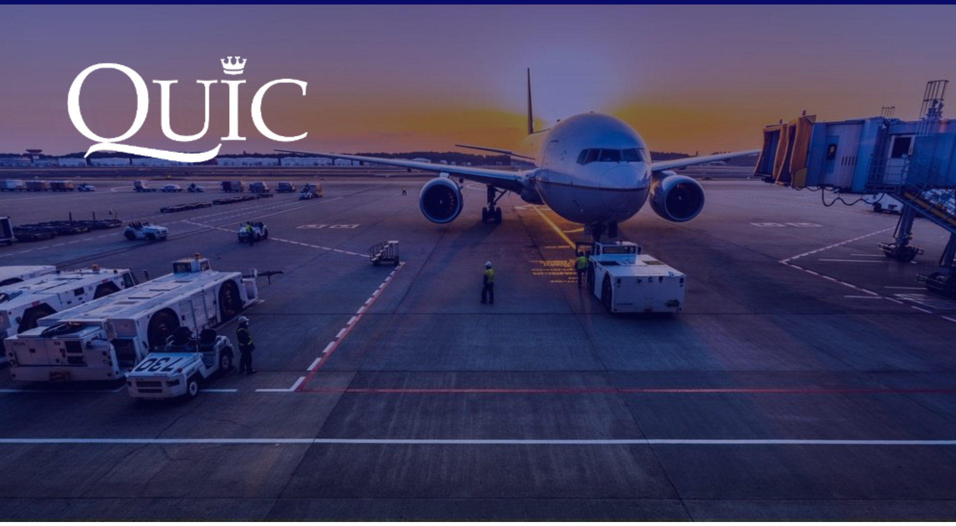


RESEARCH REPORT

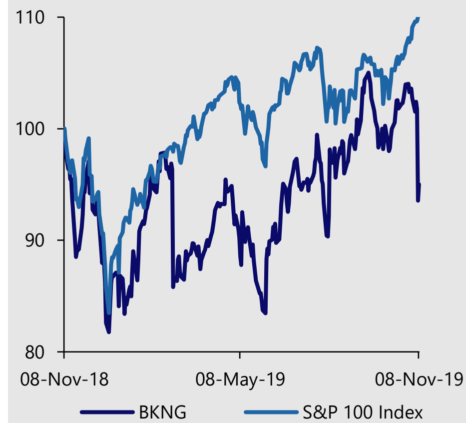
November 9, 2019

Stock Rating	BUY
Price Target	USD $2,453

Bear Case	Price Target	Bull Case
$2,343	$2,453	$2,793

Ticker	BKNG
Market Cap (MM)	$78,644
EV / EBITDA	15.2x
P / E	21.6x

52 Week Performance



Consumers

Reid Kilburn
rkilburn@quiconline.com

Bronwyn Ferris
bferris@quiconline.com

James Boulter
jboulter@quiconline.com

Anchal Thind
athind@quiconline.com

Booking Holdings Inc.

Booking a Ticket to Alpha

Booking Holdings operates several Online Travel Agencies (OTAs), including Booking.com, as well as meta-search websites, including KAYAK.

The QUIC Consumers team is revisiting Booking to understand the company's performance over the last year, assess the relevancy of our original theses, and better understand the downside potential within the currently volatile travel booking industry.

Revisiting Thesis I: Secular Trends Creating a Room for Growth

Travel industry tailwinds are supported by ***a)*** continued transitions from offline to online booking, ***b)*** an increasing demographic specific desire to travel, and ***c)*** growth of travel worldwide, especially in the Asia Pacific region. This will drive BKNG's growth in the long-term.

Revisiting Thesis II: Quality Business With Emerging Moat

The company benefits from both economies of scale and a marketplace network effect, creating an economic moat which will protect the firm from disruption.

Valuation Implications

Based on a DCF model, the QUIC team determines that BKNG is currently undervalued. Our price target of $2,453 implies an upside of 33% to the current price of $1,850

Table of Contents

Overview: Booking Holdings

Booking Holdings is the largest of the three prominent online travel agencies (OTAs) and operates under six brands to serve various functional niches *(see Appendix I)*. Their principal activities include facilitating flight, accommodation, and car rental bookings through their online platform.

Business Model

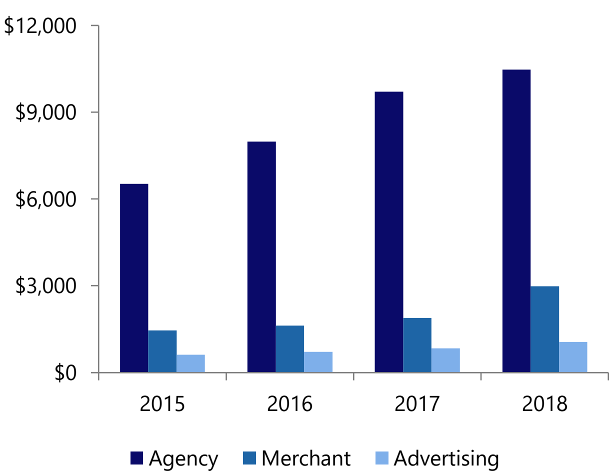
Booking Holdings is a marketplace that generates revenue in three ways: agency revenue, merchant revenue, and advertising revenue *(see Exhibit I)*. Agency revenue is the lion's share of their business, and is generated through a commission of ~13% on all orders that flow through their platform. Merchant revenue is generated when Booking facilitates payment activities directly with the end customer. Advertising revenue is generated by sending referrals to service providers and physical advertising placement's on Booking's online platforms.

Booking's costs are heavily weighted to advertising and overhead. Their only cost of revenue is for Priceline.com merchant activities, where revenue is recorded on a gross basis. The bulk of the remaining costs are variable "performance" advertising ($4.1B) and fixed "brand" advertising ($392MM). During 2018, BKNG generated $3.9B in profit on $14.5B of revenue, with an impressive 40% EBITDA margin.

BKNG's merchant services allowed them to pioneer opaque travel services like the "Name Your Own Price" option on Priceline.com. Opaque services allow BKNG to sell anonymous rooms of guaranteed quality to the consumer for a price below market value. This allows hotels to quickly fill unused rooms without damaging their brand or tripping minimum online pricing rules, and creates compelling value for price sensitive consumers who are willing to be adaptable within certain pre-defined parameters.

EXHIBIT I

Gross Profit Segmentation ($MM USD)



Source(s): Company Filings

EXHIBIT II

BKNG Brand Umbrella

Source(s): Company Filings

LTM Update: Major Industry Developments

Competitive pressures in the travel industry have intensified in the past year. Downbeat earnings in recent weeks have contributed to a sector-wide selloff (*Exhibit III)* fueled by concerns over fading demand and the opening of new competitive fronts with a prior ally.

Google

Google has been the most aggressive challenger to OTA incumbents as the company continues pushing further downstream into the travel booking cycle *(see Appendix IV)*. Industry experts contend that Google is dedicating more paid advertising space to their internal booking channels, which results in external players being bumped further down the search list and causing greater reliance on higher cost-per-click channels like banner ads to drive traffic. Google's continued expansion into later stages of the travel cycle is concerning for marketplace players like Booking and Expedia, who have historically relied on Google to drive the lion's share of their customer acquisition needs.

Expedia

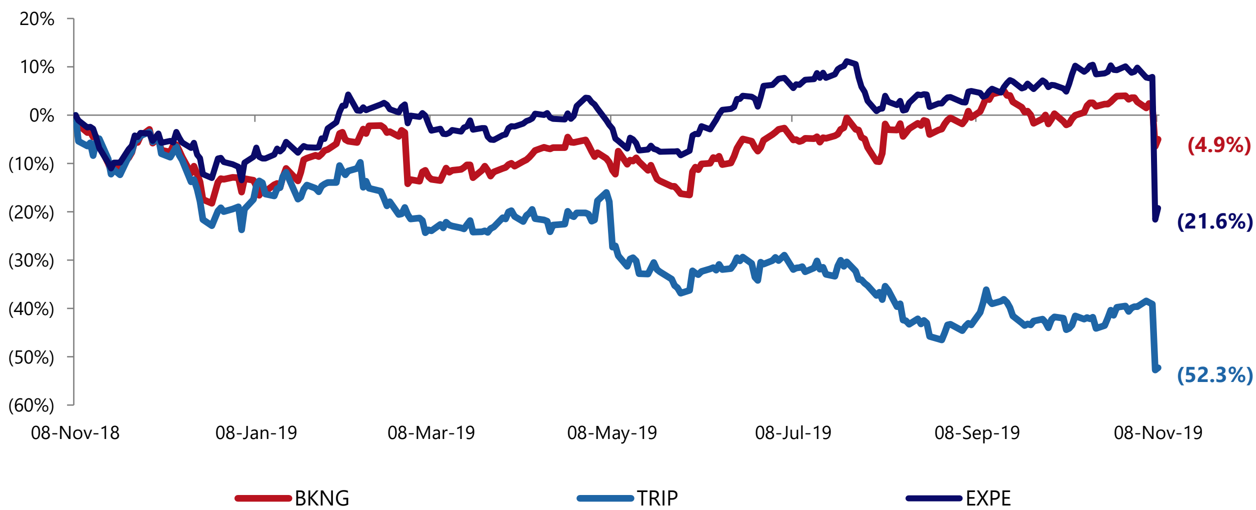
Expedia tumbled 25% earlier this week, with the company citing difficulty in online search advertising activities as the cause for a miss at both the top and bottom lines. Selling and marketing expenses increased 11% YoY in the quarter as inbound traffic flatlined, with CEO Okerstrum describing declining effectiveness of advertisements in search results from an increasingly aggressive Google.

The Big Picture

Competitive pressure and perceived macroeconomic weakness have spooked investors, but not all travel players are feeling an equal squeeze. Disney and Norwegian Cruise lines have beat earnings estimates, benefiting from diversified international demand and a strong brand which drives direct customer access. Success in the travel industry is not unattainable. However, with paid clicks comprising roughly half of traffic for marketplace offerings, OTA's must find a way to lead customers directly to their platform and reduce reliance on increasingly expensive search engine advertising.

Exhibit III

Recent Selloff of the Big 3 OTAs (% Return over LTM)



Source(s): S&P Capital IQ, Company Filings

LTM Update: BKNG Performance

Q3 Results

In context of the broader OTA selloff this week, Booking performed relatively well. The stock initially dipped 8% from contagion around Expedia and TripAdvisor's poor performance before rebounding slightly after the Q3 release, closing the week down 6%. Booking missed slightly on revenue but beat on earnings, avoiding the ~20% drop of their OTA peers.

Key Performance Indicators

Room nights on a commission basis remain the growth engine of BKNG – rental car days and airline tickets have grown slightly but remain a relatively small portion of the business compared to room nights, which continue to grow at low double digits (+11% YoY). Gross transaction value increased 4% YoY (7% on a constant currency basis), reflecting a diversified international footprint but substantially unfavorable FX impact this quarter. Despite industry-wide margin pressure from increased search advertising costs, Booking's EBITDA margin has remained steady YoY, with Selling and Marketing expenses declining by ~150bps as a % of revenue.

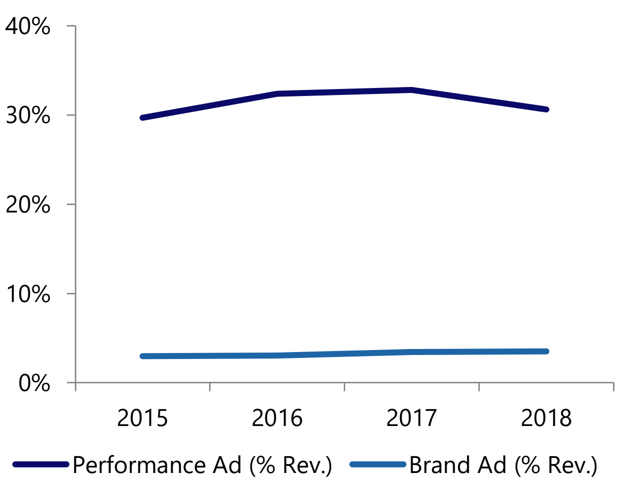
Strategic Results

CEO Fogel emphasized Booking's brand advertising strategy as a core reason why the company was able to better withstand the search advertising headwinds plaguing their OTA rivals. Booking's direct channels drove better than expected traffic, allowing paid search advertising expenditure to decline by 2% (*Exhibit IV*) while overall traffic increased by 7%.

Additionally, Booking's focus on growing alternative accommodations by 6% YoY (6.2M total listings) helped insulate against the "Airbnb effect" that drives certain segments of price-sensitive consumers away from traditional hotel bookings and into non-standard accommodation arrangements.

EXHIBIT IV

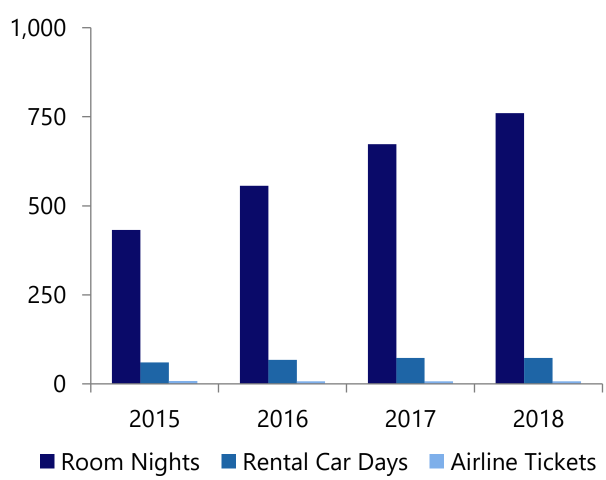
Advertising Spend (% of Revenue)



Source(s): Company Filings

EXHIBIT V

Operating Statistics (MM)



Source(s): Company Filings

Thesis I: Long-term Trends Paving the Way for Growth

Industry tailwinds supported by a) offline to online booking, b) an increasing demographic specific desire to travel, and c) growth of travel worldwide, especially in the Asia Pacific region, will drive BKNG's growth in the long-term.

As identified by the previous look at the company, these drivers are largely priced into BKNG's current valuation; however, this analysis will serve as an update on these secular growth drivers as a baseline to monitor the company's competitive developments.

Shift From Offline to Online

The online travel market has grown significantly over the last few years and is expected to continue to do so in the forthcoming years, owing to the rapid digitalization of travel services. The surge of mobile devices and the growing confidence of customers in the safety of mobile payments largely complement the growth of the online travel market.

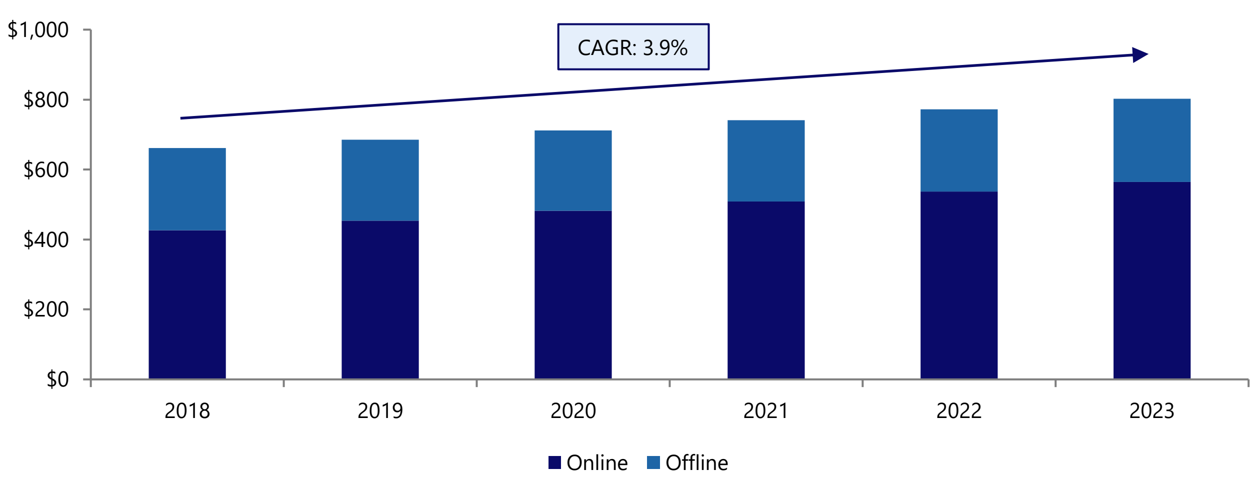
Further, the travel market is witnessing partnership, with leading OTAs acquiring other smaller players. This stimulates the seamless growth of the market as these partnerships offer a variety of options to travelers. Given the proliferation of mobile devices, it is often believed that this channel is reaching its zenith; however, the growth of the online booking share (CAGR of 5.7%) is expected to exceed the growth of the total market (CAGR of 3.9%). This growth trajectory bolsters Booking's prospects, given the span of its online platform.

Desire to Travel

The high willingness of the millennials on rather spending on experiences than on goods also contributes to the increasing tourism market volume. This is particularly influenced by social media channel gaining more importance along the whole travel process. 89% of millennials stated that they plan their vacations based on previously seen photos posted.

EXHIBIT I

Global Revenue Forecast of Travel & Tourism ($USB)



Source(s): Statista

Thesis I: Long-term Trends Paving the Way for Growth

Growth in the Asia-Pacific Region

For OTA's, Asia is an extremely important source market and China continues to rank first in outbound travel expenditure. The region continues to enjoy strong performance in both inbound and outbound travel, supported by rapidly growing economies, and an expanding middle class seeking to spend its increasing disposable income on travel.

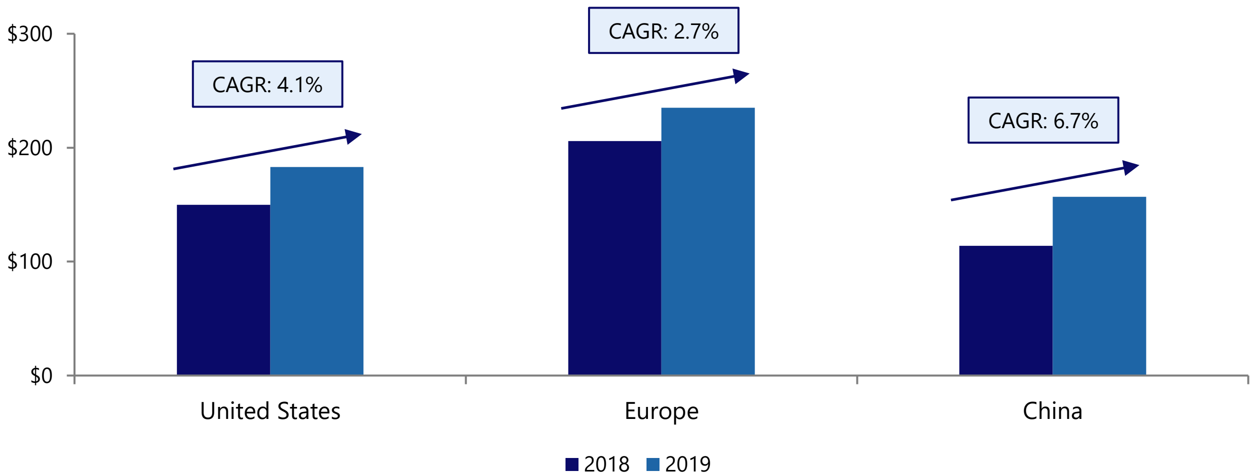
BKNG is well positioned to benefit from this growth and has increased its focus on these regions through Agoda, booking.com and its agreement with Ctrip, which enables it to share inventory and thereby capture outbound traffic from China. While the Chinese market has been difficult for both Booking Holdings and Expedia to penetrate, Booking has invested aggressively in leading Chinese companies in the travel and mobility spaces.

Furthermore, BKNG has benefited from a destination shift, particularly, Chinese tourists partaking in long-haul trips to Europe. Specifically, for Chinese tourists, rapid urbanization, higher disposable incomes and fewer restrictions on travel are allowing them to explore their country and beyond. In 2018 the European Commission and European Travel Commission collaborated to launch the 2018 EU-China Tourism Year, as a way of promoting destinations and improving the tourism experience. The number of Schengen visas issued, that allow travel within the 26 European nations comprising the Schengen Zone, reached 2.4 million in 2017. This growth of long-haul trips to Europe is a favorable sign as BKNG is the dominant player with the largest accommodation inventory in the region.

As previously identified, the ability for BKNG to capture growth hinges on the success of their APAC focused brands. The company's partnership with Grab is now giving Booking.com app users access to the largest fleet of drivers across Southeast Asia, providing customers traveling in these countries a frictionless experience removing language and currency barriers. These types of initiatives will define the company's success in the region.

EXHIBIT I

Region Based Travel & Tourism Revenue Forecast ($USB)



Source(s): Euromonitor

Thesis II: High Quality Business With Competitive Moat

As described in CONS' initial report on Booking Holdings, *A Travel Industry Leader,* Booking has two strong competitive advantages. The company benefits from both economies of scale and a marketplace network effect, creating what we believe to be a true economic moat.

Does Booking Still Enjoy Economies of Scale?

Fueling both of these competitive advantages is Booking's leading position in the OTA industry, which the company has maintained despite an intensifying competitive landscape. Relative to its closest competitor Expedia, Booking still generates 26% more revenue with operating margins 3x those of Expedia (agency revenue is higher margin than merchant revenue). This enables Booking to spend more on performance and brand marketing, which help retain the company's leading position versus competitors. In summary, the company still enjoys significant economies of scale, and is holding its market share.

Assessing the Strength of Booking's Network

The second component of Booking's competitive advantage is the company's strong marketplace network effect. We continue to believe that Booking offers both its customers and clients the greatest value proposition amongst the major OTAs, evidenced by Booking's far greater number of room nights booked. As OTAs further penetrate emerging market economies, we believe that Booking's strategic investment in Trip.com (formerly Ctrip) will only increase the strength of Booking's overall network.

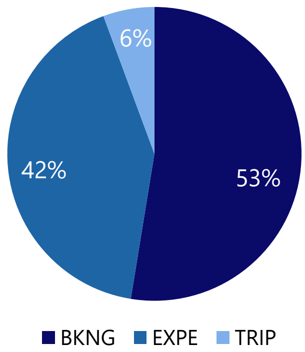
Finally, in the response to rising customer demand for alternative accommodations, Booking has done an excellent job at competing alongside the clear market leader, AirBnB. On the Q3'19 conference call, management noted:

"We were pleased to announce during the quarter that Booking.com passed the milestone of 3 quarters of 1 billion guest stays in its alternative accommodations since 2007. And as of March 31, Booking.com had approximately 5.8 million reported listings in alternative accommodations, which grew approximately 13% year-over-year."

As the company spends more time and money marketing this new offering, CONS expects Booking's network to continue to rival and potentially surpass AirBnB's in the future.

EXHIBIT I

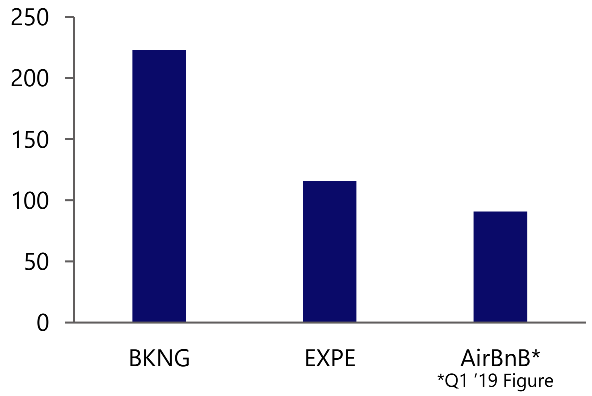
LTM Revenue of the Big Three OTAs ($MM USD)



Source(s): S&P Capital IQ

EXHIBIT II

Room Nights Booked (Most Recent Quarter, MM)



Source(s): Company Filings, Yahoo Finance

Thesis II: High Quality Business With Competitive Moat

Brand Advertising

As outlined in the two previous BKNG reports, the key to Booking's continued success will lie in the execution of its brand advertising strategy. Unfortunately, management had some discouraging things to say about their brand advertising on the most recent conference call.

On the Q3 '19 call, CEO Glenn Fogel said,

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

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

And…

I want to make sure that we're getting the return for the money we spend. And again, our brand campaigns are fine. They're just not as good as I'd like them to be. So when I say I'm disappointed, I'm not saying they're terrible. I'm just saying they're not as good as they could be. Some of the brand health metrics that we've seen have been good, some have not been as good. I am very excited, though, about our new CMO. He had nothing to do with the old campaigns. These are new things that we're working on now. And I'm looking forward to seeing some good results in the future with him."

As long term investors, QUIC supports the idea of sacrificing short term profitability in the interest of creating a strong brand with a more defensible, profitable business outlook in the future. We will happily support any management team that is willing to lay out a dollar today to earn multiples on that in the future.

However, what concerns us is that the company has had very limited success in executing on something that is vitally important to the company's future success. What especially concerns us is that we previously viewed marketing as a core competency of this company and management team. Seeing them fumble the ball in this area is rather worrisome. With that being said, we do believe that this is a very capable management team, and will give them the benefit of the doubt while we wait for Booking's new CMO to take action.

In the short run we expect brand marketing expenses to stay low while management formulates a new strategy. Furthermore, we expect the number of room nights booked through direct channels to stay around 50%.

Source(s): S&P Capital IQ

Valuation: Financial Model Output and DCF

QUIC values Booking through a DCF. The DCF uses an 8% discount rate and a 1.5% terminal growth rate. The key value drivers in this DCF are gross bookings and margin expansion.

QUIC expects poor growth over the next two years due to negative macroeconomic factors. From our last valuation of the firm, QUIC has decreased growth forecasts in order to remain conservative in light of recent poor earnings.

QUIC forecasts growth in brand advertising and decrease in performance advertising, as per management guidance. This should generate a higher return on Booking's advertising spend based on the nature of the expenses, explaining in detail in the 2018 QUIC Consumers Report on Booking Holdings.

QUIC believes Booking Holdings is worth $2,452.65 per share. This valuation implies a return of 32.6%, and a 17.1x 2019 EV/EBITDA model, declining to 11.4x in its terminal year.

Operational Summary	2010A	2011A	2012A	2013A	2014A	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
					Actual								Forecast			
Income Statement Items																
Travel Bookings	1,896.3	3,068.0	4,070.3	5,544.7	7,174.0	7,978.7	9,601.8	11,596.6	13,467.0	13,739.9	14,554.1	15,572.9	16,663.0	17,662.8	18,722.6	19,658.7
Advertising and Other	12.7	11.9	13.4	171.1	410.1	613.1	712.9	833.9	1,060.0	1,182.2	1,276.8	1,366.2	1,448.1	1,520.5	1,596.6	1,676.4
Total Gross Profit	1,909.0	3,079.9	4,083.7	5,715.9	7,584.1	8,591.8	10,314.7	12,430.5	14,527.0	14,922.1	15,830.9	16,939.1	18,111.1	19,183.3	20,319.1	21,335.1
Gross Profit Growth (%)		61.3%	32.6%	40.0%	32.7%	13.3%	20.1%	20.5%	16.9%	2.7%	6.1%	7.0%	6.9%	5.9%	5.9%	5.0%
EBITDA	832.6	1,452.7	1,894.9	2,530.4	3,281.1	3,531.4	4,156.1	4,900.8	5,768.0	5,687.0	6,003.6	6,852.1	7,415.0	7,860.0	8,331.5	8,748.1
EBITDA Margin (%)	43.6%	47.2%	46.4%	44.3%	43.3%	41.1%	40.3%	39.4%	39.7%	38.1%	37.9%	40.5%	40.9%	41.0%	41.0%	41.0%
Total EBIT	786.8	1,398.9	1,829.8	2,412.4	3,073.3	3,258.9	3,847.0	4,538.0	5,341.0	5,248.8	5,887.6	6,733.1	7,298.0	7,773.7	7,893.3	8,311.5
EBIT Margin (%)	41.2%	45.4%	44.8%	42.2%	40.5%	37.9%	37.3%	36.5%	36.8%	35.2%	37.2%	39.7%	40.3%	40.5%	38.8%	39.0%
Net Income	527.5	1,056.4	1,419.6	1,892.7	2,421.8	2,551.4	2,135.0	2,340.8	3,998.0	4,064.9	4,597.2	5,265.1	5,711.5	6,087.2	6,181.7	6,512.1
EPS (FD)	$10.35	$20.63	$27.66	$36.11	$45.67	$49.45	$42.65	$46.86	$83.26	$94.63	$107.03	$122.58	$132.97	$141.72	$143.92	$151.61
Key Value Drivers																
Gross Bookings	13,645.0	21,658.0	28,456.0	39,173.0	50,301.0	55,528.0	68,087.0	81,226.0	92,731.0	96,257.5	103,958.1	111,235.2	119,021.6	126,162.9	133,732.7	140,419.3
Gross Bookings Growth (%)		58.7%	31.4%	37.7%	28.4%	10.4%	22.6%	19.3%	14.2%	3.8%	8.0%	7.0%	7.0%	6.0%	6.0%	5.0%
Take Rate	13.9%	14.2%	14.3%	14.2%	14.3%	14.4%	14.1%	14.3%	14.5%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
Performance Advertising/Gross Profit	28.9%	29.8%	31.2%	31.5%	31.1%	31.9%	33.7%	33.3%	30.6%	29.5%	29.0%	27.5%	26.5%	26.5%	26.5%	26.5%
Brand Advertising/Gross Profit	1.9%	1.2%	0.9%	2.2%	3.0%	3.2%	2.9%	3.2%	3.5%	4.0%	3.5%	5.0%	7.0%	7.0%	7.0%	7.0%
Total Advertising/Gross Profit	30.8%	31.0%	32.1%	33.7%	34.2%	35.1%	36.6%	36.5%	34.1%	33.5%	32.5%	32.5%	33.5%	33.5%	33.5%	33.5%
Capital																
NCWC	(247.4)	(239.5)	(489.6)	(586.8)	(519.6)	(535.4)	(789.4)	(1,153.6)	(1,432.0)	(1,149.5)	(1,455.4)	(1,557.3)	(1,666.3)	(1,766.3)	(1,872.3)	(1,965.9)
Capital Expenditures	22.6	46.8	55.2	84.4	131.5	173.9	219.9	287.8	442.0	422.2	509.4	545.1	583.2	618.2	655.3	688.1
Depreciation and Amortization	45.8	53.8	65.1	118.0	207.8	272.5	309.1	362.8	426.0	438.2	436.6	467.2	499.9	529.9	561.7	589.8
NCWC/Gross Profit	-13.0%	-7.8%	-12.0%	-10.3%	-6.9%	-6.2%	-7.7%	-9.3%	-9.9%	-7.7%	-9.2%	-9.2%	-9.2%	-9.2%	-9.2%	-9.2%
Capex/Gross Profit	1.2%	1.5%	1.4%	1.5%	1.7%	2.0%	2.1%	2.3%	3.0%	3.6%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
Depreciation/Gross Profit	2.4%	1.7%	1.6%	2.1%	2.7%	3.2%	3.0%	2.9%	2.9%	2.9%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%

Overview	
Price @ 2019/11/07	$1,849.93
DCF Value (8% WACC)	$2,452.65
Total Return	32.6%

Valuation at December 31, 2019					
WACC	**7.50%**	**7.75%**	**8.00%**	**8.25%**	**8.50%**
Enterprise Value	105,995	101,470	97,297	93,438	89,859
Equity Value	118,388	113,862	109,689	105,830	102,251
Equity Value Per Share	$2,647.15	$2,545.95	$2,452.65	$2,366.36	$2,286.34
2019 Multiples					
EV / EBITDA	18.6x	17.8x	17.1x	16.4x	15.8x
P / E	29.1x	28.0x	27.0x	26.0x	25.2x
2018 Multiples					
EV / EBITDA	18.4x	17.6x	16.9x	16.2x	15.6x
P / E	29.6x	28.5x	27.4x	26.5x	25.6x

Source(s): Company Reports

References

1. Company Filings
2. Credit Suisse
3. Financial Times
4. Google Images
5. IBIS World
6. Mirai
7. S&P Capital IQ
8. Statista
9. Tech Crunch
10. The Globe and Mail

Appendix I: BKNG Brand Umbrella

Booking.com
Measured by room nights booked, Booking.com is the world's leading brand for online accommodation reservations. Their portfolio of bookable property includes ~400k hotels (17% YoY growth) and ~1.2M non-standard properties (53% YoY growth) such as apartments and homes; there are 28.8M listings on the platform. Booking.com uses an agency model. The platform also integrates flight search capabilities through KAYAK and restaurant reservation capabilities through OpenTable.

Priceline.com
A leading hotel, rental car, airline ticket, and vacation package reservation service. They are considered pioneers in opaque booking. Priceline operates under both the merchant and agency model, and as of Feb '18, all revenue is recorded in on a "net basis".

KAYAK
KAYAK allows consumers to easily search and compare travel itineraries and prices. KAYAK generates the majority of revenue by sending referrals to online travel companies and placing advertisements on their digital platforms. Momondo (acquired in July 2017) is a similar business and will be run alongside KAYAK.

OpenTable
OpenTable provides customers an online platform to book tables. Their revenue is generated from a flat fee and subscription fees paid by restaurants. The majority of their business is USA based.

Rentalcars.com
A rental car reservation service that operates as part of Booking.com. Their revenue is earned through commissions from facilitating reservations on an agency basis, as well as transaction gross profit on a merchant basis and customer processing fees.

Agoda
An accommodation reservation service catering to consumers in the Asia-pacific region and operates under the merchant model due to fewer providers accepting credit cards.

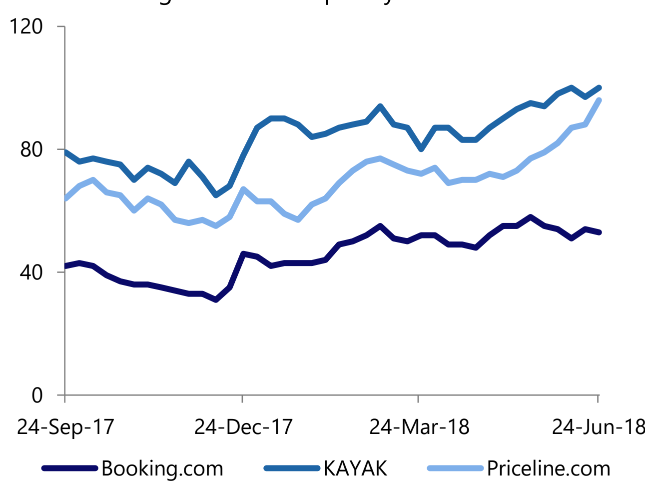
EXHIBIT X

The Booking Brand Umbrella

Source(s): Company Reports

EXHIBIT XI

Relative Google Search Frequency in USA



Source(s): Google Search Index

Appendix II: Travel Industry Overview

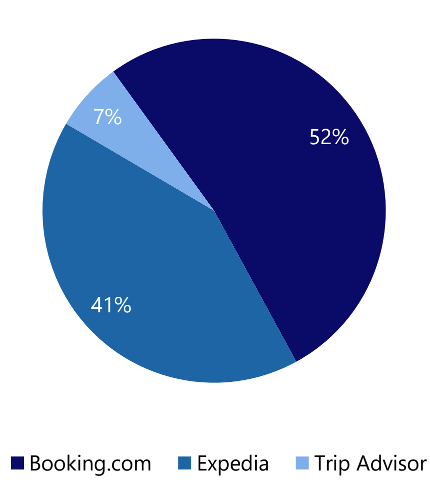
The global travel market is valued at $1.3T USD, of which $540B (42%) is processed through various online channels. The remaining $760B (58%) is facilitated through traditional channels- either in person or by phone. Overall, the global market is highly fragmented, with various hotel chains, airline companies, rental agencies, and service brokers who have their own corporate platforms to manage transactions. The current market is in the mid stages of an online adoption cycle, with consumer behavior gradually shifting from traditional mediums to more convenient online channels. This conversion has been a powerful growth lever for online marketplaces that aggregate supply and provide consumers with a cross-platform, end to end shopping experience. The key competitors in the travel industry are traditional agencies, online travel agencies (OTAs) and non-standard accommodation engines like Airbnb and HomeAway.

The largest online players are Booking Holdings, Expedia, and TripAdvisor *(Exhibit XII)*, with combined revenue of $24B and resulting GMV of $185B based on an industry average take rate of 13%. This illustrates the degree of fragmentation in the industry, as the three largest online players capture just 35% of online orders and 14% of the overall travel industry. The bulk of remaining online orders are placed directly through a given service provider's platform.

Online travel agencies like Booking.com provide compelling value to consumers by enabling end to end service and simplifying shopping around in a fragmented landscape. In a survey conducted by Credit Suisse, those using an OTA cited "ease of use" and "brand trust" as the top reasons for choosing the OTA interface. This is an important distinction- while the overall industry is heavily price competitive and barriers to entry are low, OTAs benefit from a marketplace network effect. Consumers want to shop where all their needs can be efficiently met, leading travel service providers to list on the largest OTAs, and the cycle continues.

EXHIBIT XII

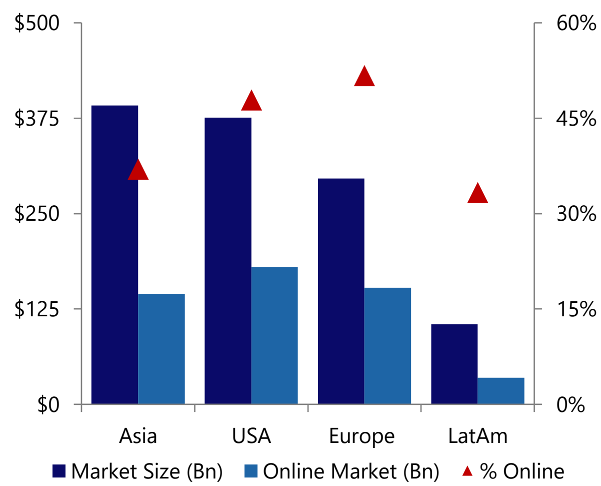
Revenue of the Big Three OTAs



Source(s): Company Reports

EXHIBIT XIII

Size and Penetration by Geography



Source(s): Company Reports, Credit Suisse Estimates

Appendix III: How Consumers Buy Online Travel Products

Travel consumers tend to follow a structured approach to online travel. As shown in Exhibits III and IV each stage of the buying process has grown more congested in recent years. Increased congestion in each stage of the buying process is largely attributed to high client acquisition costs and difficult monetization of certain steps in the process.

Consumers begin their search process by seeking inspiration online. Traditionally, Google has been the leader in this space. An example of how a user may seek inspiration on Google is by searching for family vacations.

The second step of the buying process is where consumers search their prospective destinations. Google and TripAdvisor are the legacy leaders in this space. The search stage of the buying process is of high importance given its ability to direct users to the online destination of where the transaction will take place. Google is pushing aggressively into this space with their Google Flights and hotel search services. For example, a 'flights to Paris' Google search will yield an embedded Google Flights scheduling tool that directs the user to the Google Flights website. Integration with the company's search engine and Android operating system has allowed Google to successfully penetrate this stage of the buying process.

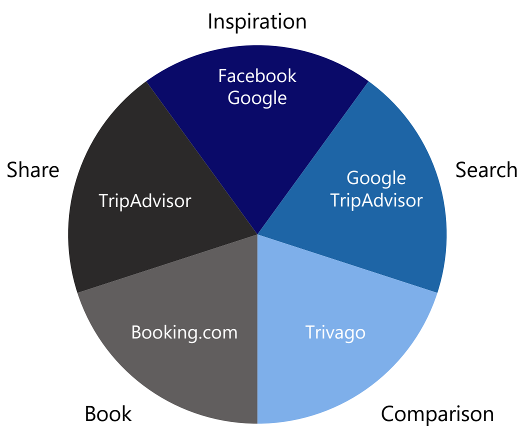
Consumers then compare their options to determine which travel solution they choose. Specific criteria used to evaluate alternatives vary between types of customers. Trivago has historically been the primary destination consumers would use for comparisons, however this has since changed, with most major online travel websites offering this service.

The booking stage is where the transaction occurs, which makes it an appealing space to compete in. Booking.com historically dominated this space, but competition is building.

Finally, the share stage is where travellers share their experiences, which is more challenging to monetize.

EXHIBIT XIV

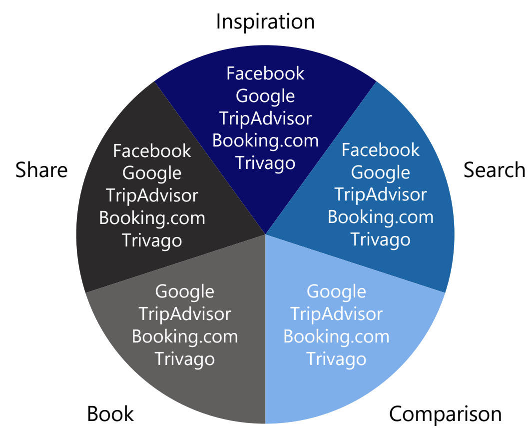
2013 – Little overlap in service offerings



Source(s): Mirai

EXHIBIT XV

2018 – Nearly perfect overlap in service offerings



Source(s): Mirai

Appendix IV: Google's Move From Partner to Competitor

Shift in Consumer Buying Life Cycle Emphasis

In the past, Google has dominated both the Inspiration and Search phases of the consumer buying lifecycle. However, in recent years, Google's emphasis in terms of product development and investment has transitioned to the latter phases of the life cycle: comparison, book, and share, as shown in Exhibit XI. Google has been increasing its offering and investing in innovation within those three phases for two main reasons. The cost of client acquisitions is too high to just let them go to the competition at the drop of a hat. Secondly, the monetization of inspiration or sharing is very difficult while comparison and booking is high and accepted by the hotel, who is used to paying out commissions.

Google Destinations and Book on Google

In 2016, Google launched Google Destinations with Book on Google available in the U.S. and U.K. as its first major investments in expanding to the other stages of the consumer life cycle.

Google Destinations is focused on connecting web searchers looking for travel information with more information on their destinations, including flight and hotel prices. Book on Google allows the user to fully book flights and accommodations without leaving the Google interface. Both represents Google's moves to monetize the entire consumer journey.

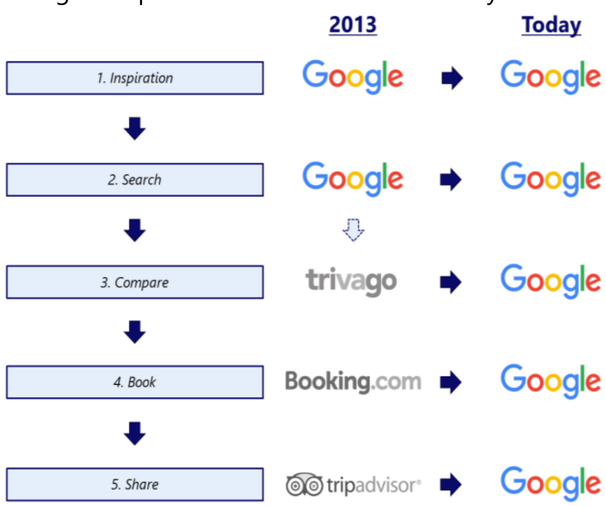
Comparing the Competitive Advantages

Google's recent moves represent a trend within the industry and results in a critical question for the Counsel: Is Booking's competitive advantage robust enough to ensure customer stickiness in relation to the entrance of major player like Google, and potentially Amazon and Facebook in the near future?

When comparing the benefits for both users and hotels, it possible to outline the competitive advantages of the two firms, shown in Exhibit XII. As a result, while Google may be attempting to improve the customer experience and can leverage its scale and data, Booking has an unparalleled market position in the eyes of consumers. The guarantees, brand loyalty, and positioning on security makes Booking.com a strong investment in the eyes of the Counsel.

EXHIBIT XVI

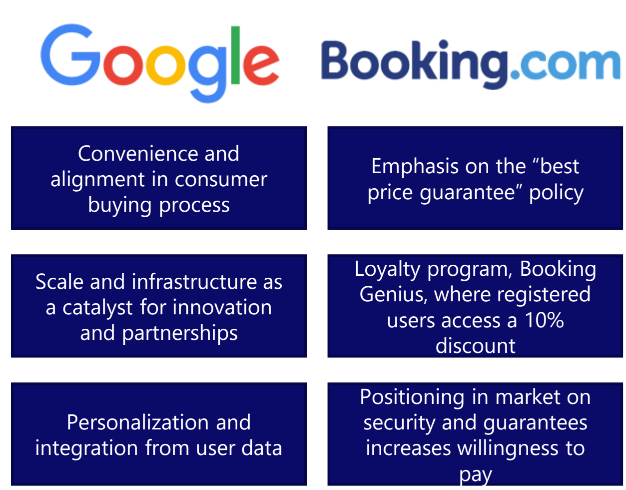
Google's Expansion in the Consumer Life Cycle



Source(s): Mirai

EXHIBIT XVII

Comparing Competitive Advantages



Source(s): Mirai, Tech Crunch, Booking.com, Google.com