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Airbnb, Inc. (ABNB)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for joining Airbnb's Earnings Conference Call for the Second Quarter of 2023. As a reminder, this conference call is being recorded and will be available for replay from the Investor Relations section of Airbnb's website following this call.

I will now hand the call over to Ellie Mertz, VP of Finance. Please go ahead.

Ellie Mertz

Vice President-Finance, Airbnb, Inc.

Good afternoon, and welcome to Airbnb's Second Quarter of 2023 Earnings Call. Thank you for joining us today. On the call today, we have Airbnb's Co-Founder and CEO, Brian Chesky, and our Chief Financial Officer, Dave Stephenson.

Earlier today, we issued a shareholder letter with our financial results and commentary for our second quarter of 2023. These items were also posted on the Investor Relations section of Airbnb's website. During the call, we'll make brief opening remarks and then spend the remainder of time on Q&A.

Before I turn it over to Brian, I'd like to remind everyone that we will be making forward-looking statements on this call that involve a number of risks and uncertainties. Actual results may differ materially from those expressed or implied in the forward-looking statements due to a variety of factors. These factors are described under our

forward-looking statements, in our shareholder letter, and in our most recent filings with the Securities and Exchange Commission.

We urge you to consider these factors and remind you that we undertake no obligation to update the information contained on this call to reflect subsequent events or circumstances. You should be aware that these statements should be considered estimates only and are not a guarantee of future performance. Also during this call, we will discuss the non-GAAP financial measures. We've provided reconciliations to the most directly comparable GAAP financial measures in the shareholder letter posted to our Investor Relations website. These non-GAAP measures are not intended to be a substitute for our GAAP results.

And with that, I will pass the call to Brian.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

All right. Thank you, Ellie, and good afternoon, everyone. Thanks for joining today. Excited to share our results with you. Q2 was another strong quarter for Airbnb. We had over 115 million Nights and Experiences Booked. Revenue of \$2.5 billion grew 18% year-over-year. And when you exclude foreign exchange, our revenue increased 19% year-over-year. Net income was \$650 million, representing a net income margin of 26%, our highest second quarter ever. And free cash flow for the quarter was \$900 million, up 13% year-over-year. In fact, on a trailing 12-month basis, our free cash flow was \$3.9 billion, and this represented a trailing 12-month free cash flow margin of 43%. And because of our strong cash flow and balance sheet, we [ph] may be able (02:48) to repurchase \$2.5 billion of our stock in the last 12 months, which has more than offset the impact of share dilution.

Now, during the quarter, we saw a number of positive business trends. First, guest demand at Airbnb remained strong. Nights and Experiences Booked increased 11% in Q2 compared to a year ago. Active bookers grew in every region, and we had more first-time bookers compared to a year ago. In fact, we've now had more than 1.5 billion guest arrivals since starting Airbnb.

Second, guests are traveling farther. Cross-border nights booked increased 16% in Q2 compared to a year ago, and we're especially encouraged by the continued recovery of Asia Pacific, where inbound international travel increased 80% compared to this time last year. And we also saw cross-border nights booked to North America increase 20% year-over-year.

And finally, the third trend we're seeing is that guests are staying longer on Airbnb. Millions of people remain flexible about where they live and work, and we see this reflected in our bookings. In Q2, long-term stays remained 18% of total nights booked. And throughout the quarter, we saw an acceleration in year-over-year growth in bookings for monthly stays.

Now, while the ability to travel and work remotely has been an important part of long-term stay growth, people are also extending their typical weekend stays by an extra night or two. In fact, in the past six quarters, long stays, long weekend stays have been the fastest-growing trip type on Airbnb. And I think this is just evidence of the incremental flexibility people have post-pandemic.

Now, given that we're halfway through 2023, I just want to provide a very quick update on the progress we made across our three strategic priorities. First, we are focused on making hosting mainstream. With supply growth stagnated at the beginning of COVID, we developed a new strategy to recruit more Hosts. Since then, we've been focused on raising awareness around hosting, making it easier to get started, and improving our tools for Hosts. And our strategy is working. In Q2, supply grew 19% year-over-year, and this is actually up from 18% in Q1. In

fact, in every quarter since we've gone public, we've seen an acceleration in total active listings growth, and we're continuing to see strong supply growth across all regions, all market types and all price points. In fact, we added a record number of new listings in Q2, and we ended the quarter with more than 7 million total active listings.

Second, we're perfecting our core service. We want people to love our service, and that means obsessing over every detail. Millions of people have given us feedback on how to improve Airbnb. We've listened. On May 3, we introduced over 50 new features and upgrades as part of our 2023 summer release. Now, many of these new features and upgrades were aimed at addressing affordability, starting with new pricing tools for Hosts. Hosts told us that our pricing tools were difficult to use, so we redesigned our tools and we made it easier for Hosts to add discounts and promotions. They also told us that they had trouble setting competitive prices. So we added a new feature called Similar Listings to help them see listings in their area so they know what to charge.

Now, we received very positive feedback from Hosts, and the changes are already having an impact. Hosts have started lowering their prices, and some of them are offering weekly and monthly – and with more of them offering weekly and monthly discounts. And as more Hosts adopt these tools, we believe we'll be able to drive greater affordability and value for guests.

We also rolled out more affordable monthly stays. Guests are staying longer at Airbnb so we took steps to make longer stays more affordable. We significantly reduced fees for stays longer than three months. We started offering US guests the option to save money by paying with their bank account, and we made it easier for Hosts to offer monthly discounts. And as a result, the percentage of our new active listings that offered monthly discount jumped from 22% to 50%.

Now, we took another step to address affordability with the launch of Airbnb Rooms. Airbnb Rooms takes us back to our founding ethos of sharing. It's one of the most affordable ways to travel. Airbnb Rooms have an average price of only \$67 per night, significantly lower than the average hotel room. Given the increased price sensitivity for many guests, especially the next generation travelers, this is going to remain an important category for Airbnb.

And finally, our third strategic priority is expand beyond the core. We spent the past few years perfecting our core service. We've rolled out hundreds of new features and upgrades. And today, our core is stronger and more profitable than ever. But we're not stopping there because we have some big ideas for where to take Airbnb next, and we're building the foundational capabilities for these new products and services that we plan to launch in the years to come.

Now, before I turn to Q&A, I want to tell you about a recent campaign that highlights what makes Airbnb unique. Airbnb is known for one-of-a-kind listings. As I'm sure you know, the Barbie movie just came out in theaters. And in celebration of the premiere, we partnered with Warner Bros. and Mattel to transform a home into a Barbie Malibu DreamHouse and we launched it as part of our Only On Airbnb campaign. Only On Airbnb taps into global pop culture moments, inspiring guests with some of the most iconic homes in the world. The Barbie Malibu DreamHouse has been a sensation, and it is now Airbnb's most popular listing ever. We saw 13,000 press hits and more than 250 million social media impressions since it was announced. And to give you a sense of how much that is, that is more than twice as many press hits as were generated from our IPO. Only On Airbnb campaigns are an effective way to introduce Airbnb and our unique inventory to new guests, and they'll be an important part of our playbook going forward.

So those are the results that we have to share for Q2. And with that, Dave and I look forward to answering your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll go to our first question from Mario Lu at Barclays.

Mario Lu

Analyst, Barclays Capital, Inc.

Q

Great. Thanks for taking the question. So the first one is on the third quarter ADR guide. [indiscernible] (10:14) upward pressure in the quarter. Can you help explain what you mean by the listing type mix shift that's kind of lifting up ADR's?

David E. Stephenson

Chief Financial Officer & Head-Employee Experience, Airbnb, Inc.

A

Yeah. The listing type mix shift is just simply the mix of types of listings that are geographic, size of home, location, that's driving the mix. And so ADRs are coming up due to that, and it's also coming up in the third quarter driven by foreign exchange.

Mario Lu

Analyst, Barclays Capital, Inc.

Q

Okay. Got it. And then in terms of your section on the operational take rate, you guys mentioned that you're offering a lower take rate especially for stays after the third month. Does that mean over time should we expect this number to come down or are there kind of offsets that you're going to provide to keep the operational take rates flat? Thanks.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

A

Yeah. Hey, Mario. I can answer that. We always want to make sure that we're providing the very best value for our guest, and we identified this as a huge opportunity where we could drive incremental conversion by taking take rates down after the third month, and we saw some really great results. That being said, I do not expect our take rate to change materially. There may be some segments or trip types or geographies where we would want to take it down, but that could be offset by other areas that could come up. And so generally, I would expect it to be pretty stable. And the way that we're going to see margin expansion is by launching incremental services for guests and hosts over the coming years.

Mario Lu

Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Operator: We'll move next to Jed Kelly at Oppenheimer.

Jed Kelly

Analyst, Oppenheimer & Co., Inc.

Q

Hey. Great. Thanks for taking my question. Just following up on the listing type, are you still adding more of that like vacation rental single unit inventory versus some of like, call it, the smaller units in urban areas? And then can you just give us an update on how we should think about your marketing into the back half? Thank you.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

A

Yeah. Hey, Jed. I can start, and I'll hand it over to Dave. So our supply, I mean, let me just back up. Our supply has actually been really, really strong. You might remember at the beginning of COVID, we flagged it as something we need to work on. That's why we created an initiative called Mainstreaming Hosting. And the results have been very successful. In fact, supply growth is growing 19% year-over-year, and in fact urban is actually growing faster than vacation rental. Urban is growing 20% whereas vacation is growing 19%. So that is pretty stable. And as far as the number of individual Hosts versus what we describe as professional Hosts, around 90% of our Hosts remain individuals. I'll hand it over to Dave.

David E. Stephenson

Chief Financial Officer & Head-Employee Experience, Airbnb, Inc.

A

Yeah. On the marketing back half, I mean, our marketing expense as a percentage of revenue we expect to remain relatively flat year-over-year on a total-year basis from 2023 over 2022. We did pull forward more marketing into the first half of the year relative to the second half this year, and we've been really pleased with the results. And then remember that 90% of our traffic remains direct or unpaid. I think that's an important differentiator versus others. And then when we do things like the Barbie DreamHouse and other big events like that, we're able to kind of drive more awareness about Airbnb, about the uniqueness of our offerings, and it's just a powerful strategy for our marketing.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

A

Yeah. Maybe I'll just add one thing about marketing. It's just -- it's a full-funnel approach. And last year, we got 600,000 articles written about us. So people talk a lot about Airbnb. And now, I think what you're also seeing is social media whether it's the Only On program, Barbie or just generally [indiscernible] (14:06) social media. It's just a topic of conversation. I think that is just a testament when you invest in a brand, when your brand is [indiscernible] (14:12) and you have something unique, you get a lot of those benefits. And I think it's going to be consistent. And we'll have pretty consistent marketing spend as a percent of revenue over time because of the strength of the brand.

Jed Kelly

Analyst, Oppenheimer & Co., Inc.

Q

Thank you.

Operator: We'll go next to Doug Anmuth at JPMorgan.

Q

Hey. This is [indiscernible] (14:34) on for Doug. Thanks for taking the questions. I have two. So first one for Dave on affordability. Are you actually saying that consumers are coming to your platform seeing that the prices are high and walking away? Do you feel like that's an opportunity that you guys aren't capturing? Or is it just the case that people are okay with higher prices on your platform right now? And then secondly on your adjusted EBITDA guide for the full year. Where do you see the upside to [indiscernible] (15:01)?

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

I don't – we're not able to hear the second question, I don't think. Can you say it one more time?

A

Q

Yeah. I'm sorry. On your full year guide for adjusted EBITDA, where did you see upside that gives you the confidence to raise it?

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

Yeah. So I'll take the first question, and I'll hand over to Dave. On affordability, our prices have obviously risen since pre-pandemic, and the growth has been incredible. The business is nearly – is up twice the size it was pre-pandemic. That being said, in the long run, Airbnb started as an affordable alternative to hotels. And I think that we always have to remember that for every dollar people spend on Airbnb, they spend as many as \$10 in the world of hotels. So we're still a very small player in a very large market. And I think that one of our big opportunities is to make sure we continue to be affordable. Last year, we got a lot of feedback from the community that Airbnb wasn't as affordable as it used to be so we made a bunch of changes. We highlighted some of these in my opening remarks.

What we've seen though, since then, to answer your question, the booked prices on Airbnb on average are lower than the listed prices. So we do see people gravitating towards more affordable stays listed on Airbnb. It's partly why we launched a feature called Similar Listings which help Hosts see the listings that were getting booked. And what Hosts, I think, discovered was the most popular listings that made the most money offered many times the very best value. And so this was in a sense a win-win for guests and Hosts by really trying to build better tools.

I also just want to point out one thing which is our prices are essentially flat year-over-year. I think they're about 1% up year-over-year. But in North America, our prices are now down 1%. Now, when you take out mix shift, because people are booking larger homes, our prices in North America are actually down 4%. And if you compare it to hotels, depending upon which data you take, hotels are up somewhere between 4% or as much as 10%, and it seems like hotels are suggesting based on some the public remarks they aren't going to come down. In fact, those prices might come up. So to answer your question, I think people come to Airbnb for one-of-a-kind spaces at great value. And if we can keep prices very affordable and then also focus on reliability, I think there's going to be a lot of demand to come.

David E. Stephenson

Chief Financial Officer & Head-Employee Experience, Airbnb, Inc.

Yeah. And then in terms of profitability, I'm just really proud of our continued progress of increasing our overall margins over time. We made some hard choices in the midst of COVID to reduce our fixed costs, get back to the core and focus on our overall profitability. The major shifts of things like our marketing expenses that we just talked about where 90% of our traffic remains direct or unpaid. It gives us a lot of leverage for improving our overall profitability, and we're going to continue to do that this year. We continue to make great improvements in our overall variable costs, things like operations and support costs or community support, infrastructure costs, et cetera. And then we've just been doing an excellent job of being very judicious with our fixed cost growth.

A

So we've moderated our head count growth overall. We're growing modestly, and we're investing behind the things that matter most for our guests and our Hosts. And I think that focus is actually enabling us to deliver even more innovations, as Brian talked about on the call, like we've had over 500 improvements to Airbnb in the last several years. And so we're going to continue to manage our fixed costs closely, focusing on the things that matter. So for the back half of the year, we feel confident we're going to be able to exceed our EBITDA margins over the prior year.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

A

And I think I'll just add that I think that we found that as we get more efficient, we actually grow faster. So I think being incredibly disciplined, incredibly focused, incredibly lean has actually been great for growth.

Q

Okay. Thank you.

Operator: And our next question comes from Stephen Ju at Credit Suisse.

Stephen Ju

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thank you. So, Brian, the shareholder letter is teasing us a little bit with a commentary about expand beyond the core, but there really isn't much there beyond the statement itself. So in addition to experiences, please share any updates in terms of what you may be doing there. But what could be some of these new directions you might be thinking about that might be [indiscernible] (19:29) and services for either the Hosts or the consumer? Thanks.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

A

Yeah. Hey, Stephen. Thanks for the question. It's one of my favorite questions. What are we going to do next? Let me just start and back up. I just want to recap how I think about this whole space. Before we talk about expand beyond the core, I just want to say one thing about the core, which is that the hotel industry is more than about 10 times the size of Airbnb, and I think that almost anyone that stays in a hotel could consider staying at Airbnb. I mean, the spaces are one of a kind. They're often better value. But we need to make sure that we continue to drive value, and I think the next big focus for Airbnb is reliability. If we can make Airbnb even nearly as reliable [indiscernible] (20:18) as a hotel, I think you're going to open up a whole new generation of travelers to Airbnb. So I think there's a lot more runway just in the core business. I think we're only scratching the surface, and that's partly why we are so focused on perfecting our core.

Now beyond that, let's talk about what's next. Starting from the most nearest adjacencies out. International. One of the things we've seen is that Airbnb has a lot of – we've got a lot of scale in the United States. We've got a lot of scale in top markets in Europe. But actually, Airbnb is under-penetrated in most countries around the world. Just to give you an example, a couple years ago, a few years ago, we were concerned about the lack of penetration we had in Germany. We were also pretty nascent in Brazil. Since the beginning of the pandemic, Brazil has more than doubled the size, and Germany is more than 60% larger. And Germany is on track now to be one of the largest countries in the world on Airbnb. So we're going to take that playbook and we're going to bring it to Asia, and we're starting with Japan and Korea. But Asia Pacific is a frontier. It's a huge opportunity for

growth. I think that is just one of many markets including Latin America. And the other thing I'd just point out within Europe is beyond UK, beyond France, beyond some of the really top markets, there's a lot of countries in Europe where we're not actually that penetrated. So there's a lot of international expansion.

Next would be longer stays. Before the pandemic, only 13% of our business was for monthly stays. Now, it's 18%. And it's stable, and we don't think it's going down. In fact, I think this is a huge opportunity. I think all you have to believe is [indiscernible] (21:52) is here to stay, to believe flexibility is here to stay. If you believe that, you're going to see a lot more people either living nomadically or some people traveling for the summer, going away for the winter or extended weekends which is a whole new category between travel and housing. So I think that is probably one of the most underrated markets in Airbnb.

We have experiences. I thought experiences were going to have a breakout before the pandemic. And instead, we had to put them on hold. But the thing we've learned is that people love experiences. 95% of reviews that are left for experiences end in a five-star review. And for our core business in homes, it's 84%. So that means that people on a statistical basis like experiences even more than homes, and so we think that product is ready to scale. And so I've been spending a lot of time. I think you're going to see some growth in the years to come.

And I'll just add a couple more things. And let me preface by saying I don't usually like to foreshadow new things before we launch them. I've got to get you to tune into our releases which we do every May and November. But there's a lot of service opportunities on guests and Hosts. I think that whether it's Amazon or Etsy or Alibaba, they've shown there's an entire suite of services that you can offer for Hosts. I know I get a lot of questions about [ph] placement (23:02) which is absolutely on the table. But there's many other services as well for Hosts. And then in guest services, think about all the services you could get in a hotel or at a resort and then think of all the services that a hotel couldn't maybe afford to offer because they're subscale. But Airbnb, in many markets, we've got a lot of critical scale.

So these are just some of the – I would just even call it near-term opportunities. But we do have some pretty big ideas. I think AI is basically like a once-in-a-generation platform shift. Probably bigger than the shift to mobile, probably more akin to something like the Internet as far as what it can do for new businesses and new business opportunities. And I think that is a huge opportunity for us to really being the leading engine of innovation. So that's what we're doing. I'm very, very excited about it. And I will just say that we made a lot of progress the last three years building a strong business, being profitable. But my strength as CEO is really about expanding beyond the core, and so this is where I think we're going to be entering our sweet spot in the coming years to come.

Stephen Ju

Analyst, Credit Suisse Securities (USA) LLC

Thank you.



Operator: We'll move next to Bernie McTernan at Needham & Company.

Bernie McTernan

Analyst, Needham & Co. LLC

Great. Thank you for taking the questions. Maybe to start, just if you could just discuss the booking trends throughout the quarter where April is up 10% going to June plus 15%, anything that you saw that was driving that better performance throughout the quarter? And then on pricing, you mentioned the new pricing tools focused on



affordability. Are we seeing the full impact of that in 3Q? Or how should we expect that to trend throughout the coming quarters?

David E. Stephenson

Chief Financial Officer & Head-Employee Experience, Airbnb, Inc.

A

Let me start with the booking trends. What we saw was -- what we shared in the letter which is that the global booking trends increased from 10% growth year-over-year in April to 15% in June. And if you remember what we saw in Q2 was a hard comparison year-over-year specifically driven by Europe where there were delayed bookings in 2022 that compressed more bookings into Q2. That pressure moderated through the quarter which is the primary reason why you're seeing that acceleration. I think interestingly, we actually saw acceleration in total growth on nights booked from Q1 to Q2 in North America, and so I think that was telling about just the strength and resiliency of the North American consumer. And we're continuing to see that strength bleed into Q3, which is why we're forecasting further acceleration of nights growth from Q2 into Q3. We're seeing great growth in Asia Pacific, as we called out in the letter, over 80% growth in APAC. And I'm really pleased with our growth in Latin America. It's twice the size than it was pre-COVID, and it's growing really nicely.

And then in terms of the pricing tools, I think that we have seen a number of positive impacts from our pricing tools. As we've talked about earlier, the North America ADR actually being down 1% year-over-year. When excluding the impact of mix, it's actually down 4%. I don't think we've seen the full impact of all those. I think we're going to continue to improve and make the pricing tools better for our Hosts and then to make it more transparent for what the prices are that they should charge so that they know what a competitive rate is. And I think we'll continue to make sure that we're providing great value because while our prices are either moderating or even coming down, that's in the face of other competing platforms actually increasing rates. And so I think the value gap continues to grow which just shows the benefit of booking on Airbnb expanding.

Bernie McTernan

Analyst, Needham & Co. LLC

Q

Great. Thanks, Dave.

Operator: We'll go next to Jacob Seed at TD Cowen.

Jacob Seed

Analyst, Cowen & Co. LLC

Q

Hi. This is Jacob in for Kevin. Thanks for taking my question. We've been getting a lot of questions from investors on potential initiatives that Airbnb could do moving forward to increase take rate which could maybe include letting advertisers bid on a platform. Was wondering if you could provide any details there. Also, you discussed a bit in this call that you had already rolled out expansion tools in Germany and Brazil. I was wondering if you could comment on any of the results that you're seeing so far. Thanks.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

A

Yeah. I'll start. So with regards to increasing take rate, one of the things I'd learned -- actually Dave was somebody who told me about this. It's something from Jeff Bezos at Amazon. He said that one of the things you have to do as a business leader is you have to be focused and you have to focus on the most perishable opportunities first. And so I think that the most perishable initial opportunity at Airbnb was to get focused and disciplined and really rationalize our cost base. And then when we saw travel recovery, it was about getting market share. And I think that's still where we're focused on. So advertising on the platform is a common request.

Certainly, it's a common thing I get asked on earnings calls. It is absolutely on the table. I think Airbnb could do a very good job at it. It is not one of the most perishable opportunities. It's just why we haven't prioritized it. We're really prioritizing getting Airbnb to as much scale as possible and continue to grow. But it is absolutely on the table.

And just to dive into this a little bit deeper, there is such an opportunity for us to build differentiated tools, services and offerings for Hosts. If you think about it, over the last few years, we made, as Dave referenced, over 500 upgrades and innovations. Probably around half of those have been for Hosts, literally hundreds of improvements. And most of these we don't charge for. They have nothing to do with our take rate. Our take rate was what it was even before all of these. Like AirCover, which is top-to-bottom protection, with \$3 million of damage protection. That is free to our Hosts, and our competitors don't offer it.

I do think, though, while we always want to make sure we're providing more value for Hosts for whatever we're charging, there's a lot of opportunity. Obviously, an advertising platform is one. Matching people with homes that don't have time to host with Hosts, who can host but don't have a home, really matching that marketplace, that I think unlock a lot more business that we can call them co-Hosts, so creating a co-host marketplace is really interesting. And there's a plethora of other services on the Hosts side. And again, there's also a plethora of services on the guest side as well. So those – things that make the experience better I would say would be more perishable.

With regards to Germany and Brazil, I can pass it to Dave to just talk about it in a second. But before I do, I'll just say that we are, I think, the most international travel company in the world. We are not concentrated in Europe. We are not concentrated in North America. We're truly everywhere. We're in almost every country and region in the world. It's truly a global travel network. And I think we have a really good playbook for how to expand into these markets. And I think Germany and Brazil was a really interesting playbook where we didn't just focus on brand, but we also focused on PR, social media. We leveraged, like, local celebrities that often will do promotions with Airbnb.

And so there's a – and this is in addition to localizing our product and really making sure we have a key product and we have good supply in the corridors that these people will travel to. I think Germany and Brazil are good stories. Germany's more than 60% larger than it was before the pandemic and I believe Brazil is like 110% larger.

I don't know if, Dave, you want to go into anything else.

David E. Stephenson

Chief Financial Officer & Head-Employee Experience, Airbnb, Inc.

A

I think you hit it well, but I'll just reinforce a couple things. I mean, step one in any of these markets is make sure that we've well-localized the products. Usually, the product can be very consistent globally, but often payment methods are areas where we need to make sure that we're being very localized.

And then this full funnel approach is key, making sure that we have all of the elements, social and PR, celebrities, and brand, and search engine marketing. We often start in some of these markets just with search engine marketing, but that's too narrow, and we need the full funnel to see the effect. And I think when we have that full funnel approach, you get the results that we're seeing in Brazil and Germany. That's why we're expanding that onto Asia for both like Japan and South Korea.

And then, I'll even go back to the potential initiatives for a moment because I think it's important to double-click on the fact that you have to remember that the majority of our Hosts are individual Hosts, and the things that we

need to build are for those individuals. So for example, adding advertising, we have to be mindful that we don't just add something like that that can disproportionately benefit professional Hosts over individuals, and take the balance of the marketplace out of balance. And I think it's really important to do that because that's what's unique and different about Airbnb. We're not built on the backs of professional Hosts. We're glad they're there. We're glad they're part of the ecosystem, but it's even more important that we support our individual host community.

Jacob Seed

Analyst, Cowen & Co. LLC

Great. Thank you.

Q

Operator: We'll go next to Brian Nowak at Morgan Stanley.

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Thanks for taking my question. Now, Dave, just go back to an earlier question on ADRs being up in 3Q. I get geographic, size, location is better. But could you just give us a little more detail about that so we can understand, sort of, is that geographic comp structure, what are the sizes you're talking about? Just trying to understand how to think about the drivers of the ADR growth in the third quarter and the durability of that growth into next year.

Q

David E. Stephenson

Chief Financial Officer & Head-Employee Experience, Airbnb, Inc.

Yeah. I think what we're seeing in the near-term for Q3 is what we've included here. We're anticipating it to be up year-over-year, driven by foreign exchange and the mix shift of larger homes and geographic mix. I think over time because we're seeing things like Latin America growing nicely, Asia growing nicely, and more of a cross-border travel, you could see some moderation of our ADRs over time.

A

But again, we're talking moderation. We're talking 1 percentage point here or there. We have better visibility into Q3 right now, which [ph] think it's (32:59) going to be up year-over-year. Longer-term, it could be flat-ish to maybe moderately down over time. But the same time, we keep predicting that ADRs are going to decrease. And each quarter, it's been amazingly resilient throughout the last number of quarters. So I don't have much more to say beyond that.

Operator: We'll go to our next question from James Lee at Mizuho.

James Lee

Analyst, Mizuho Securities USA LLC

Great. Thanks for taking my questions. Two here. One on ADR. You guys talked about obviously North America decreased by 1%. I was wondering if you can maybe unpack between like-for-like and maybe mix shifts so we can better understand the dynamic? And also secondly, maybe can you talk about the price elasticity as you're allowing Hosts to use the tools [indiscernible] (33:54)? What do you see from consumer out there, travelers out there in terms of reacting to those price changes? Thanks.

Q

David E. Stephenson

Chief Financial Officer & Head-Employee Experience, Airbnb, Inc.

Sure. We obviously measure the price elasticity of our pricing, and we see a good benefit from lower pricing driving increased nights overall. We think obviously affordability is super important in people's minds all around

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the world. We definitely see it specifically in North America where [indiscernible] (34:23) prices have increased, that is the average price available on Airbnb have gone up, the booking price, that's what people are actually booking, are declining. So that just shows you the desire for people to have great value.

In North America specifically, what we saw was it was down 1% year-over-year. But like-for-like, so it means the same property on average excluding mix of size, location, and type, was actually down 4%. So on a like-for-like basis, our ADRs in North America was actually down 4%. And that's very different than what we're seeing the hotel industry kind of touting increases of 6% to 10% or more. So that's where the gap in value continues to widen.

James Lee

Analyst, Mizuho Securities USA LLC

Q

Okay. And one more question here, Dave. A lot of investors are asking about maybe student loan forgiveness expiration. I was wondering how you think about this issue, anything that's contemplating into your guidance for FY 2023. Thanks.

David E. Stephenson

Chief Financial Officer & Head-Employee Experience, Airbnb, Inc.

A

Yeah, I don't have a specific point of view on the student loan forgiveness and impact on guidance. I think what we're seeing is that in the face – people keep waiting for the economic shoe to drop, and get concerned about whether or not people are willing to travel and whether the economy is going to have a drag on our overall results. And it's just not what we're seeing.

We're seeing a strong resilience in travel, that people are prioritizing travel over other things. And all the work that we're doing to make sure that we're providing great value and even either moderating or having prices come down, just gives us greater value relative to alternatives, which I think is the tailwind on why we're continuing to, by all of our estimates, gain share of total accommodation nights, both quarter-over-quarter and year-over-year.

James Lee

Analyst, Mizuho Securities USA LLC

Q

Okay. Great. Thank you.

Operator: We'll go next to Ken Gawrelski at Wells Fargo Securities.

Kenneth James Gawrelski

Analyst, Wells Fargo

Q

Hi. Thank you. I want to come back to the ADR issue. And, Brian, if you could talk about – it was very helpful detail on the 4% kind of like-for-like in North America. But how do I square Dave's comments that you see overall ADRs kind of flattish over the medium-term with your comments that you want to continue to drive affordability? I know you've introduced some tools, and you're seeing some impact there.

And then maybe the follow-up to that is how will you know when the marketplace is in balance, and where you've kind of reached equilibrium, and the ADR's in the right place? Thank you.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

A

Hey, Ken. Yeah, I'll start. So I think affordability on our prices have to be taken into account relative to the rest of the market. Obviously, inflation is up. Most everything in the world is more expensive today than it was a year ago, and I presume that will be the case next year this time. We know, for example, that while our price in North America like-for-like are down 4%, hotels are at least 4% higher, and some estimates are they might even be approaching double-digits higher. And based on recent comments I've been hearing, I think they expect for prices to continue to go up.

So if we live in a world where Airbnb prices do not go up and they even remain flat or stable, and hotels continue to rise, then Airbnb continues to become more affordable relative to hotels, which are still a much larger audience than Airbnb.

Now – but that brings up a different question, which is how do you balance the right prices for guests and Hosts because of the marketplace. And so, we have Hosts. These aren't just like suppliers we have no relationship with. So our goal is not to drive down prices as low as possible. The prices have to find a balance between the very best affordability for guests, while still making sure Hosts can make a meaningful income and it's still really valuable income for them to earn.

Now, one of the things we've seen is there's a lot of sensitivity [indiscernible] (38:40) that we can show Hosts that when you lower your prices to a point, you actually will get more business, because most Hosts have very low occupancy. They're not like hotel. A hotel is usually booked 25 nights a month. Maybe some hotels are booked 30 days a month. Most Hosts are not booked most nights. And so, the big deal is if they lower the price just a little bit, they will add more bookings more nights, and they'll end up making more money. There's a point where they lower it so much, though, that it's no longer worth their while.

And that is the secret sauce, for us to be able to perfectly balance supply and demand to make sure that both sides, it's working for them. And I think that equilibrium, that balance between guests and Hosts, that kind of is one of our secret sauces.

Kenneth James Gawrelski

Analyst, Wells Fargo

Q

Thank you.

Operator: And next, we'll move to Tom Champion at Piper Sandler.

Thomas Champion

Analyst, Piper Sandler & Co.

Q

Hi. Good afternoon. Looks like you've built some tools to stimulate or offer long-term stays, and I'm just curious what you think that will ultimately do to the rate, which is, it kind of hovered around the 18% rate for room nights in the last couple quarters now. Where do you see that going over time? And then, Dave, I guess a question for you. Another very strong quarter for EBITDA margins. [ph] What (40:05) do you see the long-term margin potential of the business over time? Just curious if you've updated that. Thank you.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

A

Yeah, hey, Tom. I'll take the first one. So, long-term stays are 18% of our nights booked. Long-term stay's obviously defined by a month or longer. And as I mentioned before, they were around 13% before the pandemic.

Now, it's very hard to predict exactly how it will change in the next one, two, three, four quarters from now. So I'm not going to make a prediction about where 18% might be in Q4 or next Q1.

But what I can say with a fair amount of confidence is I think in the next decade it's going to be a lot higher than 18%. I think the overall wins are towards longer and longer stays. And the reason why is because more than ever in any time in human history, you've got hundreds of millions of people, and one day perhaps more than 1 billion people, that have a job via laptop that has some incremental flexibility that did not exist 10 or 20 years ago.

Think about the number of people that are young that don't have a family and can actually work from a laptop and move around. Then you have people with families that have kids in school. They can't do that, but their kids aren't in school in the summer. So you're going to see more and more people still go away for the summer. Many people are thinking about going away for the winter. People are moving away from headquarters, but they might come back, [ph] even work (41:24) for extended period.

So I think this basic thing we think is going to happen is there's going to be a lot more flexibility in the future, and I think there's going to be a category that is not travel and it's not classic housing, housing as in one-year leases or real estate. There's going to be a category in between, and it doesn't even really have a name, [ph] but are (41:45) stays of 30 days or longer, I mean, that is around 100 million nights booked a year. So that is actually a major new category of business that didn't really exist in a meaningful way when we started Airbnb.

And if anyone in the world wants to book a stay of a month or longer, and they're going to book [ph] sight unseen (42:04), so they're going to book a place they can't visit and do a tour ahead of time, I think Airbnb is going to be the leading place to do. And there really isn't another global player that you can do with this. So ultimately, I can't predict the short-term, but the long-term, we're very bullish, and we actually have a lot more features and upgrades in this area of monthly stays that I think will increase adoption, and also to be able to get people that only want to host on a monthly basis to come on Airbnb. That would actually unlock lots of new listings.

Dave, I'll hand over to you.

David E. Stephenson

Chief Financial Officer & Head-Employee Experience, Airbnb, Inc.

A

Yeah, thanks for the question on EBITDA margins. I am really proud of our progress towards it. We've made some substantial progress based on things like the change in our marketing approach, improvements in variable costs, our fixed cost leverage. Also remember that the higher average daily rates have helped our overall margins, so it kind of accelerated overall profitability. That said, we are in growth mode. I'm really not focused on optimizing margins. I'm proud of the fact that we can grow well and drive great profitable growth. But we are focused on growth.

I think the extent that we'll expand our margins over time, I think the biggest opportunity would be with some of the services that Brian mentioned earlier in the call. As we add guest or host services, I think that will increase the levers of revenue that we can gain, and much of that revenue will flow through to kind of higher overall profitability. But all of that said, I don't have a new long-term target. I'm just proud of the fact that we've been able to deliver the profitability we have as quickly as we have.

Thomas Champion

Analyst, Piper Sandler & Co.

Q

Thank you both.

David E. Stephenson

Chief Financial Officer & Head-Employee Experience, Airbnb, Inc.

Thank you.

A

Operator: Next, we'll move to Mark Mahaney at Evercore ISI.

Mark Mahaney

Analyst, Evercore ISI

Okay. I wanted to ask Dave, I wanted to ask a financial question on the impact of AI and gen AI. And I want to ask it this way, which is as you think about the P&L impact of these investments over time and applications, do you think it's more likely to lead to improved monetization or improved cost efficiencies? And I'm sure you're going to answer it's both, but if you would lean more on one way or the other, which one would it be? Thanks a lot.

Q

David E. Stephenson

Chief Financial Officer & Head-Employee Experience, Airbnb, Inc.

Thanks, Mark. Yeah, absolutely it is both. I think it's timing. I think in the near-term, I mean, remember that we actually use a fair amount of AI right now on the product, like we do it for our party prevention technology, a lot of our matching technologies, a lot of the underlying technologies we have is actually AI-driven. It's not so much gen AI, which is such a huge kind of future opportunity. I think we'll see more leverage in our fixed cost base, so needing fewer people to do more work overall. And so, I think that that's going to help both on our fixed costs [ph] and to more (44:49) variable costs, so you'll see us being able to automate more customer service contacts, et cetera, over time.

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So in the near-term, I think you'll see this is one of the things that we're going to be able to benefit from on our fixed and variable cost leverage. And then over more time, and I think it would be great to have Brian chime in on our future approach into gen AI, would be how do we even make the service better for our guests and our Hosts. And I think there's a huge unlock there, but it may take a little more time.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

Yeah. I'll just share a few things. I mean, I think, obviously as Dave said, probably efficiency in the short-term, growth in the long-term. Before I talk about the long-term, let me just double-click on one part of the near-term that Dave referred to, which is customer service. So customer service – the strength of Airbnb is that we're one of a kind. We have 7 million active listings, more than 7 million listings, and every one is unique. And that is really special, but the problem with Airbnb is it's one of a kind and sometimes you don't know what you're going to get.

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And so I think that if we can continue to increase reliability, and then if there's something that goes unexpected, if customer service can quickly fix or mediate the issue, then I think there will be a tipping point where many people that don't consider Airbnb and they only stay in hotels, would consider Airbnb.

And to give you a little more color about this customer service before I go to the future, there are so many more types of issues that could arise staying in Airbnb than a hotel. First of all, when you call a hotel, they're usually one property and they're aware of every room. We're in nearly every country in the world. Often a guest or host will call us, and they will even potentially speak a different language than the person on the other side, the host, the guest and host. There are nearly 70 different policies that you could be adjudicating. Many of these are 100

pages long. So imagine a customer service agent trying to quickly deal with an issue with somebody, two people from two different countries, in a neighborhood that the agent may never have even heard of.

What AI can do, and we're using a pilot [ph] of GPT-4 (46:51) is AI can read all of our policies. No human could ever quickly read all those policies. It can read the case history of both guest and host. It could summarize the case issue. And it can even recommend what the ruling should be based on our policies, and it can then run a macro that the customer service agent can basically adopt and amend.

If we get all of this right, it's going to do two things. In the near-term, it's going to actually make customer service a lot more effective because the agents will actually be able to handle a lot more tickets. In many of the tickets, you'll never even have to talk to an agent. But also the service could be more reliable, which will unlock more growth.

Now this, of course, leads to the bigger question. What can we do with AI? And I just wanted to offer a minute or two of thoughts. And I've shared this last earnings, but it's worth repeating. If you were to go to ChatGPT right now and you ask it a question, and I were to go to ChatGPT and ask it a question, we're going to get mostly the same answer. And the reason why is it doesn't know who you are and it doesn't know who I am, so it does really good with like immutable truths, like how far is the earth to the moon or something like that. And there's no conditional answers to that.

But it turns out in life there's a whole bunch of questions, and travel is one of these areas where the answer isn't right for everyone. Where should I travel? Where should I stay? Who should I go with? What should I bring? Every one of these questions depends on who you are.

And so, we're not going to be building, like, large research labs to develop these large language models. Those are like infrastructure projects, building bridges. But we're going to build applications on top of the bridges, like the car, and I think Airbnb is best-in-class at designing interfaces. I think you've seen that over the last few years. And we can design, I think, a breakthrough interface for AI. I do not think the AI interface is chat. Chat I do not think is the right interface, because if you want an interface that's multi-modal, it's text, it's image, and it's video, and you can – it's much faster than typing to be able to see what you want.

So we think there's a whole new interface. And also I think it's really important that we provide a lot of personalization, that we learn more about you, that you're not just [ph] an anonymous (48:59) customer. And that's partly why we're investing more and more in account profiles, personalization, really understanding the guest. We want to know more about every guest in Airbnb than any travel company knows about their customer in the world. And if we do that, we can provide much more personalized service. And that our app can almost be like an AI concierge that can match you to local experiences, local homes, local places all over the world.

And I think, the last thing I'll just say about AI is I think the companies that will best succeed in AI, well, think of it this way, which companies best adopted to mobile? Which companies best adopted to the internet? It was the companies that were most innovative, the most product-led. And I think we are very much a product-led, design-led, technology-led company, and we always want to be on the frontier of new tech. So we're working on that, and I think you'll see some exciting things in years to come.

Mark Mahaney

Analyst, Evercore ISI



Thank you, Brian. Thank you, David.

Operator: And that does conclude the question-and-answer session. At this time, I would like to turn the call back over to Brian Chesky for closing remarks.

Brian Chesky

Chairman, Chief Executive Officer & Co-Founder, Airbnb, Inc.

Hi, everyone. Well, thank you for joining us today. I just want to recap. Revenue was \$2.5 billion, that's 18% higher than a year ago. Net income and adjusted EBITDA were both Q2 records. And our trailing 12-month free cash flow was \$3.9 billion. Now, this represents a free cash flow margin of 43%. We've made a tremendous amount of progress in the first half of the year, but in many ways, we're just getting started. In November, we will share a new set of features and upgrades as part of our 2023 winter release. I'm proud of what we accomplished in Q2, and I look forward to sharing more with you next quarter.

Operator: And this concludes today's conference call. Thank you for your participation. You may now disconnect.

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