

01-Nov-2023

Airbnb, Inc. (ABNB)

Q3 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 Third 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.

Thank you. Good afternoon and welcome to Airbnb's third 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 third quarter of 2023. The guidance 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 would like to remind everyone that we'll 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 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 some non-GAAP financial measures. We 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.

With that, I'd like to pass the call to Brian.

Brian Chesky

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

All right. Well, thank you, Ellie, and good afternoon, everyone. Thanks for joining. I'm excited to share results with you. Q3 was another strong quarter for Airbnb. We had over 113 million Nights and Experiences Booked. Revenue of \$3.4 billion grew 18% year-over-year. Net income was \$4.4 billion. Now, this includes a one-time income tax benefit from the release of a valuation allowance of \$2.8 billion. But even excluding this tax benefit, adjusted net income was \$1.6 billion, our highest ever, and represented adjusted net income margin of 47%.

And free cash flow for the quarter was \$1.3 billion. In fact, on a trailing 12-month basis, our free cash flow was \$4.2 billion, which is also our highest ever. And because of our strong cash flow and balance sheet, we repurchased over \$500 million of our stock.

Now, during the quarter, we saw a number of positive business highlights. First, we have added nearly 1 million active listings this year. Our supply grew 19% in Q3 compared to a year ago. We once again saw double-digit supply growth across all regions, with the highest growth in regions with the highest demand. Urban and non-urban supply increased at nearly the same rate, and we saw relatively similar supply growth among individual professional Hosts, with the majority of new listings exclusive to Airbnb.

Second, Q3 was a record travel season on Airbnb. Nights and Experiences Booked grew 14% in Q3 compared to a year ago. We saw an acceleration of Nights growth across all geographies, and we were particularly encouraged by the growth of first-time bookers during Q3. And we saw more Nights than ever booked in the Airbnb app, with 53% of gross Nights booked in the app compared to 48% in the same period last year.

And finally, international expansion markets are gaining momentum. Cross-border nights booked increased 17% in Q3 compared to a year ago. In Asia-Pacific, our business has fully recovered to pre-pandemic levels. And we're seeing significant growth in Asia-Pacific markets such as Taiwan, Thailand and Indonesia, all experiencing year-over-year nights growth above 30% on an origin basis.

Now, we've been able to achieve these results by continually making progress on our three strategic priorities. First, we're making hosting mainstream. We've been focused on making hosting as popular as traveling, and our Q3 results show that our approach is working. We ended the quarter with our highest number of active listings and we saw strong active listings growth across all regions and market types.

And Hosts are benefiting. During Q3 alone, Airbnb Hosts earned more than \$19 billion. We'll continue growing supply by raising awareness around hosting, making it easier to get started, and improving the overall experience for Hosts.

Second, we're perfecting our core service. We requested millions of pieces of feedback on how to improve Airbnb, and two years ago, we started doing twice a year product releases to address this feedback. And since then, we've launched more than 350 new features and upgrades across our entire service. And in the past year alone, this has included things such as improved customer service, total price display and new tools to help Hosts set more competitive prices. These upgrades are paying off for both guests and Hosts.

For example, we redesigned our tool and we made it easier for Hosts to add discounts and promotions. And now, almost two-thirds of Hosts offer weekly or monthly discounts. We also added a new feature called Similar Listings that lets Hosts see listing prices in the area so they know what to charge. And since we launched the Similar Listings tool, nearly 1 million Hosts have used this feature.

And in September, we shared progress we've made to help lower cleaning fees, reduce prices, and improve search and reliability. We have even more improvements coming as part of our November 8 winter release next Wednesday, where we'll introduce dozens of new features aimed at making Airbnb more reliable.

And finally, our third strategic priority is expanding Airbnb beyond our core. Now, we made significant progress over the past few years in building a strong and profitable business. And in addition to laying the foundation for new services and offerings, we've been focused on international expansion. We are investing in underpenetrated international markets, and we're seeing great results. Following the success we've seen in recent quarters in

Germany and Brazil, Korea has now become one of our fastest-growing countries compared to 2019, with gross nights booked 54% higher than they were in Q3 2019 on an origin basis. As international travel continues to recover, we're building greater momentum for Airbnb in underpenetrated markets.

So, those are our results for Q3. With that, Dave and I look forward to answering your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll take our first question from Mark Mahaney at Evercore ISI.

Mark Mahaney

Analyst, Evercore ISI

Q

Thanks. Can I throw two questions in? You talked about some of these improvements you're seen in markets like Germany, Brazil and Korea. Could you just spend a little bit more time on that opportunity going forward? And is it the expectation now that Germany and Brazil are already optimized so you just keep optimizing other ones or does it take a while to monetize those?

And then, secondly, in terms of future services that you could offer to sellers, any update on when we could see those, particularly things like sponsored listings for sellers? Thank you – for Hosts, I mean. Thank you.

Brian Chesky

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

A

Yeah. Hey, Mark, this is Brian. I'll take it. Let's first talk about international expansion. So, it's a great question. And as everyone recall that's probably aware, Airbnb is in 220 countries in the region. So on the one hand, we're one of the most global like companies in all of travel. We're a truly global travel network. At the same time, Mark, what we've seen is that our penetration nights stay is significantly higher than our penetration in many other countries. And we think there's a huge amount of growth if we could just get Airbnb to even a fraction of the percentage of penetration that we have in the United States.

So last year, we decided to roll out this updated playbook. We rolled it out in Germany and Brazil. It's kind of a full – like a fully four-pronged approach and involves some products optimization, PR, local marketing and just general optimization on the ground in these regions. And what we've seen in Brazil is now double the size as it was pre-pandemic. We rolled that same playbook out to Korea. It's now 54% higher than it was before. But what I would say is we've just scratched the surface of what we can do in Germany, Brazil and Korea.

I think those markets are on a good trajectory. They can be significantly larger. And we're now looking at Japan and India, China, around Asia-Pacific. We have some optimizations in Southeast Asia, continual growth in Mexico. There's a number of other countries, in addition to a number of areas in Europe, where we think we can see a lot more growth.

So I think the next 24 months, we're going to see a major acceleration in our penetration in a lot of these markets. There's about a dozen, dozen and a half markets around the world, as you know, that have large tourism opportunities, and we're really focused on that. And that's going to be one of our biggest near-term expansion opportunities.

With regards to future services to sellers, we don't have anything to announce right now. But what we've been doing is we've been building the foundation of our systems so that we can have these new tools and services, including sponsored listings. And we also, not recently, we've been rolling out a pilot for co-hosting. Co-hosting is a service where we match Hosts that don't have homes but have extra time with homeowners that have space but they don't have time to host. And we've been doing these pilots in France, we've rolled it out in parts of the United States, and this is turning into a popular service that we think can unlock a lot more supply.

So, we're going to – over the next couple years, I think you're going to see a number of new services roll out for Hosts.

Mark Mahaney

Analyst, Evercore ISI

Q

Okay. Thank you, Brian.

Operator: We'll go next to Eric Sheridan at Goldman Sachs.

Eric J. Sheridan

Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much for taking the question. I just have one. Brian, in a number of interviews in the quarter, you talked about a potential for product roadmap over the longer term, different products that could probably expand elements of the platform, car rentals, maybe even long-term apartment rentals. How do you think about product evolution that's being offered to the consumers on the platform and thinking about investing behind those initiatives? Thanks.

Brian Chesky

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

A

Yeah. Hey, Eric. I mean, just to step back, the last few years, I think we've really, really benefited by being focused. When the pandemic occurred, we felt like we had to hunker down, get really lean, get really focused. We went from basically a breakeven company to now a company doing obviously cash flow margins of around 44% of revenue. So, we've really benefited from this [indiscernible] (11:41) and really benefited from focusing on our core business.

To your point, Eric, I think we are now getting ready to re-expand Airbnb beyond its core. It was always our intention to do much more than just short-term housing for travelers. It was always our intention to do more of that. So, we're working on making Airbnb more of extensible platform. And I think ultimately, there are actually quite literally dozens of services for guests and hosts that we could build on top of the Airbnb system. I think a lot of it comes down to making the platform extensible so we can offer these services.

I think at the end of the day, we're really thinking about a couple big ideas. First, I think that we are thinking about generative AI as an opportunity to reimagine much of our product category and product catalogue. So if you think about how you can sell a lot of different types of products and new offerings, generative AI could be really, really powerful. It can match you in a way that you've never seen before. So, imagine Airbnb being almost like the ultimate travel agent as an app. We think this can unlock opportunities that we've never seen.

Additionally to that, there's a lot of opportunities on both the guest side and the Host side. And so, we're going to be thinking through a lot in there. So, you'll see hopefully some updates in the coming years.

Eric J. Sheridan

Analyst, Goldman Sachs & Co. LLC

Thank you.

Q

Operator: We'll move to our next question from Brian Nowak at Morgan Stanley.

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Great. Thanks for taking my question. I have two. First one, maybe on the guide a little bit, I know there's a lot of moving pieces between the revenue comments and the ADR comments and the take rate. Just sort of wanted to confirm, are you guys sort of looking to guide room night growth in sort of the high-single, low-double digit range in 4Q? Is that the right way we should be thinking about with take rate and things?

And then, the second one, Brian, I know you have a lot of innovation. You have 350 features and upgrades, et cetera. Can you just sort of give us one or two of them that you think could be most impactful to accelerate that room night growth as we go into 2024 and 2025?

Q

Brian Chesky

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

And Brian, sorry, are you referring to things we've already shipped or things that we're working on that we haven't shipped?

A

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Well, either way you want to go. Yeah, yeah. If you have ones that have already shipped, that'd be great. If you have other ones that you want to tell us about next week, that'd be good, too. [indiscernible] (13:57).

Q

Brian Chesky

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

Yeah. So, let me – why don't I answer the innovation, and Dave, you can talk about the guide for going forward. So maybe let me talk about some things that we've already done, and I can give you a little bit of sense of how we're thinking about next week and beyond. So, we did over 50 upgrades last May. It was based on the idea that millions of customers have given us feedback, actually both guests and Hosts on how to improve Airbnb, [ph] and we listened (14:23). And if I were to just call out three things, Brian, I would just call out three things, would be total price display, pricing tools for Hosts and monthly stays. So, let me just go through three and what happened.

A

On total price display, we rolled out total price display before taxes. This is based on popular demand. We are now the only travel app of our kind that actually does this. Since we rolled this out, 260,000 listings have removed or reduced their cleaning fees. We now have 3 million listings in Airbnb that do not have a cleaning fee. So, we think this is working. We also think people are now being steered towards better total value on a total price inclusive of all costs basis.

The second are pricing tools. Since we rolled out new pricing tools, about half of new listings are now offering a monthly discount. We also have this new tool called Similar Listings where you can see where other people are charging around you. And this [indiscernible] (15:20) find has been the best way to make sure our Hosts have competitive prices. Because Hosts are usually surprised to discover the listings that get the most bookings around

them offer a better value. And it's always really hard to know what your home is worth and what you charge. And so, the best thing you can do is get people transparent data. 1 million people have used these tools.

And probably the thing I'd point to is while this time, year-over-year, in September data, hotel prices are up 10%. Airbnb prices globally are only up 1%. So, we are definitely moving in the right direction. Now in North America, on a mix shift and FX neutral basis, our price is actually down 3% in North America, while hotels are up towards double digits, I think.

So, the last thing I'd say is monthly stays. We obviously announced a bunch of updates on monthly stays, including you can pay by bank, we lower fees after 3 months, we have a whole new really cool interface, and stays for three months or longer are now growing nearly 20% year-over-year.

So, those are just three things we've seen. I think what we have learned is like as we listen to customers, we adapt quickly. We can drive incremental growth.

As far as what's next, obviously, we don't talk about too much before it will release. I will say, though, next Wednesday, we are focused on some pretty big opportunities around reliability.

So, this is the last thing I'll say about this. If you think about how big Airbnb is, for every person who stays in Airbnb, approximately nine people every night stay in a hotel or about nine bookings. The hotels are about an order of magnitude bigger. And when you ask people why do you book a hotel and not an Airbnb, the number and reason they come up with is usually reliability, that they know what they're going to get before they book. It kind of speaks to the strength and weakness of Airbnb that, on the one hand, it's one of a kind; other hand, that one of a kind offers variability that not every person wants. And so next week, we're going to have some new offerings that I think will make a pretty big [ph] dent (17:17) in this.

So, that's what I can say. I think I'm pretty optimistic about what you'll see next week. And of course, we're already working on stuff for next May and next October releases as well. So hopefully, stay tuned.

David E. Stephenson

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

A

And then in terms of the guidance, Brian, for the fourth quarter, we have our revenue guide that's between \$2.13 billion and \$2.17 billion. So, that's revenue growth between 12% and 14%. And remember that in Q3, our revenue growth, excluding the impact of foreign exchange, was about 14%. So – and we're not anticipating the same level of FX impact on the fourth quarter. So broadly, our revenue growth is a relatively comparable between Q4 and Q3.

In terms of the nights guide, we're just seeing some variability in our nights demand here early in the quarter. And so, we're just being cautious with that guide. And so, we're not being specific on it, but anticipate nights to be a few points below – nights growth to be a few points below Q3.

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Q

Thank you, both.

Operator: We'll move to our next question from Lee Horowitz at Deutsche Bank.

Lee Horowitz

Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Thanks so much. Can you maybe help us think about how you guys are tracking towards expectations on occupancy or utilization moving forward? As you guys extend beyond the core into newer markets, do those markets come with occupancy or utilization headwinds that we should be thinking about? And holistically, how you guys think about how occupancy or utilization may track next year?

And then maybe just one high level one, thinking beyond the current cycle, we've seen a lot of other online travel models sort of hit this low-teens to high-single digit growth rate and decelerate from there or not be able to reaccelerate their businesses in a meaningful way. Can you maybe take a step back and help us better understand how you think that maybe Airbnb may be a little bit different than prior iterations that we've seen and can perhaps sustain sort of that double-digit revenue cadence over a longer period of time than what we're used to in the market? Thanks so much.

[indiscernible] (19:22)

Brian Chesky

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

A

Oh, yeah. Yeah, you start with occupancy and I'll take the second question.

David E. Stephenson

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

A

Great. Yeah. In terms of occupancy, we've actually seen that be pretty stable in terms of kind of on a global basis. I mean, if you actually step back, you have to remember that the vast majority of our Hosts on Airbnb are individual Hosts. They're not looking to drive 100% occupancy of all their listings. And what they want to do is earn enough money to usually hit some certain amount of financial goal.

So as we continue to grow our inventory, we're continuing to see strong occupancy levels overall. Clearly, we grew our inventory at 19%, which is ahead of kind of revenue growth in the current period. But if you actually step back and look over like a four-year period, go back all the way to 2019, the growth in our overall listings has actually been relatively similar to our overall growth in nights. So, that occupancy over an extended time period tends to be fairly stable, while in any short-term time period, it can have a little bit more volatility. But overall, again, we don't focus on occupancy as a primary driver, but we monitor it on locale by locale because what really matters is that we have great available listings in a specific market on a specific date.

Brian Chesky

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

A

Hey, Lee. I'll take the second question. Yes, I think that as I said before, I think we're only scratching the surface of how this company becomes, and I absolutely think that we can get to really solid double-digit revenue growth for many, many years to come.

And there's three things that I'd point out. The first is our core business. I think our core business could be significantly larger than it is today even if we didn't do anything new. And the reason I believe this is the following. I believe that almost every single person who stays in a hotel could stay in an Airbnb if, number one, they knew about all the benefits of Airbnb, and number two, we made sure that our service was sufficiently reliable to be an alternative.

So, let me start with those two. We've done recently a new marketing campaign that's called Airbnb It, and it basically contrasts the benefits of an Airbnb versus a hotel. And based on our research, one of the things we've noticed is that a lot of people that stay in hotels don't understand some of the unique benefits of staying in an Airbnb and why it is better for certain types of trips.

And one type of trip that Airbnb is almost always better is when you're traveling with three or more people. If you're traveling with a family or you're traveling with a group, why do you want to stay in different rooms versus – different rooms separated or have them stay in the same [indiscernible] (22:04) go to bed all at the same time and then the only place you can meet is these crowded lobbies, when you can get a whole home all to yourself.

So, this is – we've been running these digital campaigns. It's the highest performing digital campaign we've ever done, and this is going to be the basis for a new major new marketing campaign next year.

Additional to that, as I mentioned before, if we just keep focusing on reliability, making sure that when you book, you know what you're going to get, and if there's ever a problem, you have an excellent customer service that is nearly as good as the front desk or as good as the front desk, than I think there could be in the years to come a tipping point where many people could choose Airbnb. So, that's just our core business.

Next is international. Even though we're in 220 countries and regions, there's only a couple countries where we even have penetration that rivals the United States. And those countries are Canada, Australia and France. After that – UK a little bit – it really starts to tip down. And so, we have like massive, massive opportunity just by bringing Airbnb's playbook to these other countries.

Obviously Germany, but not just Germany, like actually the entirety of Northern Europe, Eastern Europe, and even Italy and Spain, basically every country but France and UK, there's – they're at a step change lower penetration. Latin America is a completely new market for us, emerging. Asia-Pacific, I would argue, is a completely new market. We can be adding huge amounts of growth just by our expansion playbook.

And then, finally, yeah, I mean, I would say just on new products and services, though we're not disclosing anything that we're doing new right now, here's what I'd say. I think the biggest strength I have as the CEO is not driving profitability, even though we've done a really good job. I think it is literally inventing new products and services. It's why we've hired so many great technologists, designers, and I think this is going to be a sweet spot for us.

We're obviously not going to talk about new things before we ship them, but twice a year, every May and every November – October, November, we're going to be hopefully putting out going forward new ideas that I hope really increase the addressable market for Airbnb. And I think that we can do much more than just short-term housing. But again, I think short-term housing is still a huge opportunity for us.

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

Doug Anmuth

Analyst, JPMorgan Securities LLC

Q

Thanks for taking the questions. First, you called out the greater volatility in early 4Q. Just curious if you have any view of whether that's more macro-driven or geopolitical. And then, curious if you have a sense of kind of visibility in any kind of bookings into 2024, and perhaps, maybe how that visibility compares now versus a year ago. Thanks.

David E. Stephenson

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

A

Yeah. It's hard to completely pin down the root cause of any kind of softness or volatility. I think it is – just broadly, what we're seeing is a little bit of softness in our overall kind of demand relative to Q3. We call out kind of the macroeconomic and geopolitical just because that is what's, I think, driving any volatility that's out there.

It's early. I think I'm feeling confident about our revenue growth for Q4 being 12% to 14% growth, and in fact that that remains stable with Q3, I think, is very promising.

Our early visibility into 2024 is – again, it's too early to tell. I think I'm feeling great about our overall playbook and plans, as kind of Brian just mentioned. I think I am most excited about the additional efforts we're making to get greater penetration in our international markets. And overall, I'm seeing solid demand for Airbnbs. Like people are still prioritizing travel over buying things. So, I'm very bullish on the long term.

Doug Anmuth

Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: Next, we'll go to Jed Kelly at Oppenheimer & Company.

Jed Kelly

Analyst, Oppenheimer & Co., Inc.

Q

Hey, great. Thanks for taking my question. Can you just give us further update on the regulations you talked about in the shareholder letter? And then, Google announced a new update to their vacation rentals, where they're essentially letting property managers show their price. So, can you talk about how you're seeing some of the changes Google is making? Thank you.

Brian Chesky

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

A

Hey, Jed. I'll take regulation. So, yes, I would generally say over the last decade, we've been really remain encouraged by the general trajectory of regulation.

Here are a couple stats. Currently today, 80% of our top 200 markets already have regulations on the books. And these regulations, though they vary, generally have found workable solutions for home sharing for us to continue to grow and thrive. And I'd point out like the country of France has passed national legislation that is very, very favorable and workable. We've had cities near us like Seattle or San Diego that have passed really favorable legislation.

I will probably contrast that to New York City, which has completely gone a different direction. And unfortunately, I thought when we started Airbnb, that we could develop a model [indiscernible] (27:13) that if we can make it in New York, we can make it anywhere and that other cities that adopt the legislation that New York's adopted.

It turns out that's actually not the case. In fact, New York has gone a different direction, and I think is going to turn into a cautionary tale because what we're already seeing is hotel prices in New York are now up 8% year-over-year. A one-bedroom or a studio in New York seems to be about \$500. A lot of people can't even afford to go there anymore. We are seeing more bookings in Jersey City and the perimeters around New York City. And I do

anticipate more and more activity will probably go underground, which is probably not the intention [ph] that people being passed a lot (27:49).

So generally speaking, we're seeing the trend line to be generally really, really constructive. We built the City Portal, which is a one-stop shop for cities to be able to self-serve to get data and monitor the type of activity happening in their city. We have 400 cities on the City Portal. And generally, what we're seeing is that a lot of cities in a pandemic or post-pandemic era have reached out to us wanting to make sure that they are able to benefit from economic dollars going to their city, and we paid \$9 billion in hotel tax. So generally, it's gone fairly well.

It is going to be notable that if you just read the news, you're always going to seem to be reading about a city, something happening in New York, because we're in 100,000 cities and nearly all regulations happen at the municipal level. So, it's kind of a long slog to be able to work with these cities because there's so many of them and there's not a lot of standardization. But generally speaking, notwithstanding New York, we are seeing a lot of positive developments.

And then on the Google question, Dave, [indiscernible] (28:52)?

David E. Stephenson

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

Yeah, I can take this. I mean, we're not going to respond directly to any kind of specific thing that Google is doing. I think if you do step back, though, and remember that the vast majority of hosts on Airbnb are individual Hosts. Approximately 90% of them that the majority of those listings are unique to Airbnb and you can only get them here. I think that that is one of the larger kind of defensible moats that we have, which is if you want to have an amazing stay, if you want to have unique listings, you come directly to us. And we're really not seeing the impact of the competition taking additional share from us. In fact, we continue to take or increase our relative share of listings in the market continually. And this is why we're continuing to grow at faster than the overall kind of travel market. So, don't have much more to say beyond that.

Brian Chesky

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

Yeah. Maybe the only other thing I'd say – maybe the only other thing, Jed, I'd say is we're just seeing a lot of strength in mobile bookings. You can think of mobile bookings essentially like direct. It's not people not going to Google. 53% of our gross nights booked last quarter were on native mobile apps, essentially iOS and Android, and that is up from a year earlier, which was less than 50%. And again, I'll just say 90% of our traffic is direct or unpaid.

So we think the strength of our brand, the strength of our app, the strength of people coming direct to Airbnb is key. And the reason it's direct is because the inventory is unique. It's not commodities. The majority of Hosts don't list anywhere else. We build custom tools for them. So that's our general theory, to build unique inventory that allow people to come direct to Airbnb, and I don't see that changing.

Operator: We'll move next to Nick Jones at JMP Securities.

Nicholas Jones

Analyst, JMP Securities LLC

Great. Thanks for taking the questions. Brian, you talked about Airbnb's pricing maybe not increasing or it's down while hotels are up. I mean, how do you feel about the average pricing on Airbnb today? Is there still room to kind of maybe get those lower?

And I guess as you talk about some of the marketing and advertising campaigns, do you think kind of travelers or consumers view Airbnb as a premium offering, a discount offering? Is the reliability kind of the trade-off? I guess can you kind of maybe paint the picture a little bit more as to kind of what you feel consumers' hesitation is to maybe book an Airbnb and how much pricing plays a role in that? Thanks.

Brian Chesky

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

A

Yeah. Hey, Nick. Let me start with pricing, and then I'll talk about the general offering. When we started Airbnb, our original tagline was a cheap affordable alternative to a hotel. And the primary reason people chose us in the early days was price.

Now, once they used it, we used to say money is the hook but the experience is the reason you keep coming back. Because it also turns out when you stay in Airbnbs, you're often typically in a real neighborhood, not a hotel district, you have this really cool space, you can make a meal, you have a lot more – much more equipped home. Sometimes, there's a local connection to the community, if that's what you're looking for. But affordability has always been one of the most important benefits that we have in Airbnb. And I do feel like we still have opportunity for our prices to be even more competitive.

There's a really interesting thing we discovered. Within reason, generally when Hosts lower the prices, they tend to make more money and this is typically not true with hotels, right? Because if you're running at 80% occupancy and you lower your prices per night, you typically don't have a lot more room to make up the lower prices with higher occupancy and so you'll typically lose money. But many of our Hosts run at low enough occupancy and they always have that if they lower the price just a bit, they can sell more nights. And so we think there's a win-win where if we continue to encourage Hosts to offer more competitive pricing, it's a win for guests, but it's also a win for many of the Hosts.

And I would also just point out that in addition to pricing tools, you need to have ample supply. Supply, I just want to highlight again, is growing 19% year-over-year. This was a huge question, by the way, 18 months ago, could Airbnb reaccelerate to nearly 20% supply growth and we are approaching 20% supply growth. I think that is really, really key.

So to answer your question, we made huge progress last year, but prices are up quite significantly from pre-pandemic for Airbnb and hotel. We're both up a lot and my hope is whether or not prices come down on Airbnb further in the next year or two, my hope is while hotels will almost undoubtedly keep increasing year-over-year, our prices will continue to be a little bit more – they'll be more moderated.

And that goes to the next question. We actually think there's a very high correlation or relationship between ADR and Nights growth. And the higher the ADR, typically the lower the Nights growth, and the lower the ADR, typically the higher the Nights growth. So there's a trade-off there and so we think that as we continue to be more affordable, we'll continue to stimulate more demand.

Now, the interesting thing with Airbnb is that we're not really one type of offering, right? Southwest is a budget brand. Louis Vuitton is a luxury brand. Apple's kind of like a luxury brand for like a lot of different people, but they do have like premium prices.

Airbnb's offering really is one of the most unique and resilient models. I mean, we are one of the most popular brands for people under 30 in travel, probably the most popular brand for people under 30. But we're also very much a family travel brand because homes accommodate families much better than typically hotels. We're not just an urban brand. We're a rural brand, a vacational brand. We're not just a North American brand. We're a global brand.

So one of the things we [ph] highlight in (34:38) public is that we literally have something for everyone but as we continue to get more affordable, I think that's going to continue to drive a lot more growth for us.

Operator: And next, we'll go to Ron Josey at Citi.

Ronald Josey

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks for taking the question. Brian, I wanted to ask a little bit about your comments on first-time bookers. I'm just trying to understand a little bit more on the drivers that are attracting these new bookers. Are they doing this directly through the brand, Airbnb, through the app? And just trying to understand a little bit more as you're expanding the pie and getting more supply how users are coming to the site, point number one.

And second question's just on progress with Experiences, if there's any update there. Thank you.

Brian Chesky

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

A

Yeah. I mean, Dave, you can feel free to jump in on this. But at the highest level, we generally are seeing that the vast majority of first-time bookers still come direct to Airbnb.

So I'll just kind of step back. The number one way, reason people come to Airbnb is because a friend or a family member told them about Airbnb. And so we primarily grow through word of mouth. After that, then we have a lot of earned media. We have 500,000, 600,000 press articles a year. I mean, the share of voice of Airbnb compared to most travel companies is overwhelming. We have a greater share of voice than almost all the other major travel brands combined.

We also have a huge amount of presence on social media. You might have heard a few months ago about the Barbie house rent in Airbnb or the Shrek house. And so we get a lot of earned media. And then beyond that, we do these pretty big brand campaigns and the vast majority of our marketing spend that we do spend on advertising is not performance marketing. It's brand marketing. It's really marketing education around our unique product offering.

So we do do performance marketing, but we think unlike other travel companies, it's not necessarily a way to buy customers. It's literally more like a laser that we use to hone in on balancing supply/ demand and we really can use it to optimize certain markets. So a lot of it remains direct. Again, 90% of our traffic is direct or unpaid. I think that's been pretty consistent.

On Experiences, again, I don't have anything new to share now. I'll just say the following. We are actively working on updates to this product. As much as people love homes, I think 84% of people who book Airbnb and leave a review leave a 5-star. We even have a higher customer satisfaction with Experiences. 94% of people leave 5-star reviews.

So we haven't updated this product yet because we just had our hands full, really trying to focus on the most [ph] perishable (37:17) opportunities which was recovering from the pandemic, improving our core service, and addressing the needs of customers. But we should have some updates coming in the coming – obviously coming next year and beyond on this product. And so you'll see we're continually investing in this product.

Operator: We'll go next to Kevin Kopelman at TD Cowen.

Kevin Kopelman

Analyst, TD Cowen

Q

Thanks a lot. Could you touch on your vision for building more of a travel community on Airbnb, and maybe the timeline you expect for rolling out some of the new community features that you've talked about a little bit? Thanks.

Brian Chesky

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

A

Yeah. Hey, Kevin. Yeah, I think – let me just explain what I even mean by travel community. I think one of the biggest visions that we have as a company isn't just to be a marketplace to book homes but to build literally, quite literally a global travel community where you can get homes and experiences and a variety of other services all in one place. We can provide a lot of offerings for guests and Hosts and that we can use some emerging technologies like generative AI like take the GPT-4 model where the Airbnb app could be like the ultimate travel agent.

So to do this, there's a number of things that we've been investing in. The first thing is identity and account structure. So on most travel companies, you can book as a guest and they don't even have account information. And you can sign up with an account, but you can also check out as a guest and they don't have the same robust account information that we do. On Airbnb, 100% of the bookers and 100% of the Hosts have to have a verified ID associated to their account. They have robust profiles. About 70% of people on the guest and Host side leave reviews to the other people. So this really does demonstrate how Airbnb's a little bit of a different community.

We think that if we continue to invest in the profile and we can continue to invest in our system of trust, then as we learn more about guests and Hosts, we can then match them for more types of offerings on Airbnb. And so this is, I think, really what we're starting to see.

And the reason that AI is so powerful is I'll just cover two opportunities. Number one, I think that AI is going to affect – this is an obvious statement I think, digital businesses more than brick-and-mortar businesses. So Airbnb and OTAs are probably going to benefit more quickly from AI than, say, a hotel will just because Airbnb and OTAs are more digital. And so the transformation will happen at the digital surface sooner.

One of the areas that we're specifically going to benefit is customer service. Right now, customer service [indiscernible] (39:52) really, really hard, especially compared to hotels. The problem is imagine you have a Japanese host booking with a – hosting a German guest, and there's a problem and you have these two people speaking different languages calling customer service. There's a myriad of issues. There's no front desk. We can't go on-premise. We don't understand the inventory, and we need to try to adjudicate an issue based on 70 different policies that can be up to 100 pages long.

AI can literally start to solve these problems where agents can supervise the model that can, in seconds, come up with a better resolution and provide front desk level support in nearly every community in the world. But probably more importantly, Kevin, is what we can do by reimagining the search experience. Travel search has not really changed much in 25 years since really Expedia, Hotels.com. It's pretty much the same it's been, and Airbnb, we fit that paradigm. There's a search box. You enter a date, location. You refine your results, and you book something and it really hasn't changed much for a couple decades.

I think now with AI, there can be entirely different booking models and I think this is like a Cambrian moment for like the internet or mobile for travel where suddenly an app could actually learn more about you. It could ask you questions and it could offer you a significantly greater personalized service. Before the internet, there were travel agents and they actually used to learn about you and then travel got unbundled. It became self-service, and it became all about price. We do think that there's a way that travel could change and AI could lead the way with that.

So these are some of the things we're thinking about, and I think it's really, really exciting. And we're just the beginnings of this.

Operator: We'll move next to Justin Post at Bank of America.

Justin Post

Analyst, BofA Securities, Inc.

Q

Great. Thanks for taking my question. Supply is up 19%. How do you think about that as a leading indicator for room night growth, and how do you maybe accelerate night growth to capture that?

And then second question is on ADRs. Is that supply coming in higher, lower, similar ADRs? And I don't know, Dave, if you can give us any thoughts on positive and negative drivers for ADRs next year. Thank you.

David E. Stephenson

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

A

Sure. Yeah, I'll start with ADR and then I'll go back to growth. I mean, on the ADR side, it varies a little bit by market. We have seen, depending on the market, the ADRs of new listings coming in a little bit higher than they were the average current ones. But what actually ends up happening is people are booking lower ADR places and so that's kind of the offset. It depends on what's available and versus what's booked. And it does vary a little bit by region between North America and Europe on what the prices are.

In North America, we're seeing more of the prices come down, and I think that's been a good indicator of strength for us going forward. And in Europe, the ADRs have been a little bit more elevated and we're hoping that with some more of the work that we've done to improve Host tools and give greater visibility to Hosts and how they're pricing, that we'll continue to be able to kind of moderate ADRs in Europe going forward, too.

So that's on the leading indicator. I do think that the strength of 19% listings growth is a great leading indicator of what we're capable of growing over time. As I said earlier, the overall growth of Airbnb since 2019 nights growth has been actually relatively minor to total growth of supply, and I'm really bullish that we can get more supply coming on, which will have more quality supply coming in, which will also can drive down actually the prices because the more supply that comes onboard, maybe back to your first question, then the more likelihood that we can actually bring prices down in the market or at least moderate them so they don't grow as fast as competing supply.

So I'm really bullish on our overall growth. It's been great to see the strength of our listings growth this year.

Brian Chesky

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

And maybe, Justin, I'll just say that like this is my intuition having done this for almost 16 years of my life. I think that supply is even more important than it seems on the surface. Ultimately, when you're tiny and no one ever hears about you, one of the big levers is awareness but once you're a brand like Airbnb that's known and really [indiscernible] (44:12) used all over the world, supply growth becomes a very important like long-term leading indicator.

And so long as we make sure we have healthy supply growth and then we continue to improve reliability and promote Airbnb globally around the world, then that is a very, very healthy long-term indicator. And we'd love for that number to even be higher.

Operator: We'll go next to James Lee at Mizuho. James, your line is open. You may be muted.

James Lee

Analyst, Mizuho Securities USA LLC

Great. Thanks for taking my question. Two questions here, Dave. I remember at the beginning of the year when you were guiding ADR down about mid-single digits, you were talking about leverage and like variable expenses like payments and [ph] cloud. (45:07) Just wondering where you are in that process, how much to unlock going forward.

And secondarily, on sell-side marketing, looks like supply is greater than demand right now. Is it fair to assume we're shifting more demand side advertising going forward, and can you talk about the implications there? Thanks.

David E. Stephenson

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

Yeah, I'll start with sales and marketing. We're not actually shifting more to demand side marketing. I think what we're seeing is exactly the success that Brian talked about earlier on the call. The vast majority of our traffic is direct or unpaid. The first reason why people come to Airbnb is they're referred to us by family and friends. They come directly to us. The brand marketing certainly kind of helps talk about all the features and benefits of Airbnb, and we use our search engine marketing as kind of a laser to focus on areas where maybe we have less demand than we have supply or in specific countries where we want to focus and kind of grow the overall kind of pie for us. So it is not the primary driver of it, but this overall strategy of leading with brand and then following with surgical on our search engine marketing continues to work really well for us.

And then in terms of the ADR, I think that the unlock of the variable expense improvements we've been making has just continued to enable us to drive profitable growth, right? We have our fixed cost growth discipline has been excellent and probably grow our fixed head count this year approximately 4%. So we're growing our head count and fixed expenses less than revenue. We continue to make great strides of improvement in our operations and support. And Brian talked about a lot of the opportunities we have going forward in customer service.

And then we're continuing to make good strides in cost of payments, our infrastructure costs, et cetera. That's not our primary driver. Like our primary focus is still on growth, growth of the business and making hosting

mainstream, perfecting the core service, and expanding beyond the core. And the fact that I can do all of those things and do it while still doing it profitably and actually expanding our overall margins this year is something that I'm just very proud of.

Operator: And we'll move to our next question from Lloyd Walmsley at UBS.

Lloyd Walmsley

Analyst, UBS Securities LLC

Q

Thanks. My question, you guys have been talking a lot about innovating on the search experience like working on gen AI, the community side, things like co-hosting. Do you see a path where some of these features over the longer term like community and search drive enough differentiation that you could bring on more traditional supply, things like boutique hotels in such a way that you kind of expand your addressable market and revenue per user while still sort of preserving enough that's unique about Airbnb? Is that sort of make sense or is that just too far out there?

Brian Chesky

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

A

No, Lloyd, that absolutely makes sense and I think that's inevitability. Just to back up for a second, we are very much supportive of having hotel inventory on Airbnb and we acquired HotelTonight before the pandemic because we believe so much in this.

Over the last few years, we had to make some decisions especially when our business initially contracted. And we made some decisions, we said, well, we have to really just get focused on our core, and our core were individual people renting homes, sharing homes. That is the most differentiated thing. It's inventory you can't find anywhere else. It's a thing that is most defensible. It's a thing that attracts all the direct traffic.

That being said, I mean, let's just take New York, for example. We still have a lot of traffic of people searching for New York and we now have a lot less inventory than we used to have. So there's a real opportunity for us to supplement what used to be homes with boutique hotels that are already on HotelTonight and others. We can certainly put those in New York.

And I generally think for sure as Airbnb becomes a little more of a so-called like AI travel agent, which is what I think all travel apps will trend towards to some extent, I think there's opportunities for us to do things in a differentiated way even with slightly less differentiated inventory.

I think our bread and butter for our combinations are always going to be homes. I think that's where our heart and soul is. I also think that's where the biggest growth opportunity is but you should not think of our total supply – addressable market of supply as only homes. We've had hotels. We've just been prioritizing homes because we wanted to be really focused.

Operator: Next, we'll move to Kenneth Gawrelski at Wells Fargo.

Kenneth James Gawrelski

Analyst, Wells Fargo & Co.

Q

Hi. Thank you so much. Appreciate it. Two questions, if I may. First, I want to go back to supply. I know you've talked a lot about it, the room nights up 19% with double-digit growth in all territories yet every week, we read about new STR regulations, at least in North America. Could you help us reconcile this kind of – this contrast for

the financial marketplace? What are we missing as investors here? Where is that supply growth really happening, especially in the kind of Western markets?

And then my second question, to be a bit more specific, I know you called out the volatility in room nights on the demand side in 4Q. Are there any specific regions that you would call out or is it more broad-based?

And just on the timing standpoint, did this start in October or did you see some of this volatility start in 3Q? Thank you.

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Yeah, maybe...

A

David E. Stephenson

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

I'll start...

A

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Maybe I'll...

A

David E. Stephenson

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

Go ahead, Brian.

A

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Oh, go for it, Dave.

A

David E. Stephenson

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

Well, I'll just start with the volatility in room nights. There's not a specific region where we're seeing it. I think maybe the biggest thing we've seen is that it's more broad-based on a global basis right now, which is why we've kind of called out the macroeconomic and potential geopolitical issues as a potential driver to it.

A

We saw maybe some of it just late September and has kind of been early October. And again, it's just a little too early to tell how much volatility we'll see going in through the rest of the quarter that's why we continue to highlight the revenue growth that we're still expecting this year between 12% and 14% growth overall.

And then on the regulation side, I mean, I think it's a lot of what Brian said earlier that 80% of our top 200 markets already have regulation. I think the headlines, we tend to make good headlines when people are highlighting kind of issues with short-term regulation. But in many ways, outside of New York City, I've never been – felt better about our overall regulatory landscape on a global basis. We have really good memberships with many cities around the world and things like our City Portal and other things has made us continue to collaborate extremely well with the vast majority of cities. So I think those are outliers but, Brian?

Brian Chesky

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

A

Yeah, yeah, and I'd just say like, again, we're in like 100,000 cities around the world, and for every headline you read, there's cities that actually have very workable solutions. There's not a lot of activity. We're actually seeing growth in supply across all types of markets not just big cities, what you see in headlines. And I think vacation rental destinations – in fact, there was a U.S. Census report that we looked at I think said that two-thirds of markets where Airbnbs exist there aren't even hotels.

So if you just think about it that way, there's a lot of markets where there aren't even hotels, especially the vacation rental in the non-urban areas. So the way I'd reconcile it is just to say that like while you read headlines about a few cities, they actually represent a very small percentage of the overall market concentration that we have.

Operator: And we'll take our next question from Conor Cunningham at Melius Research.

Conor Cunningham

Analyst, Melius Research LLC

Q

Hi, everyone. Thank you. Just on the two-thirds of the Hosts that are using the pricing tools today, well, as you add new supply, you mentioned that ADRs of new supply is at a higher rate. But are those people more likely to use the discounting tools that you kind of mentioned after they've listed before?

And then maybe on the implications for take rate when you move into international markets, you're tracking towards over 50% of your rooms that are going to be there. Is take rate going to eventually just kind of bleed lower as that expands? Just curious on your thinking about that overall. Thank you.

Brian Chesky

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

A

Yeah, I can take the first one, Conor. On tools, generally new Hosts adopt new tools at a higher rate than existing Hosts. And the reason why is like when you sign up., like we have this really great onboarding, and you're immediately presented with all the tools.

Now, we do have a percentage of our Hosts maybe like call it 1 million Hosts that are highly, highly engaged and they're going to be really engaged on a lot of these tools that every new Host, as far as they're concerned, every tool is like – is exactly how you're supposed to use Airbnb whereas an older Host, there's an adoption where you have to get them on to the new tools and they're used to hosting a certain way.

So we're generally seeing that new Hosts would probably adopt new tools at a faster rate than existing Hosts. That being said, the ADR related to new Hosts might also be related to the mix shift. We're getting a lot of inventory in non-urban areas. They're larger homes, so there's a lot of different reasons that can explain that.

Dave, I can hand over to you.

David E. Stephenson

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

A

Yeah, to the second question, again, was take rate on international Hosts?

Conor Cunningham

Analyst, Melius Research LLC

Q

Yeah. Just as you expand internationally, is there going to be a natural reduction in take rate overall as that kind of tracks over 50% of your overall rooms at some point? Thank you.

David E. Stephenson

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

A

No. I mean, actually I think over time, the way we think about our take rate is that it's been very stable. We've actually made no underlying kind of recent changes to our absolute take rate and what we want to be able to do is as we add more services and capabilities, that would be the way to further kind of monetize Airbnb.

So what have we done? Things like adding guest travel insurance has been a nice add for kind of incremental monetization. It's small but it's growing nicely. And then as Brian said, as we kind of expand beyond core and add more services for Hosts and guests, that would be the way to kind of increase it so...

Brian Chesky

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

A

And you could – theoretically, you could argue the inverse, which is to say that as they expand in new markets, they might be more interested in new services that we can offer because hosting is newer to them. So as we expand in new markets and as we expand to new host services, we want to make sure that new Hosts in new markets are presented those opportunities.

Operator: And there are no further questions at this time. I would like to turn the conference back to Brian Chesky for closing remarks.

Brian Chesky

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

All right. Well, thanks, everyone, for joining today. Just to recap, revenue was \$3.4 billion, 18% higher than a year ago. Net income and adjusted EBITDA were both Q3 records. The last thing I just want to highlight is our trailing 12-month free cash flow was \$4.2 billion and this represents a free cash flow margin of 44%. And so I just want to call out the real incredible hard work that the team has done over the last three years. We've been really, really disciplined to try to make this business a cash generating machine and to be really focused. And I think the team has made some great progress.

Next week, we're going to take a leap forward in making Airbnb more reliable with some big updates as part of our 2023 Winter Release so I hope you can tune in. It's next Wednesday, November 8, to learn more and I'll see you then.

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

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