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Airbnb, Inc. (ABNB)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for joining Airbnb's earnings conference call for the first quarter of 2024. 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 Angela Yang, Director of Investor Relations. Please go ahead.

Angela Yang

Director, Investor Relations, Airbnb, Inc.

Good afternoon and welcome to Airbnb's first quarter of 2024 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, Ellie Mertz.

Earlier today we issued a shareholder letter with our financial results and commentary for our first quarter of 2024. 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 would 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 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 will pass the call to Brian.

Brian Chesky

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

All right. Good afternoon, everyone, and thanks for joining.

Airbnb had a strong start to 2024. We had 133 million nights and experiences booked in Q1, marking our highest first quarter ever. Revenue of $2.1 billion grew 18% year over year, primarily driven by continued strength in travel demand and the timing of Easter. Net income was $264 million, representing a net income margin of 12%.

For Q1, our free cash flow was $1.9 billion, our highest ever. And for the trailing 12 months, our free cash flow was $4.2 billion, representing a free cash flow margin of 41%. Our strong free cash flow allowed us to repurchase $750 million of our shares in the quarter. And as of the end of Q1, we had $6 billion remaining on our repurchase authorization.

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Now during Q1, we made significant progress across our three strategic initiatives, which are: making hosting mainstream; perfecting our core service; and expanding beyond the core. First, we're making hosting mainstream. We remain focused on making hosting just as popular as traveling in Airbnb. And to do this, we're raising awareness around the benefits of hosting, providing better tools and helping hosts deliver high-quality stays. As we grow, we're also taking action to rapidly improve the quality of stays on Airbnb.

In Q1, we removed thousands of listings that failed to meet our guest expectations. And excluding these removals, active listings for accommodations grew 17% year over year. And we also saw sustained double-digit supply growth across all regions. This year, we'll continue to raise awareness around hosting and improve the overall host experience.

Second, we are perfecting our core service. Over the past few years, we've rolled out more than 430 new features and upgrades to improve our service. In November, we took another huge step for reliability with the launch of Guest Favorites, a collection of the top homes on Airbnb based on ratings, reviews, and reliability. Now since launching Guest Favorites, there have been more than 100 million nights booked at these listings, and we will continue to make it easier for guests to find high-quality and affordable stays.

Finally, we're expanding beyond our core. During the quarter, we continued investing in less mature markets to unlock more growth. And in Q1, gross nights booked in our expansion markets grew twice as fast as our core markets. And we're also focused on expanding beyond our core business.

Now this will be a multiyear journey, and we've already begun laying the foundation. Last week, we introduced Icons, a new category of extraordinary experiences by the greatest names in music, film, sports, and more. Icons mark an important next step in helping people understand that Airbnb offers more than just travel accommodations.

Now, before I share a few business highlights, I just want to provide some context on why we actually introduced Icons because they deliver on three key objectives. First, Icons keep Airbnb's brand relevant and top of mind. With new Icons launching throughout the year, we can introduce more people to Airbnb and highlight what makes us unique.

Second, while Airbnb's brand is already recognized around the world, there are specific segments where we want to accelerate growth. And with a broad range of Icons expanding various geographies, demographics, and fan bases, we'll be able to reach key segments in a more targeted way.

And third, Icons help change the way people think about Airbnb and what we offer. And this is going to be critical, as we expand beyond accommodations in the coming years. Now it's still early, but we're really excited about the response we've seen to Icons so far. In just one week, the Icons launch has generated over 8,100 pieces of global media coverage and 371 million social media impressions, and the coverage has been overwhelmingly positive. Now just to put this into perspective, Icons has already generated more press than our IPO. It's clear Icons are resonating with people.

Now, looking back to Q1, we saw a number of positive business highlights. First, mobile app downloads are accelerating. So to quickly zoom out, nights and experiences booked in Q1 increased 9.5% year over year, despite a hard comp for this time last year. And we were particularly encouraged by the growth of app downloads. In the US, app downloads increased 60% in Q1 compared to a year ago. And global nights booked in our app increased 21% year over year, and they now represent 54% of nights booked during the quarter. And at this time

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last year, mobile bookings represented only 49%. So it went from 49% to 54%. So we're seeing some really, really good traction.

Second, Airbnb is uniquely positioned for special events. Special events is really how we started Airbnb. We really started it provide housing for conferences and events. And in April, we had over 500,000 guests stay with Airbnb during the solar eclipse in North America. And interestingly, we saw more than twice as many nights stayed on Airbnb along the direct path of the eclipse compared to the year prior, with many locations in areas that don't even have hotels.

Nights booked in Paris during the summer's Olympics are five times higher than this time a year ago, and Germany is also seeing a similar trend for the Euro Cup this summer ,with nights book nearly double compared to a year ago.

Now supplies also increased to meet the higher demand, including nearly 40% more active listings in Paris in Q1 compared to a year ago. These events highlight Airbnb's unique ability to disperse travel and spread economic benefits by allowing people to stay in local neighborhoods where there are no hotels.

And finally, supply growth remains strong. Now as mentioned earlier, in Q1 we removed thousands of listings that failed to meet our guest expectations. And excluding these removals, active listings for accommodations grew 17% year over year. We continue to see double-digit supply growth across all regions, with the highest growth in regions with the highest demand.

Urban and non-urban supply increased at about the same rate, and we saw relatively similar supply growth among individual professional hosts, with the majority of new listings exclusive to Airbnb. We're really proud of our strong Q1 results, and we're looking forward to another record summer travel season.

So with that, Ellie and I look forward to answering your questions.

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QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session [Operator Instructions] Our first question will come from the line of Mark Mahaney with Evercore ISI. Please go ahead.

Mark Mahaney
Analyst, Evercore ISI

Q

Thanks. You talked about leaning into these kind of less mature markets and this doubling of growth rate in some of those expansion markets versus your core markets. Could you give a little more color on which countries and which markets that is, which countries, I think in the past you may have mentioned Brazil, but which ones are you leaning into this year?

And then secondly, that US app downloads increase of 60% year over year, that's an extremely high number for what you would think would be a reasonably well-known app and brand. So what drove that? Do you have any whys behind that? Thank you very much.

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

A

Yes. Hi, Mark, why don't I start? So leaning into less mature markets, so if you think about Airbnb, we're obviously in 220 countries and regions. We're one of the most global brands in the world, but our markets with the highest penetration would be the US, Canada, Australia, France, and then UK, so those five.

So the next markets that have the biggest potential TAM would be like Mexico and Brazil in Latin America. In Europe, it would be Germany, it would be Italy, it would be Spain. We're also starting to see some traction in like Switzerland and Netherlands. And in Asia, it would be Japan, it would be Korea, it would be China, and eventually a little bit longer game would be India. So these are – and there are a few others in Latin America. So I can kind of keep going. But those are kind of some of the really, really big travel TAMs.

And, Mark, maybe just one other thing I'll just say like I think a really good thing to look at is our penetration for each country. And while US, Canada, and Australia are really, really similar, there's a really, really big drop-off in a lot of these other markets that are huge travel TAMs, I mean especially in Asia.

And one of the things that we've learned is that Airbnb pretty much resonates pretty equally everywhere once there's the awareness. In fact, I could argue that Airbnb might resonate better in Asia because there's a younger travel population that's not predisposed to hotels, and they're on social media. And we are disproportionately on social media versus our competitors. So I'm very, very bullish about that.

Now on US app downloads, you're right. It's grown 60% last year. It went from 49% of bookings to 54% of bookings. So at the highest level, Mark, what drove that was just focus on a roadmap. We have a brand that most everybody, at least in the United States, has heard us and a lot of people download our app, but we've never really focused on optimizing our app from a download perspective.

And just to be clear, these numbers were driven organically, not by paid advertising. So it was really just a lot of optimization, different touch points, encouraging people at the right moment to download our app, not being intrusive. We had pushed a lot of people to just – we just pushed them to our mobile website. Our mobile website does not convert nearly at the rate of our app download.

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And so maybe the highest level point I'll just make is I think what we've been able to prove in the last three years is when we focus on something, we can drive the numbers. Two years ago, supply wasn't growing. We focused on it. It's now growing 17% net quality. A year ago, we felt like app downloads weren't where they needed to be. We put a team on it, they focused. So I think we're developing a good track record of really be able to move metrics when we focus on them.

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.
A

Brian, if I could just add, I think the app download effort is really just part of our broader priority around perfecting the core and optimizing the core business. We identified that not as many of our guests were using the app as they should. And we know that the app is a much better user experience than the web. So it's, again, part of a broader suite of roadmap items that are intended to improve and perfect the core experience.

Mark Mahaney
Analyst, Evercore ISI
Q

Thank you, Ellie.

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

Thanks, Mark.

Operator: Your next question will come from the line of Richard Clarke with Bernstein. Please go ahead.

Richard J. Clarke
Analyst, Bernstein Autonomous LLP
Q

Hi, good afternoon. Thanks for taking my questions. Just on – you mentioned on the prepared remarks and you mentioned in Q4 that Q1 would have quite a tough comp, and there are calendar effects in there as well. But you're guiding that Q2 is going to be flat on room night growth. So is there anything you can call out in Q2 that's maybe holding that back and how we should think about the rest of the year?

And maybe just a similar question on margin. The Q2 guide, I guess a little bit softer than consensus had, some calendar in there. Is that including any of the growth investments you talk about, or are those things that may come in more the second half of the year?

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.
A

Yeah. Thanks, Richard. Let me just talk a little bit about the trends that we've seen year to date to help answer your question. So first, as you point out, as we were heading into 2024, we were widely aware that last January was particularly strong. And so the guide that we provided back in February included a step down in growth from Q4 to Q1 that was reflective of that hard comp from a year ago. We did experience it. And then since then, we've seen relatively stable growth, which I see as, frankly, a really strong statement in terms of both the stability and resilience of leisure travel demand so far this year.

I think something that we've seen this year that is contrasting to last year is last year there was a lot of volatility in terms of the timing of when people booked relative to their check-ins. And so far this year, it's been frankly much

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more stable. Lead times on our platform have been frankly, generally in line with a year ago, and there just hasn't been the same level of volatility, again, that we saw a year ago.

And so heading into Q2, our guidance reflects this continued stability of bookings. Obviously, we'd like to deliver higher growth than stable growth, but our outlook obviously reflects the trends that we have seen quarter to date.

To your question on Q2 margins, obviously, we guided – the Q1 results reflect a pretty meaningful year-over-year margin expansion. A big portion of that is due to the timing of Easter. So Easter is not only a benefit to revenue growth in Q1, but it's obviously also a benefit to margin expansion. Those two factors reverse in Q2. It is a headwind to revenue growth and it is a headwind to overall margins.

Two other components in terms of what's putting pressure on margins in Q2. One is just some one-time credits that we had in payment processing a year ago that will not recur this year. And then third, we shifted slightly the timing of our marketing spend. A little bit heavier in Q2 than in Q1, and that will be reflected in terms of marketing as a percent of revenue growing in the quarter on a year-over-year basis.

Richard J. Clarke
Analyst, Bernstein Autonomous LLP

Q

Very helpful color, thank you.

Operator: Your next question will come from the line of Jed Kelly with Oppenheimer. Please go ahead.

Jed Kelly
Analyst, Oppenheimer & Co., Inc.

Q

Hey, great. Thanks for taking my questions. Just one on ADRs, they seem to be relatively sticky. And I think a couple of quarters ago, you talked about driving value to the consumer. So can you just give us an update on where you are in sort of some of your value initiatives?

And then on supply, great supply growth again. Can you talk about how we should think about supply and nights eventually converging to similar growth rates? Thank you.

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

A

Yes. Hey, Jed, why don't I take the first one on value initiatives, and I'll let Ellie take the second one. So on providing value, when we started Airbnb, our original tagline was a cheap affordable alternative to a hotel. And the majority – the primary reason people came to us is because it was a better value than a hotel. And we still think that's a core value proposition that we have to offer.

Now 1.5 years ago, we noticed that there was a lot of concern about Airbnb prices increasing. And so we created a whole team to identify a series of initiatives to modulate our prices, and they are working. And I'll go down the list. One is total price display. So as you know, in travel, especially online travel, there's a lot of progressive fee disclosures. And we decided to have a toggle right on the home page that you can turn on to show the total price display.

Since we've done that, not only do consumers – not only are consumers going towards the best total value, but it's begun to change behavior in our host community because 300,000 hosts on their listings say have removed or lowered their cleaning fee as a result. So that was the first thing we did.

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The next thing we did is we started offering monthly and weekly discounts and much more robust tools for that. Now this is important because nearly half of our nights booked are for stays of a week or longer. And now more than two-thirds of our hosts offer a monthly or weekly discount.

We also noticed that a lot of hosts that weren't getting booked, weren't getting booked because their prices were too high. And they just didn't have a really good concept. So we created a tool called the compare listing tool, where people can see how much other people are charging in the neighborhood. And they can actually see people who are getting booked and not getting booked. And no surprise, the people getting booked generally have lower prices. So we have nearly 2 million hosts that now use the compare listing tool.

So those are just a few of the initiatives we've done. We actually have many others as well. The net of all of it is that hotel prices are up year over year, and Airbnb listings on a like-for-like basis are down. So today, the value of Airbnb versus hotel is better than it was a year ago. And I think that trend line is going to continue given all of our efforts.

And maybe the only other thing I'll just say on this is, as we know, lost supply and demand, as supply grows faster than demand, prices go down a little bit. And supply is growing faster than demand. I think that's also relieving some pressure. Ellie, over to you.

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.

A

Yes. So, Jed, to your question with regard to the relative growth rates of supply and demand, just a few comments. I would say first, something that we've shared previously is that, in any given quarter, we would not expect supply and demand to grow exactly in line. But when we look over a longer time period, either the last decade or more specifically from pre-pandemic to today, what we do see is that over a period of years, they do grow generally in line. And I would say that continues to be the case.

Where we are right now, I would say we are very encouraged to be able to deliver this continued level of very strong supply growth for a couple of reasons. I would say, one, we know that more unique differentiated supply wins and differentiated supply is why people come to Airbnb. I would say second, Brian made this point, but growing supply allows us to really benefit our affordability measures in that more supply, obviously, it gets more competitive pricing.

And then I would say third, relevant to our recent quality initiatives, we see it as an opportunity for – as supply growth is stronger than demand growth for us to continue to be driving quality. What you saw in the quarter is we obviously did some one-time takedowns of supply that, frankly, just did not meet our community's expectations. And the fact that supply is growing so rapidly, it allows us to make those cuts, if you will, to the supply base and to be continually upgrading the level of quality that we deliver to our guests.

Jed Kelly
Analyst, Oppenheimer & Co., Inc.

Q

Thank you.

Operator: Your next question comes from the line of Ron Josey with Citi. Please go ahead.

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Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

Great, thanks for taking the question. Brian, I wanted to ask you about search on Airbnb just following the strength and the benefits of guest favorites. I wanted to better understand sort of – talk to us about hosts, Guest Favorites, how search and really conversion rates have improved and really how you feel search can just evolve over time.

And then as a follow-up to what we were just talking about around inventory quality, I would love to hear just the process to ensure that quality listings continue to come on the platform. I think we've talked about verified listings and trophies, but any other thoughts there would be helpful. Thank you.

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

A

Yes, Ron. These are really very great questions, Ron, so we'll have to start with search. So we did approximately $10 billion last year in revenue. So the way to think about this is if we can just drive an incremental 100 basis points in growth, that's $100 million. So, like the way we look at our conversion rate is like we have teams dedicated to the search experience. And over the last year, the last 12 months, we've likely driven at least a few hundred basis points of incremental growth just through optimization of the search flow because we just get so much traffic.

And so just to call out a couple things that we did, there have been dozens and dozens. I'll just name a couple. One I already mentioned, mobile app downloads. Now, why did mobile app downloads lead to also more bookings, because the conversion rate on a native application is typically a lot higher than on a mobile website.

Number two, just to give you a couple examples, one of the challenges at Airbnb compared to a hotel is, you may type in a location and certain dates and maybe you're on vacation and you don't see exactly the home you need and you might not book a home, you might now open a different app. And we have this carousel that basically offers, hey, if you change your dates by one or two days, your other listings you can find, and that led to a huge increase in bookings. We made improvements to filters. We've made improvements to search input, the search box, making the search box more prominent. So there are quite literally dozens and dozens of improvements that we've made. And I see hundreds of basis points of incremental growth just through essentially optimizing the end-to-end guest flow for our core business. So it's really, really exciting. And a couple big areas would be maps and location. There's a huge opportunity around that area. So that's on search.

On inventory and quality, this is a great question. We have a really extensive roadmap. Last year we launched Guest Favorites, as you know. In November. 100 million nights booked have been booked through them. I would say the response to Guest Favorites has even been greater than I anticipated. We're seeing more people not only book Guest Favorites, but we're seeing that Guest Favorites have a fraction of the trip issue and contact rate as non-Guest Favorites. So Guest Favorites have between a fifth and a tenth the contact rate as our bottom quartile listing, and the rebooking rates are much higher. And I also think what Guest Favorites is doing is it's changing behavior to encourage more hosts to become better.

And so after that, we launched Quality Highlights in March. Quality Highlights, basically, what happened was Guest Favorites were the top 2 million listings in Airbnb. But a bunch of people were saying, well, how do we know which are the best within those 2 million? So what we did is we have a top 1%, top 5%, top 10% trophy classification. And this is also really, I think, popular with guests. We've now removed hundreds of thousands of listings, and we are going to be doing a number of new things. One of the things we're experimenting with is showing the percentile, where something falls in a quality distribution as a percentile basis.

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And then continually adding a lot more supply and then tightening up our quality control and really giving a lot more feedback to hosts to become better. I think that a really good opportunity here is to get a lot more listings in Guest Favorites and to provide hosts education host tools for the hosts that are struggling to be much more successful. So there's a pretty big and extensive roadmap to go.

And just the last thing I'll say about this is as big as Airbnb is, and we're approaching 0.5 billion room nights a year. For everyone who stays in an Airbnb, somewhere around eight or nine people stay in hotels. And when you ask people, why are you staying in a hotel? An Airbnb is typically more affordable. It's a more local experience, it's much better for groups and families. People say yes, but hotels are historically a more consistent experience. And so if we can just get one of those travelers from hotels to stay in an Airbnb, that would double our size of our business to 1 billion nights a year. And so we think quality and reliability is a multiyear roadmap. So you're going to be hearing every year major updates from us on quality and reliability.

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

Thank you, Brian. That's super-helpful.

Operator: Your next question comes from the line of Eric Sheridan with Goldman Sachs. Please go ahead.

Eric J. Sheridan
Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much for taking the question. Maybe coming back and putting a finer point on some of the topics we've talked about already, Brian. When you think about your top investment priorities for 2024 and beyond, how would you categorize those investments if we put them in buckets such as demand generation, supply growth, and platform and product innovation over the long term? And in that last bucket, how should we increasingly think about what you're learning about testing and deploying AI across the platform and how it might reduce friction over the longer term? Thanks so much.

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

A

Hey, Eric, good to hear from you. So maybe I can just – you have 3 buckets. Maybe I can give you 3 slightly different buckets to give you our framework. The way I think about deploying our resources, and when I say resources, probably the most precious resource we have is product and engineering resources. And the way I think about that is we have our core business. We have international expansion, and we have expanding the inner core business of accommodations. So that's the way we think about our portfolio, and you can imagine, they're all totally different horizons.

So the majority of our people are still focused on the core business, and I believe that we are just scratching the surface of the size of our core business. Within our core business, we typically have about three different areas of focus. One I just talked about, which is quality and reliability. The next one is affordability, making sure Airbnbs are more affordable than hotels. And the third is usability, what I also talked about with search and reducing friction. So that's the first bucket of our investment. And that really will pay off within this year. And so there's – you can get a return on those efforts within a matter of months because a lot of those changes are software changes. They're immediate. They touch 100% of our user base and they touch a very large base or entire GBV.

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Next is international expansion. International expansion is really supply, demand, and platform. It's all three within international. And you could really bucket into two things. We have to localize the product, and then we have to have a global marketing strategy to like go one market at a time. And we've done a lot of really good work over the last two years on international expansion.

But I think at this moment, we are ready to step on the gas. And by stepping on the gas, I don't mean it's going to be a significantly greater investment, but much greater velocity because we spent a lot of energy updating our products. So most recently, we just updated our application in Asia, specifically in China, and we're bringing a lot of those improvements to Japan and Korea, because the applications work fairly similarly. And so getting these products onto a better standard is a really good first thing that you want to do before you actually step on the gas for marketing. That's international.

And of course, the final thing is expanding the inner core business accommodation. So from a dollars and number of people, this is by far the smallest area that we're putting people on now because it's a small base, but it's actually where I'm spending the majority of my time. And I think the majority of the leadership's time is now being spent focused on transforming the company from an accommodations business to a multi-vertical or multi-category company. And over the next three years, you're going to see this play out quite substantially. So that's the way we think about it, core international and then expanding beyond our core.

Eric J. Sheridan
Analyst, Goldman Sachs & Co. LLC

Q

Great, thank you.

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

A

And I think the other question – sorry, I have to answer your question about how are you – what are we learning about AI and reducing friction. So just a couple things on AI. First of all, we've been using AI for a long time. In the last 12 months, we've made a lot of progress. I'll just give you three examples of things we've done with AI. We made it easier to host. We have a computer vision model that we trained with 100 million photos and that allows hosts to like the AI model to organize all their photos by room. Why would you want to do this? Because this increases conversion rate when you do this.

Number two, we launched last week AI-powered Quick Replies for hosts. So basically, it predicts the right kind of question or answer for a host to pre-generate to provide to guests, and this has been really helpful. And then we've made a really big impact on reducing parties in Airbnb with a reservation screening technology.

So now we're going much bigger on generative AI. I think we're going to see the biggest impact is going to be on customer service in the near term. I think more than hotels, probably even more than OTA, Airbnb will benefit from generative AI. And the reason why it's just a simple structural reason, we have the most varied inventory. We don't have any SKUs, and we're an incredibly global platform. So it's a very difficult customer service challenge. But imagine an AI agent that can actually like read a corpus of 1,000 pages of policies and be able to help adjudicate and help a customer service agent help a guest from Germany staying with a host in Japan. It's a very difficult problem that AI can really supplement. Over time, we're going to bring the AI capabilities from customer service to search and to the broader experience. And the end game is to provide basically an AI-powered concierge. So that's where it's going, but it's really focused on customer service at this very moment.

Operator: Your next question will come from the line of Brian Nowak with Morgan Stanley. Please go ahead.

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Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

Thanks for taking my questions. I have two to sort of come back to a couple of the topics we talked about. [Technical Difficulty] (00:32:12-00:32:21) The comp did get easier. So with the comps getting modestly harder in the back half, can you just sort of walk us through maybe micro levels of innovation that can sort of drive stability, or how do we think about reasonable ranges of outcomes for room night growth in the second half?

And then the second one, Brian, you talked about how like-for-like pricing is more attractive versus hotels. I don't have the transcript exactly yet. But if I look at Marriott and Hilton and their ADRs are up 2% to 3%, and your ADRs are also up 2% to 3%, is there something else that you're seeing where the relative pricing is actually becoming more attractive that you can help us understand a little bit more? Thanks.

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

A

Yeah. Why don't I take the second question? And I think, Brian, either you or I cut out. We didn't hear the first part of your question. So do you want to just repeat the first question?

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Yeah, absolutely, yeah. The first question was more for Ellie where she has – you talked about how you have stable room night growth now, but I think the comp is a little bit easier from 1Q to 2Q. And with the comps getting a little more difficult in the back half, can you just sort of walk us through some reasonable ranges of outcomes of growth in the back half and maybe micro-level drivers to kind of keep the stability versus drive deceleration?

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

A

Ellie, do you want to take the first one, and I'll take the second one?

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.

A

Yeah. So I think you're right in terms of the thinking was that the comparison in Q2 would be a little bit softer. I think what we've seen so far, just to repeat what I said previously, is that, yes, it was clear that there was a hard comp in January. Since then we've seen, I would just say, a general stability. We are not so far this year seeing the same level of volatility that we saw in 2023 in terms of either movement of lead times or consumer, I would say, hesitancy to book during kind of macro dislocation. So a general statement is that year-to-date, just the trends have been stable and that's what our Q2 reflects.

In terms of the back half of the year, I would say, I don't know if I would characterize the back half of the year as harder comps. I think if you recall, actually, some of the volatility that we and others saw in the back half of the year, there was a bit of a moment of dislocation, end of summer heading into October, and in particular in the month of October related to the conflict breaking out in Israel. So I wouldn't necessarily characterize the back half of the year as being a harder comp. Instead, I think if you think through the growth initiatives that Brian talked about in terms of thinking about where our portfolio of investments lie, I would say we are optimistic that a lot of the core optimization could have near-term impact as well as the international investments. So those are the places where we're really looking to drive in-year growth above where we are today.

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

And, Brian, I'll take the like-for-like question. So specifically, the data we're citing is global like-for-like basis. So what we're comparing is the average price of a global hotel room to a one-bedroom listing on Airbnb in March. And in March, our prices were down 2%, and hotel prices were up 3%. So our prices were – again, one bedroom globally on Airbnb and March was $114, down 2%. Hotels were $148, up 3%. So that's what we were talking about, one bedroom global.

When our ADRs move, obviously the other thing to take into consideration is mix shift. Oftentimes, our ADRs do go up because people increasingly, more and more of our travel is group travel. 81% of our trips now have two or more guests, and increasingly we're seeing people booking more space, larger homes just as travel is mixing towards larger groups.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC
Q

That's helpful. Thank you both.

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.
A

And, Brian, that was particularly the case in North America this quarter. On an absolute basis, ADRs were up. But if you exclude the impact of mix, they were flat.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC
Q

Okay, great. Thank you both.

Operator: Your next question will come from the line of James Lee with Mizuho. Please go ahead.

James Lee
Analyst, Mizuho Securities USA LLC
Q

Great, thanks for taking my question. I just want to follow up the prior question on supply and demand growth. And in other segments of the gig economy services, they seem to benefit when supply exceeding demand. So you think about ridesharing and food delivery because they drive prices down and therefore increasing consumer demand. Should we think about it in the same path for home accommodation? Are you expecting maybe a similar trend for your business as well? Thanks.

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.
A

I would say, generally speaking, when we see growth in supply, it is additive to demand. It means that when people are searching for a particular night in a particular city, if we have more that we can provide them, it is obviously net beneficial. I think I would just repeat the prior comments that we don't always see kind of in-period equivalents by market in terms of the respective growth rates. And that I would say there's a primary difference in terms of our business model relative to some of the others that you mentioned in that the frequency of the activity is simply lower and the lead time is also much longer.

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James Lee
Analyst, Mizuho Securities USA LLC

Q

Great, thank you.

Operator: Your next question comes from the line of Stephen Ju with UBS. Please go ahead.

Stephen Ju
Analyst, UBS Securities LLC

Q

Okay, thank you so much. So, Brian, would we be overreaching if we were to think that Icons is a leading indicator of what should be, I guess, a revitalization or reimagining of Experiences? So maybe the overnight stay in the Musée d'Orsay generates all the media and consumer attention, but maybe this affords you the opportunity to expose the users you're getting to the more everyday experiences.

And also secondarily, you've talked about this and the letter talks about this also, the Olympics and the Euros bump, and there are going to be travelers who are probably not sports fans who might want to be avoiding Paris and the host cities in Germany altogether. So is there anything you can share in terms of how additive these two events may be? Thanks.

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

A

All right, Stephen. Well, that was – you were absolutely not overreaching on Icons. So let me give you a sense. You can think of a company as going through a few phases, especially to start a company. You have an idea, you get product market fit that's Phase 1. Phase 2 is you try to go into hyper-growth. We've done that. Phase 3, you become a real company, you go public, you generate a return for shareholders. And then the fourth frontier, and very few companies have ever done this, is you reinvent yourself and you go from offering one thing to many things. And a lot of the big tech companies have done this.

But one of the companies that I think is a really interesting one to look at is Nike. In the late 1970s and early 1980s, is my recollection, I was born in 1981, but my recollection is I remember Nike was mostly a running shoe company. And in the 1980s, they became more popular with basketball and other things. But at the time, people didn't really think of Nike as a serious basketball shoe.

And so they had to not only create a great product for basketball, but they had to actually stretch the brand and open up in people's minds what Nike stands for. And a lot of brands have had to do this. Apple had to do this with the iPod. And I think Airbnb, one of the strengths of our brand also is something that we have to manage, which is Airbnb is a noun and a verb. It's synonymous with the category, kind of like Kleenex or Xerox. People say, I'm going to get an Airbnb, I'm going to Airbnb my place. Literally the name Airbnb has the name B&B in it.

So one of the challenges is that people open our app to expect to see stays. And so what we want to do in addition to bringing back Experiences, you are totally right, is we wanted to expand Airbnb's brand positioning to include more than just a place to stay.

And one of the things you'll notice is when we launched Icons, we said these are extraordinary experiences. We didn't say these are extraordinary stays. We positioned them as experiences. And so you can almost imagine. Icons is like we're a car company, but we're starting with a Formula 1 car. And very few people can experience a Formula 1 car, but it captures the magic. It captures the demand. It really expands the brand and increases our permission to be able to go into experiences, and then you kind of move down market.

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And one of our goals is going to be to bring the magic of Icons to everyone. So I can't probably say too much more about Experiences. But absolutely, it's not a leap or a stretch whatsoever. Icons is primarily a brand positioning and a brand investment. It obviously wasn't a business. It's only about 4,000 tickets. But we're seeing some really encouraging signs in the last week, a big bump in traffic. It's a lot more top of mind. A lot more people are opening our app. And I just think we're being positioned as more aspirational, and I think people are now starting to think about for experiences. So I think we've really laid – paved the way for next year. Ellie, do you want to take the Olympics and Euro Cup?

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.

A

Yes, certainly. So if you look at our history, I would say that special events have always been kind of a good moment for Airbnb to shine and have been overall additive in terms of both our brand perception as well as supply growth. I think what we've seen from prior events, and I'm talking about pre-COVID Olympics, World Cup, Super Bowl, those type of events, what we see is that it should bring a ton of supply onto the platform. And while not all of that supply will persist, a good portion of it does. And so it's a nice supply acquisition moment for us.

I would also say it's really additive in terms of signaling to cities how helpful and additive Airbnb can be to those cities to ramp up supply in a very organic and easy way without adding incremental hotel infrastructure that would not be necessarily needed long term. And I think you see that in particular in Paris right now. We're going to be hugely additive in terms of hosting travelers for the games, whereas the existing infrastructure would not be able to manage such a large inflow.

Stephen Ju
Analyst, UBS Securities LLC

Q

Thank you.

Operator: Your next question will come from the line of Doug Anmuth with JPMorgan. Please go ahead.

Dae K. Lee
Analyst, JPMorgan Securities LLC

Q

Hey, this is Dae Lee on for Doug. Thanks for taking the questions. One for you, Ellie. Can you talk about how you're thinking about the investment levers that provide flexibility and shape your 35% EBITDA margin for the full year? And can we expect to see these levers get pulled more through the year?

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.

A

Yes. So I couldn't hear entirely, but a question about our guide for full year EBITDA margins floor of 35%. Let me just talk a little bit – yes, the investment levers.

Dae K. Lee
Analyst, JPMorgan Securities LLC

Q

How you're thinking about investment numbers, yes?

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.

A

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Yes, of course. So let me just step back and provide a little bit more color in terms of why the 35%. If you look at our performance since the IPO, pre-IPO, we had a negative 5% EBITDA margin. And lo and behold, three years after the IPO, we delivered nearly 37% EBITDA margins last year. I think we have repeatedly demonstrated the increased strength of this business model in terms of very strong profitability, inclusive of GAAP, net income profitability as well as free cash flow. And at the same time, where we sit today, we see a huge opportunity in driving incremental growth. And so as we kicked off the year last quarter and looked at our opportunity set, we've identified a handful of areas where we'd like the flexibility to lean in and drive incremental growth beyond what we're seeing today.

So where would you see those investment levers on the P&L? It's really two areas. So first, not surprisingly, is marketing. In marketing, we've been very disciplined over the last couple of years. We continue to have a much lower level of marketing intensity than really anyone else in travel. And at the same time, at the margin, we have seen some incremental opportunities to lean in on channels where we're seeing high ROIs. In Q1, we saw nice very high ROIs in performance marketing. To the extent that that continues, we would lean in modestly over the course of the year.

Additionally and probably more importantly, it brings out a little bit about our opportunity set in international markets. And that's also an area where, to the extent that our full funnel marketing investments are working, we would look to top off those investments and to, therefore, accelerate growth. So marketing is one line item you will potentially see some margin compression in order to drive growth.

The second area, Brian talked about prioritizing our resources and identified that in many cases, our product development team is our kind of scarcest resource. And I think when you hear us talk about our roadmap, you can obviously infer that we have a very robust list of initiatives that we would like to tackle. And so there's an opportunity to, at the margin, add more personnel over the course of the year to allow us to accelerate that roadmap. And you would see that in particular on the product development line item. So grand scheme of things, no material pivot in terms of our overall financial discipline, but instead a bit of lean into those areas where we believe we can accelerate growth.

Dae K. Lee
Analyst, JPMorgan Securities LLC

Q

Thank you for the detailed response.

Operator: Your next question will come from the line of Kevin Kopelman with TD Cowen. Please go ahead.

Kevin Kopelman
Analyst, TD Cowen

Q

Great, thanks a lot. I had a question on the May release. You added a couple of small new features to the user profile, I think, on the photos and the travel stamps, Do we see that as a first step towards some of the profile enhancements and community features that you've talked about being interested in, in the past? And where does this kind of building out potentially new community features stand in your priority list? Thanks.

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

A

Yes. Kevin, we spoke in this call mostly about Icons, but I mean I am equally excited for the results that we've seen for group travel. I'm not going to go through all the metrics, but the metrics have been all really, really positive for group travel features.

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And in particular, one of the things we've seen is – when people book an Airbnb, the average number of guests is two. So that means that typically for every booking, there's another guest. But typically, the other guest hasn't connected their account to Airbnb. So, if you travel with a partner or a friend, maybe if you book, the other person doesn't actually have an account or they haven't connected their account.

And its strategic for us to get more accounts. That would make sense, right? Especially as we want to sell more things beyond home. We want to have a point of sale for every single person on a trip, not just a point of sale for the booker. So this is really, really critical for us.

And what we've seen is a major jump in the number of co-travelers that are now creating accounts in Airbnb and not only creating accounts but filling out their profile. And so to answer your question, yes, this is the beginning of something much bigger.

So probably, as you know, when we started Airbnb, there were already vacation rentals, , but they were mostly on classified sites, like Craiglist or they were like paid subscription services like Vrbo. And one of the innovations we brought is we added profiles, payments, two-sided reviews, and messaging. And those capabilities unlocked really this whole new category. This is what they call the system of trust.

So what we're now doing is we're going to be investing a lot more in increasing our profiles and our profile capabilities, both our account structure, cleaning it up, our identity verification, getting more people to complete more robust profiles, increasing their preferences, so we have more information about people. And this is so strategic because as trust goes up, you can unlock more things for people. And as we know more about you, we can match you better.

So I think in the future, right now, if you think of like the Airbnb solar system, the home is like the sun at the center of the solar system. I think in the future, the profile will be at the center of the solar system of Airbnb, and the home will be one of many categories orbiting the profile.

Kevin Kopelman
Analyst, TD Cowen

Q

Great, thanks so much.

Operator: Your next question comes from the line of Nick Jones with Citizens JMP. Please go ahead.

Nicholas Jones
Analyst, Citizens JMP Securities LLC

Q

Great, thanks for taking the questions. I guess maybe going back to supply and your effort to remove low-quality supply, I guess can you speak to the percentage of the supply that you've removed over time? I think you said hundreds of thousands that I guess maybe take the removal and I guess the learnings and come back and try to list and provide kind of a higher quality or better experience. I guess as you continue to remove lower-quality supplies, is this becoming a tool to kind of nudge hosts into the behavior you're looking for without actually having to remove them?

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

A

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Yeah. Hey, Nick, why don't I take the first one? So the first thing I'll say is the global occupancy on Airbnb is so much lower than hotels. So, even though you type in a certain date and a location, when there's a popular date and location, occupancy can rise. At a global level, we are still like not even close to high occupancy.

And so one of the games that we need to do is we want to point demand to the best supply on Airbnb. So we don't – and so having removed all this supply, we haven't seen a fundamental shift or impact on global bookings because a lot of them either weren't getting as many bookings in the first place or they were eating up page views, they were lower converting listings, or people were booking them, they were really expensive because they were leaning to customer service contacts, which are expensive. And if you went through all that, the rebooking rate for them was much lower.

Now as far as the answer to your question about like how many of them come back. I don't have the stats on the top of my head, but I think that like this quality control program, one of the things we've noticed is that a lot of hosts are very coachable and learnable. They're very coachable and they can learn.

So I think one of the problems in this category is, historically, these marketplaces have been so hands-off that people don't know what it takes to be successful. And as you give them more metrics, as you give them more incentive to be good and as you create more boundaries about what's not acceptable in Airbnb, it actually does change behavior, and people do come back. So we're seeing that for sure, and we're seeing that the good people are rewarded and they tend to expand their business.

So I don't have the exact numbers of people that come back, but absolutely we do think people will come back if they've remediated some of their issues. And some of them what we do too is we'll give warnings to people. So we don't always have to remove people. We can give warnings first, and warnings are like very, very effective. We're just giving them a heads-up, and that actually has a way of increasing the quality of our platform.

The last thing I'll just say on this is what I think makes Airbnb different than our competitors is we have a much more hands-on approach to quality than our competitors. But we are getting more and more hands-on every single year. As we want to get bigger and we want to capture more of the hotel traveling market, our quality simply has to go up, and that means that we need to just continue to raise the bar of quality. So we have a multiyear roadmap where we're going to continue to do so and continue to invest in host education.

Nicholas Jones
Analyst, Citizens JMP Securities LLC

Q

Thanks for the color, Brian.

Operator: Your next question will come from the line of Naved Khan with B. Riley Securities. Please go ahead.

Naved Khan
Analyst, B. Riley Securities, Inc.

Q

Yeah, hi. Thanks a lot. Maybe a clarification from Ellie. I think, Ellie, I heard you say you saw really good ROIs on the performance marketing channels. I wanted to understand where that came from. And maybe on a related topic, was there any effect from either the rollout of the DMA in Europe in March or maybe changes to Google Search in late March and early April? And then I have a follow-up.

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.

A

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Yeah. So in terms of the first, the high ROIs that we're seeing on marketing, I would say we over the last year have just been, frankly, very encouraged with the ROIs that we've been able to deliver from that channel. In particular, like what has been driving that? Well, we've been continually testing and improving our performance marketing execution. We have expanded the target audiences. We've expanded our keyword coverage. We've made general improvements to the landing pages. And all of that has been, I would say, quite successful in terms of allowing us to spend marginally more and maintain really great efficiency. So a really good channel for us even though it is obviously a minority of our overall marketing spend or strategy.

In terms of your second question, impact from the DMA rollout, I would say we haven't seen any meaningful impact. I think primarily that is because the majority, 90% of our traffic is coming to us through direct or unpaid traffic. And so it is just – we have not seen any noticeable impact there yet – or at all, I should say.

Naved Khan
Analyst, B. Riley Securities, Inc.
Q

Okay. And then, yeah, I know it does help. So maybe just on the changes to the extenuating circumstances policy, I wanted to kind of understand whether what led to that change? And what kind of impact we can expect from the outside looking in?

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.
A

I didn't hear that question. Sorry.

Naved Khan
Analyst, B. Riley Securities, Inc.
Q

Sorry, the changes to the extenuating circumstances policy? I think it was tweaked recently to kind of maybe raise the bar on cancellations.

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.
A

Extenuating circumstances policy, Brian, do you have any comments on that? I would say we just tried to clarify over time and make that more equitable for our guests and hosts, but no meaningful impact to the business.

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

Yeah, I agree.

Naved Khan
Analyst, B. Riley Securities, Inc.
Q

Thanks.

Operator: Your next question will come from the line of Conor Cunningham with Melius Research. Please go ahead.

Conor Cunningham
Analyst, Melius Research LLC
Q

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Hi, everyone. Thank you. Just on the underpenetrated international markets, as you develop those, I'm just curious if they're producing what you'd expect in terms of key KPIs from take rate, ADR, profits? I was just trying to understand how the mix changes are going to impact the overall company.

And then just one on the 2Q to 3Q reacceleration. I would assume that the booking window is a little bit more extended this year given some of the events. Just curious on where you're booked into 3Q right now? Just trying to understand the confidence interval there. Thank you.

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.

A

Yeah, sure. So first, the question is around economics of our international expansion markets. So if you think about the various factors on our economics, so first, there's virtually no change in terms of our underlying take rates by market. So that is not a factor.

I would say second, depending on the market that we're targeting, many of these markets will have lower ADRs than our averages. So over time, to the extent that we were incrementally more successful and seeing higher penetration in places like Latin America or Asia-Pacific, we would anticipate that the global ADR would come down, and yet all of those nights would be accretive. So it would be market expanding, even if the nights were coming in at a lower ADR. And what we've been able to achieve over time is very strong economics at the booking level for a wide range of ADRs. So it is not a concern for us to be expanding in markets where the average ADRs are lower. It is, again, just accretive in terms of the top line and the volume of the business.

Your second question is around lead times. I would say, generally speaking, as I said previously, our lead times year to date have been pretty flat on a year-over-year basis. We did not see a pull forward that maybe some others in the industry mentioned. And yet, when we look forward in terms of the backlog for Q3, it's quite strong. And it's that backlog that gives us confidence around the comments we made in the outlook that Q3 revenue should accelerate above the Q2 outlook.

Conor Cunningham
Analyst, Melius Research LLC

Q

I appreciate it, thank you.

Operator: I will now turn the call back over to Brian Chesky for closing remarks.

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

All right, thank you all for joining us today. And I just wanted to say before I wrap up, this was Ellie's first earnings call as CFO, and the transition has gone incredibly well. Her, Dave, and I are really, really focused on this next chapter of growth.

So to recap, revenue was $2.1 billion. This is 18% higher than a year ago. Net income and adjusted EBITDA were both Q1 records, and our trailing 12-month free cash flow was $4.2 billion, representing a free cash flow margin of 41%. Now we've made a tremendous amount of progress over the past few years and with the launch of Icons, we're now laying the foundation for our plan to expand beyond our core business. This is just the beginning. Thank you all, and we'll see you next quarter.

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Operator: That concludes our call for today. We thank you all for joining, and you may now disconnect.

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