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Airbnb, Inc. (ABNB)

Q3 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 Third 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 it 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 third 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 third 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've provided reconciliation 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'll 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 third quarter. Nights and experiences booked accelerated throughout Q3 and into Q4. Despite a slower start to the quarter due to shorter booking lead times compared to last year, bookings grew steadily each month return to double-digit growth by the end of Q3.

We had 123 million nights and experiences booked. Revenue grew 10% year-over-year to $3.7 billion. Net income was $1.4 billion representing a net income margin of 37%. And we generated $1.1 billion of free cash flow. In fact, our total trailing 12-month free cash flow was $4.1 billion, which allowed us to repurchase $1.1 billion of our shares in the quarter. And as of the end of Q3, we had $4.2 billion remaining on our repurchase authorization.

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Now during Q3, we continue to make progress across our three strategic initiatives: which are making hosting mainstream; perfecting our core service; and expanding beyond the core.

Now I'm going to share a few highlights about each. First, we're making hosting mainstream. We are focused on making hosting just as popular as traveling on Airbnb. Today, we have over 8 million active listings, with growth across all regions and market types. To retain and attract new hosts, we've prioritized making hosting easier. Last month, as part of our 2024 Winter Release, we introduced Co-Host Network, an easy way to find the best local hosts to manage your Airbnb. Co-hosts are some of our most experienced host, they provide personalized support ranging from listing setup to managing bookings and communicating with guests.

Second, we're perfecting our core service. Over the past three years, we've launched more than 535 new features and upgrades to make Airbnb a better server. Our 2024 Winter Release included over 50 upgrades for guests that make Airbnb a more intuitive and personalized app. This includes features like recommended destinations, suggested search filters, and personalized listing highlights. We're also focused on one of the top issues for guests: listing quality. Since last year, we've removed over 300,000 listings that failed to meet guest expectations and we'll continue to invest in improving the quality of guest days.

Finally, we're expanding beyond our core. Outside of our core markets, there are many countries and regions that remain under-penetrated and we're focused on these expansion markets as part of a global markets strategy, and we're seeing great results.

In Q3, the growth rate of nights booked in our expansion markets more than double that of our core markets. Now in addition to driving growth in our expansion markets, we're also preparing for Airbnb's next chapter, which will take us beyond accommodations. And you'll see more about this next year.

We also saw a number of positive business highlights in Q3. First, guest demand accelerated throughout the quarter. As I mentioned earlier, after a slower start in July, bookings accelerated each month in Q3. Global lead times also normalized throughout the quarter. Now part of this growth has been driven by our app strategy. Nights booked on our app increased 18% year-over-year in Q3. App bookings now account for 58% of nights booked. Now this is up from 53% in the same period last year. And we also saw continued growth of first-time bookers, which is the highest – with the highest growth among young travelers. This is quite exciting. And I'm really excited to share that we recently surpassed 2 billion guest arrivals on Airbnb.

Second, our global market strategy is working. We continue to drive growth by investing in underpenetrated markets. While our timing and investment level will vary by market, our strategy is consistent, to make Airbnb local and relevant in more places around the world.

Now in each market, we focus on finding product market fit, increasing brand awareness, and driving traffic. And I want to just use one country as an example, which is Japan. Airbnb is still pretty new in Japan, and it's pretty unfamiliar to most Japanese travelers. So to raise awareness, we launched a brand campaign last month centered on domestic travel.

Beyond Japan, though, we are also introducing more local payment options in countries around the world, like Vietnam, Denmark, and Poland. And in fact, by spring of next year, we expect to offer nearly 40 local payment methods around the world.

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Now finally, supply quality is improving on Airbnb. We are focused on removing low-quality supply, as well as make it easier for guests to find the best places to stay. I shared that we removed over 300,000 listings last year, and we're already seeing this pay off. Customer service contact rates have decreased, guest MPS has improved, and we're also reducing host cancellations, which are now almost 30% lower than a year ago. And we've made it so much easier for guests to find the best place to stay with Guest Favorites. In fact, since launching Guest Favorites a year ago, last November, over 200 million nights have been booked at Guest Favorite listings.

All right. Next, I want to share briefly some highlights from our 2024 Winter Release, which was last month on October 16. Starting with the Co-Host Network. We know that hosting Airbnb is one of the best ways to make money from a home, but not everyone has the time to host. So that's why we introduced Co-Host Network, an easy way for people to find and hire the best local co-host to manage their Airbnb. Co-host offer personalized support for hosts' needs, everything from setting up your listing, to manage your bookings, and communicating with guests. These are super experienced hosts with an exceptional track record, 73% are Superhosts and 84% manage a Guest Favorite.

Now when we announced this on October 16, we launched the Co-Host Network with 10,000 co-hosts across 10 countries. And in the three weeks since we launched, we've already received interest from over 20,000 potential new co-hosts. This is huge. This is way bigger than we were expecting. But by making co-hosting easier, we really believe that Co-Host Network will allow us to unlock even more high-quality supply.

And we also introduced 50 upgrades for guests that make Airbnb a more intuitive and personalized app. And some of the features include a personalized welcome tour of the app for first-time guests, suggested destinations when guests tap the search bar, we'll recommend locations on their search and booking history, and personalized listing highlights. So, when a guest views the listing, we will highlight the details that are relevant to their search, and there are dozens of new features just like these. This is quite literally the beginning of a more personalized Airbnb.

Now turning to Q4. Last quarter, we talked about shorter booking lead times. But as I shared, nights and experiences booked accelerated throughout the quarter, returning to double-digit growth by the end of Q3. While we know the comps from last year will get harder in the back of the quarter, we are anticipating that nights booked will accelerate in Q4 relative to Q3.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Richard Clarke with Bernstein. Your line is open.

Richard J. Clarke
Analyst, Bernstein Autonomous LLP

Q

Hi. Good afternoon. Thanks for taking my questions. Just a question on supply. It looks like you've stopped sort of giving us the year-on-year supply growth, I guess, because of the removal. So, just any color on what's happening to maybe gross supply growth, and whether the removals you're doing and the additions you're doing are seeing any meaningful shift towards professional hosts as you go through that process or co-listed supply? And then maybe any color on whether this co-hosting is unlocking supply here. You talked about adding co-host, but are you getting additional supply due to the co-hosting initiatives?

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.

A

Yeah. Thanks, Richard. Let me talk a little bit about what we've seen on supply. As you've probably noted, our initiatives around supply have really morphed over the last 12 months. We continue to focus on growing our overall supply base, but we incrementally are focused on making sure that we are delivering very high-quality levels of supply across the world to our guests.

And the two important features that we've done to drive quality are obviously introduction of Guest Favorites a year ago. And then second, the removals that you called out over the last 12 months.

And the interesting thing is, we've seen what we've hoped to have seen from these quality initiatives. In particular, what we see is that based on encouraging our guests to use Guest Favorites and taking down those listings that we believe do not meet our quality expectations or those of our guests. What we see is that the average rating of our stays goes up, the incident rates go down, and customer service contacts go down as well.

So we're seeing the intended impact of those quality efforts, which we believe: one, improves the guest experience; second, allows for improvements of rebooking rates over time; and third, more broadly increases booking confidence around Airbnb.

To the specific question in terms of what has happened to supply growth, it continues to be strong. And in Q3, we continue to see supply growth exceed demand by a couple of points. So it continues to be very healthy. But again, the focus more recently has been on incrementally raising the quality bar on Airbnb, not just adding more supply to the platform. Brian, do you want to talk about co-hosting or would you like me to take that as well?

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

A

Yeah. I can take that. Well, Richard, this is a great question. Airbnb, I think we're just scratching the surface of how big this company could become. And the growth rate of demand is going to fall probably in line with the growth rate of supply. And so one of the questions we had was, well, how do we get millions more listings in Airbnb? And how do we not just get millions of property-managed listings? How do we get millions of regular, everyday people to put their homes in Airbnb?

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Well, we're doing, obviously a lot of research, and we've asked people, and we learned two things. The first thing we learned is that people are very interested in making extra money in the home they already have. It makes sense. They've paid for this asset. They can make tens of thousands of dollars a year. Why wouldn't you want to put it on Airbnb?

But the second thing we learned was that the number one reason people don't host is because a lot of people say they don't have the time. And so that's why we asked ourselves. So what if we could match people with homes that don't have time with people that have extra time, but don't have homes. The Venn diagram would potentially unlock millions more listings. And the best part of all was this would be an alternative to some of the third-party property-management companies if you want to have one of the best hosts in Airbnb. And the average 5-star rating for co-host in Airbnb is significantly higher than the average rating of a third-party property manager. So that's what we did with the Co-Host Network.

Now, we started with 10,000 co-host. We have 20,000 people that have applied in the three weeks since. And this is going to be something that we're going to be focusing on in the coming years to come. But to answer your questions very directly, Richard, not only would this unlock more supply. I think in the coming years, this can unlock millions of listings, I think that the vast majority of them are going to be everyday people, that are going to list exclusively on Airbnb.

Richard J. Clarke
Analyst, Bernstein Autonomous LLP

Q

Thanks. Thanks very much.

Operator: And your next question comes from the line of Mark Mahaney with Evercore ISI. Your line is open.

Mark Mahaney
Analyst, Evercore ISI

Q

Hey. Thanks. Two questions, please. You talked about this acceleration or improvement in room nights as you kind of went through the quarter. Did that come from any particular geographic areas? We'd heard that Europe was one, a market that was recovering maybe faster than others. Was that your experience as well?

And then just back on the co-hosting experience, you've had this out in a series of markets for a while. How long until we see materiality come through it? Like have you seen these in relatively small markets where you've rolled it out? Has it become material to the growth rate in those markets already in a 6 to 12-month period? Or is this more of like a 12 to 24-month process? Thank you.

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.

A

Thanks, Mark. Let me first answer your first question with regard to the acceleration of the business. What we shared in the letter was that if you rewind to where we were back at the time of the last earnings call, we called out that there was a bit of softness globally related to lead times.

Specifically, what we shared was that we were seeing continued strength of last-minute bookings, but relative softness in terms of the longer lead times. And what we saw over the course of the quarter, specific to both the regions that you call out, but globally, was that lead times over the course of July, August and September normalized, and came back almost in line to where we were in 2023.

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I think you saw that most notably in EMEA. And I think probably some of the long lead time softness that we were seeing in EMEA was certainly related to some distraction around the Olympics, because we certainly saw the bookings pickup after the Olympics passed. But more broadly, that acceleration was seen across all four major regions.

And then on the co-hosting, Brian gave you, I think, a broad answer in terms of the expectations there. One of the reasons that we had confidence in terms launching the Co-Host Network more broadly is the pilots that we've had over the last several years, in particular, in France, what we've seen is that the co-hosts themselves are very incremental in terms of going out and attracting high-quality listings themselves.

Obviously, it will take time for us to scale co-hosting to a level that is meaningful relative to the scale of our current business. But what we've seen from those pilots is extremely encouraging, and we'll continue to build out the network from here on.

Operator: And your next question is going to come from the line of Brian Nowak with Morgan Stanley. Your line is open.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

Thanks for taking my questions. I have two. The first one, I think the 4Q EBITDA guide sort of implies a margin somewhere in the 20s, around 27%, 28%. Is there any sort of timing factors you'd call out that are sort of driving the margin down at that level?

And then how do we sort of think about philosophically the levels of investment and sort of the philosophy around investment and margins into next year as we sort of go off this 27% number in the fourth quarter? Thanks.

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.

A

Yeah. So Brian, talking a little bit about Q4. Obviously, the guide does imply several point margin compression relative to last Q4. You should see that most specifically in terms of both the product development line item as well as marketing.

In marketing, we continue to invest in our global expansion markets, in our comm strategy around icons, and then also performance marketing, where we're seeing really great efficiencies. There's also a little bit of timing difference in terms of some spend from Q3 hitting into Q4. But in aggregate, the level of incremental marketing spend on a year-over-year basis is relatively modest.

Your second question is, how do we think about the level of investment and philosophy around margins in 2025? Let me give you a little bit of color in terms of our overall approach as we head into 2025. Obviously, we will give more color in the following earnings call, but let me just talk a little bit about the approach today.

So, if you think about how we've been managing our P&L, I think it's important, you're certainly well aware of our history, but I think it's important to reflect on how well we've managed the overall P&L since we went public.

We've been extremely disciplined in terms of delivering over 400 basis points of EBITDA margin expansion since 2020. Going from negative margins in 2019 and 2020 to over 35% consistent with our outlook this year. And

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we've demonstrated consistently over these last several years that our business model is extremely strong, it's extremely profitable and obviously has world-class levels of cash flow generation. And over the long term, I think you can expect that there is opportunity for further margin expansion.

But what you rewind to where we are right now, we've talked a lot about this. We see a huge incredible opportunity to invest in growth, both investing in growth in our core accommodations business as well as our new offerings. And so, as we head into 2025, we will continue to lean into our growth initiatives around core optimizations, global markets expansions, and new products and services.

And so, then the question is, how exactly will we be managing the P&L? I'd say for the core business, our goal is every year to make the core business better and more efficient and deliver greater value for our guests and hosts. And the way we do that is to find incremental efficiencies every year across, in particular, variable costs and invest some of that into greater service levels on both sides of the marketplace.

In addition to that, in terms of the growth investments, in 2025, we will be investing in our existing expansion markets as well as a handful of incremental expansion markets and we will be launching new products with our upcoming 2025 spring release.

The good news about these investments is that we intend for them to be relatively capital light, consistent with our core business. But we will be adding members to our teams and spending to our marketing to support these growth levers. We'll provide greater detail on the exact level of investment and growth expectations on our next call early next year.

Operator: And your next question comes from the line of Justin Patterson with KeyBanc. Your line is open.

Justin Patterson
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks for taking the question. Brian, you recently surpassed the 2 billion guest milestone. You did that next 1 billion much faster than your first 1 billion. As you look at the business today, what investments do you really need to make to attract that next billion-plus guest to Airbnb? When you look at just the types of people taking trips today what demographics do you under-index on? And how do you think some of these service releases can really bring that next wave of customers in? Thank you.

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

A

Justin, this is a great question. Maybe I'll just start by stepping back. It's pretty crazy that Airbnb has been used by 2 billion guests, because I remember when we started Airbnb, I remember telling investors, one day this company will be huge, thousands of people will use it.

And I think there's been a common like pattern where we keep saying it's going to be big, and it's even bigger than we imagined. And I think the reason why is the travel industry, as you know, you guys cover it is, it's approximately the size of the oil industry and people love traveling. And one thing I know about the future is more people are going to travel than in the past.

And I think that we'll be created with a new category. And this is a business that is approaching 0.5 billion nights booked a year. And so the question is, well, how do we get to 1 billion nights a year. Or how do we get a company to even be an order of magnitude bigger one day?

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Because I'm 43 years old. I started this company when I was 26 and I feel like I've got a couple of decades ahead of me. And so the question is, well, where do we go from here? I think that if you think about the history of this company, I think you could maybe break it up into a few chapters. The first chapter was when we had this idea, Joe, Nate and I in 2008, 2007, 2008 and we went on a really crazy hypergrowth rocketship, and that was phase one.

And then I would say the second chapter, which we're probably in now, but exiting, was the beginning of the pandemic when we lost 80% of our business And then we had to right-size the company, become really profitable, go public, listen to customer feedback and really strengthen the foundation for the next chapter of the company. And that's kind of the phase we're in.

And I think the next chapter of Airbnb is starting next May, because I think the next chapter is really about taking Airbnb and expanding it beyond our core business. And so I will outline three areas that are going to allow us to grow. And let's just start with the shortest horizon to the longest horizon.

The shortest horizon is actually just our core business. Again, we're approaching 500 million room nights booked a year. I think our core business could certainly get to 1 billion nights a year. I'm not going to put a time horizon on it, but the way we're going to do that is we're going to continue to increase quality

For everyone who stays in an Airbnb, nine people stay in a hotel. So the question is, what if we get just one of those other people to stay in Airbnb? That's how you get to 1 billion. And so we think quality, management quality is a key part of it. I think our work on affordability and usability are also going to be really, really critical. So we're going to continue to focus on the core business.

The next rise in our global market. A huge percent of our business is still concentrated in five countries, the US, Canada, Australia, France, UK. So those are what we call our core markets. But there are massive opportunities in emerging markets. There's nine of them that I'm focused on. In the Americas, it's Mexico, and Brazil. In Europe, it's Germany, Italy and Spain. And in Asia, it's the big four countries, which are Korea, Japan, India, and China. I think this is what I've described as a medium-term horizon.

And by the way, just to zoom out for a second, if there was one company in the world that you can bet on to expand internationally, I think it would be a global travel network. So I think there's a huge amount of opportunity here. And the biggest opportunity by far is expanding beyond our core business.

I'm reminded of Amazon, one of the biggest companies in the world, and they started as an online bookseller. And can you imagine if Amazon was only selling books today, how big they would become? And yet, we, for the last 17 years, for the most part, have only sold one thing, which is basically vacation rentals, Airbnb homes by the night. And so I think that we have a huge opportunity to span beyond our core business of accommodations.

Amazon went from books to what do they do first after books? They did CDs and DVDs, and people used to buy those. And that was a very close adjacency. And eventually, they sold everything. And then they even sold things beyond consumers to enterprise. I think Airbnb is going to go on its own journey. And what I expect is every year now, for the coming years, we will launch one to two new businesses that will generate $1 billion or more of revenue incrementally a year.

I'm not going to be able to share everything we're doing or even most of the things we're doing. We'd like to reveal them during our release. But one thing that we've previewed to you was we are going to be reimagining Airbnb

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Experiences and those are going to be coming next May. But we have some really cool other things that we're working on and it's going to basically be starting with the nearest adjacencies around travel. And over the next decade, we're going to go far beyond travel.

Operator: And your next question comes from the line of Justin Post with Bank of America. Your line is open.

Justin Post
Analyst, BofA Securities, Inc.

Q

Great. Thanks for taking my question. I just wanted to ask about the new markets. If you could give us the expansion markets, maybe some of the biggest ones there. I know Japan is one of them. And then how big they are, so we can think about the growth contribution next year? Thank you.

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.

A

Yeah. Justin, let me just give you some context in terms of our overall kind of concentration of the business. So if we think about the core markets, and again, remember, those are US, Canada, Australia, France, and the UK, they currently represent about three quarters of our gross booking value and then rest of the world is obviously a quarter. The expansion markets that we're focused on are kind of 15% approximately of the remainder. But in a normalized world, should be significantly larger.

So just to give you a sense in terms of kind of the success that we've had, that encourages us to keep going down this path and adding more expansion markets. I'd just call out actually Brazil, because it was one of our first expansion markets that we began to focus on about two years ago. We introduced localized brand campaigns, we localize the products. We've provided incremental payment methods to make it more locally relevant. And if we look at the success of that specific market, what you would see is that Brazil from a destination nights perspective is actually about three times as large as it was pre-pandemic.

And you can see just like paying attention to a particular market, deploying our full funnel marketing strategy, being very thoughtful about product market fit, allows us to scale these currently smaller portions of our business to, over time, a significantly larger proportion.

On the other end of the spectrum, I would highlight Japan, which we obviously called out in our shareholder letter, given the recency of the launch of our brand campaign there. That's obviously a significantly large market, but we are relatively new in the eyes of Japanese travelers, and so a big opportunity to really introduce ourselves to the local traveler, have them understand the opportunity locally to use Airbnb domestically and begin to scale that business commensurately.

And so when you think about the scale of these markets where we are today, Brian and I characterize this as a medium-term opportunity, because the immediate opportunity is large, but it will take time for us to scale these individual markets such that they have an increasing impact in terms of our consolidated global results, given the relative concentration today.

Operator: And your next question comes from the line of Lee Horowitz with Deutsche Bank. Your line is open.

Lee Horowitz
Analyst, Deutsche Bank Securities, Inc.

Q

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Great. Thanks so much. A couple if I could. Maybe your online travel peers have given color as to what they think their long-term bookings growth algo looks like. I mean, I guess given your leverage to alternative accommodations, the presumptions that you guys should be able to grow faster. But can you give any color maybe on sort of what you see as the long-term growth algorithm for your core business? And then what new verticals may add to that on top of that? And one follow-up, if I could.

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

A

Yeah, Lee, maybe Ellie, before you answer the question, can I just say one quick thing? Lee, I don't think we do alternative accommodations. I think alternative accommodations is what our competitors, OTAs do. I think alternative accommodations is a bit of a catch-all that includes property-managed homes, serviced apartments, boutique hotels. But I've never heard a customer say alternative accommodations. I hear them say Airbnb. I'm going to book an Airbnb. I'm going to get an Airbnb. And I think we're really in a category of our own. So just so you know, I just think we don't refer to it and we don't think of it as alternative accommodations. But Ellie, over to you.

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.

A

Yeah. Thanks. Lee. So when we think about overall growth algorithm and our growth drivers, it's exactly as Brian had described earlier in terms of talking about the opportunity. It really starts with focusing on our core offering and optimizing it such that we are effectively limiting the barriers to trying Airbnb relative to alternatives and particularly hotels.

And so that's why we focus so much on things like affordability and reliability, because we know for many consumers, even though they're aware of Airbnb, there is a gap in terms of their booking confidence around what they are going to get from us. And so every quarter we work at reducing that gap of consideration. And when we look at the business from that perspective, there's a huge amount of growth room ahead, even in our core markets, because we know so many consumers continue to consider themselves as hotel guests, not necessarily Airbnb guests.

And so a lot of the optimizations and marketing are both raising consideration as well as helping people frankly get through our platform more easily by making it easier to book, making it more personalized and getting them the right listings. And so we continue to focus on these core optimizations, because we believe it's a considerable future – current, I should say, and future growth lever that will continue to make dividends in particularly in our core markets, but more globally more – generally globally across our platform.

The second component is what I just spoke about in terms of responding to Justin. Our business today is over concentrated in our core markets and is not necessarily reflective of the commensurate business opportunity across the globe. And so over the next couple of years, you should see – assuming that our go to market strategy is successful, you should see the contribution to growth of those expansion markets grow every single quarter. And I think the results that we've delivered so far this year suggests that that is working. We just need to continue to scale those businesses such that they contribute to global growth more significantly.

Lee Horowitz
Analyst, Deutsche Bank Securities, Inc.

Q

Great. And then to the extent that sort of your improving 4Q outlook, the acceleration is really nice, is an output of some of the investments that you guys are putting into place driving the kind of gains that you want.

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Does this give you confidence to throw fuel on the fire and invest more aggressively behind those initiatives? And maybe how we should think about the way that, that interplay should play through in terms of margin over the longer term?

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.

A

Well, I think where we've seen success, one of the areas is core optimization. And so we have built out the product roadmap around that because where we see success in terms of improvements we're making to the booking flow, we continue to keep a stable set of resources against those challenges so that every single quarter, the product is getting better and we're delivering more gains from those product improvements.

Operator: And your next question comes from the line of James Lee with Mizuho. Your line is open.

James Lee
Analyst, Mizuho Securities USA LLC

Q

Great. Thanks for taking my questions. Two questions on core initiatives here. Can you guys talk about the progress you've made in affordability and quality that's driving maybe some of the increased bookings that we've seen during the quarter. And also, can you give us an update on your customer service transformation, maybe what's working, what's not, what's yet to be improved? And when do you expect to complete the process? Thanks.

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

A

Yeah, I got this. Hey, James, these are great questions. I'm really excited about it. So I'll take each affordability and reliability, then customer service. Affordability, you know, it's funny. The first tagline every – Airbnb ever had was an affordable alternative to a hotel, and it was the number one reason that people first tried to use Airbnb.

Now I think today, that's not the main reason people use Airbnb. I think they use it, because they want to travel like the local, they want more space. They want home in real neighborhoods that are equipped. But it's really, really important that we don't ever leave our roots of affordability. And I think, in the pandemic, I think there was so much demand, there was constrained supply, prices went up, and I think we drifted from our affordability route.

So a couple of years ago, we actually got very, very serious about driving more affordable on Airbnb. And we did a few things. The first thing we did is we heard a lot of complaints about rising cleaning fees and excessive fees in Airbnb. So we introduced total price display. Total price display is exactly what it sounds like. You can click a toggle and see the total price upfront. And since we've done that, more than 300,000 listings have removed or lowered the cleaning fee. So this has been huge.

Next, we introduced weekly and monthly discounts and now we're introducing more entry points in weekly and monthly discounts, two-thirds of hosts now offer discounts. In fact, more than half of our hosts offer a monthly discount, and now 17% of our nights booked are for monthly stays. We introduced a similar listings tool.

So what we noticed was a lot of hosts were overestimating what they could make on a nightly basis, especially new hosts. So we built a tool for you to see other listings in your neighborhood and 2 million hosts have used this tool. And basically, when most hosts use this tool, they realize that they need to make sure they're competitive. And so it brings their prices in line.

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Now over this past release on October 16, we also added a couple more different features like price tips, hosts can now view suggested prices based on similar listings in their area. And search tips, so throughout a guest search, we're going to offer relevant tips to help them find last minute stays. And probably the most important thing you can do to drive affordability is just continue to increase supply. What we know about almost every marketplace is that as supply goes up, relative demand prices come down. And so that's a really big effort for us.

The results have been the following. In the last two years, while Airbnb prices on a like-for-like basis, if you net out mixed shift, have remained fairly constant, hotel prices have gone up considerably. So we believe that we've actually become more competitive from a affordability standpoint relative to hotels last year. That's affordability.

Now reliability. Reliability, as I said, is probably the most important thing that we can do to drive more growth in our core business. If we do nearly 500 million nights a year in bookings, the question is, how do we get the next 500 million nights? And there's no silver bullet, but the closest thing to a silver bullet is quality and reliability.

And there's a lot of things we're doing, quite literally dozens. But if I could just pick two. The two things, I'd pick are at the top, Guest Favorites, highlighting the 2 million best listings in Airbnb. We also highlight the best 1%, 5% and 10% listings. As Ellie mentioned, we've done 200 million nights booked just in Guest Favorites.

Now this is amazing. Why is this great? Because number one, customer service contact these listings are down, our profitability on a per booking basis goes up. MPS is up. Because MPS is up, that means that rebooking rates are up. That also means word of mouth is up, but most importantly, a lot of people that wouldn't have considered staying in Airbnb now would.

I mean, I'm going to go out on a limb and say that while the average Airbnb is not as reliable as a hotel, I believe the average Guest Favorite is, and we have 2 million to choose from, 2 million listings is more inventory than Hilton or Marriott, nearly combined, by the way. So there's a lot of selection here.

At the bottom end, just like any company, you need to make sure you reward the top performers and you also deal with the people that aren't performing. We've removed more than 300,000 listings over the last year, the last two years of hosts that weren't meeting our quality standards. So these are just some of the things we're doing on reliability.

The last is customer service. And we are going through a really exciting transformation on customer service, I don't want to be one of the CEOs who just brings up AI every earnings call, because I think you got to have that measured. But we are seeing some really great progress on AI-powered customer service.

The way we think about customer service powered by AI is in three phases. Phase one is the phase we're in right now. If you were to – first of all, most of our customer contacts, we get over 10 million contacts a year.

Most of the contacts that we anticipate getting in the coming years aren't going to be phone calls. They're going to be chatting through the app. I really personally don't like calling customer service and having to dial them. I want to be able to chat, and chat, AI can intercept.

And so we think in the future, the vast majority of our chats are going to be intercepted and handled directly by the AI agent. And so there's really three phases to this. Phase one is just answer basic general questions. We're rolling out a pilot that can answer basic general questions. Phase two is personalization, be able to personalize the questions. Phase three is to take action. So I'll give you an example. Let me just give you one example.

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Let's say I were to contact customer service and I say, "How do I cancel reservation?" In Phase one, what we're doing now, the AI agent will answer probably even better than the average customer service agent, how to cancel a reservation. So they'll say, here's how you cancel a reservation, step by step.

Phase two personalization, they'll say, "Hey, Brian, I see you have a reservation coming up in Los Angeles next week. Here's how you cancel that reservation." And Phase three is taking action. It would say, "Hey, Brian, I see you have a reservation coming up in Los Angeles. Would you like me to cancel it for you? Just tell me, yes, and I'll do it for you. I can even handle rebooking."

So this is where we think customer service can go, enabled by AI, and we've hired some of the best people in the world to work on this. I'm really excited to tell you more progress about it.

Operator: And your next question comes from the line of Doug Anmuth with JPMorgan. Your line is open. And Doug, if you could check to see if your line is on mute.

And moving forward to our next question from Kevin Kopelman with TD Securities. Your line is open.

Kevin Kopelman
Analyst, TD Cowen

Q

Thanks a lot. A question on the new services that are expected to come out next year. Do we think of those new services as driving some revenue growth right off the bat for the second half next year? Or are you anticipating more gradual rollouts to more 2026 revenue drivers? Thanks.

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

A

Yeah. I can take that. And Ellie, feel free to add, Kevin. The answer is a little bit of both. I mean, we are – the way – let's just back up. So Uber, let's just take Uber. I admire that company. They've done really well. When they launch Uber Eats, they launched in one market. And they had a city by city market and was very, very gradual. We are not going to do that. We're going to be much more aggressive.

When we launch some new offerings next year, they're going to be available immediately in more than 100 cities around the world. So we believe in trying to reach scale a little more quickly, just given how big and how mature we are. So because of that, we do think there will be some incremental revenue next year that will hit the financials.

But I also just want to, like step back and just say that what we've learned from Uber Eats, from Amazon's category expansion from DoorDash, from we can go down the list to marketplaces is when something's built off a small base, you've got to be patient.

I think that there's a multi-billion dollar revenue opportunities, multiple of them that will be introduced next year. But I also would point people to a five-year horizon for a number of these things to really reach scale, not – they won't reach scale in just a year or two. And part of that is it's a network effect business. We want to roll it out carefully. We want to make sure it's really well done. Ellie, do you want to add anything?

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.

A

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The only thing I'd add is, Kevin, we'll obviously give you much more detailed color next year on the next earnings call. But what you should anticipate is that some of the investment behind those new services will front run the revenue. So you'll begin to see those expenses or those investments, I should say, at the beginning of the year, whereas the revenue will start to scale once we've released a new offering.

Operator: And your next question comes from the line of Patrick Scholes with Truist. Your line is open.

Patrick Scholes
Analyst, Truist Securities, Inc.
Q

Great. Thank you. Good evening. I want to go back to the first question that was asked and ask it maybe a little more direct. Can you provide us in percentage terms what your year-over-year net unit growth was in the quarter? Thank you.

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.
A

On supply?

Patrick Scholes
Analyst, Truist Securities, Inc.
Q

Yes, supply. Correct.

Ellie Mertz
Chief Financial Officer, Airbnb, Inc.
A

Yeah. So, we had over 10% growth of supply as of the end of Q3, which is down several points based on the removals.

Operator: Your next question comes from the line of John Colantuoni with Jefferies. Your line is open.

John Colantuoni
Analyst, Jefferies LLC
Q

Great. Thanks for taking my questions. I wanted to ask about the Experiences' offering. As you get closer to the relaunch next year, how are you thinking about the sort of the pace of expansion and scalability?

I know, you'd like to keep Experiences unique like your accommodations offering. But I'm curious if that means it will take longer to build supply behind it. And maybe you could also sort of give us a sense for any investments in tech or marketing that you plan to make around the relaunch of Experiences? Thanks.

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

Yeah, John. Really good question. I think we are able to reach a sweet spot where I think we can – we're going to offer something that's really, really unique and will scale.

Now I want to just moderate expectations that again, these journeys are going to be multiyear journeys that I do not think that there's a choice. I don't think we need to make a choice between being unique or being at scale.

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I think – by the way, I think our core business proved that. A business that's approaching $100 billion in gross sales a year and it's pretty unique. It's pretty different than a hotel. So I'm not going to certainly promise that Experiences will get to that size, but we do think we have something that's very unique, very scalable, available around the world.

As far as the tech and marketing, the great thing about our business is I do not anticipate very many businesses in the next five years are going to need significant investments. We are certainly nothing like, many other companies where they have a lot of either capital allocation or major technical investments or even major marketing investments.

Here's another way of saying it. We've already made most of the technology investments. When you see the last four years, a huge amount of what we've done is rebuilt the company from the ground up, not just to make it stronger to offer homes, to make it an extensible platform.

One of those companies that we learned from, again, was Amazon. I know I talk a lot about Apple. A lot of people like reference Apple when they talk about Airbnb because of big launches.

But Apple – Amazon is a very good reference point. Initially, as you know, they built a bookstore. They were based on, like ISBNs. They had to rebuild the platform and abstract the platform, and you might call it platformizing to be able to offer many of their own verticals.

And so we want to take the Airbnb platform that works for vacation rentals and build it for the next decade for like 50, 100 different categories, just like Amazon. So now we're not going to put a timeline when we offer them, but we've rebuilt the technology already, most of it, to be able to do that.

Now with marketing, I don't think we're going to have to market everything as standalone businesses. We really like the idea of marketing all of Airbnb. In marketing, there's these two choices. Are you a house of brands or a branded house? We're a branded house. We're one app, we're one brand, and we want to market everything in one app.

So that's a little bit more how we're going to approach it. And so I think for those reasons, we will, of course, be investing. I want to be clear. We, of course, will be investing, but it's not going to be like many other companies, where they have to go deep into the red to get these new businesses off the ground.

Operator: And your next question comes from the line of Jed Kelly with Oppenheimer. Your line is open.

Jed Kelly
Analyst, Oppenheimer & Co., Inc.

Q

Oh, great. Thanks for taking my questions. Just two, if I may. Can you talk about in areas such as New York City, where the regulations are becoming increasingly difficult.

Can you talk about how we should view those and potentially leaning more into hotels? And then as you grow outside some of these noncore markets, is it going to be more brand-driven? Or will you lean more into performance marketing? Thanks.

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

A

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Hey, Jed. I'll take this. Yeah. So let's talk about New York. Actually, I would like to talk about two cities. I'd like to talk about a tale of two cities, New York City and Paris, because both cities made some major decisions on Airbnb recently, and I want to distinguish the difference between the two.

New York City has what might be described as the affordable housing crisis, and that's a very real thing. And so they decided one of the ways they tried to deal with that was banning Airbnb. And a year ago, Airbnb was banned. And the theory was that if you ban Airbnb, a bunch of homes will come back onto the rental market and prices will come down.

Well, for the first time, we've gotten a year-long longitudinal study of what happens when you ban Airbnb into a city. Rent prices in New York City are not down. In fact, they're up 3.5%. And by the way, hotel prices are now up 7%. So a year after banning Airbnb, it's more expensive to live there, and it's even more expensive to travel there. And I think that New York City is now a cautionary tale of how to deal with Airbnb.

Now the other side is Paris. Paris, France. A couple of years ago, we knew the Olympics were coming to Paris. We started working with the City of Paris. And I think that Paris took a different approach. Instead of thinking of Airbnb as a problem, they thought of Airbnb as a solution to their problems, which are they weren't going to have enough housing for the Olympics.

And so in the last year, we went from 100,000 homes in Paris to 150,000 homes in Paris. And I'm pleased to announce that 700,000 guests stayed in Paris over the course of the Olympics, 700,000. And that's like eight or nine Olympic stadiums, who were the guests.

Our favorability in Paris has not been higher in years, and cities all over the world are now coming to Airbnb and saying, "We want to be Paris, not New York. Can you help us?" Because there are thousands of events going around the world. So I think that's the most important point I would make, that New York and Paris are tale of two cities, and we can be a solution to the problem. We are not the problem.

But specific to New York, I'll just say two things. Number one, I remain optimistic that there will be a path to us for reenter New York, and people will be able to stay in homes in Airbnb because there is a constrained number of hotels in New York. And by the way, most hotels are only in Manhattan, and they're in Midtown Manhattan. Do you want to stay in any part of the Manhattan, Brooklyn, the Bronx, Staten Island, Queens? You're going to be pretty limited.

And to answer the other part of your question, yes. We absolutely welcome hotels on Airbnb, and we are going to be adding more hotels to Airbnb, because for Airbnb to win, hotels don't have to lose. We own a hotel tonight and we believe that you should be able to find Hiltons and hotels on Airbnb. So yes, we are focused on hotels in New York City on Airbnb. We're focused on Airbnbs in say, New Jersey, say Jersey City, which is actually closer to Manhattan – to other parts of Manhattan. And I'm optimistic that New York, there will be a workable solution at some point in the future. I don't know when that will be, and they can follow the lead of Paris.

Operator: [Operator Instructions] Our next question comes from the line of Stephen Ju with UBS. Your line is open.

Stephen Ju
Analyst, UBS Securities LLC

Q

Great. Thanks. Thanks for taking the question. So, Brian, I guess, on the Experiences again. I'm wondering if there is going to be an angle where this could be something that increases the overall engagement or even raises

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the overall frequency of usage for you, because – maybe I don't stay in an Airbnb every weekend, but maybe I try an Airbnb Experiences every weekend. So I'm just wondering like how the product development path and how utilization will shift at your selection grows? Thanks.

Brian Chesky

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

A

100%. I mean this is a great point, Stephen. Experiences, like listen, like Airbnb is typically something you book once or twice a year. Very, very few people will book Airbnbs every month, unless you're like this incredibly prolific traveler. And so we've struggled a little bit from the point where, on the one hand, like our average purchase price is over $500. So like the economics are great. On the other hand, we have the challenge of low frequency. Most people don't travel that frequently.

Experiences are going to be, I think, one of many new offerings that can increase the frequency that can make Airbnb go from an annual app to a monthly usage app, or even a, for some people weekly usage app. And the reason why is because Experiences will not be limited just to when you travel.

Just like they are today, we are designing products, Experiences and new services that will be great when you travel, but you could book them in your own hometown. Like and I think there's a real problem, which is what do you want to do on a Saturday, if you're with your family, other than the things you already do? If you – a Friday night, what do you do other than going to a restaurant, staying home and watch Netflix. I think there is a market for locals to want to do unique things. And I think traveling is how they're going to be exposed to Experiences. But I do think a subset of those people will try them back home.

And I think the really big opportunity here kind of similar to iPod. When iPod launched, you can only use it with a Macintosh. And the really big game for the iPod was once it became Windows compatible. When iTunes available windows, all the people that didn't own a Mac could buy an iPod and those sales surged. So I do think there is a potential play for that down the road experiences. We're going to position it first and foremost to travelers, but it's not going to be exclusive to travelers. And I do think people are going to come there more frequently.

Operator: And there are no further questions at this time. I would now like to turn the call back over to Brian Chesky.

Brian Chesky

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

All right. Well, I just want to thank everyone for joining us today. And just to recap, revenue was $3.7 billion, which is 10% higher than a year ago. Adjusted EBITDA was $2 billion and our trailing 12-month free cash flow was $4.1 billion. Now, this is representing a free cash flow margin of 38%.

Our strong balance sheet enables repurchase $1.1 billion of our common stock this quarter and we're continuing to innovate and our product just keeps getting better. I am so proud of what we accomplished and I'm excited for what's ahead.

Thank you all for joining.

Operator: This concludes today's conference call. You may now disconnect.

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