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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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**For the fiscal year ended: December 31, 2020**

**Commission File No.: 1-36691**

**Booking Holdings Inc.**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**06-1528493**

(I.R.S. Employer Identification Number)

**800 Connecticut Avenue**

**Norwalk, Connecticut 06854**

(address of principal executive offices)

Registrant's telephone number, including area code: **(203) 299-8000**

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Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class:                     | Trading Symbol | Name of Each Exchange on which Registered: |
|--|----------------|--|
| Common Stock par value \$0.008 per share | BKNG           | The NASDAQ Global Select Market            |
| 0.800% Senior Notes Due 2022             | BKNG 22A       | The NASDAQ Stock Market LLC                |
| 2.150% Senior Notes Due 2022             | BKNG 22        | The NASDAQ Stock Market LLC                |
| 2.375% Senior Notes Due 2024             | BKNG 24        | The NASDAQ Stock Market LLC                |
| 1.800% Senior Notes Due 2027             | BKNG 27        | The NASDAQ Stock Market LLC                |

Securities Registered Pursuant to Section 12(g) of the Act: **None.**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

|                           |                                     |                         |                          |                       |                          |
|---------------------------|-------------------------------------|-------------------------|--------------------------|-----------------------|--------------------------|
| Large accelerated filer   | <input checked="" type="checkbox"/> | Accelerated filer       | <input type="checkbox"/> | Non-accelerated filer | <input type="checkbox"/> |
| Smaller reporting company | <input type="checkbox"/>            | Emerging growth company | <input type="checkbox"/> |                       |                          |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of common stock held by non-affiliates of Booking Holdings Inc. at June 30, 2020 was approximately \$65.0 billion based upon the closing price reported for such date on the NASDAQ Global Select Market. For purposes of this disclosure, shares of common stock held by executive officers and directors of Booking Holdings Inc. on June 30, 2020 have been excluded because such persons may be deemed to be affiliates of Booking Holdings Inc. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of outstanding shares of Booking Holdings Inc.'s common stock was 40,961,796 at February 17, 2021.

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## DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual Report on Form 10-K, to the extent not set forth in this Form 10-K, is incorporated herein by reference from Booking Holdings Inc.'s definitive proxy statement relating to its annual meeting of stockholders to be held on June 3, 2021, to be filed with the Securities and Exchange Commission within 120 days after the end of Booking Holdings Inc.'s fiscal year ended December 31, 2020.

Booking Holdings Inc. Annual Report on Form 10-K for the Year Ended December 31, 2020 Index

|   | <u>Page No.</u>               |
|---|-------------------------------|
| <a href="#"><u>Special Note Regarding Forward Looking Statements</u></a>  | <a href="#"><u>1</u></a>      |
| <a href="#"><u>PART I</u></a>   | <a href="#"><u>1</u></a>      |
| <a href="#"><u>Item 1. Business</u></a>   | <a href="#"><u>1</u></a>      |
| <a href="#"><u>Item 1A. Risk Factors</u></a>  | <a href="#"><u>10</u></a>     |
| <a href="#"><u>Item 1B. Unresolved Staff Comments</u></a>   | <a href="#"><u>37</u></a>     |
| <a href="#"><u>Item 2. Properties</u></a>   | <a href="#"><u>37</u></a>     |
| <a href="#"><u>Item 3. Legal Proceedings</u></a>  | <a href="#"><u>37</u></a>     |
| <a href="#"><u>Item 4. Mine Safety Disclosures</u></a>  | <a href="#"><u>38</u></a>     |
| <br><a href="#"><u>PART II</u></a>  | <br><a href="#"><u>38</u></a> |
| <a href="#"><u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u></a> | <a href="#"><u>38</u></a>     |
| <a href="#"><u>Item 6. Selected Financial Data</u></a>  | <a href="#"><u>40</u></a>     |
| <a href="#"><u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>                        | <a href="#"><u>41</u></a>     |
| <a href="#"><u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u></a>  | <a href="#"><u>66</u></a>     |
| <a href="#"><u>Item 8. Financial Statements and Supplementary Data</u></a>  | <a href="#"><u>67</u></a>     |
| <a href="#"><u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u></a>                         | <a href="#"><u>67</u></a>     |
| <a href="#"><u>Item 9A. Controls and Procedures</u></a>   | <a href="#"><u>67</u></a>     |
| <a href="#"><u>Item 9B. Other Information</u></a>   | <a href="#"><u>70</u></a>     |
| <br><a href="#"><u>PART III</u></a>   | <br><a href="#"><u>70</u></a> |
| <a href="#"><u>Item 10. Directors, Executive Officers and Corporate Governance</u></a>  | <a href="#"><u>70</u></a>     |
| <a href="#"><u>Item 11. Executive Compensation</u></a>  | <a href="#"><u>70</u></a>     |
| <a href="#"><u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></a>              | <a href="#"><u>70</u></a>     |
| <a href="#"><u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u></a>                                   | <a href="#"><u>70</u></a>     |
| <a href="#"><u>Item 14. Principal Accountant Fees and Services</u></a>  | <a href="#"><u>70</u></a>     |
| <br><a href="#"><u>PART IV</u></a>  | <br><a href="#"><u>70</u></a> |
| <a href="#"><u>Item 15. Exhibits and Financial Statement Schedules</u></a>  | <a href="#"><u>70</u></a>     |
| <a href="#"><u>Item 16. Form 10-K Summary</u></a>   | <a href="#"><u>74</u></a>     |
| <a href="#"><u>Signatures</u></a>   | <a href="#"><u>75</u></a>     |
| <a href="#"><u>Consolidated Financial Statements</u></a>  | <a href="#"><u>77</u></a>     |

## **Special Note Regarding Forward-Looking Statements**

*This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements. These forward-looking statements reflect our views regarding current expectations and projections about future events and conditions and are based on currently available information. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict, including the Risk Factors identified in Part I, Item 1A of this Annual Report; therefore, our actual results could differ materially from those expressed, implied or forecast in any such forward-looking statements. Expressions of future goals and expectations and similar expressions, including "may," "will," "should," "could," "aims," "seeks," "expects," "plans," "anticipates," "intends," "believes," "estimates," "predicts," "potential," "targets," and "continue," reflecting something other than historical fact are intended to identify forward-looking statements. Unless required by law, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. However, readers should carefully review the reports and documents we file or furnish from time to time with the Securities and Exchange Commission (the "SEC" or the "Commission"), particularly our quarterly reports on Form 10-Q and current reports on Form 8-K.*

## **PART I**

### **Item 1. Business**

The COVID-19 pandemic has had a profound impact on our business, employees, partners, communities and stockholders. Although there was a significant decline in our business in 2020 as a result of the COVID-19 pandemic, we remain confident that the travel industry will recover when travelers feel safe to travel once again. In the beginning of the crisis, our priorities included the health and safety of our employees and stabilizing our business from the immediate shock of the pandemic by working with customers and partners to address unprecedented levels of cancellations. We also took numerous actions in response to the pandemic, including steps to increase our financial liquidity, reduce costs, restructure our operations to address our near- to medium-term business expectations and ensure we are well-positioned to capture travel demand when it returns so we can emerge from this crisis on a strong footing and work on extending our leadership position. While the timing of the recovery of the travel industry remains uncertain, we believe that demand for our services will return when government restrictions are lifted and people are confident it is once again safe to travel.

As a result, our mission to make it easier for everyone to experience the world remains unchanged. We seek to empower people to cut through travel barriers, such as money, time, language and overwhelming options, so they can use our services to easily and confidently get where they want to go, stay where they want to stay, dine where they want to dine, pay how they want to pay and experience what they want to experience. We connect consumers wishing to make travel reservations with providers of travel services around the world through our online platforms. Through one or more of our brands, consumers can: book a broad array of accommodations (including hotels, motels, resorts, homes, apartments, bed and breakfasts, hostels and other properties); make a car rental reservation or arrange for an airport taxi; make a dinner reservation; or book a flight, cruise, vacation package, tour or activity. Consumers can also use our meta-search services to easily compare travel reservation information, such as airline ticket, hotel reservation and rental car reservation information, from hundreds of online travel platforms at once. In addition, we offer various other services to consumers and partners, such as certain travel-related insurance products and restaurant management services to restaurants.

We offer these services through six primary consumer-facing brands: Booking.com, Priceline, agoda, Rentalcars.com, KAYAK and OpenTable. While historically our brands operated on a largely independent basis and many of them focused on a particular service (e.g., accommodation reservations) or geography, we continue to increase the collaboration, cooperation and interdependency among our brands in our efforts to provide consumers with the best and most comprehensive services. We also seek to maximize the benefits of our scale by sharing resources and technological innovations, co-developing new services and coordinating activities in key markets among our brands. For example, Booking.com, the world's leading brand for booking online accommodation reservations (based on room nights booked), offers rental car and other ground transportation services, flights, tours and activities, restaurant reservations and other services, many of which are supported by our other

brands. Similarly, hotel reservations available through Booking.com are also generally available through agoda and Priceline. The following table shows the key services offered to consumers by our primary brands:

|                |                | Ground         |         |             |            |             |
|----------------|----------------|----------------|---------|-------------|------------|-------------|
|                | Accommodations | Transportation | Flights | Restaurants | Activities | Meta Search |
| Booking.com    | ✓              | ✓              | ✓       | ✓           | ✓          |             |
| Priceline      | ✓              | ✓              | ✓       |             |            |             |
| agoda          | ✓              | ✓              | ✓       |             | ✓          |             |
| Rentalcars.com |                | ✓              |         |             |            |             |
| KAYAK          |                |                |         |             |            | ✓           |
| OpenTable      |                |                |         | ✓           |            |             |

Our business is driven primarily by international results, which consist of the results of Booking.com, agoda and Rentalcars.com and the international businesses of KAYAK and OpenTable. This classification is independent of where the consumer resides, where the consumer is physically located while using our services or the location of the travel service provider or restaurant. For example, a reservation made through Booking.com at a hotel in New York by a consumer in the United States is part of our international results. During the year ended December 31, 2020, our international business (the substantial majority of which is generated by Booking.com) represented approximately 88% of our consolidated revenues. A significant majority of our revenues, including a significant majority of our international revenues, is earned in connection with facilitating accommodation reservations. See Note 18 to the Consolidated Financial Statements for more geographic information.

Our common stock is listed on the NASDAQ Global Select Market under the symbol "BKNG." We refer to our company and all of our subsidiaries and brands collectively as "Booking Holdings," the "Company," "we," "our" or "us."

### The Booking Holdings Business Model

We derive substantially all of our revenues from enabling consumers to make travel service reservations. We also earn revenues from credit card processing rebates and customer processing fees, advertising services, restaurant reservations and restaurant management services, and various other services, such as travel-related insurance.

For the year ended December 31, 2020, we had revenues of \$6.8 billion, which we classify as "agency" revenues, "merchant" revenues and "advertising and other" revenues.

- Agency revenues are derived from travel-related transactions where we do not facilitate payments from travelers for the services provided. We invoice the travel service providers for our commissions after travel is completed. Agency revenues consist almost entirely of travel reservation commissions.
- Merchant revenues are derived from travel-related transactions where we facilitate payments from travelers for the service provided, generally at the time of booking. Merchant revenues include travel reservation commissions and transaction net revenues (i.e., the amount charged to travelers less the amount owed to travel service providers) in connection with our merchant reservation services; credit card processing rebates and customer processing fees; and ancillary fees, including travel-related insurance revenues. Substantially all merchant revenues are derived from transactions where travelers book accommodation reservations or rental car reservations.
- Advertising and other revenues are derived primarily from (a) revenues earned by KAYAK for sending referrals to online travel companies ("OTCs") and travel service providers and for advertising placements on its platforms and (b) revenues earned by OpenTable for its restaurant reservation services and subscription fees for restaurant management services.

## The Booking Holdings Strategy

We aim to achieve our mission to make it easier for everyone to experience the world through global leadership in online travel and restaurant reservation and related services by striving to:

- provide consumers with the best choices and prices at any time, in any place, on any device;
- make it easy for people to find, book, pay for and experience their travel desires; and
- provide platforms, tools and insights to our business partners to help them be successful.

We focus on relentless innovation and execution and a commitment to serve both consumers and our travel service provider and restaurant partners with unmatched service and best-in-class digital technology. We believe that as the COVID-19 pandemic subsides, people feel confident traveling and dining out and government restrictions are lifted, the global online travel and dining industries will recover and, after some period of higher growth through the recovery, continue to grow as they did before the COVID-19 pandemic as consumer purchasing shifts from traditional offline channels to interactive online channels, including mobile channels. As travel demand returns, we plan to continue to participate broadly in this online growth by expanding our service offerings and markets. In particular, we seek to (a) leverage technology to provide consumers with the best experience, (b) partner with travel service providers and restaurants to our mutual benefit, (c) operate multiple brands that collaborate with each other, and (d) invest in profitable and sustainable growth.

- **Providing the best consumer experience.** We believe that offering consumers an outstanding online experience is essential for our future success. To accomplish this, we focus on providing consumers with: (a) intuitive, easy-to-use online travel and restaurant reservation and search services; (b) a continually improving selection of accommodations, other travel offerings, restaurants and payment options through our services; (c) informative and useful content, such as pictures, accommodation and restaurant details and reviews; and (d) excellent customer service. Our goal is to make travel easy, frictionless and personal and to offer consumers the most value, the most trusted brands, the most personalized experience and the most extensive, varied and comprehensive travel service selection in every geography. Further, we endeavor to provide excellent customer service in a variety of ways, including through our call centers and online platforms and the use of chatbots and other technologies, so that consumers can be confident that booking reservations through us will be a positive experience.

Although we spent much of 2020 navigating the challenges of the COVID-19 pandemic, we continue to innovate and invest in our services in order to emerge from the pandemic in a strong position to meet the needs of consumers and our travel service provider and restaurant partners. We continue to seek to grow our business through innovation by, among other things, providing a best-in-class user experience with intuitive, easy-to-use online platforms (i.e., websites and mobile apps) to ensure that we are meeting the needs of online consumers while aiming to exceed their expectations. As a result, our long-term strategy is to build a seamless offering of multiple elements of travel, which we refer to as the "Connected Trip." We believe that through innovation and the utilization of emerging technologies such as artificial intelligence, the Connected Trip will simplify and improve all aspects of the travel experience, including: discovery, planning, booking, coordinating itineraries among travel service providers, automatic rescheduling/rebooking, etc. For example, if a traveler's flight is delayed, we envision that ultimately the Connected Trip will not only alert the traveler, but also automatically arrange for a late arrival at the hotel, change a dinner reservation and alert companion diners, reschedule the airport transfer, find a later connecting flight, etc. We believe that such a system will benefit both the traveler and the travel service provider or restaurant, as well as provide a compelling and differentiated service offering for consumers that will drive enhanced loyalty and frequency over time.

- **Partnering with travel service providers, restaurants and OTCs.** We aim to establish mutually beneficial relationships with travel service providers and restaurants around the world. We believe that travel service providers and restaurants benefit from participating in our services by increasing their distribution channels, demand and inventory utilization in an efficient and cost-effective manner. Travel service providers and restaurants benefit from our well-known brands and marketing efforts, expertise in offering an excellent consumer experience through our platforms and ability to offer their inventory in markets and to consumers that the travel service provider or restaurant may otherwise be unable or unlikely to reach.

In addition, we have commercial relationships with other OTCs, such as Didi Chuxing (the leading ride hailing service in China) and Grab Holdings Inc. ("Grab") (the leading ride hailing company in Southeast Asia), whereby the customers of one company will have access to the services of the other. For example, through the Booking.com app, a Booking.com customer traveling in Southeast Asia can book a local ride arranged by Grab.

- **Operating multiple brands.** We employ a strategy of operating multiple brands, which we believe allows us the opportunity to offer our services in ways that appeal to different consumers, pursue different marketing and business strategies, encourage experimentation and innovation, provide different service offerings and focus on different markets. At the same time, we are continuing to increase the collaboration, cooperation and interdependency among our brands in our efforts to provide consumers with the best and most comprehensive services. As we deem appropriate given the shape and speed of recovery from the COVID-19 pandemic, we intend to invest resources to support organic growth by all our brands, whether through increased marketing, geographic expansion, technological innovation or increased access to accommodations, rental cars, restaurants, airline tickets or other services.
- **Investing in profitable and sustainable growth.** We seek to offer online services that meet the needs and the expectations of consumers, travel service providers and restaurants and that we believe will result in long-term profitability and growth. We intend to accomplish this through continuous investment and innovation, growing our businesses in new and current markets, expanding our services and ensuring that we provide an appealing, intuitive and easy-to-use consumer experience. We have made significant investments in people, technology, marketing and expanded, new or additional services, such as improving the selection of our extensive collection of accommodations including homes, apartments and other unique places to stay, expanded flight and ground transportation offerings and other offerings. While we reduced the size of our workforce in response to the COVID-19 pandemic, we are preparing the business to capture more travel demand as it develops during the recovery and over the long term. We continue to seek to maximize the benefits of our scale by sharing resources and technological innovations among our brands, co-developing new services and coordinating activities in key markets among our brands. We also regularly evaluate, and may pursue and consummate, potential strategic acquisitions, partnerships, joint ventures or investments, whether to expand our businesses into complementary areas, expand our current businesses, acquire innovative technology or for other reasons.

## Service Offerings

**Booking.com and Rentalcars.com.** Booking.com is the world's leading brand for booking online accommodation reservations, based on room nights booked, with operations worldwide and headquarters in the Netherlands. At December 31, 2020, Booking.com offered accommodation reservation services for approximately 2,373,000 properties in over 220 countries and territories and in over 40 languages, consisting of approximately 434,000 hotels, motels and resorts and approximately 1,939,000 homes, apartments and other unique places to stay.

Booking.com has expanded its offerings beyond accommodations to better help consumers experience the world. For example, Booking.com offers in-destination tours and activities in more than 140 cities around the world, as well as flight, rental car and restaurant reservation services. Rentalcars.com is operated as part of Booking.com and offers online rental car reservation services and allows consumers to make rental car reservations in over 54,000 locations throughout the world, with customer support in over 40 languages. Booking.com and Rentalcars.com also offer pre-booked taxi and black car services at over 1,100 airports throughout the world.

**Priceline.** Priceline is a leader in the discount travel reservation business and offers online travel reservation services primarily in North America and is headquartered in Norwalk, Connecticut. Priceline offers consumers hotel, rental car and airline ticket reservation services, as well as vacation packages and cruises.

**Agoda.** Agoda is a leading online accommodation reservation service catering primarily to consumers in the Asia-Pacific region, with headquarters in Singapore and operations in Bangkok, Thailand and elsewhere. Agoda also offers flight, ground transportation and activities reservation services.

**KAYAK.** KAYAK, headquartered in Stamford, Connecticut, provides an online price comparison service (often referred to as "meta-search") that allows consumers to easily search and compare travel itineraries and prices, including airline ticket, accommodation reservation and rental car reservation information, from hundreds of online travel platforms at once. KAYAK offers its services in over 60 countries, with the United States being its largest market, through various websites, including Momondo, Cheapflights and HotelsCombined.

**OpenTable.** OpenTable is a leading brand for booking online restaurant reservations. With significant operations in San Francisco, California, OpenTable provides online restaurant reservation services to consumers and reservation management services to restaurants. OpenTable does business primarily in the United States.

## Marketing and Brand Awareness

We have established widely used and recognized e-commerce brands through marketing and promotional campaigns. Historically, our marketing expenses increased significantly, however, we experienced more moderate growth rates in recent years, and since the COVID-19 pandemic, our marketing expenses have declined significantly. We have invested considerable resources in the establishment and maintenance of our brands, and we intend to continue to invest resources in marketing and other brand building efforts to preserve and enhance consumer awareness of our brands when and to the extent we deem appropriate, in particular as the COVID-19 pandemic subsides and consumers begin to travel again.

## Competition

We compete globally with both online and traditional travel and restaurant reservation and related services. The markets for the services we offer are intensely competitive, constantly evolving and subject to rapid change, and current and new competitors can launch new services at a relatively low cost. Some of our current and potential competitors, such as Google, Apple, Alibaba, Tencent, Amazon and Facebook, have significantly more customers or users, consumer data and financial and other resources than we do, and they may be able to leverage other aspects of their businesses (e.g., search or mobile device businesses) to enable them to compete more effectively with us. For example, Google has entered various aspects of the online travel market and has grown rapidly in this area, including by offering a flight meta-search product ("Google Flights"), a hotel meta-search product ("Google Hotel Ads"), a vacation rental meta-search product, its "Book on Google" reservation functionality, Google Travel, a planning tool that aggregates its flight, hotel and packages products in one website and by integrating its hotel meta-search products and restaurant information and reservation products into its Google Maps app. In addition, Amazon has experimented with online travel in the past and continues to experiment in this area, such as by partnering with travel companies to offer its customers travel products, including a partnership with Booking.com to provide travel deals to Amazon Prime users in certain countries.

We currently, or may in the future, compete with a variety of companies, including:

- online travel reservation services;
- large online companies, including search, social networking and marketplace companies;
- traditional travel agencies, travel management companies, wholesalers and tour operators, many of which combine physical locations, telephone services and online services;
- travel service providers such as accommodation providers, rental car or car- or ride-sharing companies and airlines, many of which have their own branded online platforms to which they drive business;
- online travel search and price comparison services (generally referred to as "meta-search" services);
- online restaurant reservation services; and
- companies offering technology services and software solutions to travel service providers.

For more information regarding current and potential competitors and the competitive nature of the markets in which we operate, please see Part I, Item 1A, Risk Factors - *"Intense competition could reduce our market share and harm our financial performance."* in this Annual Report on Form 10-K.

## Government Regulation

As a global online travel company, our ability to provide our services and any future services is affected by legal regulations (including laws, ordinances, rules, licensing requirements and other requirements and regulations) of national and local governments and regulatory authorities around the world, many of which are evolving and subject to the possibility of new or revised interpretations. Examples of these laws and regulations, which vary and sometimes conflict, include the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and local laws which also prohibit corrupt payments to governmental officials or third parties, data privacy requirements, labor relations laws, non-discrimination, human rights or anti-human trafficking laws and regulations, such as the U.K. Modern Slavery Act 2015, tax laws, anti-trust or competition laws, U.S., E.U. or U.N. sanctioned country or sanctioned persons mandates and consumer protection laws. Violations of these laws and regulations could result in fines, penalties and/or criminal sanctions against us, our officers or our employees and/or prohibitions on the conduct of our business. Any such violations could also result in prohibitions on our ability to offer our

services in one or more countries, delay or prevent potential acquisitions, and materially damage our reputation, our brands, our global expansion efforts, our ability to attract and retain employees and business partners, our business and our operating results. Even if we comply with these laws and regulations, doing business in certain jurisdictions or violations of these laws and regulations by the accommodations, restaurants, travel service providers or other parties with whom we conduct business runs the risk of harming our reputation and our brands, which could adversely affect our results of operations or stock price. Government regulations that impact our business and/or our industry include:

- *Data Protection and Privacy:* Regulatory and legislative activity in the areas of privacy, data protection, and information and cyber security governing parts of our business continues to increase worldwide. We have established, and continue to maintain, policies and a global governance framework to comply with laws that apply to our business, meet evolving stakeholder expectations, and support business innovation and growth. In the European Union, for example, the General Data Protection Regulation (the “GDPR”) imposes significant compliance obligations and costs for us. In the United States, the California Consumer Privacy Act (the “CCPA”) and the recently enacted California Privacy Rights Act (“CPRA”), set to become operative in January 2023, impose new privacy requirements and rights for consumers in California that will result in additional compliance complexity, risks, and costs. Some data protection and privacy laws afford consumers a private right of action against companies like ours for certain statutory violations. Many other jurisdictions continually propose and consider enacting similar or other data protection laws. In many cases, these laws restrict the transfers of information among our subsidiaries, including employee information.
- *Competition, Consumer Protection and Online Commerce:* We, the travel industry and the technology industry generally are subject to competition and consumer protection laws and regulations around the world that impact aspects of our business including, among others, contractual parity arrangements with accommodation providers and the manner in which we display information on our platforms. There is significant legislative and public focus on the technology industry, especially as technology companies become larger, including in relation to the regulation of digital platforms. The European Commission’s proposed Digital Markets Act and Digital Services Act legislation is expected to give regulators more instruments to investigate digital businesses and impose new rules on certain digital platforms if they are determined to be “gatekeepers.”
- *Regulation of the Travel Industry:* Our business could be impacted by travel-related regulations such as those imposed by local jurisdictions to regulate the use of alternative accommodations and address the issue of “overtourism.” As our business evolves, in particular as we offer linked travel arrangements or travel packages as a part of the Connected Trip, we expect to become subject to existing and new regulations. For example, some parts of our business are already subject to certain requirements of the EU Package Travel Directive (the “Package Directive”), and as our offerings continue to diversify and expand, we may become subject to additional requirements of the Package Directive.
- *Payments:* As we expand our payments services to consumers and business partners, we will likely become subject to additional regulations, such as financial services regulations and license requirements, which could result in increased compliance costs and complexities, including those associated with the implementation of new or more stringent internal controls. We are also subject to payment card association rules and obligations under our contracts with payment card processors, including the Payment Card Industry Data Security Standard, compliance with which is complex and costly.

For further discussion of these regulations and how other global regulations may impact our business, see Item 1A-Risk Factors - “*Legal, Tax, Regulatory, Compliance and Reputational Risks.*”

## **Operations and Technology**

Our business is supported by multiple systems and platforms, which were designed with an emphasis on scalability, performance, reliability, redundancy and security. These systems and platforms are generally independent among our brands, though some have become increasingly connected or shared. Our software systems, platforms and architecture use a variety of widely-used software tools and database systems.

These internal systems and platforms are designed to include open application protocol interfaces that can provide connectivity to vendors in the industries in which we operate. These include large global systems, such as accommodation, airline ticket and rental car reservation systems and financial service providers, as well as individual accommodation service providers, such as independent hotels. Our applications utilize digital certificates to help us conduct secure communications and transactions, as appropriate. The systems infrastructure and web and database servers of our worldwide operations are primarily hosted in the United Kingdom, Switzerland, the Netherlands, Germany, Singapore, Hong Kong and four locations in the United States, each of which provides network connectivity, networking infrastructure and 24-hour monitoring and engineering support typical of hosted data centers. All data center facilities have a continuous power supply system, generators, redundant servers and multiple back-up systems. Although we take steps to mitigate the effects of any loss or reduction in



service at one of our hosting facilities, if a hosting facility were inaccessible or otherwise experienced a disruption in service for any reason, we could experience a disruption to our services, loss of transactions and revenue and consumer complaints.

We provide customer service through a mix of in-house call centers and outsourced third-party services.

## **Intellectual Property**

Over time and through acquisitions, we have assembled a portfolio of patents, trademarks, service marks, copyrights, domain names and trade secrets covering our services. We regard the protection of our intellectual property as important to our success. We protect our intellectual property rights by relying on national, federal, state and common law rights in the United States and internationally, as well as a variety of administrative procedures, regulations, conventions and treaties. We also rely on contractual restrictions to protect our proprietary rights in our services. We enter into confidentiality and invention assignment agreements with employees and contractors and nondisclosure agreements with parties with whom we conduct business in order to limit access to and disclosure of our proprietary information. We also have procured various intellectual property licenses from third parties. See Part I, Item 1A, Risk Factors - *"We face risks related to our intellectual property."*

## **Seasonality and Other Timing Factors**

In recent years, and prior to the COVID-19 pandemic, the majority of our gross bookings are generated in the first half of the year, as consumers plan and reserve their spring and summer vacations in Europe and North America. However, we generally recognize revenue from these bookings when the travel begins (at "check-in"), which can be in a quarter other than when the associated reservations are booked. In contrast, we expense the substantial majority of our marketing activities as the expense is incurred, which, in the case of performance marketing in particular, is typically in the quarter in which associated reservations were booked. As a result of this timing difference between when we recorded marketing expense and when we recognized associated revenue, we had our highest levels of profitability in the third quarter of the year, which is when there were the highest levels of accommodation check-ins for the year for our European and North American markets. The first quarter of the year was typically our lowest level of profitability and highest level of volatility in earnings growth rates due to these seasonal timing factors. The COVID-19 pandemic impacted seasonality in 2020; for example, we witnessed a higher share of travel being booked during the second and third quarters as well as a higher share of stays during the third quarter than in prior years. We cannot currently predict travel patterns given the COVID-19 pandemic, and we may not experience typical seasonality effects on our business in 2021. Additionally, in the third and fourth quarters, we saw a significant contraction of the booking window versus the comparable prior-year period as an increased percentage of newly-booked room nights were made for travel that was to occur close to the time of booking. We expect that the length of the booking window will be volatile and difficult to predict throughout the duration of the COVID-19 pandemic. Future changes in the length of the booking window will affect the degree to which our gross bookings and revenues occur in the same period and, as a result, whether our gross bookings growth rates and revenue growth rates converge or diverge. For additional information regarding factors affecting the seasonality of our business, see Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Seasonality and Other Timing Matters.

## **Human Capital Resources**

We believe our employees are one of the most important assets we have to further our mission to make it easier for everyone to experience the world. In order to continue to deliver on this mission, our goal is to attract, develop and retain highly-skilled talent with a significant focus on a diverse workforce operating in an inclusive environment. In the past year, the COVID-19 pandemic has had a significant impact on our workforce and our human capital management.

### **Workforce**

Part of our strategy is to operate multiple brands to appeal to different consumers, pursue different marketing and business strategies, encourage experimentation and innovation, provide different service offerings and focus on different markets. While we continue to increase the collaboration, cooperation and interdependency among our brands, this model inherently results in diversity of culture among our brands, which may manifest in different approaches to human capital management in certain areas.

At December 31, 2020, we employed approximately 20,300 employees, of which approximately 3,400 were based in the United States and approximately 16,900 were based outside the United States. Approximately 99% of our employees are full-time employees. We also retain independent contractors, including to support our customer service, website content translation and system support functions.

As a result of the COVID-19 pandemic, we made the difficult decision to restructure our workforce to align our total cost structure with our expectations of reduced near- to medium-term market demand for travel and restaurant reservation services. Although we took various steps to maintain jobs and reduce the need for workforce reductions, including participating in various wage assistance programs, our total workforce decreased by approximately 23% year-over-year as of December 31, 2020 primarily due to a combination of our restructuring actions and attrition. Throughout the restructuring process, we have prioritized treating our colleagues with fairness and respect by, among other things, offering severance packages, an Employee Assistance Program with access to counseling services and job placement support.

### ***Diversity, Inclusion and Belonging***

We believe that a diverse workforce operating in an inclusive environment is critical to leveraging our human capital to achieve our long-term strategic goals, particularly in the technology industry where many populations remain underrepresented. We strive for our leadership and workforce to reflect the broad spectrum of customers and partners we work with throughout the world because we believe this is the best way for us to connect with the broad viewpoints, backgrounds and experiences of our customers and partners. In addition, we maintain a workplace that embraces the different cultures and practices of our diverse employees and is consistent with our Code of Conduct. We believe we abide by the laws and regulations that govern our employment practices and we prohibit unlawful discrimination of any type.

As of December 31, 2020, approximately 50% of our employees were women, approximately 22% of our technology positions were filled by women and approximately 30% of our extended leadership team (which includes the Company's senior leadership and extends 1 to 4 levels below the chief executive officer of each brand company (depending on the number of employees within each brand)) were women. We are committed to pay equity, regardless of gender, race or ethnicity. With the help of our independent compensation consultant, Mercer, we conduct pay equity studies every other year, and in the off years, we work on remediation plans to address outliers.

We support equality and inclusiveness across our workforce through various initiatives at all the brand companies. For example, Booking.com has several employee resource groups including: B.Able to support employees with differing physical and mental abilities; B.Bold to support the Black and persons-of-color (POC) community; and B.Equal to support gender equality. Agoda supports employee resource groups aimed at fostering greater workplace inclusion with initiatives such as the Agoda Colors and Women at Agoda. At Priceline, the Women Impacting Priceline resource group is empowering women to champion their professional development and improve gender intelligence. We are proud of the progress we have made in this space and recognize we can always improve. Part of advancing these initiatives involves facilitating a pipeline of candidates for open positions that are representative of the spectrum of communities we serve. KAYAK and OpenTable are diversifying their job board postings and partnering with underrepresented groups such as historically Black colleges and universities in the United States. Priceline is also partnering with organizations to access more diverse candidates and has rewritten job descriptions to be more appealing to a broader audience of candidates. Additionally, we are entering our fifth year of operating our Women in Leadership program, which is a Company-wide initiative designed to support the advancement and development of high-performing women within the Company with the goal of building and enabling gender diversity in our executive pipeline.

### ***Attraction, Development and Retention***

We work diligently to attract the best and most innovative talent from a diverse range of sources to grow our business and achieve our long term strategic goals. We believe that we offer a rich culture where employees feel included and empowered to do their best work with opportunities to grow as well as competitive compensation and benefits. For example, while the specifics can vary by brand, in the United States our employee benefit plans generally include: coverage for infertility treatments, gender reassignment surgery, gender-neutral domestic partner benefits and paid parental leave.

Despite the challenges of shifting the vast majority of our workforce to work-from-home due to the COVID-19 pandemic, we continue to prioritize and invest in creating opportunities for employees to grow and build their careers through training and development programs. These include offering tailored learning opportunities to enable employees to upskill while at work and driving deliberate career conversations between employees and their managers, as well as executive talent and succession planning.

We measure organizational culture and engagement to build on the competencies that are important for our future success. The disruptions stemming from the COVID-19 pandemic have presented particularly unique challenges to keeping employees engaged and supported at work. We shifted our approach to employee engagement in response to changing employee needs in a mostly-virtual workplace, by, for example, providing regular video-based CEO updates and virtual mental wellness workshops. We regularly touch base with our employees through formal engagement surveys, work-from-home

surveys and quick pulse surveys to request feedback on the employee experience. The results of these efforts are shared with senior management at each of our brands who analyze areas of progress or prioritize areas for improvement in order to encourage and sustain employee engagement. We are particularly proud that notwithstanding the difficulties faced by our employees due to the effects of COVID-19 on how we live and work, as well as the difficult restructuring actions taken by the Company, the results of our employee engagement surveys demonstrate a committed and engaged workforce.

### ***Response to COVID-19 Pandemic***

Throughout the crisis of the COVID-19 pandemic, we have prioritized the health and safety of our employees. We recognize that our employees have been faced with unprecedented challenges both professionally and personally, and as a result, we have increased the frequency of scheduled communication between management and the workforce, offered additional unscheduled holidays, shifted the vast majority of our workforce to work-from-home, offered additional meditation and wellness benefits to support employee mental well-being, encouraged alterations to meeting schedules during the work week to combat “virtual meeting fatigue” and designated specific days or periods in the year as “quiet periods” in recognition of the need for employees to rest and recharge.

### ***Regulatory***

Although we have works councils or employee representatives in certain countries, our U.S. employees are not represented by a labor union and are not covered by a collective bargaining agreement. Throughout the restructuring process, we worked in close collaboration with works councils, employee representatives and other organizations in the relevant jurisdictions. We have never had a work stoppage and we consider our relations with our employees to be good.

For more information, see Part I, Item 1A, Risk Factors - *"We rely on the performance of highly skilled employees; and, if we are unable to retain or motivate key employees or hire, retain and motivate well-qualified employees, our business would be harmed."*

### ***Company Websites***

We maintain websites with the addresses [www.bookingholdings.com](http://www.bookingholdings.com), [www.booking.com](http://www.booking.com), [www.priceline.com](http://www.priceline.com), [www.agoda.com](http://www.agoda.com), [www.rentalcars.com](http://www.rentalcars.com), [www.kayak.com](http://www.kayak.com) and [www.opentable.com](http://www.opentable.com), among others. We are not including the information contained on our websites as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge through the [www.bookingholdings.com](http://www.bookingholdings.com) website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. These reports and other information are also available, free of charge, at [www.sec.gov](http://www.sec.gov). In addition, the Company's Code of Conduct is available through the [www.bookingholdings.com](http://www.bookingholdings.com) website and any amendments to or waivers of the Code of Conduct will be disclosed on that website.

## **Item 1A. Risk Factors**

***The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also impair our business, results of operations or financial condition. If any of the following risks occur, our business, financial condition, operating results and cash flows could be materially adversely affected.***

The risk factors section below contains a description of the significant risks facing our Company and should be carefully considered in full. The following is only a summary of the principal risks that make an investment in our securities speculative or risky.

### **Risk Factors Summary**

- The adverse impact of the COVID-19 pandemic on our business, financial performance and travel demand, generally, including the impact on our liquidity, credit ratings and ongoing access to capital, the restructuring of our business and our utilization of government stimulus packages;
- Adverse changes in general market conditions for travel services, including the effects of macroeconomic conditions, terrorist attacks, natural disasters, health concerns, civil or political unrest or other events outside our control;
- The effects of competition;
- Risks associated with the restructuring of our business;
- Any write-downs or impairments of goodwill or intangible assets related to acquisitions or investments, any increases in provisions for expected credit losses on receivables from and cash advances made to our travel service provider and restaurant partners and any increases in cash outlays to refund consumers for prepaid reservations;
- Adverse changes in relationships with travel service providers and restaurants and other third parties on which we are dependent;
- Our ability to attract and retain qualified personnel;
- Our ability to successfully manage growth and expand our global business;
- Our ability to respond to and keep up with the rapid pace of technological and market changes;
- Our performance marketing efficiency and the general effectiveness of our marketing efforts;
- Any change by our search and meta-search partners in how they present travel search results or conduct their auctions for search placement in a manner that is competitively disadvantageous to us;
- IT systems-related failures or security breaches and data privacy risks and obligations;
- Tax, legal and regulatory risks;
- Risks associated with the facilitation of payments from consumers, including fraud and compliance with evolving rules and regulations and reliance on third parties;
- Fluctuations in foreign currency exchange rates and other risks associated with doing business in multiple currencies and jurisdictions;
- Success of investments and acquisitions, including integration of acquired businesses; and
- Financial risks including increased debt levels and stock price volatility.

### **Industry and Business Risks**

*The COVID-19 pandemic has materially adversely affected, and may further adversely impact, our business and financial performance.*

In response to the outbreak of the novel strain of the coronavirus, COVID-19 (the "COVID-19 pandemic"), many governments around the world have implemented, and continue to implement, a variety of measures to reduce the spread of COVID-19, including travel restrictions and bans, instructions to residents to practice social distancing, curfews, quarantine advisories, including quarantine restrictions after travel in certain locations, shelter-in-place orders, required closures of non-essential businesses and additional restrictions on businesses as part of re-opening plans. These government mandates have forced many of the partners on whom our business relies, including hotels and other accommodation providers, airlines and

restaurants, to seek government support in order to continue operating, to curtail drastically their service offerings, to file for bankruptcy protection or to cease operations entirely. Further, these measures have materially adversely affected, and may further adversely affect, consumer sentiment and discretionary spending patterns, economies and financial markets, and our workforce, operations and customers.

The COVID-19 pandemic and the resulting economic conditions and government orders have resulted in a material decrease in consumer spending and an unprecedented decline in travel and restaurant activities and consumer demand for related services. Our financial results and prospects are almost entirely dependent on the sale of such travel and restaurant-related services. Our results for the year ended December 31, 2020 were significantly and negatively impacted, with a material decline in gross bookings, room nights booked, total revenues, net income and cash flow from operations, as compared to 2019. Due to the uncertain and rapidly evolving nature of current conditions around the world, we are unable to predict accurately the impact that the COVID-19 pandemic will have on our business going forward. Newly-booked room night reservations, excluding the impact of cancellations, declined rapidly as the COVID-19 pandemic spread in the first quarter and the beginning of the second quarter of 2020, but then steadily improved through the end of the second quarter and into the summer travel period in the third quarter of 2020. In September 2020, variants of COVID-19 that spread more easily and quickly than other variants were discovered and have since spread to other countries. In the fourth quarter of 2020, multiple COVID-19 vaccines were approved for widespread distribution throughout various parts of the world, including the United States and in Europe. While this news is encouraging, it is still unknown when these vaccines will be available to broader populations and whether they will be as effective against variants of COVID-19, including the variants mentioned above. In the fourth quarter of 2020, we saw room nights decline further, as well as an increase in cancellation rates, in each case as compared to the third quarter of 2020. In January 2021, room nights declined slightly more than the decline in the fourth quarter of 2020, however, we have seen some improvement in these booking trends in recent weeks. If these recent trends were to continue, we currently expect that room nights and gross bookings in the first quarter of 2021 will decline relative to the first quarter of 2019 by a few percentage points less than those metrics declined in the fourth quarter of 2020 relative to the fourth quarter of 2019. We currently expect revenue in the first quarter of 2021 to decline by a similar amount as our expected decline in gross bookings in the first quarter of 2021, both relative to the first quarter of 2019. The comparison of the first quarter of 2021 to the first quarter of 2019 avoids the distortion created from comparing to the initial spread of the COVID-19 pandemic late in the first quarter of 2020. In addition, we currently expect that we will experience a greater operating loss in the first quarter of 2021 as compared to the fourth quarter of 2020. With the continued spread of COVID-19 and other variants throughout the world, we expect the COVID-19 pandemic and its effects to continue to have a significant adverse impact on our business, financial condition, results of operations and cash flows for the duration of the pandemic, during any resurgences of the pandemic and during the subsequent economic recovery, which could be an extended period of time. We believe that as effective vaccines become widely distributed, people will feel it is safe to travel again and government restrictions will be relaxed, although the timing remains uncertain.

The extent of the effects of the COVID-19 pandemic on our business, results of operations, cash flows and growth prospects is highly uncertain and will ultimately depend on future developments. These include, but are not limited to, the severity, extent and duration of the global pandemic, including as a result of any new variants of COVID-19 and any resurgences of the pandemic, and its impact on the travel and restaurant industries and consumer spending more broadly; actions taken by national, state and local governments to contain the disease or treat its impact, including travel restrictions and bans, required closures of non-essential businesses, constraints on businesses during reopening transitions and aid and economic stimulus efforts; the effect of our restructuring activities and attrition, as well as the changes in hiring levels and remote working arrangements that we have implemented on our operations, including the health and productivity of management and our employees, and our ability to maintain our financial reporting processes and related controls; the impact on our contracts and relationships with our partners, including the impact of invoking *force majeure* provisions; our ability to withstand increased cyberattacks that we and many businesses are experiencing; the speed and extent of the recovery across the broader travel ecosystem, including the speed at which customers feel comfortable traveling again once restrictions on travel have been lifted, which we believe will be impacted by how quickly there can be effective and widespread vaccinations, treatments or cures; and the duration, timing and severity of the impact on customer spending, including the length and the severity of the economic recession resulting from the pandemic. The pandemic may continue to expand throughout the world and/or worsen in areas that had seen progress in reducing or containing the disease, which could continue to affect our business. Also, existing restrictions in affected regions could be extended after the virus has been contained in order to avoid relapses and there may be restrictions on certain travel activity related to whether travelers have been vaccinated.

Our business is dependent on the availability of a large number of accommodations (particularly independently-owned accommodations) and restaurants, and on the ability of consumers to travel to such accommodations and restaurants on airlines, railways and rental cars. The ability of consumers to travel internationally has been significantly impacted by the various travel restrictions between countries, including for example, the restrictions on travel between the European Union and the United States. We do not expect economic and operating conditions for our business to improve until consumers are once again willing and able to travel, and our travel service provider and restaurant partners are once again willing and able to serve those

consumers. This may not occur until well after the broader global economy begins to improve. Additionally, our business is also dependent on consumer sentiment and discretionary spending patterns. Increased unemployment resulting from the COVID-19 pandemic is likely to have a negative impact on consumer discretionary spending, including for the travel and restaurant industries. Even if economic and operating conditions for our business improve, we cannot predict the long-term effects of the pandemic on our business or the travel and restaurant industries as a whole. If the travel and restaurant industries are fundamentally changed by the COVID-19 pandemic in ways that are detrimental to our operating model, our business may continue to be adversely affected even as the broader global economy recovers.

To the extent that the COVID-19 pandemic continues to adversely affect our business and financial performance, it may also have the effect of heightening many of the other risks identified in this section, such as those relating to our substantial amount of outstanding indebtedness.

*Utilization of governmental stimulus packages may negatively impact our business, operations and/or reputation.*

Certain governments have passed or are considering legislation to help businesses during the COVID-19 pandemic through loans, wage subsidies, tax relief or other financial aid, and some of these governments have extended or are considering extending these programs. We have participated in several of these programs, including the Netherlands' wage subsidy program and the United Kingdom's job retention scheme. In some cases, these programs restrict the ability of participating companies to take certain actions, such as restructurings, while participating in the program, though we are not currently under any such restrictions. Additionally, in certain jurisdictions, there has been public scrutiny of government aid beneficiaries, including us, and as a result, our reputation could be harmed by having participated in these programs or participating in the future.

*Impairments of goodwill, long-term investments and long-lived assets, increases in provisions for expected credit losses on receivables from and cash advances made to our travel service provider and restaurant partners and increases in cash outlays to refund consumers for prepaid reservations have a negative impact on our results of operations.*

As a result of the deterioration of our business due to the COVID-19 pandemic, we evaluated goodwill, long-term investments and long-lived assets for possible impairment as of March 31, 2020. As a result of this evaluation, we determined that our goodwill relating to OpenTable and KAYAK experienced a decline in value due to the COVID-19 pandemic, and therefore we recognized a goodwill impairment charge of \$489 million (which is non-deductible for income tax purposes) as of March 31, 2020. In addition, we recorded an impairment charge of \$100 million at March 31, 2020 related to our investment in Didi Chuxing due to the impact of the COVID-19 pandemic on the business of the investee and our estimate of the resulting decline in the value of the investment. As of September 30, 2020, we performed our annual goodwill impairment testing. As a result of this testing, we recognized an additional goodwill impairment charge of \$573 million (which is non-deductible for income tax purposes) for the three months ended September 30, 2020 relating to OpenTable and KAYAK. The determination of the fair value reflects numerous assumptions that are subject to various risks and uncertainties, including key assumptions regarding OpenTable and KAYAK's expected growth rates and operating margins, expected length and severity of the impact from the COVID-19 pandemic and the shape and timing of the subsequent recovery, the performance of the businesses during and following the COVID-19 pandemic, as well as other key assumptions with respect to matters outside of our control, such as discount rates and market comparables. The evaluations required significant judgments and estimates and actual results could be materially different than those judgments and estimates utilized in the fair value estimates. Future events and changing market conditions may lead us to re-evaluate the assumptions reflected in the current forecast disclosed above, particularly the assumptions related to the length and severity of the COVID-19 pandemic, the shape and timing of the subsequent recovery and the performance of the businesses during and following the COVID-19 pandemic, which may result in a need to recognize an additional goodwill impairment charge, which could have a material adverse effect on our results of operations. See Notes 5, 6 and 11 to the Consolidated Financial Statements for additional information related to the impairment charges.

In addition, given the severe downturn in the global travel industry and the financial difficulties faced by many of our travel service provider and restaurant partners as a result of the COVID-19 pandemic, we have increased our provision for expected credit losses on receivables from and cash advances made to our travel service provider and restaurant partners. For the year ended December 31, 2020, there was a \$161 million increase in expected credit loss expense compared to the same period in the prior year. Moreover, due to the high level of cancellations of existing reservations, we have incurred, and may continue to incur, higher than normal cash outlays to refund consumers for prepaid reservations. In some instances, we do not estimate a recovery of prepayment already made to a travel service provider where we have agreed to provide free cancellations to customers for non-refundable reservations, and this has resulted in an aggregate reduction in revenue of \$44 million for the year ended December 31, 2020. Any additional significant increase in our provision for expected credit losses on receivables from and cash advances made to travel service provider and restaurant partners, and any additional significant increase in cash outlays to refund consumers, would have a corresponding negative effect on our results of operations and related cash flows.

*We face risks associated with the restructuring of our business.*

Due to the impact of the COVID-19 pandemic on our business volumes, we took actions to reduce the size of our workforce, and there could be further reductions in the size of our workforce and/or consolidations to optimize efficiency and reduce costs. See Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Trends for more information on the workforce reductions. We have incurred and expect to incur charges related to the reductions in our workforce, changes in our facilities requirements, contract terminations and other non-cash charges, and there could be unanticipated costs in the future. Implementation of these restructuring actions presents several significant risks, including the potential negative impact on employee morale and productivity, the loss of talented employees that we would not otherwise want to lose, difficulty retaining valuable key employees that have not been terminated, adverse impact on our culture, diversion of attention away from operating our business, public scrutiny, personnel capacity constraints, adverse effects on our internal control environment, actual or perceived disruption of service to our customers and hampering of our ability to grow, develop innovative products and compete, any of which could adversely impact our business and reputation. If we do not successfully manage the restructurings, the anticipated efficiencies and cost savings may be delayed or not realized. Risks associated with managing any restructurings effectively include unforeseen delays in the implementation of workforce reductions, delays in completing required consultations with works councils or other relevant organizations or in obtaining any required approvals, regulatory impediments or litigation. Any of these risks associated with the implementation or management of the restructurings could adversely impact our business, results of operations and/or reputation.

*Declines or disruptions in the travel industry could adversely affect our business and financial performance.*

Our financial results and prospects are almost entirely dependent upon the sale of travel services. Travel, including accommodation (including hotels, motels, resorts, homes, apartments and other unique places to stay), rental car and airline ticket reservations, is significantly dependent on discretionary spending levels. As a result, sales of travel services decline during general economic downturns and recessions and times of political or economic uncertainty, such as currently being experienced due to the COVID-19 pandemic, as consumers engage in less discretionary spending, are concerned about unemployment or inflation, have reduced access to credit or experience other concerns or effects that reduce their ability or willingness to travel.

Perceived or actual adverse economic conditions, including slow, slowing or negative economic growth, high or rising unemployment rates, inflation and weakening currencies, and concerns over government responses such as higher taxes or tariffs, increased interest rates and reduced government spending have impaired and could in the future impair consumer spending and adversely affect travel demand.

Political uncertainty, conditions or events can also negatively affect consumer spending and adversely affect travel demand. In the past, and prior to the significantly changed circumstances brought on by the onset of the COVID-19 pandemic, we experienced volatility in transaction growth rates, increased cancellation rates and weaker trends in accommodation average daily rates ("ADRs") across many regions of the world, particularly in those countries that appear to be most affected by economic and political uncertainties, which we believed were due at least in part to these macro-economic conditions and concerns. Further economic or political disruptions beyond those resulting from the COVID-19 pandemic could cause, contribute to or be indicative of deteriorating macro-economic conditions, which in turn could negatively affect travel or the travel industry in general and therefore have an adverse impact on our results of operations. While lower occupancy rates have historically resulted in accommodation providers increasing their distribution of accommodation reservations through third-party intermediaries such as us, our remuneration for accommodation reservation transactions changes proportionately with price, and therefore, lower ADRs generally have a negative effect on our accommodation reservation business and on our revenues and results of operations. As a result of the COVID-19 pandemic and its material adverse impact on travel, we have generally seen a significant decrease in occupancy rates and ADRs.

These and other macro-economic uncertainties, such as oil prices, geopolitical tensions and differing central bank monetary policies, have led to significant volatility in the exchange rates between the U.S. Dollar and the Euro, the British Pound Sterling and other currencies. Significant fluctuations in foreign currency exchange rates, stock markets and oil prices can also impact consumer travel behavior. For example, although lower oil prices may lead to increased travel activity as consumers could have more discretionary funds and airline fares decrease, declines in oil prices may be indicative of broader macro-economic weakness, which in turn could negatively affect the travel industry, our business and results of operations. Conversely, higher oil prices may result in higher airfares and decreased travel activity, which can negatively affect our business and results of operations.

As a result of the United Kingdom leaving the European Union ("Brexit"), we anticipate that we will face new regulatory costs and challenges as U.K. regulations and policies diverge from those of the European Union or if additional business licenses are required. Since some of the details of the United Kingdom's exit from the European Union continue to unfold, we are unable to predict all of the effects Brexit will have on our business and results of operations.

The uncertainty of macro-economic factors and their impact on consumer behavior, which may differ across regions, makes it more difficult to forecast industry and consumer trends and the timing and degree of their impact on our markets and business, which in turn could adversely affect our ability to effectively manage our business and adversely affect our results of operations.

In addition to the impact of the COVID-19 pandemic described earlier in these Risk Factors, other events beyond our control, such as oil prices, stock market volatility, terrorist attacks, changing, unusual or extreme weather or natural disasters such as earthquakes, hurricanes, tsunamis, floods, fires, droughts and volcanic eruptions (whether due to climate change or otherwise), travel-related health concerns including pandemics and epidemics such as coronaviruses, Ebola and Zika, political instability, changes in economic conditions, wars and regional hostilities, imposition of taxes, tariffs or surcharges by regulatory authorities, changes in trade policies or trade disputes, changes in immigration policies or other travel restrictions, travel-related accidents or increased focus on the environmental impact of travel, have previously and may in the future disrupt travel, limit the ability or willingness of travelers to visit certain locations or otherwise result in declines in travel demand and adversely affect our business and results of operations. Because these events or concerns, and the full impact of their effects, are largely unpredictable, they can dramatically and suddenly affect travel behavior by consumers, and therefore demand for our services and our relationships with travel service providers and other partners, any of which can adversely affect our business and results of operations.

*Intense competition could reduce our market share and harm our financial performance.*

We compete globally with both online and traditional travel and restaurant reservation and related services. The markets for the services we offer are intensely competitive, constantly evolving and subject to rapid change, and current and new competitors can launch new services at a relatively low cost. Some of our current and potential competitors, such as Google, Apple, Alibaba, Tencent, Amazon and Facebook, have significantly more customers or users, consumer data and financial and other resources than we do, and they may be able to leverage other aspects of their businesses (e.g., search or mobile device businesses) to enable them to compete more effectively with us. For example, Google has entered various aspects of the online travel market and has grown rapidly in this area, including by offering a flight meta-search product ("Google Flights"), a hotel meta-search product ("Google Hotel Ads"), a vacation rental meta-search product, its "Book on Google" reservation functionality, Google Travel, a planning tool that aggregates its flight, hotel and packages products in one website, and by integrating its hotel meta-search products and restaurant information and reservation products into its Google Maps app. In addition, Amazon has experimented with online travel in the past and continues to experiment in this area, such as by partnering with travel companies to offer its customers travel products, including a partnership with Booking.com to provide travel deals to Amazon Prime users in certain countries. Moreover, as the economy and the travel industry recover from the impact of the COVID-19 pandemic, the structure of the travel industry or consumer preferences could change in ways that could disadvantage us and benefit certain of our existing competitors or new entrants. For example, as a result of the COVID-19 pandemic and the resulting international travel restrictions and social distancing practices, there has been a shift in favor of domestic travel and alternative accommodations. This shift could benefit competitors that are more well established in domestic markets and alternative accommodations than we are. As a result, our historical strengths may not provide the competitive advantages that they did prior to the pandemic. If we are unable to successfully adapt to any changes in how the travel industry operates or to changes in the ways in which consumers purchase travel services, our ability to compete, and therefore our business and results of operations, would be adversely affected.

We currently, or may in the future, compete with a variety of companies, including:

- online travel reservation services such as Expedia, Hotels.com, Hotwire, Orbitz, Travelocity, Wotif, Cheaptickets, ebookers and CarRentals.com, which are owned by Expedia Group, Traveloka (in which Expedia Group holds a minority interest) and Despegar/Decolar (in which Expedia Group holds a minority interest); Trip.com Group (in which we hold a small minority interest), Trip.com (which is owned by Trip.com Group), Tongcheng-eLong (in which Trip.com Group holds a significant minority interest), ezTravel (in which Trip.com Group holds a majority interest) and MakeMyTrip (in which Trip.com Group holds a significant minority interest); Hotel Reservation Service (HRS) and hotel.de, which are owned by Hotel Reservation Service; and AutoEurope, CarTrawler, Meituan (in which we hold a small minority interest), Rakuten, Jalan (which is owned by Recruit), Fliggy (which is owned by Alibaba), HotelTonight (which is owned by Airbnb), CheapOair and eDreams ODIGEO;



- online accommodation search and/or reservation services that are currently focused primarily on alternative accommodations, including individually owned properties such as homes and apartments, such as Airbnb, Vrbo (which is owned by Expedia Group), Tujia (in which Trip.com Group and Expedia Group hold investments) and Xiaozhu;
- large online companies, including search, social networking and marketplace companies such as Google, Facebook, Alibaba, Tencent, Amazon and Baidu;
- traditional travel agencies, travel management companies, wholesalers and tour operators, many of which combine physical locations, telephone services and online services, such as Carlson Wagonlit, American Express, BCD Travel, Egencia and Expedia Partner Solutions (which are owned by Expedia Group), Concur (which is owned by SAP), TUI, Webjet and Hotelbeds Group, as well as thousands of individual travel agencies around the world;
- travel service providers such as accommodation providers, rental car companies and airlines, many of which have their own branded online platforms to which they drive business, including large hotel chains such as Marriott International, Hilton and Intercontinental Hotel Group and emerging hotel chains such as OYO Rooms;
- online travel search and price comparison services (generally referred to as "meta-search" services), such as Google Flights, Google Hotel Ads, Google's vacation rental meta-search product, TripAdvisor, trivago (in which Expedia Group holds a majority interest), Qunar (which is controlled by Trip.com Group) and Skyscanner (which is owned by Trip.com Group);
- online restaurant reservation services, such as TheFork and Bookatable (which are owned by TripAdvisor), SeatMe (which is owned by Yelp), Zomato, Quandoo (which is owned by Recruit) and Resy (which is owned by American Express);
- companies offering new rental car business models or car- or ride-sharing services that affect demand for rental cars, some of which have developed innovative technologies to improve efficiency of point-to-point transportation and extensively utilize mobile platforms, such as Uber, Lyft, Gett, Zipcar (which is owned by Avis), Turo, BlaBlaCar, Didi Chuxing (in which we hold a small minority interest), Grab (in which we hold a small minority interest), Go-Jek and Ola; and
- companies offering technology services and software solutions to travel service providers, including large global distribution systems ("GDSs"), such as Amadeus, Sabre and Travelport, and hospitality software platforms, such as Oracle and Shiji.

Google, the world's largest search engine and one of the world's largest companies and other large, established companies with substantial resources and expertise in developing online commerce and facilitating internet traffic offer travel or travel-related search, meta-search and/or reservation booking services and may create additional inroads into online travel. Google's travel meta-search services, Google Hotel Ads and Google Flights, have grown rapidly and have achieved significant market share in a relatively short time. Meta-search services leverage their search technology to aggregate travel search results for the consumer's specific itinerary across travel service providers (e.g., accommodations, rental car companies or airlines), online travel companies ("OTCs") and other online platforms and, in many instances, compete directly with us for customers. Meta-search services intend to appeal to consumers by showing broader travel search results than may be available through OTCs or other online platforms, which could lead to travel service providers or others gaining a larger share of search traffic. Google leverages its general search business to promote its meta-search offerings by showing meta-search results at the top of its organic search results. Further, TripAdvisor and trivago, two other leading meta-search companies, support their meta-search services with significant marketing efforts. Through our KAYAK meta-search service, we compete directly with these and other meta-search services. If we are unable to effectively compete with these companies, our business and results of operations could be harmed.

Meta-search services may evolve into more traditional OTCs by offering consumers the ability to make travel reservations directly through their platforms. For example, TripAdvisor allows consumers to make a reservation at some accommodations while staying on TripAdvisor through its "Instant Booking" offering, which includes participation by many of the leading global hotel chains. Google also provides reservation services through "Book on Google." To the extent we participate in any such offerings provided by meta-search services, resulting reservations could be less profitable and could cannibalize business that would otherwise come directly to us or through other more profitable channels. If consumers book travel services through a service such as TripAdvisor's Instant Booking, Google's "Book on Google," a meta-search website or directly with a travel service provider after visiting a meta-search platform or using a meta-search utility on a traditional search

engine without using an OTC like us, or if meta-search services limit our participation within their search results or evolve into more traditional OTCs, we may need to increase our marketing or other customer acquisition costs to maintain or grow our reservation bookings and our business and results of operations could be adversely affected.

Over the years, there has been a proliferation of new channels through which accommodation providers can offer reservations as the market for travel services has evolved. For example, companies such as Airbnb and Expedia Group offer services providing alternative accommodation property owners, particularly individuals, an online place to list their accommodations where travelers can search and book such properties and compete directly with our alternative accommodation services. In addition, Airbnb, which owns HotelTonight, offers some hotel reservations through its online platforms. Companies specializing in one type of travel service or product could expand their offerings to compete with us more broadly. Further, meta-search services may lower the cost for new companies to enter the market by providing a distribution channel without the cost of promoting the new entrant's brand to drive consumers directly to its platform. New travel-related services are frequently being introduced to the market. For example, in 2019, Google launched Google Travel, which combines its hotel, flight and packages offerings into one website with trip-planning tools. Some of our competitors and potential competitors offer a variety of online services, such as food delivery, shopping, gaming or search services, many of which are used by consumers more frequently than online travel services. As a result, a competitor or potential competitor that has established other, more frequent online interactions with consumers may be able to more easily or cost-effectively acquire customers for its online travel services than we can. For example, some competitors or potential competitors with more frequent online interactions with consumers are seeking to create "super-apps" where consumers can use many online services without leaving that company's app, in particular in markets such as Asia where online activity (including e-commerce) is conducted primarily through apps on mobile devices. If any of these platforms are successful in offering new travel-related services or services similar to ours to consumers who would otherwise use our platforms or if we are unable to offer our services to consumers within these super-apps, our customer acquisition efforts could be less effective and our customer acquisition costs, including our marketing expenses, could increase, either of which would harm our business and results of operations.

Although we believe that providing an extensive collection of properties, excellent customer service and an intuitive, easy-to-use consumer experience are important factors influencing a consumer's decision to make a reservation, for many consumers, particularly in certain markets, the price of the travel service is the primary factor determining whether a consumer will book a reservation. As a result, it is increasingly important to offer travel services, such as accommodation reservations, at competitive prices, whether through discounts, coupons, closed-user group rates or loyalty programs, or otherwise. Discounting and couponing coupled with a high degree of consumer shopping behavior is particularly common in Asian markets. In some cases, our competitors are willing to make little or no profit on a transaction, or offer travel services at a loss, in order to gain market share. As a result, in certain markets we may need to provide discounts or other incentives in order to be competitive, which may make it difficult for us to maintain or grow market share and to maintain historical profit margins. These initiatives may also result in lower ADRs and lower revenues as a percentage of gross bookings. As part of our strategy to provide more payment options to consumers and travel service providers, Booking.com is increasingly processing transactions on a merchant basis, where it facilitates payments on behalf of customers. This allows Booking.com to present consumers with more pricing options. If we are unable to effectively offer competitive prices, our market share, business and results of operations could be materially adversely affected.

Travel service providers, including hotel chains, rental car companies and airlines with which we conduct business, compete with us in online channels to drive consumers to their own platforms in lieu of third-party distributors such as us. Travel service providers may charge lower prices and, in some instances, offer advantages such as loyalty points or special discounts to members of closed-user groups (such as loyalty program participants or consumers with registered accounts), any of which could make their offerings more attractive to consumers than our services. For example, many large hotel chains have instituted additional initiatives, such as increased discounting and incentives, to encourage consumers to book accommodations directly through their online platforms. We also offer various incentives to consumers and may need to offer additional or increased advantages to maintain or grow our reservation bookings, which adversely impacts our profit margins. Further, consolidation among travel service providers, such as Marriott International's acquisition of Starwood Hotels & Resorts in 2017, could result in lower rates of commission paid to OTCs, increased discounting and greater incentives for consumers to join closed-user groups as such travel service providers expand their offerings. If we are not as effective as our competitors (including hotel chains) in offering discounted prices and other incentives to consumers, our ability to grow and compete and our results of operations could be harmed.

*We face risks related to the growth rate and the global expansion of our business.*

We derive a substantial portion of our revenues, and have significant operations, outside the United States. Our international businesses include our Netherlands-based OTC brand Booking.com (including Rentalcars.com, based in the United Kingdom), our Asia-based OTC brand agoda and, to a lesser extent, KAYAK's international meta-search services and OpenTable's international restaurant reservation services. Before the COVID-19 pandemic, our international OTC operations historically had achieved significant year-over-year growth in their gross bookings, in particular with respect to their accommodation reservation services. Without taking into consideration the recent declines caused by the COVID-19 pandemic, these growth rates, which contributed significantly to our historical growth in consolidated revenues and earnings, had generally declined over time as the absolute level of our gross bookings increased and online travel growth rates declined. In addition to the general slowing growth rates of online travel and the effects of the COVID-19 pandemic, other factors may also slow the growth rates of our international businesses, including, for example, worldwide or regional economic conditions, strengthening of the U.S. Dollar versus the Euro, the British Pound Sterling and other currencies, declines in ADRs, increases in cancellations, adverse changes in travel market conditions and the competitiveness of the market. Any decline in the growth rates of our international businesses negatively impacts our revenue and earnings growth rates and, as a consequence, our stock price.

Our long-term strategy involves continued expansion throughout the world. Many regions have different economic conditions, customs, languages, currencies, consumer expectations, levels of consumer acceptance and use of online platforms for commerce, legislation, regulatory environments (including labor laws and customs), tax laws and levels of political stability, and we are subject to associated risks typical of international businesses. International markets may have strong local competitors with an established brand and travel service provider or restaurant relationships that may make expansion in that market difficult or costly and take more time than anticipated. In addition, compliance with legal, regulatory or tax requirements in multiple jurisdictions places demands on our time and resources, and we may nonetheless experience unforeseen and potentially adverse legal, regulatory or tax consequences. In some markets such as China, legal and other regulatory requirements may prohibit or limit participation by foreign businesses, such as by making foreign ownership or management of internet or travel-related businesses illegal or difficult, or may make direct participation in those markets uneconomic, which could make our entry into and expansion in those markets difficult or impossible, require that we work with a local partner or result in higher operating costs. Certain markets in which we operate that are in earlier stages of development have lower operating margins compared to more mature markets, which could have a negative impact on our overall profit margins as these markets increase in size over time. If we are unsuccessful in expanding in new and existing markets and effectively managing that expansion, our business and results of operations could be adversely affected.

We intend to continue to improve the accommodation choices available for reservation on our platforms, however the growth rate of the number of accommodations on our platforms may vary in part as a result of removing accommodations from our platforms from time to time. We have seen a year-over-year increase in the number of accommodations removed from our platform during and resulting from the impacts of the COVID-19 pandemic, and we expect to see further accommodation removals in the future primarily due to properties not providing availability on our platforms, non-payment of invoices or property closures. Many of the newer accommodations we add to our travel reservation services, especially in highly-penetrated markets, may have fewer rooms or higher credit risk and may appeal to a smaller subset of consumers (e.g., hostels and bed and breakfasts). Because alternative accommodations are often either a single unit or a small collection of independent units, these properties generally represent more limited booking opportunities than hotels, motels and resorts, which generally have more units to rent per property. Further, alternative accommodations in general may be subject to increased seasonality due to local tourism seasons, weather or other factors or may not be available at peak times due to use by the property owners. Lower profit margins are associated with alternative accommodation properties due to certain additional costs related to offering these accommodations on our platforms. As we increase our alternative accommodation business, these different characteristics negatively impact our profit margins; and, to the extent these properties represent an increasing percentage of the properties added to our platforms, we expect that our room-night growth rate and property growth rate will continue to diverge over time (since each such alternative accommodation property has fewer booking opportunities). As a result of the foregoing, as the percentage of alternative accommodation properties increases, the number of reservations per property will likely continue to decrease.

In addition, as our alternative accommodation reservation business grows, we may incur increasing numbers of complaints related to non-existent properties or properties that are significantly different than as described in the listing, as well as claims of liability based on events occurring at such properties such as robbery, injury, death and other similar events. Such complaints or claims could result in negative publicity and increased costs, which could adversely affect our reputation, business and results of operations. Further, the regulatory environment related to some alternative accommodations such as homes and apartments is evolving, and laws, regulations or property association rules could impose restrictions or burdens on these property owners and managers that limit or negatively affect their ability to rent their properties. Some jurisdictions have adopted or are considering statutes or ordinances that prohibit owners and managers from renting certain properties for fewer

than a stated number of consecutive days or for more than an aggregate total number of days per year or that require owners or managers to obtain a license to rent their properties. In addition, several jurisdictions have adopted or are considering adopting statutes or ordinances requiring online platforms that list certain alternative accommodations to obtain a license to list such accommodations and/or to comply with other restrictions or requirements. This dynamic regulatory environment requires us to expend significant time and resources and could negatively impact the growth and/or size of our alternative accommodation reservation business.

We believe that the number, variety and quality of accommodations on our platforms, and the corresponding access to accommodation room nights, had been a key driver of the growth of our accommodation reservation business prior to the COVID-19 pandemic. The breadth of our accommodation bookings typically made us an attractive source of consumer demand for our accommodation providers, and we believe it will continue to do so as the travel industry recovers. However, after accommodation providers recover from the COVID-19 pandemic, they may wish to limit the amount of business that flows through a single distribution channel. Also, certain jurisdictions, particularly in Europe, are considering regulations intended to address the issue of "overtourism," including by restricting accommodation offerings in city centers or near popular tourist destinations, such as by restricting construction of new hotels or the renting of homes or apartments. Such restrictions could also include limiting the number of tourists permitted to visit and stay near popular areas during peak seasons or as a general matter. As a result, we may experience constraints on the number of listings, or accommodation room nights, actually available to us, which could negatively impact our business growth rate and results of operations.

The number of our employees worldwide has grown from approximately 15,500 at December 31, 2015 to approximately 20,300 at December 31, 2020, which growth is mostly comprised of hires by our international operations. Changes in our workforce may make it more difficult to hire, train, retain, motivate and manage the required employees. Historically, our brands operated on a largely independent basis and many of them focused on particular services or geographies. As we look to develop the Connected Trip and pursue our other strategic objectives, we are increasing the collaboration, cooperation and interdependency among our brands. As we manage this shift, in addition to managing any changes in our workforce, whether due to organic growth, growth through acquisitions, workforce reductions or restructurings, we may find it difficult to maintain the beneficial aspects of our corporate culture at the brand companies and throughout the organization as a whole. In addition, as travel recovers from the COVID-19 pandemic, any future expansion or shift increases the complexity of our business and places additional strain on our management, operations, technical performance, financial resources and administrative, legal, tax, internal control and financial reporting functions. Our current and planned employees, systems, procedures and controls may not be adequate to support and effectively manage growth and increased complexity, especially as we employ employees in multiple geographic locations around the world and increase the number and variety of our products and payment systems. The implementation of new information technology, payment, enterprise resource planning (ERP) or other systems could be disruptive and/or costly or we may experience difficulty successfully integrating new systems into existing systems or migrating to new systems from existing systems, any of which could adversely affect our business and results of operations.

*We rely on marketing channels to generate a significant amount of traffic to our platforms and grow our business.*

We believe that maintaining and strengthening our brands are important aspects of our efforts to attract and retain customers. We have invested considerable resources in the establishment and maintenance of our brands, and we intend to continue to invest resources in marketing and other brand building efforts to preserve and enhance consumer awareness of our brands when and to the extent we deem appropriate, in particular as the COVID-19 pandemic subsides and consumers begin to travel again. Effective marketing has been an important factor in our growth, and we believe it will continue to be important to our future success. Our marketing spend is influenced by the marketing spend of our competitors as we seek to maintain and increase our brand recognition among consumers and to maintain and grow traffic to our platforms through performance marketing channels. We may not be able to successfully maintain or enhance consumer awareness and acceptance of our brands, and, even if we are successful in our branding efforts, such efforts may not be cost-effective. For instance, increased marketing by OTCs, meta-search services and travel service providers, which we saw prior to the COVID-19 pandemic and would expect to see again as the COVID-19 pandemic subsides, make our marketing efforts more expensive and less effective. If we are unable to maintain or enhance consumer awareness and acceptance of our brands in a cost-effective manner, our business, market share and results of operations would be materially adversely affected.

Our marketing efficiency, expressed as marketing expense as a percentage of revenues, is impacted by a number of factors that are subject to variability and that are, in some cases, outside of our control, including ADRs, costs per click, cancellation rates, foreign currency exchange rates, our ability to convert paid traffic to booking customers and the extent to which consumers come directly to our websites or mobile apps for bookings. For example, competition for desired rankings in search results and/or a decline in ad clicks by consumers could increase our costs-per-click and reduce our marketing efficiency. We use third-party websites, including online search engines (primarily Google), meta-search and travel research services and

affiliate marketing as the primary means of generating traffic to our websites. Growth of some of these channels had slowed prior to the COVID-19 pandemic. Historically our marketing expenses have increased significantly, however, we have experienced more moderate growth rates in recent years, and since the COVID-19 pandemic, our marketing expenses have declined significantly year-over-year. Our marketing efficiency has declined in recent years, a trend we expect to continue in the long term, though the rate of decrease may fluctuate and there may be periods of stable or increasing returns on investment ("ROIs") from time to time, and we cannot predict how our marketing efficiency will trend during the recovery from the COVID-19 pandemic. Further, at times we may pursue a strategy of increasing marketing ROIs, which could negatively affect our gross bookings and revenue growth rates. When evaluating our performance marketing spend generally, we consider several factors for each channel, such as the customer experience on the advertising platform, the incrementality of the traffic we receive and the anticipated repeat rate from a particular platform, as well as other factors. Currently, we have reduced our marketing spend significantly year-over-year and are generally limiting our performance marketing efforts to address particular booking characteristics that are identified as having a high likelihood of conversion and a low likelihood of cancellation under the current circumstances of the COVID-19 pandemic. Pursuing a strategy of improving marketing ROIs along with factors such as competitors' actions in the bidding environment, the amount of marketing invested by these channels to generate demand and overall marketing platform traffic growth trends, which have shown volatility and long-term deceleration of growth rates, may also impact growth rates for marketing channels. Under market conditions excluding the impact of the COVID-19 pandemic, any reduction in our marketing efficiency could have an adverse effect on our business and results of operations, whether through reduced revenues or revenue growth, or through marketing expenses increasing faster than revenues and thereby reducing margins and earnings growth.

We believe that a number of factors could cause consumers to increase their shopping activity before making a travel purchase. Increased shopping activity reduces our marketing efficiency and effectiveness because traffic becomes less likely to result in a reservation through our platforms, and such traffic is more likely to be obtained through paid marketing channels than through direct channels. Further, consumers may favor travel services offered by search or meta-search companies over OTCs, which could reduce traffic to our travel reservation platforms, increase consumer awareness of our competitors' brands and platforms, increase our marketing and other customer acquisition costs and adversely affect our business, margins and results of operations. To the extent any such increased shopping behavior leads to growth in our KAYAK meta-search business, such growth may not result in sufficient increases in revenues from our KAYAK meta-search business to offset any related decrease in revenues or increase in marketing and other customer acquisition costs experienced by our OTC brands.

*We may not be able to keep up with rapid technological or other market changes.*

The markets in which we compete are characterized by rapidly changing technology, evolving industry standards, consolidation, frequent new service announcements, introductions and enhancements and changing consumer demands and preferences. These characteristics are changing at an even greater pace as OTCs and travel service providers seek to address consumer needs and preferences resulting from the COVID-19 pandemic. We may not be able to keep up with these rapid changes. In addition, these market characteristics are heightened by the progress of technology adoption in various markets, including the continuing adoption of the internet and online commerce in certain geographies and the emergence and growth of the use of smartphones, tablets and other smart devices, including those with voice and artificial intelligence capabilities, for mobile e-commerce transactions. New developments in other areas, such as cloud computing, could make entering our markets easier for competitors due to lower upfront technology costs. As a result, our future success will depend on our ability to adapt to rapidly changing technologies, to adapt our services and online platforms to evolving industry standards and local preferences and to continually innovate and improve the performance, features and reliability of our services and online platforms in response to competitive service offerings and the evolving demands of the marketplace. In particular, it is increasingly important for us to effectively offer our services on mobile devices through mobile apps and mobile-optimized websites and to tailor our services to varying devices and platforms. Any failure by us to successfully develop and achieve consumer adoption of our mobile platforms would have a material and adverse effect on our growth, market share, business and results of operations. Further, to the extent mobile devices or platforms enable users to block advertising content, our advertising revenue and our ability to market our brands and acquire new consumers may be negatively affected. We believe that ease-of-use, comprehensive functionality and the look and feel of our mobile platforms are increasingly competitively critical as consumers obtain more of their travel and restaurant services through mobile devices and platforms. As a result, we intend to continue to spend significant resources maintaining, developing and enhancing our mobile platforms and other technologies and platforms in the long term. Additionally, our ability to achieve our long-term strategy to build the Connected Trip depends on successfully integrating and developing new and evolving technologies, which is likely to require increased financial and personnel investments that could have an adverse impact on our results of operations until we achieve the expected return on these investments. However, these efforts may not be successful in improving the travel experience or retaining and attracting new customers, which would harm our business and results of operations. Further, technical innovation often results in bugs, vulnerabilities and other system failures. Any such bug, vulnerability or failure, especially in connection

with a significant technical implementation or change, could result in lost business, harm to our brand or reputation, consumer complaints and other adverse consequences, any of which could adversely affect our business and results of operations.

We believe that another critical component to our future success will be our ability to enhance our payments capabilities, including by offering alternative payment solutions to consumers even when those payment solutions may not be accepted by the travel service provider or restaurant. Alternate payment providers such as Alipay, Paytm and WeChat Pay operate closed-loop payments systems with direct connections to both consumers and merchants. In many markets, particularly in Asia where credit cards are not readily available and/or e-commerce is largely carried out through mobile devices, these and other emerging alternative payment methods are the exclusive or preferred means of payment for many consumers. Therefore, if we are unable to offer consumers their preferred method of payment by integrating new or emerging payment methods into our platforms, we may not be able to effectively offer our services to these consumers, which would limit our growth opportunities in these markets and our business and results of operations could be harmed.

Furthermore, in the future the competitive pressure to innovate could encompass a wider range of services and technologies, including services and technologies that may be outside of our historical core business, and our ability to keep pace may slow. Our current and potential competitors range from large and established companies to emerging start-ups. Emerging start-ups may be able to innovate and focus on developing a particularly new product or service faster than we can or may foresee consumer need for new services or technologies before we do. Some of our larger competitors or potential competitors have more resources or more established or varied relationships with consumers than we have, and they could use these advantages in ways that could affect our competitive position, including by making acquisitions, entering or investing in travel reservation businesses, investing in research and development and competing aggressively for highly-skilled employees.

In addition, the widespread adoption of new internet, networking or telecommunications technologies or other technological changes (including new devices and services, such as Amazon's Echo and Alexa and Google Home and Google Assistant, developing technologies, such as artificial intelligence, chatbot and virtual reality technologies, and the creation of "super-apps" where consumers can use many online services without leaving a particular app) could require us to incur substantial expenditures to modify or adapt our services or infrastructure to these new technologies, which could adversely affect our results of operations or financial condition. Any failure to implement or adapt to new technologies in a timely manner or at all could adversely affect our ability to compete, increase our consumer acquisition costs or otherwise adversely affect our business, and therefore adversely affect our brand, market share and results of operations.

*Our business could be negatively affected by changes in online search and meta-search algorithms and dynamics or traffic-generating arrangements.*

We use Google to generate a significant portion of the traffic to our platforms, and, to a lesser extent, we use other search and meta-search services to generate traffic to our platforms, principally through pay-per-click marketing campaigns. The pricing and operating dynamics on these search and meta-search platforms can experience rapid change commercially, technically and competitively. For example, Google frequently updates and changes the logic which determines the placement and display of results of a consumer's search, such that the placement of links to our platforms can be negatively affected and our costs to improve or maintain our placement in search results can increase. The European Commission has fined Google significant amounts for anti-competitive behavior relating to its comparison-shopping service and online search advertising services. Changes by Google in how it presents travel search results, including its promotion of its travel meta-search services, or the manner in which it conducts the auction for placement among search results, whether as a result of a court order, investigation or other reason, may be competitively disadvantageous to us and may impact our ability to efficiently generate traffic to our platforms, which in turn would have an adverse effect on our business, market share and results of operations. In January 2020, Google announced modifications to its flights display model, including that it would not be charging airlines and OTCs for sending referrals from Google Flights. As a result, certain airline and OTC partners have limited or eliminated their use of other meta-search services and have demanded cost savings from their other meta-search services. Further, Google may receive access to certain discounted fares not provided to meta-search services that charge for referrals. These modifications could adversely affect our meta-search business, profit margins and results of operations. Similarly, changes by our other search and meta-search partners in how they present travel search results or the manner in which they conduct the auction for placement among search results may be competitively disadvantageous to us and may impact our ability to efficiently generate traffic to our platforms. In addition, a decline or slowing growth in travel search traffic negatively impacts our ability to efficiently generate traffic to our platforms through performance marketing on general search platforms, which could have an adverse effect on our business and results of operations.

In addition, we purchase online traffic from a number of other sources, including some operated by our competitors, in the form of pay-per-click arrangements that can be terminated with little or no notice. If one or more of such arrangements is terminated, our business, market share and results of operations could be adversely affected. We rely on various third-party

distribution channels (i.e., marketing affiliates) to distribute accommodation, rental car and airline ticket reservations. Should one or more of such third parties cease distribution of reservations made through us, or suffer deterioration in its search or meta-search ranking, due to changes in search or meta-search algorithms or otherwise, our business, market share and results of operations could be negatively affected.

*Consumer adoption and use of mobile devices creates challenges and may enable device companies such as Google and Apple to compete directly with us.*

Widespread adoption of mobile devices, such as the iPhone and Android-enabled smartphones, coupled with the web browsing functionality and development of thousands of apps available on these devices, continues to drive substantial online traffic and commerce to mobile platforms. We have experienced a significant shift of business, both direct and indirect, to mobile platforms and our advertising partners are also seeing a rapid shift of traffic to mobile platforms. Some competitors offer last-minute discounts for mobile accommodation reservations. The revenues earned on a mobile transaction may be less than a typical desktop transaction due to different consumer purchasing patterns. For example, accommodation reservations made on a mobile device typically are for shorter lengths of stay, have lower ADRs and are not made as far in advance. Further, given the device sizes and technical limitations of smartphones, mobile consumers may not be willing to download multiple apps from multiple companies providing a similar service and instead prefer to use one or a limited number of apps for their mobile travel and restaurant research and reservation activity. As a result, the consumer experience with mobile apps as well as brand recognition and loyalty continue to be increasingly important. Our mobile offerings have received generally strong reviews and are driving a material and increasing share of our business. We believe that mobile bookings present an opportunity for growth and are necessary to maintain and grow our business as consumers increasingly turn to mobile devices instead of a personal computer. As a result, it is increasingly important for us to develop and maintain effective mobile platforms to provide consumers with an appealing, easy-to-use mobile experience. If we are unable to continue to rapidly innovate and create new, user-friendly and differentiated mobile offerings and efficiently and effectively advertise and distribute on these platforms, or if our mobile offerings are not used by consumers, we could lose market share and our business, future growth and results of operations could be adversely affected.

Google's Android operating system is the leading smartphone operating system in the world. As a result, Google has the ability to leverage its Android operating system to give its travel services a competitive advantage, either technically or with prominence on its Google Play app store or within its mobile search results. Further, Google is the leading internet search service and has leveraged its search popularity to promote its travel services. The European Commission has fined Google significant amounts and the U.S. Justice Department (the "U.S. DOJ") has sued Google for breaching antitrust rules by imposing restrictions on Android device manufacturers and mobile network operators, including by mandating the pre-installation of Google apps and limiting access to its Google Play app store. The European Commission's decision requires Google to end those practices or face penalty payments of up to 5% of the average daily worldwide turnover of Alphabet, Google's parent company. Google has appealed the European Commission's decision and refutes the U.S. DOJ's claims, and it is not yet clear how or whether these actions will affect Google's business, including its travel services.

Apple, the producer of, among other things, the iPhone and iPad, obtained a patent for "iTravel," a mobile app that would allow a traveler to check in for a travel reservation. In addition, Apple's iPhone operating system includes "Wallet," a virtual wallet app that holds tickets, boarding passes, coupons and gift cards, and, along with iTravel, may be indicative of Apple's intent to enter the travel reservations business in some capacity. Apple has substantial market share in the smartphone market and controls integration of offerings, including travel services, into its mobile operating system. Apple also has more experience producing and developing mobile apps and has access to greater resources than we have. Apple may use or expand iTravel, Wallet, Siri (Apple's voice recognition "concierge" service), Apple Pay (Apple's mobile payment system) or another mobile app or functionality as a means of entering the online travel reservations marketplace. To the extent Google or Apple use their mobile operating systems, app distribution channels or, in the case of Google, search services, to favor their own travel service offerings, our business and results of operations could be harmed.

*We are dependent on providers of accommodations, rental cars and airline tickets and on restaurants.*

We rely on providers of accommodations, rental cars and airline tickets and on restaurants to make their services available to consumers through us. Our arrangements with travel service providers generally do not require them to make available any specific quantity of accommodation reservations, rental cars or airline tickets, or to make accommodation reservations, rental cars or airline tickets available in any geographic area, for any particular route or at any particular price. Similarly, our arrangements with restaurants generally do not require them to provide all of their available tables and reservations to customers through us. We are in regular dialogue with our major travel service providers about the nature and extent of their participation in our services. A significant reduction on the part of any of our major travel service providers or providers that are particularly popular with consumers in their participation in our services for a sustained period of time or

their complete withdrawal, whether as a result of limitations on occupant capacity or business closures stemming from the COVID-19 pandemic or otherwise, could have a material adverse effect on our business, market share and results of operations. To the extent any of those major or popular travel service providers ceased to participate in our services in favor of one of our competitors' services or decided to require consumers to purchase services directly from them, our business, market share and results of operations could be harmed. During periods of higher occupancy rates, accommodation providers may decrease their distribution of accommodation reservations through third-party intermediaries like us, in particular through our discount services. Further, as consolidation among travel service providers increases, the potential adverse effect of a decision by any particular significant travel service provider (such as a large hotel chain, airline or rental car company) to withdraw from or reduce its participation in our services also increases. The COVID-19 pandemic has increased the risk that our travel service provider and restaurant partners voluntarily or involuntarily declare bankruptcy or otherwise cease or limit their operations, which could harm our business and results of operations. In particular, the potential harm to our business and results of operations is greater if there are bankruptcies or closures of larger partners such as airlines, hotel chains or large rental car companies. To the extent restaurants limit the availability of reservations through OpenTable or if a significant number of restaurants cease to participate in our services (whether as a result of the COVID-19 pandemic or otherwise) or if government orders restrict occupant capacity of any travel service providers or restaurants as a result of the COVID-19 pandemic, consumers may not continue to use our services and/or our revenues and results of operations could be adversely affected, especially if reservations during highly desirable times on high volume days are not made available through us.

KAYAK, a meta-search service, depends on access to information related to travel service pricing, schedules, availability and other related information from OTCs and travel service providers to attract consumers. Many of KAYAK's agreements with OTCs and travel service providers are short-term agreements that may be terminated on 30 days' notice. To the extent OTCs or travel service providers no longer provide such information to KAYAK, KAYAK's ability to provide comprehensive travel service information to consumers could be diminished and its brand, business and results of operations could be harmed. To the extent consumers do not view KAYAK as a reliable source of comprehensive travel service information, fewer consumers would likely visit its websites, which would also likely have a negative impact on KAYAK's advertising revenue and results of operations. In addition, if OTCs or travel service providers choose not to advertise with KAYAK or choose to reduce or eliminate the fees paid to KAYAK for referrals from query results, KAYAK's business and results of operations could be adversely affected.

*We rely on the performance of highly skilled employees; and, if we are unable to retain or motivate key employees or hire, retain and motivate well-qualified employees, our business would be harmed.*

Our performance is largely dependent on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate and retain highly skilled employees for all areas of our organization. In particular, the contributions of key senior management in the United States, Europe and Asia are critical to the overall management of our business. We may not be able to retain the services of any members of our senior management or other key employees, the loss of whom could harm our business and competitive position. We do not maintain any key person life insurance policies.

In addition, competition for well-qualified employees in all aspects of our business, including software engineers, mobile communication talent and other technology professionals, is intense. Our international success in particular has led to increased efforts by our competitors and others to hire our international employees. These difficulties may be amplified by evolving restrictions on immigration, travel or availability of visas or work permits for skilled technology workers. Further, as a result of the COVID-19 pandemic, the potential for a long recovery period for the travel industry and our workforce reductions and restructurings, employees may not view employment with us as positively as they did prior to the pandemic, all of which makes attraction and retention of well-qualified employees more difficult. The competition for talent in our industry has in the past and may in the future increase our personnel expenses, which may adversely affect our results of operations. Our continued ability to compete effectively and to innovate and develop products, services, technologies and enhancements depends on our ability to attract, retain and motivate well-qualified employees. If we do not succeed in attracting well-qualified employees or retaining, training, managing and motivating existing employees, our business, competitive position, reputation and results of operations would be adversely affected.

*Investment in new business strategies and acquisitions could disrupt our ongoing business and present risks not originally contemplated.*

Our mission is to make it easier for everyone to experience the world. As a result, our strategy involves evaluating and potentially entering complementary businesses in furtherance of that mission. We have invested, and in the future may invest, in new business strategies and acquisitions. For example, we acquired FareHarbor in April 2018 to increase our ability to offer local activities and experiences (such as tours and attractions). We also have acquired, and in the future may acquire,



businesses similar to those we already operate in an effort to expand our geographic markets, acquire technology or products or to otherwise improve or grow our business. For example, in July 2017 we acquired the Momondo Group and in November 2018 we acquired HotelsCombined, in each case, among other things, to enhance the global reach of our meta-search services. Such endeavors may involve significant risks and uncertainties, including diversion of management's attention from current operations, greater than expected liabilities and expenses, inadequate return on capital, new risks with which we are not familiar, legal compliance obligations that previously did not apply to us, integration risks and difficulties and unidentified issues not discovered in our investigations and evaluations of those strategies and acquisitions. As a result, entering new businesses involves risks and costs that could, if realized, have an adverse effect on our business, reputation, results of operations, profit margins, cash flows or financial condition, as well as on our ability to achieve the expected benefits of any such investments or acquisitions.

We may decide to make minority investments, including through joint ventures, in which we have limited or no management or operational control. The controlling person in such a case may have business interests, strategies or goals that are inconsistent with ours, and decisions of the company or venture in which we invested may result in harm to our reputation or business or adversely affect the value of our investment. A substantial portion of our goodwill and intangible assets were acquired in acquisitions. If we determine that any of our goodwill and intangible assets, or any goodwill or intangible assets acquired in future transactions, experiences a decline in value, we may be required to record, as we did in the first and third quarters of 2020, an impairment (see Note 11 to our Consolidated Financial Statements), which could materially adversely affect our results of operations. Further, we may issue shares of our common stock in these transactions, which could result in dilution to our stockholders.

*We may not be able to successfully integrate acquired businesses or combine internal businesses.*

The integration of acquired businesses requires significant time and resources, and we may not manage these processes successfully. Further, as our businesses developed, our strategy evolved and market conditions changed, we have integrated businesses that had been managed independently, integrated certain functions across businesses and restructured or ceased operating certain assets or businesses, and we may do so in the future, including through divestitures. These integrations may be of varying degree, depending on many factors such as business compatibility, strategic goals or geographic location, among others. Integrations are complex, often involve additional or unexpected costs and create a variety of issues and risks, including:

- disruption or harm to the businesses involved;
- disruption to our other businesses, including as a result of the need for management to spend time and attention on the integration;
- difficulty combining different company cultures, systems, reporting structures, titles and job descriptions and compensation schemes;
- problems retaining key personnel, in particular at the acquired or integrated company;
- loss of travel service providers, restaurants or partners of the acquired business; and
- difficulty implementing and maintaining effective controls, procedures and policies.

We may not successfully integrate companies or achieve the strategic, financial or operating objectives of the acquisition or integration, any of which could adversely affect our business, results of operations or the value of our acquisitions.

### **Information Security, Cybersecurity and Data Privacy Risks**

*Our processing, storage, use and disclosure of personal data exposes us to risks of internal or external security breaches and could give rise to liabilities and/or damage to our reputation.*

We are an innovative technology company dependent on sophisticated software applications and computing infrastructure. The security of data when engaging in e-commerce is essential to maintaining consumer and travel service provider confidence in our services. Cyberattacks by individuals, groups of hackers and state-sponsored organizations are increasing in frequency and sophistication and are constantly evolving. Cyberattacks on organizations have increased during the crisis of the COVID-19 pandemic. Any security breach whether instigated internally or externally on our systems or third-

party systems could significantly harm our reputation and therefore our business, brand, market share and results of operations. Consumers who use certain of our services provide us with their credit card information. We require user names and passwords in order to access our information technology systems. We also use encryption and authentication technologies to secure the transmission and storage of data and prevent unauthorized access to our data or accounts. Computer circumvention capabilities, new discoveries or advances or other developments, including our own acts or omissions, could result in a compromise or breach of consumer data. For example, third parties may attempt to fraudulently induce employees, travel service provider partners or consumers to disclose user names, passwords or other sensitive information ("phishing"), which may in turn be used to access our information technology systems or to defraud our partners or consumers. Third parties may also attempt to take over consumer accounts by using passwords, usernames and other personal information obtained elsewhere to attempt to unlawfully access consumer accounts on our platforms. We have experienced targeted and organized phishing and account takeover attacks, which have increased during the COVID-19 pandemic, and we expect to continue to experience these events in the future. These risks are likely to increase as we expand our offerings, integrate our products and services, and store and process more data, including personal information. Our efforts to protect information from unauthorized access may be unsuccessful or may result in the rejection of legitimate attempts to book reservations through our services, any of which could result in lost business and could materially and adversely affect our business, reputation and results of operations.

Our existing technical, administrative and physical security measures may not be successful in preventing security breaches. A party (whether internal, external, an affiliate or unrelated third party) that is able to circumvent our security systems could steal consumer information or transaction data or other proprietary information. As a result of increased numbers of employee exits due to the restructuring actions or otherwise, we face heightened risks related to the loss or unauthorized use of or access to our systems, intellectual property or other protected data. In the last few years, several major companies experienced high-profile security breaches that exposed their systems and information and/or their consumers' or employees' personal information, and it is expected that these types of events will continue to occur. We have a heightened risk of security breaches due to some of our operations being located in certain international jurisdictions. We expend significant resources to protect against security breaches, and regularly increase our security-related expenditures to maintain or increase our systems' security. We have experienced and responded to cyberattacks, which we believe have not had a significant impact on the integrity of our systems or the security of data, including personal information maintained by us. These issues are likely to become more difficult to manage as we expand the number of places where we operate and the number and variety of services we offer, and as the tools and techniques used in such attacks increasingly become more sophisticated. Security breaches could result in severe damage to our information technology infrastructure, including damage that could impair our ability to offer our services or the ability of consumers to make reservations or conduct searches through our services, as well as loss of consumer, financial or other data that could materially and adversely affect our ability to conduct our business, satisfy our commercial obligations or meet our public reporting requirements in a timely fashion or at all. Security breaches could also result in negative publicity, damage our reputation, expose us to risk of loss or litigation and possible liability, subject us to regulatory penalties and sanctions, or cause consumers to lose confidence in our security and choose to use the services of our competitors, any of which would have a negative effect on our brands, market share, results of operations and financial condition. Our insurance policies have coverage limits and may not be adequate to reimburse us for all losses caused by security breaches.

We also face risks associated with security breaches affecting third parties conducting business over the internet. Consumers generally are concerned with security and privacy on the internet, and any publicized security problems could negatively affect consumers' willingness to provide private information or effect online commercial transactions generally, including through our services. Some of our business is conducted with third-party marketing affiliates, which may generate travel reservations through our infrastructure or through other systems. Additionally, our consumers' personal data could be affected by security breaches at third parties upon which we rely, such as travel service providers, connectivity partners, payroll providers, health plan providers, payment processors or GDSs. A security breach at any such third-party marketing affiliate, travel service provider, payment processor, GDS or other third party on which we rely, such as the security breach experienced by MGM Resorts International in 2020, could be perceived by consumers as a security breach of our systems and in any event could result in negative publicity, subject us to notification requirements, damage our reputation, expose us to risk of loss or litigation and possible liability and subject us to regulatory penalties and sanctions. In addition, such third parties may not comply with applicable disclosure requirements or with parameters within which we permit them to process data, which could expose us to liability.

In the operation of our business, we receive and store a large volume of personally identifiable data and payment information. This data is increasingly subject to legislation and regulations in numerous jurisdictions around the world. The European Union's General Data Protection Regulation (the "GDPR") imposes significant compliance obligations and costs for us. Under the GDPR, violations could result in fines of up to 20 million Euros or up to 4% of the annual global revenues of the infringer, whichever is greater. Several data protection authorities have imposed significant fines on companies of various sizes across industry sectors for violations of the GDPR. The California Consumer Privacy Act (the "CCPA") became operative in

January 2020, and the recently enacted California Privacy Rights Act, which is set to become operative in January 2023, impose new privacy requirements and rights for consumers in California and has resulted and will continue to result in additional complexity and costs related to compliance. Many other jurisdictions continue to consider adopting or may adopt similar data protection regulations. These regulations are typically intended to protect the privacy of personal data that is collected, processed and transmitted in or from the governing jurisdiction as well as to give individuals greater rights and/or control over how their data is processed. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, including employee information. These laws and their interpretations continue to develop and may be inconsistent from jurisdiction to jurisdiction. For example, the recent invalidation of the EU-US Privacy Shield has altered one of the acceptable approaches upon which many companies have relied to ensure compliant data transfers between the European Union and the United States. Additionally, some of these regulations, such as the CCPA, give consumers a private right of action against companies for violations of these rules. While we have invested and continue to invest significant resources to comply with the GDPR, CCPA and other privacy regulations, many of these regulations are new, extremely complex and subject to interpretation. Non-compliance with these laws could result in negative publicity, damage to our reputation, significant penalties or other legal liability. If legislation or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, our results of operations, financial condition or competitive position could be adversely affected.

*System capacity constraints, system failures or denial-of-service or other attacks could harm our business and our reputation.*

Prior to the COVID-19 pandemic, we experienced rapid growth in consumer traffic to our online platforms, the number of accommodations on our extranets and the geographic breadth of our operations. Once consumers begin to travel again, if our systems cannot be expanded to cope with increased demand or fail to perform, we could experience unanticipated disruptions in service, slower response times, decreased customer service and customer satisfaction and delays in the introduction of new services, any of which could impair our reputation, damage our brands and materially and adversely affect our results of operations. Further, as an online business, we are dependent on the internet and maintaining connectivity between ourselves and consumers, sources of internet traffic, such as Google, and our travel service providers and restaurants. As consumers increasingly turn to mobile and other smart devices, we also become dependent on consumers' access to the internet through mobile carriers and their systems. Disruptions in internet access, whether generally, in a specific market or otherwise, especially if widespread or prolonged, could materially adversely affect our business and results of operations. While we do maintain redundant systems and hosting services, it is possible that we could experience an interruption in our business, and we do not carry business interruption insurance sufficient to compensate us for all losses that may occur.

Our computer hardware for operating our services is currently located at hosting facilities around the world. These systems and operations are vulnerable to damage or interruption from human error, computer viruses, floods, fires, power loss, telecommunication failures and similar events. They are also subject to break-ins, sabotage, intentional acts of vandalism, terrorism and similar misconduct. Despite any precautions we may take, the occurrence of any disruption of service due to any such misconduct, natural disaster or other unanticipated problems at such facilities, or the failure by such facilities to provide our required data communications capacity could result in lengthy interruptions or delays in our services. Any system failure that causes an interruption or delay in service could impair our reputation, damage our brands, result in lost business or result in consumers choosing to use a competitive service, any of which could have a material adverse effect on our business and results of operations.

Our existing security measures may not be successful in preventing attacks on our systems, and any such attack could cause significant interruptions in our operations. For instance, from time to time, we have experienced denial-of-service type attacks on our systems that have made portions of our websites slow or unavailable for periods of time. There are numerous other potential forms of attack, such as phishing, ransomware, account takeover attacks, SQL injection (where a third party attempts to insert malicious code into our software through data entry fields in our websites in order to gain control of the system) and attempting to use our websites as a platform to launch a denial-of-service attack on another party, each of which could cause significant interruptions in our operations and potentially adversely affect the value of our brands, operations and results of operations or involve us in legal or regulatory proceedings. We expend significant resources in an attempt to prepare for and mitigate the effects of any such attacks. Reductions in the availability and response time of our online services could cause loss of substantial business volumes during the occurrence of any such attack on our systems and measures we may take to divert suspect traffic in the event of such an attack could result in the diversion of bona fide customers. These issues are more difficult to manage during any expansion of the number of places where we operate and the variety of services we offer, and as the tools and techniques used in such attacks become more advanced. Successful attacks could result in negative publicity, damage our reputation and prevent consumers from booking travel services, researching travel services or making restaurant reservations through us during the attack, any of which could cause consumers to use the services of our competitors, which would have a negative effect on the value of our brands, our market share, business and results of operations.

We rely on certain third-party computer systems and third-party service providers, including GDSs and computerized central reservation systems of the accommodation, rental car and airline industries in connection with providing some of our services. Any damage to, breach of or interruption in these third-party services and systems or deterioration in their performance could prevent us from booking related accommodation, rental car and airline reservations and have a material adverse effect on our business, brands and results of operations. Our agreements with some third-party service providers are terminable upon short notice and often do not provide recourse for service interruptions. In the event our arrangement with any such third party is terminated, we may not be able to find an alternative source of systems support on a timely basis or on commercially reasonable terms and, as a result, it could have a material adverse effect on our business and results of operations. Further, as a result of the COVID-19 pandemic, some of our third-party service providers may go out of business, suspend operations, reduce their support services or system maintenance activities, any of which could adversely affect our business and reputation.

We depend upon various third parties to process payments, including credit cards, for our merchant transactions around the world. In addition, we rely on third parties to provide credit card numbers which we use as a payment mechanism for merchant transactions. If any such third party were wholly or partially compromised or ceased or suspended operations (whether due to the COVID-19 pandemic or otherwise), our cash flows could be disrupted or we may not be able to generate merchant transactions (and related revenues) until such a time as a replacement process could be put in place with a different vendor, and this could have a negative effect on our business, reputation and results of operations and, in certain cases of the insolvency of such a partner, could result in additional payments by us and loss of the total transaction value, which would negatively affect our results of operations and financial condition.

We do not have a completely formalized or comprehensive disaster recovery plan in every geographic region in which we conduct business. In the event of certain system failures, we may not be able to switch to back-up systems immediately and the time to full recovery could be prolonged. Like many online businesses, we have experienced system failures from time to time. In addition to placing increased burdens on our engineering staff, these outages create a significant amount of consumer questions and complaints that need to be addressed by our customer support employees. Any unscheduled interruption in our service could result in an immediate loss of revenues that could be substantial, increase customer service costs, harm our reputation and result in some consumers switching to our competitors. If we experience frequent or persistent system failures, our reputation and brand could be permanently and significantly harmed. We have taken and continue to take steps to increase the reliability and redundancy of our systems. These steps are expensive, may reduce our margins and may not be successful in reducing the frequency or duration of unscheduled downtime.

We use both internally-developed systems and third-party systems to operate our services, including transaction processing, order management and financial and accounting systems. If the number of consumers using our services increases substantially, or if critical third-party systems stop operating as designed, we may need to significantly expand and upgrade our technology, transaction processing systems, financial and accounting systems or other infrastructure. We may not be able to upgrade our systems and infrastructure to accommodate such conditions in a timely manner, and, depending on the systems affected, our transactional, financial and accounting systems could be impacted for a meaningful amount of time before upgrade, expansion or repair. Many of our processes and systems, including those related to processing and recording revenue, are highly automated and involve multiple inputs from various IT systems, which can mitigate the risk of human error but which can also make testing, troubleshooting and auditing more difficult. As a result, it may be difficult to quickly detect and correct errors embedded in these processes or systems.

## **Legal, Tax, Regulatory, Compliance and Reputational Risks**

*We may have exposure to additional tax liabilities.*

As an international business providing reservation and marketing services around the world, we are subject to income taxes and non-income-based taxes in the United States and various international jurisdictions. Due to economic and political conditions, tax rates and tax regimes in various jurisdictions may be subject to significant change. Our future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets or changes in tax laws or their interpretation. If our effective tax rates were to increase, our results of operations and cash flows would be adversely affected.

Although we believe that our tax filing positions are reasonable and comply with applicable law, we regularly review our tax filing positions, especially in light of tax law or business practice changes, and we may change our positions or determine that previous positions should be amended, either of which could result in additional tax liabilities. The final determination of tax audits or tax disputes may be different from what is reflected in our historical income tax provisions and

accruals. To date, we have been audited in many taxing jurisdictions with no significant impact on our results of operations. If current or future audits find that additional taxes are due, we may be subject to incremental tax liabilities, possibly including interest and penalties, which could have a material adverse effect on our results of operations, financial condition and cash flows. For example, Booking.com is the subject of tax proceedings in France and has been assessed approximately 465 million Euros, the majority of which represents penalties and interest. In January 2019, we were required to pay the assessments for the years 2006 through 2012 (356 million Euros) in order to preserve our right to contest the assessments for that period in court, though the payment is not an admission that we owe the taxes. Although we believe that Booking.com has been, and continues to be, in compliance with French tax law, and we are contesting the assessments, during the third quarter of 2020, we contacted the French Tax Authorities regarding the potential to achieve resolution of the matter through a settlement. See Note 16 to our Consolidated Financial Statements for more information regarding the French tax matter and certain tax contingencies.

In general, governments are increasingly focused on ways to increase tax revenues, which has contributed to an increase in audit activity, more aggressive positions taken by tax authorities, more time and difficulty to resolve any audits or disputes and an increase in new tax legislation. Any such additional taxes or other assessments may be in excess of our current tax provisions or may require us to modify our business practices in order to reduce our exposure to additional taxes going forward, any of which could have a material adverse effect on our business, results of operations and financial condition.

In December 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted into law in the United States. The Tax Act introduced a tax on 50% of global intangible low-taxed income ("GILTI"), which is income determined to be in excess of a specified routine rate of return on qualifying business assets. The Tax Act further introduced a base erosion and anti-abuse tax ("BEAT") aimed at preventing the erosion of the U.S. tax base and a new tax deduction with respect to certain foreign-derived intangible income. If we are unable to operate our business so that BEAT does not impact us, our effective tax rate, results of operations and cash flows would be adversely affected. The interpretation and implementation of the Tax Act and regulations, rules or guidance that have been or may be adopted under, or result from, the Tax Act have had and could have a negative impact on our results of operations and cash flows. During the 2020 U.S. presidential campaign, then presidential candidate Joseph Biden proposed making significant corporate income tax changes including raising the U.S. corporate income tax rate to 28% and increasing the percentage of GILTI subject to tax in the United States to 75%. Increases in the U.S. corporate income tax rate or increasing the percentage of GILTI subject to tax in the United States could have a negative impact on our results of operations and cash flows.

Additionally, there have been significant changes made and proposed to international tax laws that increase the complexity, burden and cost of tax compliance. The Organisation for Economic Co-operation and Development ("OECD") initiated the "base erosion and profit shifting" ("BEPS") project to ensure international tax standards keep pace with changes in global business practices and to address situations where multinational businesses may pay little or no tax in certain jurisdictions by shifting profits away from jurisdictions in which the profit generating activities take place. The OECD is working towards a consensus-based solution by the middle of 2021 to address the challenges posed to the current tax system by the digitalization of the economy. The OECD Secretariat's current proposal aims to ensure that multinational businesses are taxed in jurisdictions where they are conducting significant business but do not have a physical presence by establishing new nexus rules determining where tax should be paid and new profit allocation rules determining what portion of profits should be taxed.

Certain countries have taken steps to unilaterally introduce a digital services tax to address the issue of multinational businesses carrying on business in their jurisdiction without a physical presence and therefore generally not subject to income tax in those jurisdictions. These digital services taxes are calculated as a percentage of revenue rather than income or profits. As a result, with the exception of the U.K digital services tax, these taxes apply even in situations where the business may be operating at an overall loss. In most cases, since these digital services taxes are based on revenue and not income, they cannot be credited against taxes paid on income in another jurisdiction for the same revenue. The interpretation and implementation of the various digital services taxes (especially if there is inconsistency in the application of these taxes across tax jurisdictions) could have a materially adverse impact on our results of operations and cash flows. Further, digital services taxes may not apply to our competitors such as hotel chains and smaller OTCs, which harms our business and competitive position. Any changes to international tax laws, including new definitions of permanent establishment, new nexus and profit allocation rules, or changes affecting the benefits of preferential tax regimes such as the Dutch "Innovation Box Tax" (discussed below), could impact the tax treatment of our foreign earnings and adversely impact our effective tax rate. Further, changes to tax laws and additional reporting requirements could increase the complexity, burden and cost of compliance. Due to the large scale of our international business activities, any changes in U.S. or international taxation of our activities or the combined effect of tax laws in multiple jurisdictions may increase our worldwide effective tax rate, increase the complexity and costs associated with tax compliance (especially if changes are implemented or interpreted inconsistently across tax jurisdictions) and adversely affect our cash flows and results of operations.

We are also subject to other non-income-based taxes, such as value-added, payroll, sales, use, excise, net worth, property, hotel occupancy and goods and services taxes. We refer generally to taxes on travel transactions (e.g., value-added taxes, sales taxes, excise taxes, hotel occupancy taxes, etc.) as "travel transaction taxes." From time to time, we are under audit or investigation by tax authorities or involved in legal proceedings related to these non-income-based taxes or we may revise or amend our tax positions, which may result in additional non-income-based tax liabilities. A number of jurisdictions in the United States have initiated lawsuits against OTCs, including us, related to, among other things, the payment of certain travel transaction taxes (such as hotel occupancy taxes) that could include historical taxes that are claimed to be owed, interest, penalties, punitive damages and/or attorney's fees and costs. In addition, a number of jurisdictions have initiated audit proceedings, issued proposed tax assessments or started inquiries relating to the payment of travel transaction taxes. Additional jurisdictions may assert that we are subject to, among other things, travel transaction taxes and could seek to collect such taxes, either retroactively, prospectively or both. Jurisdictions could also seek to amend their tax statutes in order to collect travel transaction taxes from us on a prospective basis. Litigation is subject to uncertainty and there could be adverse developments in these pending or future cases and proceedings. Additionally, a number of jurisdictions have adopted or may adopt laws that require us to collect and remit sales tax on behalf of travel service providers, which in some instances may negatively impact our revenue. Adverse tax decisions or new laws could have a material adverse effect on our business, margins, cash flows and results of operations. An unfavorable outcome or settlement of pending litigation may encourage the commencement of additional litigation, audit proceedings or other regulatory inquiries. In addition, an unfavorable outcome or settlement of these actions or proceedings could result in substantial liabilities for past and/or future bookings, including, among other things, interest, penalties, punitive damages and/or attorneys' fees and costs.

*We may not be able to maintain our "Innovation Box Tax" benefit.*

The Netherlands corporate income tax law provides that income generated from qualifying innovative activities is taxed at the rate of 7% prior to 2021 and 9% beginning in January 2021 ("Innovation Box Tax") rather than the Dutch statutory rate of 25%. A portion of Booking.com's earnings historically has qualified for Innovation Box Tax treatment. In 2020, the Innovation Box Tax benefit reduced our consolidated income tax expense by \$79 million.

In order to be eligible for Innovation Box Tax treatment, Booking.com must, among other things, apply for and obtain a research and development ("R&D") certificate from a Dutch governmental agency every six months confirming that the activities that Booking.com intends to be engaged in over the subsequent six-month period are "innovative." The R&D certificate is current but should Booking.com fail to secure such a certificate in any future period - for example, because the governmental agency does not view Booking.com's new or anticipated activities as innovative - or should this agency determine that the activities performed in a prior period were not performed as contemplated or did not comply with the agency's requirements, Booking.com may lose its certificate and, as a result, the Innovation Box Tax benefit may be reduced or eliminated. Booking.com intends to apply for continued Innovation Box Tax treatment for future periods. However, Booking.com's application may not be accepted, or, if accepted, the amount of qualifying earnings may be reduced.

The loss of the Innovation Box Tax benefit (or any material portion thereof), whether due to a change in tax law or a determination by the Dutch government that Booking.com's activities are not innovative or for any other reason, could substantially increase our effective tax rate and adversely impact our results of operations and cash flows in the future.

*Our business is subject to various competition/anti-trust, consumer protection and online commerce laws, rules and regulations around the world, and as the size of our business grows, scrutiny of our business by legislators and regulators in these areas may intensify.*

We, the travel industry and the technology industry generally are subject to competition/anti-trust and consumer protection laws and regulations around the world. These laws and regulations evolve and change, and their interpretation, application and enforcement can also change, be unpredictable or be affected by changing political or social pressures. As we expand our business into new areas, including our evolution towards the Connected Trip, we may become subject to additional laws and regulations. At times, online travel platforms, including us, have been the subject of investigations or inquiries by various national competition authorities ("NCAs") or other governmental authorities. For example, we have been and continue to be involved in investigations related to whether Booking.com's contractual parity arrangements with accommodation providers, sometimes also referred to as "most favored nation" or "MFN" provisions, are anti-competitive because they require accommodation providers to provide Booking.com with room rates, conditions or availability that are at least as favorable as those offered to other OTCs or through the accommodation provider's website. To resolve and close certain of the investigations, we have from time to time made commitments to the investigating authorities regarding future business practices or activities. For example, Booking.com has made commitments to several NCAs, including agreeing to narrow the scope of its parity arrangements, in order to resolve parity-related investigations. In August 2020, Booking.com voluntarily extended its

parity commitments in the European Union for another three years. Additionally, these types of investigations can result and have resulted in the assessment of fines.

We have also been involved in investigations or inquiries involving consumer protection matters. For example, the United Kingdom's NCA (the Competition and Markets Authority, or CMA) launched a consumer protection law investigation into the clarity, accuracy and presentation of information on hotel booking sites. In connection with this investigation, in 2019, Booking.com, agoda and KAYAK, along with a number of other OTCs, voluntarily agreed to certain commitments with the CMA, which resolved the CMA's investigation without a finding by the CMA of an infringement or an admission of wrongdoing by the OTCs involved. Among other things, the commitments provided to the CMA include showing prices inclusive of all mandatory taxes and charges, providing information about the effect of money earned on search result rankings on or before the search results page and making certain adjustments to how discounts and statements concerning popularity or availability are shown to consumers. The CMA has stated that it expects all market participants to adhere to the same standards, regardless of whether they formally signed the commitments. As a result of additional inquiries from other NCAs in the European Union, Booking.com has made similar commitments with the Consumer Protection Cooperation Network that became applicable in the European Union in June 2020. There are consumer protection investigations or inquiries in other countries as well, including in Brazil, and other countries may decide to investigate these or similar issues generally or with respect to specific businesses, including ours, and we are unable to predict the outcome of any such other investigations or inquiries. To the extent that any such other investigations or inquiries result in additional commitments, fines, damages or other remedies, our business, financial condition and results of operations could be harmed.

In light of the COVID-19 pandemic, certain travel service provider partners and consumers have issued complaints with NCAs to dispute our handling of *force majeure* provisions in our contracts with accommodation partners. As a result, NCAs could decide to investigate our handling of *force majeure* provisions, and if any NCA concludes the invocation of *force majeure* was inappropriate, there could be fines or other adverse impacts.

As markets evolve and NCAs or other governmental authorities continue to monitor our industry, new investigations of the industry generally or of us specifically could and have occurred, including revisiting issues that were the subject of prior investigations. For example, in July 2020, the European Commission announced that it will study the marketing and sale of hotel accommodations in six E.U. countries in 2021. Also, while we believe that we are complying with our commitments, investigating authorities or third parties may determine that we are not complying with the commitments we have made and decide to pursue legal action to compel compliance or seek other remedies. Further, in September 2017 the Swiss Price Surveillance Office opened an investigation into the level of commissions of Booking.com in Switzerland and the investigation is ongoing. If there is an adverse outcome and Booking.com is unsuccessful in any appeal, Booking.com could be required to reduce its commissions in Switzerland.

We are cooperating with regulators where applicable, but we are unable to predict what, if any, effect any investigations or resolutions thereof, including the effect of any commitments we might make, will have on our business, industry practices or online commerce more generally.

To the extent that regulatory authorities impose fines on us or require changes to our business practices or to those currently common to the industry, our business, competitive position and results of operations could be materially and adversely affected. Negative publicity regarding competition and/or consumer law investigations could adversely affect our brands and therefore our business, market share and results of operations. Competition and consumer law-related investigations, legislation or issues have and could in the future result in private litigation.

Another area of regulatory inquiry involves contractual search term bidding restrictions where one contracting party agrees not to bid on certain key search terms related to the other party (e.g., such other party's name). Although we are generally moving away from these types of agreements, in some of our contracts, we or the other party have agreed to bidding restrictions. If bidding restrictions are held to be illegal or otherwise unenforceable or if we remove them from all of our contracts, our performance marketing costs may increase if bidding on affected key words (especially those related to us) becomes more expensive, which could adversely affect our performance marketing efficiency, business and results of operations.

There is significant legislative and public focus on the technology industry, especially as technology companies become larger. In some instances, countries have passed legislation that goes further to restrict business activities than actions taken by NCAs or other regulatory authorities. For example, France, Italy, Belgium and Austria have passed legislation prohibiting parity contract clauses in their entirety. Additionally, the EU's Platform to Business Regulation regulates the relationship between online platforms such as Booking.com and European business users of online platforms. This new regulation requires online platforms to provide additional disclosure to European business partners, such as terms related to

search result ranking and preferential pricing as well as provide for a mediation process to handle any disputes, among other changes. In December 2020, the European Commission proposed the Digital Markets Act and the Digital Services Act, which are expected to give regulators more instruments to investigate digital businesses and impose new rules on certain digital platforms if they are determined to be "gatekeepers." The proposed legislation is not final and it is not known what the laws will look like in their final forms if adopted. If the regulators were to determine that we are a gatekeeper under the proposed legislation, we could be subject to additional rules and regulations not applicable to all our competitors and our business could be harmed. For example, the rules applicable to gatekeepers could prohibit single sign-in for different products and create new data sharing requirements and limitations on the use of data from third parties. New laws and regulations and changing public perception relating to the technology industry could impact our services, require us to change our business practices or otherwise cause us to incur additional operating costs to comply with or address these developments. Further, as market conditions change as a result of investigations, litigation, legislation or political or social pressure, we may decide to voluntarily modify our business practices beyond what is required, the full effects of which may not be known when making the decision, but which could harm our competitive position and adversely affect our business and results of operations.

With additional attention on the size of travel or technology companies generally, our size and market share may negatively affect our ability to obtain regulatory approval of proposed acquisitions, our ability to expand into complementary businesses or our latitude in dealing with travel service providers (such as by limiting our ability to provide discounts, rebates or incentives or to exercise contractual rights), any of which could adversely affect our business, results of operations or ability to grow and compete.

*Regulatory and legal requirements and uncertainties could subject us to business constraints, increased compliance costs and complexities or otherwise harm our business.*

Our ability to provide our services and any future services is and will continue to be affected by legal regulations (including laws, ordinances, rules, licensing requirements and other requirements and regulations) of national and local governments and regulatory authorities around the world, many of which are evolving and subject to the possibility of new or revised interpretations. For example, we offer optional rental car-related insurance products to customers protecting them against accidental damage to their rental vehicles, which subjects us to certain insurance regulations and related increased compliance costs and complexities, any of which could negatively impact our business and results of operations. Laws in some countries relating to data localization, registration as a travel agent and other local requirements could, if applicable to us, adversely affect our ability to conduct business in those countries. Any increase in the number or complexity of the laws and regulations applicable to us and our businesses could increase our compliance costs and burdens and negatively affect our business and results of operations.

For example, in the European Union, the Package Travel Directive (the "Package Directive") sets out broad requirements such as local registration, certain mandatory financial guarantees, disclosure requirements and other rules regulating the provision of travel packages and linked travel arrangements. The Package Directive also creates additional liability for a provider of travel packages, which could be the OTC, for performance of the travel services within a packaged trip under certain circumstances. Some parts of our business are already subject to the broad scope of the Package Directive, and as our offerings continue to diversify and expand, we may become subject to additional requirements of the Package Directive. Compliance with this directive could be costly and complex or, as a result of these requirements, we could choose to limit offerings that would otherwise be beneficial for the business, any of which could adversely affect our business, results of operations or ability to grow and compete.

The implementation of unfavorable regulations or unfavorable interpretations of existing regulations by judicial or regulatory bodies could require us to incur significant compliance costs, cause the development of the affected markets to become impractical and otherwise have a material adverse effect on our business and results of operations. For example, in connection with a lawsuit begun in 2015 by the Association of Turkish Travel Agencies, a Turkish court ordered in 2019 that Booking.com must meet certain registration requirements in order to offer Turkish hotels and accommodations to Turkish residents. If Booking.com does not successfully appeal this decision or meet the Turkish registration requirements, Booking.com will be unable to resume offering Turkish hotels and accommodations to Turkish residents, which would continue to negatively impact our results of operations. Another example is that the U.S. Government announced in May 2019 that it will no longer suspend the right of private parties to bring litigation under Title III of the Cuban Liberty and Solidarity (Libertad) Act of 1996, popularly known as the Helms-Burton Act, allowing certain individuals whose property was confiscated by the Cuban government beginning in 1959 to sue anyone who "traffics" in the property in question in U.S. courts. We are a defendant in a number of these lawsuits, which seek remedies including the value of the expropriated property (generally, the applicable hotel), plus interest, treble damages, attorneys' fees and costs. We believe that we have meritorious defenses to existing and potential claims and that the results of any related litigation will not be material to our business, financial condition or results of operations. However, litigation is uncertain and there is little judicial history or interpretation of the relevant



claims and defenses, in particular as applied to businesses like ours. As a result, there can be no assurance that there will not be an adverse outcome to any such litigation or that such an outcome would not result in an adverse impact on our business, financial condition or results of operations.

Certain jurisdictions, particularly in Europe, are considering regulations intended to address the issue of "overtourism," including restrictions that may adversely affect our ability to offer accommodations, in particular, alternative accommodations, near city centers or popular tourist destinations. To the extent any such regulations require online platforms such as ours to comply with additional restrictions related to offering reservations for accommodations, tours and activities or other travel services in such areas, we could be subject to increased legal and compliance costs, and our business, growth and results of operations could be adversely affected.

Compliance with the laws and regulations of multiple jurisdictions increases our cost of doing business. Examples of these laws and regulations, which vary and sometimes conflict, include the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and local laws which also prohibit corrupt payments to governmental officials or third parties, data privacy requirements, labor relations laws, non-discrimination, human rights or anti-human trafficking laws and regulations, such as the U.K. Modern Slavery Act 2015, tax laws, anti-trust or competition laws, U.S., E.U. or U.N. sanctioned country or sanctioned persons mandates and consumer protection laws. Violations of these laws and regulations could result in fines, penalties and/or criminal sanctions against us, our officers or our employees and/or prohibitions on the conduct of our business. Any such violations could also result in prohibitions on our ability to offer our services in one or more countries, delay or prevent potential acquisitions, and materially damage our reputation, our brands, our global expansion efforts, our ability to attract and retain employees and business partners, our business and our operating results. Even if we comply with these laws and regulations, doing business in certain jurisdictions or violations of these laws and regulations by the accommodations, restaurants, travel service providers or other parties with whom we conduct business could harm our reputation and brands, which could adversely affect our results of operations or stock price. In addition, these restrictions may provide a competitive advantage to our competitors unless they are also subject to comparable restrictions. Our success depends, in part, on our ability to anticipate these risks and manage these difficulties. We are also subject to a variety of other regulatory, legal and public policy risks and challenges in managing an organization operating in various countries, including those related to:

- regulatory changes or other government actions;
- additional complexity to comply with regulations in multiple jurisdictions, as well as overlapping or inconsistent legal regimes, in particular with respect to tax, labor, consumer protection, digital content, advertising, promotions, privacy and anti-trust laws;
- difficulties in transferring funds from or converting currencies in certain countries;
- reduced protection for intellectual property rights in some countries; and
- changes in social or political conditions or policies relating to a wide range of sustainability topics.

Prior to the COVID-19 pandemic, our business had grown substantially over the last several years as we expanded into new geographies and added new services. In addition, we have made efforts and expect to make further efforts to integrate access to travel services across our various brands. These changes add complexity to legal and tax compliance and our internal controls, and our size and operating history may increase the likelihood that we will be subject to regulatory scrutiny or audits by tax authorities in various jurisdictions. In addition, by virtue of Booking.com's size and presence in the Netherlands, it is required to have a supervisory board to oversee the strategy and operations of Booking.com. While the existence of the supervisory board has not had a significant impact on our operations, under certain circumstances, this governance structure could require Booking.com to obtain supervisory board approval in order to take certain actions, which could result in delays or other unanticipated strategic or operational challenges.

*There are various risks associated with the facilitation of payments from consumers, including risks related to fraud, compliance with evolving rules and regulations and reliance on third parties.*

Our results have been and will likely continue to be negatively impacted by consumer purchases made using fraudulent credit cards, claims the consumer did not authorize the purchase or consumers who have closed bank accounts or have insufficient funds in their bank accounts to satisfy payments. We may be held liable for accepting fraudulent credit cards on our platforms or in connection with other fraudulent transactions on our platforms, as well as other payment disputes with consumers. Accordingly, we calculate and record an allowance for the resulting chargebacks. We must also continually implement and evolve measures to detect and reduce the risk of fraud, in particular as these methods become increasingly

sophisticated. If we are unable to successfully combat the use of fraudulent credit cards on our platforms, our business, profit margins, results of operations and financial condition could be materially adversely affected.

We believe that an important component of our future success will be our ability to offer consumers their preferred method of payment in the most efficient manner on all our platforms, and, as a result, we are processing more of our transactions on a merchant basis where we facilitate payments from travelers through the use of credit cards and other payment methods (such as PayPal, Alipay, Paytm and WeChat Pay). While processing transactions on a merchant basis allows us to process transactions for properties that do not otherwise accept credit cards and to increase our ability to offer a variety of payment methods and flexible transaction terms to consumers, we incur additional payment processing costs (which are typically higher for foreign currency transactions) and other costs related to these transactions, such as costs related to fraudulent payments and transactions and fraud detection. As we expand our payments services to consumers and business partners, in addition to the revenues from these transactions, we may experience a significant increase in these costs, and our results of operations and profit margins could be materially adversely affected, in particular if we experience a significant increase in non-variable costs related to fraudulent payments and transactions.

As a greater percentage of our transactions involve us processing payments, our global systems and processes must be managed on a larger scale, which adds complexity, administrative burdens and costs and increases the demands on our systems and controls, which could adversely affect our results of operations. In addition, as our payment processing activities continue to develop, we expect to be subject to additional regulations, including financial services regulations, which we expect to result in increased compliance costs and complexities, including those associated with the implementation of new or advanced internal controls. For example, the E.U.'s Payment Services Directive 2 has further complicated the authentication process for accepting credit cards. As a result of this directive, payments made on our platforms by consumers in the European Economic Area are subject to Strong Customer Authentication, which requires the consumer to engage in additional steps to authenticate their transaction. This new requirement could cause consumer transactions to take longer to process or otherwise inconvenience the consumer, which could result in consumers choosing not to utilize our platforms as often or at all. The implementation of this process has resulted and may continue to result in increased compliance costs and administrative burdens for us. Other new or expanded regulations that could apply to us as our payments activities evolve include those relating to money transmission licenses, anti-money laundering, card scheme associations, sanctions, banking, privacy and security of our processes, among others. Compliance with this changing regulatory environment creates significant additional compliance costs and burdens or it could lead us to modify our business plans or operations, any of which could negatively impact our business, results of operations and profit margins.

We are also subject to payment card association rules and obligations under our contracts with the card schemes and our payment card processors, including the Payment Card Industry Data Security Standard (the "Standard"). Under the Standard and these association rules and obligations, if information is compromised, we could be liable to payment card issuers for associated expenses and penalties, and in some cases, we could be restricted in our ability to accept payment cards. Under certain circumstances in our agreements with the card schemes and in relation to the Standard, we are also subject to periodic audits, self-assessments and other assessments of our compliance with the rules and obligations of the payment card associations and the Standard, which could result in additional expenses and administrative burdens. In addition, if we fail to follow payment card industry security standards, even if no consumer information is compromised, we could incur significant fines or experience a significant increase in payment card transaction costs. Additionally, compliance with the Standard may not prevent all security incidents. If we are fined or required to pay additional processing fees or if our ability to accept payment cards is restricted in any way as a result of our failure to comply with these payment card industry rules, or otherwise, it could adversely impact our business, results of operations and profit margins.

We rely on banks, card schemes and other payment processors to execute certain components of the payments process. We generally pay these third parties interchange fees and other processing and gateway fees to help facilitate payments from consumers to travel service providers. As a result, if we are unable to maintain our relationships with these third parties on favorable terms or if these fees are increased for any reason, our profit margin, business and results of operations could be harmed. Additionally, if these third parties experience service disruptions or if they cease operations (whether as a result of the COVID-19 pandemic or otherwise), consumers and travel service providers could have difficulty making or receiving payments, which could adversely impact our reputation, business and results of operations.

In addition, in the event that one of our major travel service providers voluntarily or involuntarily declares bankruptcy or otherwise ceases or limits operations, we could experience an increase in chargebacks from customers with travel reservations with such travel service provider and we could experience financial loss from certain prepayments made to such travel service provider if we are not able to recover the prepayment. The COVID-19 pandemic and its resulting impact on travel demand, the travel industry and the economy increases the risk of insolvency or disruption to the ability of our travel service providers to provide services, and in some cases, has already resulted in the insolvency or closure of travel service

providers. As a result, if one of our major travel service providers declares bankruptcy or ceases or limits operations or if many travel service providers declare bankruptcy or cease or limit operations, it could adversely impact our business and results of operations.

*We face risks related to our intellectual property.*

We regard our intellectual property as critical to our success, and we rely on domain name, trademark, copyright and patent law, trade secret protection and confidentiality and/or license agreements with our employees, travel service providers, partners and others to protect our proprietary rights. We have filed various applications for protection of certain aspects of our intellectual property in the United States and other jurisdictions, and we currently hold a number of issued patents in several jurisdictions. Further, in the future we may acquire additional patents or patent portfolios, which could require significant cash expenditures. However, we may choose not to patent or otherwise register some of our intellectual property and instead rely on trade secret or other means of protecting our intellectual property. We have licensed in the past, and may license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties, and these licensees may take actions that diminish the value of our proprietary rights or harm our reputation. We also have procured various intellectual property licenses from third parties. In addition, effective intellectual property protection may not be available in every country in which our services are made available online, particularly in certain jurisdictions in which we operate in which theft of intellectual property may be more prevalent. We may be required to expend significant time and resources to prevent infringement or to enforce our intellectual property rights.

We believe that our intellectual property rights help to protect our business. We endeavor to defend our intellectual property rights diligently, but intellectual property litigation is extremely expensive and time-consuming, and may divert managerial attention and resources from our business objectives. We may not be able to successfully defend our intellectual property rights or they may not be sufficient to effectively protect our business, which could materially adversely affect our business, brands and results of operations.

From time to time, in the ordinary course of our business, we have been subject to, and are currently subject to, legal proceedings and claims relating to the intellectual property rights of others, and we expect that third parties will continue to assert intellectual property claims, in particular patent claims, against us, particularly as we expand the complexity and scope of our business. Successful infringement claims against us could result in a significant monetary liability or prevent us from operating our business, or portions of our business, or require us to change business practices or develop non-infringing intellectual property, which could require significant effort and expense. In addition, resolution of claims may require us to obtain licenses to use intellectual property rights belonging to third parties, which may be expensive to procure, or possibly to cease using those rights altogether. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

*Our use of "open source" software could adversely affect our ability to protect our proprietary software and subject us to possible litigation.*

We use open source software in connection with our software development. From time to time, companies that use open source software have faced claims challenging the use of open source software and/or compliance with open source license terms. We could be subject to suits by parties claiming ownership of what we believe to be open source software, or claiming non-compliance with open source licensing terms. Some open source licenses require users who distribute software containing open source to make available all or part of such software, which in some circumstances could include valuable proprietary code of the user. While we monitor our use of open source software and try to ensure that none is used in a manner that would require us to disclose our proprietary source code or that would otherwise breach the terms of an open source agreement, such use could inadvertently occur, in part because open source license terms are often ambiguous. Any requirement to disclose our proprietary source code or pay damages for breach of contract could be harmful to our business, results of operations or financial condition, and could help our competitors develop services that are similar to or better than ours.

*"Cookie" laws could negatively impact the way we do business.*

A "cookie" is a text file that is stored on a user's computer or mobile device. Cookies are common tools used by thousands of websites and mobile apps, including ours, to, among other things, store or gather information (e.g., remember log-on details so a user does not have to re-enter them when revisiting a website or opening an app), market to consumers and enhance the user experience. Cookies are valuable tools for platforms like ours to improve the customer experience and increase conversion. Many jurisdictions, including the European Union and more recently, California, have adopted regulations governing the use of "cookies." To the extent any such regulations require "opt-in" consent before certain cookies can be placed on a user's computer or mobile device, our ability to serve certain customers in the manner we currently do might be

adversely affected and our ability to continue to improve and optimize performance on our platforms might be impaired, either of which could negatively affect a consumer's experience using our services and our business, market share and results of operations. Further, any failure to comply with such regulations could result in fines and harm to our reputation.

## Financial Risks

*Our liquidity, credit ratings and ongoing access to capital could be materially and negatively affected by the impacts of the COVID-19 pandemic.*

Our continued access to sources of liquidity depends on multiple factors, including global economic conditions, the condition of global financial markets, the availability of sufficient amounts of financing, our ability to meet debt covenant requirements, our operating performance and our credit ratings. Since the COVID-19 pandemic, there has been increased volatility in the financial and securities markets, which has generally made access to capital less certain and increased the cost of obtaining new capital. Further, if our credit ratings were to be downgraded or if financing sources were to ascribe higher risk to our rating levels, our industry or us, our access to capital and the cost of any financing would be negatively impacted. We currently have \$2.0 billion available under our revolving credit facility, which provides an additional potential source of liquidity. The revolving credit facility contains a maximum leverage ratio covenant, compliance with which is a condition to our ability to borrow thereunder. In April 2020, we amended the revolving credit facility, pursuant to which the maximum leverage ratio covenant was suspended through and including the three months ending March 31, 2021, and has been replaced with a \$4.5 billion minimum liquidity covenant based on unrestricted cash, cash equivalents, short-term investments and unused capacity under this revolving credit facility. At December 31, 2020, we were in compliance with the minimum liquidity covenant. In October 2020, we amended the revolving credit facility to extend the suspension of the maximum leverage ratio covenant and the related replacement with the minimum liquidity covenant through and including the three months ending March 31, 2022 and increase the permitted maximum leverage ratio for a period of time following the three months ending March 31, 2022. There can be no assurance that we will be able to meet either the minimum liquidity covenant or the maximum leverage ratio covenant, as applicable, at any particular time, and our ability to borrow under the revolving credit facility depends on compliance with the applicable covenant. Further, the lenders have the right to require repayment of any amounts borrowed under the facility if we are not in compliance with the applicable covenant.

There is no guarantee that additional debt financing will be available in the future to fund our obligations, or that it will be available on commercially reasonable terms, in which case we may need to seek other sources of funding. In addition, the terms of future debt agreements could include more restrictive covenants, which could restrict our business operations. See Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources for more information on our liquidity and capital resources.

*We are exposed to fluctuations in foreign currency exchange rates.*

We conduct a substantial majority of our business outside the United States but we report our results in U.S. Dollars. As a result, we face exposure to movements in foreign currency exchange rates as the financial results of our international businesses are translated from local currency (principally Euros and British Pounds Sterling) into U.S. Dollars. When the U.S. Dollar strengthens against other currencies in which we transact, as it generally did in 2015, our foreign-currency-denominated net assets, gross bookings, revenues, operating expenses and net income are lower as expressed in U.S. Dollars. When the U.S. Dollar weakens against other currencies in which we transact, as it generally did in 2017 and 2018, our foreign-currency-denominated net assets, gross bookings, revenues, operating expenses and net income are higher as expressed in U.S. Dollars. Foreign currency exchange rate fluctuations on transactions denominated in currencies other than the functional currency result in gains and losses that are reflected in our financial results.

Recent years have seen significant volatility in the exchange rate between the Euro, the British Pound Sterling, the U.S. Dollar and other currencies. Significant fluctuations in foreign currency exchange rates can affect consumer travel behavior. For example, the strengthening of the U.S. Dollar relative to the Euro in 2015 made it more expensive for Europeans to travel to the United States. Consumers traveling from a country whose currency has weakened against other currencies may book lower ADR accommodations, choose to shorten or cancel their international travel plans or choose to travel domestically rather than internationally, any of which could adversely affect our gross bookings, revenues and results of operations, in particular when expressed in U.S. Dollars. Since the beginning of the COVID-19 pandemic, there has been an overall strengthening of the Euro and the British Pound Sterling relative to the U.S. Dollar. However, as a result of the travel restrictions and health concerns arising from the COVID-19 pandemic, we do not believe exchange rates have significantly altered consumer behavior since the pandemic began.

Volatility in foreign currency exchange rates and its impact on consumer behavior, which may differ across regions, make it more difficult to forecast industry and consumer trends and the timing and degree of their impact on our markets and business, which in turn makes it more difficult to manage our business and forecast our financial and operational performance.

*Our stock price is highly volatile.*

The market price of our common stock is highly volatile and is likely to continue to be subject to wide fluctuations in response to factors such as the following, some of which are beyond our control:

- financial or operating results that vary from the expectations of securities analysts and investors or our publicly-disclosed estimates;
- quarterly variations in our financial or operating results;
- changes in expectations as to our future financial or operating performance, including estimates by securities analysts and investors or our publicly-disclosed estimates of future performance;
- worldwide economic conditions in general and in Europe in particular;
- fluctuations in foreign currency exchange rates, particularly between the U.S. Dollar and the Euro;
- changes in interest rates;
- occurrence of a significant security breach;
- announcements of technological innovations or new services by us or our competitors;
- changes in our capital structure;
- changes in market valuations of other internet or online service companies;
- announcements by us or our competitors of price reductions, promotions, significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments;
- loss of a major travel service provider participant, such as a hotel chain, rental car company or airline, from our services;
- changes in the status of our intellectual property rights;
- lack of success in the expansion of our business models geographically;
- business interruptions, such as may result from natural disasters, health concerns such as the COVID-19 pandemic or other events;
- announcements by third parties of significant claims or initiation of litigation proceedings against us or adverse developments in pending proceedings;
- additions or departures of key personnel; and
- trading volume fluctuations or other market volatility.

Sales of a substantial number of shares of our common stock, including through the conversion of our convertible notes, could adversely affect the market price of our common stock by introducing a large number of sellers or short sellers to the market. Given the volatility that exists for our shares, such sales could cause the market price of our common stock to decline significantly. In addition, fluctuations in our stock price and our price-to-earnings multiple may have made or may make our stock attractive to momentum, hedge or day-trading investors who often shift funds into and out of stocks rapidly, exacerbating price fluctuations in either direction, particularly when viewed on a quarterly basis.

The trading prices of internet company stocks in general, including ours, have experienced extreme price and volume fluctuations. To the extent that the public's perception of the prospects of internet or e-commerce or travel companies is negative, our stock price could decline, regardless of our results. Other broad market and industry factors may decrease the market price of our common stock, regardless of our operating performance. Market fluctuations, as well as general political and economic conditions, such as a recession, interest rate or foreign currency exchange rate fluctuations, political instability, changes in trade policy, trade disputes or a natural disaster, health concerns such as the COVID-19 pandemic, including any resurgences and the perceived pace or scale of any recovery from the pandemic, or a terrorist attack affecting a significant market for our business, such as Europe or the United States, could cause our stock price to decline. Negative market conditions could adversely affect our ability to raise additional capital or the value of our stock for purposes of acquiring other companies or businesses.

We have, in the past, been a defendant in securities class action litigation. Securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. To the extent our stock price declines or is volatile, we may in the future be the target of additional litigation. This additional litigation could result in substantial costs and divert management's attention and resources, either of which could adversely affect our business, financial condition and results of operations.

*We face increased risks if the level of our debt increases.*

We have a substantial amount of outstanding indebtedness and we may incur substantial additional indebtedness in the future, including through public or private offerings of debt securities. Our outstanding indebtedness and any additional indebtedness we incur may have significant consequences, which may be amplified as our cash flow and earnings have decreased as a result of the COVID-19 pandemic and which could include:

- requiring the dedication of a portion of our cash flow from operations to service our indebtedness, thereby reducing the amount of cash flow available for other purposes, including capital expenditures, meeting our operating expenses, share repurchases and acquisitions;
- increased vulnerability to downturns in our business, to competitive pressures and to adverse changes in general economic and industry conditions;
- decreased or lost ability to obtain additional financing on terms acceptable to us for working capital, capital expenditures, acquisitions, share repurchases or other general corporate purposes; and
- decreased flexibility when planning for or reacting to changes in our business and industry.

Our ability to make payments of principal and interest on our indebtedness depends upon our future performance, which will be subject to the rate of economic and travel industry recovery as a result of the COVID-19 pandemic, general economic conditions, industry cycles and financial, business and other factors affecting our results of operations and financial condition, many of which are beyond our control. Further, we may not have access to equity or debt markets or other sources of financing, or such financing may not be available to us on commercially reasonable terms, to repay or refinance our debt as it comes due or, in the case of our convertible notes, upon conversion.

*The value of our investments could decline, which could adversely affect our financial condition and results of operations.*

We maintain an investment portfolio of various holdings, types and maturities. Our portfolio typically includes marketable debt securities, equity securities of publicly-traded companies, the values of which are subject to market price volatility, and investments in private companies. Investments in government and corporate debt securities and preferred stock classified as debt securities for accounting purposes are generally classified as available-for-sale and, consequently, are recorded in our balance sheets at fair value with unrealized gains or losses, net of tax, reported in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets. Credit losses on such investments are recorded in the Consolidated Statement of Operations (see Notes 2 and 5 to our Consolidated Financial Statements). Changes in the fair values of our investments in publicly-traded equity securities are recognized in the Consolidated Statement of Operations. These changes could be volatile and they have had, and are likely to continue to have, a significant impact on our quarterly net income (or loss). Our investments in equity securities (other than those classified as debt securities for accounting purposes) of private companies are primarily measured at cost, less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, with changes in value also recognized in the Consolidated Statement of Operations (see Notes 2 and 5 to our Consolidated Financial Statements).

We have invested in Trip.com Group convertible notes. We have also invested in other Chinese internet companies (i.e., Meituan and Didi Chuxing). See Notes 5 and 6 to our Consolidated Financial Statements for more information regarding our investments in Trip.com Group, Meituan and Didi Chuxing securities. The value of these securities is subject to the risks associated with Trip.com Group's, Meituan's and Didi Chuxing's respective businesses, as well as any changes by the Chinese government in foreign investment laws or elevated scrutiny or regulation of foreign investments in Chinese companies. For example, Trip.com Group is a Cayman Islands company operating in China through what is commonly referred to as a variable interest entity, or VIE, structure where it conducts part of its business through contractual relationships with affiliated Chinese entities. Although VIE structures are commonly used by Chinese internet and e-commerce companies, there are substantial uncertainties regarding the interpretation and application of People's Republic of China ("PRC") laws and regulations to VIE structures, and it is possible that the PRC government may view the VIE structure as a violation of PRC law. VIE contractual relationships are not as effective in providing control over the affiliated Chinese companies as direct ownership, and Trip.com Group would have to rely on the PRC legal system to enforce those contracts in the event of a breach by one of these entities. Further, conflicts of interest could arise to the extent Trip.com Group's officers or directors are also shareholders, officers or directors of the affiliated Chinese entities. Any of these risks could materially and adversely affect Trip.com Group's business and therefore the value of our investment in Trip.com Group. Similar VIE-structure considerations and risks apply with respect to our investments in securities of Meituan and Didi Chuxing, each of which is a Cayman Islands company operating in China through a VIE structure.

Our investments in private companies are inherently risky in that such companies are typically at an early stage of development, may have no or limited revenues, may not be or ever become profitable, may not be able to secure additional funding or their technologies, services or products may not be successfully developed or introduced to the market. Further, our ability to liquidate any such investments is typically dependent on a liquidity event, such as a public offering or acquisition, as no public market exists for such securities. Valuations of privately-held companies are inherently complex and uncertain due to the lack of a liquid market for such securities. If we determine that any of our equity investments in such companies have experienced a decline in value, we are required to recognize the change in net income. For example, in the first quarter of 2020, we recognized an impairment of \$100 million related to our investment in Didi Chuxing that resulted from the negative impact of the COVID-19 pandemic on Didi Chuxing's business. For investments classified as debt securities, any decline in value attributed to credit losses is also recognized in the Consolidated Statements of Operations.

We could lose the full amount of any of our investments, and any impairment of our investments have previously and could in the future have a material adverse effect on our financial condition and results of operations.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

We lease office space facilities for our corporate headquarters in Norwalk, Connecticut, United States of America. We lease additional space, including office space and data center facilities in various locations around the world, to support our operations, the largest being the headquarters of our Booking.com business in Amsterdam, Netherlands. Other than the office building for the future headquarters of Booking.com that is currently under construction in the Netherlands (see the section "Building Construction" within Note 16 to our Consolidated Financial Statements for more details, which is incorporated into this Item 2 by reference thereto), we did not own any real estate at December 31, 2020.

We believe that our existing facilities are adequate to meet our current requirements, and that suitable additional or substitute space will be available as needed to accommodate any further expansion of corporate operations. Due to the impact of the COVID-19 pandemic on our business volumes, we took actions to reduce the size of our workforce to optimize efficiency and reduce costs. As a result of such actions, we have made and expect to make further changes to our facilities requirements.

#### **Item 3. Legal Proceedings**

A description of any material legal proceedings to which we are a party is included in [Note 16](#) to our Consolidated Financial Statements included in this Annual Report on Form 10-K for the year ended December 31, 2020, and is incorporated into this Item 3 by reference thereto.

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Common Stock**

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "BKNG."

**Holders**

At February 17, 2021, there were approximately 157 shareholders of record of Booking Holdings Inc.'s common stock.

**Dividend Policy**

We have not declared or paid any cash dividends on our capital stock since our inception and do not expect to pay any cash dividends for the foreseeable future. Our revolving credit facility includes a covenant that restricts us from declaring or making any cash distribution or repurchasing any of our shares (with certain exceptions including in connection with tax withholding related to shares issued to employees) unless (i) prior to the delivery of financial statements for the three months ending June 30, 2022, we have at least \$6.0 billion of liquidity on a pro forma basis and (ii) after the delivery of financial statements for the three months ending June 30, 2022, we are in compliance on a pro forma basis with the maximum leverage ratio covenant then in effect. Such restriction ends upon delivery of financial statements required for the three months ending June 30, 2023, or we have the ability to terminate this restriction earlier if we demonstrate compliance with the original maximum leverage ratio covenant in the revolving credit facility. See Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

**Performance Measurement Comparison**

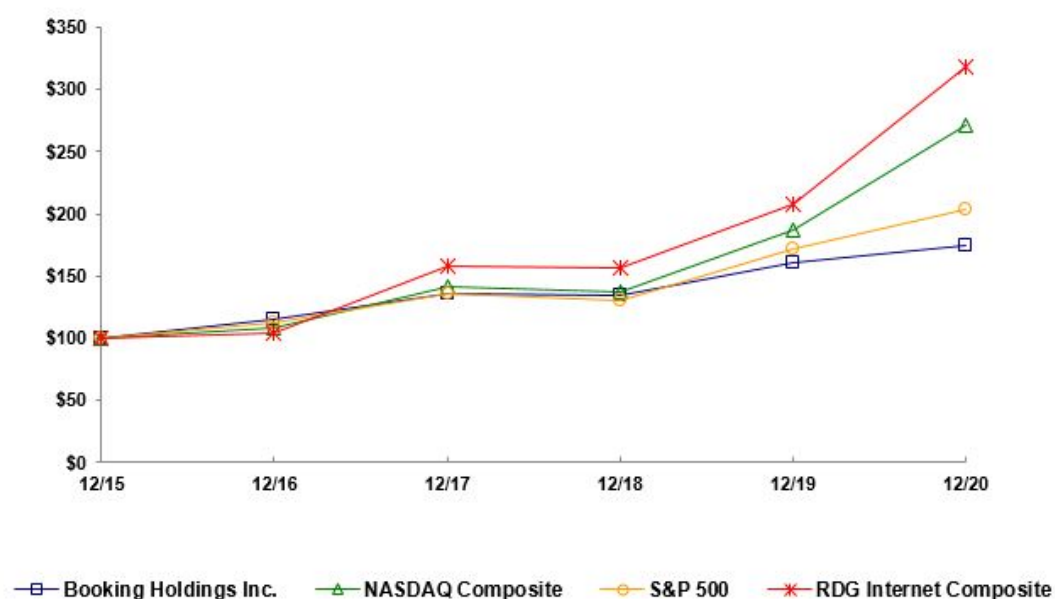
The following graph shows the total stockholder return through December 31, 2020 of an investment of \$100 in cash on December 31, 2015 for our common stock and an investment of \$100 in cash on December 31, 2015 for (i) the NASDAQ Composite Index, (ii) the Standard and Poor's 500 Index and (iii) the Research Data Group ("RDG") Internet Composite Index. The RDG Internet Composite Index is an index of stocks representing the internet industry, including internet software and service companies and e-commerce companies. Historic stock performance is not necessarily indicative of future stock price



performance. All values assume reinvestment of the full amount of all dividends and are calculated as of the last day of each month:

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Booking Holdings Inc., the NASDAQ Composite Index, the S&P 500 Index and the RDG Internet Composite Index



\*\$100 invested on 12/31/15 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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| Measurement Point<br>December 31 | Booking Holdings<br>Inc. | NASDAQ<br>Composite Index | S&P 500<br>Index | RDG Internet<br>Composite |
|----------------------------------|--------------------------|---------------------------|------------------|---------------------------|
| 2015                             | 100.00                   | 100.00                    | 100.00           | 100.00                    |
| 2016                             | 114.99                   | 108.87                    | 111.96           | 104.75                    |
| 2017                             | 136.30                   | 141.13                    | 136.40           | 157.67                    |
| 2018                             | 135.10                   | 137.12                    | 130.42           | 156.03                    |
| 2019                             | 161.08                   | 187.44                    | 171.49           | 207.10                    |
| 2020                             | 174.69                   | 271.64                    | 203.04           | 318.18                    |

## Issuer Purchases of Equity Securities

The following table sets forth information relating to repurchases of our equity securities during the three months ended December 31, 2020:

### ISSUER PURCHASES OF EQUITY SECURITIES

| Period             | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|--------------------|---|--|---|---|
| October 1, 2020 —  | — <sup>(1)</sup>                            | N/A                                    | —   | \$ 10,420,229,500 <sup>(1)</sup>  |
| October 31, 2020   | 249 <sup>(2)</sup>                          | \$ 1,698.37                            | N/A   | N/A   |
| November 1, 2020 — | — <sup>(1)</sup>                            | N/A                                    | —   | \$ 10,420,229,500 <sup>(1)</sup>  |
| November 30, 2020  | 1,940 <sup>(2)</sup>                        | \$ 1,988.07                            | N/A   | N/A   |
| December 1, 2020 — | — <sup>(1)</sup>                            | N/A                                    | —   | \$ 10,420,229,500 <sup>(1)</sup>  |
| December 31, 2020  | 291 <sup>(2)</sup>                          | \$ 1,930.59                            | N/A   | N/A   |
| Total              | <u>2,480</u>                                | \$ 1,952.24                            | <u>—</u>  | \$ 10,420,229,500   |

- (1) Pursuant to a stock repurchase program announced on May 9, 2019, whereby we are authorized to repurchase up to \$15.0 billion of our common stock.
- (2) Pursuant to a general authorization, not publicly announced, whereby we are authorized to repurchase shares of our common stock to satisfy employee withholding tax obligations related to stock-based compensation. The table above does not include adjustments in the three months ended December 31, 2020 to previously withheld share amounts (reduction of 26 shares) that reflect changes to the estimates of employee tax withholding obligations.

## Item 6. Selected Financial Data

On November 19, 2020, the SEC issued final rules to amend Regulation S-K. These changes are effective for annual filings for the first fiscal year ending on or after August 9, 2021 and early adoption is permitted. We elected to adopt the amendments to Item 301 of Regulation S-K in their entirety, which removed the requirement to furnish selected financial data for each of the last five fiscal years.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion should be read in conjunction with our Consolidated Financial Statements, including the notes to those statements, included elsewhere in this Annual Report on Form 10-K, and the Section entitled "Special Note Regarding Forward-Looking Statements" in this Annual Report on Form 10-K. As discussed in more detail in the Section entitled "Special Note Regarding Forward-Looking Statements," this discussion contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause those differences include those discussed in "Risk Factors" and elsewhere in this Annual Report on Form 10-K.*

*We evaluate certain operating and financial measures on both an as-reported and constant-currency basis. We calculate constant currency by converting our current-year period operating and financial results for transactions recorded in currencies other than U.S. Dollars using the corresponding prior-year period monthly average exchange rates rather than the current-year period monthly average exchange rates.*

### **Overview**

Our mission is to make it easier for everyone to experience the world. We seek to empower people to cut through travel barriers, such as money, time, language and overwhelming options, so they can use our services to easily and confidently go where they want to go, stay where they want to stay, dine where they want to dine, pay how they want to pay and experience what they want to experience. We connect consumers wishing to make travel reservations with providers of travel services around the world through our online platforms. Through one or more of our brands, consumers can: book a broad array of accommodations (including hotels, motels, resorts, homes, apartments, bed and breakfasts, hostels and other properties); make a car rental reservation or arrange for an airport taxi; make a dinner reservation; or book a flight, cruise, vacation package, tour or activity. Consumers can also use our meta-search services to easily compare travel reservation information, such as airline ticket, hotel reservation and rental car reservation information, from hundreds of online travel platforms at once. In addition, we offer various other services to consumers and partners, such as certain travel-related insurance products and restaurant management services to restaurants.

We offer these services through six primary consumer-facing brands: Booking.com, Priceline, agoda, Rentalcars.com, KAYAK and OpenTable. While historically our brands operated on a largely independent basis and many of them focused on a particular service (e.g., accommodation reservations) or geography, we are increasing the collaboration, cooperation and interdependency among our brands in our efforts to provide consumers with the best and most comprehensive services. We also seek to maximize the benefits of our scale by sharing resources and technological innovations, co-developing new services and coordinating activities in key markets among our brands. For example, Booking.com, the world's leading brand for booking online accommodation reservations (based on room nights booked), offers rental car and other ground transportation services, flights, tours and activities reservations, restaurant reservations and other services, many of which are supported by our other brands. Similarly, hotel reservations available through Booking.com are also generally available through agoda and Priceline. See Note 2 to the Consolidated Financial Statements - *Segment Reporting* for information on our operating segments.

We refer to our company and all of our subsidiaries and brands collectively as "Booking Holdings," the "Company," "we," "our" or "us."

Our business is driven primarily by international results, which consist of the results of Booking.com, agoda and Rentalcars.com in their entirety and the international businesses of KAYAK and OpenTable. This classification is independent of where the consumer resides, where the consumer is physically located while using our services or the location of the travel service provider or restaurant. For example, a reservation made through Booking.com (which is domiciled in the Netherlands) at a hotel in New York by a consumer in the United States is part of our international results. In 2020, our international business (the substantial majority of which is generated by Booking.com) represented approximately 88% of our consolidated revenues. A significant majority of our revenues, including a significant majority of our international revenues, is earned in connection with facilitating accommodation reservations. See Note 18 to the Consolidated Financial Statements for more geographic information.

We derive substantially all of our revenues from enabling consumers to make travel service reservations. We also earn revenues from credit card processing rebates and customer processing fees, advertising services, restaurant reservations and restaurant management services, and various other services, such as travel-related insurance revenues.

## Trends

In response to the outbreak of the novel strain of the coronavirus, COVID-19 (the "COVID-19 pandemic"), many governments around the world have implemented, and continue to implement, a variety of measures to reduce the spread of COVID-19, including travel restrictions and bans, instructions to residents to practice social distancing, curfews, quarantine advisories, shelter-in-place orders and required closures of non-essential businesses. These government mandates have forced many of the partners on whom our business relies, including hotels and other accommodation providers, airlines and restaurants, to seek government support in order to continue operating, to curtail drastically their service offerings or to cease operations entirely. Further, these measures have materially adversely affected, and may further adversely affect, consumer sentiment and discretionary spending patterns, economies and financial markets, and our workforce, operations and customers. The COVID-19 pandemic and the resulting economic conditions and government orders have resulted in a material decrease in consumer spending and an unprecedented decline in travel and restaurant activities and consumer demand for related services. Our financial results and prospects are almost entirely dependent on the sale of travel-related services. Our results for the year ended December 31, 2020 have been materially and negatively impacted, with a material decline in gross travel bookings, room nights booked, total revenues, net income and cash flow from operations as compared to the year ended December 31, 2019. Newly-booked room night reservations, excluding the impact of cancellations, declined rapidly as the COVID-19 pandemic spread in the first quarter and the beginning of the second quarter of 2020, but then steadily improved through the end of the second quarter and into the summer travel period in the third quarter of 2020. However, in the fourth quarter of 2020, we saw an increased decline in newly-booked room night reservations, due in part to increased COVID-19 case counts and reimposed or additional government-imposed travel restrictions, particularly in Europe. In September 2020, a variant of COVID-19 that spreads more easily and quickly than other variants was first discovered in the United Kingdom, and has since spread across the country and to other countries, including the United States and in Europe. Another variant of COVID-19 that also appears to spread more easily and quickly than other variants was detected in South Africa in October 2020. In the fourth quarter of 2020, multiple COVID-19 vaccines were approved for widespread distribution throughout various parts of the world, including the United States and in Europe. While this news is encouraging, it is still unknown when these vaccines will be available to broader populations and whether they will be as effective against variants of COVID-19, including the variants mentioned above. We believe that as effective vaccines become widely distributed, people will feel it is safe to travel again and government restrictions will be relaxed, although the timing remains uncertain.

Since April 2020, we have seen a substantial year-over-year increase in the share of newly booked room nights booked for domestic travel (travelers booking a stay within their own country) while bookings for international travel have remained very limited throughout the pandemic. Over this same time period, we have seen a year-over-year increase in the share of our newly-booked room nights made on a mobile device. Also, while we saw an increase in the share of newly-booked room nights for alternative accommodation properties in the early months of the pandemic, more recently the share has been consistent with pre-pandemic levels. In addition, we have observed an improvement in cancellation rates since the high in April, though we have seen additional periods of highly elevated cancellation rates typically coinciding with newly imposed travel restrictions. The overall improvement in cancellation rates since April benefits our room nights booked including cancellations but does not impact newly-booked room nights.

Our revenue decline in 2020 was impacted to a greater extent than newly-booked room night growth due to the impact of higher cancellations and lower accommodation average daily rates ("ADRs") as compared to 2019. We expect to continue to see severely reduced new travel and restaurant reservation bookings as compared to 2019 levels for the foreseeable future, which will have a materially adverse impact on our business, financial condition, results of operations and cash flows. Further, given the volatility in the global travel industry and the financial difficulties faced by many of our travel service provider and restaurant partners, we have increased our provision for expected credit losses on receivables from and cash advances made to our travel service provider and restaurant partners.

Due to the uncertain and rapidly evolving nature of current conditions around the world, we are unable to predict accurately the impact that the COVID-19 pandemic will have on our business going forward. The approval and distribution of COVID-19 vaccines throughout the world is encouraging, however, the COVID-19 pandemic continues to impact global travel and travel restrictions remain in place, particularly in Europe. In the fourth quarter of 2020, we saw room nights decline further, as well as an increase in cancellation rates, in each case as compared to the third quarter of 2020. In January 2021, room nights declined slightly more than the decline in the fourth quarter of 2020, however, we have seen some improvement in these booking trends in recent weeks. If these recent trends were to continue, we currently expect that room nights and gross bookings in the first quarter of 2021 will decline relative to the first quarter of 2019 by a few percentage points less than those metrics declined in the fourth quarter of 2020 relative to the fourth quarter of 2019. We currently expect revenue in the first quarter of 2021 to decline by a similar amount as our expected decline in gross bookings in the first quarter of 2021, both relative to the first quarter of 2019. The comparison of the first quarter of 2021 to the first quarter of 2019 avoids the distortion created from comparing to the initial spread of the COVID-19 pandemic late in the first quarter of 2020. In addition, we

currently expect that we will experience a greater operating loss in the first quarter of 2021 as compared to the fourth quarter of 2020. With the continued spread of COVID-19 throughout the world, we expect the pandemic and its effects to continue to have a significant adverse impact on our business for the duration of the pandemic, during any resurgences of the pandemic and during the subsequent economic recovery, which could be an extended period of time. For more information, see Part II, Item 1A, Risk Factors - *"The COVID-19 pandemic has materially adversely affected, and may further adversely impact, our business and financial performance."*

In response to the COVID-19 pandemic, we have taken and are taking various actions to address the impact of the pandemic on our business. Among other actions, we have:

- Raised \$4.1 billion in debt and negotiated amendments to our revolving credit facility to provide additional financial flexibility
- Undertaken restructuring activities at all of our brands
- Participated in certain government aid programs, including employee wage support programs
- Suspended general share repurchases
- Eliminated non-essential business travel
- Canceled internal company events and offsites
- Significantly reduced marketing spend worldwide
- Implemented a general temporary company-wide hiring freeze for much of 2020
- Sold investments in government debt securities, corporate debt securities and Trip.com Group American Depositary

Shares ("ADSs")

Further, our Chief Executive Officer and the Chief Executive Officers of our brands voluntarily declined their salaries, certain other senior managers voluntarily reduced their salaries and our non-employee Directors voluntarily waived their cash fees for most of 2020.

In response to the reduction in our business volumes as a result of the impact of the COVID-19 pandemic, during the year ended December 31, 2020, we took actions at all of our brands to reduce the size of our workforce to optimize efficiency and reduce costs, which we expect to result in annualized cost savings of approximately \$370 million in personnel-related expenses. In addition to the restructuring expenses recorded during the year ended December 31, 2020 and included in "Restructuring and other exit costs" in the Consolidated Statements of Operations, we estimate that we will record approximately \$40 million of additional restructuring expenses in early 2021 (see Note 20 to our Consolidated Financial Statements). Our headcount decreased 23% year-over-year as of December 31, 2020, primarily due to the restructuring activities and attrition.

We have also been working with travelers and our travel service provider partners to deal with reservation cancellations and other disruptions arising from the impact of the pandemic. For example, when the pandemic started, Booking.com committed to allow cancellations of certain non-refundable bookings that were impacted by government travel restrictions and OpenTable has waived fees payable by restaurants for diners seated through OpenTable's online reservation service and subscription fees for many restaurants. The impacts of the COVID-19 pandemic are wide-ranging and affect all aspects of our business. As a result, the pandemic has negatively affected our financial results and condition as described throughout this Annual Report on Form 10-K. We anticipate that we will continue to make decisions and take actions to address the impacts of the pandemic on our business, including additional efforts to reduce costs while preserving our ability to offer valuable services to consumers and partners when the industry recovers. The full impact of the pandemic on our business is impossible to predict, and therefore we may recognize additional negative impacts to our operating results and financial condition in future periods as a result of the pandemic.

Certain governments have passed or are considering modifying legislation to help businesses during the COVID-19 pandemic through loans, wage subsidies, tax relief or other financial aid, and some of these governments have extended or are considering extending these programs. We have participated in several of these programs, including the Netherlands' wage subsidy program and the United Kingdom's job retention scheme. In addition, certain governments have extended support for the travel and tourism industry through special programs whereby discounts are extended to travelers through travel service providers or through travel agents for reservations facilitated by them. We have participated in Japan's Go To Travel program and Thailand's We Travel Together program.

Prior to the COVID-19 pandemic, we experienced many years of significant growth in our accommodation reservation services. We believe this growth was the result of, among other things, the broader shift of travel purchases from offline to online, the widespread adoption of mobile devices and the growth of travel overall. We also believe this growth was the result of the continued innovation and execution by our teams around the world to increase the number and the variety of accommodations we offer consumers, increase and improve content, build distribution and improve the consumer experience on our online platforms, as well as consistently and effectively marketing our brands through performance and brand marketing efforts. Prior to the COVID-19 pandemic, these year-over-year growth rates generally decelerated due to the size of our accommodation reservation business and the generally slowing growth rate of the online travel market. As the travel market recovers from the impact of the COVID-19 pandemic, we expect to see higher than pre-COVID-19 pandemic growth rates until we return to the level of travel market demand that we observed prior to the COVID-19 pandemic, after which we expect prior trends to generally resume.

We are a global business, and online travel growth rates vary across the world depending on numerous factors, including local and regional economic conditions, individual disposable income, access to the internet and adoption of e-commerce. Over the last several years, and prior to the COVID-19 pandemic, online travel growth rates had generally slowed in markets such as North America and Europe where online activity was high and consumers had been engaging in e-commerce transactions for many years, while online travel growth rates remained relatively high in markets such as Asia-Pacific where incomes were rising more quickly and the increased availability and use of mobile devices had accelerated the growth of internet usage and travel e-commerce transactions. Over the long term, we expect the broader global economy and online travel market to recover from the COVID-19 pandemic, and following the recovery of the travel industry to the level of pre-COVID-19 pandemic demand, we would expect online travel growth rates will slow as markets continue to mature. However, we believe that the opportunity to grow our business beyond pre-COVID-19 pandemic levels exists for the markets in which we operate, including in both mature and less mature markets. Further, we believe that this opportunity for growth exists because we believe we provide significant value to travel service providers, regardless of size or geography, due to our global reach and marketing expertise. For example, we believe that accommodation providers of all sizes, from large hotel chains to small, independent hotels and alternative accommodations such as homes and apartments, benefit from using our services, which enable them to reach a broader audience of potential customers.

Historically, our growth has primarily been generated by the worldwide accommodation reservation business of Booking.com, which is our most significant brand, and has been due, in part, to the availability of a large number of properties through Booking.com. Booking.com included approximately 2,373,000 properties on its website at December 31, 2020, consisting of approximately 434,000 hotels, motels and resorts and approximately 1,939,000 homes, apartments and other unique places to stay, compared to approximately 2,580,000 properties (including approximately 460,000 hotels, motels and resorts and approximately 2,120,000 homes, apartments, and other unique places to stay) at December 31, 2019. Booking.com categorizes properties listed on its website as either (a) hotels, motels and resorts, which groups together more traditional accommodation types (including hostels and inns), or (b) homes, apartments and other unique places to stay, also referred to as alternative accommodations, which encompasses all other types of accommodations, including bed and breakfasts, villas, apart-hotels and beyond.

We intend to continue to improve the accommodation choices available for reservation on our platforms, however, the number of accommodations on our platforms may vary in part as a result of removing accommodations from time to time. At December 31, 2020, we saw a year-over-year decrease in the number of properties on Booking.com's website, as compared to December 31, 2019, driven by an elevated number of accommodations removed from the platform due primarily to the properties not providing availability on our platforms, non-payment of invoices, or property closures. We have continued to see a year-over-year increase in the number of accommodations removed from our platform during the COVID-19 pandemic, and we expect to see further accommodation removals in the future due to increases in property closures or changes in ownership.

Many of the newer accommodations we add to our travel reservation services, especially in highly-penetrated markets, may have fewer rooms or higher credit risk and may appeal to a smaller subset of consumers (e.g., hostels and bed and breakfasts). Because alternative accommodations are often either a single unit or a small collection of independent units, these properties generally represent more limited booking opportunities than hotels, motels and resorts, which generally have more units to rent per property. Further, alternative accommodations in general may be subject to increased seasonality due to local tourism seasons or other factors or may not be available at peak times due to use by the property owners. We may also experience lower profit margins with respect to these properties due to certain additional costs, such as increased customer service costs, related to offering these accommodations on our platforms. As our alternative accommodation business has grown, these different characteristics have negatively impacted our profit margins and we expect this trend to continue. Further, to the extent that these properties represent an increasing percentage of the properties on our platforms, the number of reservations per property will likely continue to decrease since alternative accommodation properties typically have fewer

booking opportunities per property. We believe that continuing to improve the choices of accommodations available through our services, in particular Booking.com, will help us to continue to grow our accommodation reservation business.

We are constantly innovating to grow our business by, among other things, providing a best-in-class user experience with intuitive, easy-to-use online platforms (i.e., websites and mobile apps) to ensure that we are meeting the needs of online consumers while aiming to exceed their expectations. As part of these ongoing efforts, we have a long-term strategy to build a more integrated offering of multiple elements of travel, which we refer to as the "Connected Trip", and we expect these efforts to increase room night growth and revenue growth over time. Although we expect our efforts to build the Connected Trip will increase revenue growth over time, we may see a negative impact on our operating margins in the near term as we incur the expenses associated with these investments. Further, to the extent our non-accommodation services grow faster than our accommodation services, whether as part of the Connected Trip or otherwise, our operating margins may be negatively affected if we experience an increasing mix of revenues from lower-margin services.

As part of our strategy to provide more payment options to consumers and travel service providers, increase the number and variety of accommodations available on Booking.com and enable the growth of our in-destination activities businesses, Booking.com is increasingly processing transactions on a merchant basis, where it facilitates payments from travelers for the services provided. This allows Booking.com to process transactions for travel service providers and to increase its ability to offer secure and flexible transaction terms to consumers, such as the form and timing of payment. We believe that adding these types of service offerings will benefit consumers and travel service providers, as well as our gross bookings, room night and earnings growth rates. However, this results in additional expenses for personnel, payment processing, customer chargebacks (including those related to fraud) and other expenses related to these transactions, which are recorded in "Personnel" and "Sales and other expenses" in our Consolidated Statements of Operations, as well as associated incremental revenues in the form of credit card rebates, for example, which are recorded in "Merchant revenues." To the extent more of our business is generated on a merchant basis, we will incur a greater level of these merchant-related expenses, which would negatively impact our operating margins despite increases in associated incremental revenues. Components of revenues and expenses related to our merchant business may be recognized in different periods. These timing factors could impact our operating margins as well as the relationship between our gross bookings and revenues in a particular period, especially as our merchant business increases as a percentage of our overall business.

We compete globally with both online and traditional providers of travel and restaurant reservation and related services. The markets for the services we offer are intensely competitive, constantly evolving and subject to rapid change, and current and new competitors can launch new services at relatively low cost. Some of our current and potential competitors, such as Google, Apple, Alibaba, Tencent, Amazon and Facebook, have significantly more customers or users, consumer data and financial and other resources than we do, and they may be able to leverage other aspects of their businesses (e.g., search or mobile device businesses) to enable them to compete more effectively with us. For example, Google has entered various aspects of the online travel market and has grown rapidly in this area, including by offering a flight meta-search product (Google Flights), a hotel meta-search product (Google Hotel Ads), a vacation rental meta-search product, its "Book on Google" reservation functionality, Google Travel, a planning tool that aggregates its flight, hotel and packages products in one website and by integrating its hotel meta-search products and restaurant information and reservation products into its Google Maps app. Moreover, as the economy and the travel industry recover from the impact of the COVID-19 pandemic, the structure of the travel industry could change in unexpected ways, which could advantage or disadvantage us and benefit certain of our existing competitors or new entrants. As a result, our historical strengths may not provide the competitive advantages that they did prior to the pandemic. If we are unable to successfully adapt to any changes in how the travel industry operates or to changes in the ways in which consumers purchase travel services, our ability to compete, and therefore our business and results of operations, would be adversely affected.

Our markets are also subject to rapidly changing conditions, including technological developments, consumer behavior changes, regulatory changes and travel service provider consolidation. We expect these trends to continue. For example, we have experienced a significant shift of both direct and indirect business to mobile platforms and our advertising partners are also seeing a rapid shift of traffic to mobile platforms. In addition, the revenue earned on a mobile transaction may be less than a typical desktop transaction due to different consumer purchasing patterns. For example, accommodation reservations made on a mobile device typically are for shorter lengths of stay, have lower accommodation ADRs and are not made as far in advance. We observed an increasingly higher share of our newly-booked room nights made on a mobile device throughout 2020, as compared to the corresponding periods in 2019. For more detail regarding the competitive trends and risks we face, see Part I, Item 1, Business - "Competition," Part I, Item 1A, Risk Factors - *"Intense competition could reduce our market share and harm our financial performance."* and *"Consumer adoption and use of mobile devices creates challenges and may enable device companies such as Google and Apple to compete directly with us."* and *"We may not be able to keep up with rapid technological or other market changes."*

Although we believe that providing an extensive collection of properties, excellent customer service and an intuitive, easy-to-use consumer experience are important factors influencing a consumer's decision to make a reservation, for many consumers, particularly in certain markets, the price of the travel service is the primary factor determining whether a consumer will book a reservation. As a result, it is increasingly important to offer travel services, such as accommodation reservations, at competitive prices, whether through discounts, coupons, closed-user group rates or loyalty programs, or otherwise. These initiatives have resulted and in the future may result in lower ADRs and lower revenue as a percentage of gross bookings. Discounting and couponing coupled with a high degree of consumer shopping behavior is particularly common in Asian markets. In some cases, our competitors are willing to make little or no profit on a transaction, or offer travel services at a loss, in order to gain market share.

We have experienced a meaningful decline in constant-currency accommodation ADRs since the outbreak of the COVID-19 pandemic and it is uncertain how long the COVID-19 pandemic will impact our ADRs. These declining ADR trends have resulted in and may continue to result in our gross bookings growing at a lower rate of growth than our accommodation room nights. Prior to the outbreak, we observed a trend of declining constant-currency accommodation ADRs. We believe the trend of declining ADRs, observed prior to the outbreak, was partially driven by the negative impact of the changing geographical mix of our business (e.g., lower ADR regions like Asia-Pacific are generally growing faster than higher ADR regions like Western Europe) as well as pricing pressures within local markets from time to time which resulted from competitive conditions, weakening economic conditions or changes in travel patterns. As the travel market recovers from the impact of the COVID-19 pandemic, we expect travel industry ADRs generally to increase and, as a result, we expect our ADRs similarly to increase during the recovery, however, it is uncertain whether industry ADRs will improve at the same pace as travel demand. In addition, we expect the ADR trends we observed before the COVID-19 pandemic will generally resume after the recovery, which would negatively pressure our ADRs, however, there may also be periods of stable or increasing ADRs.

We have established widely used and recognized e-commerce brands through marketing and promotional campaigns. Historically, our marketing expenses increased significantly, however, we experienced more moderate growth rates in recent years, and since the COVID-19 pandemic, our marketing expenses have declined significantly. Our marketing expense is comprised of performance marketing and brand marketing expenses. Our performance marketing expense, which represents a substantial majority of our marketing expense, is primarily related to the use of online search engines (primarily Google), meta-search and travel research services and affiliate marketing to generate traffic to our websites. Our brand marketing expense is primarily related to costs associated with producing and airing television advertising, online video advertising (for example, on YouTube and Facebook), online display advertising and other brand marketing. Total marketing expenses were \$2.2 billion and \$5.0 billion for the years ended December 31, 2020 and 2019, respectively. We expect that our marketing expenses in 2021 will remain significantly below 2019 levels.

Marketing efficiency, expressed as marketing expense as a percentage of total revenues, is impacted by a number of factors that are subject to variability and that are, in some cases, outside of our control, including ADRs, costs per click, cancellation rates, foreign currency exchange rates, our ability to convert paid traffic to booking customers, the timing difference between when revenue is recognized and when marketing expense is recorded, the timing and effectiveness of our brand marketing campaigns and the extent to which consumers come directly to our platforms for bookings. For example, competition for desired rankings in search results and/or a decline in ad clicks by consumers could increase our costs per click and reduce our marketing efficiency. Changes by Google or any of our other search or meta-search partners in how it presents travel search results, including, if applicable, by placing its own offerings at or near the top of search results, or the manner in which it conducts the auction for placement among search results may be competitively disadvantageous to us and may impact our ability to efficiently generate traffic to our websites.

We have observed a long-term trend of decreasing performance marketing returns on investment ("ROIs"), however, in recent years, we observed periods of stable or increasing ROIs. During the first several months of the COVID-19 pandemic, we experienced large year-over-year declines in ROIs driven by a significant increase in cancellation rates. While we have observed year-over-year decreases in ROIs for the year ended December 31, 2020, ROIs have improved since the early months of the pandemic, though we expect volatility in our ROIs for the duration of the pandemic. When evaluating our performance marketing spend, we typically consider several factors for each channel, such as the customer experience on the advertising platform, the incrementality of the traffic we receive and the anticipated repeat rate from a particular platform, as well as other factors. However, with the significant decrease in demand due to the COVID-19 pandemic, our performance marketing spend is highly influenced by expected cancellation rates in addition to the other factors listed above. The amount of business we obtain through each performance marketing channel is impacted by numerous factors, including the level of consumer demand for travel, bidding decisions by us and our competitors (including decisions to optimize performance marketing ROIs) and the marketing efforts and success of those channels to attract consumers and generate demand. See Part I, Item 1A, Risk Factors - "*We rely on marketing channels to generate a significant amount of traffic to our platforms and grow our business.*" and "*Our*



*business could be negatively affected by changes in online search and meta-search algorithms and dynamics or traffic-generating arrangements."*

In recent years, we experienced significant increases in our cancellation rates, which negatively affected our marketing efficiency and results of operations. However, from the third quarter of 2018 until the fourth quarter of 2019, our cancellation rates generally decreased, which benefited our marketing efficiency and results of operations. Since the COVID-19 pandemic we have experienced unprecedented increases in cancellation rates, which negatively impacted our marketing efficiency and results of operations. For example, increased cancellations, especially early in the pandemic, have resulted in increased customer service costs, as well as higher than normal cash outlays to refund consumers for prepaid reservations. However, in the second and third quarters of 2020, we saw a steady improvement in cancellation rates, which trended towards levels that we observed prior to the COVID-19 pandemic. In the fourth quarter of 2020, we saw a reversal of the improving cancellation rate trend. We expect to continue to see volatility in cancellation rates due to any resurgences of the pandemic leading to reinstituted or additional travel restrictions, shelter-in-place rules and reduced willingness to travel. Further, in the fourth quarter of 2020, a higher share of our newly-booked room night reservations were made with flexible cancellation policies, as compared to the corresponding period in 2019, which could result in higher than normal cancellation rates in future quarters.

Perceived or actual adverse economic conditions, including slow, slowing or negative economic growth, high or rising unemployment rates, inflation and weakening currencies, and concerns over government responses such as higher taxes or tariffs and reduced government spending have impaired and could, in the future, impair consumer spending and adversely affect travel demand. We expect the lingering concerns of consumers around the safety of traveling as well as reduced discretionary incomes could negatively impact leisure travel demand for an extended period of time. Further, political uncertainty, conditions or events, such as the variety of measures implemented by many governments around the world to reduce the spread of COVID-19, including travel restrictions and bans, instructions to residents to practice social distancing, quarantine advisories, shelter-in-place orders and required closures of non-essential businesses can also negatively affect consumer spending and adversely affect travel demand. At times, we have experienced volatility in transaction growth rates, increased cancellation rates and weaker trends in ADRs across many regions of the world, particularly in those countries that appear to be most affected by economic and political uncertainties, which we believe are due at least in part to these macro-economic conditions and concerns. For more detail, see Part I, Item 1A, Risk Factors - *"The COVID-19 pandemic has materially adversely affected, and may further adversely impact, our business and financial performance"* and *"Declines or disruptions in the travel industry could adversely affect our business and financial performance."*

These and other macro-economic uncertainties, such as geopolitical tensions and differing central bank monetary policies, have led to periods of significant volatility in the exchange rates between the U.S. Dollar and the Euro, the British Pound Sterling and other currencies. Significant fluctuations in foreign currency exchange rates, stock markets and oil prices can also impact consumer travel behavior.

As noted earlier, our international business represents a substantial majority of our financial results. Therefore, because we report our results in U.S. Dollars, we face exposure to movements in foreign currency exchange rates as the financial results and the financial condition of our international businesses are translated from local currency (principally Euros and British Pounds Sterling) into U.S. Dollars. As a result, both the absolute amounts of and percentage changes in our foreign-currency-denominated net assets, gross bookings, revenues, operating expenses and net income as expressed in U.S. Dollars are affected by foreign currency exchange rate changes. However, for the year ended December 31, 2020, movements in foreign currency exchange rates had little to no impact on our performance metrics and financial results. Since our expenses are generally denominated in foreign currencies on a basis similar to our revenues, our operating margins have not been significantly impacted by currency fluctuations. We designate certain portions of the aggregate principal value of our Euro-denominated debt as a hedge against the impact of foreign currency exchange rate fluctuations on the net assets of one of our Euro functional currency subsidiaries. Foreign currency transaction gains or losses on the Euro-denominated debt that is not designated as a hedging instrument for accounting purposes are recognized in "Other income (expense), net" in the Consolidated Statements of Operations (see Note 12 to our Consolidated Financial Statements). Such foreign currency transaction gains or losses are dependent on the amount of net assets of the Euro functional currency subsidiary, the amount of the Euro-denominated debt that is designated as a hedge and fluctuations in foreign currency exchange rates. For more information, see Part I, Item 1A, Risk Factors - *"We are exposed to fluctuations in foreign currency exchange rates."*

We generally enter into derivative instruments to minimize the impact of foreign currency exchange rate fluctuations on our transactional balances denominated in currencies other than the functional currency. In periods prior to the second quarter of 2020, we also entered into derivative instruments to minimize the impact of short-term foreign currency exchange rate fluctuations on the translation of our consolidated operating results into U.S. Dollars. However, these instruments were short-term in nature and not designed to hedge against currency fluctuations that could impact growth rates for our gross bookings or revenues. Since the first quarter of 2020, we have not entered into such derivative instruments as the impact of the

COVID-19 pandemic on our operating results are highly uncertain. We will continue to evaluate the use of derivative instruments in the future. See Note 6 to our Consolidated Financial Statements for additional information related to our derivative contracts.

Many taxing authorities are increasingly focused on ways to increase tax revenues and have targeted large multinational technology companies in these efforts. As a result, many countries have implemented or are considering the adoption of a digital services tax that imposes a tax on revenue earned from digital advertisements and the use of online platforms, even when there is no physical presence in the jurisdiction. Currently, rates for this tax range from 1.5% to 7.5% of revenue deemed generated in the jurisdiction. The digital services taxes currently in effect, which we record in "General and administrative" expense in Consolidated Statements of Operations, have negatively impacted our results of operations and if many other countries pass similar legislation, the collective impact of all of these measures could have a materially adverse impact on our results of operations and cash flows. For more information, see Part I, Item 1A, Risk Factors - *"We may have exposure to additional tax liabilities."*

Many national governments have conducted or are conducting investigations into competitive practices within the online travel industry, and we may be involved or affected by such investigations and their results. Some countries have adopted or proposed legislation that could also affect business practices within the online travel industry. For example, France, Italy, Belgium and Austria have passed legislation prohibiting parity contract clauses in their entirety. Also, a number of governments are investigating or conducting information-gathering exercises with respect to compliance by online travel companies ("OTCs") with consumer protection laws, including practices related to the display of search results and search ranking algorithms, claims regarding discounts, disclosure of charges and availability, and similar messaging. In December 2020, the European Commission proposed the Digital Markets Act and the Digital Services Act, which are expected to give regulators more instruments to investigate digital businesses and impose new rules on certain digital platforms if they are determined to be "gatekeepers." The proposed legislation is not final and it is not known what the laws will look like in their final forms if adopted. If the regulators were to determine that we are a gatekeeper under the proposed legislation, we could be subject to additional rules and regulations not applicable to all our competitors and our business could be harmed. For more information on these investigations and their potential effects on our business, see Note 16 to our Consolidated Financial Statements and Part I, Item 1A, Risk Factors - *"Our business is subject to various competition/anti-trust, consumer protection and online commerce laws, rules and regulations around the world, and as the size of our business grows, scrutiny of our business by legislators and regulators in these areas may intensify."* In addition to the price parity and consumer protection investigations, from time to time national competition authorities, other governmental agencies, trade associations and private parties take legal actions, including commencing legal proceedings, that may affect our operations. In general, increased regulatory focus on online businesses, including online travel businesses like ours, could result in increased compliance costs or otherwise adversely affect our business.

### **Seasonality and Other Timing Factors**

In recent years, the majority of our gross bookings have been generated in the first half of the year, as consumers planned and reserved their spring and summer vacations in Europe and North America. However, we would generally recognize revenue from these bookings when the travel begins (at "check-in"), which can be in a quarter other than when the associated reservations are booked. In contrast, we expensed the substantial majority of our marketing activities as the expense is incurred, which, in the case of marketing in particular, is typically in the quarter in which associated reservations were booked. As a result of this timing difference between when we recorded marketing expense and when we recognized associated revenue, we have experienced our highest levels of profitability in the third quarter of the year, which is when we experienced the highest levels of accommodation check-ins for the year for our European and North American markets. The first quarter of the year was typically the quarter in which we recognized the lowest amount of revenue as well as the lowest level of profitability and highest level of volatility in earnings growth rates due to these seasonal timing factors. The COVID-19 pandemic impacted seasonality in 2020; for example, we witnessed a higher share of travel being booked during the second and third quarters as well as a higher share of stays during the third quarter than in prior years. We cannot currently predict travel patterns given the COVID-19 pandemic, and we may not experience typical seasonality effects on our business in 2021.

For several years, we experienced an expansion of the booking window (the average time between the booking of a travel reservation and when the travel begins), which impacts the relationship between our gross bookings (recognized at the time of booking) and our revenues (recognized at the time of check-in). However, we saw a contraction of the booking window throughout 2018 and 2019. Due to the impact of the COVID-19 pandemic on our booking trends, we saw an initial expansion in the booking window in the second quarter versus the comparable prior-year period as an increased percentage of newly-booked room nights were made for travel occurring in the third quarter. However, in the third and fourth quarters, we saw a significant contraction of the booking window versus the comparable prior-year period as an increased percentage of newly-

booked room nights were made for travel that was to occur close to the time of booking. We expect that the length of the booking window will be volatile and difficult to predict throughout the duration of the COVID-19 pandemic. Future changes in the length of the booking window will affect the degree to which our gross bookings and revenues occur in the same period and, as a result, whether our gross bookings growth rates and revenue growth rates converge or diverge.

In addition, the date on which certain holidays fall can have an impact on our quarterly results. For example, in 2019, Easter fell on April 21 and Easter-related travel began in the second quarter, when the associated revenue was recognized. By comparison, in 2018, Easter was on April 1 and a meaningful amount of Easter-related travel began in the week leading up to the holiday with the associated revenue being recognized in the first quarter of 2018. As a result of the shift in Easter timing relative to 2018, our first quarter 2019 year-over-year growth rates in revenue, operating income and operating margins were negatively impacted and our second quarter 2019 year-over-year growth rates were positively impacted. In 2020, Easter fell on April 12, in the second quarter as it did in 2019, and as a result we did not experience a meaningful impact to our year-over-year growth rates in 2020 from the Easter holiday. Due to the significant reduction in travel demand related to the COVID-19 pandemic, we do not expect the timing of the Easter holiday to have a meaningful impact on our growth rates in 2021. The timing of other holidays such as Ramadan can also impact our quarterly year-over-year growth rates.

The impact of seasonality can be exaggerated in the short term by the gross bookings growth rate of the business. For example, in periods where our gross bookings growth rate substantially decelerates, our operating margins typically benefit from relatively less variable marketing expense. In addition, revenue growth is typically less impacted by decelerating gross bookings growth in the near term due to the benefit of revenue related to reservations booked in previous quarters, but any such deceleration would negatively impact revenue growth in subsequent periods. Conversely, in periods where our gross bookings growth rate accelerates, our operating margins are typically negatively impacted by relatively more variable marketing expense. In addition, revenue growth is typically less impacted by accelerating gross bookings growth in the near term, but any such acceleration would positively impact revenue growth in subsequent periods as a portion of the revenue recognized from such gross bookings will occur in future quarters. As the travel market recovers from the impact of the COVID-19 pandemic, we expect to see higher than pre-COVID-19 pandemic growth rates, which will likely result in periods where our operating margins are negatively impacted due to the timing difference of when marketing expense is recorded and when revenue is recognized.

## **Other Factors**

We believe that our future success depends in large part on our ability to continue to profitably grow our brands worldwide, and, over time, to offer other travel and travel-related services. Factors beyond our control, such as oil prices, stock market volatility, terrorist attacks, unusual or extreme weather or natural disasters such as earthquakes, hurricanes, tsunamis, floods, fires, droughts and volcanic eruptions, travel-related health concerns including pandemics and epidemics such as COVID-19 and other coronaviruses, Ebola and Zika, political instability, changes in economic conditions, wars and regional hostilities, imposition of taxes, tariffs or surcharges by regulatory authorities, changes in trade policies or trade disputes, changes in immigration policies or travel-related accidents or increased focus on the environmental impact of travel, can disrupt travel, limit the ability or willingness of travelers to visit certain locations or otherwise result in declines in travel demand. These kinds of events have negatively affected our business and results of operations in the past and may do so again in the future. Because these events or concerns, and the full impact of their effects, are largely unpredictable, they can dramatically and suddenly affect travel behavior by consumers, and therefore demand for our services and our relationships with travel service providers and other partners, any of which can adversely affect our business and results of operations. See Part I, Item 1A, Risk Factors - *"The COVID-19 pandemic has materially adversely affected, and may further adversely impact, our business and financial performance"* and *"Declines or disruptions in the travel industry could adversely affect our business and financial performance."*

The extent of the effects of the COVID-19 pandemic on our business, results of operations, cash flows and growth prospects is highly uncertain and will ultimately depend on future developments. We expect the pandemic and its effects to continue to have a significant adverse impact on our business for the duration of the pandemic and during the subsequent economic recovery, which could be an extended period of time. Over the long-term, we intend to continue to invest in marketing and promotion, technology and personnel within parameters consistent with attempts to improve long-term operating results, even if those expenditures create pressure on operating margins. In recent years, we have experienced pressure on operating margins as we invested in initiatives to drive future growth. We also intend to broaden the scope of our business, and to that end, we explore strategic alternatives from time to time in the form of, among other things, acquisitions. We believe competitive pressure to innovate will encompass a wider range of services and technologies, including services and technologies that may be outside of our historical core business, and our ability to keep pace may slow. Potential competitors, such as emerging start-ups, may be able to innovate and focus on developing a particularly new product or service faster than we can or may foresee consumer need for new services or technologies before us. Some of our larger competitors or potential

competitors have more resources or more established or diversified relationships with consumers than we do, and they could use these advantages in ways that could affect our competitive position, including by making acquisitions, entering or investing in travel reservation businesses, investing in research and development, and competing aggressively for highly-skilled employees. For example, because consumers often utilize other online services more frequently than online travel services, a competitor or potential competitor that has established other, more frequent online interactions with consumers may be able to more easily or cost-effectively acquire customers for its online travel services than we can. Our goal is to grow revenue and achieve healthy operating margins in an effort to maintain profitability. The uncertain and highly competitive environment in which we operate makes the prediction of future results of operations difficult, and accordingly, we may not be able to return to the levels of revenue growth and profitability we experienced prior to the COVID-19 pandemic.

### **Critical Accounting Policies and Estimates**

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Our significant accounting policies and estimates are more fully described in Note 2 to our Consolidated Financial Statements. Certain of our accounting estimates are particularly important to our financial position and results of operations and require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Our management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates. We evaluate our estimates on an ongoing basis. Estimates are based on, among other things, historical experience, terms of existing contracts, our observance of trends in the travel industry and on various other assumptions that we believe to be reasonable under the circumstances. Our actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies that involve significant estimates and judgments of management include the following:

#### ***Valuation of Goodwill and Other Long-lived Assets***

The application of the acquisition accounting for business combinations requires the use of significant estimates and assumptions to determine the fair value of the assets acquired and liabilities assumed. Our estimates of the fair value are based upon assumptions that we believe are reasonable. When we deem appropriate, we utilize assistance from a third-party valuation firm. The consideration transferred is allocated to the assets acquired and liabilities assumed based on their respective fair values at the acquisition date. The excess of the consideration transferred over the net of the amounts allocated to the identifiable assets acquired and liabilities assumed is recognized as goodwill. Goodwill is assigned to reporting units that are expected to benefit from the synergies of the business combination as of the acquisition date.

A substantial portion of our intangible assets and goodwill relates to the acquisitions of OpenTable and KAYAK.

We review long-lived assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The assessment of possible impairment is based upon the ability to recover the carrying value of the assets from the estimated undiscounted future net cash flows, before interest and taxes, of the related asset group.

Due to the significant and negative financial impact of the COVID-19 pandemic, we performed the recoverability test of our long-lived assets and concluded there was no impairment at March 31, 2020. For OpenTable and KAYAK, we tested the recoverability of the long-lived assets and concluded there was no impairment at September 30, 2020. We did not identify any additional impairment indicators for our long-lived assets at December 31, 2020.

We test goodwill for impairment annually and whenever an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We test goodwill at a reporting unit level. Our annual goodwill impairment tests are performed as of September 30.

#### ***Interim Goodwill Impairment Test***

Due to the significant and negative financial impact of the COVID-19 pandemic, we performed an interim period goodwill impairment test at March 31, 2020. Under the current goodwill impairment standard adopted in the first quarter of 2020, a goodwill impairment loss is measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill (see Note 2 to our Consolidated Financial Statements).

As of March 31, 2020, the estimated fair value of each of our reporting units, except the OpenTable and KAYAK reporting unit, substantially exceeded its respective carrying value. For the OpenTable and KAYAK reporting unit, we recognized a goodwill impairment charge of \$489 million for the three months ended March 31, 2020, which is not tax-

deductible, resulting in an adjusted carrying value of goodwill for OpenTable and KAYAK of \$1.5 billion at March 31, 2020. The goodwill impairment was primarily driven by a significant reduction in the forecasted near-term cash flows of OpenTable and KAYAK as well as the significant decline in comparable companies' market values as a result of the COVID-19 pandemic.

The estimated fair value of OpenTable and KAYAK was determined using a combination of standard valuation techniques, including an income approach (discounted cash flows) and a market approach (applying the recent decline in enterprise values of comparable publicly-traded companies to the recently calculated fair value for OpenTable and KAYAK as well as applying comparable company multiples).

The income approach estimates fair value utilizing long-term growth rates and discount rates applied to the cash flow projections. In the cash flow projections, we assumed that OpenTable and KAYAK will experience a significant decline in near-term cash flows with a recovery to 2019 levels of financial performance (including profitability) occurring in 2023. The shape and timing of the recovery was a key assumption in our fair value calculation (both in the income and market approaches).

#### ***Annual Goodwill Impairment Test***

As of September 30, 2020, we performed our annual goodwill impairment test. Other than the OpenTable and KAYAK reporting unit, the fair values of our reporting units substantially exceeded their respective carrying values.

For the OpenTable and KAYAK reporting unit, we recognized a goodwill impairment charge of \$573 million for the three months ended September 30, 2020, which is not tax-deductible, resulting in an adjusted carrying value of goodwill for OpenTable and KAYAK of \$1.0 billion at September 30, 2020. The goodwill impairment was primarily driven by a significant reduction in the forecasted cash flows of OpenTable and KAYAK, reflecting a longer assumed recovery period to 2019 levels of profitability, mainly due to the continued material adverse impact of the COVID-19 pandemic, including its impact on the flight vertical at KAYAK, and the lowered outlook for monetization opportunities in restaurant reservation services.

The estimated fair value of OpenTable and KAYAK was determined using a combination of standard valuation techniques, including an income approach (discounted cash flows) and a market approach (applying comparable company multiples).

The income approach estimates fair value utilizing long-term growth rates and discount rates applied to the cash flow projections. The income approach, applied as of September 30, 2020, reflected a reduction in the forecasted cash flows of OpenTable and KAYAK and a longer assumed recovery period to 2019 levels of profitability, driven primarily by a lowered outlook for monetization opportunities in restaurant reservation services and slower than previously expected recovery trends for airline travel, which is a key vertical for KAYAK. For the interim goodwill impairment test at March 31, 2020, we expected a recovery to 2019 levels of financial performance occurring in 2023 for OpenTable and KAYAK. Based on our evaluation of all relevant information available as of September 30, 2020 for the annual goodwill impairment test, we expected that OpenTable and KAYAK would not return to the 2019 level of profitability within the next five years, and that it was uncertain whether the shape of the recovery would ultimately match our expectations. An increase or decrease of one percentage point to the profitability growth rates used in the cash flow projections would result in an increase or decrease of approximately \$100 million to the estimated fair value of OpenTable and KAYAK at September 30, 2020. The discount rate is determined based on the reporting unit's estimated weighted-average cost of capital and adjusted to reflect the risks inherent in its cash flows, which requires significant judgments. The discount rate used for the annual goodwill impairment test as of September 30, 2020 is higher than the discount rate used for the interim goodwill impairment test as of March 31, 2020. If the discount rate used in the income approach increases or decreases by 0.5%, the impact to the estimated fair value of OpenTable and KAYAK, at September 30, 2020, ranges from a decrease of approximately \$65 million to an increase of approximately \$70 million.

The estimation of fair value reflects numerous assumptions that are subject to various risks and uncertainties, including key assumptions regarding OpenTable and KAYAK's expected growth rates and operating margin, expected length and severity of the impact from the COVID-19 pandemic, the shape and timing of the subsequent recovery and the competitive environment, as well as other key assumptions with respect to matters outside of our control, such as discount rates and market comparables. It requires significant judgments and estimates and actual results could be materially different than the judgments and estimates used to estimate fair value. Future events and changing market conditions may lead us to re-evaluate the assumptions reflected in the current forecast disclosed above, particularly the assumptions related to the length and severity of the COVID-19 pandemic and the shape and timing of the subsequent recovery, which may result in a need to recognize an additional goodwill impairment charge that could have a material adverse effect on our results of operations.

No additional impairment indicators were identified as of December 31, 2020.

### ***Valuation of Investments in Private Companies***

See Note 5 to our Consolidated Financial Statements for additional information related to the investments in private companies. The fair value of these investments are measured using unobservable inputs when little or no market data is available ("Level 3 inputs"). See Note 6 to our Consolidated Financial Statements for additional information.

Our investments measured using Level 3 inputs primarily consist of preferred stock investments in privately-held companies that are classified as either debt securities or equity securities without readily determinable fair values. Fair values of privately held securities are estimated using a variety of valuation methodologies, including both market and income approaches. We have used valuation techniques appropriate for the type of investment and the information available about the investee as of the valuation date to determine fair value. Recent financing transactions in the investee, such as new investments in preferred stock, are generally considered the best indication of the enterprise value and therefore used as a basis to estimate fair value. However, based on a number of factors, such as the proximity in timing to the valuation date or the volume or other terms of these financing transactions, we may also use other valuation techniques to supplement this data, including the income approach. In addition, an option-pricing model ("OPM") is utilized to allocate value to the various classes of securities of the investee, including the class owned by us. The model includes assumptions around the investees' expected time to liquidity and volatility.

Our investment in Grab, which is classified as a debt security for accounting purposes, had an aggregate estimated fair value of \$200 million at December 31, 2020 and 2019. We measured this investment using "Level 3" inputs and management's estimates that incorporate current market participant expectations of future cash flows considered alongside recent financing transactions of the investee and other relevant information.

We performed an impairment analysis on the investment in Didi Chuxing at March 31, 2020 considering the impact of the COVID-19 pandemic, which resulted in an adjusted carrying value of \$400 million at March 31, 2020 and December 31, 2020. No additional impairment indicators were identified as of December 31, 2020. As discussed below, we used unobservable inputs in order to determine fair value. We used an income approach in estimating the fair value of Didi Chuxing as of March 31, 2020. The income approach estimates value based on the expectation of future cash flows that a company will generate. These future cash flows are discounted to their present values using a discount rate based on a company's weighted-average cost of capital, and is adjusted to reflect the risks inherent in its cash flows. The key unobservable inputs and ranges used include the weighted average cost of capital (12%-14%), terminal Earnings before interest, taxes, depreciation and amortization ("EBITDA") multiple (13x-15x), volatility (60%-70%) and an estimated time to liquidity of 4 years. Significant changes in any of these inputs in isolation would result in significantly different fair value measurements. Generally, a change in the assumption used for terminal EBITDA multiples would result in a directionally similar change in the fair value and a change in the assumption used for weighted average cost of capital or volatility would result in a directionally opposite change in the fair value.

The determination of the fair values of investments, where we are a minority shareholder and have access to limited information from the investee, reflects numerous assumptions that are subject to various risks and uncertainties, including key assumptions regarding the investee's expected growth rates and operating margin, expected length and severity of the impact of the COVID-19 pandemic on the investee and the shape and timing of the subsequent recovery, as well as other key assumptions with respect to matters outside of our control, such as discount rates and market comparables. It requires significant judgments and estimates and actual results could be materially different than those judgments and estimates utilized in the fair value estimate. Future events and changing market conditions may lead us to re-evaluate the assumptions reflected in our valuation, particularly the assumptions related to the length and severity of the COVID-19 pandemic and the shape and timing of the subsequent recovery and the overall impact on the investee's business, which may result in a need to recognize an additional impairment charge that could have a material adverse effect on our results of operations.

### ***Income Taxes***

We determine our tax expense based on our income and statutory tax rates applicable in the various jurisdictions in which we operate. Due to the complex nature of tax legislation and frequent changes with such associated legislation, significant judgment is required in computing our tax expense and determining our tax positions. The U.S. Tax Cuts and Jobs Act (the "Tax Act") enacted in December 2017 made significant changes to U.S. federal tax law, including a reduction in the U.S. federal statutory tax rate from 35% to 21%, effective January 1, 2018. The Tax Act imposed a one-time deemed repatriation tax on accumulated unremitted international earnings, to be paid over eight years.

We do not intend to indefinitely reinvest our international earnings that were subject to U.S. taxation pursuant to the mandatory deemed repatriation or subject to U.S. taxation as GILTI.

We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of temporary differences and tax planning strategies and record valuation allowances as required.

We are subject to ongoing tax examinations and assessments in various jurisdictions. We have been audited in many jurisdictions and, from time to time, face challenges from the tax authorities regarding the amount of taxes due. These challenges include questions regarding the timing and amount of deductions that we have taken on our tax returns. Although we believe that our tax filing positions are reasonable and comply with applicable law, we regularly review our tax filing positions, especially in light of tax law or business practice changes, and we may change our positions or determine that previous positions should be amended, either of which could result in additional tax liabilities. The final determination of tax audits or tax disputes may be different from what is reflected in our historical income tax provisions and accruals.

The evaluation of tax positions and recognition of income tax benefits require significant judgment and we consult with external tax and legal counsel, as appropriate. We consider the technical merits of our tax positions along with the applicable tax statutes, related interpretations and precedents and our expectation of the outcome of proceedings (or negotiations) with tax authorities. We recognize liabilities when we believe that uncertain positions may not be fully sustained upon audit by the tax authorities, including any related appeals or litigation processes. Liabilities recognized for uncertain tax positions are based on a two-step approach for recognition and measurement. First, we evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained based on its technical merits. Second, we measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. Interest and penalties attributable to uncertain tax positions, if any, are recognized as a component of income tax expense. The tax benefits ultimately realized by us may be different than what is recorded in the financial statements due to future events such as our settling the matter with the tax authorities and our success in sustaining our tax positions.

See Notes 15 and 16 to our Consolidated Financial Statements for further information.

### ***Contingencies***

Loss contingencies (other than income tax-related contingencies disclosed above) arise from actual or possible claims and assessments and pending or threatened litigation that may be brought against us by individuals, governments or other entities. Based on our assessment of loss contingencies at each balance sheet date, a loss is recorded in the financial statements if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. If the amount of the loss cannot be reasonably estimated, we disclose information about the contingency in the financial statements. We also disclose information in our financial statements about reasonably possible loss contingencies.

The determination of whether a loss is probable and whether the amount of the loss can be reasonably estimated requires significant judgment and evaluation of all the underlying facts and circumstances, including judgments about the potential actions of third-party claimants, regulatory authorities and courts. Claims, assessments and litigations involve significant uncertainties such as the complexity of the facts, the legal theories involved, the nature of the claims, the judgment of the courts, the applicable methodology for determining potential damages and, in the case of class actions, whether a class action can be certified, the extent to which members of a class would or would not file a claim and the uncertainty inherent in class actions.

On a quarterly basis, we update our analysis and estimates considering all available information, including the impact of negotiations, settlements, rulings and advice of legal counsel. Changes in our assessment of whether a loss is probable, our estimate of the loss, or our determination of whether the amount of loss can be reasonably estimated could have a material impact on our results of operations and financial position. Changes in our assumptions regarding a particular matter or the effectiveness of our strategies related to legal and other proceedings could also have a material impact on our results of operations and financial position. For all loss contingencies, until a matter is finally resolved, there may be an exposure to loss in excess of the liability accrued for the matter and such amounts could be material.

See Note 16 to our Consolidated Financial Statements for further information.

*Recent Accounting Pronouncements* - See Note 2 to our Consolidated Financial Statements for details, which is incorporated into this Item 7 by reference thereto.

## Results of Operations

Year Ended December 31, 2020 compared to Year Ended December 31, 2019

We evaluate certain operating and financial measures on both an as-reported and constant-currency basis. We calculate constant currency by converting our current-year period operating and financial results for transactions recorded in currencies other than U.S. Dollars using the corresponding prior-year period monthly average exchange rates rather than the current-year period monthly average exchange rates.

### Operating and Statistical Metrics

Our financial results are driven by certain operating metrics that encompass the booking and other business activity generated by our travel and travel-related services. Specifically, reservations of accommodation room nights, rental car days and airline tickets capture the volume of units booked through our OTC brands by our travel reservation services customers. Gross bookings is an operating and statistical metric that captures the total dollar value, generally inclusive of taxes and fees, of all travel services booked through our OTC brands by our customers, net of cancellations, and is widely used in the travel business. Our non-OTC brands (KAYAK and OpenTable) have different business metrics from those of our OTC brands and therefore search queries through KAYAK and restaurant reservations through OpenTable do not contribute to our gross bookings.

Accommodation room nights, rental car days and airline tickets reserved through our services for the years ended December 31, 2020 and 2019 were as follows:

|                 | Year Ended December 31,<br>(in millions) |      | Increase (Decrease) |
|-----------------|--|------|---------------------|
|                 | 2020                                     | 2019 |                     |
| Room nights     | 355                                      | 845  | (58.0)%             |
| Rental car days | 31                                       | 77   | (59.8)%             |
| Airline tickets | 6  | 7    | (21.6)%             |

Accommodation room nights, rental car days and airline tickets reserved through our services each declined for the year ended December 31, 2020, compared to the year ended December 31, 2019, due to the COVID-19 pandemic, which drove a substantial decline in new travel bookings and increased cancellation rates.

Gross bookings resulting from reservations of accommodation room nights, rental car days and airline tickets made through our agency and merchant models for the years ended December 31, 2020 and 2019 were as follows (numbers may not total due to rounding):

|          | Year Ended December 31,<br>(in millions) |           | Increase (Decrease) |
|----------|--|-----------|---------------------|
|          | 2020                                     | 2019      |                     |
| Agency   | \$ 24,475                                | \$ 70,651 | (65.4)%             |
| Merchant | 10,920                                   | 25,791    | (57.7)%             |
| Total    | \$ 35,395                                | \$ 96,443 | (63.3)%             |

Gross bookings decreased by 63.3% for the year ended December 31, 2020, compared to the year ended December 31, 2019 (decreased on a constant-currency basis by approximately 63%), almost entirely due to the 58.0% decline in accommodation room night reservations, as well as a decline in accommodation ADRs of approximately 14% on a constant-currency basis for the year ended December 31, 2020, compared to the year ended December 31, 2019. We believe that unit growth rates and growth in total gross bookings on a constant-currency basis, which excludes the impact of foreign currency exchange rate fluctuations, are important measures to understand the fundamental performance of the business.

Agency gross bookings are derived from travel-related transactions where we do not facilitate payments from travelers for the travel services provided. Agency gross bookings decreased by 65.4% for the year ended December 31, 2020, compared to the year ended December 31, 2019, almost entirely due to a decrease in gross bookings from agency accommodation room night reservations at Booking.com.



Merchant gross bookings are derived from services where we facilitate payments from travelers for the travel services provided. Merchant gross bookings decreased by 57.7% for the year ended December 31, 2020, compared to the year ended December 31, 2019, principally due to a decrease in gross bookings from our merchant accommodation reservation services at Booking.com, agoda and Priceline. Merchant gross bookings for the year ended December 31, 2020, compared to the year ended December 31, 2019, declined less than agency gross bookings due to the stronger growth of merchant gross bookings early in the year as Booking.com had been expanding its merchant accommodation reservation services prior to the COVID-19 pandemic, as well as due to relatively better performance from our merchant travel reservation services at Priceline.

## Revenues

### Online travel reservation services

Substantially all of our revenues are generated by providing online travel reservation services, which facilitate online travel purchases between travel service providers and travelers.

Revenues from online travel reservation services are classified into two categories:

- *Agency.* Agency revenues are derived from travel-related transactions where we do not facilitate payments from travelers for the services provided. Agency revenues consist almost entirely of travel reservation commissions. Substantially all of our agency revenue is from Booking.com agency accommodation reservations.
- *Merchant.* Merchant revenues are derived from travel-related transactions where we facilitate payments from travelers for the services provided, generally at the time of booking. Merchant revenues include (1) travel reservation commissions and transaction net revenues (i.e., the amount charged to travelers less the amount owed to travel service providers) in connection with our merchant reservation services; (2) credit card processing rebates and customer processing fees; and (3) ancillary fees, including travel-related insurance revenues. Substantially all merchant revenues are derived from transactions where travelers book accommodation reservations or rental car reservations.

### Advertising and other revenues

Advertising and other revenues are derived primarily from (1) revenues earned by KAYAK for (a) sending referrals to OTCs and travel service providers and (b) advertising placements on its platforms; and (2) revenues earned by OpenTable for (a) restaurant reservation services (fees paid by restaurants for diners seated through OpenTable's online reservation service) and (b) subscription fees for restaurant management services.

|                                | Year Ended December 31,<br>(in millions) |                  | Increase (Decrease) |
|--------------------------------|--|------------------|---------------------|
|                                | 2020                                     | 2019             |                     |
| Agency revenues                | \$ 4,314                                 | \$ 10,117        | (57.4)%             |
| Merchant revenues              | 2,117                                    | 3,830            | (44.7)%             |
| Advertising and other revenues | 365                                      | 1,119            | (67.3)%             |
| Total revenues                 | <u>\$ 6,796</u>                          | <u>\$ 15,066</u> | (54.9)%             |

Total revenues for the year ended December 31, 2020, as compared to the year ended December 31, 2019, respectively, decreased by 54.9% (decreased on a constant-currency basis by approximately 55%). A significant majority of the year-over-year decrease was related to revenues from our accommodation reservation services. Total revenues for the year ended December 31, 2020 were negatively impacted by a reduction in revenue of \$44 million for refunds paid or estimated to be payable to travelers as a result of the COVID-19 pandemic where we agreed to provide free cancellation for certain non-refundable reservations without a corresponding estimated expected recovery from the travel service providers (see Notes 2 and 3 to the Consolidated Financial Statements). In addition, total revenues for the year ended December 31, 2020 were negatively impacted by additional rebates of approximately \$100 million offered to travel service providers meeting certain eligibility requirements under an incentive program that ended in 2020 (see Note 3 to the Consolidated Financial Statements).

Agency revenues decreased by 57.4% for the year ended December 31, 2020, compared to the year ended December 31, 2019, due to the ongoing impacts of the COVID-19 pandemic.

Merchant revenues decreased by 44.7% for the year ended December 31, 2020, compared to the year ended December 31, 2019, due primarily to decreases in gross bookings from our merchant accommodation reservation services and merchant rental car reservation services due to the ongoing impacts of the COVID-19 pandemic.

Advertising and other revenues decreased by 67.3% for the year ended December 31, 2020, compared to the year ended December 31, 2019, primarily due to the COVID-19 pandemic, which resulted in a decline in consumer demand for the travel and restaurant-related services offered by KAYAK and OpenTable. In addition, advertising and other revenue related to OpenTable has been further impacted by a program that waived fees payable by restaurants for diners seated through OpenTable's online reservation service and subscription fees for many restaurants.

Total revenues as a percentage of gross bookings was 19.2% for the year ended December 31, 2020 as compared to 15.6% for the year ended December 31, 2019 due primarily to timing of booking versus travel as revenue benefited from travel early in the year ended December 31, 2020 before the COVID-19 pandemic, while gross bookings were negatively impacted by cancellations of bookings made in 2019.

Our international businesses accounted for approximately \$6.0 billion of our total revenues for the year ended December 31, 2020, compared to \$13.5 billion for the year ended December 31, 2019. Total revenues attributable to our international businesses for the year ended December 31, 2020 decreased by 55.6%, compared to the year ended December 31, 2019 (decreased on a constant-currency basis by approximately 55%). Total revenues attributable to our U.S. businesses decreased 49.0% for the year ended December 31, 2020 compared to the year ended December 31, 2019.

## Operating Expenses

### Marketing expenses

|                     | Year Ended December 31,<br>(in millions) |          | Increase (Decrease) |
|---------------------|--|----------|---------------------|
|                     | 2020                                     | 2019     |                     |
| Marketing expenses  | \$ 2,179                                 | \$ 4,967 | (56.1)%             |
| % of Total revenues | 32.1 %                                   | 33.0 %   |                     |

We rely on marketing channels to generate a significant amount of traffic to our websites. Marketing expenses consist primarily of the costs of: (1) search engine keyword purchases; (2) referrals from meta-search and travel research websites; (3) affiliate programs; (4) offline and online brand marketing; and (5) other performance-based marketing and incentives. For the year ended December 31, 2020, our marketing expense declined significantly due to reduced travel demand as a result of the COVID-19 pandemic. We adjust our marketing spend based on our growth and profitability objectives, as well as the travel demand and expected ROIs in our marketing channels. Marketing expenses as a percentage of total revenues decreased for the year ended December 31, 2020, compared to the year ended December 31, 2019, primarily due to actions we took to reduce our brand and performance marketing spend in response to the reduced travel demand.

### Sales and Other Expenses

|                          | Year Ended December 31,<br>(in millions) |        | Increase (Decrease) |
|--------------------------|--|--------|---------------------|
|                          | 2020                                     | 2019   |                     |
| Sales and other expenses | \$ 755                                   | \$ 955 | (20.8)%             |
| % of Total revenues      | 11.1 %                                   | 6.3 %  |                     |

Sales and other expenses consist primarily of: (1) credit card and other payment processing fees associated with merchant transactions; (2) provisions for expected credit losses, primarily related to accommodation commission receivables and prepayments to certain customers; (3) fees paid to third parties that provide call center, website content translations and other services; (4) customer relations costs; and (5) customer chargeback provisions and fraud prevention expenses associated with merchant transactions. For the year ended December 31, 2020, sales and other expenses, which are substantially variable in nature, decreased compared to the year ended December 31, 2019, due primarily to decreases in expenses related to

transactions processed on a merchant basis, partially offset by an increase in expected credit loss expenses of \$161 million primarily resulting from the impact of the COVID-19 pandemic (see Notes 2 and 7 to the Consolidated Financial Statements).

#### Personnel

|                     | Year Ended December 31,<br>(in millions) |          | Increase (Decrease) |
|---------------------|--|----------|---------------------|
|                     | 2020                                     | 2019     |                     |
| Personnel           | \$ 1,944                                 | \$ 2,248 | (13.5)%             |
| % of Total revenues | 28.6 %                                   | 14.9 %   |                     |

Personnel expenses consist of compensation to our personnel, including salaries, stock-based compensation, bonuses, payroll taxes, and employee health and other benefits. Personnel expenses decreased during the year ended December 31, 2020, compared to the year ended December 31, 2019, primarily due to \$126 million of government aid benefit and approximately \$110 million of savings resulting from restructuring activities at all our brands, as well as a decrease in stock-based compensation expense and lower bonus accruals, both of which were impacted by reduced financial performance and reduced headcount as a result of the COVID-19 pandemic. Stock-based compensation expense was \$233 million for the year ended December 31, 2020, compared to \$308 million for the year ended December 31, 2019. Headcount decreased 23% year-over-year to approximately 20,300 as of December 31, 2020, compared to approximately 26,400 as of December 31, 2019, primarily due to restructuring actions and attrition, as well as a general temporary company-wide hiring freeze. Given the timing of our restructuring actions, the average quarter-end headcount for 2020 only decreased 6% compared to 2019.

#### General and Administrative

|                            | Year Ended December 31,<br>(in millions) |        | Increase<br>(Decrease) |   |
|----------------------------|--|--------|------------------------|---|
|                            | 2020                                     | 2019   |                        |   |
| General and administrative | \$ 581                                   | \$ 797 | (27.1)                 | % |
| % of Total revenues        | 8.6 %                                    | 5.3 %  |                        |   |

General and administrative expenses consist primarily of: (1) occupancy and office expenses; (2) fees for outside professionals, including litigation expenses; (3) indirect taxes such as travel transaction taxes and digital services taxes; and (4) personnel-related expenses such as travel, relocation, recruiting and training expenses. General and administrative expenses decreased during the year ended December 31, 2020, compared to the year ended December 31, 2019, due to lower personnel-related expenses associated with a general company-wide freeze on non-essential travel and entertainment and employee hiring due to the COVID-19 pandemic, lower office and occupancy expenses due to employees working remotely, and lower professional service fees.

#### Information Technology

|                        | Year Ended December 31,<br>(in millions) |        | Increase (Decrease) |
|------------------------|--|--------|---------------------|
|                        | 2020                                     | 2019   |                     |
| Information technology | \$ 299                                   | \$ 285 | 4.9 %               |
| % of Total revenues    | 4.4 %                                    | 1.9 %  |                     |

Information technology expenses consist primarily of: (1) software license and system maintenance fees; (2) outsourced data center and cloud computing costs; (3) payments to contractors; and (4) data communications and other expenses associated with operating our services. Information technology expenses increased during the year ended December 31, 2020, compared to the year ended December 31, 2019, due to increased software license fees related to cyber security and data privacy software, as well as increased outsourced data center costs.

## Depreciation and Amortization

|                               | Year Ended December 31,<br>(in millions) |        | Increase (Decrease) |
|-------------------------------|--|--------|---------------------|
|                               | 2020                                     | 2019   |                     |
| Depreciation and amortization | \$ 458                                   | \$ 469 | (2.4)%              |
| % of Total revenues           | 6.7 %                                    | 3.1 %  |                     |

Depreciation and amortization expenses consist of: (1) amortization of intangible assets with determinable lives; (2) depreciation of computer equipment; (3) amortization of internally-developed and purchased software; and (4) depreciation of leasehold improvements, furniture and fixtures and office equipment. Depreciation and amortization expenses decreased during the year ended December 31, 2020, compared to the year ended December 31, 2019, as a result of decreased depreciation of computer equipment, amortization of intangible assets and depreciation of leasehold improvements, partially offset by increased internally-developed software amortization expenses.

## Restructuring and other exit costs

|                                    | Year Ended December 31,<br>(in millions) |      | Increase<br>(Decrease) |
|------------------------------------|--|------|------------------------|
|                                    | 2020                                     | 2019 |                        |
| Restructuring and other exit costs | \$ 149                                   | \$ — | N/A                    |
| % of Total revenues                | 2.2 %                                    | N/A  |                        |

During the year ended December 31, 2020, we took restructuring actions at all our brands in response to the impact of the COVID-19 pandemic on our business, and as a result incurred restructuring charges amounting to \$149 million. These restructuring charges are primarily related to employee severance and benefits (see Note 20 to the Consolidated Financial Statements).

## Impairment of Goodwill

|                        | Year Ended December 31,<br>(in millions) |      | Increase<br>(Decrease) |
|------------------------|--|------|------------------------|
|                        | 2020                                     | 2019 |                        |
| Impairment of Goodwill | \$ 1,062                                 | \$ — | N/A                    |
| % of Total revenues    | 15.6 %                                   | N/A  |                        |

During the year ended December 31, 2020, we recorded impairment charges to goodwill related to OpenTable and KAYAK, which are not tax-deductible, of \$1.1 billion (see Note 11 to our Consolidated Financial Statements and Critical Accounting Policies and Estimates included in this Management's Discussion and Analysis of Financial Condition and Results of Operations).

## Interest expense

|                  | Year Ended December 31,<br>(in millions) |       | Increase (Decrease) |
|------------------|--|-------|---------------------|
|                  | 2020                                     | 2019  |                     |
| Interest expense | (356)                                    | (266) | 33.8 %              |

Interest expense increased for the year ended December 31, 2020, compared to the year ended December 31, 2019, primarily due to interest expense attributable to our Senior Notes and Convertible Senior Notes issued in April 2020.

**Other income (expense), net**

|                             | Year Ended December 31,<br>(in millions) |      | Increase (Decrease) |
|-----------------------------|--|------|---------------------|
|                             | 2020                                     | 2019 |                     |
| Other income (expense), net | 1,554                                    | 879  | 76.8 %              |

The following table sets forth the breakdown of "Other income (expense), net" for the years ended December 31, 2020 and 2019:

|   | Year Ended December 31,<br>(in millions) |        |
|---|--|--------|
|   | 2020                                     | 2019   |
| Interest and dividend income              | \$ 54                                    | \$ 152 |
| Net gains on marketable equity securities | 1,811                                    | 745    |
| Impairment of investment                  | (100)                                    | —      |
| Foreign currency transaction losses       | (207)                                    | (31)   |
| Other                                     | (4)                                      | 13     |
| Other income (expense), net               | \$ 1,554                                 | \$ 879 |

Interest and dividend income decreased for the year ended December 31, 2020, compared to the year ended December 31, 2019, primarily due to lower average invested balances and lower yields as well as increased usage of investments classified as cash equivalents.

Net gains on marketable equity securities for the years ended December 31, 2020 and 2019 primarily related to the unrealized gains on our equity investment in Meituan (see Note 5 to our Consolidated Financial Statements for additional information).

Impairment of investment for the year ended December 31, 2020 related to our investment in Didi Chuxing (see Notes 5 and 6 to our Consolidated Financial Statements and Critical Accounting Policies and Estimates included in this Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information).

Foreign currency transaction losses include losses of \$200 million and gains of \$7 million related to the portion of our Euro-denominated debt that was not designated as a net investment hedge and foreign currency losses on derivative contracts of \$31 million and \$19 million for the years ended December 31, 2020 and 2019, respectively.

**Income Taxes**

|                                   | Year Ended December 31,<br>(in millions) |          | Increase (Decrease) |
|-----------------------------------|--|----------|---------------------|
|                                   | 2020                                     | 2019     |                     |
| Income tax expense                | \$ 508                                   | \$ 1,093 | (53.5)%             |
| % of Earnings before income taxes | 89.5 %                                   | 18.3 %   |                     |

Our 2020 effective tax rate differs from the U.S. federal statutory tax rate of 21%, primarily due to the non-deductible goodwill impairment charges related to OpenTable and KAYAK, U.S. federal tax associated with our 2020 international earnings, and an increase in unrecognized tax benefits, partially offset by the benefit of the Netherlands Innovation Box Tax (discussed below). Our 2019 effective tax rate differs from the U.S. federal statutory tax rate of 21%, primarily due to the benefit of the Netherlands Innovation Box Tax, partially offset by the effect of higher international tax rates and U.S. federal and state tax associated with our 2019 international earnings, resulting from the enactment of the Tax Act, as well as certain non-deductible expenses.

Our effective tax rate was higher for the year ended December 31, 2020, compared to the year ended December 31, 2019, primarily due to the non-deductible goodwill impairment charges related to OpenTable and KAYAK, an increase in U.S. federal tax associated with our 2020 international earnings, and an increase in unrecognized tax benefits.

According to Dutch corporate income tax law, income generated from qualifying innovative activities is taxed at a rate of 7% ("Innovation Box Tax") rather than the Dutch statutory rate of 25%. A portion of Booking.com's earnings during the years ended December 31, 2020 and 2019 qualified for Innovation Box Tax treatment, which had a significant beneficial impact on our effective tax rates for those periods. In 2020, the Dutch government approved an increase in the Innovation Box Tax rate from 7% to 9%, effective January 2021. While we expect Booking.com to continue to qualify for Innovation Box Tax treatment with respect to a portion of its earnings for the foreseeable future, the loss of the Innovation Box Tax benefit, whether due to a change in tax law or a determination by the Dutch government that Booking.com's activities are not innovative or for any other reason, could substantially increase our effective tax rate and adversely impact our results of operations and cash flows in future periods. See Part I, Item 1A, Risk Factors - *"We may not be able to maintain our 'Innovation Box Tax' benefit."*

## **Results of Operations**

*Year Ended December 31, 2019 compared to Year Ended December 31, 2018*

For a comparison of our results of operations for the fiscal years ended December 31, 2019 and 2018, see [Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations](#), of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on February 26, 2020.

## Liquidity and Capital Resources

The COVID-19 pandemic and the resulting economic conditions and government orders have resulted in a material decrease in consumer spending and an unprecedented decline in travel and restaurant activities and consumer demand for related services. Our financial results and prospects are almost entirely dependent on the sale of travel-related services.

The extent of the effects of the COVID-19 pandemic on our business, results of operations, cash flows and growth prospects is highly uncertain and will ultimately depend on future developments. These include, but are not limited to, the severity, extent and duration of the COVID-19 pandemic, including as a result of any new variants of COVID-19 and any resurgences of the pandemic, and its impact on the travel and restaurant industries and consumer spending more broadly. Even if economic and operating conditions for our business improve, we cannot predict the long-term effects of the pandemic on our business or the travel and restaurant industries as a whole. If the travel and restaurant industries are fundamentally changed by the COVID-19 pandemic in ways that are detrimental to our operating model, our business may continue to be adversely affected even as the broader global economy recovers.

Our continued access to sources of liquidity depends on multiple factors, including global economic conditions, the condition of global financial markets, the availability of sufficient amounts of financing, our ability to meet debt covenant requirements, our operating performance and our credit ratings. If our credit ratings were to be downgraded, or financing sources were to ascribe higher risk to our rating levels or our industry, our access to capital and the cost of any financing would be negatively impacted. There is no guarantee that additional debt financing will be available in the future to fund our obligations, or that it will be available on commercially reasonable terms, in which case we may need to seek other sources of funding. In addition, the terms of future debt agreements could include more restrictive covenants than those we are currently subject to, which could restrict our business operations. For more information, see Part I, Item 1A, Risk Factors - *"Our liquidity, credit ratings and ongoing access to capital could be materially and negatively affected by the impacts of the COVID-19 pandemic."*

At December 31, 2020, we had \$14.8 billion in cash, cash equivalents and short-term and long-term investments, of which approximately \$6.0 billion is held by our international subsidiaries. Cash, cash equivalents and long-term investments held by our international subsidiaries are denominated primarily in Hong Kong Dollars, U.S. Dollars and Euros. Cash equivalents and short-term and long-term investments are principally comprised of money market funds, time deposits and certificates of deposit, convertible debt securities of Trip.com Group, Meituan equity securities and our investments in private companies (see Notes 5 and 6 to the Consolidated Financial Statements). In May 2020, our May 2015 investment of \$250 million in Trip.com Group's convertible senior notes was repaid upon maturity. We have the option to redeem our December 2015 investment of \$500 million in Trip.com Group's convertible senior notes in December 2021, which we expect to exercise (see Note 5 to our Consolidated Financial Statements).

During the year ended December 31, 2020, we realized \$2.2 billion in cash from sales and maturities of our investments in government and corporate debt securities. In addition, we sold our entire investment in Trip.com Group ADSs, with a cost basis of \$655 million for \$525 million.

At December 31, 2020, we had a remaining transition tax liability of \$1.0 billion as a result of the Tax Act, which included \$923 million reported as "Long-term U.S. transition tax liability" and \$90 million included in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheet. This liability will be paid over the next six years. In accordance with the Tax Act, generally, future repatriation of our international cash will not be subject to a U.S. federal income tax liability as a dividend, but will be subject to U.S. state income taxes and international withholding taxes, which have been accrued by us.

In August 2019, we entered into a \$2.0 billion five-year unsecured revolving credit facility with a group of lenders. The revolving credit facility provides for the issuance of up to \$80 million of letters of credit as well as borrowings of up to \$100 million on same-day notice, referred to as swingline loans. The proceeds of loans made under the facility can be used for working capital and general corporate purposes, including acquisitions, share repurchases and debt repayments. At December 31, 2020, there were no borrowings outstanding and \$4 million of letters of credit issued under the facility. The revolving credit facility contains a maximum leverage ratio covenant, compliance with which is a condition to our ability to borrow thereunder. In April 2020, we amended the revolving credit facility, pursuant to which the maximum leverage ratio covenant was suspended through and including the three months ending March 31, 2021, and was replaced with a \$4.5 billion minimum liquidity covenant based on unrestricted cash, cash equivalents, short-term investments and unused capacity under the revolving credit facility. In October 2020, we further amended the revolving credit facility to extend the suspension of the maximum leverage ratio covenant and the related replacement with the minimum liquidity covenant through and including the three months ending March 31, 2022 and increase the permitted maximum leverage ratio from and including the three months ending June 30, 2022 through and including the three months ending March 31, 2023. We agreed not to declare or make any cash distribution and not to repurchase any of our shares (with certain exceptions including in connection with tax withholding

related to shares issued to employees) unless (i) prior to the delivery of financial statements for the three months ending June 30, 2022, we have at least \$6.0 billion of liquidity on a pro forma basis, based on unrestricted cash, cash equivalents, short-term investments and unused capacity under this revolving credit facility and (ii) after the delivery of financial statements for the three months ending June 30, 2022, we are in compliance on a pro forma basis with the maximum leverage ratio covenant then in effect. Such restriction ends upon delivery of financial statements required for the three months ending June 30, 2023, or we have the ability to terminate this restriction earlier if we demonstrate compliance with the original maximum leverage ratio covenant in the revolving credit facility. Beginning with the quarter ending June 30, 2022, the minimum liquidity covenant will cease to apply and the maximum leverage ratio covenant, as increased, will again be in effect. At December 31, 2020, we were in compliance with the minimum liquidity covenant. There can be no assurance that we will be able to meet either the minimum liquidity covenant or the maximum leverage ratio covenant, as applicable, at any particular time, and our ability to borrow under the revolving credit facility depends on compliance with the applicable covenant. Further, the lenders have the right to require repayment of any amounts borrowed under the facility if we are not in compliance with the applicable covenant (see Note 12 to the Consolidated Financial Statements).

In June 2020, in connection with the maturity of our Convertible Senior Notes due June 2020, we paid \$1.0 billion to satisfy the aggregate principal amount due and paid an additional \$245 million in satisfaction of the conversion value in excess of the principal amount. In addition, the holders of our Convertible Senior Notes due September 2021 will have the right to convert all or any portion of the Notes beginning on June 15, 2021, regardless of our stock price (see Note 12 to our Consolidated Financial Statements).

In April 2020, we issued Senior Notes due April 13, 2025 with an interest rate of 4.10% for an aggregate principal amount of \$1.0 billion, Senior Notes due April 13, 2027 with an interest rate of 4.50% for an aggregate principal amount of \$750 million and Senior Notes due April 13, 2030 with an interest rate of 4.625% for an aggregate principal amount of \$1.5 billion. In addition, in April 2020, we issued \$863 million aggregate principal amount of Convertible Senior Notes due May 1, 2025 with an interest rate of 0.75%. The proceeds from the issuance of these Senior Notes and Convertible Senior Notes can be used for general corporate purposes, which may include repayment of debt, including the repayment, at maturity or upon conversion prior thereto, of our outstanding Convertible Senior Notes (see Note 12 to the Consolidated Financial Statements).

At December 31, 2020 and December 31, 2019, there were \$14.0 billion and \$9.6 billion, respectively, of payment obligations related to the aggregate principal of our outstanding senior notes outstanding and cumulative interest to maturity. See Note 12 to the Consolidated Financial Statements for information related to the Company's debt including principal, interest rates and maturity dates.

During the year ended December 31, 2020, we repurchased 684,827 shares of our common stock for an aggregate cost of \$1.3 billion. At December 31, 2020, we had a remaining aggregate amount of \$10.4 billion authorized by our Board of Directors to repurchase our common stock. We have not repurchased any shares since March 2020 under this stock repurchase authorization and do not intend to initiate any repurchases under this authorization until we have better visibility into the shape and timing of a recovery from the COVID-19 pandemic. See Note 12 to the Consolidated Financial Statements for a description of the impact of the October 2020 credit facility amendment on our ability to repurchase shares.

In September 2016, we signed a turnkey agreement to construct an office building for Booking.com's future headquarters in the Netherlands for 270 million Euros (\$331 million). Upon signing this agreement, we paid 43 million Euros (\$48 million) for the acquired land-use rights. In addition, since signing the turnkey agreement we have made several progress payments principally related to the construction of the building. At December 31, 2020, we had a remaining obligation of 56 million Euros (\$68 million) related to the turnkey agreement. This remaining obligation will be paid through 2022, when we anticipate construction will be complete. In addition to the turnkey agreement, we have a remaining obligation at December 31, 2020 to pay 70 million Euros (\$86 million) over the remaining initial term of the acquired land lease, which expires in 2065. At December 31, 2020, we had 29 million Euros (\$35 million) of outstanding commitments to vendors to fit out and furnish the office space. See Note 16 to our Consolidated Financial Statements for additional information related to our commitments and contingencies.

We have taken and are taking actions to improve our liquidity including, but not limited to, raising additional capital through the issuance of Senior Notes and Convertible Senior Notes as disclosed above, reducing capital expenditures and operating expenses by significantly reducing marketing spend worldwide and working to eliminate non-essential operating costs, monitoring the financial health of our partners, suppliers and other third-party relationships, implementing a general temporary company-wide hiring freeze for much of 2020 and undertaking certain personnel actions such as furloughs and workforce reductions. We believe that our existing cash balances and liquid resources will be sufficient to fund our operating activities, capital expenditures and other obligations through at least the next twelve months. However, whether as a result of the COVID-19 pandemic or otherwise, if we are not successful in generating sufficient cash flow from operations or in raising additional capital when required in sufficient amounts and on terms acceptable to us, we may be required to reduce our planned capital expenditures and scale back the scope of our business plans, either of which could have a material adverse effect on our business, our ability to compete or our future growth prospects, financial condition and results of operations. If additional funds were raised through the issuance of equity securities, the percentage ownership of our then current stockholders would be diluted. We may not generate sufficient cash flow from operations in the future, revenue growth or sustained profitability may not be realized, and future borrowings or equity sales may not be available in amounts sufficient to make anticipated capital expenditures, finance our strategies or repay our indebtedness.



## Cash Flow Analysis

Net cash provided by operating activities decreased for the year ended December 31, 2020, compared to the year ended December 31, 2019, primarily due to the negative impact of the COVID-19 pandemic to our businesses and financial results, partially offset by the impact of the payment of \$403 million in 2019 to French tax authorities to preserve our right to contest certain tax assessments in court (see Note 16 to our Consolidated Financial Statements).

Net cash provided by operating activities for the year ended December 31, 2020 was \$85 million, resulting from net income of \$59 million and a favorable impact from adjustments for non-cash items of \$1.0 billion, partially offset by an unfavorable net change in working capital and long-term assets and liabilities of \$1.0 billion. Non-cash items were principally associated with net gains on marketable equity securities, impairment of goodwill, depreciation and amortization, provision for expected credit losses and chargebacks, stock-based compensation expense and other stock-based payments, deferred income tax expense and unrealized foreign currency transaction losses on Euro-denominated debt. For the year ended December 31, 2020, prepaid expenses and other current assets decreased by \$161 million, primarily due to a refund for overpayment from a vendor and lower prepayment to third-party payment processors due to decreases in business volumes as a result of the COVID-19 pandemic. For the year ended December 31, 2020, accounts receivable decreased by \$891 million and deferred merchant bookings and other current liabilities decreased by \$2.3 billion primarily due to decreases in business volumes as a result of the COVID-19 pandemic.

Net cash provided by operating activities for the year ended December 31, 2019 was \$4.9 billion, resulting from net income of \$4.9 billion and a favorable impact from adjustments for non-cash items of \$541 million, partially offset by an unfavorable net change in working capital and long-term assets and liabilities of \$541 million. Non-cash items were principally associated with net gains on marketable equity securities, depreciation and amortization, stock-based compensation expense and other stock-based payments, operating lease amortization and the provision for expected credit losses and chargebacks. The changes in working capital for the year ended December 31, 2019, reflecting the increase in business volumes and growth in Booking.com's merchant transactions, were primarily related to a \$480 million increase in deferred merchant bookings and other current liabilities, offset by a \$323 million increase in accounts receivable and \$263 million increase in prepaid expenses and other current assets. The net change in long-term assets and liabilities of \$435 million was primarily due to the increase in other long-term assets related to the payment of \$403 million to French tax authorities to preserve our right to contest the assessments in court (see Note 16 to our Consolidated Financial Statements).

Net cash provided by investing activities for the year ended December 31, 2020 was \$2.6 billion, principally resulting from the proceeds from sales and maturities of investments of \$3.0 billion, net of purchases of \$74 million. Net cash provided by investing activities for the year ended December 31, 2019 was \$7.1 billion, principally resulting from the proceeds from sales and maturities of investments of \$8.1 billion, net of purchases of \$0.7 billion. Cash invested in the purchase of property and equipment was \$286 million and \$368 million for the years ended December 31, 2020 and 2019, respectively. Cash invested in the purchase of property and equipment for the years ended December 31, 2020 and 2019 includes payments of \$52 million and \$51 million, respectively, related to the turnkey agreement for constructing Booking.com's future headquarters.

Net cash provided by financing activities for the year ended December 31, 2020 was \$1.5 billion, almost entirely resulting from the proceeds from the issuance of long-term debt of \$4.1 billion, partially offset by payments for the repurchase of common stock of \$1.3 billion and payments for the conversion of convertible notes of \$1.2 billion. Net cash used in financing activities for the year ended December 31, 2019 was \$8.2 billion, almost entirely resulting from payments for the repurchase of common stock.

For a discussion of our liquidity and capital resources as of and our cash flow activities for the fiscal year ended December 31, 2018, see [Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations](#), of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on February 26, 2020.

## Contingencies

French tax authorities conducted audits of Booking.com for the years 2003 through 2012 and years 2013 through 2015 and currently are conducting an audit for the years 2016 through 2018. In December 2015, the French tax authorities issued Booking.com assessments for unpaid income and value added taxes ("VAT") related to tax years 2006 through 2012 for approximately 356 million Euros (\$403 million), the majority of which represents penalties and interest. The assessments assert that Booking.com had a permanent establishment in France. In December 2019, the French tax authorities issued an additional assessment of 70 million Euros (\$86 million), including interest and penalties, for the 2013 year asserting that Booking.com had taxable income attributable to a permanent establishment in France. The French tax authorities also have issued assessments totaling 39 million Euros (\$48 million), including interest and penalties, for certain tax years between 2011

and 2015 on Booking.com's French subsidiary asserting that the subsidiary did not receive sufficient compensation for the services it rendered to Booking.com in the Netherlands. As a result of a formal demand from the French tax authorities for payment of the amounts assessed against Booking.com for the years 2006 through 2012, in January 2019, we paid the assessments of approximately 356 million Euros (\$403 million) in order to preserve our right to contest those assessments in court. The payment, which is included in "Other assets, net" in the Consolidated Balance Sheets at December 31, 2020 and 2019, does not constitute an admission that we owe the taxes and will be refunded (with interest) to us to the extent we prevail. In December 2019 and October 2020, we initiated court proceedings with respect to certain of the assessments. Although we believe that Booking.com has been, and continues to be, in compliance with French tax law, and we are contesting the assessments, during the three months ended September 30, 2020, we contacted the French tax authorities regarding the potential to achieve resolution of the matter through a settlement. After assessing several potential outcomes and potential settlement amounts and terms, an unrecognized tax benefit in the amount of 50 million Euros (\$61 million) has been recorded during the year ended December 31, 2020, of which the majority has been included as a partial reduction to the tax payment recorded in "Other Assets, net" in the Consolidated Balance Sheet at December 31, 2020. In December 2020, the French Administrative Court (Conseil d'Etat) delivered a decision in the "ValueClick" case that could have an impact on the outcome in our case. After considering the potential impact of the new decision on the potential outcomes for the Booking.com assessments, we currently estimate that the reasonably possible loss related to VAT is approximately 20 million Euros (\$24 million). Additional assessments could result when the French tax authorities complete the outstanding audits. For additional information related to the French tax assessments, see Note 16 to our Consolidated Financial Statements and Part I, Item 1A, Risk Factors - *"We may have exposure to additional tax liabilities."*

Beginning in 2014, Booking.com received several letters from the Netherlands Pension Fund for the Travel Industry (Reiswerk) ("BPF") claiming that Booking.com is required to participate in the mandatory pension scheme of the BPF with retroactive effect to 1999, which has a higher contribution rate than the pension scheme in which Booking.com is currently participating. BPF instituted legal proceedings against Booking.com and in 2016 the District Court of Amsterdam rejected all of BPF's claims. BPF appealed the decision to the Court of Appeal, and, in May 2019, the Court of Appeal also rejected all of BPF's claims, in each case by ruling that Booking.com does not meet the definition of a travel intermediary for purposes of the mandatory pension scheme. BPF has appealed to the Netherlands Supreme Court. In October 2020, the Dutch Advocate General issued an opinion to the Supreme Court stating that the Dutch Advocate General believes the decision of the Court of Appeal to be incorrect based on her interpretation of the pension scheme requirements. We have submitted to the Supreme Court a response to the Advocate General's opinion. While we continue to believe that Booking.com is in compliance with its pension obligations and that the Dutch Supreme Court should uphold the ruling of the Court of Appeal, based on the significant influence the Dutch Advocate General's opinion typically has on the Supreme Court, we have reevaluated the probability of a loss and believe it is probable that we have incurred a loss related to this matter. We expect the Dutch Supreme Court to rule in the first quarter of 2021. In the event the Supreme Court overturns the decision of the Court of Appeal and remands the case to a lower court, we intend to pursue a number of defenses in any subsequent proceedings and may ultimately prevail in whole or in part. We are not able to reasonably estimate a loss or a range of loss because the litigation is ongoing and there are significant factual and legal questions yet to be determined. As a result, as of December 31, 2020, we have not recorded a liability in connection with a potential adverse outcome to this litigation. However, if Booking.com were to ultimately lose and all of BPF's claims were to be accepted (including with retroactive effect to 1999), we estimate that as of December 31, 2020, the maximum loss, not including any potential interest or penalties, would be approximately \$290 million. Such estimated potential loss increases as Booking.com continues not to contribute to the BPF and depends on Booking.com's applicable employee compensation after December 31, 2020.

For additional information related to the pension matter and our other contingent liabilities, see Note 16 to our Consolidated Financial Statements.

## Contractual Obligations and Commercial Commitments

The following table represents our material contractual obligations and commercial commitments at December 31, 2020:

|  | By Period (in millions) |                  |              |              |                   |
|--|-------------------------|------------------|--------------|--------------|-------------------|
|  | Total                   | Less than 1 Year | 1 to 3 Years | 3 to 5 Years | More than 5 Years |
| Operating lease obligations <sup>(1)</sup>           | \$ 585                  | \$ 168           | \$ 196       | \$ 85        | \$ 136            |
| Building construction obligation <sup>(2)</sup>      | 103                     | 87               | 16           | —            | —                 |
| Purchase obligations <sup>(3)</sup>                  | 193                     | 77               | 73           | 43           | —                 |
| Senior notes <sup>(4)</sup>                          | 13,991                  | 1,323            | 3,225        | 4,049        | 5,394             |
| U.S. transition tax liability                        | 1,013                   | 90               | 212          | 453          | 258               |
| Letters of credit and bank guarantees <sup>(5)</sup> | 138                     | 110              | 6            | 2            | 20                |
| Revolving credit facility and other <sup>(6)</sup>   | 11                      | 4                | 6            | 1            | —                 |
| Total <sup>(7) (8)</sup>                             | \$ 16,034               | \$ 1,859         | \$ 3,734     | \$ 4,633     | \$ 5,808          |

- (1) Includes the land lease for Booking.com's future headquarters. See Notes 10 and 16 to our Consolidated Financial Statements for further details.
- (2) Includes commitments to vendors to fit out and furnish the office space. See Note 16 to our Consolidated Financial Statements for further details.
- (3) Represents significant noncancellable contractual obligations individually greater than \$10 million. The obligations are primarily related to sponsorship and cloud hosting arrangements. Purchase obligations included here are those related to agreements to purchase goods and services that are enforceable and legally binding, that specify all significant terms, including the quantities to be purchased, price provisions and the approximate timing of the transaction.
- (4) Represents the aggregate principal amount of our senior notes outstanding at December 31, 2020 and cumulative interest to maturity of \$1.8 billion. Convertible debt does not reflect the market value in excess of the outstanding principal amount because we can settle the conversion premium amount in cash or shares of common stock at our option. See Note 12 to our Consolidated Financial Statements.
- (5) Standby letters of credit and bank guarantees issued on behalf of the Company at December 31, 2020 are primarily related to payment guarantees to third-party payment processors (see Notes 12 and 16 to our Consolidated Financial Statements).
- (6) Includes commitment fees on undrawn balances available under the revolving credit facility and fees on outstanding letters of credit at December 31, 2020.
- (7) We reported "Other long-term liabilities" of \$111 million in the Consolidated Balance Sheet at December 31, 2020, the majority of which relates to unrecognized tax benefits of \$57 million (see Note 15 to our Consolidated Financial Statements). We have excluded these long-term liabilities from the contractual obligations table above as a variety of factors could affect the timing of payments for the liabilities; therefore, we cannot reasonably estimate the timing of such payments. We believe that these matters will likely not be resolved in the next twelve months and, accordingly, we have classified the estimated liability as non-current in the Consolidated Balance Sheet.
- (8) In 2018, we entered into an agreement to sign a future lease related to approximately 222,000 square feet of office space in the city of Manchester in the United Kingdom for the future headquarters of Rentalcars.com. Our obligation to execute the lease is conditional upon the lessor completing certain activities, which are expected to be completed in 2021. If these activities are completed, the lease will commence for a term of approximately 13 years and we will have a lease obligation of approximately 65 million British Pounds Sterling (\$88 million), excluding lease incentives. We will also make capital expenditures to fit out and furnish the office space. The obligation is not included in the table of contractual obligations presented above.

## Off-Balance Sheet Arrangements

At December 31, 2020, we did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We have exposure to several types of market risk: changes in interest rates, foreign currency exchange rates and equity prices.

We manage our exposure to interest rate risk and foreign currency risk through internally established policies and procedures and, when deemed appropriate, through the use of derivative financial instruments. We use foreign currency exchange derivative contracts to manage short-term foreign currency risk.

The objective of our policies is to mitigate potential income statement, cash flow and fair value exposures resulting from possible future adverse fluctuations in rates. We evaluate our exposure to market risk by assessing the anticipated near-term and long-term fluctuations in interest rates and foreign currency exchange rates. This evaluation includes the review of leading market indicators, discussions with financial analysts and investment bankers regarding current and future economic conditions and the review of market projections as to expected future rates. We utilize this information to determine our own investment strategies as well as to determine if the use of derivative financial instruments is appropriate to mitigate any potential future market exposure that we may face. Our policy does not allow speculation in derivative instruments for profit or execution of derivative instrument contracts for which there are no underlying exposures. We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives. To the extent that changes in interest rates and foreign currency exchange rates affect general economic conditions, we would also be affected by such changes.

During the year ended December 31, 2020, we sold our investments in government and corporate debt securities other than our investments in Trip.com Group convertible senior notes (see Note 5 to the Consolidated Financial Statements). Our investments in Trip.com Group convertible senior notes are more sensitive to the equity market price volatility of Trip.com Group's American Depositary Shares ("ADSs") than changes in interest rates. The estimated fair value of our Trip.com Group convertible senior notes will likely increase as the market price of Trip.com Group's ADSs increases and will likely decrease as the market price of Trip.com Group's ADSs falls.

At December 31, 2020 and 2019, the outstanding aggregate principal amount of our debt was \$12.2 billion and \$8.7 billion, respectively. We estimate that the fair value of such debt was approximately \$14.0 billion and \$9.8 billion at December 31, 2020 and 2019, respectively. The estimated fair value of our debt in excess of the outstanding principal amount at December 31, 2020 primarily relates to Senior Notes and the Convertible Senior Notes issued in April 2020. The estimated fair value of the Company's debt in excess of the outstanding principal amount at December 31, 2019 primarily relates to the conversion premium on the convertible senior notes. Excluding the effect on the fair value of our convertible senior notes, a hypothetical 100 basis point (1.0%) decrease in interest rates would have resulted in an increase in the estimated fair value of our other debt of approximately \$544 million and \$325 million at December 31, 2020 and 2019, respectively. Our convertible senior notes are more sensitive to the equity market price volatility of our shares than changes in interest rates. The fair value of the convertible senior notes will likely increase as the market price of our shares increases and will likely decrease as the market price of our shares falls.

Our international business represents a substantial majority of our financial results. Therefore, because we report our results in U.S. Dollars, we face exposure to movements in foreign currency exchange rates as the financial results and the financial condition of our international businesses are translated from local currencies (principally Euros and British Pounds Sterling) into U.S. Dollars. If the U.S. Dollar weakens against the local currencies, the translation of these foreign-currency-denominated balances will result in increased net assets, gross bookings, revenues, operating expenses and net income. Similarly, our net assets, gross bookings, revenues, operating expenses and net income will decrease if the U.S. Dollar strengthens against the local currencies. However, for the year ended December 31, 2020, movements in foreign currency exchange rates had little to no impact on our performance metrics and financial results. Since our expenses are generally denominated in foreign currencies on a basis similar to our revenues, our operating margins have not been significantly impacted by currency fluctuations. Additionally, foreign currency exchange rate fluctuations on transactions, denominated in currencies other than the functional currency, result in gains and losses that are reflected in our Consolidated Statements of Operations. We have a significant investment that is denominated in Hong Kong Dollars and the related impact from the movements in foreign currency exchange rates is recognized in "Other income (expense), net" in the Consolidated Statements and Operations.

We designate certain portions of the aggregate principal value of the Euro-denominated debt as a hedge against the impact of foreign currency exchange rate fluctuations on the net assets of one of our Euro functional currency subsidiaries. Foreign currency transaction gains or losses on the Euro-denominated debt that is not designated as a hedging instrument for accounting purposes are recognized in "Other income (expense), net" in our Consolidated Statements of Operations (see Note 12 to our Consolidated Financial Statements). Such foreign currency transaction gains or losses are dependent on the amount of

net assets of the Euro functional currency subsidiary, the amount of the Euro-denominated debt that is designated as a hedge and fluctuations in foreign currency exchange rates.

We enter into foreign currency forward contracts to hedge our exposure to the impact of movements in foreign currency exchange rates on our transactional balances denominated in currencies other than the functional currency. In periods prior to the second quarter of 2020, we also entered into foreign currency derivative contracts to hedge translation risks from short-term foreign currency exchange rate fluctuations for the Euro, British Pound Sterling and certain other currencies versus the U.S. Dollar. Since the first quarter of 2020, we have not entered into such derivative instruments as the impact of the COVID-19 pandemic on our operating results are highly uncertain. We will continue to evaluate the use of derivative instruments in the future. See Note 6 to our Consolidated Financial Statements for further information.

We are exposed to equity price risk as it relates to changes in the fair values of our investments in equity securities of publicly-traded companies and private companies. Due to the impact of the COVID-19 pandemic (see Note 2 to the Consolidated Financial Statements) on the business of the investee and the estimated decline in the value of our investment, we recorded a significant impairment charge related to our investment in a private company during the three months ended March 31, 2020 (see Notes 5 and 6 to the Consolidated Financial Statements). The estimated fair values of our investments in equity securities of publicly-traded companies and private companies, excluding certain investments classified as debt securities for accounting purposes, were \$3.1 billion and \$455 million, respectively, at December 31, 2020, and \$1.8 billion and \$501 million, respectively, at December 31, 2019. Our investments in private companies, excluding certain investments classified as debt securities for accounting purposes, are measured at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. A hypothetical 10% decrease in the fair values of these investments at December 31, 2020 and 2019 would have resulted in a loss, before tax, of approximately \$355 million and \$230 million, respectively, being recognized in net income.

#### **Item 8. Financial Statements and Supplementary Data**

The following Consolidated Financial Statements of the Company and the report of our independent registered public accounting firm are filed as part of this Annual Report on Form 10-K (See Part IV, Item 15, Exhibits and Financial Statement Schedules): Consolidated Balance Sheets at December 31, 2020 and 2019; Consolidated Statements of Operations, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Stockholders' Equity and Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018; Notes to the Consolidated Financial Statements; and Report of Independent Registered Public Accounting Firm.

#### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

#### **Item 9A. Controls and Procedures**

*Disclosure Controls and Procedures.* Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Exchange Act Rule 13a-15(e). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we include a report of our management's assessment of the design and effectiveness of our internal controls over financial reporting for the year ended December 31, 2020.

*Management's Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2020. Our independent registered public accounting firm also attested to, and reported on the effectiveness of internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Changes in Internal Controls.* No change in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the three months ended December 31, 2020 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Booking Holdings Inc.

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Booking Holdings Inc. and subsidiaries (the "Company") as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 24, 2021, expressed an unqualified opinion on those financial statements.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Stamford, Connecticut  
February 24, 2021

## **Item 9B. Other Information**

None.

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

Information required by Part III, Item 10 will be included in our Proxy Statement relating to our 2021 annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2020, and is incorporated herein by reference.

### **Item 11. Executive Compensation**

Information required by Part III, Item 11 will be included in our Proxy Statement relating to our 2021 annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2020, and is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information required by Part III, Item 12 will be included in our Proxy Statement relating to our 2021 annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2020, and is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

Information required by Part III, Item 13 will be included in our Proxy Statement relating to our 2021 annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2020, and is incorporated herein by reference.

### **Item 14. Principal Accountant Fees and Services**

Information required by Part III, Item 14 will be included in our Proxy Statement relating to our 2021 annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2020, and is incorporated herein by reference.

## **PART IV**

### **Item 15. Exhibits and Financial Statement Schedules.**

- (a) List of Documents Filed as a Part of this Annual Report on Form 10-K:

The following Consolidated Financial Statements of the Company and the report of our independent registered public accounting firm are filed as part of this Annual Report on Form 10-K: Consolidated Balance Sheets at December 31, 2020 and 2019; Consolidated Statements of Operations, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Stockholders' Equity and Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018; Notes to the Consolidated Financial Statements; and Report of Independent Registered Public Accounting Firm.

All financial statement schedules have been omitted because they are not applicable, not material or the required information is shown in the Consolidated Financial Statements or the notes thereto.

- (b) Exhibits

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. Some agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:



- should not be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Annual Report on Form 10-K and the Company's other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>.

| Exhibit Number           | Description   |
|--------------------------|---|
| <a href="#">3.1(a)</a>   | Restated Certificate of Incorporation of the Registrant.  |
| <a href="#">3.2(b)</a>   | Amended and Restated By-Laws of the Registrant.   |
| <a href="#">4.1</a>      | Reference is hereby made to Exhibits 3.1 and 3.2.   |
| <a href="#">4.2(c)</a>   | Specimen Certificate for Registrant's Common Stock.   |
| <a href="#">4.3(d)</a>   | Indenture, dated as of August 20, 2014, between the Registrant and American Stock Transfer & Trust Company, LLC as Trustee.         |
| <a href="#">4.4(e)</a>   | Indenture, dated as of September 23, 2014, between the Registrant and Deutsche Bank Trust Company Americas, as Trustee.             |
| <a href="#">4.5(f)</a>   | Indenture, dated as of August 8, 2017, between the Company and U.S. Bank National Association, as trustee.                          |
| <a href="#">4.6(g)</a>   | Form of 2.375% Senior Note due 2024.  |
| <a href="#">4.7(h)</a>   | Officers' Certificate, dated September 23, 2014, for the 2.375% Senior Notes due 2024.  |
| <a href="#">4.8(i)</a>   | Form of 1.800% Senior Note due 2027.  |
| <a href="#">4.9(j)</a>   | Officers' Certificate, dated March 3, 2015, for the 1.800% Senior Notes due 2027.   |
| <a href="#">4.10(k)</a>  | Form of 3.650% Senior Note due 2025.  |
| <a href="#">4.11(l)</a>  | Officers' Certificate, dated March 13, 2015, for the 3.650% Senior Notes due 2025.  |
| <a href="#">4.12(e)</a>  | Form of 2.15% Senior Note due 2022.   |
| <a href="#">4.13(e)</a>  | Officers' Certificate, dated November 25, 2015, for the 2.15% Senior Notes due 2022.  |
| <a href="#">4.14(m)</a>  | Form of 3.600% Senior Note due 2026.  |
| <a href="#">4.15(m)</a>  | Officers' Certificate, dated May 23, 2016, for the 3.600% Senior Notes due 2026.  |
| <a href="#">4.16(n)</a>  | Form of 0.800% Senior Note due 2022.  |
| <a href="#">4.17(n)</a>  | Officers' Certificate, dated March 10, 2017, for the 0.800% Senior Notes due 2022.  |
| <a href="#">4.18(o)</a>  | Form of 2.750% Senior Note due 2023.  |
| <a href="#">4.19(o)</a>  | Officers' Certificate, dated August 15, 2017, with respect to the 2.750% Senior Notes due 2023.                                     |
| <a href="#">4.20(o)</a>  | Form of 3.550% Senior Note due 2028.  |
| <a href="#">4.21(o)</a>  | Officers' Certificate, dated August 15, 2017, with respect to the 3.550% Senior Notes due 2028.                                     |
| <a href="#">4.22(gg)</a> | Description of the Company's Common Stock Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.                 |
| <a href="#">4.23(gg)</a> | Description of the Company's 0.800% Senior Notes due 2022 Registered Pursuant to Section 12 of the Securities Exchange Act of 1934. |
| <a href="#">4.24(gg)</a> | Description of the Company's 2.150% Senior Notes due 2022 Registered Pursuant to Section 12 of the Securities Exchange Act of 1934. |
| <a href="#">4.25(gg)</a> | Description of the Company's 2.375% Senior Notes due 2024 Registered Pursuant to Section 12 of the Securities Exchange Act of 1934. |
| <a href="#">4.26(gg)</a> | Description of the Company's 1.800% Senior Notes due 2027 Registered Pursuant to Section 12 of the Securities Exchange Act of 1934. |
| <a href="#">4.27(ee)</a> | Form of 4.100% Senior Note due 2025.  |
| <a href="#">4.28(ee)</a> | Officer's Certificate, dated April 13, 2020, with respect to the 4.100% Senior Notes due 2025.                                      |
| <a href="#">4.29(ee)</a> | Form of 4.500% Senior Note due 2027.  |

| Exhibit Number             | Description   |
|----------------------------|---|
| <a href="#">4.30(ee)</a>   | Officer's Certificate, dated April 13, 2020, with respect to the 4.500% Senior Notes due 2027.  |
| <a href="#">4.31(ee)</a>   | Form of 4.625% Senior Note due 2030.  |
| <a href="#">4.32(ee)</a>   | Officer's Certificate, dated April 13, 2020, with respect to the 4.625% Senior Notes due 2030.  |
| <a href="#">4.33(ee)</a>   | Form of 0.750% Convertible Senior Note due 2025.  |
| <a href="#">4.34(ee)</a>   | Indenture, dated as of April 14, 2020, between Booking Holdings Inc. and U.S. Bank National Association, as trustee.  |
| <a href="#">10.1(p)+</a>   | Booking Holdings Inc. 1999 Omnibus Plan (As Amended and Restated Effective June 7, 2018).   |
| <a href="#">10.2(q)+</a>   | Form of Restricted Stock Unit Agreement for awards under the 1999 Omnibus Plan to non-employee directors.   |
| <a href="#">10.3(hh)+</a>  | Form of Restricted Stock Unit Agreement for awards under the 1999 Omnibus Plan.   |
| <a href="#">10.4(r)+</a>   | 2018 Form of Performance Share Unit Agreement under the 1999 Omnibus Plan.  |
| <a href="#">10.5(t)+</a>   | 2019 Form of Performance Share Unit Agreement under the 1999 Omnibus Plan.  |
| <a href="#">10.6(ii)+</a>  | Form of Performance Share Unit Agreement under the Company's 1999 Omnibus Plan.   |
| <a href="#">10.7(s)+</a>   | Amended and Restated KAYAK Software Corporation 2012 Equity Incentive Plan.   |
| <a href="#">10.8(s)+</a>   | OpenTable, Inc. Amended and Restated 2009 Equity Incentive Award Plan.  |
| <a href="#">10.9(u)+</a>   | Buuteeq, Inc. Amended and Restated 2010 Stock Plan.   |
| <a href="#">10.10(v)+</a>  | Amended and Restated Rocket Travel, Inc. 2012 Stock Incentive Plan.   |
| <a href="#">10.11(v)+</a>  | Amended and Restated Annual Bonus Plan.   |
| <a href="#">10.12(w)+</a>  | Form of Non-Competition and Non-Solicitation Agreement.   |
| <a href="#">10.13(x)+</a>  | Second Amended and Restated Employment Agreement, dated April 21, 2015 by and between the Registrant and Peter J. Millones.   |
| <a href="#">10.14(y)+</a>  | Employment Agreement, dated December 15, 2016 by and between the Registrant and Glenn D. Fogel.   |
| <a href="#">10.15(y)+</a>  | Non-Competition and Non-Solicitation Agreement, dated December 15, 2016 by and between the Registrant and Glenn D. Fogel.   |
| <a href="#">10.16(y)+</a>  | Employee Confidentiality and Assignment Agreement, dated December 15, 2016 by and between the Registrant and Glenn D. Fogel.  |
| <a href="#">10.17(z)+</a>  | Employment Agreement, dated January 19, 2018, between the Registrant and David I. Goulden.  |
| <a href="#">10.18(z)+</a>  | Non-Competition and Non-Solicitation Agreement, dated March 1, 2018, between the Registrant and David I. Goulden.   |
| <a href="#">10.19(z)+</a>  | Employee Confidentiality and Assignment Agreement, dated January 19, 2018, between the Registrant and David I. Goulden.   |
| <a href="#">10.20(aa)</a>  | Credit Agreement, dated as of August 14, 2019, among the Registrant, the lenders from time to time party thereto, and JPMorgan Chase Bank, N.A. as Administrative Agent.  |
| <a href="#">10.21(b)+</a>  | Letter Agreement, dated October 24, 2019 by and between the Registrant and Glenn D. Fogel.  |
| <a href="#">10.22(bb)+</a> | Form of Employee Confidentiality and Assignment Agreement.  |
| <a href="#">10.23(dd)</a>  | Amendment, dated as of April 7, 2020, to the Credit Agreement, dated as of August 14, 2019, by and among the Company, the lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as administrative agent.    |
| <a href="#">10.24(ff)</a>  | Amendment, dated as of October 28, 2020, to the Credit Agreement, dated as of August 14, 2019, by and among the Company, the lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as administrative agent. |
| <a href="#">21</a>         | List of Subsidiaries.   |
| <a href="#">23.1</a>       | Consent of Deloitte & Touche LLP.   |
| <a href="#">24.1</a>       | Power of Attorney (included in the Signature Page).   |
| <a href="#">31.1</a>       | Certification of Glenn D. Fogel, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| <a href="#">31.2</a>       | Certification of David I. Goulden, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| <a href="#">32.1(cc)</a>   | Certification of Glenn D. Fogel, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).   |
| <a href="#">32.2(cc)</a>   | Certification of David I. Goulden, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).   |

| Exhibit Number | Description  |
|----------------|--|
| 101.INS        | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document.                  |
| 104            | Cover Page Interactive Data File - the cover page from this Annual Report on Form 10-K for the year ended December 31, 2020, formatted in Inline XBRL (included in Exhibit 101). |

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+ Indicates a management contract or compensatory plan or arrangement.

- (a) Previously filed as an exhibit to the Current Report on Form 8-K filed on February 21, 2018 (File No. 1-36691).
- (b) Previously filed as an exhibit to the Current Report on Form 8-K filed on October 25, 2019 (File No. 1-36691).
- (c) Previously filed as an exhibit to Amendment No. 2 to Registration Statement on Form S-1 filed on March 18, 1999 (File No. 333-69657).
- (d) Previously filed as an exhibit to the Current Report on Form 8-K filed on August 20, 2014 (File No. 0-25581).
- (e) Previously filed as an exhibit to the Current Report on Form 8-K filed on November 25, 2015 (File No. 1-36691).
- (f) Previously filed as an exhibit to the Registration Statement on Form S-3 filed on August 8, 2017 (File No. 333-219800).
- (g) Previously filed as an exhibit to the Current Report on Form 8-K filed on September 22, 2014 (File No. 0-25581).
- (h) Previously filed as an exhibit to the Current Report on Form 8-K filed on September 26, 2014 (File No. 0-25581).
- (i) Previously filed as an exhibit to the Current Report on Form 8-K filed on March 2, 2015 (File No. 1-36691).
- (j) Previously filed as an exhibit to the Current Report on Form 8-K filed on March 4, 2015 (File No. 1-36691).
- (k) Previously filed as an exhibit to the Current Report on Form 8-K filed on March 12, 2015 (File No. 1-36691).
- (l) Previously filed as an exhibit to the Current Report on Form 8-K filed on March 13, 2015 (File No. 1-36691).
- (m) Previously filed as an exhibit to the Current Report on Form 8-K filed on May 23, 2016 (File No. 1-36691).
- (n) Previously filed as an exhibit to the Current Report on Form 8-K filed on March 10, 2017 (File No. 1-36691).
- (o) Previously filed as an exhibit to our Current Report on Form 8-K filed on August 15, 2017 (File No. 1-36691).
- (p) Previously filed as an exhibit to our Current Report on Form 8-K filed on June 8, 2018 (File No. 1-36691).
- (q) Previously filed as an exhibit to the Current Report on Form 8-K filed on March 9, 2011 (File No. 0-25581).
- (r) Previously filed as an exhibit to the Current Report on Form 8-K filed on March 2, 2018 (File No. 1-36691).
- (s) Previously filed as an exhibit to the Current Report on Form 8-K filed on March 3, 2017 (File No. 1-36691).
- (t) Previously filed as an exhibit to the Current Report on Form 8-K filed on March 1, 2019 (File No. 1-36691).
- (u) Previously filed as an exhibit to the Registration Statement on Form S-8 filed on June 13, 2014 (File No. 333-196756).
- (v) Previously filed as an exhibit to the Annual Report on Form 10-K filed for the year ended December 31, 2015 (File No. 1-36691).
- (w) Previously filed as an exhibit to the Current Report on Form 8-K filed on March 4, 2013 (File No. 0-25581).
- (x) Previously filed as an exhibit to our Current Report on Form 8-K filed on April 24, 2015 (File No. 1-36691).
- (y) Previously filed as an exhibit to the Current Report on Form 8-K filed on December 16, 2016 (File No. 1-36691).
- (z) Previously filed as an exhibit to the Current Report on Form 8-K filed on January 22, 2018 (File No. 1-36691).
- (aa) Previously filed as an exhibit to the Current Report on Form 8-K filed on August 14, 2019 (File No. 1-36691).
- (bb) Previously filed as an exhibit to the Quarterly Report on Form 10-Q filed on May 9, 2019 (File No. 1-36691).
- (cc) This document is being furnished in accordance with SEC Release Nos. 33-8212 and 34-47551.
- (dd) Previously filed as an exhibit to the Current Report on Form 8-K filed on April 8, 2020 (File No. 1-36691).
- (ee) Previously filed as an exhibit to the Current Report on Form 8-K filed on April 14, 2020 (File No. 1-36691).
- (ff) Previously filed as an exhibit to the Current Report on Form 8-K filed on October 30, 2020 (File No. 1-36691).

- (gg) Previously filed as an exhibit to the Annual Report on Form 10-K filed on February 26, 2020 (File No. 1-36691).
- (hh) Previously filed as an exhibit to the Quarterly Report on Form 10-Q filed on May 7, 2020 (File No. 1-36691)
- (ii) Previously filed as an exhibit to the Current Report on Form 8-K filed on July 17, 2020 (File No. 1-36691)

**Item 16. Form 10-K Summary.**

None.

## Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BOOKING HOLDINGS INC.

By: /s/ Glenn D. Fogel

|        |                                       |
|--------|---------------------------------------|
| Name:  | Glenn D. Fogel                        |
| Title: | Chief Executive Officer and President |
| Date:  | February 24, 2021                     |

## Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Glenn D. Fogel, David I. Goulden and Peter J. Millones, and each of them severally, his or her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the Securities and Exchange Commission in connection with this Annual Report on Form 10-K and any and all amendments hereto, as fully and for all intents and purposes as he or she might do or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature   | Title  | Date              |
|---|--|-------------------|
| <u>/s/ Robert J. Mylod Jr.</u><br>Robert J. Mylod Jr.   | Director, Chairman of the Board  | February 24, 2021 |
| <u>/s/ Glenn D. Fogel</u><br>Glenn D. Fogel             | Director, Chief Executive Officer and President                                    | February 24, 2021 |
| <u>/s/ David I. Goulden</u><br>David I. Goulden         | Executive Vice President and Chief Financial Officer (Principal Financial Officer) | February 24, 2021 |
| <u>/s/ Susana D'Emic</u><br>Susana D'Emic               | Chief Accounting Officer and Controller (Principal Accounting Officer)             | February 24, 2021 |
| <u>/s/ Timothy M. Armstrong</u><br>Timothy M. Armstrong | Director   | February 24, 2021 |
| <u>/s/ Mirian Graddick-Weir</u><br>Mirian Graddick-Weir | Director   | February 24, 2021 |
| <u>/s/ Bob van Dijk</u><br>Bob van Dijk                 | Director   | February 24, 2021 |
| <u>/s/ Wei Hopeman</u><br>Wei Hopeman                   | Director   | February 24, 2021 |
| <u>/s/ Jeffery H. Boyd</u><br>Jeffery H. Boyd           | Director   | February 24, 2021 |
| <u>/s/ Charles H. Noski</u><br>Charles H. Noski         | Director   | February 24, 2021 |
| <u>/s/ Nicholas J. Read</u><br>Nicholas J. Read         | Director   | February 24, 2021 |
| <u>/s/ Thomas E. Rothman</u><br>Thomas E. Rothman       | Director   | February 24, 2021 |
| <u>/s/ Lynn M. Vojvodich</u><br>Lynn M. Vojvodich       | Director   | February 24, 2021 |
| <u>/s/ Vanessa A. Wittman</u><br>Vanessa A. Wittman     | Director   | February 24, 2021 |

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

|   | <u>Page No.</u>    |
|---|--------------------|
| Report of Independent Registered Public Accounting Firm   | <a href="#">78</a> |
| Consolidated Balance Sheets at December 31, 2020 and 2019   | <a href="#">81</a> |
| Consolidated Statements of Operations for the years ended December 31, 2020, 2019 and 2018                      | <a href="#">82</a> |
| Consolidated Statements of Comprehensive Income for the years ended December 31, 2020, 2019 and 2018            | <a href="#">83</a> |
| Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2020, 2019 and 2018 | <a href="#">84</a> |
| Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018                      | <a href="#">85</a> |
| Notes to Consolidated Financial Statements  | <a href="#">86</a> |

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Booking Holdings Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Booking Holdings Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, including the related notes (collectively, the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows, for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### ***Total Revenues - Refer to Notes 2 and 3 to the financial statements***

##### *Critical Audit Matter Description*

Total revenues for the year ended December 31, 2020 were \$6.8 billion. Substantially all of the Company's revenues are generated by providing online travel reservation services, which principally allow travelers to book travel reservations with travel service providers through the Company's platforms. Revenues consist of a significant volume of low-dollar transactions utilizing multiple custom systems.

We identified total revenues as a critical audit matter as the majority of the processes to calculate and record revenues are highly automated, rely on a number of custom systems, and involve interfacing significant volumes of data across multiple systems. Given the complex information technology (IT) environment, this required the involvement of professionals with expertise in IT to identify, test, and evaluate the revenue data flows, the revenue systems and the automated controls.

##### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the Company's revenue transactions included the following, among others:

- With the assistance of our IT specialists, we:
  - Identified the systems used to calculate and record revenue transactions.



- Tested the general IT controls over each of these systems, including testing of user access controls, change management controls, and IT operations controls.
- Performed testing of system interface controls and automated controls within the relevant revenue streams.
- We tested business process controls to reconcile the various systems to the Company's general ledgers.
- We performed detail transaction testing by agreeing the amounts recognized to source documents and testing the mathematical accuracy of the recorded revenues.

***Goodwill - Refer to Notes 2 and 11 to the financial statements***

***Critical Audit Matter Description***

The Company's evaluation of goodwill impairment involves the comparison of the fair value of each of the Company's reporting units to its carrying value. The total goodwill balance was \$1.9 billion as of December 31, 2020. A substantial portion of the Company's goodwill relates to the acquisitions of KAYAK in 2013 and OpenTable in 2014. The Company estimated the fair values using a combination of standard valuation techniques, including an income approach (discounted cash flows) and market approaches (earnings before interest, taxes, depreciation, and amortization ("EBITDA") multiples of comparable publicly traded companies). With respect to the income approach, management makes significant estimates and assumptions related to forecasts of future performance, including revenues, operating margins and discount rates. Due to the significant and negative financial impact of the COVID-19 pandemic, the Company recognized goodwill impairment charges of \$1.1 billion for the year ended December 31, 2020 for the OpenTable and KAYAK reporting unit, resulting in an adjusted carrying value of goodwill for this reporting unit of \$1.0 billion at December 31, 2020.

Given the significant judgments made by management to estimate the fair value of the OpenTable and KAYAK reporting unit, performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to selection of the discount rates and forecasts of future revenues and operating margins required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

***How the Critical Audit Matter Was Addressed in the Audit***

Our audit procedures related to the forecasts of future revenues and operating margins and the selection of the discount rates for the OpenTable and KAYAK reporting unit included the following, among others:

- We tested the effectiveness of controls over goodwill impairment evaluation, including those over the forecasts and the selection of the discount rates.
- We evaluated management's ability to accurately forecast by comparing actual results in previous years to management's historical forecasts.
- We evaluated the reasonableness of management's forecasts of future revenues and operating margins by comparing management's forecasts with:
  - Historical revenues and operating margins.
  - Internal communications to management and the Board of Directors.
  - Forecasted information, inclusive of COVID-19 economic assumptions, within analyst, economist and industry reports of the Company and selected companies in its peer group.
- We considered the impact of industry and market conditions on management's forecasts.
- With the assistance of our fair value specialists, we evaluated the discount rates, including testing the underlying source information and the mathematical accuracy of the calculations and developing a range of independent estimates and comparing those to the discount rates selected by management.
- We evaluated the reasonableness of management's forecasts of future cash flows and discount rates utilized in the income approach fair value calculation by comparing the income approach fair value to the market approach fair values.

***Commitments and Contingencies - Tax Matters - Refer to Note 16 to the financial statements***

***Critical Audit Matter Description***

The Company is subject to ongoing tax examinations and assessments in various jurisdictions. The Company has received tax assessments relating to permanent establishment, transfer pricing matters, and/or value added taxes, including interest and penalties from French, Italian and Turkish tax authorities in the amount of \$537 million, \$129 million and \$103 million respectively. The Company believes that it has been, and continues to be, in compliance with the relevant tax laws, and the Company is contesting these assessments. The Company has recorded a liability of \$61 million for France and a liability of \$5

million for Italy in connection with these assessments. In addition, the Company currently estimates that the reasonably possible loss related to VAT is approximately \$24 million.

Given the complexity of the relevant tax laws and regulations, auditing management's evaluation and accounting for the tax positions associated with these tax assessments involved subjective and complex judgments.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the accounting for the tax positions associated with the tax assessments included the following, among others:

- We tested the effectiveness of controls over accounting for uncertain tax positions.
- With the assistance of our tax specialists, we evaluated management's analysis regarding the likelihood of sustaining its tax positions upon examination by the relevant tax authorities and, we evaluated management's estimate of the amount of tax benefit recognized.
- We assessed the basis of the Company's analysis and measurement by obtaining, reading, and evaluating relevant third-party specialists' reports and the Company's documentation.
- We obtained, read, and evaluated relevant correspondence between the Company and the tax authorities.
- We evaluated any developments in the matters during the current fiscal year through inquiry of both Company personnel and the Company's third-party specialists.

/s/ DELOITTE & TOUCHE LLP

Stamford, Connecticut

February 24, 2021

We have served as the Company's auditor since 1997.

**Booking Holdings Inc.**  
**CONSOLIDATED BALANCE SHEETS**  
(In millions, except share and per share data)

|  | <b>December 31,</b> |                  |
|--|---------------------|------------------|
|  | <b>2020</b>         | <b>2019</b>      |
| <b>ASSETS</b>  |                     |                  |
| Current assets:  |                     |                  |
| Cash and cash equivalents  | \$ 10,562           | \$ 6,312         |
| Short-term investments (Available-for-sale debt securities:<br>Amortized cost of \$500 and \$998, respectively)                | 501                 | 998              |
| Accounts receivable, net (Allowance for expected credit losses of \$166 and \$49, respectively)                                | 529                 | 1,680            |
| Prepaid expenses, net (Allowance for expected credit losses of \$22 and \$6, respectively)                                     | 337                 | 479              |
| Other current assets   | 277                 | 364              |
| Total current assets   | 12,206              | 9,833            |
| Property and equipment, net  | 756                 | 738              |
| Operating lease assets   | 529                 | 620              |
| Intangible assets, net   | 1,812               | 1,954            |
| Goodwill   | 1,895               | 2,913            |
| Long-term investments (Includes available-for-sale debt securities:<br>Amortized cost of \$225 and \$2,192, respectively)      | 3,759               | 4,477            |
| Other assets, net (Allowance for expected credit losses of \$33 at December 31, 2020)  | 917                 | 867              |
| Total assets   | <u>\$ 21,874</u>    | <u>\$ 21,402</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                     |                  |
| Current liabilities:   |                     |                  |
| Accounts payable   | \$ 735              | \$ 1,239         |
| Accrued expenses and other current liabilities   | 1,382               | 1,578            |
| Deferred merchant bookings   | 323                 | 1,561            |
| Convertible debt   | 985                 | 988              |
| Total current liabilities  | 3,425               | 5,366            |
| Deferred income taxes  | 1,127               | 876              |
| Operating lease liabilities  | 366                 | 462              |
| Long-term U.S. transition tax liability  | 923                 | 1,021            |
| Other long-term liabilities  | 111                 | 104              |
| Long-term debt   | 11,029              | 7,640            |
| Total liabilities  | 16,981              | 15,469           |
| Commitments and contingencies (see Note 16)  |                     |                  |
| Stockholders' equity:  |                     |                  |
| Common stock, \$0.008 par value,<br>Authorized shares: 1,000,000,000<br>Issued shares: 63,406,451 and 63,179,471, respectively | —                   | —                |
| Treasury stock, 22,446,897 and 21,762,070 shares, respectively   | (24,128)            | (22,864)         |
| Additional paid-in capital   | 5,851               | 5,756            |
| Retained earnings  | 23,288              | 23,232           |
| Accumulated other comprehensive loss   | (118)               | (191)            |
| Total stockholders' equity   | 4,893               | 5,933            |
| Total liabilities and stockholders' equity   | <u>\$ 21,874</u>    | <u>\$ 21,402</u> |

See Notes to Consolidated Financial Statements.

**Booking Holdings Inc.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In millions, except share and per share data)

|   | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2020                    | 2019      | 2018      |
| Agency revenues   | \$ 4,314                | \$ 10,117 | \$ 10,480 |
| Merchant revenues   | 2,117                   | 3,830     | 2,987     |
| Advertising and other revenues  | 365                     | 1,119     | 1,060     |
| Total revenues  | 6,796                   | 15,066    | 14,527    |
| Operating expenses:   |                         |           |           |
| Marketing expenses  | 2,179                   | 4,967     | 4,956     |
| Sales and other expenses  | 755                     | 955       | 830       |
| Personnel, including stock-based compensation of \$233, \$308 and \$317, respectively | 1,944                   | 2,248     | 2,042     |
| General and administrative  | 581                     | 797       | 699       |
| Information technology  | 299                     | 285       | 233       |
| Depreciation and amortization   | 458                     | 469       | 426       |
| Restructuring and other exit costs  | 149                     | —         | —         |
| Impairment of goodwill  | 1,062                   | —         | —         |
| Total operating expenses  | 7,427                   | 9,721     | 9,186     |
| Operating (loss) income   | (631)                   | 5,345     | 5,341     |
| Interest expense  | (356)                   | (266)     | (269)     |
| Other income (expense), net   | 1,554                   | 879       | (237)     |
| Earnings before income taxes  | 567                     | 5,958     | 4,835     |
| Income tax expense  | 508                     | 1,093     | 837       |
| Net income  | \$ 59                   | \$ 4,865  | \$ 3,998  |
| Net income applicable to common stockholders per basic common share                   | \$ 1.45                 | \$ 112.93 | \$ 84.26  |
| Weighted-average number of basic common shares outstanding (in 000's)                 | 40,974                  | 43,082    | 47,446    |
| Net income applicable to common stockholders per diluted common share                 | \$ 1.44                 | \$ 111.82 | \$ 83.26  |
| Weighted-average number of diluted common shares outstanding (in 000's)               | 41,160                  | 43,509    | 48,017    |

See Notes to Consolidated Financial Statements.

**Booking Holdings Inc.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In millions)

|  | <b>Year Ended December 31,</b> |                 |                 |
|--|--------------------------------|-----------------|-----------------|
|  | <b>2020</b>                    | <b>2019</b>     | <b>2018</b>     |
| Net income   | \$ 59                          | \$ 4,865        | \$ 3,998        |
| Other comprehensive income (loss), net of tax                              |                                |                 |                 |
| Foreign currency translation adjustments, net of tax                       | 50                             | (10)            | (114)           |
| Net unrealized gains (losses) on available-for-sale securities, net of tax | 23                             | 135             | (199)           |
| Total other comprehensive income (loss), net of tax                        | 73                             | 125             | (313)           |
| Comprehensive income   | <u>\$ 132</u>                  | <u>\$ 4,990</u> | <u>\$ 3,685</u> |

See Notes to Consolidated Financial Statements.

**Booking Holdings Inc.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 and 2018**  
(In millions, except share data)

|   | Common Stock         |        | Treasury Stock       |             | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total     |
|---|----------------------|--------|----------------------|-------------|----------------------------------|----------------------|--|-----------|
|   | Shares<br>(in 000's) | Amount | Shares<br>(in 000's) | Amount      |                                  |                      |  |           |
| <b>Balance, December 31, 2017</b>   | 62,689               | \$ —   | (14,217)             | \$ (8,699)  | \$ 5,783                         | \$ 13,939            | \$ 238   | \$ 11,261 |
| Cumulative effect of adoption of accounting standards updates                               | —                    | —      | —                    | —           | —                                | 430                  | (241)  | 189       |
| Net income  | —                    | —      | —                    | —           | —                                | 3,998                | —  | 3,998     |
| Foreign currency translation adjustments, net of tax  | —                    | —      | —                    | —           | —                                | —                    | (114)  | (114)     |
| Net unrealized losses on available-for-sale securities, net of tax                          | —                    | —      | —                    | —           | —                                | —                    | (199)  | (199)     |
| Exercise of stock options and vesting of restricted stock units and performance share units | 208                  | —      | —                    | —           | 2                                | —                    | —  | 2         |
| Repurchase of common stock  | —                    | —      | (3,100)              | (6,012)     | —                                | —                    | —  | (6,012)   |
| Stock-based compensation and other stock-based payments                                     | —                    | —      | —                    | —           | 320                              | —                    | —  | 320       |
| Conversion of debt  | —                    | —      | —                    | —           | (770)                            | —                    | —  | (770)     |
| Common stock issued in an acquisition   | 52                   | —      | —                    | —           | 110                              | —                    | —  | 110       |
| <b>Balance, December 31, 2018</b>   | 62,949               | \$ —   | (17,317)             | \$ (14,711) | \$ 5,445                         | \$ 18,367            | \$ (316)   | \$ 8,785  |
| Net income  | —                    | —      | —                    | —           | —                                | 4,865                | —  | 4,865     |
| Foreign currency translation adjustments, net of tax  | —                    | —      | —                    | —           | —                                | —                    | (10)   | (10)      |
| Net unrealized gains on available-for-sale securities, net of tax                           | —                    | —      | —                    | —           | —                                | —                    | 135  | 135       |
| Exercise of stock options and vesting of restricted stock units and performance share units | 230                  | —      | —                    | —           | 3                                | —                    | —  | 3         |
| Repurchase of common stock  | —                    | —      | (4,445)              | (8,153)     | —                                | —                    | —  | (8,153)   |
| Stock-based compensation and other stock-based payments                                     | —                    | —      | —                    | —           | 308                              | —                    | —  | 308       |
| <b>Balance, December 31, 2019</b>   | 63,179               | \$ —   | (21,762)             | \$ (22,864) | \$ 5,756                         | \$ 23,232            | \$ (191)   | \$ 5,933  |
| Cumulative effect of adoption of accounting standard update                                 | —                    | —      | —                    | —           | —                                | (3)                  | —  | (3)       |
| Net income  | —                    | —      | —                    | —           | —                                | 59                   | —  | 59        |
| Foreign currency translation adjustments, net of tax  | —                    | —      | —                    | —           | —                                | —                    | 50   | 50        |
| Net unrealized gains on available-for-sale securities, net of tax                           | —                    | —      | —                    | —           | —                                | —                    | 23   | 23        |
| Issuance of convertible senior notes  | —                    | —      | —                    | —           | 96                               | —                    | —  | 96        |
| Conversion of debt  | —                    | —      | —                    | —           | (245)                            | —                    | —  | (245)     |
| Exercise of stock options and vesting of restricted stock units and performance share units | 227                  | —      | —                    | —           | 6                                | —                    | —  | 6         |
| Repurchase of common stock  | —                    | —      | (685)                | (1,264)     | —                                | —                    | —  | (1,264)   |
| Stock-based compensation and other stock-based payments                                     | —                    | —      | —                    | —           | 238                              | —                    | —  | 238       |
| <b>Balance, December 31, 2020</b>   | 63,406               | \$ —   | (22,447)             | \$ (24,128) | \$ 5,851                         | \$ 23,288            | \$ (118)   | \$ 4,893  |

See Notes to Consolidated Financial Statements.

**Booking Holdings Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions)

|   | Year Ended December 31, |          |          |
|---|-------------------------|----------|----------|
|   | 2020                    | 2019     | 2018     |
| <b>OPERATING ACTIVITIES:</b>  |                         |          |          |
| Net income  | \$ 59                   | \$ 4,865 | \$ 3,998 |
| Adjustments to reconcile net income to net cash provided by operating activities:                     |                         |          |          |
| Depreciation and amortization   | 458                     | 469      | 426      |
| Provision for expected credit losses and chargebacks  | 319                     | 138      | 163      |
| Deferred income tax expense (benefit)   | 213                     | 122      | (150)    |
| Net (gains) losses on marketable equity securities  | (1,811)                 | (745)    | 367      |
| Stock-based compensation expense and other stock-based payments                                       | 255                     | 325      | 331      |
| Amortization of debt discount and debt issuance costs   | 64                      | 58       | 59       |
| Operating lease amortization  | 184                     | 172      | —        |
| Unrealized foreign currency transaction losses (gains) on Euro-denominated debt                       | 200                     | (7)      | —        |
| Impairment of goodwill  | 1,062                   | —        | —        |
| Impairment of investment  | 100                     | —        | —        |
| Other   | 2                       | 9        | 19       |
| Changes in assets and liabilities, net of effects of acquisitions:                                    |                         |          |          |
| Accounts receivable   | 891                     | (323)    | (319)    |
| Prepaid expenses and other current assets   | 161                     | (263)    | (201)    |
| Deferred merchant bookings and other current liabilities  | (2,266)                 | 480      | 635      |
| Long-term assets and liabilities  | 194                     | (435)    | 10       |
| Net cash provided by operating activities   | 85                      | 4,865    | 5,338    |
| <b>INVESTING ACTIVITIES:</b>  |                         |          |          |
| Purchase of investments   | (74)                    | (672)    | (2,686)  |
| Proceeds from sale and maturity of investments  | 2,997                   | 8,099    | 5,616    |
| Additions to property and equipment   | (286)                   | (368)    | (442)    |
| Acquisitions and other investments, net of cash acquired  | —                       | (9)      | (273)    |
| Net cash provided by investing activities   | 2,637                   | 7,050    | 2,215    |
| <b>FINANCING ACTIVITIES:</b>  |                         |          |          |
| Proceeds from revolving credit facility and short-term borrowings                                     | —                       | 400      | 25       |
| Repayments of revolving credit facility and short-term borrowings                                     | —                       | (425)    | —        |
| Proceeds from the issuance of long-term debt  | 4,108                   | —        | —        |
| Payments for conversion of debt   | (1,244)                 | —        | (1,487)  |
| Payments for repurchase of common stock   | (1,303)                 | (8,187)  | (5,971)  |
| Other financing activities  | (33)                    | (8)      | 2        |
| Net cash provided by (used in) financing activities   | 1,528                   | (8,220)  | (7,431)  |
| Effect of exchange rate changes on cash and cash equivalents and restricted cash and cash equivalents | —                       | (8)      | (40)     |
| Net increase in cash and cash equivalents and restricted cash and cash equivalents                    | 4,250                   | 3,687    | 82       |
| Total cash and cash equivalents and restricted cash and cash equivalents, beginning of period         | 6,332                   | 2,645    | 2,563    |
| Total cash and cash equivalents and restricted cash and cash equivalents, end of period               | \$ 10,582               | \$ 6,332 | \$ 2,645 |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>  |                         |          |          |
| Cash paid during the period for income taxes (see Note 15)  | \$ 319                  | \$ 1,074 | \$ 1,169 |
| Cash paid during the period for interest  | \$ 278                  | \$ 221   | \$ 219   |
| Non-cash operating and financing activity for an acquisition (see Note 19)                            | \$ —                    | \$ —     | \$ 51    |
| Non-cash investing and financing activity for an acquisition (see Note 19)                            | \$ —                    | \$ —     | \$ 59    |

See Notes to Consolidated Financial Statements.

**Booking Holdings Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. BUSINESS DESCRIPTION**

Booking Holdings Inc. ("Booking Holdings" or the "Company") seeks to make it easier for everyone to experience the world by providing consumers, travel service providers and restaurants with leading travel and restaurant online reservation and related services. The Company offers its services through six primary consumer-facing brands: Booking.com, Priceline, agoda, Rentalcars.com, KAYAK and OpenTable. Through one or more of the Company's brands, consumers can: book a broad array of accommodations (including hotels, motels, resorts, homes, apartments, bed and breakfasts, hostels and other properties); make a car rental reservation or arrange for an airport taxi; make a dinner reservation; or book a flight, cruise, vacation package, tour or activity. Consumers can also use the Company's meta-search services to easily compare travel reservation information, such as airline ticket, hotel reservation and rental car reservation information, from hundreds of online travel platforms at once. In addition, the Company offers various other services to consumers, travel service providers and restaurants, such as certain travel-related insurance products and restaurant management services.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The Company's Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, including acquired businesses from the dates of acquisition. All intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results may differ significantly from those estimates. The estimates underlying the Company's Consolidated Financial Statements relate to, among other things, the valuation of goodwill, other long-lived tangible and intangible assets, the valuation of investments in private companies, income taxes, contingencies, stock-based compensation, the allowance for expected credit losses (also referred to as allowance for doubtful accounts), customer chargeback provisions and the accrual of obligations for loyalty and other incentive programs.

***Impact of COVID-19***

In response to the outbreak of the novel strain of the coronavirus, COVID-19 (the "COVID-19 pandemic"), many governments around the world have implemented, and continue to implement, a variety of measures to reduce the spread of COVID-19, including travel restrictions and bans, instructions to residents to practice social distancing, curfews, quarantine advisories, including quarantine restrictions after travel in certain locations, shelter-in-place orders, required closures of non-essential businesses and additional restrictions on businesses as part of re-opening plans. These government mandates have forced many of the customers on whom the Company's business relies, including hotels and other accommodation providers, airlines and restaurants, to seek government support in order to continue operating, to curtail drastically their service offerings, to file for bankruptcy protection or to cease operations entirely. Further, these measures have materially adversely affected, and may further adversely affect, consumer sentiment and discretionary spending patterns and economies, and the Company's workforce, operations and customers.

The COVID-19 pandemic and the resulting economic conditions and government orders have resulted in a material decrease in consumer spending and an unprecedented decline in travel and restaurant activities and consumer demand for related services. The Company's financial results and prospects are almost entirely dependent on the sale of travel-related services. The Company's results for the year ended December 31, 2020 have been materially and negatively impacted as compared to 2019 and 2018.

Due to the uncertain and rapidly evolving nature of current conditions around the world, the Company is unable to predict accurately the impact that the COVID-19 pandemic will have on its business going forward. With the spread of COVID-19 to all major regions and the discovery of new variants of the coronavirus, the Company expects the COVID-19 pandemic and its effects to continue to have a significant adverse impact on its business for the duration of the pandemic, during any resurgence of the pandemic and during the subsequent economic recovery, which could be an extended period of time.



Given the severe downturn in the global travel industry and the financial difficulties faced by many of the Company's travel service provider and restaurant customers and marketing affiliates, the Company has increased its provision for expected credit losses (also referred to as provision for bad debt or provision for uncollectible accounts) on receivables from and prepayments to its travel service provider and restaurant customers and marketing affiliates (see Note 7). Moreover, due to the high level of cancellations of existing reservations, the Company has incurred, and may continue to incur, higher than normal cash outlays to refund consumers for prepaid reservations, including certain situations where the Company has already transferred the prepayment to the travel service provider (see Note 3). Any material increase in the Company's provision for expected credit losses and any material increase in cash outlays to refund consumers would have a corresponding adverse effect on the Company's results of operations and related cash flows.

As a result of the deterioration of the Company's business due to the COVID-19 pandemic, the Company determined that a portion of its goodwill had experienced a decline in value at March 31, 2020 and recorded a significant impairment charge (see Note 11). In addition, the Company recorded a significant impairment charge at March 31, 2020 for one of the Company's long-term investments due to the impact of the COVID-19 pandemic on the business of the investee and the Company's estimate of the resulting decline in the value of the investment (see Notes 5 and 6). At September 30, 2020, the Company recorded an additional significant impairment charge to its goodwill (see Note 11). Even though no additional impairment indicators were identified as of December 31, 2020 for these assets, it is possible that the Company may have to record additional significant impairment charges in future periods.

See Note 12 for additional information about the Company's existing debt arrangements, including \$4.1 billion of debt issued in April 2020. The Company's continued access to sources of liquidity depends on multiple factors, including global economic conditions, the condition of global financial markets, the availability of sufficient amounts of financing, the Company's ability to meet debt covenant requirements, the Company's operating performance and the Company's credit ratings. If the Company's credit ratings were to be downgraded, or financing sources were to ascribe higher risk to the Company's rating levels, the Company or its industry, the Company's access to capital and the cost of any financing would be negatively impacted. There is no guarantee that additional debt financing will be available in the future to fund the Company's obligations, or that it will be available on commercially reasonable terms, in which case the Company may need to seek other sources of funding.

The extent of the effects of the COVID-19 pandemic on the Company's business, results of operations, cash flows and growth prospects is highly uncertain and will ultimately depend on future developments. These include, but are not limited to, the severity, extent and duration of the COVID-19 pandemic, including as a result of any new variants of COVID-19 and any resurgences of the pandemic, and its impact on the travel and restaurant industries and consumer spending more broadly. Even if economic and operating conditions for the Company's business improve, the Company cannot predict the long-term effects of the pandemic on its business or the travel and restaurant industries as a whole. If the travel and restaurant industries are fundamentally changed by the COVID-19 pandemic in ways that are detrimental to the Company's operating model, the Company's business may continue to be adversely affected even as the broader global economy recovers.

In response to the reduction in the Company's business volumes as a result of the impact of the COVID-19 pandemic, the Company has taken actions to reduce the size of its workforce to optimize efficiency and reduce costs. See Note 20 for additional information.

Certain governments have passed or are considering legislation to help businesses during the COVID-19 pandemic through loans, wage subsidies, tax relief or other financial aid, and some of these governments have extended or are considering extending these programs. The Company has participated in several of these programs, including the Netherlands' wage subsidy program and the United Kingdom's job retention scheme. See Note 21 for additional information.

#### ***Change in Presentation and Reclassification***

Certain amounts from prior periods have been reclassified to conform to the current year presentation, including the change in the presentation of marketing expenses disclosed later in this Note.

#### ***Fair Value of Financial Instruments***

The Company's financial instruments, including cash, restricted cash, accounts payable, accrued expenses and deferred merchant bookings, are carried at cost which approximates their fair value because of the short-term nature of these financial instruments. Accounts receivable and other financial assets measured at amortized cost are carried at cost less an allowance for expected credit losses to present the net amount expected to be collected (see Note 7). See Notes 5, 6 and 12 for information related to fair value for investments, derivatives and the Company's outstanding senior notes.

### **Cash and Cash Equivalents**

Cash and cash equivalents consists primarily of cash and highly liquid investment grade securities with an original maturity of three months or less. Cash equivalents are recognized based on settlement date.

### **Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents are restricted through legal contracts or regulations. Restricted cash and cash equivalents at December 31, 2020, 2019 and 2018 principally relates to the minimum cash requirement for the Company's travel-related insurance business. The following table reconciles cash and cash equivalents and restricted cash and cash equivalents reported in the Consolidated Balance Sheets to the total amount shown in the Consolidated Statements of Cash Flows (in millions):

|  | December 31,     |                 |                 |
|--|------------------|-----------------|-----------------|
|  | 2020             | 2019            | 2018            |
| As included in the Consolidated Balance Sheets:  |                  |                 |                 |
| Cash and cash equivalents  | \$ 10,562        | \$ 6,312        | \$ 2,624        |
| Restricted cash and cash equivalents included in "Other current assets"  | 20               | 20              | 21              |
| Total cash and cash equivalents and restricted cash and cash equivalents as shown in the Consolidated Statements of Cash Flows | <u>\$ 10,582</u> | <u>\$ 6,332</u> | <u>\$ 2,645</u> |

### **Investments**

Investments held by the Company include debt securities and equity securities. Investments in debt or equity securities that include embedded features, such as conversion or redemption features, are analyzed by the Company to determine if these features are embedded derivatives that require separate accounting treatment. Payments made for investments are reported in "Purchase of investments" and proceeds received from sales or maturities of investments are reported in "Proceeds from sale and maturity of investments" in the Consolidated Statements of Cash Flows.

### **Debt Securities**

The Company has classified its investments in debt securities as available-for-sale securities. Preferred stock that is either mandatorily redeemable or redeemable at the option of the investor is considered a debt security for accounting purposes. These securities are reported at estimated fair value with the aggregate unrealized gains and losses, net of tax, reflected in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets.

For periods prior to January 1, 2020, investments in debt securities were considered to be impaired when a decline in fair value was judged to be other than temporary because the Company either intended to sell or it was more-likely-than not that it would be required to sell the impaired security before recovery. Once a decline in fair value was determined to be other than temporary, an impairment charge was recorded and a new cost basis in the investment was established. If the Company did not intend to sell the debt security, but it was probable that the Company would not collect all amounts due, then only the impairment due to the credit risk would be recognized in net income and the remaining amount of the impairment would be recognized in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets.

On January 1, 2020, the Company adopted the accounting standards update on the measurement of credit losses on financial instruments. Under the current accounting standard, if the amortized cost basis of an available-for-sale security exceeds its fair value and if the Company has the intention to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of the amortized cost basis, an impairment is recognized in the Consolidated Statements of Operations. If the Company does not have the intention to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of the amortized cost basis and the Company determines that the decline in fair value below the amortized cost basis of an available-for-sale security is entirely or partially due to credit-related factors, the credit loss is measured and recognized as an allowance for expected credit losses along with the related expense in the Consolidated Statements of Operations. The allowance is measured as the amount by which the debt security's amortized cost basis exceeds the Company's best estimate of the present value of cash flows expected to be collected.

The fair value of these investments is based on the specific quoted market price of the securities or comparable securities at the balance sheet dates. Unobservable inputs are also used when little or no market data is available. See Note 6 for information related to fair value measurements.

The Company's investments in marketable debt securities are recognized based on the trade date. The marketable debt securities generally have a term of less than five years and are assessed for classification in the Consolidated Balance Sheets as short-term or long-term at the individual security level. Classification as short-term or long-term is based on the maturities of the securities, as applicable, and the Company's expectations regarding the timing of sales and redemptions. Investments of a strategic nature that have been made for the purpose of affiliation or potential business advantage or in connection with a commercial relationship are included in "Long-term investments" in the Consolidated Balance Sheets, except in situations where the Company expects the investment to be realized in cash, redeemed or sold within one year. The cost of marketable debt securities sold is determined using a first-in and first-out method.

#### *Equity Securities*

Equity securities are reported as "Long-term investments" in the Consolidated Balance Sheets and include marketable equity securities and equity investments without readily determinable fair values. Marketable equity securities are reported at estimated fair value with changes in fair value recognized in "Other income (expense), net" in the Consolidated Statements of Operations.

The Company holds investments in equity securities of private companies, over which the Company does not have the ability to exercise significant influence or control. The Company elected to measure these investments at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

See Notes 5 and 6 for further information related to investments.

#### ***Accounts Receivable from Customers and Allowance for Expected Credit Losses***

For periods prior to January 1, 2020, receivables from customers are recorded at the original invoiced amounts net of an allowance for doubtful accounts. The allowance for doubtful accounts was estimated based on historical experience, aging of the receivable, credit quality of the customers, economic trends and other factors that may affect the Company's ability to collect from customers.

On January 1, 2020, the Company adopted the accounting standards update on the measurement of expected credit losses, which requires the Company to estimate lifetime expected credit losses upon recognition of the financial assets. The Company has identified the relevant risk characteristics, of its customers and the related receivables and prepayments, which include the following: size, type (alternative accommodations vs. hotels) or geographic location of the customer, or a combination of these characteristics. Receivables with similar risk characteristics have been grouped into pools. For each pool, the Company considers the historical credit loss experience, current economic conditions, supportable forecasts of future economic conditions, and any recoveries in assessing the lifetime expected credit losses. Other key factors that influence the expected credit loss analysis include customer demographics, payment terms offered in the normal course of business to customers, the nature of competition, and industry-specific factors that could impact the Company's receivables. Additionally, external data and macroeconomic factors are considered. This is assessed at each quarter based on the Company's specific facts and circumstances. See Note 7 for additional information.

#### ***Property and Equipment, Net***

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets or, when applicable, the term of the lease related to leasehold improvements, whichever is shorter.

#### *Building Construction-in-progress*

Building construction-in-progress is associated with the construction of Booking.com's future headquarters in the Netherlands and is included in "Property and equipment, net" in the Consolidated Balance Sheets. Depreciation of the building and its related components will commence once it is ready for the Company's use.

#### *Website and Internal-use Software Capitalization*

Acquisition costs and certain direct development costs associated with website and internal-use software are capitalized and include external direct costs of services and payroll costs for employees devoting time to the software projects principally related to platform development, including support systems, software coding, designing system interfaces and installation and testing of the software. These costs are recorded as property and equipment and are generally amortized beginning when the asset is substantially ready for use. Costs incurred for enhancements that are expected to result in

additional features or functionalities are capitalized and amortized over the estimated useful life of the enhancements. Costs incurred during the preliminary project stage, as well as maintenance and training costs, are expensed as incurred.

### ***Cloud Computing Arrangements***

The Company utilizes various third-party computer systems and third-party service providers, including global distribution systems ("GDSs") serving the accommodation, rental car and airline industries. The Company uses both internally-developed systems and third-party systems to operate its services, including transaction processing, order management and financial and accounting systems. For periods beginning after December 31, 2018, implementation costs incurred in a hosting arrangement that is a service contract are capitalized and amortized over the term of the hosting arrangement. The capitalized implementation costs are reported as "Prepaid expenses, net" or "Other assets, net" in the Company's Consolidated Balance Sheets, as appropriate. The related amortization expenses are reported as "Information technology" in the Company's Consolidated Statements of Operations.

### ***Leases***

On January 1, 2019, the Company adopted Accounting Standards Codification ("ASC") 842, *Leases*, using a modified retrospective method applied to all contracts as of January 1, 2019. Therefore, for reporting periods beginning after December 31, 2018, the financial statements are prepared in accordance with the current lease standard and the financial statements for all periods prior to January 1, 2019 are presented under the previous lease standard ("ASC 840").

Under the current lease standard, the Company determines if an arrangement is a lease, or contains a lease, when a contract is signed. The Company determines if a lease is an operating or finance lease and records a lease asset and a lease liability upon lease commencement, which is the date when the underlying asset is made available for use by the lessor. The Company has operating leases for office space, data centers and land for Booking.com's future headquarters. For office space, data centers and land, the Company has elected to combine the fixed payments to lease the asset and any fixed non-lease payments (such as maintenance or utility charges) when determining its lease payments.

The Company uses its incremental borrowing rate as its discount rate to determine the present value of its remaining lease payments to calculate its lease assets and lease liabilities because the rate implicit in the lease is not readily determinable. The incremental borrowing rate approximates the rate the Company would pay to borrow in the currency of the lease payments on a collateralized basis for the weighted-average life of the lease. Operating lease assets also include any prepaid lease payments and lease incentives received prior to lease commencement.

The Company recognizes lease expense on a straight-line basis over the lease term. Certain of the Company's lease agreements include rent payments which are adjusted periodically for inflation. Any change in payments due to changes in inflation rates are recognized as variable lease expense as they are incurred. Variable lease expense also includes costs for property taxes, insurance and services provided by the lessor which are charged based on usage or performance (such as maintenance or utility charges).

Most leases have one or more options to renew, with renewal terms that can extend the initial lease term for various periods up to 9 years. The exercise of renewal options for office space and data centers is at the Company's discretion and are included if they are reasonably certain to be exercised. The land lease for Booking.com's future headquarters has an initial term which expires in 2065, at which time the lease payments will be adjusted based on the value of the land on the reassessment date. The Company considered the initial term of the land lease to be its expected period of use.

"Operating lease assets" in the Consolidated Balance Sheets includes the land-use rights related to payment in 2016 for the land lease for Booking.com's future headquarters as described above. The land-use rights are amortized on a straight-line basis over its expected period of use. This expense is recorded as lease expense in "General and administrative" expense in the Consolidated Statements of Operations. See Notes 10 and 16 for further information.

### ***Goodwill***

The Company accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. The Company's Consolidated Financial Statements reflect an acquired business starting at the date of the acquisition.

Goodwill is not subject to amortization and is tested annually for impairment and when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company tests goodwill at a reporting unit level. The fair value of the reporting unit is compared to its carrying value,

including goodwill. Fair values are determined using a combination of standard valuation techniques, including an income approach (discounted cash flows) and market approaches (e.g., earnings before interest, taxes, depreciation, and amortization ("EBITDA") multiples of comparable publicly traded companies) and based on market participant assumptions. For periods prior to January 1, 2020, an impairment was recorded to the extent that the implied fair value of goodwill is less than the carrying value of goodwill. The Company adopted the accounting standards update on goodwill impairment in the first quarter of 2020, under which a goodwill impairment loss is measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. See Note 11 for further information.

### ***Impairment of Long-lived Assets***

The Company reviews long-lived assets, including intangible assets and operating lease assets, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The assessment of possible impairment is based upon the Company's ability to recover the carrying value of the assets from the estimated undiscounted future net cash flows, before interest and taxes, of the related asset group. The amount of impairment loss, if any, is measured as the excess of the carrying value of the asset over the present value of estimated future cash flows, using a discount rate commensurate with the risks involved and based on assumptions representative of market participants.

### ***Foreign Currency Translation***

The functional currency of the Company's subsidiaries is generally the respective local currency. For international operations, assets and liabilities are translated into U.S. Dollars at the rate of exchange existing at the balance sheet date. Income statement amounts are translated at monthly average exchange rates applicable for the period. Translation gains and losses are included as a component of "Accumulated other comprehensive loss" in the Company's Consolidated Balance Sheets. Foreign currency transaction gains and losses are included in "Other income (expense), net" in the Company's Consolidated Statements of Operations.

### ***Derivative Financial Instruments***

As a result of the Company's international operations, it is exposed to various market risks that may affect its consolidated results of operations, cash flows and financial position. These market risks include, but are not limited to, fluctuations in foreign currency exchange rates. For the Company's international operations, the primary foreign currency exposures are in Euros and British Pounds Sterling, in which the Company conducts a significant portion of its business activities. As a result, the Company faces exposure to adverse movements in foreign currency exchange rates as the financial results of its international operations are translated from local currencies into U.S. Dollars upon consolidation. Additionally, foreign currency exchange rate fluctuations on transactions denominated in currencies other than the functional currency of an entity result in gains and losses that are reflected in net income.

The Company may enter into derivative instruments to hedge certain net exposures of nonfunctional currency denominated assets and liabilities and the volatility associated with translating earnings for its international operations into U.S. Dollars, even though it does not elect to apply hedge accounting or hedge accounting does not apply. These contracts are generally short-term in duration. Certain of the Company's derivative instruments have master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. The Company reports the fair value of its derivative assets and liabilities on a gross basis in the Consolidated Balance Sheets in "Other current assets" and "Accrued expenses and other current liabilities," respectively. Unless designated as hedges for accounting purposes, gains and losses resulting from changes in the fair value of derivative instruments are recognized in "Other income (expense), net" in the Consolidated Statements of Operations in the period that the changes occur and are classified within "Net cash provided by operating activities" in the Consolidated Statements of Cash Flows. See Note 6 for further information related to these derivative instruments.

The Company, from time to time in the past, has utilized derivative instruments to hedge the impact of changes in foreign currency exchange rates on the net assets of its foreign subsidiaries. These derivative instruments were designated as net investment hedges. Hedge ineffectiveness was assessed and measured based on changes in forward exchange rates. The Company recorded gains and losses on these derivative instruments as foreign currency translation adjustments, which offset a portion of the foreign currency translation adjustments related to the foreign subsidiaries' net assets. Gains and losses on these derivative instruments were recognized in the Consolidated Balance Sheets in "Accumulated other comprehensive loss" and will be realized upon a partial sale or liquidation of the investment.

The Company is exposed to the risk that counterparties to derivative instruments may fail to meet their contractual obligations. The Company regularly reviews its credit exposure and assesses the creditworthiness of its counterparties.

### ***Non-derivative Instrument Designated as Net Investment Hedge***

The foreign currency transaction gains or losses on the Company's Euro-denominated debt are measured based upon changes in spot rates. The foreign currency transaction gains or losses on the Euro-denominated debt that is designated as a hedging instrument for accounting purposes are recorded in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets. The foreign currency transaction gains or losses on the Euro-denominated debt that is not designated as a hedging instrument are recognized in "Other income (expense), net" in the Consolidated Statement of Operations. See Notes 12 and 14 for further information related to the net investment hedge.

### ***Revenue Recognition***

On January 1, 2018, the Company adopted ASC 606, Revenue from Contracts with Customers, using a modified retrospective method applied to all contracts as of January 1, 2018. The Company recorded a net increase to its retained earnings of \$189 million, net of tax, as of January 1, 2018, due to the cumulative impact of adopting the current revenue recognition standard, with substantially all of the impact related to the Company's online travel reservation services. Under the current revenue recognition standard, the Company recognizes revenue for travel reservation services when the travel begins rather than when the travel is completed.

#### ***Online travel reservation services***

Substantially all of the Company's revenues are generated by providing online travel reservation services, which principally allows travelers to book travel reservations with travel service providers through the Company's platforms. While the Company generally refers to a consumer that books travel reservation services on the Company's platforms as its customer, for accounting purposes, the Company's customers are the travel service providers and, in certain merchant transactions, the travelers. The Company's contracts with travel service providers give them the ability to market their reservation availability without transferring responsibility to deliver the travel service to the Company. Therefore, the Company's revenues are presented on a net basis in the Consolidated Statements of Operations. These contracts include payment terms and establish the consideration to which the Company is entitled, which includes either a commission or a margin on the travel transaction. Revenue is measured based on the expected consideration specified in the contract with the travel service provider, considering the effects of sales incentives, "no show" cancellations (where the traveler has not cancelled the reservation but does not arrive on the scheduled reservation date) and "late" cancellations (where the travel service provider accepts a cancellation after its cancellation cut-off date). Estimates for cancellations and sales incentives are based on historical experience and current trends. Coupons are recorded as a reduction of the transaction price, generally at the time they are redeemed. The local occupancy taxes, general excise taxes, value-added taxes, sales taxes and other similar taxes ("travel transaction taxes"), if any, collected from travelers are reported on a net basis in revenues in the Consolidated Statements of Operations.

Revenues for online travel reservation services are recognized at a point in time when the Company has completed its post-booking services and the travelers begin using the arranged travel services. These services are classified into two categories:

- Agency revenues are derived from travel-related transactions where the Company does not facilitate payments from travelers for the services provided. The Company invoices the travel service providers for its commissions in the month that travel is completed. Agency revenues consist almost entirely of travel reservation commissions. Substantially all of the Company's agency revenue is from Booking.com agency accommodation reservations.
- Merchant revenues are derived from travel-related transactions where the Company facilitates payments from travelers for the services provided, generally at the time of booking. The Company records cash collected from travelers, which includes the amounts owed to the travel service providers and the Company's commission or margin and fees, as deferred merchant bookings until the arranged travel service begins. Merchant revenues include travel reservation commissions and transaction net revenues (i.e., the amount charged to travelers less the amount owed to travel service providers) in connection with the Company's merchant reservations services; credit card processing rebates and customer processing fees; and ancillary fees, including travel-related insurance revenues. Substantially all merchant revenues are derived from transactions where travelers book accommodation reservations or rental car reservations.

### *Advertising and Other Revenues*

Advertising and other revenues are primarily recognized by KAYAK and OpenTable. KAYAK recognizes advertising revenue primarily by sending referrals to online travel companies ("OTCs") and travel service providers and from advertising placements on its platforms. Revenue related to referrals is recognized when a consumer clicks on a referral placement or upon completion of the travel. Revenue for advertising placements is recognized based upon when a consumer clicks on an advertisement or when KAYAK displays an advertisement. OpenTable recognizes revenues for reservation fees when diners are seated through its online restaurant reservation service and revenues for subscription fees for restaurant management services on a straight-line basis over the contractual period in accordance with how the service is provided.

### *Accrued Liabilities for Loyalty and Other Incentive Programs*

See Note 3 for information related to accrued liabilities for loyalty and other incentive programs.

### *Deferred Revenue*

See Note 3 for information related to deferred revenue.

### **Advertising Expenses**

#### *Marketing Expenses*

The Company's advertising expenses are reported in "Marketing expenses" in the Consolidated Statements of Operations.

Marketing expenses consist of performance marketing expenses and brand marketing expenses. Performance marketing expenses are expenses generally measured by return on investment or an increase in bookings over a specified time period. These expenses consist primarily of the costs of: (1) search engine keyword purchases; (2) referrals from meta-search and travel research websites; (3) affiliate programs; and (4) other performance-based marketing and incentives. Performance marketing expenses are recognized as incurred. Included in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets are accrued performance marketing liabilities of \$156 million and \$333 million at December 31, 2020 and 2019, respectively. Brand marketing expenses are expenses incurred to build brand awareness over a specified time period. These expenses consist primarily of television advertising and online video and display advertising (including the airing of the Company's television advertising online), as well as other marketing expenses such as public relations and sponsorships. Brand marketing expenses are generally recognized as incurred with the exception of advertising production costs, which are deferred and expensed the first time the advertisement is displayed or broadcast.

In the year ended December 31, 2019 and prior periods, the Company's marketing expenses were presented in the Consolidated Statements of Operations as "Performance marketing" and "Brand marketing" expenses. In 2020, the Company changed the presentation of marketing expenses by combining "Performance marketing" and "Brand marketing" into "Marketing expenses" in the Consolidated Statement of Operations because of the increased convergence of performance marketing and brand marketing channels in areas including digital marketing and the Company's view of overall marketing expenditure as its investment in customer acquisition and retention. The change in presentation had no impact on operating income or net income.

### **Sales and Other Expenses**

Sales and other expenses are generally variable in nature and consist primarily of: (1) credit cards and other payment processing fees associated with merchant transactions; (2) provisions for expected credit losses, primarily related to accommodation commission receivables and prepayments to certain customers; (3) fees paid to third parties that provide call center, website content translations and other services; (4) customer relations costs; (5) customer chargeback provisions and fraud prevention expenses associated with merchant transactions; and (6) insurance claim costs for the Company's travel-related insurance business.

### **Personnel**

Personnel expenses consist of compensation to the Company's personnel, including salaries, stock-based compensation, bonuses, payroll taxes and employee health and other benefits. Included in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets are accrued compensation liabilities of \$333 million and \$344 million at December 31, 2020 and 2019, respectively.

### ***Stock-Based Compensation***

Stock-based compensation expense related to performance share units, restricted stock units and stock options is recognized based on fair value on a straight-line basis over the respective requisite service periods and forfeitures are accounted for when they occur. The fair value on the grant date of performance share units and restricted stock units is determined based on the number of units granted and the quoted price of the Company's common stock. For performance share units with market conditions, the effect of the market condition is also considered in the determination of fair value on the grant date using Monte Carlo simulations. The fair value of employee stock options is determined using the Black-Scholes model.

The Company records stock-based compensation expense for performance-based awards using its estimate of the probable outcome at the end of the performance period (i.e., the estimated performance against the performance targets). The Company periodically adjusts the cumulative stock-based compensation expense recorded when the probable outcome for these performance-based awards is updated based upon changes in actual and forecasted operating results or expected achievement of performance goals, as applicable.

The benefits of tax deductions in excess of recognized compensation costs are recognized in the income statement as a discrete item when an option exercise or a vesting and release of shares occurs. Excess tax benefits are presented as operating cash flows and cash payments for employee statutory tax withholding related to vested stock awards are presented as financing cash flows in the Consolidated Statements of Cash Flows.

See Note 4 for further information related to stock-based awards.

### ***Government Grants and Other Assistance***

The Company recognizes government grants in the financial statements when it is probable that the grant will be received and the Company will comply with the conditions of the grant. Government grants are recorded as a reduction in the related operating expense or the cost of the asset that they are intended to defray. The government grants received by the Company have principally been granted to defray personnel costs.

### ***Information Technology***

Information technology expenses consist primarily of: (1) software license and system maintenance fees; (2) outsourced data center and cloud computing costs; (3) payments to contractors; and (4) data communications and other expenses associated with operating the Company's services.

### ***Restructuring and Other Exit Costs***

The Company records employee severance and other termination costs that meet the requirements for recognition in accordance with the relevant guidance of ASC 420, *Exit or Disposal Cost Obligations*, or ASC 712, *Compensation - Nonretirement Postemployment Benefits*, as applicable. For involuntary termination benefits that are not provided under the terms of an ongoing benefit arrangement, the liability for the current fair value of expected future costs associated with a management-approved restructuring plan is recognized in the period in which the plan is communicated to the employees and the plan is not expected to change significantly. For ongoing benefit arrangements, inclusive of statutory requirements, employee termination costs are accrued when the existing situation or set of circumstances indicates that an obligation has been incurred, it is probable the benefits will be paid, and the amount can be reasonably estimated. Termination benefits associated with voluntary leaver schemes are recorded when the employee irrevocably accepts the offer and the amount can be reasonably estimated.

### ***Income Taxes***

The Company accounts for income taxes under the asset and liability method. The Company records the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in the Consolidated Balance Sheets, as well as operating loss and tax credit carryforwards. Deferred taxes are classified as noncurrent in the balance sheet.

The Company records deferred tax assets to the extent it believes these assets will more likely than not be realized. The Company regularly reviews its deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences, the carryforward periods available for tax reporting purposes, and tax planning strategies. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the period in which related temporary differences become deductible. In



determining the future tax consequences of events that have been recognized in the financial statements or tax returns, significant judgments, estimates, and interpretation of statutes are required.

Deferred taxes are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date of such change.

The Company recognizes liabilities when it believes that uncertain positions may not be fully sustained upon audit by the tax authorities. Liabilities recognized for uncertain tax positions are based on a two-step approach for recognition and measurement. First, the Company evaluates the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit based on its technical merits. Second, the Company measures the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. Interest and penalties attributable to uncertain tax positions, if any, are recognized as a component of income tax expense.

The Company adopted an accounting policy to treat taxes on global intangible low-taxed income ("GILTI") introduced by the U.S. Tax Cuts and Jobs Act (the "Tax Act") as period costs. See Note 15 for further details related to income taxes.

### ***Contingencies***

Loss contingencies (other than income tax-related contingencies) arise from actual or possible claims and assessments and pending or threatened litigation that may be brought against the Company by individuals, governments or other entities. Based on the Company's assessment of loss contingencies at each balance sheet date, a loss is recorded in the financial statements if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated.

### ***Segment Reporting***

The Company historically determined that its primary brands constituted its operating segments. In 2019, reflecting changes to the management structure, the Company reorganized its operating segments from six to four operating segments by combining Booking.com with Rentalcars.com and KAYAK with OpenTable. The Company's Booking.com and Rentalcars.com operating segment represents a substantial majority of the Company's total revenues and operating income. The Company's operating segments continue to be aggregated into one reportable segment based on the similarity in economic characteristics, other qualitative factors and the objectives and principles of ASC 280, *Segment Reporting*. For geographic information, see Note 18.

## **Recent Accounting Pronouncements Adopted**

### ***Simplifying the Test for Goodwill Impairment***

The Financial Accounting Standards Board ("FASB") issued an accounting update to simplify the test for goodwill impairment. The revised guidance eliminates the previously required step two of the goodwill impairment test, which required a hypothetical purchase price allocation to measure goodwill impairment. Under the revised guidance, a goodwill impairment loss will be measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. The Company adopted this update in the first quarter of 2020 and applied it on a prospective basis (see Note 11 for additional information on the goodwill impairment tests performed in 2020).

### ***Measurement of Credit Losses on Financial Instruments***

The FASB issued an accounting update on the measurement of credit losses for certain financial assets measured at amortized cost and available-for-sale debt securities. For financial assets measured at amortized cost, this update requires an entity to (1) estimate its lifetime expected credit losses upon recognition of the financial assets and establish an allowance to present the net amount expected to be collected, (2) recognize this allowance and changes in the allowance during subsequent periods through net income and (3) consider relevant information about past events, current conditions and reasonable and supportable forecasts in assessing the lifetime expected credit losses. For available-for-sale debt securities, this update made several targeted amendments to the existing other-than-temporary impairment model, including (1) requiring disclosure of the allowance for expected credit losses, (2) allowing reversals of the previously recognized credit losses until the entity has the intent to sell or the entity is more-likely-than-not required to sell the securities or the maturity of the securities, (3) limiting impairment to the difference between the amortized cost basis and fair value and (4) not allowing entities to consider the length of time that fair value has been less than amortized cost as a factor in evaluating whether a credit loss exists. The Company

adopted this update in the first quarter of 2020 and applied this update on a modified retrospective basis. Upon adoption of the new standard on January 1, 2020, the Company recorded a net decrease to its retained earnings of \$3 million, net of tax. See Note 7 for additional information related to allowance for expected credit losses on accounts receivable and other financial assets and Note 5 for additional information related to investments in available-for-sale debt securities.

### ***SEC Amendments to Regulation S-K***

On November 19, 2020, the U.S. Securities and Exchange Commission issued final rules to amend Regulation S-K. These changes are effective for annual filings for the first fiscal year ending on or after August 9, 2021 and early adoption is permitted. The Company elected to adopt the amendments to Item 302 of Regulation S-K in their entirety, which eliminates the requirement to disclose, in these Consolidated Financial Statements, selected financial information for each quarter during the two most recent fiscal years, except in situations with certain retrospective changes.

### **Other Recent Accounting Pronouncements**

#### ***Accounting for Convertible Instruments and Contracts in an Entity's Own Equity***

In August 2020, the FASB issued a new accounting update relating to convertible instruments and contracts in an entity's own equity. For convertible instruments, the accounting update reduces the number of accounting models for convertible debt instruments and convertible preferred stock. Limiting the accounting models results in fewer embedded conversion features being separately recognized from the host contract as compared with current U.S. GAAP. The accounting update amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. The accounting update also simplifies the diluted earnings per share calculation in certain areas.

For public business entities, the update is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. Entities are allowed to apply this update on either a full or modified retrospective basis. The Company is currently evaluating the impact to its Consolidated Financial Statements of adopting this update.

#### ***Simplifying the Accounting for Income Taxes***

The FASB issued a new accounting update relating to income taxes. This update provides an exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. This update also (1) requires an entity to recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax, (2) requires an entity to evaluate when a step-up in the tax basis of goodwill should be considered part of the business combination in which goodwill was originally recognized for accounting purposes and when it should be considered a separate transaction, and (3) requires that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date.

The Company adopted this update on January 1, 2021 and applied the amendment related to franchise taxes that are partially based on income on a modified retrospective basis and all other amendments on a prospective basis. The adoption did not have a material impact on the Company's Consolidated Financial Statements.

## **3. REVENUE**

### **Disaggregation of Revenue**

#### ***Revenue by Type of Service***

Approximately 88%, 87% and 87% of the Company's revenues for each of the years ended December 31, 2020, 2019 and 2018, respectively, relates to online accommodation reservation services. Revenue from all other sources of online travel reservation services and advertising and other revenues each individually represent less than 10% of the Company's total revenues for each year.

## Revenue by Geographic Area

See Note 18 for the information related to revenue by geographic area.

## Deferred Revenue

Cash payments received from travelers in advance of the Company completing its performance obligations are included in "Deferred merchant bookings" in the Company's Consolidated Balance Sheets and are comprised principally of amounts estimated to be payable to the travel service providers as well as the Company's estimated deferred revenue for its commission or margin and fees. The Company expects to complete its performance obligations within one year from the reservation date. The amounts are subject to refunds for cancellations.

The following table summarizes the activity of deferred revenue for online travel reservation services for the years ended December 31, 2020 and 2019 (in millions):

|   | Year Ended December 31, |               |
|---|-------------------------|---------------|
|   | 2020                    | 2019          |
| Balance, beginning of year  | \$ 220                  | \$ 149        |
| Revenues recognized from the beginning balance  | (154)                   | (134)         |
| Cancellations   | (66)                    | (15)          |
| Payments received from travelers net of amounts estimated to be payable to travel service providers and other changes | 50                      | 220           |
| Balance, end of year  | <u>\$ 50</u>            | <u>\$ 220</u> |

## Loyalty and Other Incentive Programs

The Company provides loyalty programs where participating consumers are awarded loyalty points on current transactions that can be redeemed in the future. At December 31, 2020 and 2019, liabilities for loyalty program incentives of \$21 million and \$80 million, respectively, were included in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets. The Company's largest loyalty program is at OpenTable, where points can be redeemed for rewards such as qualifying reservations at participating restaurants, third-party gift cards and accommodation reservations booked through some of the Company's other platforms. The estimated fair value of the loyalty points that are expected to be redeemed is recognized as a reduction of revenue at the time the incentives are granted. In March 2018, OpenTable introduced a three-year time-based expiration for points earned by diners, which reduced its loyalty program liability by \$27 million, with a corresponding increase to revenue. Unredeemed loyalty points existing as of the date of introduction of the expiration provision will expire during the three months ending March 31, 2021. Unredeemed loyalty points earned after the date of introduction of the expiration provision expire three years after they were earned. In 2020, the Company recorded a decrease of \$28 million to the liability, primarily due to changes in estimates of the number of loyalty points expected to be redeemed prior to expiration, with a corresponding increase to revenue.

In addition to the loyalty programs, at December 31, 2020 and 2019, liabilities of \$60 million and \$22 million, respectively, for other incentive programs, such as referral bonuses, rebates, credits and discounts, were included in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets. During 2020, the Company offered additional rebates to customers meeting certain eligibility requirements under an incentive program at Booking.com. The eligibility requirements include the customer's enrollment in Booking.com's Genius Program (program features include special discounts offered by customers to frequent travelers) and Preferred Partner Program (program features include greater visibility for customers in search results for payment of higher commission) and timely payment of invoices. The additional rebates resulted in a reduction of revenue of \$100 million during the year ended December 31, 2020 and a liability of \$25 million at December 31, 2020.

## Refunds to Travelers

Due to the high level of cancellations of existing reservations as a result of the COVID-19 pandemic (see Note 2), the Company has incurred, and may continue to incur, higher than normal cash outlays to refund travelers for prepaid reservations, including certain situations where the Company has already transferred the prepayment to the travel service provider. For the year ended December 31, 2020, the Company recorded a reduction in revenue of \$44 million for refunds paid or estimated to be

payable to travelers where the Company agreed to provide free cancellation for certain non-refundable reservations without a corresponding estimated expected recovery from the travel service providers.

#### 4. STOCK-BASED COMPENSATION

The Company's 1999 Omnibus Plan, as amended and restated effective June 7, 2018, (the "1999 Plan") is the primary stock compensation plan from which broad-based employee, non-employee director and consultant equity awards may be made. At December 31, 2020, there were 1,614,570 shares of common stock available for future grant under the 1999 Plan. In addition, under plans assumed in connection with various acquisitions, there were 52,192 shares of common stock available for future grant at December 31, 2020.

Stock-based compensation issued under the plans generally consists of restricted stock units, performance share units and stock options. Performance share units and restricted stock units are payable in shares of the Company's common stock upon vesting. The Company issues shares of its common stock upon the exercise of stock options.

Stock-based compensation expense included in "Personnel" expenses in the Consolidated Statements of Operations was \$233 million, \$308 million and \$317 million for the years ended December 31, 2020, 2019 and 2018, respectively. The related tax benefit for stock-based compensation was \$30 million, \$38 million and \$36 million for the years ended December 31, 2020, 2019 and 2018, respectively. Stock-based compensation for the years ended December 31, 2020, 2019 and 2018 includes benefits of \$71 million and \$4 million, and a charge of \$48 million, respectively, representing the impact of adjusting the estimated probable outcome at the end of the performance period for outstanding unvested performance share units.

Due to the impact of the COVID-19 pandemic (see Note 2), there was a significant decline in the estimated performance over the performance periods against the performance targets and consequently, a significant reduction in the number of shares that were probable to be issued as compared to December 31, 2019. As a result, the Company recognized a reduction in stock-based compensation expense of \$73 million, which is included in "Personnel" expense in the Consolidated Statement of Operations for the year ended December 31, 2020. In 2020, considering pre-COVID-19 performance and the significant effect of the COVID-19 pandemic on Company performance and consequently on the number of shares that were probable to be issued to employees, the Company modified the performance-based awards granted in 2018 (other than the performance-based awards granted to executive officers and certain other employees) to fix the number of shares to be issued, subject to other vesting conditions. As a result, the Company incurred an additional stock-based compensation expense of \$11 million to be recognized over the remaining requisite service period. In January 2021, the Company modified the performance-based awards granted in 2018 and 2019 to its executive officers, to fix the number of shares to be issued, subject to other vesting conditions. The modification, in the aggregate, will result in additional stock-based compensation expense of approximately \$40 million, to be recognized over the remaining requisite service periods for the performance-based awards.

Restricted stock units and performance share units granted by the Company during the years ended December 31, 2020, 2019 and 2018 had aggregate grant-date fair values of \$392 million, \$380 million and \$337 million, respectively. Restricted stock units and performance share units that vested during the years ended December 31, 2020, 2019, and 2018 had aggregate fair values at vesting of \$358 million, \$373 million and \$415 million, respectively. At December 31, 2020, there was \$384 million of estimated total future stock-based compensation expense related to unvested restricted stock units and performance share units to be recognized over a weighted-average period of 1.9 years.

Stock options granted by the Company during the year ended December 31, 2020 had an aggregate grant-date fair value of \$79 million. At December 31, 2020, there was \$57 million of estimated total future stock-based compensation expense related to unvested stock options to be recognized over a weighted-average period of 2.2 years.

## Restricted Stock Units

The Company makes broad-based grants of restricted stock units that generally vest during a period of one- to three-years, subject to certain exceptions for terminations other than for "cause," for "good reason" or on account of death or disability.

The following table summarizes the activity of restricted stock units for employees and non-employee directors during the year ended December 31, 2020:

| Restricted Stock Units               | Shares         | Weighted-average Grant-date Fair Value |
|--------------------------------------|----------------|--|
| <b>Unvested at December 31, 2019</b> | <b>256,745</b> | <b>\$ 1,801</b>                        |
| Granted                              | 222,977        | \$ 1,659                               |
| Vested                               | (130,684)      | \$ 1,822                               |
| Forfeited                            | (43,079)       | \$ 1,737                               |
| <b>Unvested at December 31, 2020</b> | <b>305,959</b> | <b>\$ 1,697</b>                        |

## Performance Share Units

The Company grants performance share units to executives and certain other employees, which generally vest at the end of a three-year period, subject to certain exceptions for terminations other than for "cause," for "good reason" or on account of death or disability. The number of shares that ultimately vest depends on achieving certain performance metrics or performance goals, as applicable, by the end of the performance period, assuming there is no accelerated vesting for, among other things, a termination of employment under certain circumstances.

The following table summarizes the activity of performance share units for employees during the year ended December 31, 2020:

| Performance Share Units              | Shares         | Weighted-average Grant-date Fair Value |
|--------------------------------------|----------------|--|
| <b>Unvested at December 31, 2019</b> | <b>216,083</b> | <b>\$ 1,835</b>                        |
| Granted                              | 9,040          | \$ 2,498                               |
| Vested                               | (82,023)       | \$ 1,741                               |
| Performance Shares Adjustment *      | (49,775)       | \$ 1,944                               |
| Forfeited                            | (8,847)        | \$ 1,829                               |
| <b>Unvested at December 31, 2020</b> | <b>84,478</b>  | <b>\$ 1,930</b>                        |

\*Probable outcome for these performance-based awards is updated based upon changes in actual and forecasted operating results or expected achievement of performance goals, as applicable, and the impact of modifications.

The following table summarizes the estimated vesting, as of December 31, 2020, of performance share units granted in 2020, 2019 and 2018, net of forfeiture and vesting since the respective grant dates:

| <b>Performance Share Units, by grant year</b>                           | <b>2020</b> | <b>2019</b> | <b>2018</b> |
|---|-------------|-------------|-------------|
| Shares probable to be issued  | 9,040       | 40,843      | 34,595      |
| Shares not subject to the achievement of minimum performance thresholds | —           | 40,843      | N/A*        |
| Shares that could be issued if maximum performance thresholds are met   | 18,080      | 108,522     | N/A*        |

\* The performance period for the performance share units granted in 2018 ended on December 31, 2020.

## Stock Options

In May 2020, the Company granted stock options that vest in March 2023, subject to certain exceptions for terminations other than for "cause," for "good reason" or on account of death or disability. No stock options were granted to the executive officers of the Company. Stock options granted or assumed in acquisitions generally have a term of 10 years from the grant date. The fair value of stock options granted is estimated on the grant date using the Black-Scholes option pricing model and is affected by assumptions regarding a number of complex and subjective variables. The use of an option pricing model requires the use of several assumptions including expected volatility, risk-free interest rate, expected dividends, and expected term. Expected volatility is based on the Company's historical volatility over the expected term of the option and implied volatility of publicly traded options of the Company's common stock. The expected term of the options represents the estimated period of time until option exercise. Since the Company has limited historical stock option exercise experience, the Company used the simplified method in estimating the expected term, which is calculated as the average of the sum of the vesting term and the original contractual term of the options. The risk-free interest rate is based on U.S. Treasury zero-coupon issues at the time of grant for the expected term of the option.

The following table summarizes the assumptions used to value option grants granted during the year ended December 31, 2020 using the Black-Scholes options pricing model:

### Black-Scholes assumptions

|                                 |        |
|---------------------------------|--------|
| Risk-free interest rate         | 0.56 % |
| Expected term in years          | 6.4    |
| Expected stock price volatility | 33.8 % |
| Expected dividend yield         | 0 %    |

The following table summarizes the activity for stock options during the year ended December 31, 2020:

| <b>Employee Stock Options</b>     | <b>Number of Shares</b> | <b>Weighted-average Exercise Price</b> | <b>Aggregate Intrinsic Value (in millions)</b> | <b>Weighted-average Remaining Contractual Term (in years)</b> |
|-----------------------------------|-------------------------|--|--|---|
| <b>Balance, December 31, 2019</b> | 15,122                  | \$ 484                                 | \$ 24  | 2.6   |
| Granted                           | 163,494                 | \$ 1,411                               |  |   |
| Exercised                         | (13,217)                | \$ 466                                 |  |   |
| Forfeited                         | (12,653)                | \$ 1,411                               |  |   |
| <b>Balance, December 31, 2020</b> | <u>152,746</u>          | <u>\$ 1,401</u>                        | <u>\$ 126</u>                                  | <u>9.3</u>  |
| Exercisable at December 31, 2020  | 1,954                   | \$ 660                                 | \$ 3   | 2.1   |

Stock options granted by the Company during the year ended December 31, 2020 had a weighted-average grant-date fair value per option of \$485. The aggregate intrinsic value of employee stock options exercised during the years ended December 31, 2020, 2019 and 2018 was \$15 million, \$20 million and \$5 million, respectively.

## 5. INVESTMENTS

The following table summarizes, by major security type, the Company's investments at December 31, 2020 (in millions):

|  | Cost            | Gross<br>Unrealized<br>Gains<br>/Upward<br>Adjustments | Gross<br>Unrealized<br>Losses<br>/Downward<br>Adjustments | Carrying Value  |
|--|-----------------|--|---|-----------------|
| <b>Short-term investments:</b>             |                 |  |   |                 |
| Debt securities:                           |                 |  |   |                 |
| Trip.com Group convertible debt securities | \$ 500          | \$ 1   | \$ —  | \$ 501          |
| <b>Long-term investments:</b>              |                 |  |   |                 |
| Investments in private companies:          |                 |  |   |                 |
| Debt securities                            | \$ 200          | \$ —   | \$ —  | \$ 200          |
| Equity securities                          | 552             | 3  | (100)   | 455             |
| Other long-term investments:               |                 |  |   |                 |
| Debt securities:                           |                 |  |   |                 |
| Trip.com Group convertible debt securities | 25              | —  | (1)   | 24              |
| Equity securities                          | 463             | 2,617  | —   | 3,080           |
| <b>Total</b>                               | <b>\$ 1,240</b> | <b>\$ 2,620</b>  | <b>\$ (101)</b>   | <b>\$ 3,759</b> |

The following table summarizes, by major security type, the Company's investments at December 31, 2019 (in millions):

|  | Cost            | Gross<br>Unrealized<br>Gains<br>/Upward Adjustments | Gross<br>Unrealized<br>Losses<br>/Downward<br>Adjustments | Carrying Value  |
|--|-----------------|---|---|-----------------|
| <b>Short-term investments:</b>             |                 |   |   |                 |
| Debt securities:                           |                 |   |   |                 |
| International government securities        | \$ 109          | \$ —  | \$ —  | \$ 109          |
| U.S. government securities                 | 138             | —   | —   | 138             |
| Corporate debt securities                  | 751             | 1   | (1)   | 751             |
| <b>Total</b>                               | <b>\$ 998</b>   | <b>\$ 1</b>   | <b>\$ (1)</b>   | <b>\$ 998</b>   |
| <b>Long-term investments:</b>              |                 |   |   |                 |
| Investments in private companies:          |                 |   |   |                 |
| Debt securities                            | \$ 250          | \$ —  | \$ —  | \$ 250          |
| Equity securities                          | 501             | —   | —   | 501             |
| Other long-term investments:               |                 |   |   |                 |
| Debt securities:                           |                 |   |   |                 |
| International government securities        | 68              | —   | —   | 68              |
| U.S. government securities                 | 136             | —   | (1)   | 135             |
| Corporate debt securities                  | 963             | 2   | (2)   | 963             |
| Trip.com Group convertible debt securities | 775             | —   | (8)   | 767             |
| Equity securities                          | 1,117           | 684   | (8)   | 1,793           |
| <b>Total</b>                               | <b>\$ 3,810</b> | <b>\$ 686</b>                                       | <b>\$ (19)</b>  | <b>\$ 4,477</b> |

### ***Investments in Government and Corporate Debt Securities***

The Company has classified its investments in international government securities, U.S. government securities and corporate debt securities as available-for-sale securities. During the year ended December 31, 2020, the Company realized \$2.2 billion in cash from sales and maturities of its investments in government and corporate debt securities.

### ***Investments in Trip.com Group***

At December 31, 2020, the Company had \$525 million invested in convertible senior notes issued at par value by Trip.com Group including \$25 million six-year convertible senior notes issued in September 2016 and \$500 million ten-year convertible senior notes issued in December 2015. The \$500 million convertible senior notes include a put option allowing the Company, at its option, to require a prepayment in cash from Trip.com Group at the end of the sixth year of the note. The \$500 million convertible senior notes were classified as "Short-term investments" in the Consolidated Balance Sheet at December 31, 2020 as the Company expects to exercise the put option and redeem the investment. In May 2020, the Company's May 2015 investment of \$250 million in Trip.com Group's convertible senior notes was repaid upon maturity.

The Company determined that the economic characteristics and risks of the put option related to the \$500 million convertible senior notes are clearly and closely related to the notes, and therefore did not meet the requirement for separate accounting as embedded derivatives. The Company monitors the conversion features of these notes to determine whether they meet the definition of an embedded derivative during each reporting period. The conversion feature associated with the \$25 million convertible senior notes meets the definition of an embedded derivative that requires separate accounting. The embedded derivative is bifurcated for fair value measurement purposes only and is reported in the Consolidated Balance Sheets with its host contract in "Long-term investments." The mark-to-market adjustments of the embedded derivative are included in "Other income (expense), net" in the Company's Consolidated Statements of Operations.

At December 31, 2019, the Company had \$655 million invested in Trip.com Group American Depositary Shares ("ADSs") with a fair value of \$726 million, which is reported in "Long-term investments" in the Consolidated Balance Sheet. During the year ended December 31, 2020, the Company sold its entire investment in these ADSs for \$525 million. "Other income (expense), net" in the Consolidated Statements of Operations includes a net realized loss of \$201 million, a net unrealized gain of \$141 million and a net unrealized loss of \$368 million for the years ended December 31, 2020, 2019 and 2018, respectively, related to these ADSs.

### ***Investment in Meituan***

In 2017, the Company invested \$450 million in preferred shares of Meituan, the leading e-commerce platform for local services in China. The investment has been converted to ordinary shares and classified as a marketable equity security since Meituan's initial public offering in 2018. The investment had a fair value of \$3.1 billion and \$1.1 billion at December 31, 2020 and 2019, respectively, which is included in "Long-term investments" in the Consolidated Balance Sheets. Net unrealized gains of \$2.0 billion, \$602 million and \$1 million for the years ended December 31, 2020, 2019 and 2018, respectively, related to this investment, are included in "Other income (expense), net" in the Consolidated Statements of Operations.

### ***Investments in Private Companies***

#### ***Equity Securities without Readily Determinable Fair Values***

The Company had \$501 million invested in equity securities of private companies at December 31, 2019, including \$500 million invested in Didi Chuxing. Considering the impact of the COVID-19 pandemic (see Note 2), the Company performed an impairment analysis, as of March 31, 2020, on the investment in Didi Chuxing. The Company recognized an impairment charge of \$100 million during the three months ended March 31, 2020, resulting in an adjusted carrying value of \$400 million at March 31, 2020 and December 31, 2020 (see Note 6). No additional impairment indicators were identified as of December 31, 2020.

In 2020, the Company changed its classification as a debt security of an investment in the preferred shares of a private company due to changes in the redemption features of the preferred shares. As of December 31, 2020, the investment is classified as an equity security and had a carrying value of \$51 million. These equity investments are measured at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer and are included in "Long-term investments" in the Company's Consolidated Balance Sheets.



## Debt Securities

The Company had \$200 million and \$250 million invested in preferred shares of private companies, including Grab Holdings Inc. ("Grab"), with an aggregate estimated fair value of \$200 million and \$250 million at December 31, 2020 and 2019, respectively. The investment in Grab is classified as a debt security for accounting purposes and categorized as available-for-sale. The preferred shares are convertible to ordinary shares at the Company's option and are mandatorily convertible upon an initial public offering. The preferred shares also contain a redemption feature that can be exercised by the Company after certain points of time. The investment is reported at estimated fair value in "Long-term investments" in the Company's Consolidated Balance Sheets, with the aggregate unrealized gains and losses, net of tax, reflected in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets. As discussed above in "Equity Securities without Readily Determinable Fair Values", in 2020, the Company changed its classification of an investment that was previously accounted as a debt security.

## 6. FAIR VALUE MEASUREMENTS

Financial assets and liabilities carried at fair value at December 31, 2020 and nonrecurring fair value measurements are classified in the categories described in the tables below (in millions):

|  | Level 1   | Level 2 | Level 3  | Total     |
|--|-----------|---------|----------|-----------|
| <b>Recurring fair value measurements</b>                             |           |         |          |           |
| <b>ASSETS:</b>   |           |         |          |           |
| <b>Cash equivalents and restricted cash equivalents:</b>             |           |         |          |           |
| Money market fund investments  | \$ 10,208 | \$ —    | \$ —     | \$ 10,208 |
| Time deposits and certificates of deposit                            | 32        | —       | —        | 32        |
| <b>Short-term investments:</b>                                       |           |         |          |           |
| Trip.com Group convertible debt securities                           | —         | 501     | —        | 501       |
| <b>Long-term investments:</b>  |           |         |          |           |
| <b>Investments in private companies:</b>                             |           |         |          |           |
| Debt securities  | —         | —       | 200      | 200       |
| <b>Other long-term investments:</b>                                  |           |         |          |           |
| Trip.com Group convertible debt securities                           | —         | 24      | —        | 24        |
| Equity securities  | 3,080     | —       | —        | 3,080     |
| <b>Derivatives:</b>  |           |         |          |           |
| Foreign currency exchange derivatives                                | —         | 9       | —        | 9         |
| Total assets at fair value   | \$ 13,320 | \$ 534  | \$ 200   | \$ 14,054 |
| <b>LIABILITIES</b>   |           |         |          |           |
| Foreign currency exchange derivatives                                | \$ —      | \$ 7    | \$ —     | \$ 7      |
| <b>Nonrecurring fair value measurements</b>                          |           |         |          |           |
| Investments in equity securities of private companies <sup>(1)</sup> | \$ —      | \$ —    | \$ 404   | \$ 404    |
| Goodwill of the OpenTable and KAYAK reporting unit <sup>(2)</sup>    | —         | —       | 1,000    | 1,000     |
| Total nonrecurring fair value measurements                           | \$ —      | \$ —    | \$ 1,404 | \$ 1,404  |

(1) At March 31, 2020, the investment in Didi Chuxing was written down to its estimated fair value of \$400 million, resulting in an impairment charge of \$100 million (see Note 5).

(2) At March 31, 2020, the goodwill of the OpenTable and KAYAK reporting unit was written down to its estimated fair value of \$1.5 billion, resulting in an impairment charge of \$489 million. At September 30, 2020, the goodwill was further written down to its estimated fair value of \$1.0 billion, resulting in an additional impairment charge of \$573 million (see Note 11).

Financial assets and liabilities carried at fair value at December 31, 2019 are classified in the categories described in the tables below (in millions):

|  | Level 1  | Level 2  | Level 3 | Total     |
|--|----------|----------|---------|-----------|
| <b>Recurring fair value measurements</b>                 |          |          |         |           |
| <b>ASSETS:</b>   |          |          |         |           |
| <b>Cash equivalents and restricted cash equivalents:</b> |          |          |         |           |
| Money market fund investments                            | \$ 5,734 | \$ —     | \$ —    | \$ 5,734  |
| Corporate debt securities                                | —        | 2        | —       | 2         |
| Time deposits and certificates of deposit                | 29       | —        | —       | 29        |
| <b>Short-term investments:</b>                           |          |          |         |           |
| International government securities                      | —        | 109      | —       | 109       |
| U.S. government securities                               | —        | 138      | —       | 138       |
| Corporate debt securities                                | —        | 751      | —       | 751       |
| <b>Long-term investments:</b>                            |          |          |         |           |
| Investments in private companies:                        |          |          |         |           |
| Debt securities  | —        | —        | 250     | 250       |
| Other long-term investments:                             |          |          |         |           |
| International government securities                      | —        | 68       | —       | 68        |
| U.S. government securities                               | —        | 135      | —       | 135       |
| Corporate debt securities                                | —        | 963      | —       | 963       |
| Trip.com Group convertible debt securities               | —        | 767      | —       | 767       |
| Equity securities  | 1,793    | —        | —       | 1,793     |
| <b>Derivatives:</b>                                      |          |          |         |           |
| Foreign currency exchange derivatives                    | —        | 12       | —       | 12        |
| Total assets at fair value                               | \$ 7,556 | \$ 2,945 | \$ 250  | \$ 10,751 |
| <b>LIABILITIES</b>                                       |          |          |         |           |
| Foreign currency exchange derivatives                    | \$ —     | \$ 5     | \$ —    | \$ 5      |

There are three levels of inputs to measure fair value. The definition of each input is described below:

Level 1: Quoted prices in active markets that are accessible by the Company at the measurement date for identical assets and liabilities.

Level 2: Inputs that are observable, either directly or indirectly. Such prices may be based upon quoted prices for identical or comparable securities in active markets or inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available.

## Investments

See Note 5 for additional information related to the Company's investments.

The valuation of investments in corporate debt securities, U.S. and international government securities and Trip.com Group convertible debt securities are considered "Level 2" valuations because the Company has access to quoted prices, but does not have visibility into the volume and frequency of trading for these investments. A market approach is used for recurring fair value measurements and the valuation techniques use inputs that are observable, or can be corroborated by observable data, in an active marketplace.

### *Investments in private companies measured using Level 3 inputs*

The Company's investments measured using Level 3 inputs primarily consist of preferred stock investments in privately-held companies that are classified as either debt securities or equity securities without readily determinable fair values. Fair values of privately held securities are estimated using a variety of valuation methodologies, including both market and income approaches. The Company has used valuation techniques appropriate for the type of investment and the information available about the investee as of the valuation date to determine fair value. Recent financing transactions in the investee, such as new investments in preferred stock, are generally considered the best indication of the enterprise value and therefore used as a basis to estimate fair value. However, based on a number of factors, such as the proximity in timing to the valuation date or the volume or other terms of these financing transactions, the Company may also use other valuation techniques to supplement this data, including the income approach. In addition, an option-pricing model ("OPM") is utilized to allocate value to the various classes of securities of the investee, including the class owned by the Company. The model includes assumptions around the investees' expected time to liquidity and volatility.

The Company's investment in Grab, which is classified as a debt security for accounting purposes, had an aggregate estimated fair value of \$200 million at December 31, 2020 and 2019. The Company measured this investment using Level 3 inputs and management's estimates that incorporate current market participant expectations of future cash flows considered alongside recent financing transactions of the investee and other relevant information.

For the investment in equity securities of Didi Chuxing, considering the impact of the COVID-19 pandemic, the Company performed an impairment analysis as of March 31, 2020 resulting in an adjusted carrying value of \$400 million at March 31, 2020 and December 31, 2020. No additional impairment indicators were identified as of December 31, 2020. As discussed below, the Company used unobservable inputs in order to determine fair value. The Company used an income approach in estimating the fair value of Didi Chuxing as of March 31, 2020. The income approach estimates value based on the expectation of future cash flows that a company will generate. These future cash flows are discounted to their present values using a discount rate based on a company's weighted-average cost of capital, and is adjusted to reflect the risks inherent in its cash flows. The key unobservable inputs and ranges used include the weighted average cost of capital (12%-14%), terminal EBITDA multiple (13x-15x), volatility (60%-70%) and an estimated time to liquidity of 4 years. Significant changes in any of these inputs in isolation would result in significantly different fair value measurements. Generally, a change in the assumption used for terminal EBITDA multiples would result in a directionally similar change in the fair value and a change in the assumption used for weighted average cost of capital or volatility would result in a directionally opposite change in the fair value.

The determination of the fair values of investments, where the Company is a minority shareholder and has access to limited information from the investee, reflects numerous assumptions that are subject to various risks and uncertainties, including key assumptions regarding the investee's expected growth rates and operating margin, expected length and severity of the impact of the COVID-19 pandemic on the investee and the shape and timing of the subsequent recovery, as well as other key assumptions with respect to matters outside of the Company's control, such as discount rates and market comparables. It requires significant judgments and estimates and actual results could be materially different than those judgments and estimates utilized in the fair value estimate. Future events and changing market conditions may lead the Company to re-evaluate the assumptions reflected in the valuation, particularly the assumptions related to the length and severity of the COVID-19 pandemic and the shape and timing of the subsequent recovery and the overall impact on the investee's business, which may result in a need to recognize an additional impairment charge that could have a material adverse effect on the Company's results of operations.

### ***Derivatives***

The Company's derivative instruments are valued using pricing models. Pricing models take into account the contract terms as well as multiple inputs where applicable, such as interest rate yield curves, option volatility and foreign currency exchange rates. The valuation of derivatives are considered "Level 2" fair value measurements. The Company's derivative instruments are typically short-term in nature.

In the normal course of business, the Company is exposed to the impact of foreign currency fluctuations. The Company mitigates these risks by following established risk management policies and procedures, including the use of derivatives. The Company enters into foreign currency forward contracts to hedge its exposure to the impact of movements in foreign currency exchange rates on its transactional balances denominated in currencies other than the functional currency. In periods prior to the second quarter of 2020, the Company also entered into foreign currency derivative contracts to hedge translation risks from short-term foreign currency exchange rate fluctuations for the Euro, British Pound Sterling and certain other currencies versus the U.S. Dollar. Since the first quarter of 2020, the Company has not entered into such derivative

instruments as the impact of the COVID-19 pandemic on the Company's operating results are highly uncertain. The Company does not use derivatives for trading or speculative purposes.

The Company reports the fair values of its derivative assets and liabilities on a gross basis in the Consolidated Balance Sheets in "Other current assets" and "Accrued expenses and other current liabilities," respectively. Unless designated as hedges for accounting purposes, gains and losses resulting from changes in the fair values of derivative instruments are recognized in "Other income (expense), net" in the Consolidated Statements of Operations in the period that the changes occur and cash flow impacts, if any, are classified within "Net cash provided by operating activities" in the Consolidated Statements of Cash Flows. As of December 31, 2020 and 2019, the Company did not designate any derivatives as hedges for accounting purposes.

The table below provides estimated fair values and notional amounts of foreign currency exchange derivatives outstanding at December 31, 2020 and 2019 (in millions). The notional amount of a foreign currency forward contract is the contracted amount of foreign currency to be exchanged and is not recorded in the balance sheet.

|  | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Estimated fair value of derivative assets      | \$ 9              | \$ 12             |
| Estimated fair value of derivative liabilities | 7                 | 5                 |
| Notional amount:                               |                   |                   |
| Foreign currency purchases                     | 898               | 1,770             |
| Foreign currency sales                         | 839               | 901               |

The effect of foreign currency exchange derivatives recorded in "Other income (expense), net" in the Consolidated Statements of Operations for the years ended December 31, 2020, 2019, and 2018 is as follows (in millions):

|   | For the Year Ended December 31, |       |       |
|---|---------------------------------|-------|-------|
|   | 2020                            | 2019  | 2018  |
| Losses on foreign currency exchange derivatives | \$ 31                           | \$ 19 | \$ 44 |

#### ***Other Financial Assets and Liabilities***

At December 31, 2020 and 2019, the Company's cash consisted of bank deposits. Cash equivalents principally include money market fund investments, time deposits and certificates of deposit. Other financial assets and liabilities, including restricted cash, accounts payable, accrued expenses and deferred merchant bookings, are carried at cost which approximates their fair value because of the short-term nature of these items. Accounts receivable and other financial assets measured at amortized cost are carried at cost less an allowance for expected credit losses to present the net amount expected to be collected (see Note 7). See Note 12 for the estimated fair value of the Company's outstanding senior notes and Note 5 for information related to an embedded derivative associated with the \$25 million Trip.com Group convertible notes issued in 2016.

#### ***Goodwill***

See Note 11 for nonrecurring fair value measurements related to the goodwill impairment test.

## 7. ACCOUNTS RECEIVABLE AND OTHER FINANCIAL ASSETS

Accounts receivable in the Consolidated Balance Sheets at December 31, 2020 and 2019 includes receivables from customers of \$510 million and \$1.2 billion, respectively, and receivables from marketing affiliates of \$32 million and \$110 million, respectively. The remaining balance principally relates to receivables from third-party payment processors. In addition, the Company had prepayments to certain customers of \$107 million and \$232 million at December 31, 2020 and 2019, respectively, which are included in "Prepaid expenses, net," and \$45 million at December 31, 2020, which is included in "Other assets, net" in the Consolidated Balance Sheets. The amounts mentioned above are stated on a gross basis, before deducting the allowance for expected credit losses.

For periods prior to January 1, 2020, receivables from customers were recorded at the original invoiced amounts net of an allowance for doubtful accounts. On January 1, 2020, the Company adopted the accounting standards update on the measurement of expected credit losses, which requires the Company to estimate lifetime expected credit losses upon recognition of the financial assets.

The Company records a provision for expected credit losses on receivables from customers and marketing affiliates. The following table summarizes the activity of the allowance for expected credit losses on receivables (in millions):

|  | For the Year Ended December 31, |              |              |
|--|---------------------------------|--------------|--------------|
|  | 2020                            | 2019         | 2018         |
| Balance, beginning of year               | \$ 49                           | \$ 51        | \$ 35        |
| Provision charged to earnings            | 216                             | 69           | 79           |
| Write-offs and adjustments               | (116)                           | (70)         | (62)         |
| Foreign currency translation adjustments | 17                              | (1)          | (1)          |
| Balance, end of year                     | <u>\$ 166</u>                   | <u>\$ 49</u> | <u>\$ 51</u> |

The allowance for expected credit losses on receivables as of December 31, 2020 includes a portion of the amounts related to refunds paid or payable to certain travelers without a corresponding estimated expected recovery from the travel service providers, primarily due to the impact of the COVID-19 pandemic (see Note 3). For the year ended December 31, 2020, the Company recorded a reduction in revenue of \$37 million for such refunds, which is included in "Provision charged to earnings" in the table above.

In addition, the Company recorded an allowance for expected credit losses on prepayments to certain customers of \$55 million and \$6 million at December 31, 2020 and 2019, respectively, which are included in "Prepaid expenses, net" and "Other assets, net", as applicable, in the Consolidated Balance Sheets. For the year ended December 31, 2020, the Company recorded expected credit loss expenses of \$51 million for the prepayments, which is included in "Sales and other expenses" in the Consolidated Statement of Operations.

Due to the impact of the COVID-19 pandemic (see Note 2), given the severe downturn in the global travel industry and the financial difficulties faced by many of the Company's travel service provider and restaurant customers and marketing affiliates, the Company has increased its allowance for expected credit losses on receivables from and prepayments to its customers and marketing affiliates. Expected credit loss expenses included in "Sales and other expenses" in the Consolidated Statements of Operations, increased from \$69 million for the year ended December 31, 2019 to \$230 million for the year ended December 31, 2020. Significant judgments and assumptions are required to estimate the allowance for expected credit losses on receivables from and prepayments to customers and such assumptions may change in future periods, particularly the assumptions related to the impact of the COVID-19 pandemic on the business prospects and financial condition of customers and the Company's ability to collect the receivable or recover the prepayment.

## 8. NET INCOME PER SHARE

The Company computes basic net income per share by dividing net income applicable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share is based upon the weighted-average number of common and common equivalent shares outstanding during the period.

Common equivalent shares related to stock options, restricted stock units and performance share units are calculated using the treasury stock method. Performance share units are included in the weighted-average common equivalent shares

based on the number of shares that would be issued if the end of the reporting period were the end of the performance period, if the result would be dilutive.

The Company's convertible notes have net share settlement features requiring the Company upon conversion to settle the principal amount of the debt for cash and the conversion premium for cash or shares of the Company's common stock, at the Company's option. Under the treasury stock method, if the conversion prices for the convertible notes exceed the Company's average stock price for the period, the convertible notes generally have no impact on diluted net income per share. The convertible notes are included in the calculation of diluted net income per share if their inclusion is dilutive under the treasury stock method.

A reconciliation of the weighted-average number of shares outstanding used in calculating diluted net income per share is as follows (in thousands):

|   | For the Year Ended December 31, |        |        |
|---|---------------------------------|--------|--------|
|   | 2020                            | 2019   | 2018   |
| Weighted-average number of basic common shares outstanding                                  | 40,974                          | 43,082 | 47,446 |
| Weighted-average dilutive stock options, restricted stock units and performance share units | 158                             | 203    | 236    |
| Assumed conversion of convertible senior notes  | 28                              | 224    | 335    |
| Weighted-average number of diluted common and common equivalent shares outstanding          | 41,160                          | 43,509 | 48,017 |

For the year ended December 31, 2020, 125,000 potential common shares related to stock options and restricted stock units were excluded from the calculation of diluted net income per share because their effect would have been anti-dilutive for the year.

## 9. PROPERTY AND EQUIPMENT, NET

Property and equipment, net at December 31, 2020 and 2019 consist of the following (in millions):

|  | 2020    | 2019   | Estimated Useful Lives (years) |
|--|---------|--------|--------------------------------|
| Computer equipment                       | \$ 746  | \$ 736 | 2 to 6 years                   |
| Capitalized software                     | 565     | 442    | 2 to 5 years                   |
| Leasehold improvements                   | 278     | 265    | 1 to 15 years                  |
| Office equipment, furniture and fixtures | 63      | 61     | 2 to 8 years                   |
| Building construction-in-progress        | 257     | 161    |                                |
| Total                                    | 1,909   | 1,665  |                                |
| Less: Accumulated depreciation           | (1,153) | (927)  |                                |
| Property and equipment, net              | \$ 756  | \$ 738 |                                |

Depreciation expense was \$291 million, \$294 million and \$248 million for the years ended December 31, 2020, 2019 and 2018, respectively. Additions to capitalized software during the years ended December 31, 2020, 2019 and 2018 were \$144 million, \$109 million and \$103 million, respectively.

## 10. LEASES

The Company has operating leases for office space, data centers and the land for Booking.com's future headquarters (see Note 16). The Company's weighted-average discount rate was approximately 2.2% and 2.0% as of December 31, 2020 and 2019, respectively. The weighted-average remaining lease terms were approximately 8.1 years and 7.8 years as of December 31, 2020 and 2019, respectively.

The Company recognized the following related to operating leases in its Consolidated Balance Sheets at December 31, 2020 and 2019 (in millions):

|  | Sheet | Classification in Consolidated Balance         | December 31,  |               |
|--|-------|--|---------------|---------------|
|  |       |  | 2020          | 2019          |
| <b>Operating lease assets</b>            |       | Operating lease assets                         | \$ 529        | \$ 620        |
| Lease Liabilities:                       |       |  |               |               |
| Current operating lease liabilities      |       | Accrued expenses and other current liabilities | \$ 159        | \$ 161        |
| Non-current operating lease liabilities  |       | Operating lease liabilities                    | 366           | 462           |
| <b>Total operating lease liabilities</b> |       |  | <b>\$ 525</b> | <b>\$ 623</b> |

The Company recognized the following related to operating leases in its Consolidated Statements of Operations (in millions):

|  | Classification in Consolidated Statement of Operations | Year Ended December 31, |               |
|--|--|-------------------------|---------------|
|  |  | 2020                    | 2019          |
| Lease expense                                      | General and administrative and Information technology  | \$ 194                  | \$ 183        |
| Variable lease expense                             | General and administrative and Information technology  | 46                      | 56            |
| Less: Sublease income                              | General and administrative                             | (2)                     | (2)           |
| <b>Total lease expense, net of sublease income</b> |  | <b>\$ 238</b>           | <b>\$ 237</b> |

For the year ended December 31, 2018, the Company recognized lease expense of \$149 million under ASC 840.

As of December 31, 2020, the operating lease liabilities will mature over the following periods (in millions):

|  |               |
|--|---------------|
| 2021                                     | \$ 168        |
| 2022                                     | 122           |
| 2023                                     | 74            |
| 2024                                     | 50            |
| 2025                                     | 35            |
| Thereafter                               | 136           |
| Total remaining lease payments           | \$ 585        |
| Less: Imputed interest                   | (60)          |
| <b>Total operating lease liabilities</b> | <b>\$ 525</b> |

As of December 31, 2020, the Company has entered into leases that have not yet commenced with future lease payments of approximately \$7 million which are not reflected in the table above. These leases will commence in 2021 with lease terms of up to 7.5 years and will be recognized upon lease commencement. In addition, the Company entered into an agreement to sign a future lease in the city of Manchester in the United Kingdom for the future headquarters of Rentalcars.com (see Note 16).

Supplemental cash flow information related to operating leases is as follows (in millions):

|  | Year Ended December 31, |        |
|--|-------------------------|--------|
|  | 2020                    | 2019   |
| Cash paid for amounts included in the measurement of lease liabilities | \$ 200                  | \$ 189 |
| Operating lease assets obtained in exchange for lease liabilities      | 67                      | 155    |

"Operating lease amortization" presented in the operating activities section of the Consolidated Statements of Cash Flows reflects the portion of the operating lease expense from the amortization of the operating lease assets.

## 11. GOODWILL, INTANGIBLE ASSETS AND OTHER LONG-LIVED ASSETS

A substantial portion of the Company's intangible assets and goodwill relates to the acquisitions of OpenTable and KAYAK.

### Goodwill

The changes in the balance of goodwill for the years ended December 31, 2020 and 2019 consist of the following (in millions):

|  | 2020     | 2019     |
|--|----------|----------|
| Balance, beginning of year               | \$ 2,913 | \$ 2,910 |
| Acquisitions                             | —        | 7        |
| Impairments                              | (1,062)  | —        |
| Foreign currency translation adjustments | 44       | (4)      |
| Balance, end of year <sup>(1)</sup>      | \$ 1,895 | \$ 2,913 |

(1) The balance of goodwill as of December 31, 2020 and 2019 is stated net of cumulative impairment charges of \$2.0 billion and \$941 million, respectively.

#### *Interim Goodwill Impairment Test*

Due to the significant and negative financial impact of the COVID-19 pandemic (see Note 2), the Company performed an interim period goodwill impairment test at March 31, 2020. Under the current goodwill impairment standard adopted in the first quarter of 2020, a goodwill impairment loss is measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill (see Note 2).

As of March 31, 2020, the estimated fair value of each of the Company's reporting units, except the OpenTable and KAYAK reporting unit, exceeded its respective carrying value. For the OpenTable and KAYAK reporting unit, the Company recognized a goodwill impairment charge of \$489 million for the three months ended March 31, 2020, which is not tax-deductible, resulting in an adjusted carrying value of goodwill for OpenTable and KAYAK of \$1.5 billion at March 31, 2020. The goodwill impairment was primarily driven by a significant reduction in the forecasted near-term cash flows of OpenTable and KAYAK as well as the significant decline in comparable companies' market values as a result of the COVID-19 pandemic.

The estimated fair value of OpenTable and KAYAK was determined using a combination of standard valuation techniques, including an income approach (discounted cash flows) and a market approach (applying the recent decline in enterprise values of comparable publicly-traded companies to the recently calculated fair value for OpenTable and KAYAK, as well as applying comparable company multiples).

The income approach estimates fair value utilizing long-term growth rates and discount rates applied to the cash flow projections. In the cash flow projections, the Company assumed that OpenTable and KAYAK will experience a significant decline in near-term cash flows with a recovery to 2019 levels of financial performance (including profitability) occurring in 2023. The shape and timing of the recovery was a key assumption in the fair value calculation (both in the income and market approaches).

#### *Annual Goodwill Impairment Test*

As of September 30, 2020, the Company performed its annual goodwill impairment test. Other than the OpenTable and KAYAK reporting unit, the fair values of the Company's reporting units exceeded their respective carrying values.

For the OpenTable and KAYAK reporting unit, the Company recognized a goodwill impairment charge of \$573 million for the three months ended September 30, 2020, which is not tax-deductible, resulting in an adjusted carrying value of goodwill for OpenTable and KAYAK of \$1.0 billion at September 30, 2020. The goodwill impairment was primarily driven by a significant reduction in the forecasted cash flows of OpenTable and KAYAK, reflecting a longer assumed recovery period to 2019 levels of profitability, mainly due to the continued material adverse impact of the COVID-19 pandemic, including its impact on the flight vertical at KAYAK, and the lowered outlook for monetization opportunities in restaurant reservation services.

The estimated fair value of OpenTable and KAYAK was determined using a combination of standard valuation techniques, including an income approach (discounted cash flows) and a market approach (applying comparable company multiples).



The income approach estimates fair value utilizing long-term growth rates and discount rates applied to the cash flow projections. The income approach, applied as of September 30, 2020, reflected a reduction in the forecasted cash flows of OpenTable and KAYAK and a longer assumed recovery period to 2019 levels of profitability, driven primarily by a lowered outlook for monetization opportunities in restaurant reservation services and slower than previously expected recovery trends for airline travel, which is a key vertical for KAYAK. For the interim goodwill impairment test at March 31, 2020, the Company expected a recovery to 2019 levels of financial performance occurring in 2023 for OpenTable and KAYAK. Based on the Company's evaluation of all relevant information available as of September 30, 2020 for the annual goodwill impairment test, the Company expected that OpenTable and KAYAK would not return to the 2019 level of profitability within the next five years, and that it was uncertain whether the shape of the recovery would ultimately match the Company's expectations. An increase or decrease of one percentage point to the profitability growth rates used in the cash flow projections would result in an increase or decrease of approximately \$100 million to the estimated fair value of OpenTable and KAYAK as of September 30, 2020. The discount rate is determined based on the reporting unit's estimated weighted-average cost of capital and adjusted to reflect the risks inherent in its cash flows, which requires significant judgments. The discount rate used for the annual goodwill impairment test as of September 30, 2020 is higher than the discount rate used for the interim goodwill impairment test as of March 31, 2020. If the discount rate used in the income approach increases or decreases by 0.5%, the impact to the estimated fair value of OpenTable and KAYAK, at September 30, 2020, ranges from a decrease of approximately \$65 million to an increase of approximately \$70 million.

The estimation of fair value reflects numerous assumptions that are subject to various risks and uncertainties, including key assumptions regarding OpenTable and KAYAK's expected growth rates and operating margin, expected length and severity of the impact from the COVID-19 pandemic, the shape and timing of the subsequent recovery and the competitive environment, as well as other key assumptions with respect to matters outside of the Company's control, such as discount rates and market comparables. It requires significant judgments and estimates and actual results could be materially different than the judgments and estimates used to estimate fair value. Future events and changing market conditions may lead the Company to re-evaluate the assumptions reflected in the current forecast disclosed above, particularly the assumptions related to the length and severity of the COVID-19 pandemic and the shape and timing of the subsequent recovery, which may result in a need to recognize an additional goodwill impairment charge that could have a material adverse effect on the Company's results of operations.

No additional impairment indicators were identified as of December 31, 2020.

#### Intangible Assets and Other Long-lived Assets

The Company's intangible assets at December 31, 2020 and 2019 consist of the following (in millions):

|                                    | December 31, 2020     |                          |                     | December 31, 2019     |                          |                     | Amortization Period |
|------------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|---------------------|
|                                    | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |                     |
| Supply and distribution agreements | \$ 1,136              | \$ (552)                 | \$ 584              | \$ 1,100              | \$ (472)                 | \$ 628              | 3 - 20 years        |
| Technology                         | 174                   | (144)                    | 30                  | 170                   | (129)                    | 41                  | 2 - 7 years         |
| Internet domain names              | 44                    | (37)                     | 7                   | 40                    | (32)                     | 8                   | 5 - 20 years        |
| Trade names                        | 1,824                 | (633)                    | 1,191               | 1,811                 | (534)                    | 1,277               | 4 - 20 years        |
| Other intangible assets            | 2                     | (2)                      | —                   | 2                     | (2)                      | —                   | Up to 15 years      |
| Total intangible assets            | <u>\$ 3,180</u>       | <u>\$ (1,368)</u>        | <u>\$ 1,812</u>     | <u>\$ 3,123</u>       | <u>\$ (1,169)</u>        | <u>\$ 1,954</u>     |                     |

Intangible assets are amortized on a straight-line basis. Amortization expense was \$167 million, \$175 million and \$178 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The estimated annual amortization expense for intangible assets for the next five years and thereafter is expected to be as follows (in millions):

|            |    |              |
|------------|----|--------------|
| 2021       | \$ | 163          |
| 2022       |    | 160          |
| 2023       |    | 158          |
| 2024       |    | 157          |
| 2025       |    | 152          |
| Thereafter |    | 1,022        |
|            | \$ | <u>1,812</u> |

The Company reviews long-lived assets, including intangible assets and operating lease assets, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The assessment of possible impairment is based upon the ability to recover the carrying value of the assets from the estimated undiscounted future net cash flows, before interest and taxes, of the related asset group. Due to the significant and negative financial impact of the COVID-19 pandemic (see Note 2), at March 31, 2020, the Company performed the recoverability test of its long-lived assets and concluded that there was no impairment. At September 30, 2020, for OpenTable and KAYAK, the Company performed the recoverability test of its long-lived assets due to additional impairment indicators and concluded that there was no impairment. At December 31, 2020, no additional impairment indicators were identified for the Company's long-lived assets.

## 12. DEBT

### Revolving Credit Facility

In August 2019, the Company entered into a \$2.0 billion five-year unsecured revolving credit facility with a group of lenders. Borrowings under the revolving credit facility will bear interest, at the Company's option, at a rate per annum equal to either (i) the London Inter-bank Offer Rate, or if such London Inter-bank Offer Rate is no longer available, the agreed alternate rate of interest ("LIBOR") (but no less than 0%) for the interest period in effect for such borrowing plus an applicable margin ranging from 0.875% to 1.50%; or (ii) for U.S. Dollar-denominated loans only, the sum of (x) the greatest of (a) JPMorgan Chase Bank, N.A.'s prime lending rate, (b) the U.S. federal funds rate plus 0.50% and (c) LIBOR (but no less than 0%) for an interest period of one month plus 1.00%, plus (y) an applicable margin ranging from 0% to 0.50%. Undrawn balances available under the revolving credit facility are subject to commitment fees at the applicable rate ranging from 0.07% to 0.20%.

The revolving credit facility provides for the issuance of up to \$80 million of letters of credit as well as borrowings of up to \$100 million on same-day notice, referred to as swingline loans. Other than swingline loans, which are available only in U.S. Dollars, borrowings and letters of credit under the revolving credit facility may be made in U.S. Dollars, Euros, British Pounds Sterling and any other foreign currency agreed to by the lenders. The proceeds of loans made under the facility can be used for working capital and general corporate purposes, including acquisitions, share repurchases and debt repayments. At December 31, 2020 and 2019, there were no borrowings outstanding and \$4 million and \$5 million of letters of credit issued under this revolving credit facility, respectively.

Upon entering into this revolving credit facility, the Company terminated its prior \$2.0 billion five-year revolving credit facility entered into in June 2015. During the six months ended June 30, 2019, the Company made short-term borrowings under the prior revolving credit facility totaling \$400 million with a weighted-average interest rate of 3.5%, which were repaid prior to June 30, 2019.

The current revolving credit facility contains a maximum leverage ratio covenant, compliance with which is a condition to the Company's ability to borrow thereunder. In April 2020, the Company amended the revolving credit facility, pursuant to which the maximum leverage ratio covenant was suspended through and including the three months ending March 31, 2021, and was replaced with a \$4.5 billion minimum liquidity covenant based on unrestricted cash, cash equivalents, short-term investments and unused capacity under this revolving credit facility. In October 2020, the Company further amended the revolving credit facility to extend the suspension of the maximum leverage ratio covenant and the related replacement with the minimum liquidity covenant through and including the three months ending March 31, 2022 and increase the permitted maximum leverage ratio from and including the three months ending June 30, 2022 through and including the three months ending March 31, 2023. The Company agreed not to declare or make any cash distribution and not to repurchase any of its shares (with certain exceptions including in connection with tax withholding related to shares issued to employees) unless (i) prior to the delivery of financial statements for the three months ending June 30, 2022, it has at least \$6.0 billion of liquidity on

a pro forma basis, based on unrestricted cash, cash equivalents, short-term investments and unused capacity under this revolving credit facility and (ii) after the delivery of financial statements for the three months ending June 30, 2022, it is in compliance on a pro forma basis with the maximum leverage ratio covenant then in effect. Such restriction ends upon delivery of financial statements required for the three months ending June 30, 2023, or the Company has the ability to terminate this restriction earlier if it demonstrates compliance with the original maximum leverage ratio covenant in the revolving credit facility. Beginning with the three months ending June 30, 2022, the minimum liquidity covenant will cease to apply and the maximum leverage ratio covenant, as increased, will again be in effect.

## Outstanding Debt

Outstanding debt at December 31, 2020 consists of the following (in millions):

| December 31, 2020                                   | Outstanding<br>Principal<br>Amount | Unamortized Debt<br>Discount and Debt<br>Issuance Cost | Carrying<br>Value |
|---|------------------------------------|--|-------------------|
| <b>Current Liabilities:</b>                         |                                    |  |                   |
| September 2021 0.9% Convertible Senior Notes due    | \$ 1,000                           | \$ (15)  | \$ 985            |
| <b>Long-term debt:</b>                              |                                    |  |                   |
| 2022 0.8% (€1 Billion) Senior Notes due March       | \$ 1,223                           | \$ (1)   | \$ 1,222          |
| 2.15% (€750 Million) Senior Notes due November 2022 | 919                                | (4)  | 915               |
| 2.75% Senior Notes due March 2023                   | 500                                | (1)  | 499               |
| 2.375% (€1 Billion) Senior Notes due September 2024 | 1,223                              | (7)  | 1,216             |
| 3.65% Senior Notes due March 2025                   | 500                                | (2)  | 498               |
| 4.1% Senior Notes due April 2025                    | 1,000                              | (5)  | 995               |
| 2025 0.75% Convertible Senior Notes due May         | 863                                | (128)  | 735               |
| 3.6% Senior Notes due June 2026                     | 1,000                              | (4)  | 996               |
| 2027 1.8% (€1 Billion) Senior Notes due March       | 1,223                              | (2)  | 1,221             |
| 4.5% Senior Notes due April 2027                    | 750                                | (5)  | 745               |
| 3.55% Senior Notes due March 2028                   | 500                                | (2)  | 498               |
| 4.625% Senior Notes due April 2030                  | 1,500                              | (11)   | 1,489             |
| <b>Total long-term debt</b>                         | <b>\$ 11,201</b>                   | <b>\$ (172)</b>  | <b>\$ 11,029</b>  |

Outstanding debt at December 31, 2019 consists of the following (in millions):

| December 31, 2019                                   | Outstanding<br>Principal<br>Amount | Unamortized Debt<br>Discount and Debt<br>Issuance Cost | Carrying<br>Value |
|---|------------------------------------|--|-------------------|
| <b>Current Liabilities:</b>                         |                                    |  |                   |
| 2020 0.35% Convertible Senior Notes due June        | \$ 1,000                           | \$ (12)  | \$ 988            |
| <b>Long-term debt:</b>                              |                                    |  |                   |
| September 2021 0.9% Convertible Senior Notes due    | \$ 1,000                           | \$ (39)  | \$ 961            |
| 2022 0.8% (€1 Billion) Senior Notes due March       | 1,123                              | (3)  | 1,120             |
| 2.15% (€750 Million) Senior Notes due November 2022 | 842                                | (3)  | 839               |
| 2.75% Senior Notes due March 2023                   | 500                                | (2)  | 498               |
| 2.375% (€1 Billion) Senior Notes due September 2024 | 1,123                              | (9)  | 1,114             |
| 3.65% Senior Notes due March 2025                   | 500                                | (2)  | 498               |
| 3.6% Senior Notes due June 2026                     | 1,000                              | (5)  | 995               |
| 2027 1.8% (€1 Billion) Senior Notes due March       | 1,123                              | (5)  | 1,118             |
| 3.55% Senior Notes due March 2028                   | 500                                | (3)  | 497               |
| <b>Total long-term debt</b>                         | <b>\$ 7,711</b>                    | <b>\$ (71)</b>   | <b>\$ 7,640</b>   |

Based on the closing price of the Company's common stock for the prescribed measurement periods for the three months ended December 31, 2020 and 2019, as applicable, the contingent conversion thresholds on the 2021 Notes (as defined below) and the May 2025 Notes (as defined below) were not exceeded; and therefore, the notes were not convertible at the option of the holders.

### ***Fair Value of Debt***

At December 31, 2020 and 2019, the estimated fair value of the outstanding debt was approximately \$14.0 billion and \$9.8 billion, respectively, and was considered a "Level 2" fair value measurement (see Note 6). Fair value was estimated based upon actual trades at the end of the reporting period or the most recent trade available as well as the Company's stock price at the end of the reporting period. The estimated fair value of the Company's debt in excess of the outstanding principal amount at December 31, 2020 primarily relates to the Senior Notes and the Convertible Senior Notes issued in April 2020. The estimated fair value of the Company's debt in excess of the outstanding principal amount at December 31, 2019 primarily relates to the conversion premium on the convertible senior notes.

### ***Convertible Senior Notes***

If the note holders exercise their option to convert, the Company delivers cash to repay the principal amount of the notes and delivers shares of common stock or cash, at its option, to satisfy the conversion value in excess of the principal amount. If the Company's convertible debt is redeemed or converted prior to maturity, a gain or loss on extinguishment is recognized. The gain or loss is the difference between the fair value of the debt component immediately prior to extinguishment and its carrying value. To estimate the fair value of the debt at the conversion date, the Company estimates the borrowing rate, considering the credit rating and similar debt of comparable corporate issuers without the conversion feature.

### ***Description of Convertible Senior Notes***

In April 2020, the Company issued \$863 million aggregate principal amount of Convertible Senior Notes due May 1, 2025 with an interest rate of 0.75% (the "May 2025 Notes"). The Company paid \$19 million in debt issuance costs during the year ended December 31, 2020 related to this offering. The May 2025 Notes are convertible, subject to certain conditions, into the Company's common stock at a conversion price of \$1,886.44 per share. The May 2025 Notes are convertible, at the option of the holder, prior to November 1, 2024, upon the occurrence of specific events, including but not limited to a change in control, or if the closing sales price of the Company's common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is more than 130% of the conversion price in effect for the notes on the last trading day of the immediately preceding quarter. In the event that all or substantially all of the Company's common stock is acquired on or prior to the maturity of the May 2025 Notes in a transaction in which the consideration paid to holders of the Company's common stock consists of all or substantially all cash, the Company would be required to make additional payments in the form of additional shares of common stock to the holders of the May 2025 Notes in an aggregate value ranging from \$0 to \$235 million depending upon the date of the transaction and the then current stock price of the Company. Starting on November 1, 2024, holders will have the right to convert all or any portion of the May 2025 Notes, regardless of the Company's stock price. The May 2025 Notes may not be redeemed by the Company prior to maturity. The holders may require the Company to repurchase the May 2025 Notes for cash in certain circumstances. Interest on the May 2025 Notes is payable on May 1 and November 1 of each year. At December 31, 2020, the if-converted value of the May 2025 Notes exceeded the aggregate principal amount by \$97 million. The proceeds from the issuance of the Convertible Senior Notes can be used for general corporate purposes, which may include repayment of debt, including the repayment, at maturity or upon conversion prior thereto, of the Company's outstanding Convertible Senior Notes.

In August 2014, the Company issued \$1.0 billion aggregate principal amount of Convertible Senior Notes due September 15, 2021, with an interest rate of 0.9% (the "2021 Notes"). The Company paid \$11 million in debt issuance costs during the year ended December 31, 2014, related to this offering. The 2021 Notes are convertible, subject to certain conditions, into the Company's common stock at a conversion price of \$2,055.50 per share. The 2021 Notes are convertible, at the option of the holder, prior to September 15, 2021, upon the occurrence of specific events, including but not limited to a change in control, or if the closing sales price of the Company's common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is more than 150% of the conversion price in effect for the notes on the last trading day of the immediately preceding quarter. In the event that all or substantially all of the Company's common stock is acquired on or prior to the maturity of the 2021 Notes in a transaction in which the consideration paid to holders of the Company's common stock consists of all or substantially all cash, the Company would be required to make additional payments in the form of additional shares of common stock to the holders of the 2021 Notes in an aggregate value ranging from \$0 to \$375 million depending upon the date of the transaction and the then current stock price of the Company. Starting on June 15, 2021, holders will have the right to convert all or any portion of the 2021

Notes, regardless of the Company's stock price. The 2021 Notes may not be redeemed by the Company prior to maturity. The holders may require the Company to repurchase the 2021 Notes for cash in certain circumstances. Interest on the 2021 Notes is payable on March 15 and September 15 of each year. At December 31, 2020, the if-converted value of the 2021 Notes exceeded the aggregate principal amount by \$17 million.

In May 2013, the Company issued \$1.0 billion aggregate principal amount of Convertible Senior Notes due June 15, 2020, with an interest rate of 0.35% (the "2020 Notes"). In June 2020, in connection with the maturity of the outstanding 2020 Notes, the Company paid \$1.0 billion to satisfy the aggregate principal amount due and paid an additional \$245 million in satisfaction of the conversion value in excess of the principal amount.

In March 2012, the Company issued in a private placement \$1.0 billion aggregate principal amount of Convertible Senior Notes due March 15, 2018, with an interest rate of 1.0% (the "2018 Notes"). In March 2018, in connection with the maturity of the remaining outstanding 2018 Notes, the Company paid \$714 million to satisfy the aggregate principal amount due and paid an additional \$773 million in satisfaction of the conversion value in excess of the principal amount.

Cash-settled convertible debt, such as the Company's convertible senior notes, is separated into debt and equity components at issuance and each component is assigned a value. The value assigned to the debt component is the estimated fair value, at the issuance date, of a similar bond without the conversion feature. The difference between the bond cash proceeds and this estimated fair value, representing the value assigned to the equity component, is recorded as a debt discount. Debt discount is amortized using the effective interest rate method over the period from the origination date through the stated maturity date. The Company estimated the borrowing rates at debt origination to be 4.10% for the May 2025 Notes, 3.18% for the 2021 Notes and 3.13% for the 2020 Notes, considering its credit rating and similar debt of the Company or comparable corporate issuers without the conversion feature. The yield to maturity was estimated at an at-market coupon priced at par.

Debt discount after tax of \$100 million (\$130 million before tax) related to the May 2025 Notes, \$83 million (\$143 million before tax) related to the 2021 Notes and \$92 million (\$154 million before tax) related to the 2020 Notes less financing costs allocated to the equity component of the respective convertible notes was recorded in "Additional paid-in capital" in the balance sheet at debt origination.

The following table summarizes the interest expenses and weighted-average effective interest rates related to the convertible senior notes (in millions, except for interest rates). The remaining period for amortization of debt discount and debt issuance costs is the period until the stated maturity date for the respective debt.

|   | For the Year Ended December 31, |              |              |
|---|---------------------------------|--------------|--------------|
|   | 2020                            | 2019         | 2018         |
| Coupon interest expense                               | \$ 15                           | \$ 12        | 14           |
| Amortization of debt discount and debt issuance costs | 54                              | 50           | 52           |
| <b>Total interest expenses</b>                        | <b>\$ 69</b>                    | <b>\$ 62</b> | <b>\$ 66</b> |
| Weighted-average effective interest rate              | 3.5 %                           | 3.2 %        | 3.2 %        |

#### ***Other Long-term Debt***

In April 2020, the Company issued Senior Notes due April 13, 2025 with an interest rate of 4.10% for an aggregate principal amount of \$1.0 billion, Senior Notes due April 13, 2027 with an interest rate of 4.50% for an aggregate principal amount of \$750 million and Senior Notes due April 13, 2030 with an interest rate of 4.625% for an aggregate principal amount of \$1.5 billion. The Company paid \$19 million in debt issuance costs during the year ended December 31, 2020 related to issuance of these senior notes. The proceeds from the issuance of the Senior Notes can be used for general corporate purposes, which may include repayment of debt, including the repayment, at maturity or upon conversion prior thereto, of the Company's outstanding Convertible Senior Notes.

Other long-term debt, including the Senior Notes issued in April 2020, had a total carrying value of \$10.3 billion and \$6.7 billion at December 31, 2020 and 2019, respectively. Debt discount and debt issuance costs are amortized using the effective interest rate method over the period from the origination date through the stated maturity date. The following table summarizes the information related to other long-term debt outstanding at December 31, 2020:

| Other Long-term Debt                   | Date of Issuance | Effective Interest Rate <sup>(1)</sup> | Timing of Interest Payments          |
|--|------------------|--|--------------------------------------|
| 0.8% Senior Notes due March 2022       | March 2017       | 0.94 %                                 | Annually in March                    |
| 2.15% Senior Notes due November 2022   | November 2015    | 2.27 %                                 | Annually in November                 |
| 2.75% Senior Notes due March 2023      | August 2017      | 2.88 %                                 | Semi-annually in March and September |
| 2.375% Senior Notes due September 2024 | September 2014   | 2.54 %                                 | Annually in September                |
| 3.65% Senior Notes due March 2025      | March 2015       | 3.76 %                                 | Semi-annually in March and September |
| 4.1% Senior Notes due April 2025       | April 2020       | 4.22 %                                 | Semi-annually in April and October   |
| 3.6% Senior Notes due June 2026        | May 2016         | 3.70 %                                 | Semi-annually in June and December   |
| 1.8% Senior Notes due March 2027       | March 2015       | 1.86 %                                 | Annually in March                    |
| 4.5% Senior Notes due April 2027       | April 2020       | 4.63 %                                 | Semi-annually in April and October   |
| 3.55% Senior Notes due March 2028      | August 2017      | 3.63 %                                 | Semi-annually in March and September |
| 4.625% Senior Notes due April 2030     | April 2020       | 4.72 %                                 | Semi-annually in April and October   |

(1) Represents the coupon interest rate adjusted for deferred debt issuance costs, premiums or discounts existing at the origination of the debt.

The following table summarizes the interest expenses related to other long-term debt (in millions):

|   | For the Year Ended December 31, |               |               |
|---|---------------------------------|---------------|---------------|
|   | 2020                            | 2019          | 2018          |
| Coupon interest expense                               | \$ 264                          | \$ 160        | \$ 163        |
| Amortization of debt discount and debt issuance costs | 9                               | 6             | 7             |
| <b>Total interest expenses</b>                        | <b>\$ 273</b>                   | <b>\$ 166</b> | <b>\$ 170</b> |

Historically, the aggregate principal value of the Euro-denominated Senior Notes maturing in March 2022, November 2022, September 2024 and March 2027 (collectively the "Euro-denominated debt") and accrued interest thereon had been designated as a hedge of the Company's net investment in a Euro functional currency subsidiary. Beginning in the second quarter of 2019, the Company has only designated certain portions of the aggregated principal value of the Euro-denominated debt as a hedge. For the years ended December 31, 2020 and 2019, the carrying value of the portion of Euro-denominated debt, designated as a net investment hedge, ranged from \$1.8 billion to \$3.2 billion and from \$2.4 billion to \$4.3 billion, respectively. The foreign currency transaction gains or losses on the Euro-denominated debt that is designated as a hedging instrument for accounting purposes are recorded in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets. The foreign currency transaction gains or losses on the Euro-denominated debt that is not designated as a hedging instrument are recognized in "Other income (expense), net" in the Consolidated Statements of Operations.

### 13. TREASURY STOCK

At December 31, 2019, the Company had a total remaining authorization of \$11.5 billion to repurchase its common stock under a program authorized by the Company's Board of Directors in 2019 to repurchase up to \$15.0 billion of the Company's common stock. At December 31, 2020, the Company had a total remaining authorization of \$10.4 billion to repurchase its common stock. The Company has not repurchased any shares since March 2020 under this authorization and does not intend to initiate any repurchases under this authorization until it has better visibility into the shape and timing of a recovery from the COVID-19 pandemic. See Note 12 for a description of the impact of the October 2020 credit facility amendment on the Company's ability to repurchase shares. Additionally, the Board of Directors has given the Company the general authorization to repurchase shares of its common stock withheld to satisfy employee withholding tax obligations related to stock-based compensation.

The following table summarizes the Company's stock repurchase activities during the years ended December 31, 2020, 2019 and 2018 (in millions, except for shares, which are reflected in thousands):

|  | 2020       |                 | 2019         |                 | 2018         |                 |
|--|------------|-----------------|--------------|-----------------|--------------|-----------------|
|  | Shares     | Amount          | Shares       | Amount          | Shares       | Amount          |
| Authorized stock repurchase programs                             | 601        | \$ 1,122        | 4,358        | \$ 8,002        | 3,020        | \$ 5,850        |
| General authorization for shares withheld on stock award vesting | 84         | 142             | 87           | 151             | 80           | 162             |
| <b>Total</b>   | <b>685</b> | <b>\$ 1,264</b> | <b>4,445</b> | <b>\$ 8,153</b> | <b>3,100</b> | <b>\$ 6,012</b> |
| Shares repurchased in December and settled in following January  | —          | \$ —            | 19           | \$ 40           | 43           | \$ 74           |

For the years ended December 31, 2020, 2019 and 2018, the Company remitted employee withholding taxes of \$141 million, \$151 million and \$163 million, respectively, to the tax authorities, which is different from the aggregate cost of the shares withheld for taxes for each year due to the timing in remitting the taxes. The cash remitted to the tax authorities is included in financing activities in the Consolidated Statements of Cash Flows.

At December 31, 2020, there were 22,446,897 shares of the Company's common stock held in treasury.

#### 14. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT

The table below presents the changes in the balances of accumulated other comprehensive income (loss) ("AOCI") by component for the years ended December 31, 2018, 2019 and 2020 (in millions):

|  | Foreign currency translation adjustments, net of tax |                                      |                                      |                       |                   | Net unrealized gains (losses) on available-for-sale securities, net of tax |                       |                   |                        |
|--|--|--------------------------------------|--------------------------------------|-----------------------|-------------------|--|-----------------------|-------------------|------------------------|
|  | Foreign currency translation                         |                                      | Net investment hedges <sup>(2)</sup> |                       | Total, net of tax | Net unrealized gains (losses) on available-for-sale securities, net of tax |                       | Total, net of tax | Total AOCI, net of tax |
|  | Before tax   | Tax benefit (expense) <sup>(3)</sup> | Before tax                           | Tax benefit (expense) |                   | Before tax   | Tax (expense) benefit |                   |                        |
| <b>Balance, December 31, 2017</b>                                  | \$ 210   | \$ —                                 | \$ (290)                             | \$ 65                 | \$ (15)           | \$ 343   | \$ (90)               | \$ 253            | \$ 238                 |
| Other Comprehensive Income (Loss) ("OCI") before reclassifications | (319)  | 41                                   | 217                                  | (53)                  | (114)             | (201)  | 2                     | (199)             | (313)                  |
| <b>OCI for the period</b>  | (319)  | 41                                   | 217                                  | (53)                  | (114)             | (201)  | 2                     | (199)             | (313)                  |
| Amounts reclassified to retained earnings <sup>(1)</sup>           | —  | —                                    | —                                    | —                     | —                 | (299)  | 58                    | (241)             | (241)                  |
| <b>Balance, December 31, 2018</b>                                  | \$ (109)   | \$ 41                                | \$ (73)                              | \$ 12                 | \$ (129)          | \$ (157)   | \$ (30)               | \$ (187)          | \$ (316)               |
| OCI before reclassifications                                       | (77)   | 13                                   | 71                                   | (17)                  | (10)              | 161  | (37)                  | 124               | 114                    |
| Amounts reclassified to net income <sup>(4)</sup>                  | —  | —                                    | —                                    | —                     | —                 | (11)   | 22                    | 11                | 11                     |
| <b>OCI for the period</b>  | (77)   | 13                                   | 71                                   | (17)                  | (10)              | 150  | (15)                  | 135               | 125                    |
| <b>Balance, December 31, 2019</b>                                  | \$ (186)   | \$ 54                                | \$ (2)                               | \$ (5)                | \$ (139)          | \$ (7)   | \$ (45)               | \$ (52)           | \$ (191)               |
| OCI before reclassifications                                       | 197  | (7)                                  | (182)                                | 42                    | 50                | 6  | (1)                   | 5                 | 55                     |
| Amounts reclassified to net income <sup>(4)</sup>                  | —  | —                                    | —                                    | —                     | —                 | 4  | 14                    | 18                | 18                     |
| <b>OCI for the period</b>  | 197  | (7)                                  | (182)                                | 42                    | 50                | 10   | 13                    | 23                | 73                     |
| <b>Balance, December 31, 2020</b>                                  | \$ 11  | \$ 47                                | \$ (184)                             | \$ 37                 | \$ (89)           | \$ 3   | \$ (32)               | \$ (29)           | \$ (118)               |

- (1) Upon the adoption of the accounting update on financial instruments on January 1, 2018, the Company reclassified net unrealized gains, net of tax, of \$241 million (\$299 million before tax) related to marketable equity securities from AOCI to retained earnings. Changes in fair value of marketable equity securities subsequent to January 1, 2018 are recognized in net income rather than "Accumulated other comprehensive loss" in the Consolidated Balance Sheets (see Note 2).

- (2) Net investment hedges balance, net of tax, at December 31, 2020 and earlier dates presented above, includes accumulated net losses from fair value adjustments of \$35 million (\$53 million before tax) associated with previously settled derivatives that were designated as net investment hedges. The remaining balances relate to foreign currency transaction gains (losses) and related tax benefits (expenses) associated with the Company's Euro-denominated debt that is designated as a hedge against the impact of currency fluctuations on the net assets of a Euro functional currency subsidiary (see Notes 2 and 12).
- (3) The tax benefits relate to foreign currency translation adjustments to the Company's one-time deemed repatriation tax liability recorded at December 31, 2017 and foreign earnings for periods after December 31, 2017 that are subject to U.S. federal and state income tax, resulting from the enactment of the Tax Act.
- (4) The reclassified net gains (losses) on available-for-sale securities, before tax, are included in "Other income (expense), net" and the reclassified tax (expenses) benefits are included in "Income tax expense" in the Consolidated Statements of Operations. For the year ended December 31, 2020, the reclassified tax expenses include a tax expense of \$15 million related to the maturity in May 2020 of the Company's investment of \$250 million in Trip.com Group convertible senior notes (see Note 5). For the year ended December 31, 2019, the reclassified tax expenses include a tax expense of \$21 million related to the maturity in August 2019 of the Company's investment of \$500 million in Trip.com Group convertible senior notes.

## 15. INCOME TAXES

International pre-tax income was \$2.6 billion, \$5.7 billion and \$4.8 billion for the years ended December 31, 2020, 2019 and 2018, respectively. U.S. pre-tax loss was \$2.0 billion for the year ended December 31, 2020, and U.S. pre-tax income was \$213 million and \$47 million for the years ended December 31, 2019 and 2018, respectively.

### Provision for Income Taxes

The income tax expense (benefit) for the year ended December 31, 2020 is as follows (in millions):

|               | Current       | Deferred      | Total         |
|---------------|---------------|---------------|---------------|
| International | \$ 320        | \$ (62)       | \$ 258        |
| U.S. Federal  | (9)           | 296           | 287           |
| U.S. State    | (16)          | (21)          | (37)          |
| Total         | <u>\$ 295</u> | <u>\$ 213</u> | <u>\$ 508</u> |

The income tax expense (benefit) for the year ended December 31, 2019 is as follows (in millions):

|               | Current       | Deferred      | Total           |
|---------------|---------------|---------------|-----------------|
| International | \$ 915        | \$ (12)       | \$ 903          |
| U.S. Federal  | 22            | 166           | 188             |
| U.S. State    | 34            | (32)          | 2               |
| Total         | <u>\$ 971</u> | <u>\$ 122</u> | <u>\$ 1,093</u> |

The income tax expense (benefit) for the year ended December 31, 2018 is as follows (in millions):

|               | Current       | Deferred        | Total         |
|---------------|---------------|-----------------|---------------|
| International | \$ 887        | \$ (3)          | \$ 884        |
| U.S. Federal  | 45            | (107)           | (62)          |
| U.S. State    | 55            | (40)            | 15            |
| Total         | <u>\$ 987</u> | <u>\$ (150)</u> | <u>\$ 837</u> |

Income tax liabilities of \$174 million and \$158 million are included in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets at December 31, 2020 and 2019, respectively. In the first quarter of 2020, the Company made a prepayment of the Netherlands income taxes of 660 million Euros (\$717 million) to earn prepayment discounts. The Company requested a refund of this amount from the Dutch tax authorities and it was received in April 2020.



## **U.S. Tax Reform**

In December 2017, the Tax Act was enacted into law in the United States. The Tax Act made significant changes to U.S. federal tax law, including a reduction in the U.S. federal statutory tax rate from 35% to 21%, effective January 1, 2018. The Tax Act imposed a one-time deemed repatriation tax on accumulated unremitted international earnings, to be paid over eight years.

In 2018, the Company recorded an income tax benefit of \$46 million to adjust its provisional income tax expense that was recorded during the year ended December 31, 2017 relating to the federal one-time deemed repatriation liability, as well as U.S. state income taxes and international withholding taxes associated with the mandatory deemed repatriation. In addition, the Company recorded an income tax benefit of \$2 million in 2018 to adjust the remeasurement of its U.S. deferred tax assets and liabilities due to the reduction of the U.S. federal statutory tax rate that resulted from the Tax Act.

In 2019, as a result of additional technical guidance issued by U.S. federal and state tax authorities with respect to the Tax Act, the Company recorded an income tax benefit of \$17 million to adjust its income tax expense that was recorded during the year ended December 31, 2017 relating to the federal one-time deemed repatriation liability, as well as U.S. state income taxes associated with the mandatory deemed repatriation.

In 2020, the Company recorded an income tax benefit of \$8 million to adjust its income tax expense that was recorded during the year ended December 31, 2017 relating to the federal one-time deemed repatriation liability. This benefit was primarily due to additional tax credits. The Company utilized \$108 million of deferred tax assets related to U.S. federal NOLs and \$115 million of other tax credit carryforwards to reduce its transition tax liability as of December 31, 2020.

Under the Tax Act, the Company's future cash generated by the Company's international operations can generally be repatriated without further U.S. federal income tax, but will be subject to U.S. state income taxes and international withholding taxes, which have been accrued by the Company.

The Tax Act also introduced in 2018 a tax on 50% of GILTI, which is income determined to be in excess of a specified routine rate of return, and a base erosion and anti-abuse tax ("BEAT") aimed at preventing the erosion of the U.S. tax base. The Company has adopted an accounting policy to treat taxes on GILTI as period costs.

## **Deferred Income Taxes**

The Company utilized \$309 million of its U.S. NOLs to reduce its U.S. federal tax liability for the deemed repatriation tax. After utilization of available NOLs, at December 31, 2020, the Company had U.S. federal NOLs of \$179 million, the majority of which do not have an expiration date, and U.S. state NOLs of \$457 million, which mainly begin to expire in years December 31, 2032 and forward. In addition, at December 31, 2020, the Company had \$488 million of non-U.S. NOLs, and \$14 million of U.S. research tax credit carryforwards available to reduce future tax liabilities and the majority of both do not have an expiration date.

The utilization of these NOLs, allowances and credits is dependent upon the Company's ability to generate sufficient future taxable income and the tax laws in the jurisdictions where the losses were generated. The Company periodically evaluates the likelihood of the realization of deferred tax assets, and reduces the carrying amount of these deferred tax assets by a valuation allowance to the extent it believes a portion will not be realized. The Company considers many factors when assessing the likelihood of future realization of the deferred tax assets, including its recent cumulative earnings experience by taxing jurisdiction, expectations of future income, tax planning strategies, the carryforward periods available for tax reporting purposes and other relevant factors.

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2020 and 2019 are as follows (in millions):

|   | 2020     | 2019     |
|---|----------|----------|
| Deferred tax assets/(liabilities):                                |          |          |
| Net operating loss carryforward — U.S.                            | \$ 67    | \$ 37    |
| Net operating loss carryforward — International                   | 81       | 15       |
| Accrued expenses  | 47       | 35       |
| Stock-based compensation and other stock based payments           | 40       | 49       |
| Foreign currency translation adjustment                           | 29       | 36       |
| Tax credits   | 9        | 14       |
| Euro-denominated debt   | 77       | —        |
| Operating lease liabilities                                       | 43       | 38       |
| Property and equipment  | 11       | 31       |
| Subtotal - deferred tax assets                                    | 404      | 255      |
| Discount on convertible notes                                     | (29)     | (10)     |
| Intangible assets and other                                       | (119)    | (133)    |
| Euro-denominated debt   | —        | (14)     |
| State income tax on accumulated unremitted international earnings | (5)      | (8)      |
| Unrealized gains on investments                                   | (550)    | (191)    |
| Operating lease assets  | (38)     | (35)     |
| Installment sale liability  | (263)    | (284)    |
| Other   | (14)     | (11)     |
| Subtotal - deferred tax liabilities                               | (1,018)  | (686)    |
| Valuation allowance on deferred tax assets                        | (58)     | (45)     |
| Net deferred tax liabilities <sup>(1)</sup>                       | \$ (672) | \$ (476) |

(1) Includes deferred tax assets of \$455 million and \$400 million at December 31, 2020 and 2019, respectively, reported in "Other assets, net" in the Consolidated Balance Sheets.

During the year ended December 31, 2019, the Company recorded a deferred tax asset of \$335 million, which is included in "Other Assets, net" in the Consolidated Balance Sheet, and a deferred tax liability of \$325 million, both related to an internal legal entity reorganization.

The valuation allowance on deferred tax assets of \$58 million at December 31, 2020 includes \$18 million related to international operations and \$40 million primarily related to certain U.S. federal NOLs, research credits and Connecticut NOLs. The valuation allowance on deferred tax assets of \$45 million at December 31, 2019 includes \$30 million related to international operations and \$15 million primarily related to U.S. research credits, capital loss carryforwards and Connecticut NOLs.

The Company does not intend to indefinitely reinvest its international earnings that were subject to U.S. taxation pursuant to the mandatory deemed repatriation or subject to U.S. taxation as GILTI.

#### Reconciliation of U.S. Federal Statutory Income Tax Rate to Effective Income Tax Rate

A significant portion of the Company's taxable earnings is generated in the Netherlands. According to Dutch corporate income tax law, income generated from qualifying innovative activities is taxed at a rate of 7% ("Innovation Box Tax") rather than the Dutch statutory rate of 25%. A portion of Booking.com's earnings during the years ended December 31, 2020, 2019 and 2018 qualified for Innovation Box Tax treatment, which had a significant beneficial impact on the Company's effective tax rate for those years.

The effective income tax rate of the Company is different from the amount computed using the expected U.S. statutory federal rate of 21% for the years ended December 31, 2020, 2019 and 2018 as a result of the following items (in millions):

|  | 2020          | 2019            | 2018          |
|--|---------------|-----------------|---------------|
| Income tax expense at U.S. federal statutory rate                  | \$ 119        | \$ 1,251        | \$ 1,015      |
| Adjustment due to:   |               |                 |               |
| Foreign rate differential  | 55            | 210             | 210           |
| Innovation Box Tax benefit   | (79)          | (443)           | (435)         |
| Goodwill impairment  | 228           | —               | —             |
| Stock-based compensation   | 32            | 23              | 12            |
| Federal GILTI  | 73            | 36              | 35            |
| State income tax (benefit) expense                                 | (31)          | 9               | 1             |
| Valuation allowance  | 36            | 1               | (3)           |
| Uncertain tax positions  | 64            | 11              | (4)           |
| Tax Act - Remeasurement of deferred tax balances                   | —             | —               | (2)           |
| Tax Act - U.S. transition tax benefit and other transition impacts | (8)           | (17)            | (46)          |
| Other  | 19            | 12              | 54            |
| Income tax expense   | <u>\$ 508</u> | <u>\$ 1,093</u> | <u>\$ 837</u> |

### Uncertain Tax Positions

The following is a reconciliation of the total beginning and ending amount of unrecognized tax benefits (in millions):

|  | 2020         | 2019         | 2018         |
|--|--------------|--------------|--------------|
| Unrecognized tax benefit — January 1                   | \$ 56        | \$ 45        | \$ 32        |
| Gross increases — tax positions in current period      | 2            | 3            | 1            |
| Gross increases — tax positions in prior periods       | 48           | 11           | 19           |
| Gross decreases — tax positions in prior periods       | (11)         | (3)          | (3)          |
| Reduction due to lapse in statute of limitations       | —            | —            | (2)          |
| Reduction due to settlements during the current period | (11)         | —            | (2)          |
| Unrecognized tax benefit — December 31                 | <u>\$ 84</u> | <u>\$ 56</u> | <u>\$ 45</u> |

The increase in unrecognized tax benefits is principally related to Booking.com's French tax disputes (see Note 16), the majority of which is included as a partial reduction to the French tax payment recorded in "Other Assets, net" in the Consolidated Balance Sheets for the years ended December 31, 2020 and 2019. The remaining unrecognized tax benefits are primarily included in "Other long-term liabilities" and "Deferred income taxes" in the Consolidated Balance Sheets for the years ended December 31, 2020 and 2019. The unrecognized tax benefits, if recognized, would affect the effective tax rate. The Company does not expect further significant changes in the amount of unrecognized tax benefits during the next twelve months. As of December 31, 2020 and 2019, total gross interest and penalties accrued was \$31 million and \$10 million, respectively.

The Company's major taxing jurisdictions include: the Netherlands, United States, Singapore and United Kingdom. The statutes of limitations that remain open related to these major tax jurisdictions are: the Company's Netherlands returns for 2014 and forward, U.S. federal returns for 2017 and forward, Singapore returns from 2017 and forward and U.K. returns for 2017 and forward. The Company's 2017 and 2018 U.S. federal income tax returns are currently under audit by the Internal Revenue Service. See Note 16 for more information regarding tax contingencies.

## 16. COMMITMENTS AND CONTINGENCIES

### Competition and Consumer Protection Reviews

At times, online platforms, including online travel platforms, have been the subject of investigations or inquiries by various national competition authorities ("NCAs") or other governmental authorities regarding competition law matters, consumer protection issues or other areas of concern. The Company is or has been involved in many such investigations. For example, the Company has been and continues to be involved in investigations related to whether Booking.com's contractual parity arrangements with accommodation providers, sometimes also referred to as "most favored nation" or "MFN" provisions, are anti-competitive because they require accommodation providers to provide Booking.com with room rates, conditions or availability that are at least as favorable as those offered to other OTCs or through the accommodation provider's website. To resolve and close certain of the investigations, the Company has from time to time made commitments to the investigating authorities regarding future business practices or activities. For example, Booking.com has made commitments to several NCAs, including agreeing to narrow the scope of its parity clauses, in order to resolve parity-related investigations. These investigations can also result in fines and the Company recorded a liability of \$23 million during the year ended December 31, 2020 for potential fines associated with its contractual parity arrangements. In addition, in September 2017, the Swiss Price Surveillance Office opened an investigation into the level of commissions of Booking.com in Switzerland and the investigation is ongoing. If there is an adverse outcome and Booking.com is unsuccessful in any appeal, Booking.com could be required to reduce its commissions in Switzerland. Some authorities are reviewing the online hotel booking sector more generally through market inquiries and the Company cannot predict the outcome of such inquiries or any resulting impact on its business, results of operations, cash flows or financial condition.

NCAs or other governmental authorities are continuing to review the activities of online platforms, including through the use of consumer protection powers. For example, the United Kingdom's NCA (the Competition and Markets Authority, or CMA) conducted a consumer protection law investigation into the clarity, accuracy and presentation of information on hotel booking sites. In connection with this investigation, in 2019 Booking.com, agoda and KAYAK, along with a number of other OTCs, voluntarily agreed to certain commitments with the CMA, which resolved the CMA's investigation without a finding by the CMA of an infringement or an admission of wrongdoing by the OTCs involved. Among other things, the commitments provided to the CMA included showing prices inclusive of all mandatory taxes and charges, providing information about the effect of money earned on search result rankings on or before the search results page and making certain adjustments to how discounts and statements concerning popularity or availability are shown to consumers. The CMA has stated that it expects all participants in the online travel market to adhere to the same standards, regardless of whether they formally signed the commitments. As a result of additional inquiries from other NCAs in the European Union, Booking.com has made similar commitments with the Consumer Protection Cooperation Network that became applicable in the European Union in June 2020. In the future, it is possible other jurisdictions could engage Booking.com in discussions to implement similar changes to its business in those countries. The Company is unable to predict what, if any, effect any future similar commitments will have on its business, industry practices or online commerce more generally. To the extent that any other investigations or inquiries result in additional commitments, fines, damages or other remedies, the Company's business, financial condition and results of operations could be harmed.

The Company is involved in multiple litigations in Israel claiming that it has violated Israeli consumer protection and competition laws. For example, one such lawsuit alleges that the Company violated Israeli consumer protection laws by failing to properly display Israeli local taxes in the total prices shown to Israeli residents on its platform. Another lawsuit claims that the Company's parity contractual terms with partners violate Israeli competition laws because they are anti-competitive. A third lawsuit claims Israeli consumer protection laws prohibit the Company from facilitating non-refundable bookings to Israeli residents. Each of the plaintiffs in these matters is requesting certification of a class and the Company is defending against class certification. If the court were to grant class certification for any of these matters and if the plaintiffs were successful on the merits of the claims, the Company could be required to pay damages. However, it is not reasonably possible to estimate the amount of such damages because the likelihood of class certification and the success of the merits of these cases are both too speculative at this stage in the litigation and also because a reasonable assessment of the size of any potential class is not possible at this time.

Although Booking.com has not been sued, a German hotel association has threatened Booking.com with a class action lawsuit on behalf of a group of German hotels that alleges that the hotels overpaid commissions to Booking.com because of wide parity terms in the contracts between the hotels and Booking.com between 2006 and 2015. Booking.com is pursuing court proceedings in the Netherlands to declare that the Netherlands is the proper forum for this matter. If the hotel association follows through and files the lawsuit, the class were to be certified and there were to be an adverse outcome, the Company could be required to pay damages. Although the Company believes the claim to be without merit and intends to defend against the claim, if the hotel association were successful in any litigation and the Company were required to pay damages, the amount

could be significant. The Company cannot reasonably estimate an amount of potential loss because there are several unknown variables at this early stage, including that the plaintiff has not yet filed a lawsuit.

The Company is unable to predict how any current or future investigations or litigation may be resolved or the long-term impact of any such resolution on its business. For example, competition and consumer-law-related investigations, legislation or issues have and could in the future result in private litigation. More immediate results could include, among other things, the imposition of fines, commitments to change certain business practices or reputational damage, any of which could harm the Company's business, results of operations, brands or competitive position.

## **Tax Matters**

French tax authorities conducted audits of Booking.com for the years 2003 through 2012 and years 2013 through 2015 and currently are conducting an audit for the years 2016 through 2018. In December 2015, the French tax authorities issued Booking.com assessments for unpaid income and value added taxes ("VAT") related to tax years 2006 through 2012 for approximately 356 million Euros (\$403 million), the majority of which represents penalties and interest. The assessments assert that Booking.com had a permanent establishment in France. In December 2019, the French tax authorities issued an additional assessment of 70 million Euros (\$86 million), including interest and penalties, for the 2013 year asserting that Booking.com had taxable income attributable to a permanent establishment in France. The French tax authorities also have issued assessments totaling 39 million Euros (\$48 million), including interest and penalties, for certain tax years between 2011 and 2015 on Booking.com's French subsidiary asserting that the subsidiary did not receive sufficient compensation for the services it rendered to Booking.com in the Netherlands. As a result of a formal demand from the French tax authorities for payment of the amounts assessed against Booking.com for the years 2006 through 2012, in January 2019, the Company paid the assessments of approximately 356 million Euros (\$403 million) in order to preserve its right to contest those assessments in court. The payment, which is included in "Other assets, net" in the Consolidated Balance Sheets at December 31, 2020 and 2019, does not constitute an admission that the Company owes the taxes and will be refunded (with interest) to the Company to the extent the Company prevails. In December 2019 and October 2020, the Company initiated court proceedings with respect to certain of the assessments. Although the Company believes that Booking.com has been, and continues to be, in compliance with French tax law, and the Company is contesting the assessments, during the three months ended September 30, 2020, the Company contacted the French tax authorities regarding the potential to achieve resolution of the matter through a settlement. After assessing several potential outcomes and potential settlement amounts and terms, an unrecognized tax benefit in the amount of 50 million Euros (\$61 million) has been recorded during the year ended December 31, 2020, of which the majority has been included as a partial reduction to the tax payment recorded in "Other Assets, net" in the Consolidated Balance Sheet at December 31, 2020. In December 2020, the French Administrative Court (Conseil d'Etat) delivered a decision in the "ValueClick" case that could have an impact on the outcome in the Company's case. After considering the potential impact of the new decision on the potential outcomes for the Booking.com assessments, the Company currently estimates that the reasonably possible loss related to VAT is approximately 20 million Euros (\$24 million). Additional assessments could result when the French tax authorities complete the outstanding audits.

Italian authorities are reviewing Booking.com's activities for the years 2011 through 2019. They are reviewing whether Booking.com has a permanent establishment in Italy, Booking.com's transfer pricing policies in Italy, and for the years 2013 through 2019, whether Booking.com is subject to VAT. The Company is cooperating with the investigation but intends to contest any allegation that Booking.com has a permanent establishment in Italy or that its transfer pricing policies are inappropriate. In December 2018 and 2019, the Italian tax authorities issued assessments on Booking.com's Italian subsidiary for approximately 48 million Euros (\$58 million) for the 2013 tax year and 58 million Euros (\$71 million) for the 2014 tax year, respectively, asserting that its transfer pricing policies were inadequate. The Company believes that Booking.com has been, and continues to be, in compliance with Italian tax law. The Company paid 10 million Euros (\$11 million) in December 2019 as a partial prepayment of the 2013 assessment to avoid any collection enforcement from the Italian tax authorities pending the appeal phase of this case. The payment, which is included in "Other assets, net" in the Consolidated Balance Sheets at December 31, 2020 and 2019, does not constitute an admission that the Company owes the taxes and will be refunded (with interest) to the Company to the extent the Company prevails. In September 2020, the Italian tax authorities approved the opening of a Mutual Agreement Procedure ("MAP") between Italy and the Netherlands for the 2013 tax year and the Company expects to request that the 2014 tax year be added to the MAP. Based on the possibility of the 2013 and 2014 Italian assessments being settled through the MAP process, and, after considering potential resolution amounts, a net unrecognized tax benefit amount of 4 million Euros (\$5 million) has been recorded during the year ended December 31, 2020, of which the majority has been included as a partial reduction to the tax payment recorded in "Other Assets, net" in the Consolidated Balance Sheet at December 31, 2020. It is unclear what further actions, if any, the Italian authorities will take. Such actions could include closing the investigation, assessing Booking.com additional taxes and/or imposing interest, fines and penalties.

In addition, Turkish tax authorities have asserted that Booking.com has a permanent establishment in Turkey and have issued tax assessments for the years 2012 through 2018 for approximately 766 million Turkish Lira (\$103 million), which includes interest and penalties through December 31, 2020. The Company believes that Booking.com has been, and continues to be, in compliance with Turkish tax law, and the Company is contesting these assessments. The Company has not recorded a liability in connection with these assessments.

As a result of an internal review of tax policies and positions at one of the Company's smaller subsidiaries in 2018, the Company identified two issues related to the application of certain non-income-based tax laws to that subsidiary's business. At December 31, 2020 and 2019, the Company had accrued \$59 million and \$67 million, respectively, related to these travel transaction taxes, based on the Company's estimate of the probable travel transaction tax owed for the prior periods, including interest and penalties, as applicable. The related expenses are included in "General and administrative" expense in the Consolidated Statements of Operations. The Company currently estimates that the reasonably possible loss related to these matters in excess of the amount accrued is approximately \$25 million. To the extent the Company determines that the probable taxes owed related to these matters exceed what has already been accrued or new issues are identified, the Company may need to accrue additional amounts, which could adversely affect the Company's business, results of operations, financial condition and cash flows.

During the second quarter of 2019, the Company identified the nonpayment in prior periods of a wage-related tax under Netherlands' law on compensation paid to certain highly-compensated former employees in the year of their separation from employment with Booking.com. The Company has informed the Dutch tax authorities of the nonpayment and, to correct this immaterial error, has paid an amount of \$61 million based on the Company's estimate of the probable tax owed for prior tax years, including interest. This expense is recorded in "Personnel" expenses in the Consolidated Statement of Operations for the year ended December 31, 2019.

From time to time, the Company is involved in other tax-related audits, investigations or proceedings, which could relate to income taxes, value-added taxes, sales taxes, employment taxes, etc. For example, the Company is subject to legal proceedings in the United States related to travel transaction taxes (e.g., hotel occupancy taxes, sales taxes, etc.).

Any taxes or other assessments in excess of the Company's current tax provisions, whether in connection with the foregoing or otherwise (including the resolution of any tax proceedings), could have a materially adverse impact on the Company's results of operations, cash flows and financial condition.

## **Other Matters**

Beginning in 2014, Booking.com received several letters from the Netherlands Pension Fund for the Travel Industry (Reiswerk) ("BPF") claiming that Booking.com is required to participate in the mandatory pension scheme of the BPF with retroactive effect to 1999, which has a higher contribution rate than the pension scheme in which Booking.com is currently participating. BPF instituted legal proceedings against Booking.com and in 2016 the District Court of Amsterdam rejected all of BPF's claims. BPF appealed the decision to the Court of Appeal, and, in May 2019, the Court of Appeal also rejected all of BPF's claims, in each case by ruling that Booking.com does not meet the definition of a travel intermediary for purposes of the mandatory pension scheme. BPF has appealed to the Netherlands Supreme Court. In October 2020, the Dutch Advocate General issued an opinion to the Supreme Court stating that the Dutch Advocate General believes the decision of the Court of Appeal to be incorrect based on her interpretation of the pension scheme requirements. The Company has submitted to the Supreme Court a response to the Advocate General's opinion. While the Company continues to believe that Booking.com is in compliance with its pension obligations and that the Dutch Supreme Court should uphold the ruling of the Court of Appeal, based on the significant influence the Dutch Advocate General's opinion typically has on the Supreme Court, the Company has reevaluated the probability of a loss and believes it is probable that it has incurred a loss related to this matter. The Company expects the Dutch Supreme Court to rule in the first quarter of 2021. In the event the Supreme Court overturns the decision of the Court of Appeal and remands the case to a lower court, the Company intends to pursue a number of defenses in any subsequent proceedings and may ultimately prevail in whole or in part. The Company is not able to reasonably estimate a loss or a range of loss because the litigation is ongoing and there are significant factual and legal questions yet to be determined. As a result, as of December 31, 2020, the Company has not recorded a liability in connection with a potential adverse outcome to this litigation. However, if Booking.com were to ultimately lose and all of BPF's claims were to be accepted (including with retroactive effect to 1999), the Company estimates that as of December 31, 2020, the maximum loss, not including any potential interest or penalties, would be approximately \$290 million. Such estimated potential loss increases as Booking.com continues not to contribute to the BPF and depends on Booking.com's applicable employee compensation after December 31, 2020.

From time to time the Company notifies the Dutch data protection authority in accordance with its obligations under the E.U. General Data Protection Regulation of certain incidental and accidental personal data security incidents. Although the Company believes it has fulfilled its data protection regulatory obligations, should the Dutch data protection authority decide these incidents were the result of inadequate technical and organizational security measures, it could decide to impose a fine. While the Company believes that any fine imposed on it would be immaterial, the Company estimates that if a fine were imposed, it could range from a de minimis amount to 20 million Euros (\$24 million) per incident, depending on the Dutch data protection authority's evaluation of the facts and circumstances associated with the incident after investigation.

The Company accrues for certain legal contingencies where it is probable that a loss has been incurred and the amount can be reasonably estimated. Such accrued amounts are not material to the Company's balance sheets and provisions recorded have not been material to the Company's results of operations or cash flows.

From time to time, the Company has been, and expects to continue to be, subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of third-party intellectual property rights. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources, divert management's attention from the Company's business objectives and adversely affect the Company's business, results of operations, financial condition and cash flows.

### **Building Construction**

In September 2016, the Company signed a turnkey agreement to construct an office building for Booking.com's future headquarters in the Netherlands for 270 million Euros (\$331 million). Upon signing this agreement, the Company paid 43 million Euros (\$48 million) for the acquired land-use rights, which was included in "Operating lease assets" in the Consolidated Balance Sheets. In addition, since signing the turnkey agreement the Company has made several progress payments principally related to the construction of the building, which are included in "Property and equipment, net" in the Consolidated Balance Sheets. As of December 31, 2020, the Company had a remaining obligation of 56 million Euros (\$68 million) related to the turnkey agreement. The Company's contractual obligation was reduced by 9 million Euros (\$11 million) during 2020. The remaining obligation will be paid through 2022, when the Company anticipates construction will be complete.

In addition to the turnkey agreement, the Company has a remaining obligation at December 31, 2020 to pay 70 million Euros (\$86 million) over the remaining initial term of the acquired land lease, which expires in 2065. The Company has made and will continue to make additional capital expenditures to fit out and furnish the office space. At December 31, 2020, the Company had 29 million Euros (\$35 million) of outstanding commitments to vendors to fit out and furnish the office space.

### **Lease obligations**

See Note 10 for information about the Company's lease obligations.

### **Other Contractual Obligations and Commitments**

In 2018, the Company entered into an agreement to sign a future lease related to approximately 222,000 square feet of office space in the city of Manchester in the United Kingdom for the future headquarters of Rentalcars.com. The Company's obligation to execute the lease is conditional upon the lessor completing certain activities, which are expected to be completed in 2021. If these activities are completed, the lease will commence for a term of approximately 13 years and the Company will have a lease obligation of approximately 65 million British Pounds Sterling (\$88 million), excluding lease incentives. The Company will also make capital expenditures to fit out and furnish the office space.

The Company had \$134 million and \$155 million of standby letters of credit or bank guarantees issued on behalf of the Company as of December 31, 2020 and 2019, respectively, in addition to those issued under the revolving credit facility, primarily related to payment guarantees to third-party payment processors. See Note 12 for information related to letters of credit issued under the revolving credit facility.

## 17. BENEFIT PLANS

The Company maintains a defined contribution 401(k) savings plan (the "Plan") covering certain U.S. employees. In connection with acquisitions, effective at the date of such acquisitions, the Company assumed defined contribution plans covering the U.S. employees of the acquired companies. The Company also maintains certain other defined contribution plans outside of the United States for which it provides contributions for participating employees. The Company's matching contributions during the years ended December 31, 2020, 2019 and 2018 were \$33 million, \$26 million and \$22 million, respectively.

## 18. GEOGRAPHIC INFORMATION

The Company's international revenue information consists of the information of Booking.com, agoda and Rentalcars.com in their entirety and the information of the international businesses of KAYAK and OpenTable. This classification is independent of where the consumer resides, where the consumer is physically located while using the Company's services or the location of the travel service provider or restaurant. For example, a reservation made through Booking.com (which is domiciled in the Netherlands) at a hotel in New York by a consumer in the United States is part of the Company's international results. The Company's geographic information on revenues is as follows (in millions):

| For the year ended: | United States | International   |        | Total Company |
|---------------------|---------------|-----------------|--------|---------------|
|                     |               | The Netherlands | Other  |               |
| December 31, 2020   | \$ 783        | \$ 5,264        | \$ 749 | \$ 6,796      |
| December 31, 2019   | 1,537         | 11,686          | 1,843  | 15,066        |
| December 31, 2018   | 1,536         | 11,348          | 1,643  | 14,527        |

The following table presents information on the Company's property and equipment (excluding capitalized software) and operating lease assets based on location of the assets at December 31, 2020 and 2019 (in millions):

|                   |    | United States | International   |                |       | Total Company |
|-------------------|----|---------------|-----------------|----------------|-------|---------------|
|                   |    |               | The Netherlands | United Kingdom | Other |               |
| December 31, 2020 | \$ | 186           | 499             | 85             | 278   | 1,048         |
| December 31, 2019 |    | 216           | 484             | 137            | 327   | 1,164         |

## 19. ACQUISITIONS

In April 2018, the Company paid \$139 million, net of cash acquired, and issued shares of the Company's common stock in the amount of \$110 million in connection with the acquisition of FareHarbor, a leading provider of business-to-business activities distribution services. In respect to the shares issued, as shown in the supplemental disclosure in the Consolidated Statement of Cash Flows, \$59 million relates to purchase price consideration and \$51 million relates to shares restricted for trading purposes until the required post-acquisition services are completed by certain employees.

In November 2018, the Company paid \$134 million, net of cash acquired, to complete the acquisition of HotelsCombined, a hotel meta-search company.

The Company's Consolidated Financial Statements include the accounts of these businesses starting at their respective acquisition dates. Revenues and earnings of these businesses since their respective acquisition dates and pro forma results of operations have not been presented separately as such financial information is not material to the Company's results of operations.

In 2019, the Company paid \$37 million of contingent consideration for a business acquired in 2015. The contingent payment was dependent on the achievement of certain performance factors.



## 20. RESTRUCTURING AND OTHER EXIT COSTS

In response to the reduction in the Company's business volumes as a result of the impact of the COVID-19 pandemic (see Note 2), during the year ended December 31, 2020, the Company took actions at all of its brands to reduce the size of its workforce across more than 60 countries to optimize efficiency and reduce costs. As part of these actions, the Company engaged in the process of consulting with its employees, works councils, employee representatives and other relevant organizations related to the reductions in force in certain countries (including the Netherlands and the United Kingdom), which have substantially concluded as of December 31, 2020. These consultations resulted in the Company executing either voluntary leaver schemes or involuntary reductions in force, or, in some countries, a combination of the two. The Company completed the vast majority of announcements to affected employees by December 2020. In January 2021, the Company approved and communicated the final portion of workforce reductions in the Netherlands.

During the year ended December 31, 2020, the Company recorded expenses of \$149 million for the restructuring actions, which are included in "Restructuring and other exit costs" in the Consolidated Statement of Operations. These expenses are primarily cash-based and consist of employee severance and other termination benefits, and other costs. Noncash restructuring expenses recorded during the year ended December 31, 2020 were \$7 million. At December 31, 2020, restructuring liabilities of \$37 million are included in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheet.

In addition to the restructuring expenses recorded during the year ended December 31, 2020 and included in "Restructuring and other exit costs" in the Consolidated Statement of Operations, the Company estimates that it will record additional restructuring expenses of approximately \$40 million, related to employee severance and other termination benefits, leases and contract terminations, in early 2021. This estimate may change as the Company finalizes the execution of its cost reduction plans, including restructuring actions in the Netherlands and France. The Company's evaluation of various alternative courses of action related to certain other leases and contract terminations and modifications is still in progress and the Company may incur additional costs resulting from such actions.

## 21. GOVERNMENT GRANTS AND OTHER ASSISTANCE

Certain governments have passed or are considering modifying legislation to help businesses during the COVID-19 pandemic through loans, wage subsidies, tax relief or other financial aid, and some of these governments have extended or are considering extending these programs. The Company has participated in several of these programs, including the Netherlands' wage subsidy program and the United Kingdom's job retention scheme. In addition, in certain countries, such as Singapore and China, the Company also participated in programs where the government assistance is in the form of wage subsidies and reductions in wage-related employer taxes paid by the Company. During the year ended December 31, 2020, the Company recognized government grants and other assistance benefits of \$127 million. The government grants and other assistance is recorded principally as a reduction of "Personnel" expense in the Consolidated Statement of Operations. At December 31, 2020, the Company has received \$99 million and recorded a receivable of \$28 million, which is included in "Other current assets" in the Consolidated Balance Sheet, for payments expected to be received for the programs where it has met the qualifying requirements and it is probable that payment will be received. This receivable is expected to be received in 2021. In addition, certain governments have extended support for the travel and tourism industry through special programs whereby discounts are extended to travelers through travel service providers or through travel agents for reservations facilitated by them. The Company has participated in Japan's Go To Travel program and Thailand's We Travel Together program.

## 22. OTHER INCOME (EXPENSE), NET

The components of other income (expense), net included the following (in millions):

|   | Year Ended December 31, |               |                 |
|---|-------------------------|---------------|-----------------|
|   | 2020                    | 2019          | 2018            |
| Interest and dividend income                                      | \$ 54                   | \$ 152        | \$ 187          |
| Net gains (losses) on marketable equity securities <sup>(1)</sup> | 1,811                   | 745           | (367)           |
| Impairment of investment <sup>(1)</sup>                           | (100)                   | —             | —               |
| Foreign currency transaction losses                               | (207)                   | (31)          | (53)            |
| Other   | (4)                     | 13            | (4)             |
| <b>Other income (expense), net</b>                                | <b>\$ 1,554</b>         | <b>\$ 879</b> | <b>\$ (237)</b> |

(1) See Note 5 for additional information related to the net gains (losses) on marketable equity securities and impairment of investment.

**LIST OF SUBSIDIARIES  
AS OF DECEMBER 31, 2020\***

| <b>Name</b>   | <b>Jurisdiction of<br/>Incorporation</b> | <b>Percent<br/>Ownership</b> |
|---|--|------------------------------|
| Agoda Company Pte. Ltd.                               | Singapore                                | 100%                         |
| Booking.com B.V.                                      | The Netherlands                          | 100%                         |
| Booking.com Holding B.V.                              | The Netherlands                          | 100%                         |
| KAYAK Software Corporation                            | Delaware                                 | 100%                         |
| OpenTable, Inc.                                       | Delaware                                 | 100%                         |
| Priceline.com Bookings Acquisition Company Limited    | United Kingdom                           | 100%                         |
| Priceline.com Europe Holdco, Inc.                     | Delaware                                 | 100%                         |
| Priceline.com Holdco U.K. Limited                     | United Kingdom                           | 100%                         |
| priceline.com International Ltd.                      | United Kingdom                           | 100%                         |
| priceline.com LLC                                     | Delaware                                 | 100%                         |
| Agoda Holding Company Limited                         | Mauritius                                | 100%                         |
| Booking Holdings Treasury Company                     | Delaware                                 | 100%                         |
| TravelJigsaw Holdings Limited                         | United Kingdom                           | 100%                         |
| Booking.com Transport Limited                         | United Kingdom                           | 100%                         |
| Coronado Pte Ltd                                      | Singapore                                | 100%                         |
| Booking.com Brasil Servicos de Reserva de Hoteis LTDA | Brazil                                   | 100%                         |

\* Certain subsidiaries which, when considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 31, 2020, have been excluded.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-242118, 333-219800 and 333-198515 on Form S-3 and 333-203946, 333-196756, 333-197639, 333-151413, 333-122414, 333-65034, 333-55578, 333-83233, 333-188733 and 333-189145 on Form S-8 of our reports dated February 24, 2021, relating to the consolidated financial statements of Booking Holdings Inc. and subsidiaries (the “Company”) and the effectiveness of the Company’s internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2020.

/s/ DELOITTE & TOUCHE LLP

Stamford, Connecticut

February 24, 2021

## CERTIFICATIONS

I, Glenn D. Fogel, certify that:

1. I have reviewed the Annual Report on Form 10-K of Booking Holdings Inc. (the “Registrant”) for the year ended December 31, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the Registrant and we have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

February 24, 2021

|        |                                       |
|--------|---------------------------------------|
|        | /s/ Glenn D. Fogel                    |
| Name:  | Glenn D. Fogel                        |
| Title: | Chief Executive Officer and President |

## CERTIFICATIONS

I, David I. Goulden, certify that:

1. I have reviewed the Annual Report on Form 10-K of Booking Holdings Inc. (the “Registrant”) for the year ended December 31, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

February 24, 2021

|        |  |
|--------|--|
|        | /s/ David I. Goulden                                 |
| Name:  | David I. Goulden                                     |
| Title: | Executive Vice President and Chief Financial Officer |

**Certification**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Booking Holdings Inc., a Delaware corporation (the “Company”), hereby certifies that, to his knowledge:

The Annual Report on Form 10-K for the 12 months ended December 31, 2020 (the “Report”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 24, 2021

/s/ Glenn D. Fogel  
\_\_\_\_\_  
Name: Glenn D. Fogel  
Title: Chief Executive Officer and President

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Booking Holdings Inc., a Delaware corporation (the “Company”), hereby certifies that, to his knowledge:

The Annual Report on Form 10-K for the 12 months ended December 31, 2020 (the “Report”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 24, 2021

/s/ David I. Goulden  
\_\_\_\_\_  
Name: David I. Goulden  
Title: Executive Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.