

## Expedia

# One Key has arrived with limited fanfare; member hotel discounts up and running

Maintain Rating: BUY | PO: 150.00 USD | Price: 116.96 USD

## One Key launched in the US, more geos to follow in 2024

Expedia launched a consolidated travel reward/loyalty program, One Key, in the US on July 6th. One Key unifies the Expedia & Hotels.com rewards programs, and offers a loyalty program for Vrbo. OneKeyCash can be earned & used across its brands. Expedia will fund loyalty points/OneKeyCash vs Booking's Genius loyalty program where participating hotels can fund a portion of member discounts. We have been surprised by seemingly limited press or promotion, which may reflect Expedia easing into the new program, but Expedia.com is actively promoting One Key and offering select hotel rate discounts to One Key members.

## Some incremental expenses, possibly offset by lower S&M

Expedia's loyalty members, on average, book 2.5x more frequently and spend 2.7x than non-members. Our scenario analysis on loyalty members lodging bookings suggests that if 10%/20%/50% of customers were loyalty members, the program could cost around \$350mn/\$600mn/\$1.1bn in contra-revenue (Exhibit 6) assuming a very conservative 100% redemption rate. Importantly, these costs will not all be incremental, and will be offset by reduction in spend on prior loyalty programs, and lower marketing spend, though impact could go up if Expedia is funding larger member hotel discounts.

## Patience may be required for loyalty member repeat rates

Management considers direct sales and marketing, paid search, discounting, and loyalty as one pool of capital, tries to balance between those pools to drive traffic and repeat customers. Travel is not a consistent purchase, and mgmt. has highlighted that Expedia is not expecting a huge loyalty-led payback in 2023, but that benefits are more likely to show over the next 18-24 months.

## Maintain Buy on potentially undervalued asset

Overall, given prior existing programs, we see loyalty program changes as evolutionary, not revolutionary, a sign of a conclusion of Expedia's tech platform unification work, and another step toward reducing dependence on Google. Biggest impact could be for maintaining higher loyalty of Vrbo bookers, with Expedia also potentially being more price competitive vs Booking's successful Genius program. We maintain Buy on relative valuation upside, our expectations for improving market share trends (vs a year of underperformance in 2022), and potential to reduce share count through buybacks.

| Estimates (Dec) (US\$)    | 2021A  | 2022A  | 2023E | 2024E | 2025E |
|---------------------------|--------|--------|-------|-------|-------|
| EPS                       | 1.69   | 6.82   | 9.52  | 11.73 | 13.89 |
| GAAP EPS                  | (1.74) | 2.20   | 6.86  | 9.11  | 11.13 |
| EPS Change (YoY)          | NM     | 303.6% | 39.6% | 23.2% | 18.4% |
| Consensus EPS (Bloomberg) |        |        | 9.09  | 11.54 | 13.94 |
| DPS                       | 0      | 0      | 0     | 0     | 0     |
| Valuation (Dec)           |        |        |       |       |       |
| P/E                       | 69.2x  | 17.1x  | 12.3x | 10.0x | 8.4x  |
| GAAP P/E                  | NM     | 53.2x  | 17.0x | 12.8x | 10.5x |
| Dividend Yield            | 0%     | 0%     | 0%    | 0%    | 0%    |
| EV / EBITDA*              | 13.4x  | 8.4x   | 7.4x  | 6.4x  | 5.7x  |
| Free Cash Flow Yield*     | 16.6%  | 15.0%  | 12.9% | 12.8% | 14.1% |

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 12.

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### Stock Data

|                                 |                        |
|---------------------------------|------------------------|
| Price                           | 116.96 USD             |
| Price Objective                 | 150.00 USD             |
| Date Established                | 10-Feb-2023            |
| Investment Opinion              | C-1-8                  |
| 52-Week Range                   | 82.39 USD - 124.95 USD |
| Mrkt Val (mn) / Shares Out (mn) | 18,480 USD / 158.0     |
| Average Daily Value (mn)        | 318.76 USD             |
| BofA Ticker / Exchange          | EXPE / NAS             |
| Bloomberg / Reuters             | EXPE US / EXPE.OQ      |
| ROE (2023E)                     | 42.5%                  |
| Net Dbt to Eqty (Dec-2022A)     | 57.5%                  |
| ESGMeter™                       | High                   |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

S&M – Sales and Marketing

# iQprofile<sup>SM</sup> Expedia

## iQmethod<sup>SM</sup> – Bus Performance\*

| (US\$ Millions)            | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 0.7%  | 6.0%  | 9.0%  | 11.5% | 13.6% |
| Return on Equity           | 14.4% | 49.4% | 42.5% | 42.6% | 47.7% |
| Operating Margin           | 2.2%  | 9.3%  | 11.4% | 13.3% | 14.7% |
| Free Cash Flow             | 3,075 | 2,778 | 2,390 | 2,373 | 2,615 |

## iQmethod<sup>SM</sup> – Quality of Earnings\*

| (US\$ Millions)          | 2021A  | 2022A | 2023E  | 2024E  | 2025E  |
|--------------------------|--------|-------|--------|--------|--------|
| Cash Realization Ratio   | 14.6x  | 3.2x  | 2.2x   | 1.8x   | 1.7x   |
| Asset Replacement Ratio  | 1.1x   | 1.1x  | 1.2x   | 1.3x   | 1.4x   |
| Tax Rate                 | 139.5% | 36.2% | 27.4%  | 22.0%  | 22.0%  |
| Net Debt-to-Equity Ratio | 101.5% | 57.5% | -16.4% | -11.5% | -34.6% |
| Interest Cover           | 0.5x   | 5.0x  | 12.7x  | 14.9x  | 17.9x  |

## Income Statement Data (Dec)

| (US\$ Millions)              | 2021A      | 2022A         | 2023E        | 2024E        | 2025E        |
|------------------------------|------------|---------------|--------------|--------------|--------------|
| Sales                        | 8,598      | 11,667        | 12,868       | 14,000       | 15,256       |
| % Change                     | 65.4%      | 35.7%         | 10.3%        | 8.8%         | 9.0%         |
| Gross Profit                 | 7,098      | 10,024        | 11,089       | 12,068       | 13,181       |
| % Change                     | 101.0%     | 41.2%         | 10.6%        | 8.8%         | 9.2%         |
| EBITDA                       | 1,477      | 2,349         | 2,679        | 3,066        | 3,463        |
| % Change                     | NM         | 59.0%         | 14.0%        | 14.4%        | 13.0%        |
| Net Interest & Other Income  | (224)      | (547)         | (38)         | (125)        | (125)        |
| <b>Net Income (Adjusted)</b> | <b>257</b> | <b>1,072</b>  | <b>1,444</b> | <b>1,757</b> | <b>2,067</b> |
| <b>% Change</b>              | <b>NM</b>  | <b>317.1%</b> | <b>34.7%</b> | <b>21.7%</b> | <b>17.6%</b> |

## Free Cash Flow Data (Dec)

| (US\$ Millions)                        | 2021A        | 2022A        | 2023E         | 2024E        | 2025E        |
|--|--------------|--------------|---------------|--------------|--------------|
| Net Income from Cont Operations (GAAP) | 15           | 343          | 1,042         | 1,359        | 1,650        |
| Depreciation & Amortization            | 715          | 704          | 704           | 680          | 680          |
| Change in Working Capital              | 2,620        | 1,261        | 997           | 610          | 610          |
| Deferred Taxation Charge               | (145)        | 70           | (57)          | 0            | 0            |
| Other Adjustments, Net                 | 543          | 1,062        | 469           | 494          | 514          |
| Capital Expenditure                    | (673)        | (662)        | (766)         | (770)        | (839)        |
| <b>Free Cash Flow</b>                  | <b>3,075</b> | <b>2,778</b> | <b>2,390</b>  | <b>2,373</b> | <b>2,615</b> |
| <b>% Change</b>                        | <b>NM</b>    | <b>-9.7%</b> | <b>-14.0%</b> | <b>-0.7%</b> | <b>10.2%</b> |

## Balance Sheet Data (Dec)

| (US\$ Millions)                       | 2021A         | 2022A         | 2023E         | 2024E         | 2025E         |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & Equivalents                    | 4,111         | 4,096         | 7,223         | 6,840         | 8,455         |
| Trade Receivables                     | 1,464         | 2,126         | 2,319         | 2,469         | 2,619         |
| Other Current Assets                  | 2,606         | 2,569         | 2,698         | 2,908         | 3,118         |
| Property, Plant & Equipment           | 2,180         | 2,210         | 2,290         | 2,290         | 2,290         |
| Other Non-Current Assets              | 11,187        | 10,560        | 10,600        | 10,600        | 10,600        |
| <b>Total Assets</b>                   | <b>21,548</b> | <b>21,561</b> | <b>25,129</b> | <b>25,107</b> | <b>27,082</b> |
| Short-Term Debt                       | 0             | 0             | 0             | 0             | 0             |
| Other Current Liabilities             | 9,450         | 10,778        | 12,069        | 12,839        | 13,609        |
| Long-Term Debt                        | 7,715         | 6,240         | 6,243         | 6,243         | 6,243         |
| Other Non-Current Liabilities         | 831           | 815           | 841           | 841           | 841           |
| <b>Total Liabilities</b>              | <b>17,996</b> | <b>17,833</b> | <b>19,153</b> | <b>19,923</b> | <b>20,693</b> |
| <b>Total Equity</b>                   | <b>3,552</b>  | <b>3,728</b>  | <b>5,976</b>  | <b>5,184</b>  | <b>6,389</b>  |
| <b>Total Equity &amp; Liabilities</b> | <b>21,548</b> | <b>21,561</b> | <b>25,129</b> | <b>25,107</b> | <b>27,082</b> |

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 12.

## Company Sector

Internet/e-Commerce

## Company Description

Expedia is a leading Internet travel company with exposure to online travel in the U.S., Europe and Asia. The company's portfolio of brands include Expedia, Orbitz, VRBO, Travelocity, Hotels.com, Trivago, Egencia, Hotwire, Wotif, Venere and Classic Vacations.

## Investment Rationale

Expedia is an investment in global online travel with exposure to hotel, air and rental car bookings in the US, Europe and Asia. With several brands including Expedia.com, Orbitz.com, Hotels.com, Hotwire, VRBO and Wotif, Expedia has benefited from an increasing percentage of travel bookings migrating online.

## Stock Data

Average Daily Volume

2,718,637

## Quarterly Earnings Estimates

|    | 2022   | 2023   |
|----|--------|--------|
| Q1 | -0.47A | -0.20A |
| Q2 | 1.96A  | 2.47E  |
| Q3 | 4.05A  | 5.21E  |
| Q4 | 1.26A  | 2.05E  |

## One Key launched in the US

Expedia mgmt. has previously highlighted its two “big boulder lifts” in 2H23 – 1) Vrbo’s migration to Expedia’s tech-stack and 2) Launch of One Key. These initiatives, though cost intensive, are consistent Expedia’s efforts in improve brand integration (ongoing for the last couple of years). Given prior existing loyalty programs for Expedia and Hotels.com, we see program changes as evolutionary, not revolutionary. However, we think the end of tech platforming cycle and start of better brand unification can drive better relative performance vs Booking following material room night share losses over the last 12 months. Biggest impact may be more competitive price discounting vs Bookings Successful Genius loyalty program.

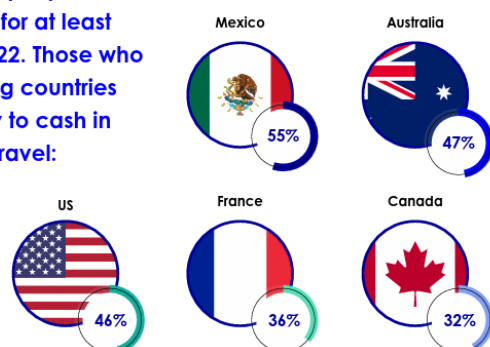
Various studies have shown that travel loyalty programs can increase customer spend, which is why we think the programs are so widespread in the industry. According to Expedia Group’s 2023 research (Traveler Value Index 2023), more than half (53%) say it is more important now to travel and stay with providers where they are a loyalty member than it was before the pandemic. Also, 52% survey respondents prefer special discounted prices, 46% respondents like collecting points and redeeming them for future purchases and 42% prefer complementary upgrades, add-ons or other perks. Compared to older generations, Gen Z conserved the most loyalty points that could be used for travel.

Expedia’s 2022 Traveler Index report highlights that around 2 in 5 (40%) people planned to use loyalty points for at least part of a trip in 2022. Expedia Group’s research further suggests that, since 2018, more bookings across their primary traveler websites (Expedia, Hotels.com and Orbitz) have included the redemption of loyalty points/rewards. Though bookings decreased overall during the height of the pandemic, the percentage of bookings with loyalty points remained steady throughout and has increased in 2022 (though the company doesn’t disclose this percent).

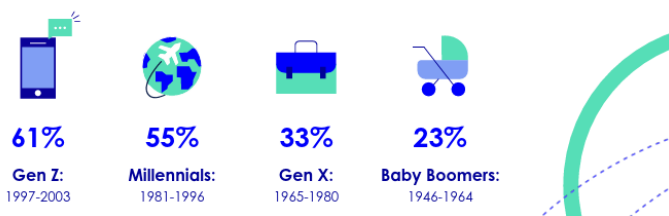
### Exhibit 1: Intention to use loyalty points by region

Expedia 2022 Traveler Index survey results

Two in 5 (40%) people plan to use loyalty points for at least part of a trip in 2022. Those who live in the following countries will be more likely to cash in loyalty points for travel:



Compared to older generations, Gen Z conserved the most loyalty points that could be used for travel. Here's a breakdown of how many people have a stockpile of rewards at their fingertips:



Source: Expedia Group, Traveler Value Index 2022

According to Expedia Group’s 2022/23 consumer survey, price sensitivity remained high among respondents.

**Exhibit 2: What do consumers value most from travel loyalty programs they are a member of?**  
Most survey respondents preferred discounted prices, reward points and complementary upgrades

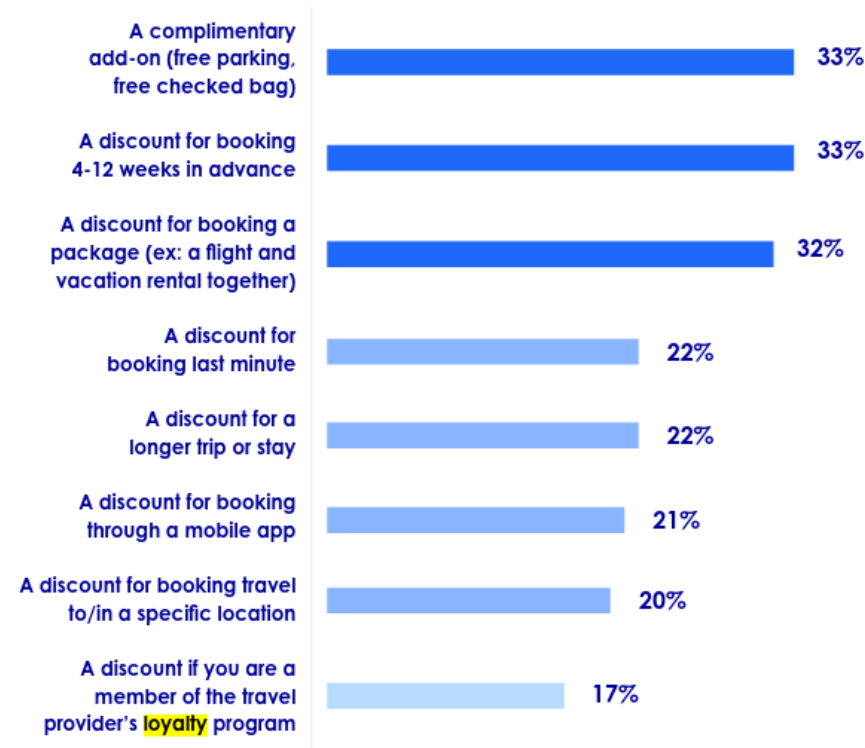


Source: Expedia Group, Traveler Value Index 2023

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**Exhibit 3: Travel deals most appealing to consumers**  
Survey responses suggest consumers want to get their money’s worth

**Most appealing deals to consumers when they book travel:**



Source: Expedia Group, Traveler Value Index: Spring 2022 Outlook

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## One Key Overview : Rewards and member prices

The One Key launch unifies the Expedia and Hotels.com rewards programs and, brings a loyalty program to Vrbo. One Key offers the flexibility of booking a trip element (on any of the three brands (Expedia, Hotels.com and Vrbo) and using points across these brands and various trip elements. The program is free to join and offers status retention for Expedia's existing rewards members (168mn have signed up).

One Key loyalty program offers 4 tiers:

- Blue – available to all on free sign up
- Silver - 5 trip elements within a year
- Gold - 15 trip elements within a year
- Platinum - 30 trip elements within a year

So, for example, if a member booked 2 nights in a hotel and a 3-day car rental, they'd earn 5 trip elements, enough to reach Silver tier status in one trip.

Tier status will be earned on a calendar year basis, from Jan 1 to Dec 31. Member status for the upcoming year will be determined according to the number of trip elements collected by Dec 31 and progress will reset as of Jan 1.

One Key members earn OneKeyCash on eligible bookings, which can be redeemed according to trip element and tier status. The program also rewards members for each trip element they collect, on top of the OneKeyCash. These rewards translate into additional savings (unlocks Member pricing by participating partners) based on the loyalty tier.

### Exhibit 4: Trip elements help move up loyalty tiers

Blue, Silver, Gold, Platinum tiers depend on trip elements booked annually

You get one trip element for each...



Hotel room  
night



Vacation rental  
night



Flight ticket



Car rental day



Cruise cabin  
night



Activity ticket

Source: Company website (www.expedia.com)

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Expedia is already offering discounts on Expedia.com for One Key loyalty members (see below) on select properties and One Key cash earned for bookings:

**Exhibit 5: Expedia website screen shot**  
Expedia website now shows Memberprices and OneKeyCash for select bookings

OverviewRoomsLocationAmenitiesPolicies

Studio, 1 King Bed (Penthouse)

275 sq ft

Sleeps 2

City view

1 King Bed

More details >

Cancellation policy

More details on all policy options ⓘ

Non-Refundable

+ \$0

Fully refundable before Jul 13

+ \$30

Reserve now, pay later

Earn \$15.28 in OneKeyCash

10% off

\$764

~~\$849~~

\$880 total includes taxes & fees

We have 1 left

Reserve

Price details >

Suite, 1 Bedroom

509 sq ft

Sleeps 4

1 King Bed

More details >

Cancellation policy

More details on all policy options ⓘ

Non-Refundable

+ \$0

Fully refundable before Jul 13

+ \$43

Reserve now, pay later

Earn \$21.76 in OneKeyCash

10% off

\$1,088

~~\$1,209~~

\$1,254 total includes taxes & fees

We have 1 left

Reserve

Price details >

Penthouse, 1 Bedroom, Accessible (Hearing)

620 sq ft

Sleeps 4

City view

1 King Bed and 1 Queen Sofa Bed

More details >

Cancellation policy

More details on all policy options ⓘ

Non-Refundable

+ \$0

Fully refundable before Jul 13

+ \$49

Reserve now, pay later

Earn \$24.46 in OneKeyCash

10% off

\$1,223

~~\$1,359~~

\$1,407 total includes taxes & fees

We have 1 left

Reserve

Price details >

Source: Company website (www.expedia.com)

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## High Level Scenario analysis

We perform scenario analysis (Exhibit 6) on lodging bookings by loyalty members to estimate potential cost of the One Key loyalty program to Expedia on hotel bookings. Our analysis assumes lowest tier of rewards ratio (2%), a 100% rewards conversion rate, which is conservative, but also does not incorporate a potential cost of incremental hotel price discounts that Expedia will likely offer to members and higher points costs for heavy users (Silver, Gold, Platinum) with higher status. We note that various Online studies suggest loyalty program redemption rates can range from as low at 13% to as high as 60%, and we would expect Expedia to accrue contra-revenue loyalty expense at a rate well below 100%.

According to mgmt., loyalty members on average book 2.5x more frequently (proxy for room nights) and spend 2.7x vs non-members (proxy for bookings). This implies that the ADR for loyalty members is ~8% higher than non-members.

Our assumptions include:

- a) We assume the lowest tier OneKeyCash rewards of 2%, which translates to customers capturing \$2 of rewards on every \$100 spent.
- b) We assume different %'s of Expedia's annual customers (who made a reservation) are loyalty members in each scenario.
- c) We keep our total lodging bookings fixed despite potential benefit from One Key, and use 2023 lodging bookings estimate (12% growth estimate on 2022 reported data for lodging bookings).

Our estimates suggest, if:

1. 10% of customers were loyalty members – Loyalty lodging bookings would be around 23% of total lodging bookings. At 2% rewards for lowest tier loyalty benefits, the program could cost around \$346mn (or 0.5% of total lodging bookings) to offer lowest tier loyalty benefits for accommodations at a 100% redemption rate assumption.
2. 20% of customers were loyalty members – Loyalty lodging bookings would be around 40% of total lodging bookings. At 2% rewards for lowest tier loyalty benefits, the program could cost around \$603mn (or 0.8% of total lodging bookings) to offer lowest tier loyalty benefits for accommodations at a 100% redemption rate assumption.
3. 40% of customers were loyalty members – Loyalty lodging bookings would be around 64% of total lodging bookings. At 2% rewards for lowest tier loyalty benefits, the program could cost around \$962mn (or 1.3% of total lodging bookings) to offer lowest tier loyalty benefits for accommodations at a 100% redemption rate assumption.
4. 50% of customers were loyalty members – Loyalty lodging bookings would be around 73% of total lodging bookings. At 2% rewards for lowest tier loyalty benefits, the program could cost around \$1.1bn (or 1.5% of total lodging bookings) to offer lowest tier loyalty benefits for accommodations at a 100% redemption rate assumption.



**Exhibit 6: Scenario analysis – Loyalty rewards cost to Expedia**

With 10% customers assumed as loyalty members, rewards are estimated to cost around 0.5% of overall lodging bookings

| Scenarios   | Assuming 10% customers are loyalty members | Assuming 20% customers are loyalty members | Assuming 40% customers are loyalty members | Assuming 50% customers are loyalty members |
|---|--|--|--|--|
| Total lodging customers in 2023   | a  | a  | a  | a  |
| Loyalty member customers  | 10%  | 20%  | 40%  | 50%  |
| Non-loyalty customers   | 90%  | 80%  | 60%  | 50%  |
| avg. Loyalty member spend (spend 2.7x of non-loyal)   | 2.7x                                       | 2.7x                                       | 2.7x                                       | 2.7x                                       |
| avg. Non-member Spend   | 1.0x                                       | 1.0x                                       | 1.0x                                       | 1.0x                                       |
| Total lodging bookings (= 0.1a*2.7x+ 0.9a*x)  | 74,860                                     | 74,860                                     | 74,860                                     | 74,860                                     |
| Non-loyal customer bookings (0.9a*x)  | 57,584                                     | 44,692                                     | 26,736                                     | 20,232                                     |
| Loyalty member lodging bookings (= Loyalty spend * Loyalty member customers) or (0.1a*2.7x) | 17,275                                     | 30,167                                     | 48,124                                     | 54,627                                     |
| Cost to Expedia (2% of loyalty bookings) \$ mn  | 346  | 603  | 962  | 1,093                                      |
| <b>Cost as % of total lodging bookings</b>  | <b>0.5%</b>                                | <b>0.8%</b>                                | <b>1.3%</b>                                | <b>1.5%</b>                                |
| Total nights booked (= 0.1a*2.5y+ 0.9a*y)   | 346  | 346  | 346  | 346  |
| Loyalty member nights booked (book 2.5x frequently vs non-loyal)                            | 75   | 133  | 216  | 247  |
| Non-member nights booked  | 271  | 213  | 130  | 99   |
| Loyalty member avg. ADR = (bookings/nights)   | 229.9                                      | 226.9                                      | 222.7                                      | 221.2                                      |
| Non-member avg. ADR   | 212.8                                      | 210.1                                      | 206.2                                      | 204.8                                      |

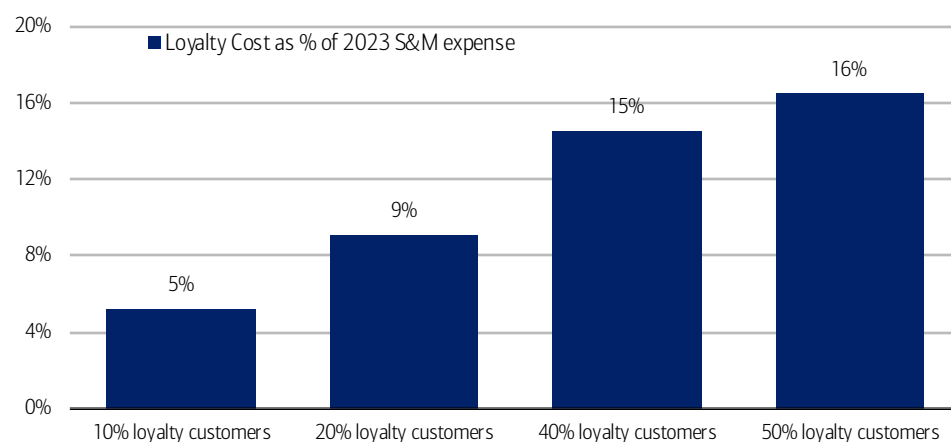
Source: BofA Global Research estimates, company report

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We estimate Expedia's 2023 S&M expense at \$6.6bn, the scenario analysis above suggests that if 20% of total customers that book are loyalty customers (at the lowest One Key tier) the program could cost around 10% of total estimated S&M expense (in the form of contra-revenue). We note that this cost will not be all incremental as Expedia had prior loyalty programs, and loyalty program costs could be offset by lower marketing spend. Given hotel discount incentives to sign up with One Key we could envision a relatively high percentage of Expedia Brand's customers become loyalty members, but a redemption rate well below 100%.

**Exhibit 7: Loyalty cost as % of Expedia's estimated total 2023 S&M expense**

10% loyalty customers (at lowest tier) will likely cost 5% of estimated 2023 S&M spend



Source: BofA Global Research estimates

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**One Key vs prior Expedia rewards - offers higher savings**

In the prior reward tiers, the lowest tier Expedia rewards member earned saved \$1 for every \$100 spent on eligible stays, car rentals, activities, packages, and cruises. With



One Key, the lowest tier OneKeyCash rewards of 2% for every \$1 spent, which translates to customer savings of \$2 on every \$100 spent. This suggests that the lowest tier of One Key offers double the savings vs prior Expedia rewards.

#### Exhibit 8: One Key tiers vs prior Expedia rewards tiers

One Key offers more savings to loyalty members, especially at lower tiers

| <b>Expedia Rewards earning terms</b><br><i>applies to all travel completed before you become a One Key Member</i>                                 | <b>One Key earning terms</b><br><i>applies to all travel completed on or after the date you become a One Key Member</i>   |
|---|---|
| As an Expedia Rewards member, earn one point for every \$1 spent on eligible stays, car rentals, activities, packages, and cruises.               | As a One Key member, earn 2% in OneKeyCash for every \$1 spent <sup>1</sup> on eligible stays, car rentals, activities, packages, and cruises. For example, you will earn \$10 in OneKeyCash on \$500 of spend. |
| As an Expedia Rewards member, use 100 points to save \$1 on eligible bookings.  | As a One Key member, use \$1 of OneKeyCash to save \$1 on eligible bookings.  |
| As an Expedia Rewards member, earn one point for every \$5 spent on eligible flight bookings in addition to any airline loyalty program earnings. | As a One Key member, earn 0.2% in OneKeyCash for every \$1 spent <sup>1</sup> on eligible flight bookings in addition to any airline loyalty program earnings.  |
| As an Expedia Rewards Silver member, earn one bonus point for every \$1 spent on eligible stays, car rentals, activities, packages, and cruises.  | As a One Key Silver member, earn 50% more OneKeyCash <sup>2</sup> on eligible stays at VIP Access properties and more travel products in the future.  |
| As an Expedia Rewards Gold member, earn two bonus points for every \$1 spent on eligible stays, car rentals, activities, packages, and cruises.   | As a One Key Gold member, earn 100% more OneKeyCash <sup>2</sup> on eligible stays at VIP Access properties and more travel products in the future.   |
|   | As a One Key Platinum member, earn 200% more OneKeyCash <sup>2</sup> on eligible stays at VIP Access properties and more travel products in the future.   |
| As an Expedia Rewards member, earn three bonus points for every \$1 spent on eligible stays at VIP Access properties.                             | This promotion will be discontinued. As a One Key Silver, Gold, or Platinum member, earn bonus OneKeyCash <sup>2</sup> using the rates described above.   |

<sup>1</sup>USD only. Excludes taxes and fees.

<sup>2</sup>Bonus OneKeyCash offers are calculated on the base OneKeyCash earnings for an eligible booking only and cannot be applied to other bonus OneKeyCash offers. For bookings made before the date you become a One Key member, where travel is completed on or after this date, the Silver, Gold, Platinum bonus awarded will be calculated according to the new member's One Key status.

Source: Company website (www.expedia.com)

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#### One Key vs prior Hotels.com rewards - offers lower savings for heavy travelers

Hotels.com's prior loyalty program consisted of 1 reward room night for every 10 nights booked. This translated to around 10% rewards (for those that could use them), which compares to only 2% rewards under the new OneKey. According to Expedia mgmt., this program was very rewarding for extensive travelers, and mgmt. may have to target these travelers separately to ensure they convert to One Key (which in its current form may translate to lower rewards vs Hotels.com prior rewards). Customers who did not use Hotels.com frequently (to be able to collect sufficient reward stamps) are however likely to benefit more from One Key. While the previous program could only be used for Hotels.com, the new program gives customers the flexibility to use their rewards on Vrbo and Expedia too.

### Exhibit 9: One Key tiers vs prior Hotels.com rewards tiers

One Key benefits may fall short of prior Hotels.com rewards for high frequency customers, but many customers couldn't use their rewards

| <b>Hotels.com Rewards earning terms</b><br><i>applies to all travel completed before the date you become a One Key Member</i>  | <b>One Key Rewards earning terms</b><br><i>applies to all travel completed on or after the date you become a One Key member</i>   |
|--|---|
| As a Hotels.com Rewards member, collect one stamp for every eligible room night stayed. Upon collecting 10 stamps, earn one reward night. The value of a reward night is the average price (before taxes and fees) of the 10 stamps collected. | As a One Key member, earn 2% in OneKeyCash for every \$1 spent <sup>1</sup> on eligible stays, car rentals, activities, packages, and cruises. Earn 0.2% in OneKeyCash for every \$1 spent <sup>1</sup> on eligible flight bookings in addition to any airline loyalty program earnings. For example, you will earn \$10 in OneKeyCash on \$500 of spend. |
|  | As a One Key Silver member, earn 50% more OneKeyCash <sup>2</sup> on eligible stays at VIP Access properties and more travel products in the future.  |
|  | As a One Key Gold member, earn 100% more OneKeyCash <sup>2</sup> on eligible stays at VIP Access properties and more travel products in the future.   |
|  | As a One Key Platinum member, earn 200% more OneKeyCash <sup>2</sup> on eligible stays at VIP Access properties and more travel products in the future.   |

<sup>1</sup>USD only. Excludes taxes and fees.

<sup>2</sup>Bonus OneKeyCash offers are calculated on the base OneKeyCash earnings for an eligible booking only and cannot be applied to other bonus OneKeyCash offers. For bookings made before the date you become a One Key member, where travel is completed on or after this date, the preferred inventory bonus awarded will be calculated according to the new member's One Key status.

Source: Company website (www.expedia.com)

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### How One Key differs from Booking's Genius loyalty program?

1. Accumulating rewards vs upfront discounts – One Key offers rewards (OneKeyCash) which can be used for future bookings, whereas Booking's Genius offers up to 20% discounts on bookings with around 0.4mn participating properties. Expedia is also looking to tie up with partners to offer Member prices and perks to One Key members, but adding partners may take time.
2. Expedia Group funds the loyalty expense – OneKeyCash (loyalty rewards) will be funded by Expedia Group. Booking's Genius program requires eligible properties to offer at least one discounted option. These properties can also choose to offer other travel rewards, such as free breakfasts and room upgrades.
3. Tiers reset annually based on prior year bookings – One Key tier status will be earned on a calendar year basis, from 1<sup>st</sup> Jan to 31<sup>st</sup> Dec. Status for the upcoming year will be determined according to the number of trip elements collected by 31<sup>st</sup> Dec and progress will reset as of 1<sup>st</sup> Jan. However, OneKeyCash will keep accumulating over the years. Whereas, for Booking's Genius, a higher tier (3 tiers currently offered) gets unlocked once the required number of stays have been met, and it remains valid for life.

## Price objective basis & risk

### Expedia (EXPE)

Our \$150 PO is based on a 50-50 blend of P/E and sum-of-the-parts valuations based on 2024 estimates. Our sum-of-the-parts valuation is based on a 8x EBITDA , and separate values for Trivago and assets. Our P/E valuation is based on 14x EPS. Our P/E multiple is within Expedia's historical ranges of forward EPS and a discount compared to Booking valuation given use of non-GAAP EPS.

Downside risks to our PO are 1) economic downturn or prolonged new wave virus outbreak leading to fewer travel bookings, 2) competition traffic lowering the company's growth or margin opportunity, 3) more aggressive hotel direct booking initiatives 4) Google disintermediation, and 5) slowdown in VRBO growth post-pandemic.

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### US - Internet Coverage Cluster

| Investment rating   | Company                         | BofA Ticker | Bloomberg symbol | Analyst            |
|---------------------|---------------------------------|-------------|------------------|--------------------|
| <b>BUY</b>          |                                 |             |                  |                    |
|                     | Alphabet                        | GOOGL       | GOOGL US         | Justin Post        |
|                     | Alphabet                        | GOOG        | GOOG US          | Justin Post        |
|                     | Amazon.com                      | AMZN        | AMZN US          | Justin Post        |
|                     | AppLovin                        | APP         | APP US           | Omar Dessouky, CFA |
|                     | Arhaus, Inc                     | ARHS        | ARHS US          | Curtis Nagle, CFA  |
|                     | Digital Turbine, Inc            | APPS        | APPS US          | Omar Dessouky, CFA |
|                     | DoorDash                        | DASH        | DASH US          | Michael McGovern   |
|                     | Expedia                         | EXPE        | EXPE US          | Justin Post        |
|                     | Meta Platforms Inc              | META        | META US          | Justin Post        |
|                     | Peloton                         | PTON        | PTON US          | Justin Post        |
|                     | RH                              | RH          | RH US            | Curtis Nagle, CFA  |
|                     | Roblox Corp. Class A            | RBLX        | RBLX US          | Omar Dessouky, CFA |
|                     | Take-Two Interactive            | TTWO        | TTWO US          | Omar Dessouky, CFA |
|                     | Tempur Sealy International Inc. | TPX         | TPX US           | Curtis Nagle, CFA  |
|                     | Uber                            | UBER        | UBER US          | Justin Post        |
|                     | Wayfair                         | W           | W US             | Curtis Nagle, CFA  |
|                     | Zillow                          | ZG          | ZG US            | Curtis Nagle, CFA  |
|                     | Zillow                          | Z           | Z US             | Curtis Nagle, CFA  |
| <b>NEUTRAL</b>      |                                 |             |                  |                    |
|                     | 1stDibs.com                     | DIBS        | DIBS US          | Curtis Nagle, CFA  |
|                     | Airbnb                          | ABNB        | ABNB US          | Justin Post        |
|                     | Booking Holdings Inc            | BKNG        | BKNG US          | Justin Post        |
|                     | eBay                            | EBAY        | EBAY US          | Curtis Nagle, CFA  |
|                     | Electronic Arts                 | EA          | EA US            | Omar Dessouky, CFA |
|                     | Etsy, Inc.                      | ETSY        | ETSY US          | Curtis Nagle, CFA  |
|                     | Overstock.com Inc               | OSTK        | OSTK US          | Curtis Nagle, CFA  |
|                     | Pinterest                       | PINS        | PINS US          | Justin Post        |
|                     | Playtika                        | PLTK        | PLTK US          | Omar Dessouky, CFA |
|                     | Snap                            | SNAP        | SNAP US          | Justin Post        |
| <b>UNDERPERFORM</b> |                                 |             |                  |                    |
|                     | Lyft, Inc.                      | LYFT        | LYFT US          | Michael McGovern   |
|                     | Opendoor Technologies           | OPEN        | OPEN US          | Curtis Nagle, CFA  |
|                     | Purple Innovation               | PRPL        | PRPL US          | Curtis Nagle, CFA  |
|                     | Redfin Corp                     | RDFN        | RDFN US          | Curtis Nagle, CFA  |



## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization  
Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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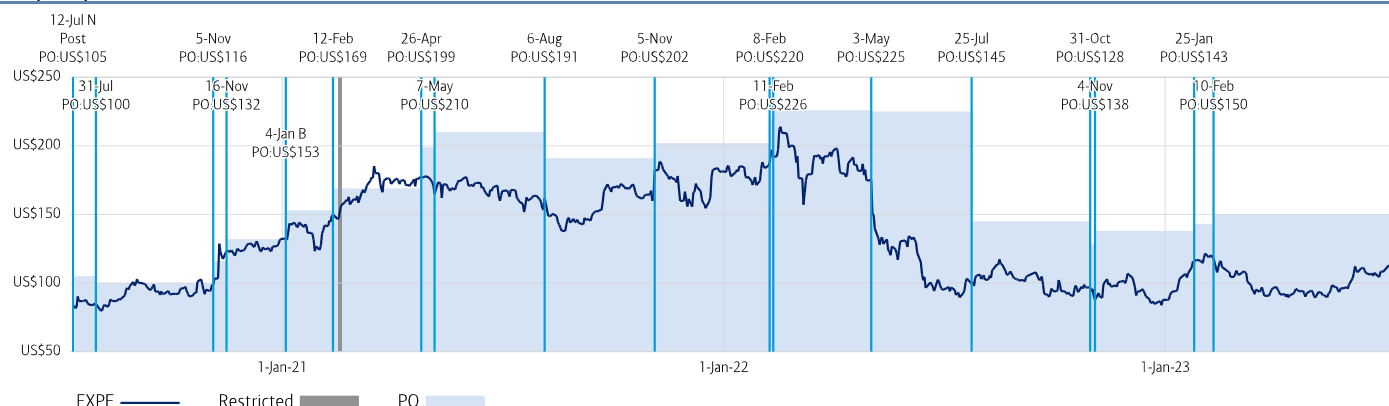
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 212   | 53.13%  | Buy                                      | 103   | 48.58%  |
| Hold              | 89    | 22.31%  | Hold                                     | 45    | 50.56%  |
| Sell              | 98    | 24.56%  | Sell                                     | 30    | 30.61%  |

### Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 1877  | 53.28%  | Buy                                      | 1040  | 55.41%  |
| Hold              | 815   | 23.13%  | Hold                                     | 464   | 56.93%  |
| Sell              | 831   | 23.59%  | Sell                                     | 385   | 46.33%  |

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster <sup>R2</sup> |
|-------------------|---|--|
| Buy               | ≥ 10%   | ≤ 70%  |
| Neutral           | ≥ 0%  | ≤ 30%  |
| Underperform      | N/A   | ≥ 20%  |

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