

## Expedia

# Still attractive on FCF, but a lot to work through in 1H'24; Downgrade to Neutral

Rating Change: NEUTRAL | PO: 156.00 USD | Price: 138.00 USD

## 4Q light on bookings, but 2024 outlook relatively in-line

4Q bookings at \$21.7bn were below Street at \$22.2bn, with pressure on airline & Vrbo bookings. Revenue at \$2.9bn slightly beat on lodging mix driving higher take rates, & EBITDA at \$532mn also slightly beat Street at \$528mn on lower COS. Mgmt. guided to 1Q bookings growth at low to mid-single digits, below Street at 7%, on tougher comps, air bookings pressure, and slow Vrbo recovery post re-platforming. Expedia's outlook for 2024, was close to Street, mgmt. expects topline growth similar to 2023 (9-10% y/y), and EBITDA margin growth similar to 2023 (+75bps), but this year 1Q bookings are growing below Expedia's full year growth outlook (vs above in 1Q last year).

## What's changed? More uncertainty in 2024

We see a few new overhangs on the stock that could limit multiple expansion and performance vs peers: a) a more back end-loaded top-line year (vs 2023) requiring strong sequential bookings growth to reach guidance, b) Vrbo recovery is taking longer than we expected with lack of improvement suggested in 1Q outlook, c) a growth strategy that includes higher marketing spend in Intl markets where competitors are strongest, d) CEO retiring in May'24 in what should be a "harvest" year, and 5) outlook on call for \$80-100mn in expenses for cost streamlining, which could be disruptive.

## 1Q to start slow, modestly lowering 2024 estimates

For 1Q we lower our bookings estimate to \$30.6bn (+4% y/y) from \$31.7bn (+8%), and our below Street EBITDA to \$172mn from \$202mn (we note a \$30mn decline is just 1% of the year). For 2024, we lower bookings to \$112bn (8% y/y) from \$114.5bn (9%). We expect continued cost-of-sales leverage, but offset by higher S&M and we lower EBITDA by 3% to \$2.98bn. We reduce 2025 GAAP EPS to \$11.19 from \$12.12.

## Downgrade to Neutral, we think a 2H story now

We think bulls will highlight that estimate changes are limited, guidance risk is not that important, and the stock remains attractive at 9x our 2024 FCF estimate (based on the after hours price of \$138 used for this report), which we think should support stock valuation. Still, we think guidance set-up is harder than last year with added execution challenges and potential competitive responses that will be overhangs in 1H'24. We would look for better evidence of VRBO recovery and One Key benefits to get more constructive on the stock, along with less perceived guidance risk. We lower our PO to \$156 (from \$181) based on average of 7.5x EBITDA and 14x GAAP EPS (down from 8.0x and 15x) and our rating to Neutral from Buy.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.69	6.82	9.70	12.67	14.99
GAAP EPS	(1.74)	2.20	5.34	8.71	11.19
EPS Change (YoY)	NM	303.6%	42.2%	30.6%	18.3%
Consensus EPS (Bloomberg)			9.53	12.39	15.67
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	81.7x	20.2x	14.2x	10.9x	9.2x
GAAP P/E	NM	62.7x	25.8x	15.8x	12.3x
EV / EBITDA*	17.5x	11.0x	9.7x	8.7x	7.9x
Free Cash Flow Yield*	14.1%	12.7%	8.5%	9.6%	11.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 9.

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Timestamp: 09 February 2024 06:00AM EST

09 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-1-8	C-2-8
Inv. Rating	BUY	NEUTRAL
Price Obj.	181.00	156.00
2023E Rev (m)	12,823.1	12,839.0
2024E Rev (m)	14,118.1	13,963.9
2025E Rev (m)	15,334.4	15,190.6
2023E EPS	9.79	9.70
2024E EPS	12.90	12.67
2025E EPS	15.91	14.99

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### Stock Data

Price	138.00 USD
Price Objective	156.00 USD
Date Established	9-Feb-2024
Investment Opinion	C-2-8
52-Week Range	87.94 USD - 160.05 USD
Mrkt Val (mn) / Shares Out (mn)	21,804 USD / 158.0
Free Float	99.4%
Average Daily Value (mn)	294.76 USD
BofA Ticker / Exchange	EXPE / NAS
Bloomberg / Reuters	EXPE US / EXPE.OQ
ROE (2023E)	74.3%
Net Dbt to Eqty (Dec-2022A)	57.5%
ESGMeter <sup>TM</sup>	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".

NT – Near term

S&M – Sales and marketing

W

# 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%	6.8%	12.9%	16.2%
Return on Equity	14.4%	49.4%	74.3%	138.5%	227.6%
Operating Margin	2.2%	9.3%	8.0%	11.6%	12.7%
Free Cash Flow	3,075	2,778	1,844	2,098	2,563

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	14.6x	3.2x	1.9x	1.7x	1.8x
Asset Replacement Ratio	1.1x	1.1x	3.0x	1.1x	1.1x
Tax Rate	139.5%	36.2%	32.4%	23.7%	23.0%
Net Debt-to-Equity Ratio	101.5%	57.5%	72.8%	103.2%	98.6%
Interest Cover	0.5x	5.0x	27.2x	31.0x	37.0x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	8,598	11,667	12,839	13,964	15,191
% Change	65.4%	35.7%	10.0%	8.8%	8.8%
Gross Profit	7,098	10,024	11,280	12,379	13,520
% Change	101.0%	41.2%	12.5%	9.7%	9.2%
EBITDA	1,477	2,349	2,680	2,976	3,266
% Change	NM	59.0%	14.1%	11.0%	9.7%
Net Interest & Other Income	(224)	(547)	(15)	(52)	(52)
<b>Net Income (Adjusted)</b>	<b>257</b>	<b>1,072</b>	<b>1,419</b>	<b>1,692</b>	<b>1,881</b>
<b>% Change</b>	<b>NM</b>	<b>317.1%</b>	<b>32.3%</b>	<b>19.3%</b>	<b>11.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	15	343	688	1,192	1,442
Depreciation & Amortization	715	704	748	778	810
Change in Working Capital	2,620	1,261	271	422	630
Deferred Taxation Charge	(145)	70	62	0	0
Other Adjustments, Net	543	1,062	921	480	501
Capital Expenditure	(673)	(662)	(846)	(774)	(820)
<b>Free Cash Flow</b>	<b>3,075</b>	<b>2,778</b>	<b>1,844</b>	<b>2,098</b>	<b>2,563</b>
<b>% Change</b>	<b>NM</b>	<b>-9.7%</b>	<b>-33.6%</b>	<b>13.8%</b>	<b>22.2%</b>
Share / Issue Repurchase	(165)	(607)	(2,137)	(2,300)	(2,300)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	4,111	4,096	4,225	4,023	4,286
Trade Receivables	1,464	2,126	2,814	2,987	3,217
Other Current Assets	2,606	2,569	2,191	2,458	2,668
Property, Plant & Equipment	2,180	2,210	2,359	2,359	2,359
Other Non-Current Assets	11,187	10,560	10,053	10,053	10,053
<b>Total Assets</b>	<b>21,548</b>	<b>21,561</b>	<b>21,642</b>	<b>21,879</b>	<b>22,582</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	9,450	10,778	11,783	12,644	13,514
Long-Term Debt	7,715	6,240	6,253	6,253	6,253
Other Non-Current Liabilities	831	815	820	820	820
<b>Total Liabilities</b>	<b>17,996</b>	<b>17,833</b>	<b>18,856</b>	<b>19,717</b>	<b>20,587</b>
<b>Total Equity</b>	<b>3,552</b>	<b>3,728</b>	<b>2,786</b>	<b>2,162</b>	<b>1,995</b>
<b>Total Equity &amp; Liabilities</b>	<b>21,548</b>	<b>21,561</b>	<b>21,642</b>	<b>21,879</b>	<b>22,582</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

## 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 should continue to benefit an increasing percentage of travel bookings migrating online. While the stock is attractive vs peers on FCF, near-term the company faces uncertainty on slowing industry growth, management changes, and a back-end weighted year for growth.

## Stock Data

Average Daily Volume 2,135,943

## Quarterly Earnings Estimates

	2022	2023
Q1	-0.47A	-0.20A
Q2	1.96A	2.89A
Q3	4.05A	5.41A
Q4	1.26A	1.73A

## 4Q Positives and Negatives

### Positives:

- **Hotel bookings growth strong:** Management indicated that 2023 hotel bookings were up 18% (vs total lodging up 11%) and were up 13% in 4Q. Vrbo and airline bookings remained muted, lowering overall gross bookings growth to 9.5% for 2023. (If we assume VRBO was 25% of bookings in 2022, we estimate VRBO could have been down 10% in 2023, if we assume 20%, then could be down 17%.)
- **Continued cost leverage:** EBITDA beat estimates with cost-of-sales driving upside. Gross margin in 4Q23 was at 88.4% vs 84.4% in 4Q22 and company suggested more leverage ahead in 2024.
- **2024 full year guide relatively in-line with Street:** Expedia guided to top-line y/y growth relatively in-line with 2023 (bookings growth of 9.5% and revenue growth of 10%) and similar margin leverage as in 2023 (75bps).
- **Growing direct app traffic:** Expedia's percentage of gross bookings coming through app was up 600bps y/y. This also contributed to some marketing leverage for the B2C business and mgmt. expects more B2C margin leverage 2024.
- **Ongoing buybacks:** Expedia completed \$2bn (19mn shares) in share repurchases in 2023 and mgmt. suggested continued buybacks (\$5bn share repurchase authorization announced in 3Q23). Mgmt. also expects some Capex efficiencies in 2024 driving better FCF. We estimate \$2.2bn in 2024 FCF vs \$1.8bn in 2023.

### Negatives

- **Bookings miss and 1Q outlook below Street:** Expedia's 4Q bookings of \$21.7bn was below Street at \$22.2bn, with some weakness related to air bookings and ongoing pressure on Vrbo (suggested by lodging bookings growth at lower than hotel). Mgmt. alluded to pricing pressure across airline bookings, lodging ADRs and car rentals to flow into 1Q. Mgmt.'s 1Q outlook for low to mid-single digit bookings growth is below prior Street ests. for 7% growth.
- **Lower marketing efficiency ratios:** In 4Q, marketing spend as percent of bookings was higher at 7.1% vs 6.6% in 4Q22. (Management indicated that the B2C business had leverage in 2023, and increase was due to faster growing B2B business.) For 1Q, mgmt. indicated to ramping up on Vrbo marketing and also marketing in some International geos for expansion, which will put Expedia in more direct competition with leading competitors' strongest markets, and likely drive marketing efficiency ratios lower y/y.
- **Vrbo weakness continues:** While Vrbo migration was completed in Nov'23, mgmt. commentary suggests Vrbo ramp may take time as marketing spend on Vrbo rebounds and the company better optimizes conversion.

## Sector read across to Booking and Airbnb

Expedia's booking miss in 4Q/1Q seems primarily company specific and US based due to lower air prices (Expedia has more air exposure than peers) and VRBO share loss.

Expedia's lodging bookings growth held steady at 8% in 4Q, though we saw potential for acceleration on an easy comp given weather related issues in 4Q'22. Expedia's outlook for more marketing spend to support VRBO and International traction suggest more competition for Airbnb and Booking in 2024, though Expedia will likely be competing in their strongest markets.



## Actual vs Estimates

4Q bookings of \$21.7bn was below Street at \$22.2bn on pressure in air booking and Vrbo. Bookings growth decelerated to 6% y/y compared to 7% in 3Q. Lodging bookings grew 8% y/y in 4Q (similar to 3Q), with hotel bookings growth of 13% outpacing overall lodging booking growth (underscoring Vrbo pressure). Sales and marketing expense in 4Q was higher than Street/our estimates and was at 7.1% of bookings vs 6.6% in 4Q22.

### Exhibit 1: Actuals vs. estimates (key metrics)

Bookings below Street est, but revenue and EBITDA beat Street expectations

Expedia - 4Q 2023 (\$ millions except per share amounts)	Actuals	BofA est.	Street (Visible Alpha)	% Diff vs. BofA	% Diff vs. Street
Booked room night growth (% y/y)	9.3	9.0	9.7	0.3	-0.4
Gross bookings	21,672	22,171	21,994	-2%	-1%
Revenue	2,887	2,871	2,876	1%	0%
Gross Profit	2,551	2,446	2,458	4%	4%
Selling and Marketing (S&M)	1,544	1,453	1,478	6%	4%
S&M as % Gross Profit	61%	59%	60%	2%	1%
Operating income (loss)	104	222	219	-53%	-52%
Net income (loss) attributable to Expedia Group common stockholders	132	164	158	-19%	-16%
Diluted earnings (loss) per share	0.92	1.13	1.10	-18%	-16%
Adjusted EBITDA	532	531	528	0%	1%
Adjusted net income (loss)	242	258	251	-6%	-4%
Adjusted EPS	1.72	1.82	1.78	-5%	-3%
Free cash flow	(415)	58	8.3	NM	NM

Source: BofA Global Research estimates, company report, Visible Alpha

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**Exhibit 2: Actuals vs BofA Est. (detailed)**

Higher revenue and fixed cost efficiencies helped drive EBITDA beat, despite higher S&amp;M

**Expedia Actuals vs. Estimates****4Q23**

<b>Income Statement (in \$ millions)</b>	<b>Act</b>	<b>BofA Est</b>	<b>Diff</b>
<b>Net revenue</b>	<b>2,887.0</b>	<b>2,871.1</b>	<b>15.9</b>
Y/Y Growth	10.3%	9.7%	0.6%
Cost of Sales	336.0	424.9	(88.9)
<b>Gross Profit</b>	<b>2,551.0</b>	<b>2,446.2</b>	<b>104.8</b>
Gross Margin	88.4%	85.2%	3.2%
Selling and Marketing	1,544.0	1,452.8	91.2
General & Administrative	156.0	150.4	5.6
Technology & Content	324.0	311.5	12.5
Operating Expenses	2,348.0	2,120.7	227.3
% Revenues	81.3%	73.9%	7.5%
Stock Based Comp	99.0	103.0	(4.0)
<b>Operating income</b>	<b>104.0</b>	<b>222.4</b>	<b>(118.4)</b>
Operating margin	3.6%	7.7%	-4.1%
<b>EBIT</b>	<b>171.0</b>	<b>202.4</b>	<b>(31.4)</b>
Income tax expense	(35.0)	(38.5)	3.5
Tax Rate	20%	19%	1%
Net Income (GAAP)	132.0	164.0	(32.0)
GAAP Basic EPS	\$0.96	\$ 1.17	\$ (0.21)
GAAP EPS Diluted	\$0.91	\$ 1.13	\$ (0.21)
Depreciation	193.0	192.0	1.0
<b>EBITDA</b>	<b>532.0</b>	<b>531.4</b>	<b>0.6</b>
EBITDA margin	18.4%	18.5%	-0.1%
Y/Y Growth	18.5%	18.4%	0.1%
<b>(in \$ millions)</b>	<b>Act</b>	<b>BofA Est</b>	<b>Diff</b>
<b>Segment Results</b>	-	-	-
<b>Bookings by agency/merchant</b>			
Agency	9,439.0	9,582.6	(143.6)
Year-over-year growth	-0.3%	1.2%	-1.5%
Merchant	12,233.0	12,587.9	(354.9)
Year-over-year growth	10.8%	14.0%	-3.2%
<b>Total Bookings</b>	<b>21,672.0</b>	<b>22,170.5</b>	<b>(498.5)</b>
Year-over-year growth	5.7%	8.1%	-2.4%
<b>Revenue by segment</b>			
<b>Retail</b>	<b>1,958.0</b>	<b>1,986.4</b>	<b>(28.4)</b>
Year-over-year growth	4%	6%	-1.5%
<b>B2B</b>	<b>864.0</b>	<b>824.7</b>	<b>39.3</b>
Year-over-year growth	27.8%	22.0%	5.8%
Corporate (Bodybuilding.com)	0.0	0.0	0.0
Year-over-year growth	N/M	N/M	
trivago	65.0	59.9	5.1
Year-over-year growth	-25.4%	-31.2%	5.8%
Intercompany Eliminations	0.0	0.0	0.0
<b>Total Revenue</b>	<b>2,887.0</b>	<b>2,871.1</b>	<b>15.9</b>
<b>Lodging Metrics</b>			
Booked Room Nights	77.4	77.2	0.2
<b>Booked Room Night Growth</b>	<b>9%</b>	<b>9%</b>	<b>0%</b>

Source: BofA Global Research estimates, company report

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## Estimate Changes

For 1Q24 we lower our bookings estimate to \$30.6bn (+4% y/y) from \$31.7bn (+8% y/y) and our revenue growth to 6% from 10%. Mgmt. highlighted potential for one-time GAAP restructuring expense of \$80-\$100mn heavily weighted towards 1Q. We lower EBITDA to \$172mn from \$202mn, implying a margin of 6.1% vs 6.9% earlier.

For 2024, we lower bookings to \$112bn (8% y/y growth) from \$114.5bn (9% y/y), and our revenue reduces to \$14bn (+9% y/y) from \$14.1bn earlier (10% y/y). We expect continued gross margin leverage, but higher S&M spend. Our EBITDA reduces by 2.6% to \$2.98bn, implying 21.3% margin (+44bps from 2023 margin of 20.9%).

### Exhibit 3: Estimates changes

We lower 2024 bookings on Vrbo and air bookings softness, and reduce EBITDA on higher S&M

Metrics (\$ mn)	1Q24			2Q24			2024			2025		
Gross Bookings	New	Old	Diff	New	Old	Diff	New	Old	Diff	New	Old	Diff
Agency	13,291	13,694	(403)	12,741	13,236	(495)	47,212	48,765	(1,553)	48,629	51,691	(3,062)
Year-over-year growth	-1%	2%	-3%	3%	7%	-4%	2%	5%	-3%	3%	6%	-3%
Merchant	17,334	18,053	(719)	16,969	17,044	(75)	64,803	65,746	(943)	71,932	72,978	(1,047)
Year-over-year growth	9%	13%	-5%	14%	14%	-1%	12%	13%	-1%	11%	11%	0%
Total Bookings	30,625	31,746	(1,122)	29,710	30,280	(570)	112,016	114,512	(2,496)	120,560	124,670	(4,109)
Year-over-year growth	4%	8%	-4%	9%	11%	-2%	8%	9%	-2%	8%	9%	-1%
Revenue	New	Old	Diff	New	Old	Diff	New	Old	Diff	New	Old	Diff
Retail	1,979	2,075	(96)	2,584	2,632	(48)	9,662	9,877	(215)	10,338	10,628	(290)
Year-over-year growth	3%	8%	-5%	7%	9%	-2%	6%	8%	-2%	7%	8%	-1%
B2B	775	788	(13)	1,016	1,016	0	3,940	3,889	51	4,476	4,355	121
Year-over-year growth	16%	18%	-2%	18%	18%	0%	16%	16%	0%	14%	12%	2%
trivago	64	58	6	84	76	8	362	352	10	377	351	26
Year-over-year growth	-16%	-24%	8%	3%	-7%	10%	7%	6%	1%	4%	0%	4%
Net Revenue	2,817	2,921	(103)	3,684	3,724	(40)	13,964	14,118	(154)	15,191	15,334	(144)
Y/Y Growth	6%	10%	-4%	10%	11%	-1%	9%	10%	-1%	9%	9%	0%
Cost of Sales	394	438	(44)	416	439	(23)	1,585	1,793	(208)	1,671	1,886	(215)
Gross Profit	2,423	2,483	(60)	3,268	3,285	(17)	12,379	12,325	54	13,520	13,448	71
Gross Margin	86%	85%	1%	89%	88%	1%	89%	87%	1%	89%	88%	1%
Operating Expenses (ex. SBC):												
Selling and Marketing	1,789	1,820	(30)	1,967	1,940	27	7,512	7,345	167	8,203	7,913	290
General & Administrative	152	149	3	155	153	2	626	621	5	684	675	9
Technology & Content	310	313	(3)	313	324	(11)	1,265	1,305	(39)	1,367	1,426	(59)
Depreciation & Amortization	208	208	0	209	209	0	838	838	0	873	873	0
Other Expenses	70	0	70	15	0	15	85	0	85	0	0	0
Operating Expenses	2,529	2,489	40	2,659	2,626	33	10,326	10,109	217	11,127	10,886	240
% Revenues	90%	85%	5%	72%	71%	2%	74%	72%	2%	73%	71%	2%
Stock Based Comp	109	110	(1)	112	112	0	440	443	(3)	468	471	(3)
Operating income	(215)	(116)	(99)	497	547	(50)	1,613	1,773	(160)	1,925	2,091	(166)
Interest Income (net)	(13)	(15)	2	(13)	(15)	2	(52)	(60)	8	(52)	(60)	8
Total Other Income (Expense)	(13)	(15)	2	(13)	(15)	2	(52)	(60)	8	(52)	(60)	8
EBIT	(228)	(131)	(97)	484	532	(48)	1,561	1,713	(152)	1,873	2,031	(158)
Income tax expense	(11)	(7)	(5)	(97)	(106)	10	(369)	(375)	6	(431)	(447)	16
Tax Rate	-5%	-5%	0%	20%	20%	0%	24%	22%	2%	23%	22%	1%
Minority Interest (income) loss	2	2	0	2	2	0	6	6	0	6	6	0
Net Income (GAAP)	(238)	(137)	(101)	388	427	(39)	1,198	1,343	(146)	1,448	1,590	(142)
GAAP EPS Diluted	(\$1.69)	(\$0.95)	(\$0.74)	\$2.80	\$3.01	(\$0.21)	\$8.71	\$9.58	(\$0.87)	\$11.19	\$12.12	(\$0.93)
Pro-forma Net Income	(33)	(5)	(28)	497	524	(27)	1,692	1,759	(67)	1,881	2,026	(144)
Adjusted EPS	(\$0.24)	(\$0.04)	\$ (0.20)	\$3.69	\$3.80	\$ (0.11)	\$12.67	\$12.90	\$ (0.23)	\$14.99	\$15.91	\$ (0.92)
Adjusted EPS Shares Outstanding	137	140	(3)	135	138	(3)	134	136	(3)	126	127	(2)
Non-GAAP Measures:												
OIBA	(21)	9	(30)	639	674	(35)	2,198	2,276	(78)	2,456	2,625	(169)
OIBA margin	-1%	0%	-1%	17%	18%	-1%	16%	16%	0%	16%	17%	-1%
Y/Y Growth	(12)	3	(15)	0	0	(0)	0	0	(0)	0	0	(0)
Depreciation	193	193	0	194	194	0	778	778	0	810	810	0
EBITDA	172	202	(30)	833	868	(35)	2,976	3,054	(78)	3,266	3,435	(169)
EBITDA margin	6.1%	6.9%	-1%	22.6%	23.3%	-1%	21.3%	21.6%	0%	21.5%	22.4%	-1%

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH



# Valuation: Reduce PO to \$156 from \$181; downgrade to Neutral

We reduce our Expedia Price Objective to \$156 (from \$181) on our 2025 estimates, using a 50-50 blend of 14x 2025 GAAP P/E and 7.5x 2025 EBITDA.

At 9x 2024E FCF (on after hours price of \$138), we think stock is relatively inexpensive, and buybacks can aid multiple re-rating, but see limited near term catalysts for Revenue and EBITDA growth. We downgrade our stock rating to Neutral from Buy.

**Exhibit 5: PO of \$156**  
Use a 50-50 blend of 14x 2025E GAAP P/E and 7.5x 2025E EBITDA

	2025E	Multiple	Valuation
EBITDA (\$mn)	3,266.0	7.5x	156
GAAP EPS (\$)	\$11.19	14x	157
Price Objective (\$)			156

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH



## Price objective basis & risk

### Expedia (EXPE)

Our \$156 PO is based on a 50-50 blend of P/E and sum-of-the-parts valuations based on 2025 estimates. Our sum-of-the-parts valuation is based on a 7.5x EBITDA, and separate values for Trivago and assets. Our P/E valuation is based on 14x GAAP EPS. Our P/E multiple is within Expedia's historical ranges of forward EPS and a discount compared to Booking valuation given market share trends.

Downside risks to our PO are: 1) economic downturn or prolonged macro headwinds leading to fewer travel bookings, 2) competition for traffic lowering the company's growth or margin opportunity, 3) more aggressive direct booking initiatives by hotels, 4) Google traffic disintermediation, and 5) ongoing slowdown in VRBO growth post-pandemic.

## Analyst Certification

I, Justin Post, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### 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
	DoorDash	DASH	DASH US	Michael McGovern
	DoubleVerify Holdings, Inc.	DV	DV US	Omar Dessouky, CFA
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Integral Ad Science Holding Corp.	IAS	IAS US	Omar Dessouky, CFA
	LegalZoom	LZ	LZ US	Michael McGovern
	Match Group	MTCH	MTCH US	Curtis Nagle, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Pinterest	PINS	PINS US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Squarespace, Inc.	SQSP	SQSP US	Michael McGovern
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Curtis Nagle, CFA
	Vivid Seats	SEAT	SEAT US	Curtis Nagle, CFA
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Michael McGovern
<b>NEUTRAL</b>				
	ACV Auctions	ACVA	ACVA US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Beyond Inc	BYON	BYON US	Curtis Nagle, CFA
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Bumble	BMBL	BMBL US	Curtis Nagle, CFA
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	Duolingo	DUOL	DUOL US	Curtis Nagle, CFA
	eBay	EBAY	EBAY US	Justin Post
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA
	Expedia	EXPE	EXPE US	Justin Post
	Instacart	CART	CART US	Justin Post
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Zillow	ZG	ZG US	Curtis Nagle, CFA



**US - Internet Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Zillow	Z	Z US	Curtis Nagle, CFA
<b>UNDERPERFORM</b>				
	Chewy Inc	CHWY	CHWY US	Curtis Nagle, CFA
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	Shutterstock	SSTK	SSTK 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 &amp; 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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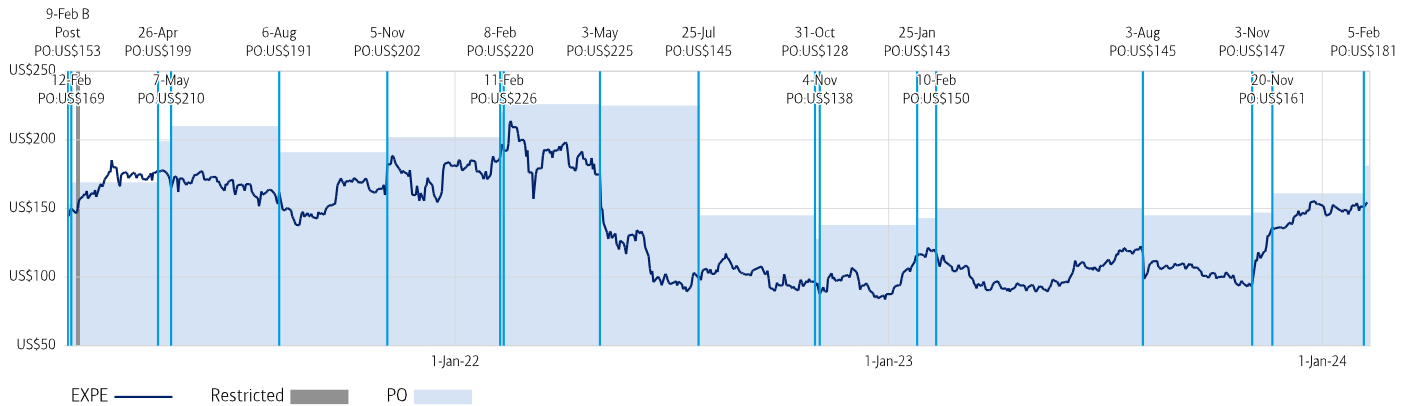
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### Expedia (EXPE) Price Chart



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

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### Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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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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