

## Expedia

# Expedia to cut to workforce, should help margins but still see '24 bookings risk

Reiterate Rating: NEUTRAL | PO: 156.00 USD | Price: 136.24 USD

## Expedia announces 1,500 layoffs

On (02/26) Expedia announced restructuring actions impacting roughly 1,500 employees (~9% of workforce). According to an Expedia spokesperson, the cuts will enable new investment (we would expect greater spend on AI given competitive spend). This announcement follows Expedia's 1Q outlook on the 02/08 earnings call, where mgmt. outlined \$80mn-\$100mn in one-time GAAP expenses on the year (predominately employee severance and compensation benefits costs), heavily weighted towards the first quarter, suggesting cuts were expected.

## Bottom line in better shape, but still see bookings risk

As of 31<sup>st</sup> Dec'23, Expedia's total headcount was 17,100, with about half of those positions in tech roles. On an opex per head basis, Expedia had roughly \$500k in expenses in 2023, though excluding the \$3.8bn Expedia spent on advertising in 2023, cost per head (including fixed costs) was closer to \$300k. If we assume \$200k in savings per head, these cuts (after charges) could have a savings run rate of \$300mn, or roughly 3% of opex or 2% of revenue, and help drive 10% EBITDA y/y growth. However, we note that benefit of cuts is not likely until 2Q and Expedia has indicated intention to reinvest some of the savings. Bigger risk to 2024 guidance is bookings/revenue, in our view, as full-year outlook suggests strong sequential top-line growth post 1Q.

## Layoffs helpful for EBITDA, and needed AI investment

With large tech initiatives like tech re-platforming and One Key (loyalty program) launch completed in 2023, this restructuring seems like a chance to reset the expense base and possibly shift some investment to AI (focus area at Airbnb and Booking). There is greater potential for 2024 bottom-line upside post cost cutting announcement (we est. \$315mn in y/y EBITDA growth), but we think Street will still see top-line risks (2H acceleration implied in full year guide) and need to invest in AI. 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 maintain our PO at \$156 based on average of 7.5x EBITDA and 14x GAAP EPS and reiterate our Neutral rating.

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%
Census EPS (Bloomberg)			9.53	12.08	15.31
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	80.6x	20.0x	14.0x	10.8x	9.1x
GAAP P/E	NM	61.9x	25.5x	15.6x	12.2x
EV / EBITDA*	17.3x	10.9x	9.5x	8.6x	7.8x
Free Cash Flow Yield*	14.3%	12.9%	8.6%	9.7%	11.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

27 February 2024

### Equity

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### Stock Data

Price	136.24 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)	21,526 USD / 158.0
Free Float	99.4%
Average Daily Value (mn)	429.12 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™	High

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Timestamp: 27 February 2024 08:41PM EST

# 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 4.

## 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 3,149,711

## 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

## 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

**UNDERPERFORM**

	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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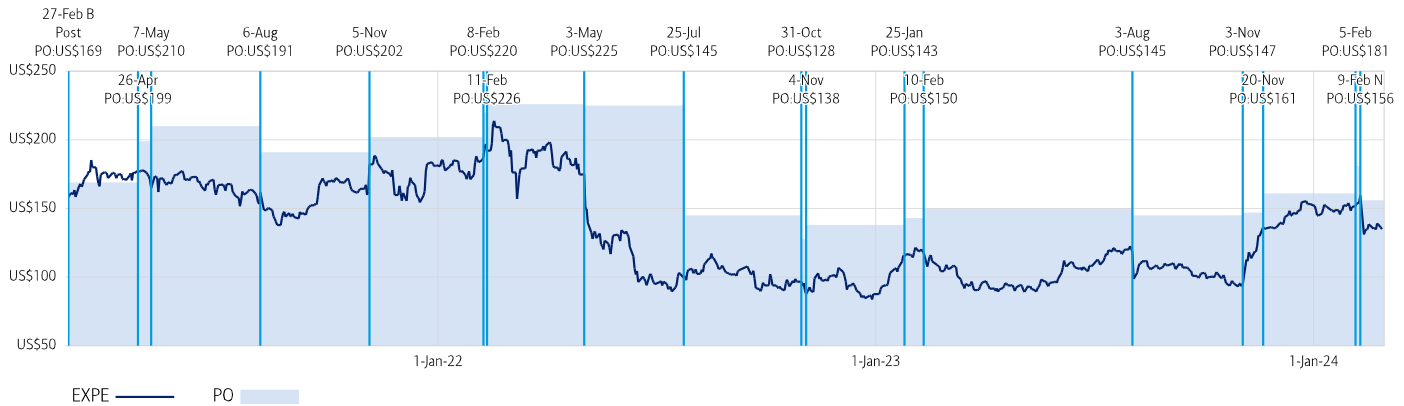
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### Expedia (EXPE) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### 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%

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