Cole Dumont
ABNB

Airbnb is a global marketplace that allows hosts and guests to connect for travel and housing experiences. Airbnb is a relatively new public company having done their IPO in December 2020. As you would expect from such a young firm, growth rates are high and net income hasn't been positive historically. However, 2022 was the first year on record that Airbnb recorded a net income of $1.893 Billion. They have turned the corner on profitability and are looking to continue to grow their revenues. Most recently in Q2 2023, Airbnb beat earnings estimates by 27%. Despite all this positive momentum, ABNB is down 16% over the last month and down over 25% from the yearly high. I think that in light of these recent declines, Airbnb has good value as a growth stock.

Thesis: Airbnb will continue to grow its revenue by expanding into underpenetrated international regions, be resilient to any recessionary environment, and will leverage its technology to increase user experience and cut expenses.

1. **International expansion**

   While revenue growth in the United States is expected to slow, there still remains a large market to be tapped by Airbnb internationally. Currently, over 50% of revenue comes from the European market, but nights and experiences booked through Airbnb only account for less than 10% of short-term rentals in Europe. There is great opportunity for growth especially in Spain and Germany. In Asia, there are also tremendous growth opportunities with the reopening of China from COVID restrictions. CEO Brian Chesky stated on the most previous earnings call that he hopes to bring the same playbook that gained significant market share in Europe to Asia. Two countries he mentioned were Japan and Korea specifically. Moreover, outbound international travel is up more than 80% yoy which signals that the consumer is still in a strong position for discretionary spending.

2. **Resilience to recessionary environment**

   It may seem natural to expect a travel company like Airbnb who relies on strong economic conditions to do poorly in a recessionary environment. Just look back to COVID when supply growth went stagnant and the company lost over $4.5 Billion. However, a global pandemic is separate from a recession. COVID restrictions have been or are being eased globally and it is unlikely that they will be reimplemented, especially with each subsequent strain being less and less deadly. In terms of a recession however, it should be noted that Airbnb was founded during a recession and it's main goal was to tackle the issue of affordable travel and housing. Supply growth wouldn't go stagnant in this environment because hosts will be looking for supplementary income to support their own financial position. Airbnb introduced a product called rooms where a host can rent out a room in their house making the booking extremely affordable, averaging around $60/room. In addition, there seems to be a shift towards long-term rentals and Airbnb has even rolled out features that allow guests to book multiple months while also allowing hosts to offer monthly discounts for the longer duration. These long term stays make up 18% of nights and experiences booked, up from 13% the previous year. Chesky even said on recent earnings call that he expects that percentage to be even higher in the future and that Airbnb will morph into a sort of hybrid Travel/Rental housing company. This trend fueled by an increasing work from home environment looks to alleviate fears of any decline in revenue growth from a decrease in global travel. Airbnb is also highly committed to keeping costs affordable for guest while also striking that healthy balance that makes it attractive to hosts as well. We have to remember that Airbnb is only a marketplace and directly cannot control the behavior of their hosts.

3. **Leveraging technology to improve UE and cut expenses**

   Having made significant investments into research and product development over the last few years, Airbnb looks primed to leverage all the technology at its fingertips to increase both their top and bottom lines. With all the new products they have rolled out, users have surely benefitted. Airbnb has made the platform very simple to use with better search filters, comparable properties, and many other features. They by far have the best user interface out of all the other travel companies as a result of their tremendous investment into the products. One of which includes AI which Airbnb uses for two main things. The first being to limit the number of customer support agents needed with automated chatbots. The second being the limitation of legal liability by preventing bookings where it might be suspected that there is a significant chance of illegality or property damage. By growing and keeping guests though good UE, reducing employee headcounts and reducing legal liability, Airbnb will increase earnings.

It is because of these three main drivers that I expect Airbnb to continue to grow in the near future. I have forecasted most growth occurring in Europe and Asia with growth slowing in North America, with moderate growth in Latin America. It is through my model that I predict a 12 month price target of $127.04 and a 2027 EPS of $13.84.

3 Year Target	
2027 EPS	$13.84
Target P/E	25.0x
3 Year Target	**$346.11**
% return	**199.7%**
x money multiple	**3.0x**
% IRR	**44.2%**

12 Months Base Target	
2024 EPS	$5.08
Target P/E	25.0x
EOY Target Price	**$127.04**
% return	**10.0%**
x money multiple	**1.1x**