

Executive Summary

Proposal: This executive summary outlines the proposed acquisition strategy for Airbnb, focusing on the acquisition of Expedia Group Inc. The objective of this acquisition is to enhance shareholder value by leveraging strategic opportunities in the global travel and accommodation industry. By acquiring Expedia, Airbnb aims to achieve sustainable growth, improve market positioning, and capitalize on emerging market trends.

Rationale: The decision to pursue the acquisition of Expedia is driven by several key factors. Expedia's market capitalization, financial performance, strategic fit, and growth potential closely align with Airbnb's expansion goals and long-term vision. Through this acquisition, Airbnb aims to extend its market reach, diversify service offerings, enhance technological capabilities, and create long-term value for its shareholders.

Approach: The acquisition of Expedia will be accomplished through a collaborative and mutually beneficial partnership. Airbnb intends to structure the acquisition using a combination of debt, and potentially cash, taking into consideration the financial impact and optimizing overall value creation. The acquisition process will involve initial due diligence, negotiations, obtaining regulatory approvals, comprehensive integration planning, and execution.

Timeline: The entire acquisition process is planned to be completed within 1.5 years from the initiation of the proposal. The proposed timeline includes three months for initial due diligence, two months for negotiation and agreement, four to six months for regulatory approvals, and six months for detailed integration planning.

Enhancing Shareholder Value: The proposed acquisition of Expedia will enhance shareholder value through various means. By extending Airbnb's market reach and strengthening its presence in key markets worldwide, the acquisition will contribute to revenue growth and market share expansion. Diversifying service offerings will enable Airbnb to tap into the broader travel booking and services market, attracting a wider customer base. Leveraging Expedia's technological expertise will enhance Airbnb's platform, leading to improved customer experiences and operational efficiency. The acquisition is strategically aligned with Airbnb's long-term objectives, aiming to achieve double-digit annual revenue growth, increased profitability, and a leading market share in key markets.

Conclusion: The proposed acquisition of Expedia represents a significant opportunity for Airbnb to enhance shareholder value and solidify its position as a global leader in the travel and accommodation industry. By leveraging strategic synergies, executing a comprehensive integration plan, and capitalizing on Expedia's market presence and technological advancements, Airbnb aims to achieve its objectives within a 1.5-year timeframe.

Company Overview

Airbnb Inc.

Airbnb Inc. was founded in 2008 and is headquartered in San Francisco, California. It operates as an online home rental platform, connecting travelers with homeowners offering rooms for rent. The company has established a robust travel rental community, providing millions of unique accommodation options across 191 countries and 65,000 cities. It offers diverse lodging options, including apartments, villas, castles, and even treehouses.

Expedia Group

Expedia Group is an online travel company that provides a wide range of services, including booking hotel rooms, airline seats, car rentals, and destination services through its travel suppliers. It operates through the following business segments: Core Online Travel Agency (OTA), Trivago, Vrbo, and Egencia. The company was founded in 1996 and is headquartered in Seattle, Washington.

Financial Performance

Airbnb Inc.

Airbnb's financial performance is a significant factor in considering it as a potential acquiring company. As of the year-to-date assessment, the company has achieved an impressive market capitalization of \$68.30 billion, reflecting its strong market presence and potential for growth. Moreover, Airbnb's debt to equity ratio of 0.4 is notably lower than the industry average of 0.82, indicating a favorable financial position. The company has generated a substantial free cash flow of \$3.405 billion, indicating its ability to generate cash and invest in growth opportunities. Notably, Airbnb has experienced remarkable growth, with a growth rate of 48.82% between 2021 and 2022. Additionally, it recorded a commendable net profit margin of 22.5% in 2022, highlighting its profitability.

Expedia

Expedia Group exhibits a robust financial performance, positioning itself strongly in the industry with potential for growth. With a lower debt-to-equity ratio compared to the industry average,

the company enjoys a favorable financial position. Generating a substantial free cash flow of \$3.405 billion indicates its ability to generate cash and invest in growth opportunities. Expedia Group's remarkable growth rate of 48.82% between 2021 and 2022 showcases its ability to expand rapidly. Additionally, the company's commendable net profit margin of 22.5% in 2022 highlights its profitability. These factors collectively demonstrate Expedia Group's financial strength, market presence, and potential for continued success.

Industry/Market Definition

The market in which Airbnb operates is the global hospitality and accommodations industry. This industry encompasses a wide range of businesses providing lodging options to travelers and tourists. It is characterized by rapid growth, fueled by increased travel and changing consumer preferences. The market includes various segments, such as hotels, vacation rentals, bed and breakfasts, and alternative accommodations. The key market drivers include rising disposable incomes, the sharing economy, and the growing preference for personalized travel experiences.

According to the global vacation rental market size, which was valued at USD 74.64 billion in 2021, it is expected to expand at a compound annual growth rate (CAGR) of 5.3%. The COVID-19 pandemic has impacted the industry, but Airbnb experienced a 10% increase in demand in 2021 and generated around 40% more revenue in the short-term rental market. The rebound of business travel is also expected to contribute to the industry's growth.

External Analysis

In analyzing the external environment, it is crucial to consider customers, competitors, potential entrants, substitutes, and suppliers:

- *Customers:* The target market for Airbnb includes both leisure and business travelers seeking affordable, unique, and flexible accommodations. Customer preferences have shifted towards experiences, authenticity, and personalized travel.
- *Competitors:* Airbnb faces competition from traditional hotels, online travel agencies, and other sharing economy platforms offering accommodation services. Competitors' strategies focus on pricing, brand reputation, customer service, and technological innovation.
- *Potential Entrants:* Barriers to entry in the market are relatively low, allowing for potential new entrants, including startups and established players diversifying their offerings.
- *Substitutes:* Substitutes include traditional hotels, hostels, and vacation rental platforms. These alternatives offer comparable lodging options to customers.
- *Suppliers:* Key suppliers to Airbnb include hosts who provide accommodations, technology providers, and service partners offering ancillary services.

Internal Analysis

To assess Airbnb's internal capabilities and competitiveness, the following strengths and weaknesses are identified:

- *Strengths:* Airbnb has established a globally recognized brand, a vast network of hosts, and a user-friendly platform. The company has leveraged technology to disrupt the market and create a seamless booking experience. Its extensive data analytics capabilities provide valuable insights for customer segmentation and targeted marketing.

- *Weaknesses:* Airbnb faces challenges related to regulatory compliance, customer safety, and maintaining consistent service quality across its vast network. As the company expands globally, managing cultural diversity and local market dynamics becomes increasingly important.

Opportunities/Threats

The industry's competitive dynamics present both opportunities and threats:

- *Opportunities:* The rising trend of experiential travel, increasing adoption of online booking platforms, and the growing acceptance of the sharing economy offer significant growth opportunities for Airbnb. The company can capitalize on emerging markets and expand its offerings to include additional travel-related services.
- *Threats:* Regulatory uncertainties, legal challenges, and potential backlash from established players in the hospitality industry pose threats to Airbnb's business model. Additionally, evolving customer preferences and new entrants with disruptive business models can impact market share.

Business Mission/Vision Statement

Our mission is to create a world where anyone can belong anywhere. The company aims to connect people through unique travel experiences and provide access to diverse accommodations around the globe. Airbnb's vision is to be the global leader in the travel and accommodations industry by offering a trusted platform that fosters meaningful connections and enriches the lives of both hosts and guests.

Quantified Strategic Objectives

Financial Objectives:

Achieve a double-digit growth rate in revenue and profitability within three years. Increase market share in key markets by 20% within two years. Improve shareholder value through an increase in share price by 15% within three years. Generate positive cash flow from operations by the end of the first year.

Non-Financial Objectives:

Become the preferred choice for alternative accommodations globally, as measured by customer surveys and feedback. Attain the highest customer satisfaction ratings in the industry, with a target score of 9 out of 10 in customer satisfaction surveys. Foster sustainable tourism practices by implementing environmentally friendly initiatives, such as promoting eco-friendly accommodations and reducing the carbon footprint of travel.

Completion Dates:

Financial objectives will be tracked and evaluated on an ongoing basis, with progress reviewed annually. Market share targets will be measured at the end of each fiscal year, starting from the acquisition completion date. Share price performance will be monitored quarterly, with the target increase of 15% to be achieved within three years. Positive cash flow from operations is expected to be achieved by the end of the first year following the acquisition.

Business Strategy

Airbnb's business strategy revolves around differentiation and focus to create a competitive advantage in the travel and accommodation industry.

Differentiation:

Provide unique and authentic accommodation experiences that cannot be easily replicated by competitors. Offer personalized services and curated recommendations to enhance the guest experience. Foster a sense of community among hosts and guests, facilitating social connections and a feeling of belonging. Leverage technology to provide a seamless booking process, efficient communication, and tailored recommendations.

Focus:

Target specific market segments that align with Airbnb's strengths and cater to their unique needs. Focus on urban destinations, family travel, and business travelers to capture the most significant growth opportunities. Develop partnerships with local organizations and tourist boards to enhance the offerings and visibility in target markets. Continuously innovate and adapt to emerging trends in the travel industry to maintain a competitive edge.

Acquisition Plan

Plan Objectives: The specific objectives of the acquisition are to achieve several strategic goals that will enhance the acquiring firm's business strategy. These goals include:

- *Access to new customers and markets:* By acquiring Expedia Group Inc., the acquiring firm aims to tap into Expedia's extensive customer base and expand its market reach.

- *Enhanced distribution channels:* The acquisition will provide the acquiring firm with access to Expedia's established distribution channels, allowing for increased market penetration and improved reach.
- *Leveraging proprietary technology:* Expedia's proprietary technology and platforms will be leveraged to enhance the acquiring firm's digital capabilities and provide a competitive edge in the market.
- *Cost reduction:* Through synergies and operational efficiencies, the acquisition will enable the acquiring firm to achieve cost reductions in various areas, such as shared resources, technology integration, and procurement.

Timetable: A comprehensive timetable will be established to guide the acquisition process, including integration if the target firm is to be merged with the acquiring firm's operations. Key activities and estimated timeframes include:

- *Due diligence:* Conduct thorough due diligence to assess Expedia's financials, operations, and legal obligations. Estimated time: 3 months.
- *Negotiation and agreement:* Engage in negotiations with Expedia Group Inc. to agree on the terms and conditions of the acquisition. This includes determining the acquisition price, transaction structure, and potential earn-out provisions. Estimated time: 2 months.
- *Regulatory approvals:* Obtain necessary regulatory approvals from relevant authorities for the acquisition to proceed. Estimated time: 6-9 months, depending on the jurisdiction.

- *Integration planning*: Develop a detailed integration plan to ensure a smooth transition and maximize synergies between the acquiring firm and Expedia. Estimated time: 3 months.
1. **Resource/Capability Evaluation**: We will evaluate the financial and managerial capabilities to ensure the successful completion of the acquisition. Affordability limits will be determined by assessing the maximum amount we should pay for the acquisition, taking into account factors such as the Expedia's valuation, potential synergies, and financial projections. This evaluation will be based on thorough financial analysis, including cash flow projections, balance sheet assessment, and return on investment analysis.
 2. **Tactics**: Airbnb preferences for the acquisition will be primarily focused on a friendly approach rather than a hostile one. The intention is to establish a cooperative and mutually beneficial relationship with Expedia's management and stakeholders. We are considering a controlling interest to ensure effective integration and decision-making processes. The transaction structure may involve a combination of debt, and cash, based on a careful assessment of the our capital structure and financing options.
 3. **Search Plan**: To identify potential target firms, a comprehensive screening criterion will be developed. This will include factors such as industry alignment, financial performance, growth potential, strategic fit, and cultural compatibility. The search plan will involve leveraging industry networks, engaging in market research, and utilizing professional advisors to identify and evaluate potential targets. The plan will also detail the steps for conducting a thorough and confidential search process, including maintaining

confidentiality agreements, assessing preliminary suitability, and initiating initial contact with target firms.

By following this acquisition plan, the acquiring firm aims to achieve its strategic objectives, complete the acquisition within the specified timetable, evaluate resources and capabilities effectively, determine suitable tactics, and execute a targeted search process to identify the most suitable target firm.

Implementation Strategy

During our rigorous evaluation process to identify potential **target companies** for acquisition, we conducted a comprehensive analysis of several prominent players in the travel and accommodation industry. The list of potential targets included:

Target Companies	Market Cap (USD Billion)
TripAdvisor Inc.,	2.34
Vrbo,	16.21
Tujia	1
Expedia	22.05
Booking Holdings Inc.,	96.7

However, after careful consideration and thorough assessment, we have concluded that Expedia Group Inc. represents the most attractive investment opportunity for Airbnb. Expedia's market capitalization, financial performance, strategic fit, and growth potential align closely with our expansion goals and long-term vision. Therefore, we have chosen to focus our efforts on pursuing

the acquisition of Expedia as the optimal strategic move to strengthen our position in the global travel and accommodation industry.

To effectively implement the acquisition of Expedia Group Inc., Here are the key elements of the implementation strategy:

1. **Due Diligence:** Conduct comprehensive due diligence to assess the financial, operational, legal, and cultural aspects of Expedia Group Inc. This process will identify potential synergies, risks, and integration challenges.
2. **Negotiation and Agreement:** Engage in negotiations with Expedia Group Inc. to agree on the terms and conditions of the acquisition. This includes determining the acquisition price, transaction structure, and potential earn-out provisions.
3. **Financing Plan:** The proposed offer price has been evaluated in the context of the combined/consolidated free cash flow projections to ensure financial feasibility and preserve the creditworthiness of the combined firm. The financing plan will consider a mix of internal resources, external financing options, and potential asset divestments to support the acquisition while maintaining profitability and cash flow stability.
4. **Purchase (Offer) Price Estimate:** Five-year free cash flow projections for both Airbnb and Expedia Group Inc. have been developed to assess their financial performance and potential synergies post-acquisition. A preliminary minimum and maximum purchase price range for the target has been established, considering valuation multiples and market benchmarks. Key forecast assumptions have been identified, providing a basis for the initial offer price, which will be composed of a combination of cash, and potentially debt.

5. **Regulatory Approvals:** Obtain the necessary regulatory approvals from relevant authorities to ensure compliance with antitrust and other applicable regulations. Address any potential concerns through appropriate remedies or divestitures if required.
6. **Integration Planning:** Develop a detailed integration plan that outlines the steps and timelines for combining the operations, systems, and teams of Airbnb and Expedia Group Inc. This plan will focus on capturing synergies, streamlining processes, and leveraging the strengths of both organizations.
7. **Communication and Change Management:** Implement effective communication strategies to ensure transparency and engagement with employees, customers, and other stakeholders throughout the integration process. Manage change effectively to minimize disruption and maximize the benefits of the acquisition.
8. **Cultural Integration:** As part of the implementation strategy, it is crucial to recognize and address the cultural differences between Airbnb and Expedia to foster a smooth integration process. This involves conducting cultural assessments to gain a deeper understanding of the existing cultures within both organizations. Based on the assessment findings, initiatives will be developed to promote cultural alignment and establish a shared vision for the merged entity. Additionally, employee engagement programs will be implemented to facilitate the transition, ensuring that employees from both companies are aligned with Airbnb's mission and values. These initiatives will help create a cohesive and inclusive organizational culture that supports the successful integration of Airbnb and Expedia.

9. **Talent Retention and Development:** A key aspect of the implementation strategy is to identify and retain key talent within Expedia during the transition period. This involves identifying critical employees and developing targeted retention strategies to ensure their continued commitment and contribution to the merged entity. To foster employee satisfaction and promote a sense of belonging, career development opportunities, training programs, and integration initiatives will be provided to support their professional growth and development. Additionally, compensation and benefits packages will be aligned to create a competitive and attractive environment, ensuring that employees are rewarded and recognized for their valuable contributions. By prioritizing talent retention and development, the merged entity will be able to leverage the expertise and experience of the retained employees, driving its success in the marketplace.
10. **Customer Experience Enhancement:** The acquisition of Expedia presents an opportunity to leverage its extensive customer base and combine it with Airbnb's expertise in personalized travel experiences. By doing so, the merged entity aims to enhance the overall customer experience. This will be achieved through various initiatives. Firstly, cross-selling and upselling programs will be implemented to introduce Airbnb's alternative accommodations to Expedia's customer base, providing them with a wider range of options and personalized choices. Secondly, the merged entity will leverage its data analytics capabilities to gain valuable insights into customer preferences and behaviors. This data-driven approach will enable the company to tailor its offerings and services to meet the specific needs and desires of its customers, ultimately delivering a more personalized and satisfying experience. By focusing on customer experience

enhancement, the merged entity aims to solidify its position as a market leader and build long-term loyalty among its customer bases.

11. Synergy Realization: Execute the integration plan, realizing identified synergies in areas such as technology infrastructure, distribution channels, customer data, and operational efficiencies. Continuously monitor and evaluate the progress of synergy realization to ensure the expected benefits are achieved.

12. Post-Acquisition Performance Tracking: Regularly assess and monitor the post-acquisition performance, measuring key performance indicators and financial metrics to evaluate the success of the integration and the achievement of strategic objectives.

By implementing these strategies, Airbnb aims to achieve a seamless integration with Expedia Group Inc., leveraging synergies, enhancing operational efficiency, and creating value for all stakeholders. The implementation process will be closely monitored and evaluated to ensure the successful realization of the acquisition's strategic objectives within the desired timeline.

Reference:

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