May 06, 2020

Expedia, Inc. (EXPE)

$64.08 (As of 05/05/20)

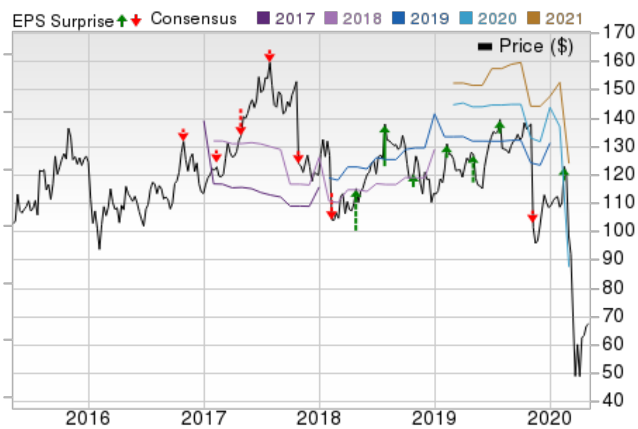
Price Target (6-12 Months): **$67.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/03/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: B | Growth: B | Momentum: F	**3-Hold** VGM:B

Summary

Expedia is benefiting from strong gross bookings, owing to well performing brands such as Vrbo, Hotels.com and Expedia Partner Solutions. Further, increasing stayed room nights remain a major positive. All these factors are driving the company's top-line growth. Additionally, its strong initiatives toward strengthening footprint in domestic regions are driving domestic stayed room nights. The company remains optimistic about its strong supply acquisition efforts, strategic investments and product innovation. Furthermore, Expedia's expanding global lodging portfolio is a major positive. However, sluggishness in the company's trivago segment remains an overhang. Further, intensifying competition in the online travel space is also a major concern. Notably, the stock has underperformed the industry it belongs to over a year.

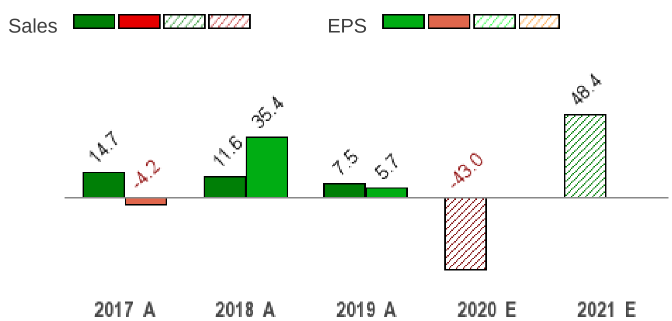
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$144.00 - $40.76**
20 Day Average Volume (sh)	**4,364,739**
Market Cap	**$9.0 B**
YTD Price Change	**-40.7%**
Beta	**1.54**
Dividend / Div Yld	**$1.36 / 2.1%**
Industry	**Internet - Commerce**
Zacks Industry Rank	**Top 23% (58 out of 253)**
Last EPS Surprise	**5.1%**
Last Sales Surprise	**-0.4%**
EPS F1 Est- 4 week change	**-306.9%**
Expected Report Date	**05/07/2020**
Earnings ESP	**-19.2%**
P/E TTM	**10.5**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**0.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,695 E	2,180 E	2,634 E	2,146 E	10,207 E
2020	2,120 E	823 E	1,772 E	2,044 E	6,877 E
2019	2,609 A	3,153 A	3,558 A	2,747 A	12,067 A

EPS Estimates

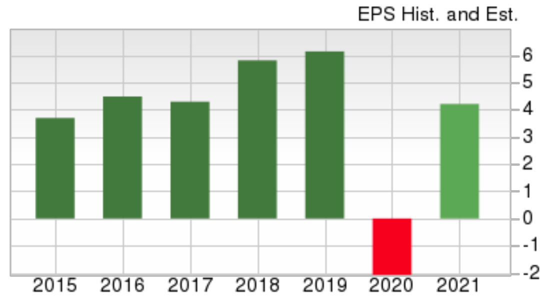
	Q1	Q2	Q3	Q4	Annual*
2021	-$1.30 E	$0.78 E	$3.01 E	$0.83 E	$4.22 E
2020	-$1.18 E	-$2.19 E	$0.64 E	$0.52 E	-$2.08 E
2019	-$0.27 A	$1.77 A	$3.38 A	$1.24 A	$6.15 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/05/2020. The reports text is as of 05/06/2020.

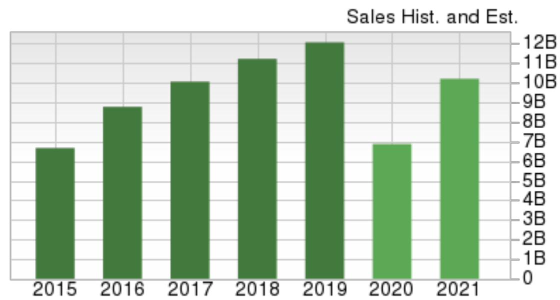
Overview

Bellevue, Washington-based Expedia Group, Inc. is one of the largest online travel companies in the world. The company's web portals focus on travel planning, travel purchases and travel experience sharing thus bringing suppliers and consumers of travel-related services together.



Along with destination and flight plan choices, the websites also provide details of the places to be visited, maps, local restaurants, things to do, cruises, special offers and consumer reviews so prospective customers can view their options, partake in offers, check reviews and book according to their preferences.

The company generated $12.1 billion of revenues in 2019, of which 78.1% was from the core business. trivago, Egencia and Vrbo accounted 7.8%, 5.1% and 11.1%, respectively. Further, the new segment called Corporate comprising Bodybuilding.com, which was acquired in 2019, accounted for 0.5% of total revenues.



Under the Merchant model (53.5% of revenues), the company takes over the marketing functions of its supplier and directly sells to customers. Under the Agency model (26.3%), the company acts as an agent accepting bookings from customers and transferring them to the relevant airline, hotel, car rental company or cruise line for a commission. The Advertising & Media (Trivago and the Media Solutions Group) segment contributed 9.1% of the revenues..

The most popular corporate brands include Expedia.com, Hotels.com, Hotwire.com, Venere, TripAdvisor.com, Classic Vacations, Expedia Local Expert, Egencia and Vrbo.

To support these brands, the company operates many technology platforms. Its Brand Expedia platform supports Orbitz, Travelocity, Wotif Group, CheapTickets, ebookers, Expedia Local Expert and certain parts of Hotwire.

The Hotels.com technology platform supports Hotels.com and EAN, the hotel-only offerings of the company.

Around 56.9% of total revenues were generated domestically, with the international locations contributing 43.1%. The largest peer companies are Priceline.com, as well as international players like MakeMyTrip, Ctrip and Qunar.

In March 2019, Expedia Group rebranded HomeAway as Vrbo.

Reasons To Buy:

A solid travel booking platform, a stronger travel market, contribution from a series of acquisitions and management execution are positives.

- At the foundation of Expedia's business is its technology and diversity. The company has an effective quantitative model that helps to study customer behavior and spending patterns, as well as the company's success rates. These success rates are in turn used for winning suppliers, further increasing the choices offered to consumers. The wealth of choices helps attract more customers, which in turn generates revenue growth and margin expansion. It is this platform that hotels and other travel providers are attracted to, and for which they are willing to pay a handsome commission. Further, the company has a very strong position in the domestic market and continues to consolidate its strengths here, making it all the more important for hotels to share inventory with it.

- Expedia has made one strategic change over the last few years. While the company has always had some international business, the revenue contribution from this segment was relatively small. However, with trade and cultural barriers receding in many countries and increased outsourcing activity, the number of travelers moving across the world has risen significantly. The company is capitalizing on this opportunity by adding inventory, collaborating with local players and stepping up its own marketing efforts. All these factors are helping the company to make the most of travel opportunities between different international destinations.

- Expedia has been snapping up companies to increase its penetration in existing markets, expand in others and also eliminate competition. The buyouts of Bodybuilding.com, Wotif, Travelocity, Orbitz and HomeAway will continue to drive growth in the online travel space. Wotif continues to aid the company's presence in Australia and New Zealand. The Travelocity acquisition appears to have been brewing for some time since Expedia was already powering Travelocity sites in the U.S. and Canada. Orbitz has added some important flights technology, particularly on the business side and helped the company consolidate its leading position in the domestic market. The acquisition of HomeAway has added vacation rental apartments to the company's hotels portfolio. This is a completely new area with significant growth prospects, as it is relatively disorganized. Strengthening HomeAway will continue to perform well and drive the gross bookings and stayed room nights. This will in turn, boost the top-line growth of the company.

- The SilverRail acquisition is part of Expedia's prudent growth plan for both domestic and international markets. Expedia and SilverRail have been in a rail distribution partnership since 2015. Under the agreement, the latter has been powering Expedia's rail services search and ticketing. It should help Expedia expand its railway booking services to key markets and also expand its portfolio of hotel, air and car-related services. Expedia's success is largely backed its technology and diversity and expanding rail ticketing on a global scale will certainly add to it.

Reasons To Sell:

We think that increasing competition across geographies and litigation issues remain major concerns.

- Expedia continues to see a significant amount of **litigation**. This is mainly due to the fact that there remains a doubt as to whether its revenue is taxable under the tax ordinances applicable to hotels. There were a number of adverse rulings that were financially detrimental to Expedia. For one, New York City's enactment imposed occupancy tax on companies like Expedia Inc. This was followed by five counties in Florida deciding to sue online travel companies (Expedia, Orbitz, Priceline and Travelocity) for recovery of transient occupancy tax. Moreover, Expedia and Orbitz were also sued under the Florida Deceptive and Unfair Trade Practices Act. In the December 2009 quarter, Expedia paid $48 million to the city of San Francisco in lieu of occupancy tax assessments made by the city.

- Since the proliferation of smartphones and app usage to search for travel information have reduced dependence on search engines, Expedia's relationship with Google has turned problematic. **Google's venture into the online travel market** with the ITA acquisition increased competition and costs for Expedia. ITA Software was a technology company owning specialized software enabling the provision of sophisticated flight information services to customers. The software helps Google offer comparison shopping for airline tickets, thus putting online travel agencies, such as Expedia at risk. Google's search engine has been driving sales for online travel agencies by pulling more customers online and materially changing offline buying habits, but its own offerings being in direct competition with Expedia, could hurt.

- Additionally, Google has in the past penalized Expedia for unfair SEO practices, as a result of which Expedia saw a drop in its rankings for important key words. A more recent concern is Google reserving more of the search results page to serve ads, meaning that if Expedia wants to get results at the top of the page it has to pay more than the usual CPC for a regular search. Google is also advertising hotel properties directly. This is not an encouraging sign considering the fact that Google still helps Expedia generate a significant portion of its revenues.

- Expedia Group also has a leveraged balance sheet. As of Dec 31, 2019, the company's net debt was $850 million compared with $460 million as of Sep 30, 2019. Moreover, debt-to-capital stands at 49.7% much higher than industry average of 18.3%.

Last Earnings Report

Expedia's Q4 Earnings Beat, Revenues Miss Estimates

Quarter Ending	12/2019
Report Date	Feb 13, 2020
Sales Surprise	-0.43%
EPS Surprise	5.08%
Quarterly EPS	1.24
Annual EPS (TTM)	6.12

Expedia Group reported fourth-quarter 2019 adjusted earnings of $1.24 per share, beating the Zacks Consensus Estimate by 5.1%. The figure remained flat on a year-over-year basis. However, the bottom line decreased 63.3% from the previous quarter.

Revenues improved 7.3% year over year to $2.75 billion, which was driven by strong performance of Expedia Partner Solutions and Hotels.com. Moreover, solid momentum across Core OTA, Vrbo and Egencia contributed to the results. Further, growing stayed nights and expanding lodging portfolio continued to drive revenues.

However, the top line lagged the Zacks Consensus Estimate of $2.76 billion and declined 22.8% on a sequential basis.

Unfavorable foreign exchange fluctuation remained an overhang during the reported quarter. Further, sluggishness in trivago remained a headwind.

Expedia witnessed gross bookings of $23.24 billion in the fourth quarter. The figure improved 6% year over year but declined 13.7% sequentially. Further, the figure was lower than the Zacks Consensus Estimate of $23.85 billion.

The company remains optimistic about its strong supply acquisition efforts, strategic investments and product innovation. These initiatives are anticipated to drive business in the days ahead.

Revenues by Segment

Core OTA segment revenues (79.3% of total revenues) improved 6% year over year to $2.2 billion. The segment witnessed gross bookings of $19.1 billion, reflecting year-over-year growth of 6%. Increasing stayed room nights number improved 11% during the reported quarter. Further, strengthening lodging business was a major positive. Strengthening advertising campaigns and deepening focus toward delivering enhanced trip experience were major positives.

Egencia revenues (5.8% of revenues) increased 3% on year-over-year basis to $159 million. Further, quarterly bookings came in $1.9 billion, up 3% from the prior-year quarter. Growing room night growth and strengthening momentum in the corporate travel space were tailwinds.

Vrbo (9.4% of revenues) generated $259 million revenues in the fourth quarter, advancing 13% from the year-ago quarter. This segment witnessed year-over-year growth of 4% in gross bookings, which came in at $2.3 billion. Vrbo’s growing online bookable listings remained a tailwind. Further, strengthening presence in North America by launching Vrbo in Mexico and Canada benefited the segment.

Corporate (1.2% of revenues) is a new segment comprising Bodybuilding.com, which was acquired in the Liberty Expedia Holdings, Inc. transaction in the beginning of third-quarter 2019. The segment generated $34 million of revenues during the reported quarter, up 41.7% sequentially.

Meanwhile, trivago revenues (6.2% of revenues) declined 10% year over year to $171 million.

Revenues by Business Model

Merchant model generated revenues of $1.5 billion (55.4% of revenues), up 9.2% year over year.

Agency division generated revenues of $721 million (26.2% of revenues), improving 3% from the prior-year quarter.

Advertising & Media yielded $243 million of revenues (9% of revenues), improving 4% from the year-ago quarter. This can primarily be attributed to strong performance of Expedia Group Media Solutions. However, currency headwinds and weak performance by trivago remained overhangs.

Moreover, Vrbo (9.4% of revenues) generated $259 million in the reported quarter, advancing 13% from the year-ago quarter.

Revenues by Geography

Expedia generated $1.6 billion revenues (57.3% of total revenues) from domestic regions, up 10% from the prior-year quarter. This can primarily be attributed to strong domestic room nights, which improved 10% from the year-ago quarter. This led to increase in gross bookings in these regions resulting in an improvement of 7% year over year.

Further, revenues generated by international regions were $1.2 billion (42.7% of revenues), up 4% on a year-over-year basis. Expedia witnessed solid growth of 11% in room nights in international regions during the reported quarter. Further, gross bookings advanced 4% from the prior-year quarter.

Revenues by Product Line

Lodging revenues (69.8% of total revenues) came in $1.9 billion, advancing 9% from the prior-year quarter. This can primarily be attributed to robust stayed room nights growth on account of strong momentum in Expedia Partner Solutions, Brand Expedia and Hotels.com.

Further, Expedia’s global lodging portfolio reached over 1.6 million properties as of Dec 31, 2019.

Air revenues were $191 million (6.9% of revenues), down 7.7% year over year. This was due to slowdown in revenue per ticket, which plunged 9% year over year.

Operating Details

Adjusted EBITDA was $478 million, which surged 1.5% year over year. Notably, Core OTA witnessed year-over-year growth of 5%. However, Egencia, Vrbo and trivago EBITDA were down 3%, 3% and 11% from the year-ago quarter, respectively.

Further, adjusted selling and marketing expenses were $1.25 billion, up 5.9% year over year. As a percentage of revenues, these expenses contracted 70 basis points (bps) year over year to 45.7%.

Additionally, general and administrative expenses were $182 million, which remained flat year over year. However, as a percentage of revenues, the figure expanded 50 bps from the year-ago quarter to 6.6%.

Operating margin came in 5.8% in the reported quarter, which expanded 210 bps from prior-year quarter.

Balance Sheet & Cash Flow

As of Dec 31, 2019, cash and cash equivalents were $3.3 billion, down from $3.8 billion as of Sep 30, 2019. Short-term investments totaled $526 million, decreased from $658 million in the previous quarter.

Further, Expedia generated $341 million of cash from operations during the reported quarter compared with $861 million of cash utilized in operations in the last quarter. Further, free cash flow was $45 million against ($1.15) billion in the previous quarter.

The company paid out quarterly dividend worth $50 million (34 cents per share) during the reported quarter.

Guidance

Expedia expects negative impact of around $30-$40 million on first-quarter 2020 adjusted EBITDA.

Additionally, Coronavirus impact is likely to weigh on the company's earnings and revenues.

Nevertheless, the company is deepening focus toward improving operational efficiency.

For 2020, the company expects adjusted EBITDA to grow by double digits. Further, the company aims to achieve $300-500 million of run-rate cost savings across its businesses.

Recent News

On **Dec 11, 2019**, Expedia's business travel management platform called Egencia was declared as the leader in the IDC MarketScape SaaS and Cloud-Enabled Corporate Travel Booking Applications.

On **Dec 4, 2019**, Expedia Group revealed about the resignation of Mark Okerstrom as CEO and Alan Pickerill as CFO. The company also announced that the Chairman of the Board and Vice Chairman namely Barry Diller and Peter Kern, respectively will manage day-to-day operations and look after its executive leadership team. Additionally, Chief Strategy Officer namely Eric Hart will serve as acting CFO.

Valuation

Expedia Group shares are down 41.4% in the year-to-date period and 48.4% over the trailing 12-month period. While stocks in the Zacks sub-industry are up 11.5%, the same in the Zacks Retail And Wholesale sector are down 0.3% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 10.5% and 6.3%, respectively.

The S&P 500 index is down 11% in the year-to-date period and 0.8% in the past year.

The stock is currently trading at 1.06X forward 12-month sales, which compares to 3.65X for the Zacks sub-industry, 1X for the Zacks sector and 3.23X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.36X and as low as 0.5X, with a 5-year median of 1.69X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $67 price target reflects 1.11X forward 12-month sales.

The table below shows summary valuation data for EXPE

Valuation Multiples - EXPE

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.06	3.65	1	3.23
	5-Year High	2.36	5.76	1.11	3.44
	5-Year Low	0.5	3.09	0.8	2.54
	5-Year Median	1.69	4.54	0.93	3.01
P/B TTM	Current	1.62	6.5	4.59	3.8
	5-Year High	7.88	10.7	5.88	4.55
	5-Year Low	1.18	4.68	3.6	2.84
	5-Year Median	3.36	7.83	4.83	3.64
EV/Sales TTM	Current	0.75	4.95	1.23	2.84
	5-Year High	3.02	8.11	1.32	3.43
	5-Year Low	0.55	3.78	0.88	2.11
	5-Year Median	2.01	6.01	1.08	2.8

As of 05/05/2020

Industry Analysis Zacks Industry Rank: Top 23% (58 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. **(AMZN)**	Neutral	3
Alibaba Group Holding Limited **(BABA)**	Neutral	2
Carnival Corporation **(CCL)**	Neutral	3
eBay Inc. **(EBAY)**	Neutral	2
Alphabet Inc. **(GOOGL)**	Neutral	3
MakeMyTrip Limited **(MMYT)**	Neutral	3
TripAdvisor, Inc. **(TRIP)**	Neutral	3
Booking Holdings Inc. **(BKNG)**	Underperform	5

Industry Comparison Industry: Internet - Commerce

Industry Peers

	EXPE	X Industry	S&P 500	AMZN	BKNG	TRIP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	5	3
VGM Score	B	-	-	F	D	C
Market Cap	8.97 B	1.90 B	19.65 B	1,156.06 B	57.02 B	2.50 B
# of Analysts	9	3	14	13	12	8
Dividend Yield	2.12%	0.00%	2.18%	0.00%	0.00%	0.00%
Value Score	B	-	-	F	F	C
Cash/Price	0.49	0.12	0.06	0.04	0.12	0.13
EV/EBITDA	4.32	6.67	11.77	30.25	8.72	6.67
PEG Ratio	NA	2.07	2.49	4.89	1.74	10.92
Price/Book (P/B)	1.65	4.25	2.64	17.71	9.83	2.17
Price/Cash Flow (P/CF)	4.81	19.33	10.48	34.57	11.69	9.03
P/E (F1)	NA	29.40	19.10	117.37	29.15	115.65
Price/Sales (P/S)	0.74	1.64	2.00	3.90	3.79	1.60
Earnings Yield	-3.25%	1.12%	4.99%	0.85%	3.43%	0.87%
Debt/Equity	0.85	0.20	0.74	0.36	1.54	0.00
Cash Flow ($/share)	13.34	0.32	7.01	67.05	119.22	2.03
Growth Score	B	-	-	D	B	A
Hist. EPS Growth (3-5 yrs)	15.66%	15.28%	10.87%	102.38%	17.53%	-13.98%
Proj. EPS Growth (F1/F0)	-133.75%	-7.86%	-9.07%	-14.18%	-53.40%	-91.03%
Curr. Cash Flow Growth	-6.21%	-5.32%	5.88%	31.33%	1.20%	6.29%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	12.56%	8.55%	49.26%	11.28%	-1.67%
Current Ratio	0.72	1.58	1.24	1.08	1.83	1.23
Debt/Capital	46.11%	18.31%	44.07%	26.42%	60.59%	0.00%
Net Margin	4.68%	-1.06%	11.00%	3.56%	32.29%	8.01%
Return on Equity	13.15%	9.89%	16.39%	17.83%	74.06%	10.27%
Sales/Assets	0.56	0.98	0.55	1.42	0.70	0.66
Proj. Sales Growth (F1/F0)	-43.01%	0.00%	-2.17%	23.04%	-40.09%	-41.73%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	-4.39%	0.00%	0.74%	0.08%	-1.42%	-1.92%
1 Week Price Chg	1.08%	0.58%	0.53%	-5.15%	6.31%	-0.38%
4 Week Price Chg	13.40%	18.12%	6.47%	15.22%	1.22%	9.48%
12 Week Price Chg	-41.32%	-10.22%	-20.68%	7.76%	-27.03%	-38.41%
52 Week Price Chg	-47.85%	-2.44%	-10.95%	20.66%	-21.95%	-66.58%
20 Day Average Volume	4,364,739	216,516	2,492,530	5,977,898	509,323	2,556,445
(F1) EPS Est 1 week change	-220.87%	0.00%	0.00%	-29.55%	-14.04%	-126.73%
(F1) EPS Est 4 week change	-306.91%	0.00%	-7.39%	-28.09%	-28.63%	-126.73%
(F1) EPS Est 12 week change	-170.77%	-34.76%	-14.21%	-28.36%	-58.00%	-114.07%
(Q1) EPS Est Mthly Chg	-2,359.21%	-5.65%	-13.52%	-72.82%	-138.88%	-232.82%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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