

Expedia, Inc. (EXPE)

\$111.75 (As of 02/06/20)

Price Target (6-12 Months): **\$95.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 11/11/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5) **4-Sell**

Zacks Style Scores: VGM:F

Value: C | Growth: F | Momentum: F

Summary

Expedia is currently suffering from sluggishness in the travel segment. This is impacting its top-line negatively. Further, the company is hurt by unfavorable foreign exchange fluctuations. Additionally, low ADR impact is a major headwind. The company anticipates softening ADR environment to continue hurting its results in the near term. Further, shift to high-cost marketing channels poses significant threat to the Expedia's profitability. The stock has underperformed its industry over a year. Nevertheless, solid momentum across Core OTA, Vrbo and Egencia will continue to strengthen its market position. Moreover, expanding global lodging portfolio and strategic investments are major tailwinds. However, intensifying competition in the online travel space poses a serious risk to its market position.

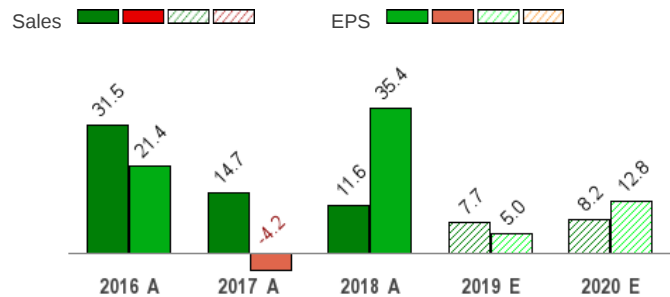
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$144.00 - \$93.53
20 Day Average Volume (sh)	1,865,185
Market Cap	\$16.2 B
YTD Price Change	3.3%
Beta	1.01
Dividend / Div Yld	\$1.36 / 1.2%
Industry	Internet - Commerce
Zacks Industry Rank	Bottom 35% (165 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-11.5%
Last Sales Surprise	-0.6%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	02/13/2020
Earnings ESP	8.8%
P/E TTM	18.3
P/E F1	16.2
PEG F1	1.3
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,805 E	3,377 E	3,846 E	2,947 E	13,078 E
2019	2,609 A	3,153 A	3,558 A	2,759 E	12,083 E
2018	2,508 A	2,880 A	3,276 A	2,559 A	11,223 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.29 E	\$1.88 E	\$3.94 E	\$1.42 E	\$6.89 E
2019	-\$0.27 A	\$1.77 A	\$3.38 A	\$1.18 E	\$6.11 E
2018	-\$0.36 A	\$1.38 A	\$3.65 A	\$1.24 A	\$5.82 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 02/06/2020. The reports text is as of 02/07/2020.

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 \$11.2 billion in 2018 revenues, of which 78% was from the core business. trivago, Egencia and Vrbo contributed 9.7%, 5.3% and 10.4% of revenues, respectively.

Under the Merchant model (53% of revenues), the company takes over the marketing functions of its supplier and directly sells to customers. Under the Agency model (26.8%), 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 made up the balance.

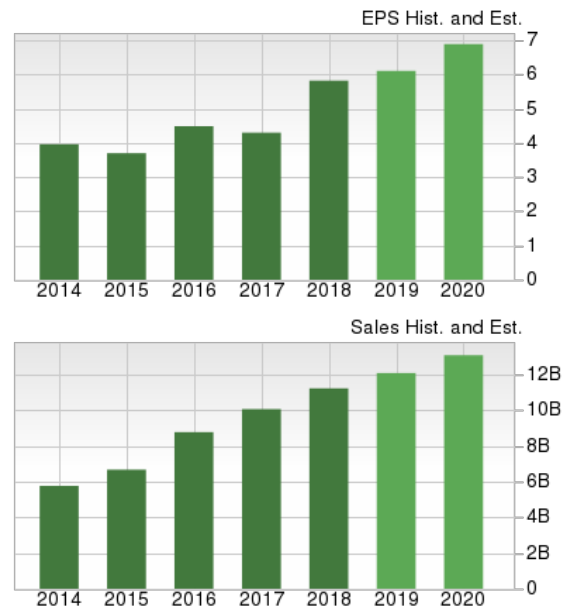
The most popular corporate brands include Expedia.com, Hotels.com, Hotwire.com, Venere, TripAdvisor.com, Classic Vacations, Expedia Local Expert, Egencia and Vrbo.

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 55.3% of total revenues were generated domestically, with the balance coming from international locations. 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 Sell:

- ▼ 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.

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

Risks

- 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 **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
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Last Earnings Report

Expedia's Q3 Earnings & Revenues Miss Estimates

Expedia Group reported third-quarter 2019 adjusted earnings of \$3.38 per share, missing the Zacks Consensus Estimate by 11.5%. The figure also declined 7% on a year-over-year basis. However, the bottom line improved 90.9% from the previous quarter.

Revenues increased 9% year over year and 12.8% on a sequential basis to \$3.56 billion. Top-line growth was driven by robust performance of Expedia Partner Solutions, Vrbo and Hotels.com. Further, growing stayed nights and expanding lodging portfolio continued to accelerate revenue generation.

However, the figure lagged the Zacks Consensus Estimate of \$3.58 billion.

Unfavorable foreign exchange fluctuation remained an overhang during the reported quarter. Further, sluggishness in trivago impacted the top line negatively.

Expedia witnessed gross bookings of \$26.93 billion in the third quarter. Moreover, the figure improved 9.1% year over year but declined .8% sequentially. Further, the figure was lower than the Zacks Consensus Estimate of \$27.03 billion.

Nevertheless, 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 (76.8% of total revenues) improved 8.1% year over year to \$2.73 billion. The segment witnessed gross bookings of \$22.23 billion, reflecting year-over-year growth of 10%. Increasing stayed room nights number improved 11% during the reported quarter. Further, strengthening lodging business was a major positive. Notably, the company added above 40,000 properties to the core lodging platform in the third quarter.

Egencia revenues (4.1% of revenues) increased 4.3% on year-over-year basis to \$145 million. Further, quarterly bookings came in \$2.1 billion, up 5% from the prior-year quarter. Growing room night growth and rising hotel attach rates drove the segment's top line.

Vrbo (13.1% of revenues) generated \$467 million revenues in the third quarter, advancing 14% from the year-ago quarter. This segment witnessed year-over-year growth of 5% in gross bookings, which came in at \$2.63 billion. Vrbo's growing online bookable listings remained a tailwind throughout the third quarter. Further, accelerating transactional revenues contributed to the segment's revenues.

Moreover, trivago revenues (7.8% of revenues) declined 5.4% year over year to \$279 million. Introduction of new advertiser features impacted trivago's performance in its market place during the reported quarter. This in turn affected the top line.

Corporate (0.7% 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. The segment generated \$24 million of revenues during the reported quarter.

Revenues by Business Model

Merchant model generated revenues of \$1.86 billion (52.4% of revenues), up 10% year over year.

Agency division generated revenues of \$917 million (25.8% of revenues), improving 5% from the prior-year quarter.

Advertising & Media yielded \$311 million of revenues (8.7 % of revenues), improving 3% from the year-ago quarter. This can primarily be attributed to strong performance of Expedia Group Media Solutions. However, revenues were hurt by currency headwinds and weak performance by trivago.

Moreover, Vrbo (13.1% of revenues) generated \$467 million in the reported quarter, advancing 14% from the year-ago quarter.

Revenues by Geography

Expedia generated \$1.98 billion revenues (55.7% of total revenues) from domestic regions, up 11% from the prior-year quarter. This was primarily driven by strong domestic room nights, which improved 8% from the year-ago quarter. This led to increase in gross bookings in these regions resulting in an improvement of 10% year over year.

Further, revenues generated by international regions were \$1.58 billion (44.3% of revenues), up 6.2% on a year-over-year basis. Expedia witnessed solid growth of 13% in room nights in international regions during the reported quarter. Further, gross bookings rose 7% from the prior-year quarter.

Revenues by Product Line

Lodging revenues (73% of total revenues) came in \$2.59 billion, climbing 11% 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, Vrbo and Hotels.com.

Further, Expedia's global lodging portfolio reached over 1.4 million properties as of Sep 30, 2019.

Air revenues were \$202 million (5.7% of revenues), down 3% year over year. This was due to slowdown in revenue per ticket, which plunged

Quarter Ending 09/2019

Report Date	Nov 06, 2019
Sales Surprise	-0.55%
EPS Surprise	-11.52%
Quarterly EPS	3.38
Annual EPS (TTM)	6.12

10% year over year.

Operating Details

Adjusted EBITDA was \$912 million, which remained flat year over year. Notably, Core OTA and Vrbo EBITDA witnessed year-over-year growth of 3% each. However, Egencia and trivago EBITDA were down 1% and 60% from the year-ago quarter, respectively.

Further, adjusted selling and marketing expenses were \$1.63 billion, up 11% year over year. As a percentage of revenues, these expenses expanded 90 bps year over year to 46%.

Additionally, general and administrative expenses were \$182 million, which rose 8% from the prior-year quarter. As a percentage of revenues, the figure remained flat from the year-ago quarter to 5.1%.

Operating margin came in 17.1% in the reported quarter, which contracted 340 bps from prior-year quarter.

Balance Sheet & Cash Flow

As of Sep 30, 2019, cash and cash equivalents were \$3.79 billion, down from \$4.26 billion as of Jun 30, 2019. Short-term investments totaled \$658 million, improved from \$631 million in the previous quarter.

Further, Expedia utilized \$861 million cash in operations during the reported quarter against \$1.14 billion of cash generated from operations in the prior quarter. Further, free cash flow was (\$1.15) billion compared with \$839 million in the previous quarter.

Unfavorable changes in timing of payables impacted the company's cash flow negatively.

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

Guidance for 2019

Expedia revised the guidance for adjusted EBITDA growth downward from 12-15% to 5-8% for 2019. This includes the impact of high cost channels and low ADRs.

Further, the company expects sluggish contributions from Vrbo and trivago in 2019.

Recent News

On **Oct 29, 2019**, Expedia announced multi-country activation of Lufthansa New Distribution Capability (NDC) content on Egencia travel platform. The move is likely to drive Egencia's momentum across business clients and travelers as it will allow them to access NDC fares from Lufthansa.

On **Oct 17, 2019**, Expedia teamed up with Mexico's travel management company namely Villa Tours. This will enable the company to deliver enhanced experience to the travelers while booking from Mexico. Further, the move will strengthen Egencia's footprint in Latin America.

On **Sep 16, 2019**, Expedia signed a new, multi-year agreement with United Airlines. Per the deal, Expedia Group will continue leisure distribution with United Airlines. The deal also expands United Airlines' relationship with Expedia Partner Solutions, in turn benefitting both the companies.

Valuation

Expedia Group shares are down 14.3% in the past six-month period and 14.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail And Wholesale sector are up 17.5% and 12.1% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 23.6% and 20.1%, respectively.

The S&P 500 index is up 14.3% in the past six-month period and 22.6% in the past year.

The stock is currently trading at 1.23X forward 12-month sales, which compares to 4.21X for the Zacks sub-industry, 1.07X for the Zacks sector and 3.55X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.36X and as low as 1.05X, with a 5-year median of 1.73X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$95 price target reflects 1.05X 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	1.23	4.21	1.07	3.55
	5-Year High	2.36	5.77	1.1	3.55
	5-Year Low	1.05	3.1	0.8	2.54
	5-Year Median	1.73	4.58	0.91	3
P/B TTM	Current	2.82	7.78	5.33	4.56
	5-Year High	7.88	10.73	5.86	4.56
	5-Year Low	2.39	4.69	3.6	2.85
	5-Year Median	3.42	7.98	4.85	3.62
EV/Sales TTM	Current	1.34	5.39	1.31	3.36
	5-Year High	3.02	8.13	1.31	3.36
	5-Year Low	1.13	4.13	0.88	2.12
	5-Year Median	2.07	6.06	1.06	2.79

As of 02/06/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (165 out of 255)



Top Peers

Amazon.com, Inc. (AMZN)	Neutral
Alibaba Group Holding Limited (BABA)	Neutral
Booking Holdings Inc. (BKNG)	Neutral
Carnival Corporation (CCL)	Neutral
eBay Inc. (EBAY)	Neutral
Alphabet Inc. (GOOGL)	Neutral
MakeMyTrip Limited (MMYT)	Neutral
TripAdvisor, Inc. (TRIP)	Neutral

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	EXPE Underperform	X Industry	S&P 500	AMZN Neutral	BKNG Neutral	TRIP Neutral
VGM Score	F	-	-	B	C	C
Market Cap	16.19 B	2.64 B	24.40 B	1,020.63 B	82.07 B	4.07 B
# of Analysts	11	3	13	13	14	7
Dividend Yield	1.22%	0.00%	1.75%	0.00%	0.00%	0.00%
Value Score	C	-	-	D	C	C
Cash/Price	0.31	0.14	0.04	0.06	0.10	0.25
EV/EBITDA	8.09	8.39	14.17	26.47	14.97	10.43
PEG Ratio	1.31	1.31	2.05	2.75	1.33	1.10
Price/Book (P/B)	2.83	5.42	3.31	16.45	14.01	2.47
Price/Cash Flow (P/CF)	8.11	18.65	13.63	30.58	18.42	15.33
P/E (F1)	16.06	25.89	19.08	74.37	17.23	15.21
Price/Sales (P/S)	1.36	1.96	2.67	3.64	5.49	2.59
Earnings Yield	6.17%	1.95%	5.24%	1.34%	5.80%	6.57%
Debt/Equity	0.80	0.23	0.71	0.38	1.51	0.00
Cash Flow (\$/share)	13.77	0.42	6.89	67.05	106.43	1.91
Growth Score	F	-	-	A	B	C
Hist. EPS Growth (3-5 yrs)	13.45%	16.19%	10.80%	110.19%	17.28%	-16.74%
Proj. EPS Growth (F1/F0)	12.82%	12.91%	7.23%	19.81%	12.19%	11.04%
Curr. Cash Flow Growth	24.92%	7.63%	9.51%	31.33%	14.95%	46.67%
Hist. Cash Flow Growth (3-5 yrs)	21.60%	14.92%	8.55%	49.26%	17.08%	1.37%
Current Ratio	0.75	1.51	1.20	1.10	1.82	2.52
Debt/Capital	44.74%	23.98%	42.90%	27.39%	60.21%	0.00%
Net Margin	4.26%	-0.94%	11.76%	4.13%	29.05%	7.44%
Return on Equity	13.45%	9.20%	16.98%	21.07%	67.17%	9.18%
Sales/Assets	0.58	0.90	0.54	1.41	0.68	0.66
Proj. Sales Growth (F1/F0)	8.24%	16.51%	4.15%	19.18%	7.01%	4.27%
Momentum Score	F	-	-	B	F	D
Daily Price Chg	0.59%	0.26%	-0.11%	0.51%	1.11%	-0.27%
1 Week Price Chg	-3.29%	-3.29%	-2.60%	7.90%	-6.75%	-8.14%
4 Week Price Chg	1.81%	0.43%	1.51%	7.85%	-5.92%	-4.18%
12 Week Price Chg	16.92%	7.22%	5.63%	16.85%	5.11%	-5.96%
52 Week Price Chg	-12.61%	0.00%	17.01%	27.00%	4.47%	-50.21%
20 Day Average Volume	1,865,185	112,896	1,961,054	4,044,161	468,312	2,198,130
(F1) EPS Est 1 week change	-0.60%	0.00%	0.00%	0.58%	-0.52%	0.00%
(F1) EPS Est 4 week change	-0.46%	0.00%	-0.00%	5.10%	0.22%	0.41%
(F1) EPS Est 12 week change	-8.40%	0.00%	-0.16%	3.82%	-0.23%	-13.18%
(Q1) EPS Est Mthly Chg	-6.44%	0.00%	0.00%	2.19%	-5.16%	-0.22%

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	C
Growth Score	F
Momentum Score	F
VGM Score	F

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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