

Expedia, Inc. (EXPE)

\$88.12 (As of 08/11/20)

Price Target (6-12 Months): **\$93.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/29/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: B

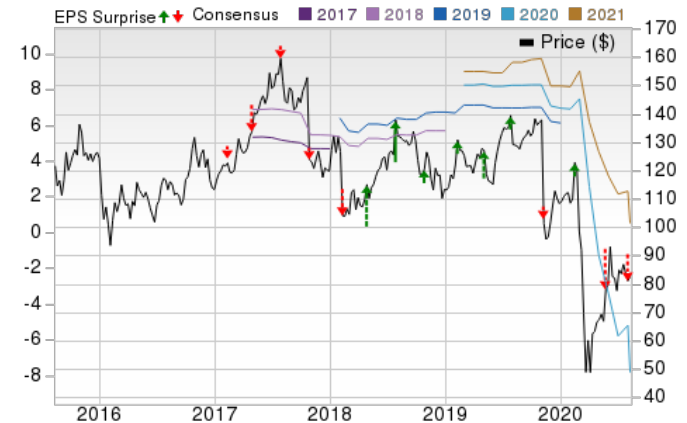
Growth: D

Momentum: F

Summary

Expedia's second quarter results were negatively impacted by increasing cancellation rate of bookings due to the ongoing coronavirus pandemic. Nevertheless, the company has now started witnessing moderation in the cancellation of bookings. Further, improving performance of Vrbo remains a positive. Additionally, cost-saving initiatives of the company remain tailwinds. Also, Expedia's strengthening global lodging portfolio is a major positive. Further, its strong supply acquisition efforts, strategic investments and product innovation endeavors remain key catalysts. However, headwinds in the global travel industry owing to the pandemic are primary concerns. Further, sluggishness in the company's trivago segment remains an overhang. Notably, the stock has underperformed the industry it belongs to on a year-to-date basis.

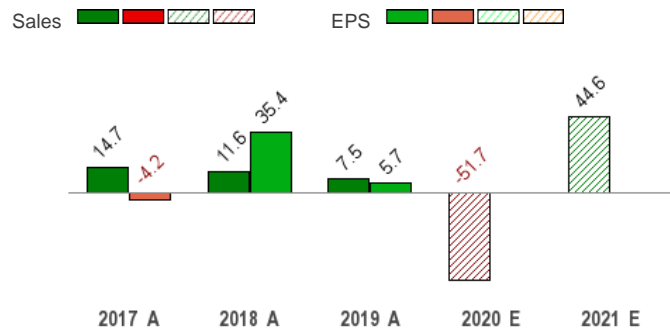
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$139.88 - \$40.76
20 Day Average Volume (sh)	3,209,250
Market Cap	\$12.4 B
YTD Price Change	-18.5%
Beta	1.53
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Top 47% (118 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-20.3%
Last Sales Surprise	-1.9%
EPS F1 Est- 4 week change	-26.9%
Expected Report Date	11/04/2020
Earnings ESP	6.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,652 E	2,150 E	2,520 E	2,017 E	8,424 E
2020	2,209 A	566 A	1,392 E	1,586 E	5,824 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	-\$1.56 E	\$0.43 E	\$2.69 E	\$0.70 E	\$0.49 E
2020	-\$1.83 A	-\$4.09 A	-\$0.81 E	-\$0.80 E	-\$7.85 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.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	1.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

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..

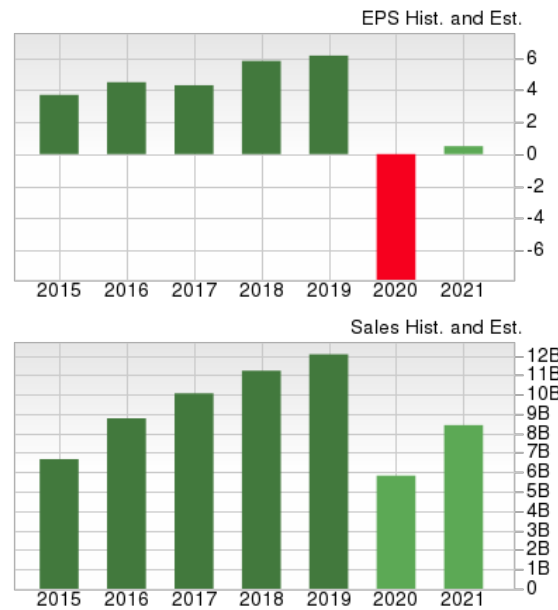
The most popular corporate brands include Expedia.com, Hotels.com, Hotwire.com, Venere, TripAdvisor.com, Classic Vacations, Expedia Local Expert, Egencia and Vrbo.

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:

- ▲ Expedia has an effective quantitative model which holds promise. It helps to study customer behavior and spending patterns, as well as the company's success rates. These success rates are used for winning suppliers which in turn strengthens the Expedia's offering to the customers. These offerings help in attracting more customers, which in turn generates revenue for the company. It is this platform that hotels and other travel providers are attracted to. 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.
- ▲ 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 worldwide, which in turn are strengthening its international footprints. Notably, Expedia holds a broad multi-product supply portfolio — with nearly 1.6 million properties, including over 765,000 of Vrbo's over 2.1 million online bookable alternative accommodations listings, in 200 countries and territories, over 500 airlines, packages, rental cars, cruises, and insurance.
- ▲ Expedia has been snapping up companies to increase its penetration in existing markets, expand in others. The buyouts of Wotif, Travelocity, Orbitz and Vrbo 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 now. Orbitz has added some important flights technology, particularly on the business side and helped the company consolidate its leading position in the domestic market. Notably, both Travelocity and Orbitz are full-service travel brands with websites in seven European nations. Further, the acquisition of Vrbo has added vacation rental apartments to the company's hotels portfolio. This is a completely new area with significant growth prospects. We believe Vrbo 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 a part of Expedia's prudent growth plan for both domestic and international markets. Expedia and SilverRail are in a rail distribution partnership in the latter has been powering Expedia's rail services. SilverRail platform connects rail carriers and suppliers to online and offline travel distributors. It is expanding Expedia's railway booking services to key markets. Expedia's success is largely backed its technology and diversity and expanding rail ticketing on a global scale.

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

Reasons To Sell:

- ▼ Expedia continues to see a significant amount of litigation. This is mainly because there seems to be a doubt about whether its revenue is taxable under the tax ordinances applicable to hotels. It has been argued that had the hotels charged customers directly, they would have charged higher rates than the online travel companies who acquire inventory at wholesale prices. Therefore, a higher amount would have come under the ambit of occupancy tax. Additionally, it appears that the online travel companies have been collecting cash from customers in the name of occupancy taxes on the retail value of rooms sold, but remitting taxes on wholesale prices to hotels. Online travel companies have been winning some cases and losing some, but they have paid significant amount of taxes in some states.
- ▼ 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 has increased competition and costs for Expedia. Google allows users to compare airline tickets across various travel sites on its search platform, thus putting online travel agencies, such as Expedia at risk. Google Travel, which combines Google Flights, Google Hotels, vacation packages and a variety of trip-planning tools and recommendations under one umbrella, remains a major headwind for Expedia.
- ▼ 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. Moreover, changes in the Google search algorithm is a major negative. Further, Google is installing new modules into Google search results that are directing consumers to Google Hotel Ads or Google Flights. This is causing traffic shift from Expedia to Google. This is likely to continue impacting Expedia, due to Google's increasing search initiatives.
- ▼ Expedia Group also has a leveraged balance sheet. As of Jun 30, 2020, the company's net debt was \$2.2 billion compared with \$831 million as of Mar 31, 2020. Moreover, debt-to-capital stands at 70.5% as of Jun 30, 2020 which is up from 66.4% as of Mar 31, 2020. Accumulating high debt levels might restrict sufficient cash flow generation which is needed to meet future debt obligations. Moreover, this may keep the company away from accessing the debt market and refinancing at suitable rates.

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

Last Earnings Report

Expedia Reports Loss in Q2

Expedia Group reported second-quarter 2020 adjusted loss of \$4.09 per share, wider than the Zacks Consensus Estimate of a loss of \$3.40 per share. Notably, the company had reported a loss of \$1.83 per share in the prior quarter. Further, it compares unfavourably with the year-ago quarter's earnings of \$1.77 per share.

Revenues of \$566 million missed the Zacks Consensus Estimate of \$577 million. Further, the top line declined 82% year over year and 74.4% sequentially.

The worsening travel trends owing to the coronavirus pandemic that has been wreaking havoc on global travel industry since its onset impacted Expedia's second-quarter results negatively.

More-than-expected cancellation rate hurt the company's gross bookings during the reported quarter. Expedia witnessed gross bookings of \$2.7 billion, which decreased 90% year over year and 84.8% sequentially. Further, the figure missed the Zacks Consensus Estimate of \$4.6 billion.

We note that bookings were cancelled the most in April.

Headwinds related to coronavirus remain major concerns for the company in the days ahead.

Nevertheless, Expedia has started witnessing moderation in the cancellation of bookings. In the month of May and June booking of the company reflected signs of improvement. Further, improving performance of Vrbo remains a major positive.

Notably, the company sold Bodybuilding.com in the second quarter. Further, it shutdown Pillow and ApartmentJet, which were part of Vrbo.

Revenues by Segment

Retail: The company generated \$463 million revenues (81.8% of total revenues) from this segment, which declined 80% year over year. Notably, the segment comprises Expedia.com, Hotels.com, Vrbo, Orbitz, Travelocity, Wotif Group, ebookers, CheapTickets, Hotwire.com, CarRentals.com, CruiseShip Centers, Classic Vacations and SilverRail Technologies, providing travel and advertising services worldwide.

B2B: This segment yielded revenues of \$68 million (12% of total revenues), which fell 90% from the year-ago quarter. Notably, the segment includes Expedia Partner Solutions and Egencia.

Corporate: The company generated \$20 million revenues from this segment (3.5% of total revenues). The segment generates revenues from Bodybuilding.com, which was acquired in the Liberty Expedia Holdings, Inc. transaction in third-quarter 2019. Notably, the top-line is down 48.7% sequentially.

trivago: Revenues from this segment totaled \$18 million (3.2% of revenues), down 93% year over year.

Revenues by Business Model

Merchant model generated revenues of \$368 million (65% of revenues), down 79% year over year. Merchant gross bookings came in \$1.3 billion, down 89% from the prior-year quarter.

Agency division generated revenues of \$105 million (18.6% of revenues), declining 90% from the prior-year quarter. Agency gross booking were \$1.4 billion, down 92% year over year.

Advertising & Media and other generated \$93 million in revenues (16.4% of revenues), declining 73% from the year-ago quarter. This can primarily be attributed to sluggishness in Expedia Group Media Solutions and trivago.

Revenues by Geography

Expedia generated \$463 million revenues (81.8% of total revenues) from domestic regions, down 75% from the prior-year quarter.

Further, revenues generated from international regions totalled \$103 million (18.2% of revenues), down 92% on a year-over-year basis.

Revenues by Product Line

Lodging revenues, which accounted for 86% of total revenues, declined 78% from the prior-year quarter. Although the company witnessed a 15% rise in revenues per room night, weak stayed room nights declined 81%.

Air revenues accounted for 12% of revenues. Notably, air tickets sold plunged 85% year over year.

Operating Details

Adjusted EBITDA was (\$753) million in the reported quarter against \$183 million in the prior-year quarter.

Further, adjusted selling and marketing expenses were \$275 million, down 82% year over year. As a percentage of revenues, these expenses contracted 100 basis points (bps) year over year to 49.7%.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	-1.91%
EPS Surprise	-20.29%
Quarterly EPS	-4.09
Annual EPS (TTM)	-1.30

Additionally, general and administrative expenses were \$124 million, down 27% year over year. As a percentage of revenues, the figure came in 22.4%, which expanded significantly from the year-ago quarter figure of 5.7%.

Technology and content expenses were \$224 million, down 16% from the year-ago quarter. The figure expanded from 8.9% in the year-ago quarter to 40.8% in the reported quarter as a percentage of revenues.

The company reported second-quarter operating loss of \$849 million against operating income of \$265 million in the year-ago quarter.

Balance Sheet & Cash Flow

As of Jun 30, 2020, cash and cash equivalents were \$5.1 billion, up from \$3.9 billion as of Mar 31, 2020. Short-term investments totaled \$422 million, up from \$194 million in the previous quarter.

Additionally, long-term debt was \$6.9 billion at the end of the second quarter compared with \$4.2 billion at the end of the first quarter.

Further, Expedia utilized \$1.8 billion of cash in operations during the reported quarter compared with \$784 million in the last quarter. Further, free cash flow was (\$2.1) billion in the second quarter.

Recent News

On **May 6, 2020**, Expedia Group's business travel unit Egencia pledged support to healthcare providers worldwide travelling to COVID-19 impacted areas by offering three months of free travel management services. These include access to special healthcare hotel rates with an average saving of up to 30% per night, waived transaction and onboarding fees and 24-hour customer service via its new program called Helping Healthcare travel program.

On **May 5, 2020**, Expedia Group's Orbitz announced a reward program that will provide \$100 to the travelers who have stayed at home and helped in curbing the spread of COVID-19. Notably, travelers will be allowed to use this reward on their first post-quarantine trip.

On **Mar 13, 2020**, Expedia Group withdrew its full year 2020 guidance due to worsening travel trends across the world as a result of coronavirus (COVID-19) pandemic. Further, the company expects COVID-19 headwinds to have exceeded the previously guided range of \$30-\$40 million during the first-quarter 2020.

Valuation

Expedia Group shares are down 18.5% in the year-to-date period and 31.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail And Wholesale sector are up 50% and 25.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 68.4% and 35.9%, respectively.

The S&P 500 index is up 3.3% in the year-to-date period and 14.1% in the past year.

The stock is currently trading at 1.68X forward 12-month sales, which compares to 4.52X for the Zacks sub-industry, 1.24X for the Zacks sector and 3.65X 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 1.63X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$93 price target reflects 1.77X 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	1.68	4.52	1.24	3.65
	5-Year High	2.36	5.99	1.24	3.65
	5-Year Low	0.5	3.16	0.82	2.53
	5-Year Median	1.63	4.7	0.97	3.05
P/B TTM	Current	3.89	9.08	7.89	4.64
	5-Year High	7.65	11.2	8.07	4.68
	5-Year Low	1.18	4.89	3.69	2.83
	5-Year Median	3.33	7.96	5.01	3.74
EV/Sales TTM	Current	1.77	6.81	1.49	3.23
	5-Year High	3.02	8.52	1.52	3.46
	5-Year Low	0.55	3.92	0.9	2.14
	5-Year Median	1.81	6.31	1.15	2.86

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Top 47% (118 out of 253)



Top Peers

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

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	EXPE	X Industry	S&P 500	AMZN	BKNG	TRIP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	3	3	5
VGM Score	D	-	-	A	B	B
Market Cap	12.44 B	3.25 B	23.61 B	1,543.08 B	73.92 B	2.97 B
# of Analysts	7	4	14	14	11	7
Dividend Yield	0.00%	0.00%	1.69%	0.00%	0.00%	0.00%
Value Score	B	-	-	C	C	C
Cash/Price	0.58	0.09	0.07	0.04	0.14	0.25
EV/EBITDA	7.64	8.53	13.32	40.27	11.18	9.09
PEG Ratio	NA	3.80	2.95	3.19	7.12	NA
Price/Book (P/B)	3.89	5.96	3.22	20.93	18.48	3.26
Price/Cash Flow (P/CF)	6.61	17.67	12.79	45.95	15.14	10.89
P/E (F1)	NA	61.26	22.02	96.28	83.06	NA
Price/Sales (P/S)	1.37	2.43	2.57	4.80	6.54	2.70
Earnings Yield	-8.91%	0.85%	4.29%	1.04%	1.20%	-3.71%
Debt/Equity	2.92	0.24	0.77	0.45	2.99	0.77
Cash Flow (\$/share)	13.34	0.47	6.94	67.05	119.22	2.03
Growth Score	D	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	15.53%	10.52%	10.41%	97.34%	12.76%	-11.72%
Proj. EPS Growth (F1/F0)	-227.64%	8.59%	-6.51%	39.06%	-78.81%	-146.41%
Curr. Cash Flow Growth	-6.21%	1.48%	5.22%	31.33%	1.20%	6.29%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	11.42%	8.55%	49.26%	11.28%	-1.67%
Current Ratio	1.14	1.71	1.34	1.18	2.93	3.43
Debt/Capital	68.87%	29.25%	44.59%	31.00%	74.96%	43.42%
Net Margin	-17.09%	-4.10%	10.13%	4.10%	22.52%	-9.45%
Return on Equity	-6.99%	6.42%	14.59%	20.47%	53.57%	-4.61%
Sales/Assets	0.43	1.34	0.51	1.42	0.55	0.48
Proj. Sales Growth (F1/F0)	-51.73%	0.00%	-1.45%	31.31%	-48.16%	-57.68%
Momentum Score	F	-	-	A	A	A
Daily Price Chg	3.78%	-0.15%	-0.17%	-2.14%	2.06%	4.53%
1 Week Price Chg	1.91%	4.71%	2.30%	0.09%	5.56%	4.10%
4 Week Price Chg	6.85%	9.43%	6.41%	-0.11%	6.42%	17.40%
12 Week Price Chg	15.42%	35.14%	15.42%	25.78%	16.64%	19.82%
52 Week Price Chg	-31.77%	40.00%	2.88%	68.86%	-7.11%	-45.79%
20 Day Average Volume	3,209,250	319,939	2,007,486	4,949,587	338,815	2,527,241
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	28.77%	9.32%
(F1) EPS Est 4 week change	-26.89%	7.31%	1.84%	59.34%	22.67%	9.32%
(F1) EPS Est 12 week change	-130.89%	7.96%	2.40%	62.03%	-1.28%	-17.19%
(Q1) EPS Est Mthly Chg	-125.31%	0.96%	0.72%	47.95%	39.86%	7.38%

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	D
Momentum Score	F
VGM Score	D

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.