

Expedia, Inc. (EXPE)

\$82.52 (As of 06/12/20)

Price Target (6-12 Months): **\$87.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/29/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

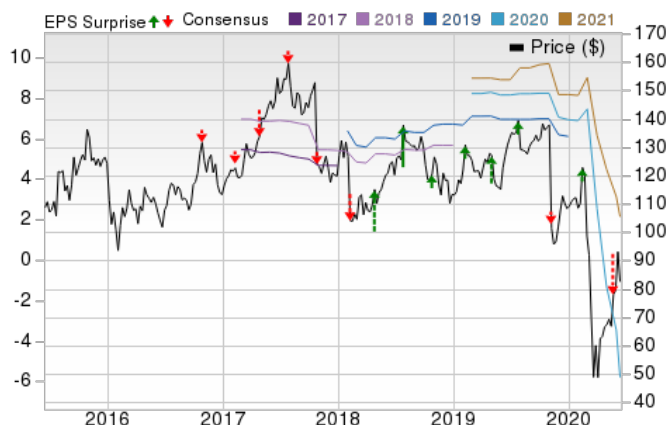
Growth: F

Momentum: F

Summary

Expedia's first-quarter results were negatively impacted by increasing cancellation rate of bookings due to the coronavirus pandemic. Nevertheless, Corporate segment exhibited sequential improvement during the reported, which remained a positive. The company remains optimistic about cost-control initiatives that will help in countering the coronavirus-induced disruptions. It has taken cost-saving measures by reducing variable marketing and discretionary expenses. Further, its strong supply acquisition efforts, strategic investments and product innovation endeavors remain major positives. 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 its industry on a year-to-date basis.

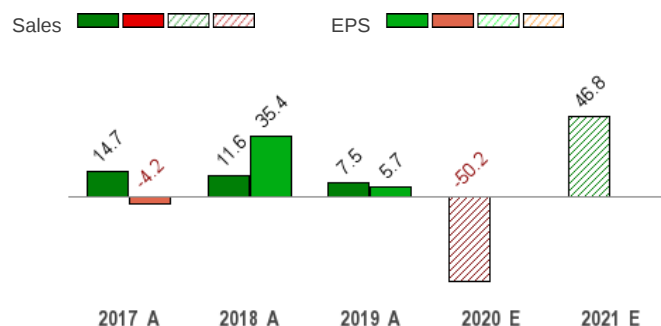
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$144.00 - \$40.76
20 Day Average Volume (sh)	5,699,874
Market Cap	\$11.6 B
YTD Price Change	-23.7%
Beta	1.55
Dividend / Div Yld	\$1.36 / 1.6%
Industry	Internet - Commerce
Zacks Industry Rank	Top 23% (58 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-47.6%
Last Sales Surprise	4.3%
EPS F1 Est- 4 week change	-82.0%
Expected Report Date	07/23/2020
Earnings ESP	0.0%
P/E TTM	18.1
P/E F1	NA
PEG F1	NA
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,612 E	2,207 E	2,517 E	2,161 E	8,821 E
2020	2,209 A	552 E	1,490 E	1,734 E	6,010 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	-\$0.82 E	\$1.10 E	\$2.57 E	\$0.70 E	\$2.13 E
2020	-\$1.83 A	-\$3.74 E	-\$0.10 E	-\$0.07 E	-\$5.81 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 06/12/2020. The reports text is as of 06/15/2020.

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..

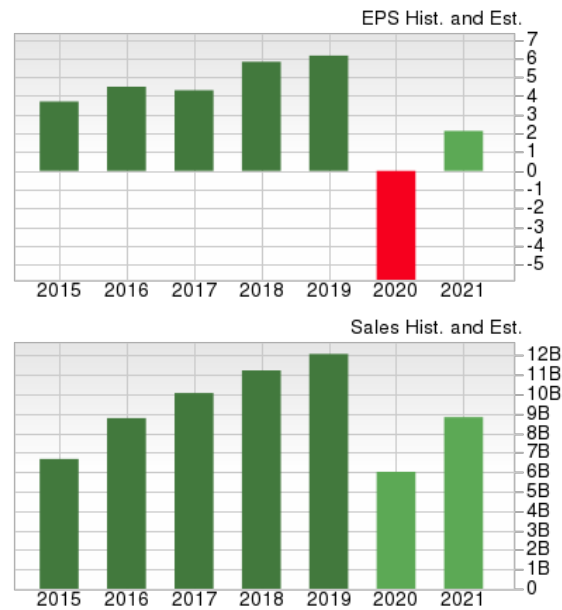
The most popular corporate brands include Expedia.com, Hotels.com, Hotwire.com, Venere, TripAdvisor.com, Classic Vacations, Expedia Local Expert, Egencia and Vrbo.

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 Mar 31, 2020, the company's net debt was \$831 million compared with \$850 million as of Dec 31, 2019. Although net debt amount has decreased sequentially, the company's current debt worth \$750 million as of Mar 31, 2020 remains a concern. Moreover, debt-to-capital stands at 66.4% as of Mar 31, 2020 which is much higher than the industry average of 35.7%.

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

Last Earnings Report

Expedia Reports Loss in Q1

Expedia Group reported first-quarter 2020 adjusted loss of \$1.83 per share, wider than the Zacks Consensus Estimate of a loss of \$1.24. Further, the figure was wider than the year-ago quarter's loss of 27 cents. The company reported earnings of \$1.24 per share in the previous quarter.

Revenues of \$2.21 billion surpassed the Zacks Consensus Estimate of \$2.12 billion. However, the figure declined 15% year over year and 19.6% sequentially to \$2.21 billion.

The coronavirus pandemic affected Expedia's first-quarter results owing to economic shutdowns.

Cancellation rate of bookings started impacting the company's gross bookings negatively from February when Europe became the epicentre of the virus outbreak. Further, cancellations surged significantly in March when the virus started taking a toll on Expedia's largest operating region - North America.

Expedia witnessed gross bookings of \$17.9 billion in the first quarter. The figure decreased 39% year over year and 23.1% sequentially. Further, the figure missed the Zacks Consensus Estimate of \$23.43 billion.

Headwinds in the global travel industry owing to coronavirus remain major concerns for the company.

Nevertheless, Expedia is optimistic about its cost-control initiatives which will help in combating the coronavirus-induced disruptions. The company has taken cost-saving measures by reducing its variable marketing and discretionary expenses.

Revenues by Segment

The company has re-classified its Core OTA, Egencia and Vrbo segments into two new ones – Retail and B2B.

Retail: The company generated \$1.6 billion revenues (71.6% of total revenues) from this segment, which declined 17% year over year. Notably, the segment comprises Expedia.com, Hotels.com, Vrbo, Orbitz, Travelocity, Wotif Group, ebookers, CheapTickets, Hotwire.com, CarRentals.com, CruiseShipCenters, Classic Vacations and SilverRail Technologies, providing travel and advertising services worldwide.

B2B: This segment yielded \$485 million revenues (21.9% of total revenues), which fell 13% from the year-ago quarter. Notably, the segment comprises Expedia Partner Solutions and Egencia.

Corporate: The company generated \$39-million revenues from this segment (0.01% of total revenues). The segment consists of Bodybuilding.com, which was acquired in the Liberty Expedia Holdings, Inc. transaction in third-quarter 2019. Notably, the top-line is up 14.7% sequentially.

trivago: Revenues from this segment came in \$154 million (6.9% of revenues), down 35% year over year.

Revenues by Business Model

Merchant model generated revenues of \$1.3 billion (60.7% of revenues), down 7% year over year. Merchant gross bookings came in \$8.1 billion, down 33% from the prior-year quarter

Agency division generated revenues of \$562 million (25.4% of revenues), falling 33% from the prior-year quarter. Agency gross booking were \$9.8 billion, down 43% year over year.

Advertising & Media and other yielded \$307 million in revenues (13.9% of revenues), declining 7% from the year-ago quarter. This can primarily be attributed to sluggishness in Expedia Group Media Solutions and trivago.

Revenues by Geography

Expedia generated \$1.3 billion revenues (59.6% of total revenues) from domestic regions, down 11% from the prior-year quarter.

Further, revenues generated from international regions totalled \$892 million (40.4% of revenues), down 21% on a year-over-year basis.

Revenues by Product Line

Lodging revenues, which accounted for 69% of total revenues, declined 10% from the prior-year quarter. Although the company witnessed a 5% rise in revenues per room night, weak stayed room nights declined 14%.

Air revenues accounted for 5% of revenues, down 56% year over year due to COVID-19-affected travel trends. Notably, revenue per ticket and air tickets sold plunged 41% and 26% year over year, respectively.

Operating Details

Adjusted EBITDA was (\$76) million in the reported quarter compared with \$176 million in the previous quarter. Notably, Retail and B2B adjusted EBITDA were down 88% and 65% year over year, respectively. trivago EBITDA was (\$1) million compared with \$24 million in the prior-year quarter.

Further, adjusted selling and marketing expenses were \$1.2 billion, down 21% year over year. As a percentage of revenues, these expenses contracted 370 basis points (bps) year over year to 54.2%.

Quarter Ending **03/2020**

Report Date	May 20, 2020
Sales Surprise	4.26%
EPS Surprise	-47.58%
Quarterly EPS	-1.83
Annual EPS (TTM)	4.56

Additionally, general and administrative expenses were \$167 million, up 4% year over year. As a percentage of revenues, the figure expanded 140 bps from the year-ago quarter to 7.6%.

Technology and content expenses were \$288 million, up 3% from the year-ago quarter. The figure expanded 230 bps year over year, as a percentage of revenues.

Operating loss came in \$1.3 billion in the first quarter compared with \$131 million in the year-ago quarter.

Balance Sheet & Cash Flow

As of Mar 31, 2020, cash and cash equivalents were \$3.9 billion, up from \$3.3 billion as of Dec 31, 2019. Short-term investments totaled \$194 million, down from \$526 million in the previous quarter.

Additionally, long-term debt was \$4.18 billion at the end of the first quarter compared with \$4.19 billion at the end of the fourth quarter.

Further, Expedia utilized \$784 million of cash in operations during the reported quarter compared with \$341 million of cash generated from operations in the last quarter. Further, free cash flow was (\$1.1) billion in the first quarter.

The company paid out quarterly dividend worth \$48 million (34 cents per share) during the reported quarter.

Outlook

As the ongoing quarter is facing the full impact of the pandemic, Expedia expects second-quarter 2020 revenues to be more adversely impacted as compared with first-quarter 2020 revenues.

Further, adjusted EBITDA loss in the second quarter is expected to be wider than that in the first 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 23.7% in the year-to-date period and 35.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail And Wholesale sector are up 26.6% and 8.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 30.9% and 17.2%, respectively.

The S&P 500 index is down 5.6% in the year-to-date period but up 5.2% in the past year.

The stock is currently trading at 1.6X forward 12-month sales, which compares to 4.14X for the Zacks sub-industry, 1.1X for the Zacks sector and 3.41X 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 1.66X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$87 price target reflects 1.69X 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	1.6	4.14	1.1	3.41
	5-Year High	2.36	5.99	1.13	3.44
	5-Year Low	0.5	3.16	0.81	2.53
	5-Year Median	1.66	4.72	0.95	3.02
P/B TTM	Current	3.11	7.53	4.97	4.16
	5-Year High	7.72	11.2	5.97	4.56
	5-Year Low	1.18	4.89	3.66	2.83
	5-Year Median	3.34	7.96	4.92	3.66
EV/Sales TTM	Current	1.14	5.66	1.34	2.97
	5-Year High	3.02	8.52	1.38	3.46
	5-Year Low	0.55	3.92	0.89	2.13
	5-Year Median	1.91	6.34	1.11	2.83

As of 06/12/2020

Industry Analysis Zacks Industry Rank: Top 23% (58 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
eBay Inc. (EBAY)	Outperform	1
Amazon.com, Inc. (AMZN)	Neutral	3
Alibaba Group Holding Limited (BABA)	Neutral	3
Carnival Corporation (CCL)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	3
MakeMyTrip Limited (MMYT)	Neutral	3
TripAdvisor, Inc. (TRIP)	Neutral	4
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	4
VGM Score	F	-	-	C	F	F
Market Cap	11.63 B	1.86 B	21.47 B	1,269.39 B	66.47 B	2.74 B
# of Analysts	7	3	14	13	11	7
Dividend Yield	1.65%	0.00%	1.96%	0.00%	0.00%	0.00%
Value Score	C	-	-	D	F	F
Cash/Price	0.37	0.13	0.06	0.04	0.10	0.23
EV/EBITDA	6.36	6.75	12.36	33.28	10.12	8.08
PEG Ratio	NA	1.75	2.92	5.19	7.03	NA
Price/Book (P/B)	3.11	5.01	2.96	19.45	17.35	2.66
Price/Cash Flow (P/CF)	6.19	24.29	11.51	37.96	13.62	10.04
P/E (F1)	NA	46.86	20.86	127.10	79.65	NA
Price/Sales (P/S)	1.00	1.86	2.25	4.28	4.58	1.87
Earnings Yield	-7.04%	-0.02%	4.55%	0.79%	1.26%	-3.38%
Debt/Equity	1.77	0.27	0.76	0.36	2.35	0.68
Cash Flow (\$/share)	13.34	0.44	7.01	67.05	119.22	2.03
Growth Score	F	-	-	C	F	F
Hist. EPS Growth (3-5 yrs)	14.52%	12.78%	10.87%	102.38%	16.83%	-12.78%
Proj. EPS Growth (F1/F0)	-194.49%	-2.50%	-10.81%	-12.97%	-80.12%	-139.14%
Curr. Cash Flow Growth	-6.21%	-5.32%	5.46%	31.33%	1.20%	6.29%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	11.55%	8.55%	49.26%	11.28%	-1.67%
Current Ratio	0.80	1.84	1.29	1.08	2.24	3.25
Debt/Capital	63.92%	27.49%	44.75%	26.42%	70.18%	40.53%
Net Margin	-5.43%	-3.36%	10.54%	3.56%	23.43%	5.67%
Return on Equity	10.14%	9.54%	16.08%	17.83%	78.22%	7.82%
Sales/Assets	0.55	1.12	0.55	1.42	0.71	0.62
Proj. Sales Growth (F1/F0)	-50.20%	0.00%	-2.60%	24.13%	-52.86%	-57.33%
Momentum Score	F	-	-	A	F	C
Daily Price Chg	6.16%	1.54%	1.48%	-0.51%	2.24%	2.56%
1 Week Price Chg	17.09%	4.54%	7.51%	1.66%	10.57%	32.21%
4 Week Price Chg	28.20%	8.59%	9.78%	6.54%	17.46%	30.75%
12 Week Price Chg	70.39%	51.60%	27.11%	35.31%	36.29%	30.08%
52 Week Price Chg	-34.32%	7.13%	-5.42%	36.08%	-10.26%	-55.90%
20 Day Average Volume	5,699,874	257,586	2,634,935	3,726,762	699,453	5,190,448
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.05%	0.00%	0.00%
(F1) EPS Est 4 week change	-81.96%	0.00%	0.00%	1.20%	-19.53%	-17.07%
(F1) EPS Est 12 week change	-255.35%	-31.36%	-15.86%	-27.63%	-79.39%	-194.30%
(Q1) EPS Est Mthly Chg	-43.75%	0.00%	0.00%	4.51%	-11.68%	-20.00%

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	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.

Disclosures

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