



Expedia Group, Inc.

Q3 upside and maintained solid 2023 guidance as travel growth strong. Raising P/T to \$168.

COMPANY UPDATE

Rating: BUY

Ticker: EXPE

Price: \$153.28

Target: \$168.00 (from \$133)

Q3 EPS upside: Expedia recently (on November 2) reported its fiscal Q3 2023 (ending September) results. Revenue was \$3,929 million (+9% y-o-y), compared to our estimate of \$3,872 million and consensus of \$3,858 million. Pro forma EPS was \$5.41, compared to our estimate of \$4.53 and consensus of \$4.99. EBITDA was \$1,216 million, compared to our estimate of \$1,164 million and \$1,079 million in Q3 2022. Q3 general qualitative guidance was for revenue to grow about 7% (our guess).

Q3 growth: Gross bookings were \$25.7 billion (+7% y-o-y), compared with our estimate of \$26.2 billion. Hotel room nights were +9% y-o-y reflecting continued strong growth as the travel industry is very strong now. EPS benefited from cost savings and management.

Q4 gross booking growth tracking ~+7%: In the current Q4, the company expects Q4 gross bookings to grow ~7% (y-o-y and about inline with Q3) as the travel industry remains strong. Q4 revenue is expected to grow modestly higher than Q3's +9%.

2023 guidance maintained: The company maintained general qualitative guidance for "double digit" revenue and earnings growth in 2023. The company provided general qualitative guidance for Q4 revenue to grow about 10% (our guess).

Adjusting estimates: We are adjusting our 2023 estimates for revenue to \$12.8 billion, from \$12.9 billion, and for EPS to \$9.17 from \$8.61. We are adjusting our 2024 estimates for revenue to \$13.8 billion, from \$13.9 billion, and for EPS to \$10.62 from \$10.24.

Cost cuts to drive profitability: The company instituted (since January 2020) significant cost restructuring resulting in annualized savings of ~\$700 - 750 million to reflect its new lowered levels of revenue expected over the near term as well as streamlining its business to be more efficient. While some costs will return as business recovers, there will still be significant savings.

Travel's strong growth: Like all other travel services providers, Expedia had material negative impact from the recent coronavirus pandemic. However, Expedia has returned to and even above normalized (pre-pandemic) business in 2022 and is now growing strongly in 2023. The company expects increased consumer confidence and pent up demand to drive a rebound in the travel industry over the next several years.

Positive risk versus reward: We continue to be positive on Expedia longer term. We believe longer term, traveling and the travel industry has now returned back to normal and will continue to grow stronger and that Expedia as one of the world's largest OTA is in good position to capture a significant share of the economics within the travel industry.

Current valuation attractive: Maintaining our BUY rating, but raising our 12-month price target to \$168 from \$133, which reflects a P/E of ~16x our 2024 EPS estimate of \$10.62. This multiple is about inline with Expedia's long-term normalized earnings growth rate.

Company Description

Based in Seattle, WA, Expedia is a global online travel company selling travel products, services, and advertising. Its brands include Expedia, Hotels.com, Hotwire, Egencia, Orbitz, Travelocity and Vrbo.

United States
Internet Software and Services

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Stock Data

Exchange:	NasdaqGS
52-week Range:	\$84.20 – 155.84
Shares Outstanding (million):	144
Market cap (\$million):	\$22,072
EV (\$million):	\$21,830
Debt (\$million):	\$6,250
Cash (\$million):	\$6,492
Avg. Daily Trading Vol. (\$million):	\$383
Float (million shares):	132
Short Interest (million shares):	9
Dividend, annual (yield):	\$0 (N/A)

Revenues (US\$ million)

	2023E (Cur.)	2023E (Old)	2024E (Cur.)	2024E (Old)
Q1 Mar	2,665A		2,819E	
Q2 Jun	3,358A		3,629E	
Q3 Sep	3,929A	3,872E	4,247E	4,186E
Q4 Dec	2,895E	3,006E	3,129E	3,251E
Total	12,847E	12,901E	13,824E	13,884E
EV/Revs	1.7x		1.6x	

Earnings per Share (pro forma)

	2023E (Cur.)	2023E (Old)	2024E (Cur.)	2024E (Old)
Q1 Mar	(0.20)A		0.01E	0.01E
Q2 Jun	2.89A		2.82E	2.60E
Q3 Sep	5.41A	4.53E	6.05E	5.78E
Q4 Dec	1.20E	1.45E	1.73E	1.84E
Total	9.17E	8.61E	10.62E	10.24E
P/E	17x		14x	

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OVERVIEW

- Expedia recently (on November 2) reported its fiscal Q3 2023 (ending September) results.
- Revenue was \$3,929 million (+9% y-o-y), compared to our estimate of \$3,872 million and consensus of \$3,858 million.
- Pro forma EPS was \$5.41, compared to our estimate of \$4.53 and consensus of \$4.99.
- EBITDA was \$1,216 million, compared to our estimate of \$1,164 million and \$1,079 million in Q3 2022.
- Q3 general qualitative guidance was for revenue to grow about 7% (our guess).
- Gross bookings were \$25.7 billion (+7% y-o-y), compared with our estimate of \$26.2 billion.
- The company maintained its general qualitative guidance for “double digit” revenue and earnings growth in 2023.
- The company provided general qualitative guidance for Q4 revenue to grow about 10% (our guess).
- We are adjusting our 2023 estimates for revenue to \$12.8 billion, from \$12.9 billion, and for EPS to \$9.17 from \$8.61.
- We are adjusting our 2024 estimates for revenue to \$13.8 billion, from \$13.9 billion, and for EPS to \$10.62 from \$10.24.

ADDITIONAL DETAILS

- Revenue by product was: Hotels 82%, Air 3%, Advertising 6%, and Other 9% (compared with Q3 2022’s Hotels 80%, Air 3%, Advertising 6%, and Other 11%).
- Revenue growth by product was: Hotels +12%, Air +5%, Advertising +5%, and Other -11% (compared with Q3 2022’s Hotels +25%, Air +61%, Advertising +10%, and Other +4%).
- Revenue as a percentage of gross bookings was 15.3%, compared with our estimate of 14.8% and 15.1% in Q3 2022.
- Gross profit for the quarter was \$3,517 million, compared with our estimate of \$3,392 million.
- Gross margin for the quarter was 90%, versus our expectation of 88% and 87% last year.
- Operating expenses were \$2,910 million, versus our expectation of \$2,633 million.
- Operating income was \$607 million, versus our expectation of \$759 million.
- Pro forma net income was \$778 million, versus our expectation of \$670 million.
- The company just announced a new \$5 billion stock buyback program. The company has repurchased ~17 million shares (~10% of shares outstanding) for \$1.8 billion year-to-date (not counted as part of the new buyback program).

The company’s balance sheet remains solid with \$6.5 billion in cash and \$6.3 billion in debt (~\$2 share in net cash), compared with \$8.8 billion in cash and \$6.2 billion in debt at the end of June.

Exhibit 1: Expedia Stock Price (Five Years)



Source: <https://bigcharts.marketwatch.com/>

Exhibit 2: Consensus Expectations (as of November 2, 2023)

	Revenue (mil)			EPS	
	2023E	2024E		2023E	2024E
Q1 Mar	\$2,665A		Q1 Mar	\$(0.20)A	
Q2 Jun	\$3,358A		Q2 Jun	\$2.89A	
Q3 Sep	\$3,858E		Q3 Sep	\$4.99E	
Q4 Dec	\$2,932E		Q4 Dec	\$1.86E	
Total	\$12,818E	\$13,936E	Total	\$9.55E	\$11.70E

*Quarterly estimates may not add to annual estimates due to variations in contributing estimates and rounding.

Source: Company report, Refinitiv, and Ascendant Capital Markets estimates

Expedia Group, Inc.

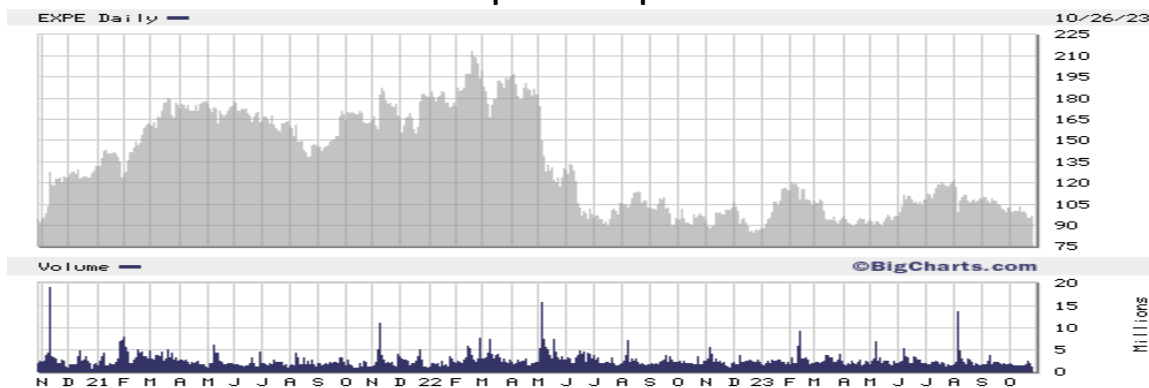
Cash Flow Statement (\$ millions)	Mar-21	Jun-21	Sep-21	Dec-21	2021	Mar-22	Jun-22	Sep-22	Dec-22	2022	Mar-23	Jun-23	Sep-23	Dec-23	2023	Mar-24	Jun-24	Sep-24	Dec-24	2024	
Fiscal Year End: December 31	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2A	Q3A	Q4E	FY-E	Q1E	Q2E	Q3E	Q4E	FY-E	
Cash flow from operating activities																					
Net income	(581)	(177)	378	395	15	(123)	(185)	476	175	343	(140)	387	305	72	624	(98)	307	774	150	1,133	
Depreciation	182	179	177	177	715	175	176	176	177	704	177	184	194	155	710	155	155	155	155	620	
Stock comp	83	120	116	99	418	90	93	97	94	374	103	106	105	50	364	50	50	50	50	200	
Amortization of intangibles	27	26	24	22	99	22	21	23	22	88	15	15	14	200	244	200	200	200	200	800	
Deferred tax	(175)	(66)	83	13	(145)	(101)	18	189	(36)	70	(57)	40	66	(16)	33	0	0	0	0	0	
F/X gains/losses	33	(1)	65	24	121	17	167	179	(157)	206	(20)	(9)	96	0	67	0	0	0	0	0	
Accrued			(33)	33	0					0				0	0	0	0	0	0	0	
Impairments				20	20		29	52		81			312		312					0	
Other gains/losses	272	4	4	(427)	(147)		376	(2)	(29)	345	(1)	(53)	127	0	73	0	0	0	0	0	
Other	24	(18)	1	25	32	2	(21)	(7)	(6)	(32)	14	14	6	0	34	0	0	0	0	0	
Changes in operating assets and liabilities:																					
Accounts receivable	(300)	(429)	(52)	60	(721)	(476)	(445)	173	(90)	(838)	(456)	(390)	142	1,788	1,084	(538)	(110)	(133)	703	(78)	
Prepaid expenses & other current as	(495)	(119)	424	(34)	(224)	(356)	26	361	24	55	(293)	146	190	476	519	8	(81)	(62)	112	(23)	
Merchant payable	126	430	107	114	777	(41)	255	(12)	173	375	(178)	244	112	(497)	(319)	(37)	389	297	(537)	113	
Accounts payable	34	319	(115)	(100)	138	267	272	(112)	(231)	196	79	96	48	(262)	(39)	(23)	243	186	(335)	70	
Deferred merchant bookings	2,940	2,244	(2,397)	(145)	2,642	3,515	839	(2,584)	(306)	1,464	3,885	486	(3,128)	(4,052)	(2,809)	168	933	928	(1,677)	352	
Deferred revenue	2	(2)	(8)	6	(2)	13	(5)	(13)	3	(2)				0	0	0	0	0	0	0	
Income tax payable and other	(2)	4	5	3	10	(13)	12	7	5	11	29	(120)	36	(259)	(314)	(19)	203	155	(279)	59	
Net cash (used in) provided by oper.	2,170	2,514	(1,221)	285	3,748	2,991	1,628	(997)	(182)	3,440	3,157	1,146	(1,375)	(2,344)	584	(134)	2,290	2,549	(1,459)	3,245	
Cash flow from investing activities																					
Purchases of property and equipment	(168)	(183)	(179)	(143)	(673)	(156)	(159)	(170)	(177)	(662)	(233)	(223)	(213)	(175)	(844)	(175)	(175)	(175)	(175)	(700)	
Purchases of short-term investments		11	11	(200)	(178)	200	(60)		5	145	5	17	27	0	49	0	0	0	0	0	
Sale of short-term investments					0					0				0	0	0	0	0	0	0	
Acquisitions				(60)	(60)					0				0	0	0	0	0	0	0	
Net settlement					0					0				0	0	0	0	0	0	0	
Other	(12)	(61)	75	(22)	(20)	(31)	(42)	(96)	106	(63)	33	13	(61)	0	(15)	0	0	0	0	0	
Net cash used in investing activities	(180)	(233)	(93)	(425)	(931)	13	(261)	(266)	(66)	(580)	(195)	(193)	(247)	(175)	(810)	(175)	(175)	(175)	(175)	(700)	
Cash flow from financing activities																					
Term loan borrowing (net)	261	1,703		(3,200)	(1,236)	(724)	(1,020)	(419)	0	(2,163)				0	0	0	0	0	0	0	
Repurchase of common stock	(55)	(2,527)		2,582	0	(47)	(22)	(172)	(366)	(607)	(469)	(593)	(607)	0	(1,669)	0	0	0	0	0	
Dividends		(50)		(17)	(67)					0				0	0	0	0	0	0	0	
Proceeds from stock option exercise	269	110	42	82	503	101	13	11	6	131	29	11	13	0	53	0	0	0	0	0	
Change in restricted cash					0					0				0	0	0	0	0	0	0	
Other	(265)	261	8	(12)	(8)	7	5	22	(19)	15	3	1	13	0	17	0	0	0	0	0	
Proceeds from issuance of common stock	(85)	(23)	(57)	(165)						0				0	0	0	0	0	0	0	
Cash provided by (used in) financing	210	(588)	27	(622)	(973)	(663)	(1,024)	(558)	(379)	(2,624)	(437)	(581)	(581)	0	(1,599)	0	0	0	0	0	
Effect of exchange rate on cash and ca	(73)	47	(100)	(51)	(177)	(11)	(154)	(137)	112	(190)	11	(1)	(63)	0	(53)	0	0	0	0	0	
Net increase (decrease) in cash and	2,127	1,740	(1,387)	(813)	1,667	2,330	189	(1,958)	(515)	46	2,536	371	(2,266)	(2,519)	(1,878)	(309)	2,115	2,374	(1,634)	2,545	
Beginning cash and equivalents	4,068	6,195	7,935	6,548	4,068	5,805	8,135	8,324	6,366	5,805	5,851	8,387	8,758	6,492	5,851	3,973	3,663	5,778	8,152	3,973	
Ending cash and equivalents	6,195	7,935	6,548	5,735	5,735	8,135	8,324	6,366	5,851	5,851	8,387	8,758	6,492	3,973	3,973	3,663	5,778	8,152	6,517	6,517	

Source: Company reports and Ascendant Capital Markets estimates

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Expedia Group Inc.



Source: <https://bigcharts.marketwatch.com/>

Report	Report Date	Rating	Price Target
39	2/9/2018	Buy	125.00
40	4/27/2018	Buy	135.00
41	7/29/2018	Buy	156.00
42	10/28/2018	Buy	148.00
43	2/8/2019	Buy	152.00
44	5/7/2019	Buy	145.00
45	7/28/2019	Buy	159.00
46	11/13/2019	Buy	115.00
47	2/22/2020	Buy	135.00
48	5/26/2020	Buy	90.00
49	8/8/2020	Buy	92.00
50	12/2/2020	Buy	146.00
51	2/21/2021	Buy	180.00
52	6/10/2021	Buy	200.00
53	9/11/2021	Buy	180.00
54	1/8/2022	Buy	210.00
55	3/24/2022	Buy	221.00
56	6/11/2022	Buy	202.00
57	9/11/2022	Buy	190.00
58	12/16/2022	Buy	141.00
59	3/26/2023	Buy	134.00
60	6/11/2023	Buy	142.00
61	9/16/2023	Buy	133.00

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BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

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SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

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Rating	Count	Percent	Investment Banking Services Past 12 months	
			Count	Percent
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Hold	0	0%	0	0%
Sell	1	2%	0	0%
Total	52	100%	19	37%

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