



Rating
Buy

North America
United States

TMT
Internet

Company
Expedia Group, Inc

Reuters
EXPE.OQ

Bloomberg
EXPE US

Exchange
NMS

Ticker
EXPE

Date
14 August 2018

Forecast Change

Price at 14 Aug 2018 (USD)	133.49
Price target	147.00
52-week range	153.40 - 100.10

Model Update post 2Q Travel Earnings

Key Takeaway

We slightly increase our EBITDA estimates but trim room night growth for Expedia. We update our Expedia estimates predominantly to reflect the flow through of our updated trivago estimates updated concurrently with this note to reflect its 2Q and to incorporate a more refined outlook for slower top line growth across the OTA space. Specifically, our revised trivago estimates reflect guidance for declining revenue in 2H18 and increased full year EBITDA guidance as the company seeks to stem losses and reduces marketing spend. Turning to core Expedia, with ongoing pullback in marketing spend for key channels including trivago, TripAdvisor and in light of the soft outlook for Booking.com, we take a slightly more conservative stance on Expedia room night growth in 2H. We still look for 2ppts of acceleration to 14% growth in 3Q (to 106.7M; Factset consensus is for 107.2M) on a 5ppt easier comp (storms last year) though given slower growth in key marketing channels and the industry more broadly combined with a more profit-centric view, we take a more conservative stance on Expedia room night growth (we had previously forecast 15% growth in 3Q or 107.4M). We increase our TP to \$147 (from \$145) largely on the higher estimates and see potential levers for upside including the potential for higher EBITDA guidance post 3Q, momentum on the focused supply acquisition effort, traction on the Ad On Advantage Program and sustained improvement in marketing efficiency.

Key Estimate Changes

We slightly reduce our 2018 revenue estimate to \$11.29B (Factset \$11.28B) to reflect the updated trivago guidance and increase our 2018 EBITDA estimate by \$14M to \$1.888B (Factset \$1.895B) to also reflect the updated trivago estimate. The increase to our EBITDA estimate is a function of reduced trivago performance marketing spend generating 210bps of consolidated Expedia sales and marketing leverage in 2H18 vs our prior estimate of 110bps of leverage. Looking at 2019 estimates, we increase our EBITDA to \$2,101M (from \$2,083M) but note that consensus does not appear to be embedding the commentary from Expedia that cloud expenses would rise from ~\$170M this year to over \$250M next year which caused us to reduce our 2019 EBITDA when the company reported.

Valuation/risks

We increase our TP to \$147 (from \$145) to reflect changes to our estimates in the core business. We slightly increase the core Expedia multiple to 11x (from 10.5x) and maintain our HomeAway multiple of 14.0x on an equal-weighted blend of 2019/2020 estimates. We increase the core Expedia multiple in light of the slightly improved outlook giving us more confidence the business is on firmer

Valuation & Risks

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Key changes

Price target	145.00 to 147.00	↑	1.4%
EPS (USD)	4.41 to 5.08	↑	15.4%
Revenue (USDm)	11,341.9 to 11,286.7	↓	-0.5%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	5.2	16.4	-9.5
S&P 500 INDEX	0.7	3.4	14.4

Source: Deutsche Bank



footing after the multiple outlook downgrades earlier this year. Key risks include increasing competition, operational execution, geopolitical issues, and acquisition integration risks. In addition, as the valuation multiples on Booking Holdings continue to come down, this could weigh on upside potential at Expedia given it has historically traded at a discount to Booking.com; this bears close attention.

Forecasts and ratios

Year End Dec 31	2017A	2018E	2019E
1Q EPS	0.05	-0.45A	-0.49
2Q EPS	0.89	1.40A	1.43
3Q EPS	2.51	3.08	3.50
4Q EPS	0.84	1.06	0.99
FY EPS (USD)	4.28	5.08	5.44
P/E (x)	31.6	26.3	24.5
DPS (USD)	0.00	0.00	0.00
Dividend yield (%)	0.0	0.0	0.0
Revenue (USDm)	10,059.8	11,286.7	12,497.0

Source: Deutsche Bank estimates, company data

Key indicators (FY1)

ROE (%)	4.1
ROA (%)	1.2
Net debt/equity (%)	16.8
Book value/share (USD)	41.36
Price/book (x)	3.2
Net interest cover (x)	-
EBIT margin (%)	5.5

Source: Deutsche Bank

Stock & option liquidity data

Market Cap (USDm)	19,945.7
Shares outstanding (m)	149.4
Free float (%)	-
Volume (14 Aug 2018)	567,583
Option volume (und. shrs., 1M avg.)	316,963

Source: Deutsche Bank



Figure 1: Estimate Changes

	3Q18E				2018E				2019E			
	New Est.	Old Est.	Delta	Street	New Est.	Old Est.	Delta	Street	New Est.	Old Est.	Delta	Street
Total Bookings	24,709	\$24,770	-0.2%	\$24,981	99,796	\$99,857	-0.1%	\$99,667	110,367	\$110,794	-0.4%	\$111,217
Total Room Nights	106.7	107.4	-0.7%	107.2	354.4	355.7	-0.4%	355.8	397.9	399.4	-0.4%	401.8
Room Nights Growth Y/Y	14.1%	14.9%	-80 bps	14.7%	13.6%	14.0%	-44 bps	14.0%	12.3%	12.3%	00 bps	12.9%
Revenue by Segment												
Core OTA	\$2,558	\$2,558	0.0%	2,545	\$8,788	\$8,788	0.0%	8,762	\$9,589	\$9,589	0.0%	9,679
Trivago	306	348	-12.1%	333	1,107	1,186	-6.6%	1,150	1,181	1,350	-12.5%	1,337
Egencia	146	146	0.0%	145	605	605	0.0%	604	655	655	0.0%	671
HomeAway	405	407	-0.5%		1,182	1,185	-0.3%		1,470	1,499	-1.9%	
Corporate and Eliminations	(95)	(108)	-12.1%		(396)	(422)	-6.2%		(397)	(453)	-12.3%	
Expedia (ex. eLong)	3,319	3,350	-0.9%		11,287	11,342	-0.5%		12,497	12,639	-1.1%	
Total Revenues	\$3,319	\$3,350	-0.9%	\$3,307	\$11,287	\$11,342	-0.5%	\$11,282	\$12,497	\$12,639	-1.1%	\$12,553
Cost of Revenue	519	523	-0.9%		1,993	2,002	-0.4%		2,246	2,270	-1.0%	
Gross Profit	2,801	2,827	-0.9%		9,294	9,340	-0.5%		10,251	10,369	-1.1%	
Gross Margins	84.4%	84.4%	-01 bps		82.3%	82.4%	-01 bps		82.0%	82.0%	-01 bps	
Operating Expenses:												
Selling and Marketing	1,562	1,605	-2.7%		5,785	5,858	-1.2%		6,340	6,508	-2.6%	
General and Administrative	171	172	-0.7%		709	712	-0.4%		726	733	-1.0%	
Technology and Content	412	406	1.6%		1,616	1,599	1.1%		1,869	1,830	2.1%	
Stock based comp	50	50	0.0%		200	200	0.0%		220	220	0.0%	
Other operating expense	76	76	0.4%		362	361	0.2%		309	308	0.2%	
Total Operating Expenses	2,271	2,309	-1.6%		8,672	8,731	-0.7%		9,465	9,600	-1.4%	
Reported Income from Operations	529	518	2.2%		622	609	2.0%		786	770	2.2%	
OIBA (excl. stock-based comp.)	656	644	1.8%		1,180	1,167	1.1%		1,315	1,298	1.3%	
Adjusted EBITDA ex-Long	\$834	\$822	1.4%	\$829	\$1,880	\$1,866	0.7%	\$1,895	\$2,101	\$2,083	0.9%	\$2,164
Growth (Y/Y)	17.6%	15.9%	167 bps		9.8%	9.0%	80 bps		11.7%	11.6%	13 bps	
Adjusted EBITDA Margins	25.1%	24.5%	59 bps	25.1%	16.7%	16.5%	20 bps	16.8%	16.8%	16.5%	33 bps	17.2%
EBITDA by Segment												
Core OTA (incl OWW)	847	836	1.4%		2,314	2,294	0.9%		2,502	2,480	0.9%	
Total Orbitz	69	69	0.0%		250	250	0.0%		256	256	0.0%	
Orbitz core	49	49	0.0%		162	162	0.0%		169	169	0.0%	
Orbitz synergy	20	20	0.0%		88	88	0.0%		87	87	0.0%	
HomeAway (as reported)	141	142	-0.5%		261	262	-0.4%		343	351	-2.2%	
HomeAway (pro forma)	141	142	-0.5%		231	232	-0.4%		343	351	-2.2%	
Trivago	3	(9)	-127.1%		(36)	(61)	-41.7%		16	(29)	-155.3%	
Peer Defined Pro-Forma EPS	\$2.48	\$2.28	9%		\$2.51	\$2.23	12%		\$3.17	\$2.80	13%	
Company Defined Pro-Forma EPS	\$3.08	\$2.67	15.3%	\$3.13	\$5.08	\$4.41	15.4%	\$5.34	\$5.44	\$4.47	21.9%	\$6.26
Free Cash Flow	(207)	(609)	-66.0%		1,714	1,014	69.1%		1,004	889	12.9%	

Source: Deutsche Bank estimates & Factset

Valuation

We increase our TP to \$147 (from \$145) to reflect changes to our estimates in the core business. We slightly increase the core Expedia multiple to 11x (from 10.5x) and maintain our HomeAway multiple of 14.0x on an equal-weighted blend of 2019/2020 estimates. We increase the core Expedia multiple in light of the slightly improved outlook giving us more confidence the business is on firmer footing after the multiple outlook downgrades earlier this year.



Figure 2: Valuation

(figures in millions)

	Metric	2015	2016	2017	2018	2019	2020	19/20 EV / EBITDA	Value
Core Expedia	Adj EBITDA	\$1,498	\$1,532	\$1,561	\$1,824	\$2,006	\$2,207	11.0x	\$23,172
Egencia	Adj EBITDA	\$68	\$80	\$94	\$101	\$109	\$120	9.0x	\$1,034
Acquired OTA (a)	Adj EBITDA	\$244	\$425	\$428	\$421	\$431	\$446	8.5x	\$3,726
HomeAway	Adj EBITDA		\$174	\$202	\$261	\$343	\$495	14.0x	\$5,868
AirAsia (at cost)	Adj EBITDA	\$4	\$8	\$19	\$21	\$24	\$28	18x	\$344
Trivago - at DB Target Price, net of minority interest									\$994
Less: Corporate		(\$500)	(\$635)	(\$658)	(\$761)	(\$870)	(\$933)	11.0x	(\$9,917)
Total EBITDA ex eLong		\$1,165	\$1,616	\$1,713	\$1,880	\$2,101	\$2,373	13.4x	\$25,220
Enterprise Value									\$25,220
Year-end net debt (cash) and hidden assets			\$2,899						\$2,899
Market Cap									\$22,322
VE diluted shares									152
Implied share price									\$147
<i>Implied upside to current</i>									10%

Source: Deutsche Bank estimates & company reports

Risks

Key risks include increasing competition, operational execution, geopolitical issues, and acquisition integration risks.

Figure 3: Income Statement (\$M)

Expedia Inc. – Quarterly Income Statement (\$ in millions, except per share amounts) FY Dec	2015A	2016E	2017A	2018E				2018E	2019E				2019E
	2015A	2016A	2017A	Mar A 1QA	Jun A 2QA	Sep E 3QE	Dec E 4QE	2018E	Mar E 1QE	Jun E 2QE	Sep E 3QE	Dec E 4QE	2019E
Gross Bookings	59,679	72,433	79,665	23,248	23,084	24,709	21,993	93,034	29,925	28,591	27,427	24,424	110,367
Net Revenue	6,872	8,774	10,060	2,508	2,880	3,319	2,580	11,287	2,719	3,187	3,721	2,870	12,497
Cost of Revenue	1,304.3	1,585.3	1,746.4	485.0	495.0	518.5	494.1	1,992.6	531.5	556.1	594.3	564.2	2,246.2
Gross Profit	5,368.1	7,188.3	8,313.5	2,023.0	2,385.0	2,800.5	2,085.5	9,294.1	2,187.2	2,631.3	3,126.9	2,305.3	10,250.8
Operating Expenses:													
Selling and Marketing	3,347.9	4,320.8	5,258.0	1,505.0	1,529.0	1,562.3	1,188.9	5,785.2	1,584.3	1,677.2	1,748.3	1,330.3	6,340.2
General and Administrative	493.8	570.1	631.3	177.0	177.0	170.6	184.6	709.2	178.0	180.7	172.0	195.6	726.3
Technology and Content	803.5	1,171.5	1,332.2	381.0	384.0	412.1	439.2	1,616.3	436.7	441.7	482.5	508.5	1,869.4
Stock based comp	145.3	246.4	149.4	50.0	50.0	50.0	50.0	200.0	55.0	55.0	55.0	55.0	220.0
Other operating expense	59.1	345.8	300.9	75.0	134.0	76.2	76.6	361.8	76.5	77.3	76.6	78.2	308.7
Total Operating Expenses	4,954.5	6,731.6	7,888.3	2,188.0	2,274.0	2,271.2	1,939.3	8,672.5	2,330.6	2,431.9	2,534.4	2,167.7	9,464.6
Reported Income from Operations	413.6	456.6	625.1	(165.0)	111.0	529.3	146.2	621.6	(143.3)	199.4	592.5	137.7	786.2
Other Income (Expenses):													
Other Income (Expense), Net	512.4	(185.1)	(208.4)	(4.0)	(125.0)	(118.4)	(112.1)	(359.6)	(113.0)	(106.0)	(108.3)	(108.4)	(435.7)
Pretax Income	926.0	271.5	416.8	(169.0)	(14.0)	410.9	34.1	262.0	(256.3)	93.3	484.2	29.3	350.5
Income Tax	(203.2)	(23.5)	(45.4)	20.0	5.0	(82.2)	(6.8)	(64.0)	51.3	(18.7)	(96.8)	(5.9)	(70.1)
Minority Interest	41.7	20.6	6.6	12.0	10.0	-	-	22.0	-	-	-	-	-
Net Income	764.5	268.6	378.0	(137.0)	1.0	328.7	27.3	220.0	(205.1)	74.7	387.4	23.4	280.4
OIBA (excl. stock-based comp.)	766.4	1,138.6	1,098.4	(43.0)	294.0	655.6	273.0	1,179.6	(11.8)	331.8	724.2	271.0	1,315.2
Adjusted EBITDA	1,103	1,616	1,713	124	463	834	459	1,880	173	522	926	479	2,101
Adjusted EBITDA ex-eLong	1,165	1,616	1,713	124	463	834	459	1,880	173	522	926	479	2,101
Company Defined Adjusted Net Income	497.4	698.8	678.5	(69.0)	213.0	457.7	156.6	758.3	(71.4)	207.2	501.5	141.1	778.4
<u>Diluted Earnings per Share</u>													
Reported Earnings per Share (GAAP Post Spin)	\$5.70	\$1.74	\$2.43	(\$0.90)	\$0.01	\$2.21	\$0.19	\$1.47	(\$1.41)	\$0.52	\$2.71	\$0.17	\$1.95
Peer Defined Pro Forma EPS	\$7.08	\$2.13	\$3.17	(\$0.61)	\$0.22	\$2.48	\$0.46	\$2.51	(\$1.10)	\$0.82	\$3.01	\$0.48	\$3.17
Company Defined Adjusted EPS	\$3.70	\$4.50	\$4.28	(\$0.45)	\$1.40	\$3.08	\$1.06	\$5.08	(\$0.49)	\$1.43	\$3.50	\$0.99	\$5.44
Basic Shares Outstanding	130.1	150.4	151.6	151.8	150.1	148.6	147.2	149.4	145.8	144.4	143.1	141.8	143.8
Diluted Shares Outstanding	134.1	154.5	155.3	151.8	152.6	148.6	147.2	150.1	145.8	144.4	143.1	141.8	143.8
<u>Margin Analysis</u>													
Gross Margin	80%	82%	83%	81%	83%	84%	81%	82%	80%	83%	84%	80%	82%
Sales and Marketing as a % of Revenue	50%	49%	52%	60%	53%	47%	46%	51%	58%	53%	47%	46%	51%
General and Administrative as a % of Revenue	7%	6%	6%	7%	6%	5%	7%	6%	7%	6%	5%	7%	6%
Technology and Content as a % of Revenue	12%	13%	13%	15%	13%	12%	17%	14%	16%	14%	13%	18%	15%
Total Operating Expenses as % of Revenue	74%	77%	78%	87%	79%	68%	75%	77%	86%	76%	68%	76%	76%
OIBA Margin	11%	13%	11%	-2%	10%	20%	11%	10%	0%	10%	19%	9%	11%
Adjusted EBITDA Margin	17%	18%	17%	5%	16%	25%	18%	17%	6%	16%	26%	17%	17%
Effective Tax Rate	22%	9%	11%	NM	NM	20%	20%	24%	NM	20%	20%	20%	20%
<u>Year Over Year Growth</u>													
Total Bookings	24%	21%	10%	11%	11%	22%	23%	17%	29%	24%	11%	11%	19%
Domestic Bookings	26%	24%	22%	10%	10%	15%	12%	7%	6%	5%	8%	8%	8%
International Bookings	9%	15%	22%	25%	19%	6%	10%	22%	17%	19%	16%	16%	15%
Room Night Growth	19%	12%	16%	15%	12%	14%	13%	14%	12%	12%	13%	12%	12%
Organic room night growth	0%	16%	19%	16%	12%	12%	13%	13%	12%	12%	12%	12%	12%
Revenue	16%	31%	15%	15%	11%	12%	11%	12%	8%	11%	12%	11%	11%
OIBA	1%	49%	-4%	-164%	22%	19%	15%	7%	NM	13%	10%	-1%	11%
Adjusted EBITDA	8%	46%	6%	-40%	18%	18%	14%	10%	40%	13%	11%	4%	12%
Adjusted EBITDA ex eLong	11%	39%	6%	-40%	18%	18%	14%	10%	40%	13%	11%	4%	12%
Net Income	92%	-65%	41%	59%	-98%	-7%	-51%	-42%	50%	7367%	18%	-14%	27%
Company Defined Adjusted EPS	-2%	22%	-5%	-1044%	57%	23%	27%	19%	NM	3%	14%	-6%	7%

Source: Deutsche Bank estimates & company reports





Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Expedia Group, Inc	EXPE.OQ	133.49 (USD) 14 Aug 2018	1, 2, 7, 14, 15

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

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The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Lloyd Walmsley



Historical recommendations and target price. Expedia Group, Inc (EXPE.OO)

(as of 08/14/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	10/28/2015	Buy, Target Price Change USD 137.00 Lloyd Walmsley	10.	07/26/2017	Buy, Target Price Change USD 175.00 Lloyd Walmsley
2.	10/30/2015	Buy, Target Price Change USD 152.00 Lloyd Walmsley	11.	10/24/2017	Buy, Target Price Change USD 171.00 Lloyd Walmsley
3.	01/27/2016	Buy, Target Price Change USD 154.00 Lloyd Walmsley	12.	10/27/2017	Buy, Target Price Change USD 150.00 Lloyd Walmsley
4.	02/11/2016	Buy, Target Price Change USD 142.00 Lloyd Walmsley	13.	02/02/2018	Buy, Target Price Change USD 143.00 Lloyd Walmsley
5.	07/29/2016	Buy, Target Price Change USD 138.00 Lloyd Walmsley	14.	04/25/2018	Buy, Target Price Change USD 133.00 Lloyd Walmsley
6.	10/28/2016	Buy, Target Price Change USD 137.00 Lloyd Walmsley	15.	04/27/2018	Buy, Target Price Change USD 137.00 Lloyd Walmsley
7.	01/10/2017	Buy, Target Price Change USD 136.00 Lloyd Walmsley	16.	07/20/2018	Buy, Target Price Change USD 142.00 Lloyd Walmsley
8.	02/10/2017	Buy, Target Price Change USD 138.00 Lloyd Walmsley	17.	07/27/2018	Buy, Target Price Change USD 145.00 Lloyd Walmsley
9.	04/26/2017	Buy, Target Price Change USD 158.00 Lloyd Walmsley			

Equity Rating Key

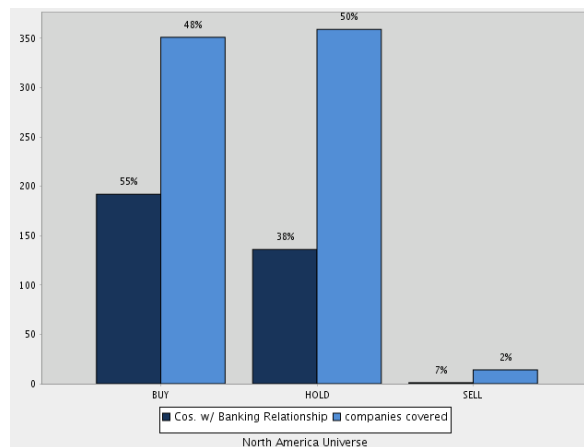
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships





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