United States
Technology

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Expedia, Inc.

Initiating Coverage with BUY and $77.00 Target

Benefiting from world travels one click at a time. We recommend the stock and believe its valuation will increase as it benefits from strong global growth in online travel.

COVERAGE INITIATION

Rating: Buy

Ticker: EXPE

Price: $61.99

Target: $77.00

#1 OTA: We believe that the company's leading position as the world's largest OTA will continue to benefit from an improving travel industry, the increasing trend towards online travel, and high growth potential in international markets. We expect Expedia's share price to increase over the near term as it continues to experience solid revenue and earnings growth.

Size should increase scale: Expedia's size and market leadership positions it well for revenue growth, which should drive sustained operating margin leverage. The key to success in the OTA business is having size and scale, with a large customer base and supplier base likely driving growth for each other.

Solid industry growth: The global travel industry is expected to grow 3% in 2012 and is expected to grow 3-5% over the next several years. Despite near-term uncertainty with macro economic conditions, most current metrics of the travel industry are positive and are likely to remain so near term.

Shift to online travel: Expedia should benefit from high growth rates in online travel commerce and advertising. The U.S. leads in the transition away from traditional travel agents and purchasing travel products from offline channels to online channels, and we expect international markets to follow. Over 50% of all travel in the U.S. is purchased online, but the rate is lower in Europe (~42%), and even lower in Asia (~24%) despite having travel markets that are almost similar in size to the U.S.

Recent positive execution: Expedia has had recent solid revenue growth and profitability (+15% revenue and +12% EPS growth (on a pro forma basis) YTD in 2012), which we believe will likely continue over the next several years. For 2012, the company expects EBITDA growth to be in the "low double-digits range" which we believe is achievable.

Positive risk versus reward: We believe that by focusing on its core travel consumers, Expedia can deliver better value and services to its customers than its peers. The company's positive execution, high growth rates, large consumer and supplier base, and solid balance sheet position the company well. Even with strong share price appreciation over the past year, we believe that there is still significant upside to current share price.

Current valuation attractive: Our $77 price target is calculated by applying a forward P/E of 21x our 2013 EPS estimate of $3.68. This P/E multiple is in line with the peer group median of 21x for online travel companies to reflect our expectations for Expedia to grow earnings at least in line with the rate of its peers over the next several years. We believe this also appropriately balances out the company's risks with the company's high growth prospects.

Company Description

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

Stock Data

Exchange:	NasdaqGS
52-week Range:	$30.94 – 64.81
Shares Outstanding (million):	141
Market cap ($million):	$8,741
EV ($million):	$7,611
Debt ($million):	$1,249
Cash ($million):	$2,379
Avg. Daily Trading Vol. ($million):	$142
Float (million shares):	105
Short Interest (million shares):	16
Incorporation:	Delaware
Public auditor:	Ernst & Young LLP

Revenues (US$ million)

	2010A	2011A	2012E	2013E
Q1 Mar	718A	822A	817A	922E
Q2 Jun	834A	1,024A	1,040A	1,182E
Q3 Sep	988A	1,141A	1,199A	1,347E
Q4 Dec	808A	787A	920E	1,024E
Total	**3,348A**	**3,774A**	**3,975E**	**4,475E**
EV/Revs	2.3x	2.0x	1.9x	1.7x

Earnings per Share (pro forma)

	2010A	2011A	2012E	2013E
Q1 Mar	0.53A	0.50A	0.26A	0.33E
Q2 Jun	0.88A	1.10A	0.89A	0.96E
Q3 Sep	1.32A	1.54A	1.32A	1.58E
Q4 Dec	0.65A	0.58A	0.68E	0.81E
Total	**3.39A**	**3.75A**	**3.15E**	**3.68E**
P/E	18x	17x	20x	17x

EBITDAS* (US$ million)

	2010A	2011A	2012E	2013E
Q1 Mar	166A	82A	102A	110E
Q2 Jun	247A	189A	223A	235E
Q3 Sep	329A	278A	294A	357E
Q4 Dec	206A	162A	176E	205E
Total	**947A**	**711A**	**795E**	**907E**
EV/EBITDAS	8x	11x	10x	8x

**EBITDAS defined as earnings before interest, taxes, depreciation, amortization and stock-based compensation.*

Important Disclosures

Ascendiant Capital Markets LLC seeks to do business with companies covered by its research team. Consequently, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making an investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report, beginning on page 26.

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Exhibit 1: Expedia Stock Price (Five Years)

Source: Nasdaq.com

INVESTMENT THESIS

We are initiating coverage of Expedia with a BUY rating and a 12-month price target of $77.
Expedia's market-leading position as the largest online travel agent (OTA) in the U.S. and in the world should drive continued solid growth over the near and long term. Expedia has well known brands such as Expedia, Hotels.com, Hotwire, Egencia for corporate travel, along with eLong and Venere in international markets.

With Internet usage rates increasing globally, we believe that online travel commerce will continue to grow, presenting major opportunities for Expedia to benefit. Over 50% of all travel in the U.S. is purchased online, but the rate is lower in Europe (~42%), and even lower in Asia (~24%) despite having travel markets that are almost similar in size to the U.S. Despite Expedia's size and market leadership, its market share remains low (~11% or less) allowing the potential for growth.

Expedia has had recent solid revenue growth and profitability (+15% revenue and +12% EPS growth (on a pro forma basis) YTD in 2012), which we believe is likely to continue for the next several years. We believe Expedia is well positioned to better leverage its large investments in consumer branding, travel supplier relationships (including 160,000 hotels), and technology into solid revenue growth which should drive sustained operating margin leverage.

Our investment thesis factors in a competitive industry offset by the large opportunities created from the increasing growth of online travel. We believe that the current valuation for Expedia has already factored in many of its risks (principally competition and execution) but is under valuing its growth prospects, resulting in a positive risk versus reward scenario for an investment in Expedia.

We believe the current valuation is attractive.
Our $77 price target is calculated by applying a forward P/E of 21x our 2013 EPS estimate of $3.68. This P/E multiple is in line to the current 2013 forward peer group median of 21x for online travel companies to reflect our expectations for Expedia to grow earnings at least in line with the rate of its peers over the next several years. We believe this also appropriately balances out the company's risks with the company's high growth prospects.

INVESTMENT HIGHLIGHTS

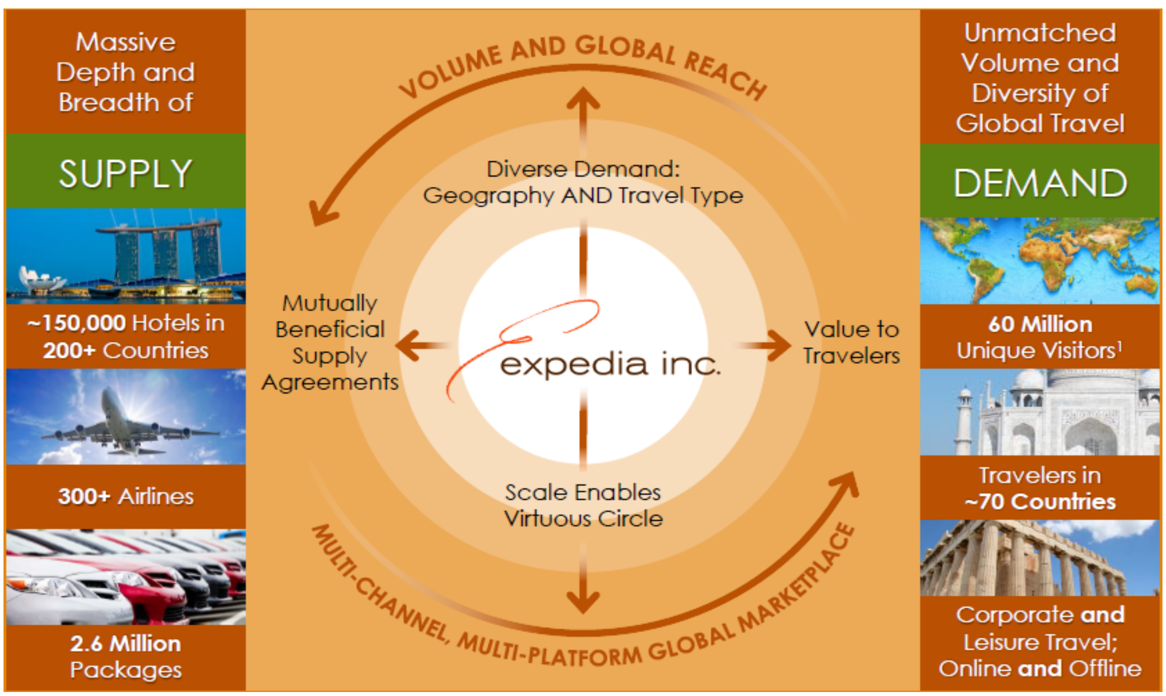
#1 Online Travel Agent (OTA)

We believe Expedia's market-leading position as the largest OTA in the U.S. and in the world should drive continued solid growth over the near and long term. Expedia utilizes its brands (Expedia, Hotels.com, Hotwire, Egencia, eLong, and Venere) worldwide, through localized websites in ~70 countries, and offers consumers access to over 160,000 hotels and over 300 airlines in over 200 countries around the world. In 2011, Expedia had worldwide web traffic of 60 million average monthly unique visitors and 73 million transactions (up 11% from 2010). We believe that the company's leading position as the world's largest OTA will continue to benefit from an improving travel industry, the increasing trend towards online travel (both for information and to purchase), and high-growth potential in international markets.

Increasing Market Position

Expedia's size and market leadership positions it well for revenue growth, which should drive sustained operating margin leverage. The key to success in the OTA business is having size and scale, with a large customer base and supplier base likely driving growth for each other. Consumers want to be able to access the widest variety of travel options and at the lowest prices. Suppliers of travel (airlines, hotels, car rental companies, cruises, vacation packagers) want to maximize revenue, usually by exposure and sales to the largest audience possible. As the largest OTA, Expedia is able to offer both. In addition, technology, ease of use, and branding are also important. As fixed costs are high for OTAs (mainly due to investment in technology and marketing), we believe Expedia is able to invest in branding and technology for future growth better than its competitors.

Exhibit 2: Expedia Market Position



Source: Expedia presentation (June 2012)

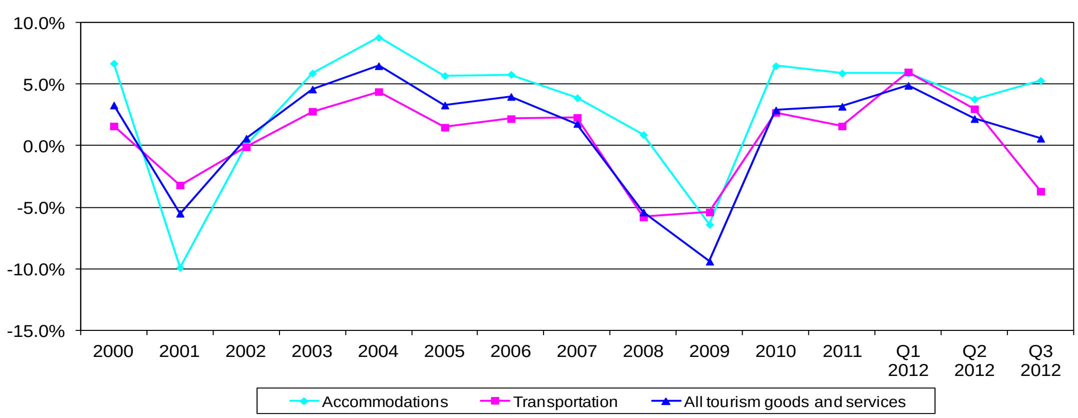
Benefit from Growth in Online Travel

Expedia should benefit from high growth rates in online travel commerce and advertising. The U.S. leads in the transition away from traditional travel agents and purchasing travel products from offline channels to online channels. Over 50% of all travel in the U.S. is purchased online, split approximately 50% between OTAs and direct from travel providers. However, the rate is lower in Europe (~42%), and even lower in Asia (~24%) despite having travel markets that are almost similar in size to the U.S. With Internet usage rates increasing globally, we believe that online travel commerce will continue to grow, presenting major opportunities for OTAs. Expected strong growth in online advertising should benefit Expedia's advertising and media business (even after its 2011 spinoff of TripAdvisor). With increasing Internet usage (both in time spent and users), advertising and media spending is increasingly moving online. In the U.S., the online advertising market was $32 billion in 2011 (+22% from 2010). Despite the rapid increase, online advertising is still only ~15% of total U.S. advertising spending, so there is still significant room for growth. We believe that growth opportunities in international markets for Internet advertising are similar or even better.

Improving Travel Industry

We believe an improving travel industry bodes well for Expedia whose revenue is generated all within the travel industry. In 2011, Expedia's revenue breakdown was 66% from the sale of hotel rooms, 10% from airline tickets, 13% from others (including car rentals and services), and 11% from advertising. After two years of industry decline in 2008 and 2009 amid the Great Recession and global economic slowdown, the global travel industry grew 3% in 2010 and 2011, and is expected to grow another 3% in 2012 (according to World Travel & Tourism Council). The U.S. travel industry is also expected to share a similar rebound and growth patterns, with 9% growth in 2011 and an expected 5% growth in 2012 (according to U.S. Travel Association).

Exhibit 3: U.S. Tourism Spending Growth



Source: U.S. Bureau of Economic Analysis

Key International Investments

Expedia's investment in eLong (67% ownership stake) provides high-growth opportunity and exposure to the rapidly growing Chinese economy and travel market. With a rapidly developing economy that is growing much faster than the rest of the world (+8% expected in 2012), China's 1.3 billion population is increasing its demand and ability to pay for travel and leisure products. Based in Beijing, China, eLong is the 2nd largest OTA specializing in travel products and services in China. eLong's supplier base includes 30,000 hotels across China. In 2011, Tencent Holdings Ltd., one of the largest Chinese internet companies, bought a 16% stake in eLong for $84 million while Expedia paid $41 million to add an 8% stake to its existing holdings. It is expected that Tencent's large user base (784 million in China) will drive traffic volume for eLong.

Furthering its international investments, in December, Expedia announced that it will acquire a 62% equity stake in trivago for ~$634 million. Based in Dusseldorf, Germany, trivago is a leading European travel metasearch website which compares hotel rates from over 600,000 hotels, on over 140 booking sites worldwide, and also offers over 34 million integrated hotel reviews.

Benefiting from Integrated Online Travel Services

We believe strong growth opportunities for online travel and advertising should temper concerns about Google and supplier competition for selling travel and advertising. Google is the world's largest Internet advertising company due to its leadership in search advertising. Over the past couple of years, Google has been increasing its travel-related services, but currently does not sell travel products and only directs consumers to other websites. We do not believe that Google will become an OTA and that the market for online advertising is growing large enough for Expedia to also grow its advertising business.

Travel suppliers have also been trying to get consumers to book travel directly from them, so that they can bypass the cost of OTAs. While conflicts are not good, we believe that the mutually beneficial relationships of suppliers and OTA will help mitigate potential issues. We believe that consumer's desire for convenience, options, and pricing makes OTAs and other aggregators of travel products the preferred place to research and purchase travel products.

INVESTMENT CONCERNS

Highly Competitive Environment

Expedia operates in a highly competitive environment and competes with online and offline travel agencies and travel suppliers, in the sales of travel products, and with online and offline media companies for the sale of advertisements. Online travel agencies such as Priceline, Travelocity and Orbitz compete with Expedia on factors such as pricing, technology, and supply breadth. Expedia also faces competition directly from travel suppliers. Increased competition may lower revenue growth, reduce revenue margin, or increase costs as Expedia spends more for branding or technology. In addition, as Expedia looks for increased growth in international markets, it may have a more difficult time operating in these markets due to entrenched competition.

Online advertising companies such as Google, Yahoo!, and Microsoft/Bing compete with Expedia for advertising revenue. With larger client bases, greater resources, and access to proprietary search engines, competing with these companies could result in higher traffic acquisitions costs, reduced margins and reduced customer traffic for Expedia.

Threat From Google

Online search engines, predominately Google since it is the world's largest, are becoming major players in the online travel industry. Although Google (along with the other major search engines), are currently not selling travel products directly, they do influence consumers' selection of where to purchase travel through their search and advertisement listings. In particular, Google has been making a big push into travel information and commerce. In 2011, Google completed its acquisition of ITA Software, a flight-information software company, for $700 million. The acquisition of ITA enables Google to create online search tools, such as recommending specific flights, and its availability and pricing. Google has launched Google Flight Search and Google Hotel Finder which would provide information, availability and pricing for airlines and hotels. Google Reviews provides traveler opinions similar to TripAdvisor (which was part of Expedia until 2011). Google could use its dominance in search to direct traffic to its own products, which may lower traffic to Expedia websites.

Relationship with Travel Suppliers

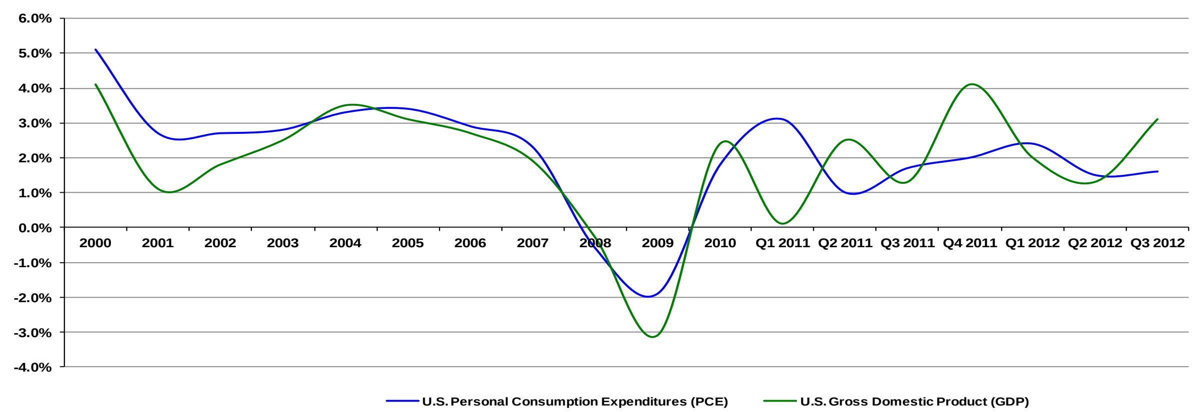
Expedia's success depends on its relationship with travel suppliers and global distribution system (GDS) to ensure access to the widest selection of travel products to sell. Most agreements with travel suppliers and GDS are short term in nature, so major changes in economic or other terms can occur at any time. Travel suppliers prefer to eliminate the OTA middleman to eliminate the fees and commissions paid to OTAs for selling travel to consumers. Some travel suppliers offer direct benefits to travelers such as loyalty programs, lower transaction fees, and better pricing and some (such as Southwest Airlines) do not allow their products on OTAs.

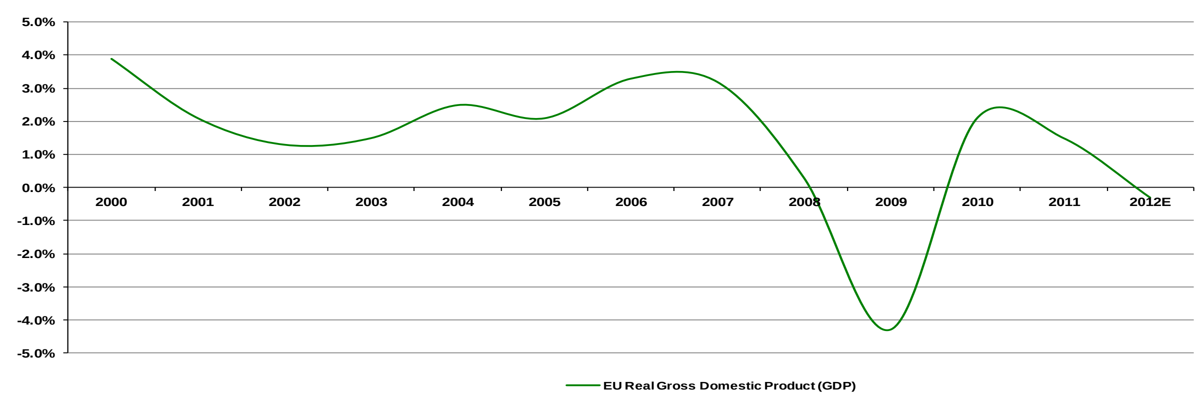
In 2010, American Airlines implemented a new distribution policy which required Expedia (and other OTA) to directly connect to American Airline's computer reservation systems (CRS) rather than through a traditional GDS if they were to continue to sell American Airlines flights. This "direct connections" for OTA would have lowered the revenue generated from AA ticket sales to OTAs. This prompted Orbitz and Expedia (in January 2011) to drop American Airlines flights from their websites, though they have since returned to both Expedia (in April 2011) and Orbitz. An increase in these types of activities by travel suppliers may limit the overall selection of travel products on Expedia websites.

Economic Uncertainty

Travel spending is highly correlated with economic activity and discretionary income levels. Deterioration in economic conditions tends to result in an overall decline in consumer and travel spending, as was demonstrated during the 2008 and 2009 Great Recession and global economic slowdown. While consumer spending levels have improved relatively in 2010, 2011, and 2012, the global macroeconomic environment remains fragile (particularly in Europe). Further economic weakness may result in depressed consumer and travel spending levels; this may have a negative impact on Expedia, its travel suppliers, and consumers.

Exhibit 4: U.S. and European Consumer Spending and Economic Growth





Source: U.S. Bureau of Economic Analysis and Eurostat

Hotel Occupancy Taxes Litigation

As of September 2012, Expedia is currently involved in 44 lawsuits brought by or against states, cities and counties over issues involving the payment of hotel occupancy taxes. The principal claim is that local governments believe Expedia (and other OTAs) should pay an occupancy tax based on the OTA's selling price to a consumer rather than the discounted price an OTA paid to a hotel supplier. For example, hotels may sell available room inventory at discounted rates to OTAs, who then mark up the cost and resell them to consumers. Assuming a 10% occupancy tax rate, a guest that pays $100 to a hotel directly would pay a $10 occupancy tax to the local government. However, if an OTA buys the same room from the hotel for $80 and resells it to the guest for $100, the local government receives only $8. So far, Expedia (and other OTAs) have generally been successful in these litigations, but the possibility of potential settlements, and the time and costs involved to fight these litigations, may be costly to Expedia (along with other OTAs).

VALUATION

We are initiating coverage of Expedia with a BUY rating and a 12-month price target of $77, which reflects a target P/E multiple of 21x our 2013 EPS estimate of $3.68. This P/E multiple is in line with the current 2013 forward peer group median of 21x for online travel companies to reflect our expectations for Expedia to grow earnings at least in line with the rate of its peers over the next several years. We believe this also appropriately balances out the company's risks with the company's high growth prospects.

Exhibit 5: Comparable Companies

In millions (unless otherwise noted), excluding per share data

	Ticker	FYE	Rating	Price Target	Price as of close 1/22/13	52 Week Range Low	52 Week Range High	Diluted Shares	Market Cap	Enterprise Value (EV)
Expedia	**EXPE**	**Dec**	**Buy**	**$77**	**$61.99**	**$30.94**	**$64.81**	**141**	**8,741**	**7,611**
Online Travel related										
HomeAway	AWAY	Dec	Not Rated	N/A	$22.82	$19.19	$28.00	85	1,940	1,696
KAYAK Software	KYAK	Dec	Not Rated	N/A	$40.10	$26.02	$40.97	45	1,805	1,627
Orbitz Worldwide	OWW	Dec	Not Rated	N/A	$2.84	$2.07	$4.75	107	305	593
Priceline.com	PCLN	Dec	Not Rated	N/A	$671.27	$518.60	$774.96	51	34,369	31,149
Travelzoo	TZOO	Dec	Neutral	$19	$18.77	$16.56	$30.67	16	298	240
TripAdvisor	TRIP	Dec	Not Rated	N/A	$44.32	$26.93	$47.81	142	6,293	6,159

	Earnings / Share 2012E	Earnings / Share 2013E	Price / EPS 2012E	Price / EPS 2013E	Revenues 2012E	Revenues 2013E	Ent Val (EV) / Rev 2012E	Ent Val (EV) / Rev 2013E	EBITDAS 2012E	EBITDAS 2013E	nt Val (EV) / EBITDA 2012E	nt Val (EV) / EBITDA 2013E
Expedia	**$3.15**	**$3.68**	**19.7x**	**16.8x**	**3,975**	**4,475**	**1.9x**	**1.7x**	**795**	**907**	**9.6x**	**8.4x**
Online Travel related												
HomeAway	$0.47	$0.66	48.6x	34.6x	280	337	6.1x	5.0x	80	100	21.2x	17.0x
KAYAK Software	$0.86	$1.11	46.6x	36.1x	296	369	5.5x	4.4x	70	93	23.2x	17.5x
Orbitz Worldwide	$0.19	$0.25	14.9x	11.4x	774	809	0.8x	0.7x	119	123	5.0x	4.8x
Priceline.com	$30.88	$37.45	21.7x	17.9x	5,249	6,276	5.9x	5.0x	1,951	2,412	16.0x	12.9x
Travelzoo	$1.32	$1.15	14.2x	16.3x	149	155	1.6x	1.6x	33	30	7.3x	8.0x
TripAdvisor	$1.51	$1.82	29.4x	24.4x	760	909	8.1x	6.8x	350	418	17.6x	14.7x
Average			29.2x	23.4x			4.7x	3.9x			15.0x	12.5x
Median			25.5x	21.1x			5.7x	4.7x			16.8x	13.8x

Note: For companies not under coverage, Thomson Reuters estimates are used

Source: Company reports, Thomson Reuters, and Ascendiant Capital Markets estimates

We compared Expedia to a peer group of publicly traded travel-related companies and believe that these companies are the most comparable. We note that multiples vary significantly between these companies; the variance is likely reflective of current financial performances and future growth expectations.

Expedia is trading at comparative multiples that are well below its peers. On a P/E basis, Expedia is trading at 17x 2013E EPS compared with the median of 21x. On an EV/Revenue basis, Expedia is trading at 1.7x 2013E revenue compared with the median of 4.7x. On an EV/EBITDAS (operating income plus depreciation, amortization, and stock compensation) basis, Expedia is also trading well below its peers (at 8x 2013E EBITDAS compared with the median of 14x).

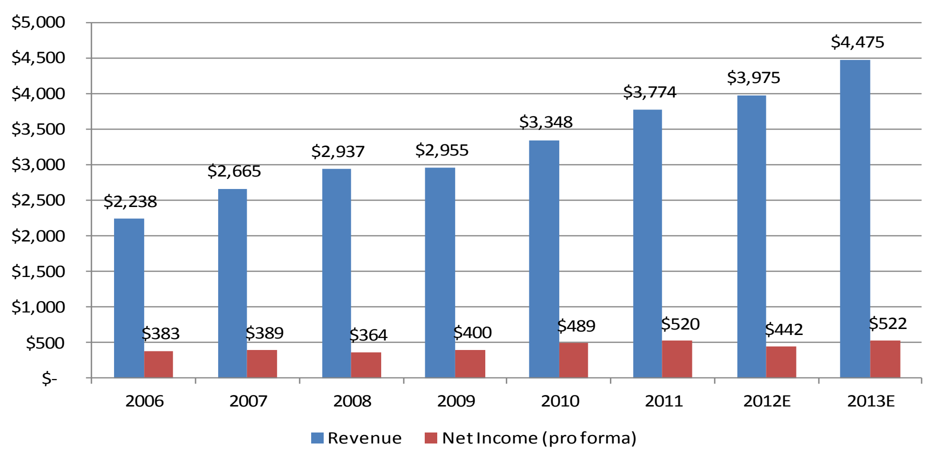
As Expedia is likely to grow at a high rate over the next several years, we believe this will result in a more comparative valuation with its peers. We expect valuations for Expedia to improve as visibility into solid and steady growth and profits becomes clearer. Even with strong share price appreciation of +117% in 2012 (based on share price of $29.02 on 12/30/11 and $61.44 on 12/31/12), we believe that there is still significant upside to current share price.

COMPANY HIGHLIGHTS

Based in Bellevue, WA, Expedia is a global online travel company offering travel products and services from airlines, hotels, car rental companies, cruise lines and other travel product and service companies. Expedia is the largest online travel agent (OTA) in the U.S. and in the world. It operates through brands including Expedia, Hotels.com, Hotwire, Egencia for corporate travel, and eLong and Venere in international markets. In 2011, 89% of Expedia's revenue was from the sale of travel products and 11% from advertisement, while 58% of revenue was from the U.S. and 42% from international. As of December 31, 2011, Expedia employed ~9,480 employees, including ~2,180 employees of eLong.

In December 2011, Expedia completed the spin-off transaction (to shareholders) that separated Expedia, Inc. into two separately traded public companies (Expedia and TripAdvisor). As part of this, Expedia completed a one-for-two reverse stock split. Expedia currently has ~122 million common shares (1 vote each) and 13 million Class B shares (10 votes each).

Exhibit 6: Expedia's Revenue and Net Income ($ mils)



Source: Company reports and Ascendiant Capital Markets estimates

Expedia.com was launched in 1996 as a division of Microsoft and was partially spun out in 1999 as a publicly traded company. In 2002, IAC/InterActiveCorp acquired Microsoft's controlling interest in Expedia and, by 2003, increased its stake to full ownership. In 2005, IAC spun out to its shareholders its travel businesses into a new company, the current Expedia, Inc. Barry Diller, Chairman and Senior Executive of both Expedia and IAC, holds an estimated 31% of Expedia's outstanding shares and 63% of the voting power through his own personal holdings and those of Liberty Interactive Corporation (both of whom were controlling shareholders of IAC at the time of the spinoff), over which Mr. Diller generally has voting control pursuant to an irrevocable proxy granted by Liberty.

Exhibit 7: Expedia's Global Network of Brands (and approximate % of revenue)

Source: Company reports

Expedia has two reportable segments: Leisure and Egencia (managed corporate travel). Expedia's global network of brands provides a wide selection of travel products and services worldwide. Here are some of the key Expedia brands:

Expedia - Its flagship Expedia websites offer travelers a variety of travel products and services in the U.S., as well as through localized versions in over 30 countries worldwide.

Hotels.com - Hotels.com provides a broad selection of hotel properties to travelers, who can plan, shop and book lodging accommodations, from traditional hotels to vacation rentals in more than 75 countries.

Hotwire.com – Hotwire is a travel website that offers airline tickets, hotel rooms, rental cars, cruises and vacation packages at discounted prices in more than 9 countries. Hotwire specializes in opaque travel products, which are deep discounted travel products where consumers do not know the identity of the seller until after purchase is complete.

Expedia Affiliate Network - EAN provides private label and co-branded online travel products and services for some of the world's largest travel and non-travel brands, as well as more than 10,000 active affiliates worldwide.

Egencia - Egencia is a full-service travel management company offering travel products and services to corporations and corporate travelers in 50 countries across North America, Europe and Asia Pacific.

Venere.com - Venere.com is a European provider of online hotel reservations featuring real-time rates, availability and special offers.

Classic Vacations - Classic Vacations offers individually tailored vacations primarily through a national network of third-party retail travel agents.

Expedia Local Expert - Expedia Local Expert network offers personalized recommendations and assistance in booking events, activities, tours, attractions and other services. ELE operates concierge and activity desks in more than 100 hotels and other retail locations in many key cities around the world.

Expedia CruiseShipCenters - Majority-owned by Expedia, CruiseShipCenters is one of North America's leading sellers of cruise vacations with over 150 retail locations, 3,600 cruise consultants, and an online database of over 10,000 cruise vacations.

eLong - Based in Beijing, China, eLong is the 2^{nd} largest OTA specializing in travel products and services in China. Expedia owns approximately 67% of eLong.

TRIPADVISOR SPINOFF

TripAdvisor, the world's largest online travel review website, was formally a part of Expedia. TripAdvisor's 2010 revenue was $485 million, increasing 38% y-o-y and accounting for 15% of Expedia's total revenue. In April 2011, Expedia announced plans to spin off TripAdvisor (and 18 other travel media brands) into an independent company. IAC/InterActiveCorp, which owned Expedia at the time, acquired TripAdvisor for $212 million in 2004. TripAdvisorbecame part of Expedia when IAC spun off Expedia in 2005.

On December 20, 2011, the transaction was completed as a tax-free spinoff to Expedia shareholders, with a one-for-two reverse stock split of Expedia's stock prior to the spinoff, then a distribution of one share of Expedia stock and one share of TripAdvisor stock following the spin-off.

ELONG INVESTMENT

In mid-2004, IAC acquired a 30% stake in eLong for $60 million. The eLong investment was combined into Expedia with its spinoff from IAC in 2005. In May 2010, Expedia acquired an additional 17% of eLong for $21 million. In May 2011, Tencent Holdings Limited, a leading Internet, mobile and telecommunication service provider in China, acquired a 16% stake in eLong for $84 million (becoming the 2^{nd} largest shareholder), while Expedia acquired an additional 8% stake for $41 million. In November 2011, Expedia acquired additional shares (~10%) of eLong for $93 million (bringing its current ownership to ~67%). eLong's ADS (1 ADS = 2 shares) trade in the U.S. (NasdaqGM), and its current market capitalization is ~$530 million. It had 2011 revenue of $93 million and net income of $6 million.

TRIVAGO INVESTMENT

In December, Expedia announced that it will acquire a 62% equity stake in trivago for €477 million (~$634 million) including €434 million in cash and €43 million in Expedia stock. Based in Dusseldorf, Germany, trivago is a leading European travel metasearch website which compares hotel rates from over 600,000 hotels, on over 140 booking sites worldwide, and also offers over 34 million integrated hotel reviews. trivago is expected to report ~€100 million in revenue for 2012. Expedia expects the deal to be completed by the 1^{st} half of 2013 and for the deal to be accretive to adjusted EPS in 2013.

MANAGEMENT TEAM

Barry Diller, Chairman and Senior Executive, age 70. Mr. Diller has been Chairman and Senior Executive of Expedia, Inc. since its spin-off from IAC/InterActiveCorp in August 2005. Mr. Diller is also the Chairman and Senior Executive of IAC. From 1995 to late 2010, Mr. Diller served as the Chairman and CEO of IAC. Since December 1992, beginning with QVC, Mr. Diller served as chief executive for a number of companies engaged in media and interactivity, including Fox, Inc. and Paramount Pictures Corporation. Mr. Diller holds an estimated 31% of Expedia's outstanding shares and 63% of its voting power.

Dara Khosrowshahi, President and Chief Executive Officer, age 42. Mr. Khosrowshahi has served as the CEO of Expedia, Inc. since August 2005. Previously, he served as CEO of IAC Travel, Executive VP, CFO and Executive VP of Operations and Strategic Planning at IAC. Prior to joining IAC, Mr. Khosrowshahi served as President of USA Networks Interactive and as Vice President at Allen & Company LLC. He holds a BA in Engineering from Brown University.

Mark Okerstrom, Chief Financial Officer, age 39. Mr. Okerstrom has served as the CFO since September 2011 and as Secretary since October 2011. He previously served as Senior VP of Corporate Development since February 2009. Having joined Expedia in October 2006, Mr. Okerstrom also previously served as a VP and a Senior Director in Corporate Development. Prior to joining Expedia, Mr. Okerstrom was with Bain & Company, UBS Investment Bank, and practiced as an attorney with Freshfields Bruckhaus Deringer. Mr. Okerstrom holds an M.B.A. from Harvard Business School and a law degree from the University of British Columbia.

Exhibit 8: Expedia's Management Team

Barry Diller **Dara Khosrowshahi** **Mark Okerstrom**

Source: Company reports

PRODUCT MIX

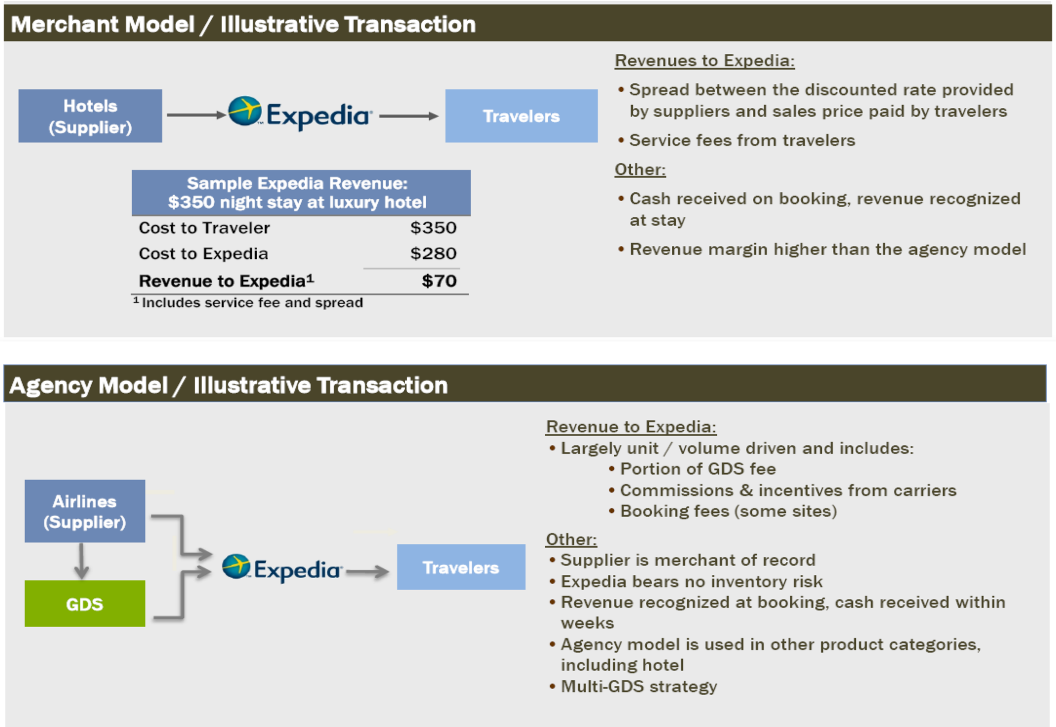
Expedia (like other OTAs) sells travel products and services using two primary business models: the merchant model and the agency model. Under the merchant model, travel suppliers sell inventory at a discount/wholesale rate to Expedia (or other third-parties) to facilitate the booking of hotel rooms, airline seats, car rentals, cruises, and other travel services. Expedia serves as the merchant of record in these transactions. Under the agency model, Expedia (or other third-parties) act as agents in a transaction, passing reservations booked by travelers to the relevant travel supplier.

Merchant model revenue is based on the difference between the total amount the customer pays for a product and the net amount the company pays its suppliers for that product. Expedia is able to establish prices charged to travelers and negotiate supply allocation as well as pricing with its suppliers, and as the merchant of record is responsible for the fulfillment of service. Net revenue per transaction is typically higher under the merchant model than under the agency model.

Agency model revenue is determined by the amount of commission earned from suppliers and GDS for travel products and services booked on Expedia's websites. Although net revenue per transaction (revenue margin) is lower under the agency model, agency transactions contribute significantly to the company's gross bookings due to the high value of airline tickets. In 2011, agency gross bookings (primarily air) accounted for 56% of Expedia's total gross bookings, while merchant gross bookings (primarily hotel) accounted for 44%.

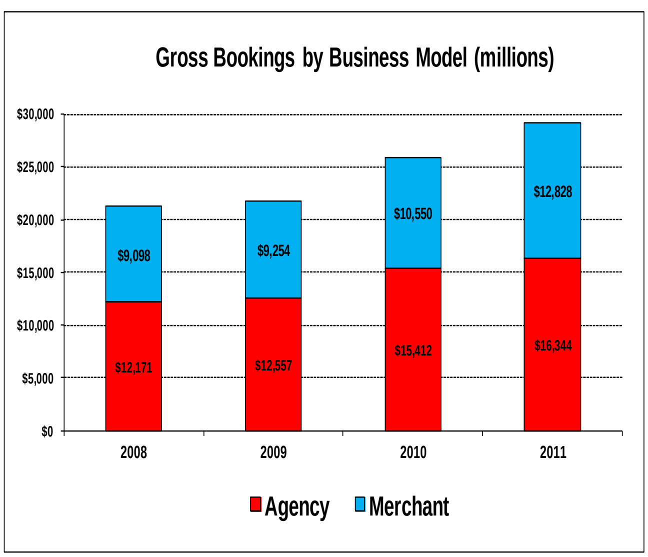
Gross bookings represent the total retail value of transactions booked for both agency and merchant transactions, including taxes, fees and other charges net of cancellations and refunds. Under both the agency and merchant models, revenue is typically deferred until the service is provided (usage of travel), which typically results in a lag of about one quarter between gross bookings and revenue recognition. We believe a strong increase in gross bookings should signal a growth trend in the company's revenues.

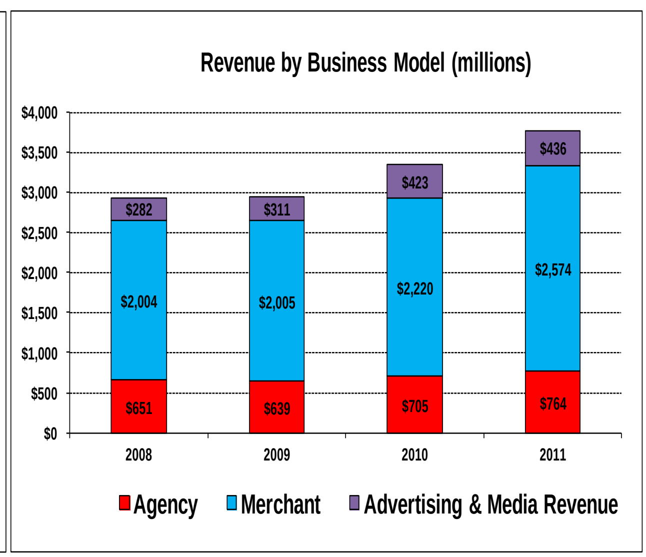
Exhibit 9: Merchant vs. Agency Model: An Illustration



Source: Expedia report

Exhibit 10: Business Model Breakdown by Gross Bookings and Revenue





Source: Company reports

INDUSTRY HIGHLIGHTS

TRAVEL INDUSTRY

The worldwide travel industry is one of the largest sectors of the economy, with the three largest markets in the world being the U.S., Europe, and Asia-Pacific. After a slowdown in the global travel industry in 2008 and 2009 due to the Great Recession, the travel market has slowly recovered and is expected to grow an estimated +3–5% annual rate over the next 5 years.

Exhibit 11: Global Travel & Tourism Economic Impact (in 2011 US$ billions)

Travel & Tourism Direct Contribution to GDP (2011 US$ bn)

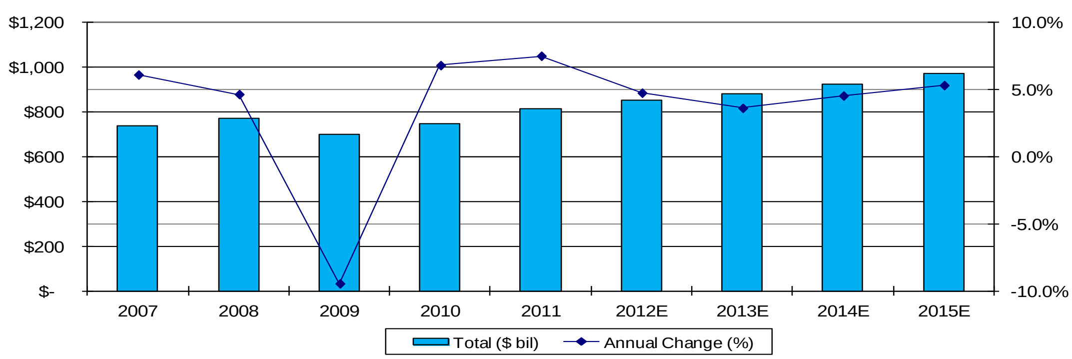
	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Europe	644	626	594	596	613	614	622	641	664
North America	548	520	485	514	532	539	551	574	596
Asia	481	474	473	490	505	535	568	606	647
Africa	131	136	140	144	141	146	152	161	168
Latin America	123	122	127	127	134	142	150	160	168
World Total	1,927	1,879	1,819	1,871	1,924	1,976	2,043	2,142	2,243

Travel & Tourism Direct Contribution to GDP (Real Growth %)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Europe	0.9%	-2.9%	-5.1%	0.5%	2.8%	0.1%	1.1%	3.1%	3.5%
North America	2.2%	-5.0%	-6.7%	6.2%	3.4%	1.2%	2.2%	4.1%	3.8%
Asia	6.0%	-1.4%	-0.3%	3.5%	3.1%	5.8%	6.3%	6.7%	6.7%
Africa	8.7%	3.5%	3.0%	2.4%	-1.9%	3.7%	3.7%	5.9%	4.9%
Latin America	-0.3%	-0.6%	3.2%	-0.1%	5.3%	6.2%	5.4%	6.3%	4.8%
World Total	2.8%	-2.5%	-3.6%	3.0%	2.9%	2.4%	3.1%	4.6%	4.5%

Source: World Travel & Tourism Council (WTTC)

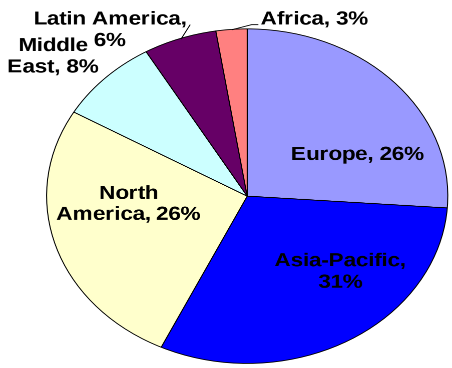
Exhibit 12: Total Travel Expenditure in the U.S. ($ billions)



Source: U.S. Travel Association

While we expect the U.S. and European markets to experience solid growth over the next several years, we expect growth to be higher in Asia and other emerging markets as improved economic conditions tend to increase demand and ability to pay for travel and leisure products. We believe that solid industry growth should benefit travel providers and sellers, but that online travel agents (OTA) will benefit from additional growth as consumers transition away from traditional travel agents and purchasing travel products from offline channels to online channels. Over 50% of all travel in the U.S. is purchased online; however, the rate is lower in Europe (~42%), and even lower in Asia (~24%) despite having travel markets that are almost similar in size to the U.S.

Exhibit 13: Global Air Travel By Region (Based on Passenger Traffic)



Source: International Air Transport Association (IATA)

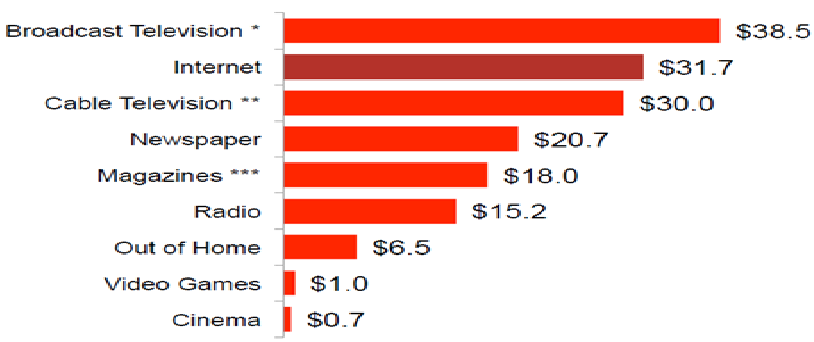
With Internet usage rates increasing globally, we believe that online travel commerce will continue to grow, presenting major opportunities for OTAs. In addition, the increased usage of the Internet is driving consumers to go online for travel content and research (which is increasing at a very fast rate due to social media, blogs, and mobile computing). This in turn, is driving increased advertising spending towards online media. In the U.S., the online advertising market grew to $32 billion in 2011 (+22% from 2010) according to the IAB Internet Advertising Revenue Report.

Exhibit 14: World Internet Usage and Population Statistics

World Regions	Population (2012 Est.)	Internet Users	(%) of Population
Africa	1,073,380,925	167,335,676	16%
Asia	3,922,066,987	1,076,681,059	28%
Europe	820,918,446	518,512,109	63%
Middle East	223,608,203	90,000,455	40%
North America	348,280,154	273,785,413	79%
Latin America / Carib.	593,688,638	254,915,745	43%
Oceania / Australia	35,903,569	24,287,919	68%
WORLD TOTAL	7,017,846,922	2,405,518,376	34%

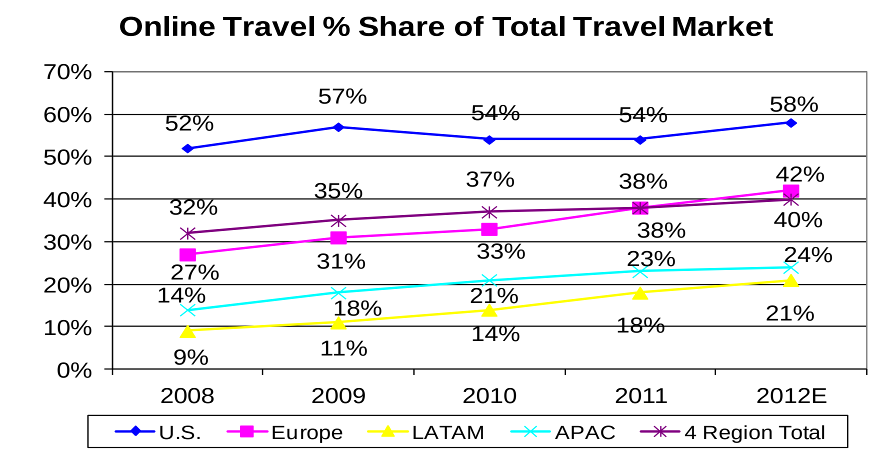
Source: www.internetworldstats.com

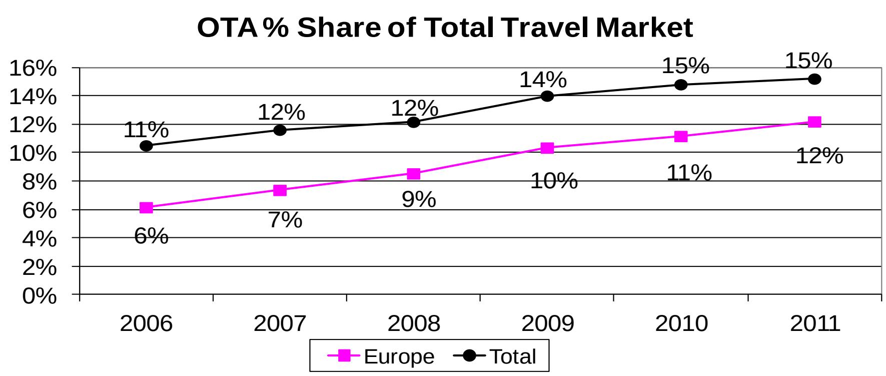
Exhibit 15: U.S. Advertising Market By Media Revenue – 2011 (in billions)



Source: IAB Internet Advertising Revenue Report, PwC

Exhibit 16: Online Travel and OTA Market Penetration





Source: Expedia, PhoCusWright, European Technology & Travel Services Association (ETTSA), Ascendiant Capital Markets estimates

AIRLINE INDUSTRY

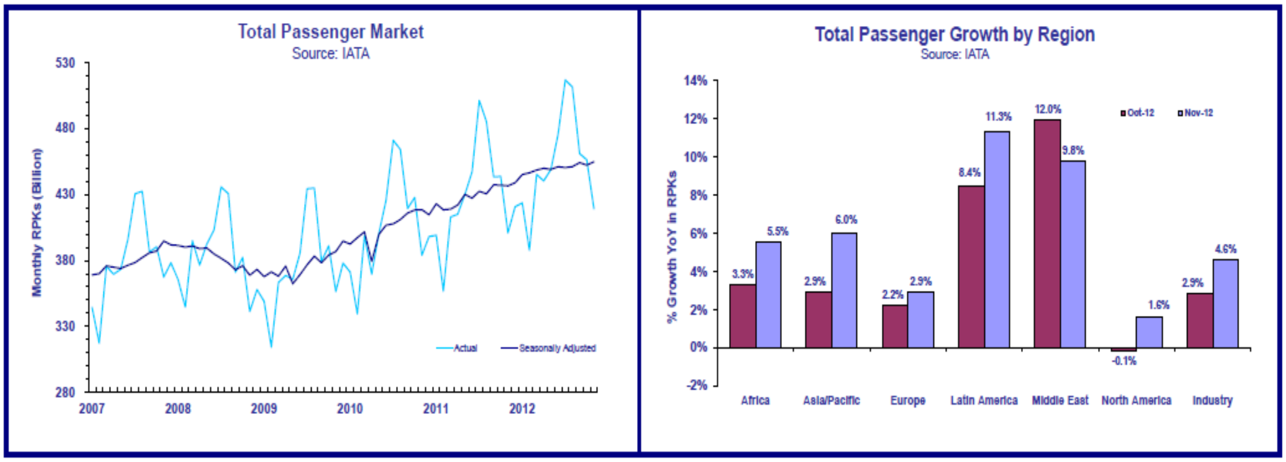
The global airline industry, consisting of over 300 carriers worldwide, is seeing continued improvement in air traffic and revenue, though it continues to be challenged by volatile and high fuel prices. According to the IATA, the total passenger market (in RPK) increased 4.6% y-o-y in November 2012 and 5.3% y-o-y YTD. Growth has been solid in the U.S., Europe, and Asia, with emerging markets growing even faster over the past several years.

The IATA anticipates slower but continued positive growth in 2013 even with uncertain economic conditions and the impact of high fuel prices. Jet fuel prices are directly tied to crude oil prices and can be up to 30 - 40% of an airline's total operating costs. With the recent slight declines in oil prices (~$93 price per barrel (WTI) vs. ~$92 three months ago, but down from ~$100 a year ago), we believe that airfares may start to trend a bit lower which tends to benefit the overall travel market. We believe increased international trade and higher global demand for leisure travel will help spur the long-term growth in international air travel.

However, due to long standing structural financial problems with many airlines around the world (including competition, rising oil prices, labor issues, volatile operating costs), there have been many bankruptcies and consolidations of major airlines. Over the past several years in the U.S., Delta Air Lines bought Northwest Airlines for $2.6 billion in 2008, while United Airlines bought Continental Airlines for $3.2 billion in 2010. In the U.S., American Airlines (#4 U.S. carrier) is currently in bankruptcy and there is speculation that it may merge with U.S. Airways (#5 U.S. carrier). In December, Delta Air Lines (#1 U.S. carrier) bought a 49% stake in Virgin Atlantic Airways for $360 million (from Singapore Airlines) to boost its share of the lucrative trans-Atlantic airline market.

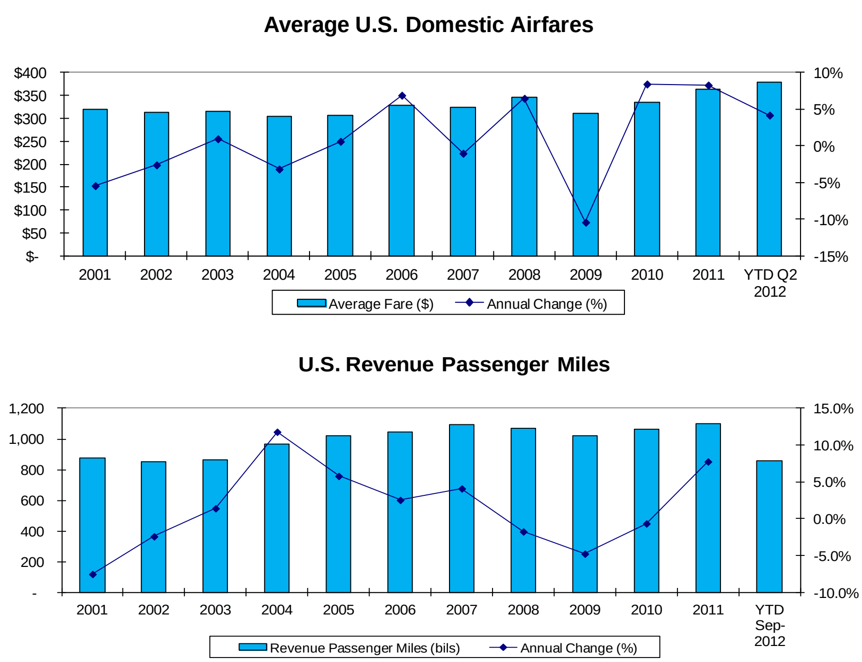
RPK (or RPM), which stands for Revenue Passenger Kilometers (or Miles), is an important measure of sales volume of air passenger traffic. Passenger Load Factor (PLF) and Available Seat Kilometers or Miles (ASK or ASM) are key measures of an airline's capacity utilization. Given the high fixed-cost and capital-intensive nature of the airline industry, the efficiency with which planes are used are important determinants of the health of the airline industry and prospects for growth in air travel and airfares.

Exhibit 17: Total Worldwide Airline Passenger Data



Source: IATA, November 2012

Exhibit 18: U.S. Airline Statistics



Source: Bureau of Transportation Statistics

HOTEL INDUSTRY

The global hotel industry is fragmented, with hundreds of thousands of different properties around the world as compared with only ~300 worldwide airlines. In the U.S. alone, there are over 50,000 hotels with approximately 5 million guest rooms. While in the U.S. most hotels are chain branded (such as Hilton, Hyatt, Marriott, Starwood, etc.), they are actually usually owned as individual properties by investors. This, along with the perishable nature of hotel rooms, makes the hotel business very competitive.

To gain scale, hotels may partner with large chain hotel brands to benefit from consumer branding, advertising, and shared reservation systems. In return, hotels pay an average of 3–5% of revenues as royalties to the management companies. In the U.S., approximately 70% of hotels are branded but only 35% in Europe and we believe that the rate is much lower in Asia. These independent hotels rely more heavily on travel agents (offline and OTA) to sell hotel rooms.

The global and U.S. hotel industry is seeing continued improvement in hotel stays and revenue, though it continues to be challenged by uncertain economic conditions. Since 2010, most hotels around the world have seen solid growth in hotel metrics (Occupancy, ADR and RevPAR). This is the same in the U.S., which is rebounding solidly from the downturn in 2008 and 2009, and is expected to continue to grow over the next several years to be at or exceed pre-recession levels.

In the hotel industry, there are three key hospitality performance measurements (Occupancy, ADR, and RevPAR). Occupancy rate is the percentage of rooms rented compared with rooms available at a given time. Average Daily Rate (ADR) is the average realized room rental rate per day for each room sold. Revenue per Available Room (RevPAR) is calculated by multiplying a hotel's ADR by its occupancy rate; it measures average revenue per total available room (not just the rooms sold). A hotel operator will try to balance the three metrics in order to maximize revenue and profitability.

Exhibit 19: Global Hotel Metrics

	November 2012			November 2012 Annual Change		
	Occup %	ADR	RevPar	Occup %	ADR	RevPar
Asia Pacific	72%	$ 132.25	$ 95.34	-1.1%	2.5%	1.4%
Americas	57%	$ 106.97	$ 60.99	1.8%	3.6%	5.4%
Europe	65%	$ 129.76	$ 84.93	0.0%	-0.2%	-0.2%
Middle East/Africa	66%	$ 172.82	$ 113.89	0.9%	-6.2%	-5.4%

	YTD November 2012			YTD November 2012 Annual Change		
	Occup %	ADR	RevPar	Occup %	ADR	RevPar
Asia Pacific	68%	$ 129.25	$ 88.44	0.6%	0.9%	1.4%
Americas	63%	$ 108.57	$ 68.03	2.4%	3.8%	6.3%
Europe	67%	$ 134.59	$ 90.43	-0.1%	-4.5%	-4.6%
Middle East/Africa	61%	$ 160.37	$ 97.05	6.4%	-0.6%	5.8%

Source: 2012 STR Global Limited

Exhibit 20: U.S. Hotel Metrics

U.S. Hotel Data

	2007	2008	2009	2010	2011	2012E	2013E
Occup %	63.1%	60.4%	55.1%	57.6%	60.1%	61.4%	61.6%
ADR	$ 103.97	$ 106.55	$ 97.51	$ 98.08	$ 101.64	$ 106.11	$ 110.99
RevPar	$ 65.62	$ 64.37	$ 53.71	$ 56.47	$ 61.06	$ 65.03	$ 68.22

U.S. Hotel Growth Rate Forecast

	2007	2008	2009	2010	2011	2012E	2013E
Occup %	-0.5%	-4.2%	-8.7%	5.7%	4.4%	2.1%	0.3%
ADR	6.8%	2.4%	-8.8%	-0.1%	3.6%	4.4%	4.6%
RevPar	6.4%	-1.9%	-16.7%	5.5%	8.2%	6.5%	4.9%

Source: GBTA Hotel Industry Overview, August 22, 2011, Smith Travel Research, Inc., 2012 STR Global Limited

COMPETITION

The sale of travel products and services is highly competitive with companies differentiating themselves based on quality, breadth of travel products, channel features, technology, usability and price. On a broad level, Expedia competes against other online travel agencies (OTA), offline agencies, travel suppliers, and search engine and other Internet companies for customers, suppliers, and advertisers. Expedia's closest direct competitors are Priceline, Travelocity, and Orbitz. Travelocity is a privately-held company (with limited financial data), but in 2008 (the last year of reporting), it had gross bookings of $10.6 billion with revenues of ~$1 billion.

Exhibit 21: Travel Industry Competitive Landscape

Source: Expedia and Ascendiant Capital Markets estimates

The following are several of Expedia's larger public competitors:

HomeAway [NASDAQ: AWAY – Not Rated]
Based in Austin, TX, HomeAway operates an online marketplace (including HomeAway.com, VRBO.com, and VacationRentals.com) for the vacation rental industry worldwide. HomeAway's 2011 revenues were $230 million (~60% of revenues in the U.S. and ~40% international). Its current market capitalization is ~$1.9 billion.

Kayak Software [NASDAQ: KYAK – Not Rated]
Based in Norwalk, CT, Kayak is the world's largest online travel metasearch website (which compares air fares, hotel rates, car rentals, and other travel services from travel suppliers and agents worldwide). In November 2012, Priceline.com announced that it will acquire Kayak in a deal valued at $1.8 billion. (The deal is expected to close in Q1 2013.) Kayak's 2011 revenues were $225 million (~80% of revenues in the U.S. and ~20% international). Its current market capitalization is ~$1.8 billion.

Orbitz Worldwide [NYSE: OWW – Not Rated]
Based in Chicago, IL, Orbitz is a leading global online travel agent (OTA) with brands including Orbitz, CheapTickets, The Away Network, ebookers, HotelClub, and RatesToGo. Orbitz's 2011 revenues were $767 million (~70% of revenues in the U.S. and ~30% international). Its current market capitalization is ~$305 million.

Priceline.com [NASDAQ: PCLN – Not Rated]
Based in Norwalk, CT, Priceline.com is the 2nd largest global online travel agent (OTA) with brands including priceline.com, Booking.com, and Agoda. Priceline.com's 2011 revenues were $4.4 billion (~40% of revenues in the U.S. and ~60% international). Its current market capitalization is ~$34 billion.

Travelzoo [NASDAQ: TZOO – NEUTRAL]
Based in New York, Travelzoo publishes emails offering travel-related specials and local travel and entertainment deals to its subscriber base of 22 million. Travelzoo's 2011 revenues were $148 million (~70% of revenues in the U.S. and ~30% international). Its current market capitalization is ~$298 million.

TripAdvisor [NASDAQ: TRIP – Not Rated]
Based in Newton, MA, TripAdvisor is the world's largest online travel review company. TripAdvisor was part of Expedia until December 2011, when it was spun off (to Expedia's shareholders) as an independent company. TripAdvisor's 2011 revenues were $637 million (~55% of revenues in the U.S. and ~45% international). Its current market capitalization is ~$6.3 billion.

FINANCIALS

Expedia's fiscal year ends on December 31. Expedia generates revenue from the sale of travel products and services and from online advertising.

Recent Results (fiscal Q3 ending September 2012)

Expedia's recent financial results have been strong (on a pro forma basis excluding its prior TripAdvisor business). In Q3, the company recorded strong growth in revenue (+17%), gross bookings (+19%), and hotel room nights (+27%). The company is benefiting from solid growth in the travel industry along with continued migration of international travel bookings online. This is most evident with hotels, which saw strong revenue growth of +19%, with Room Night (+27%) offsetting slightly weaker ADR (-3%).

Adjusted EBITDA (operating income before stock compensation, depreciation, amortization and other special charges) is a key financial metric used by Expedia. For Q3, EBITDA increased 6% to $294 million due to increased revenue, partially offset by increased selling and marketing and technology and content expenses. The revenue growth drove pro forma EPS of $1.32, up from $1.28 in Q3 2011.

Exhibit 22: Operational Metrics Summary

	2008	2009	2010	2011	Q1 2012	Q2 2012	Q3 2012
Gross bookings (mils)	21,269	21,811	25,962	29,172	8,421	8,957	9,056
Total y/y growth	8%	3%	19%	12%	15%	13%	19%
Hotels							
Room nights (mils)	56.6	69.7	79.7	93.9	22.7	30.1	36.7
Room nights growth	13%	23%	14%	18%	24%	22%	27%
Revenue per room night growth	-6%	-17%	-3%	0%	-6%	-5%	-6%
Hotel ADR growth	-2%	-15%	1%	5%	0%	-1%	-3%
Air							
Revenue per air ticket (% change)	2%	-24%	1%	4%	-20%	-11%	-19%
Tickets sold (% change)	0%	15%	11%	-8%	5%	3%	11%
Avg. Airfares growth	7%	-15%	10%	11%	7%	5%	1%

Source: Company report

Exhibit 23: Consensus Expectations

	Revenue (mil)			EPS	
	2012E	2013E		2012E	2013E
Q1 Mar	$817A	$945E	Q1 Mar	$0.26A	$0.30E
Q2 Jun	$1,040A	$1,198E	Q2 Jun	$0.89A	$1.03E
Q3 Sep	$1,199A	$1,357E	Q3 Sep	$1.32A	$1.52E
Q4 Dec	$928E	$1,049E	Q4 Dec	$0.65E	$0.82E
Total	$3,983E	$4,528E	Total	$3.12E	$3.67E

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

Source: Company report, Thomson Reuters, and Ascendiant Capital Markets estimates

The company only provides general EBITDA guidance, and does not typically provide specific revenue or earnings guidance. For 2012, the company expects EBITDA growth to be in the "low double-digits range" which is a slight increase from its prior guidance (in Q2) for "high-single digits with the possibility of low double-digits".

We believe that current industry trends for an improving travel industry and the continued migration towards online travel bookings (particularly in international) should continue to drive strong growth for Expedia. We have forecasted 2012 EBITDA growth of 12%, which is in line with its guidance.

We have modeled continued high revenue growth in 2013 (+13% y-o-y). As the company has already invested significantly in its international expansion and technology, we expect it should realize increasing leverage from future revenue growth. For 2013, we expect revenues of $4.5 billion and EPS of $3.68 (which is about in line with current consensus estimates). While challenges from competition and an uncertain economic environment may increase further in the future, we believe the near term risks are mitigated by strong overall industry growth for OTAs.

We believe that the biggest potential variable in our financial model is the ability of the company to continue to gain new customers particularly in international markets and for hotel rooms. It is these areas that have been driving most of the recent growth of the company and present the largest growth opportunities going forward. If the company can grow these businesses, then revenue and earnings will likely grow significantly. However, if the company has difficulties (likely due to competition), then revenue and earnings growth will likely grow at a more moderate rate.

The company's balance sheet is solid with $2.4 billion in cash and $1.2 billion in debt. Expedia has returned cash to shareholders through dividends, currently $0.13/share per quarter (~1% dividend yield) though it did announce a special dividend in December 2012 of $0.52/share. The company also has a history of stock buybacks. (It currently has 18 million shares left in its existing repurchase program.)

The company is tentatively expected to report Q4 2012 results on Thursday, February 7, 2013.

FINANCIAL MODEL

Expedia, Inc.

Income Statement ($ millions) Fiscal Year End: December 31	Mar-11 Q1A	Jun-11 Q2A	Sep-11 Q3A	Dec-11 Q4A**	2011 FY-A	Mar-12 Q1A	Jun-12 Q2A	Sep-12 Q3A	Dec-12 Q4E	2012 FY-E	Mar-13 Q1E	Jun-13 Q2E	Sep-13 Q3E	Dec-13 Q4E	2013 FY-E
Revenue	**822.2**	**1,023.6**	**1,140.8**	**787.1**	**3,773.8**	**816.5**	**1,040.0**	**1,199.0**	**919.8**	**3,975.3**	**922.4**	**1,181.6**	**1,346.9**	**1,024.2**	**4,475.0**
Cost of Revenues	177.8	198.5	209.7	183.4	769.5	200.1	229.7	243.6	220.7	894.2	226.0	265.9	276.1	245.8	1,013.8
Gross Profit	644.3	825.1	931.2	603.7	3,004.3	616.4	810.2	955.4	699.0	3,081.0	696.4	915.7	1,070.8	778.4	3,461.3
Operating expenses:															
Sales and marketing	341.2	394.0	408.1	315.1	1,458.3	377.1	444.6	505.8	340.3	1,667.7	415.1	484.5	498.3	368.7	1,766.6
Technology and content	103.2	110.2	116.9	102.6	432.8	108.9	116.0	125.6	119.6	470.1	119.9	132.3	148.2	133.1	533.5
General and administrative	82.7	84.8	103.7	87.8	359.1	78.6	83.2	85.1	103.9	350.9	92.2	105.2	107.7	112.7	417.8
Amortization of intangible	8.0	7.0	8.0	4.6	27.6	3.4	8.6	9.5	9.0	30.5	9.0	9.0	9.0	9.0	36.0
Legal and tax reserves	1.1		0.7	2.0	3.7	(0.3)	3.4	2.3	1.1	6.5	1.1	1.1	1.1	1.1	4.4
Restructuring and other		2.1	4.4		6.5				0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total operating expenses	536.1	598.1	641.8	512.1	2,288.1	567.7	655.8	728.3	573.9	2,525.7	637.3	732.1	764.3	624.6	2,758.3
Operating income (loss)	**108.2**	**227.0**	**289.4**	**91.6**	**716.2**	**48.7**	**154.4**	**227.1**	**125.1**	**555.3**	**59.1**	**183.7**	**306.4**	**153.8**	**702.9**
Interest income (expense)	(27.8)	(25.7)	(26.2)	(16.8)	(96.5)	(15.6)	(14.9)	(14.3)	(17.3)	(62.2)	(17.8)	(17.5)	(17.0)	(17.0)	(69.3)
Other and minority interest	(6.4)	(5.4)	7.1	4.6	(0.1)	(31.1)	(5.5)	(5.1)		(41.7)					0.0
Income before income taxes	74.0	195.8	270.3	79.4	619.6	2.0	134.0	207.6	107.9	451.4	41.3	166.2	289.4	136.8	633.6
Income taxes	22.0	55.5	60.8	9.1	147.3	5.2	28.8	36.2	30.2	100.3	12.0	48.2	83.9	39.7	183.7
Net income (loss)	52.0	140.4	209.5	70.3	472.3	(3.3)	105.2	171.5	77.7	351.1	29.3	118.0	205.5	97.1	449.9
Nonrecurring/noncash adjustm	18.0	13.0	6.0	10.2	47.2	40.2	17.5	15.5	18.0	91.2	18.0	18.0	18.0	18.0	72.0
Net income	**70.0**	**153.4**	**215.5**	**80.5**	**519.5**	**36.9**	**122.7**	**187.0**	**95.7**	**442.2**	**47.3**	**136.0**	**223.5**	**115.1**	**521.9**
OBIA	129.0	243.0	316.0	163.0	851.0										
EBITDAS	82.0	189.0	278.0	162.0	711.0	102.0	223.0	294.0	176.1	795.1	110.1	234.7	357.4	204.8	906.9
Shares, Basic	136.9	136.8	136.2	133.7	135.9	133.2	132.6	136.0	136.1	134.5	136.2	136.3	136.4	136.5	136.3
Shares, Diluted	139.1	139.1	139.7	138.2	138.7	139.3	138.2	141.4	141.5	140.2	141.6	141.7	141.8	141.9	141.8
EPS Basic (Pro forma)	0.51	1.12	1.58	0.60	3.82	0.28	0.93	1.38	0.70	3.29	0.35	1.00	1.64	0.84	3.83
EPS Diluted (Pro forma)	**0.50**	**1.10**	**1.54**	**0.58**	**3.75**	**0.26**	**0.89**	**1.32**	**0.68**	**3.15**	**0.33**	**0.96**	**1.58**	**0.81**	**3.68**
Income Statement Ratios															
Gross margin	78.4%	80.6%	81.6%	76.7%	79.6%	75.5%	77.9%	79.7%	76.0%	77.5%	75.5%	77.5%	79.5%	76.0%	77.3%
Sales and marketing	41.5%	38.5%	35.8%	40.0%	38.6%	46.2%	42.7%	42.2%	37.0%	42.0%	45.0%	41.0%	37.0%	36.0%	39.5%
Technology and content	12.6%	10.8%	10.2%	13.0%	11.5%	13.3%	11.2%	10.5%	13.0%	11.8%	13.0%	11.2%	11.0%	13.0%	11.9%
General and administrative	10.1%	8.3%	9.1%	11.2%	9.5%	9.6%	8.0%	7.1%	11.3%	8.8%	10.0%	8.9%	8.0%	11.0%	9.3%
Operating margin	13.2%	22.2%	25.4%	11.6%	19.0%	6.0%	14.9%	18.9%	13.6%	14.0%	6.4%	15.5%	22.8%	15.0%	15.7%
Tax rate, GAAP	29.7%	28.3%	22.5%	11.5%	23.8%	267.5%	21.5%	17.4%	28.0%	22.2%	29.0%	29.0%	29.0%	29.0%	29.0%
Net margin	6.3%	13.7%	18.4%	8.9%	12.5%	-0.4%	10.1%	14.3%	8.4%	8.8%	3.2%	10.0%	15.3%	9.5%	10.1%
Y/Y % change															
Revenue	14.5%	22.7%	15.5%	-2.6%	12.7%	-0.7%	1.6%	5.1%	16.9%	5.3%	13.0%	13.6%	12.3%	11.3%	12.6%
Gross margin	15.1%	24.0%	16.7%	-4.5%	13.1%	-4.3%	-1.8%	2.6%	15.8%	2.6%	13.0%	13.0%	12.1%	11.3%	12.3%
Sales and marketing	21.5%	32.7%	18.6%	11.6%	21.1%	10.5%	12.8%	23.9%	8.0%	14.4%	10.1%	9.0%	-1.5%	8.3%	5.9%
Technology and content	18.9%	26.0%	25.3%	8.1%	19.4%	5.6%	5.3%	7.5%	16.5%	8.6%	10.1%	14.1%	17.9%	11.3%	13.5%
General and administrative	16.4%	7.2%	37.3%	-0.6%	14.3%	-5.0%	-1.9%	-17.9%	18.3%	-2.3%	17.4%	26.4%	26.6%	8.4%	19.1%
Operating income (loss)	-3.5%	17.2%	4.5%	-38.6%	-2.1%	-55.0%	-32.0%	-21.5%	36.5%	-22.5%	21.4%	18.9%	34.9%	22.9%	26.6%
Net income (loss)	-12.4%	22.9%	18.7%	-1.4%	12.1%	NM	-25.0%	-18.2%	10.4%	-25.7%	NM	12.1%	19.8%	25.0%	28.1%
EPS Diluted (Pro forma)	-4.2%	25.2%	16.5%	-9.9%	10.4%	-47.4%	-19.5%	-14.3%	16.0%	-15.8%	26.2%	8.0%	19.2%	20.0%	16.7%

Source: Company reports and Ascendiant Capital Markets estimates

**OIBA prior to Q4 2011, EBITDA Q4 2011 and forward* ***Reflects spinoff of TripAdvisor in Q4 2011, and 1-for-2 reverse stock split*

Expedia, Inc.

Balance Sheet ($ millions) Fiscal Year End: December 31	Mar-11 Q1A	Jun-11 Q2A	Sep-11 Q3A	Dec-11 Q4A	Mar-12 Q1A	Jun-12 Q2A	Sep-12 Q3A	Dec-12 Q4E	Mar-13 Q1E	Jun-13 Q2E	Sep-13 Q3E	Dec-13 Q4E
Assets												
Cash and cash equivalents	953.2	1,409.0	1,453.5	689.1	1,272.5	1,343.3	1,314.7	405.7	966.3	1,664.2	1,712.0	1,038.5
Restricted cash	20.0	21.8	18.6	19.1	23.3	24.5	21.9	21.9	21.9	21.9	21.9	21.9
Short term investments	868.7	881.6	552.4	648.8	725.2	1,050.1	1,042.3	1,042.3	1,042.3	1,042.3	1,042.3	1,042.3
Accounts receivable, net	434.0	469.5	431.1	339.4	414.6	512.9	566.3	306.6	492.0	525.2	553.7	341.4
Prepaid merchant												
Prepaid expenses and other current a	151.6	172.1	142.6	121.5	149.1	155.7	146.2	138.0	166.0	212.7	148.2	153.6
Deferred income taxes								1.0	1.0	1.0	1.0	1.0
Total current assets	2,427.5	2,954.0	2,598.2	1,818.0	2,584.6	3,086.5	3,091.4	1,915.5	2,689.5	3,467.2	3,479.0	2,598.7
Property and equipment, net	301.2	318.0	341.0	320.3	343.5	376.5	393.5	411.5	429.5	447.5	465.5	483.5
Long term investments and other	268.1	301.3	305.1	289.3	262.2	204.9	187.4	187.4	187.4	187.4	187.4	187.4
Goodwill and intangibles, net	4,460.9	4,472.0	4,432.4	3,621.2	3,627.8	3,837.1	3,835.3	3,826.3	3,817.3	3,808.3	3,799.3	3,790.3
Other				456.4				0.0	0.0	0.0	0.0	0.0
Total assets	**7,457.6**	**8,045.3**	**7,676.7**	**6,505.3**	**6,818.2**	**7,505.1**	**7,507.6**	**6,340.6**	**7,123.6**	**7,910.3**	**7,931.2**	**7,059.8**
Liabilities and stockholders' equity												
Merchant payable	803.2	923.2	893.7	777.6	843.4	998.2	1,097.2	841.7	844.1	1,081.3	1,232.5	937.2
Accounts payable	202.3	216.5	213.2	173.9	200.9	277.0	311.6	138.0	138.4	177.2	202.0	153.6
Deferred merchant bookings	1,332.3	1,465.4	1,051.2	833.6	1,636.1	1,791.6	1,468.5	735.8	1,475.9	1,772.4	1,346.9	819.3
Deferred revenue	36.0	36.2	36.5	15.2	16.9	22.9	23.1	23.1	23.1	23.1	23.1	23.1
Accrued expenses and other	279.2	356.9	421.7	333.2	305.0	360.5	398.2	305.5	306.3	392.4	447.3	340.1
Short-term debt								0.0	0.0	0.0	0.0	0.0
Total current liabilities	**2,652.9**	**2,998.1**	**2,616.3**	**2,133.6**	**3,002.2**	**3,450.2**	**3,298.6**	**2,044.0**	**2,787.7**	**3,446.4**	**3,251.8**	**2,273.3**
Long-term debt	1,645.1	1,645.2	1,645.4	1,249.3	1,249.3	1,249.3	1,249.3	1,249.3	1,249.3	1,249.3	1,249.3	1,249.3
Deferred tax	258.5	265.7	258.3	280.0	287.9	337.5	353.2	353.2	353.2	353.2	353.2	353.2
Other long-term liabilities	132.1	122.4	118.7	537.3	123.3	126.2	134.1	134.1	134.1	134.1	134.1	134.1
Minority interest	66.0	133.8	140.2	105.3	106.7	107.4	107.2	107.2	107.2	107.2	107.2	107.2
Total other liabilities	**2,101.6**	**2,167.1**	**2,162.6**	**2,171.8**	**1,767.2**	**1,820.3**	**1,843.9**	**1,843.9**	**1,843.9**	**1,843.9**	**1,843.9**	**1,843.9**
Common stock, class A	0.4	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common stock, class B	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional paid-in capital	6,118.7	6,149.6	6,153.7	5,474.7	5,510.7	5,714.5	5,727.7	5,737.7	5,747.7	5,757.7	5,767.7	5,777.7
Treasury stock	(2,289.1)	(2,290.4)	(2,449.9)	(2,535.2)	(2,733.4)	(2,832.9)	(2,901.3)	(2,901.3)	(2,901.3)	(2,901.3)	(2,901.3)	(2,901.3)
Retained earnings (deficit)	(1,142.5)	(1,002.1)	(792.6)	(722.2)	(725.5)	(620.3)	(448.8)	(371.1)	(341.9)	(223.8)	(18.4)	78.7
Unearned compensation												
Accumulated other comprehensive (l	15.6	22.6	(13.8)	(17.4)	(3.0)	(26.8)	(12.6)	(12.6)	(12.6)	(12.6)	(12.6)	(12.6)
Total stockholders' equity	**2,703.1**	**2,880.1**	**2,897.8**	**2,199.9**	**2,048.8**	**2,234.6**	**2,365.1**	**2,452.8**	**2,492.1**	**2,620.1**	**2,835.5**	**2,942.6**
Total stockholders' equity and liabili	**7,457.6**	**8,045.3**	**7,676.7**	**6,505.3**	**6,818.2**	**7,505.1**	**7,507.6**	**6,340.6**	**7,123.6**	**7,910.3**	**7,931.2**	**7,059.8**

Balance Sheet Drivers

	Mar-11 Q1A	Jun-11 Q2A	Sep-11 Q3A	Dec-11 Q4A	Mar-12 Q1A	Jun-12 Q2A	Sep-12 Q3A	Dec-12 Q4E	Mar-13 Q1E	Jun-13 Q2E	Sep-13 Q3E	Dec-13 Q4E
Prepaid Merchant as % of total rev	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Prepaid as % of total rev	18%	17%	13%	15%	18%	15%	12%	15%	18%	18%	11%	15%
Merchant payable as % of total rev	98%	90%	78%	99%	103%	96%	92%	92%	92%	92%	92%	92%
Deferred Merchant booking as % of tota	162%	143%	92%	106%	200%	172%	122%	80%	160%	150%	100%	80%
Accounts payable as % of total rev	25%	21%	19%	22%	25%	27%	26%	15%	15%	15%	15%	15%
Accrued expenses as % of total rev	34%	35%	37%	42%	37%	35%	33%	33%	33%	33%	33%	33%
Activity Ratios												
A/R Days Sales Outstanding	48	41	34	39	46	44	43	30	48	40	37	30
A/P Days Payable	102	98	92	85	90	109	115	56	55	60	66	56
Merchant Days Payable (w/ Revenue)	88	81	71	89	93	86	82	82	82	82	82	82
Book & Cash Value (per share)												
Book Value per Share (diluted)	$19.43	$20.71	$20.75	$15.92	$14.71	$16.17	$16.72	$17.33	$17.60	$18.49	$19.99	$20.73
Cash per Share (diluted)	$13.24	$16.63	$14.49	$9.82	$14.51	$17.50	$16.82	$10.39	$14.34	$19.25	$19.57	$14.82
Net cash per Share (diluted)	$11.38	$14.72	$12.64	$7.79	$12.44	$15.06	$14.32	$7.89	$11.84	$16.76	$17.08	$12.33
Total Debt	$1,645	$1,645	$1,645	$1,249	$1,249	$1,249	$1,249	$1,249	$1,249	$1,249	$1,249	$1,249

Source: Company reports and Ascendiant Capital Markets estimates

Expedia, Inc.

Cash Flow Statement ($ millions) Fiscal Year End: December 31	Mar-11 Q1A	Jun-11 Q2A	Sep-11 Q3A	Dec-11 Q4A	2011 FY-A	Mar-12 Q1A	Jun-12 Q2A	Sep-12 Q3A	Dec-12 Q4E	2012 FY-E	Mar-13 Q1E	Jun-13 Q2E	Sep-13 Q3E	Dec-13 Q4E	2013 FY-E
Cash flow from operating activities															
Net income	52.2	140.9	210.4	(77.2)	326.3	21.6	82.2	169.7	77.7	351.2	29.3	118.0	205.5	97.1	449.9
Depreciation	33.3	36.2	41.4	22.1	133.0	34.3	38.7	43.9	32.0	148.9	32.0	32.0	32.0	32.0	128.0
Stock comp	17.3	13.5	15.1	18.0	63.8	17.0	16.6	15.3	10.0	58.9	10.0	10.0	10.0	10.0	40.0
Amortization of intangibles	8.0	7.0	8.0	(1.0)	21.9	3.4	8.6	9.5	9.0	30.5	9.0	9.0	9.0	9.0	36.0
Deferred tax	7.0	6.1	(5.9)	2.7	9.9	10.3	(1.8)	7.7	(1.0)	15.2	0.0	0.0	0.0	0.0	0.0
F/X gains/losses	(5.6)	(18.0)	42.1	5.2	23.7	(18.7)	22.7	(13.9)	0.0	(9.8)	0.0	0.0	0.0	0.0	0.0
Accrued					0.0				0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other gains/losses	(8.2)	8.2	8.1	(8.1)	0.0				0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		2.3	8.4	4.1	14.8	3.9	34.7	1.2	0.0	39.8	0.0	0.0	0.0	0.0	0.0
Changes in operating assets and liabilities:															
Accounts receivable	(101.2)	(32.9)	30.7	33.4	(70.0)	(71.8)	(70.3)	(50.0)	259.7	67.6	(185.4)	(33.2)	(28.6)	212.3	(34.8)
Prepaid expenses & other current as	(23.3)	(38.2)	28.1	13.3	(20.0)	(18.4)	4.9	14.7	8.2	9.5	(28.1)	(46.7)	64.5	(5.5)	(15.7)
Merchant payable	100.6	119.0	(26.6)	(112.6)	80.4	64.3	128.8	97.7	(255.5)	35.3	2.4	237.2	151.2	(295.3)	95.5
Accounts payable	(34.9)	113.2	59.9	(73.0)	65.2	(2.2)	126.0	80.6	(173.6)	30.7	0.4	38.9	24.8	(48.4)	15.7
Deferred merchant bookings	677.6	133.1	(414.3)	(217.7)	178.8	802.5	155.6	(323.3)	(732.7)	(97.9)	740.0	296.5	(425.5)	(527.5)	83.5
Deferred revenue	6.3	0.2	0.4	(9.1)	(2.2)	1.7	5.9	0.2	0.0	7.8	0.0	0.0	0.0	0.0	0.0
Income tax payable and other					0.0		(7.6)	7.6	(92.7)	(92.7)	0.9	86.1	54.9	(107.2)	34.7
Net cash (used in) provided by ope	**729.1**	**490.7**	**5.7**	**(399.8)**	**825.7**	**847.8**	**545.2**	**60.9**	**(859.0)**	**594.9**	**610.6**	**747.8**	**97.8**	**(623.5)**	**832.8**
Cash flow from investing activities															
Purchases of property and equipmer	(51.1)	(58.0)	(64.9)	(33.9)	(207.8)	(50.8)	(66.4)	(59.8)	(50.0)	(227.0)	(50.0)	(50.0)	(50.0)	(50.0)	(200.0)
Purchases of short-term investment:	(676.6)	(176.9)	(326.1)	(543.8)	(1,723.4)	(52.5)	(955.2)	(523.0)	0.0	(1,530.7)	0.0	0.0	0.0	0.0	0.0
Sale of short-term investments	297.3	135.6	633.9	440.5	1,507.2		674.3	569.8	0.0	1,244.1	0.0	0.0	0.0	0.0	0.0
Acquisitions	(4.9)	(8.1)	(3.0)	57.7	41.7		(199.3)	0.9	0.0	(198.4)	0.0	0.0	0.0	0.0	0.0
Net settlement	0.8	(4.3)	(4.6)	1.9	(6.2)	6.6	3.8	(19.0)	0.0	(8.5)	0.0	0.0	0.0	0.0	0.0
Other	0.4	0.6	0.0	0.9	1.9	(1.0)	(1.0)	(0.2)	70.0	67.8	0.0	0.0	0.0	0.0	0.0
Net cash used in investing activitie	**(434.0)**	**(111.1)**	**235.3**	**(76.8)**	**(386.6)**	**(97.8)**	**(543.7)**	**(31.3)**	**20.0**	**(652.8)**	**(50.0)**	**(50.0)**	**(50.0)**	**(50.0)**	**(200.0)**
Cash flow from financing activities															
Term loan borrowing (net)					0.0				0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchase of common stock	(47.9)	(1.3)	(159.5)	(85.3)	(294.0)	(198.2)	(99.5)	(68.3)	0.0	(366.0)	0.0	0.0	0.0	0.0	0.0
Dividends	(19.4)	(19.2)	(19.1)	(18.8)	(76.6)	(12.2)	(12.2)	(18.1)	(90.0)	(132.5)	(20.0)	(20.0)	(20.0)	(20.0)	(80.0)
Proceeds from stock option exercise	5.3	13.5	4.3	18.6	41.8	39.3	202.4	19.4	20.0	281.1	20.0	20.0	20.0	20.0	80.0
Change in restricted cash	(5.7)	(1.7)	3.4	(0.4)	(4.4)	(4.2)	(1.3)	2.7	0.0	(2.8)	0.0	0.0	0.0	0.0	0.0
Other	2.6	73.1	8.3	(104.3)	(20.3)	0.0	0.0	(11.4)	0.0	(11.4)	0.0	0.0	0.0	0.0	0.0
Proceeds from issuance of common stock					0.0	(7.6)	7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash provided by (used in) financin	**(65.1)**	**64.4**	**(162.6)**	**(190.2)**	**(353.5)**	**(182.9)**	**97.0**	**(75.6)**	**(70.0)**	**(231.5)**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Effect of exchange rate on cash and c	8.8	11.8	(33.9)	(4.5)	(17.7)	16.2	(27.6)	17.4	0.0	6.0	0.0	0.0	0.0	0.0	0.0
Net increase (decrease) in cash an	**238.8**	**455.8**	**44.5**	**(671.2)**	**67.9**	**583.4**	**70.8**	**(28.6)**	**(909.0)**	**(283.4)**	**560.6**	**697.8**	**47.8**	**(673.5)**	**632.8**
Beginning cash and equivalents	621.2	860.0	1,315.9	1,360.4	621.2	689.1	1,272.5	1,343.3	1,314.7	689.1	405.7	966.3	1,664.2	1,712.0	405.7
Ending cash and equivalents	**860.0**	**1,315.9**	**1,360.4**	**689.1**	**689.1**	**1,272.5**	**1,343.3**	**1,314.7**	**405.7**	**405.7**	**966.3**	**1,664.2**	**1,712.0**	**1,038.5**	**1,038.5**

Source: Company reports and Ascendiant Capital Markets estimates

Public Companies Under Coverage Mentioned in this Report (priced as of close 1/22/13)

COMPANY	TICKER	RATING	PRICE	PRICE TARGET
TRAVELZOO	TZOO	NEUTRAL	$18.77	$19

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Risks to attainment of our share price target include changes in competition, economic conditions, consumer and business demand for travel, investor sentiment for investing in travel and technology stocks, and industry growth for online travel companies.

Ascendiant Capital Markets, LLC Rating System

Strong Buy: We expect the stock to provide a total return of 30% or more within a 12-month period.

Buy: We expect the stock to provide a total return of between 10% and 30% within a 12-month period.

Neutral: We expect the stock to provide a total return of between minus 10% and plus 10% within a 12-month period.

Sell: We expect the stock to provide a total return of minus 10% or worse within a 12-month period.

Speculative Buy: This rating is reserved for companies we believe have tremendous potential, but whose stocks are illiquid or whose equity market capitalizations are very small, often in the definition of a nano cap (below $50 million in market cap). In general, for stocks ranked in this category, we expect the stock to provide a total return of 50% or more within a 12-month period. However, because of the illiquid nature of the stock's trading and/or the nano cap nature of the investment, we caution that these investments may not be suitable for all parties.

Total return is defined as price appreciation plus dividend yield.

Ascendiant Capital Markets, LLC Distribution of Investment Ratings (as of January 22, 2013)

			Investment Banking Services Past 12 months	
Rating	**Count**	**Percent**	**Count**	**Percent**
Strong Buy	10	34%	1	10%
Buy	13	45%	1	8%
Neutral	5	17%	1	20%
Sell	1	3%	0	0%
Total	29	100%	3	10%

Other Important Disclosures

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