United States
Internet Software and Services

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Priceline.com, Inc.

Initiating Coverage with BUY and $870 Target

Hotel King: Company's dominance of online hotel bookings growth likely to continue. 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: PCLN

Price: $704.98

Target: $870

#2 OTA and gaining share: We believe that the company's leading position as the world's 2nd largest OTA will continue to benefit from an improving travel industry, the increasing trend towards online travel, high growth potential in international markets, and the significant positive momentum from its Booking.com business. We expect Priceline's share price to increase over the near term as it continues to experience solid revenue and earnings growth.

Well positioned for growth: The company's strength is Booking.com, which is the leading OTA in international hotel rooms. This allows the company to benefit from the two fastest growth areas of online travel.

Size should increase scale: Priceline'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 3-5% 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: 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 strong growth: Priceline has had recent high revenue growth and profitability (+21% revenue and +35% EPS growth YTD in 2012), which we believe will likely continue over the next several years. For Q4 2012, the company expects 15 - 22% revenue growth and 14 – 22% EPS growth, which we believe is achievable.

Positive risk versus reward: We believe that by continuing its focus on its strength and leadership with international hotels, Priceline can deliver better value and services to its customers than its peers. Even with strong share price appreciation over the past year, we believe there is still significant upside to current share price.

Current valuation attractive: Our $870 price target is calculated by applying a forward P/E of 23x our 2013 EPS estimate of $37.74. This P/E multiple is in line with the peer group median of 23x for online travel companies to reflect our expectations for Priceline 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 Norwalk, CT, priceline.com is a global online travel company that offers airline tickets, hotel rooms, car rentals, and other travel services through its Booking.com, priceline.com, and Agoda brands.

Stock Data

Exchange:	NasdaqGS
52-week Range:	$522.37 - 774.96
Shares Outstanding (million):	51
Market cap ($million):	$36,095
EV ($million):	$32,872
Debt ($million):	$1,452
Cash ($million):	$4,675
Avg. Daily Trading Vol. ($million):	$463
Float (million shares):	49
Short Interest (million shares):	2.7
Incorporation:	Delaware
Public auditor:	Deloitte & Touche LLP

Revenues (US$ million)

	2010A	2011A	2012E	2013E
Q1 Mar	584A	809A	1,037A	1,266E
Q2 Jun	767A	1,103A	1,327A	1,593E
Q3 Sep	1,002A	1,453A	1,706A	2,023E
Q4 Dec	731A	991A	1,212E	1,427E
Total	**3,085A**	**4,356A**	**5,282E**	**6,309E**
EV/Revs	10.7x	7.5x	6.2x	5.2x

Earnings per Share (pro forma)

	2010A	2011A	2012E	2013E
Q1 Mar	1.70A	2.66A	4.28A	5.30E
Q2 Jun	3.09A	5.49A	7.85A	9.38E
Q3 Sep	5.33A	9.95A	12.40A	15.04E
Q4 Dec	3.40A	5.37A	6.58E	8.00E
Total	**13.49A**	**23.45A**	**31.07E**	**37.74E**
P/E	52x	30x	23x	19x

EBITDAS* (US$ million)

	2010A	2011A	2012E	2013E
Q1 Mar	112A	174A	272A	325E
Q2 Jun	204A	349A	495A	606E
Q3 Sep	363A	645A	781A	983E
Q4 Dec	223A	344A	391E	516E
Total	**901A**	**1,511A**	**1,938E**	**2,430E**
EV/ EBITDAS	36x	22x	17x	14x

**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: Priceline.com Stock Price (Five Years)

Source: Nasdaq.com

INVESTMENT THESIS

We are initiating coverage of Priceline.com with a BUY rating and a 12-month price target of $870.
We believe that Priceline's position as the world's 2nd largest OTA (online travel agency) should drive continued strong growth as it benefits from an improving travel industry, the increasing trend toward online travel (both for information and to purchase), high growth potential in international markets, and the significant positive momentum from its Booking.com business.

Priceline's recent financial results have been spectacular with very strong growth rates, which we believe are likely to continue for the next several years. The company had revenue growth of 41% in 2011 and 32% in 2010, and pro forma EPS growth of 74% in 2011 and 58% in 2010. Although Priceline is the 2nd largest OTA in the U.S. and in the world (behind Expedia as measured by gross bookings), it is growing at a much faster rate and may become the market leader in the next several years.

We believe Priceline is a good investment to benefit from the expected strong growth in online travel, and expect its share price to increase over the near term as it continues to experience strong revenue and earnings growth. We believe Priceline is well positioned to better leverage its large investments in consumer branding, travel supplier relationships (including 270,000 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 Priceline has already factored in many of its risks (principally competition, execution, and slowing growth). While we acknowledge that its growth rates may be slowing, we believe that Priceline's current valuation is under valuing its growth prospects, resulting in a positive risk versus reward scenario for an investment in the company.

We believe the current valuation is attractive.
Our $870 price target is calculated by applying a forward P/E of 23x our 2013 EPS estimate of $37.74. This P/E multiple is in line with the current 2013 forward peer group median of 23x for online travel companies to reflect our expectations for Priceline 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

#2 Online Travel Agent (OTA)

We believe Priceline's position as the world's #2 largest OTA should drive continued strong growth over the near and long term. Priceline has well known brands such as priceline.com in the U.S., Booking.com in Europe, Agoda.com in Asia, and Rentalcars.com for car rentals. Although Priceline was started and is still well known for its "Name Your Own Price" deep discount opaque travel buying services, Priceline's strength is in its traditional OTA services. Priceline offers consumers access to over 270,000 hotels and over 200 airlines in over 180 countries around the world. In 2011, Priceline's transaction breakdown was 82% from the sale of hotel rooms, 4% from airline tickets, and 14% from car rentals. Its recent financial results have been spectacular with very strong growth rates, which we believe are likely to continue for the next several years. In 2011, Priceline sold 142 million hotel room nights (+53% y-o-y), 24 million rental car days (+46% y-o-y), and 6 million airline tickets (+6% y-o-y).

Increasing Market Position

Priceline'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 2nd largest OTA, Priceline 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 Priceline is able to invest in branding and technology for future growth better than its competitors.

Benefit from Growth in Online Travel

Priceline 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 Priceline's advertising business (while small now, it will increase after its acquisition of KAYAK Software). 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.

Benefiting from Integrated Online Travel Services

We believe strong growth opportunities for online travel and advertising should temper concerns about Google (Nasdaq:GOOG; Not Rated) 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 Priceline to also grow its advertising business.

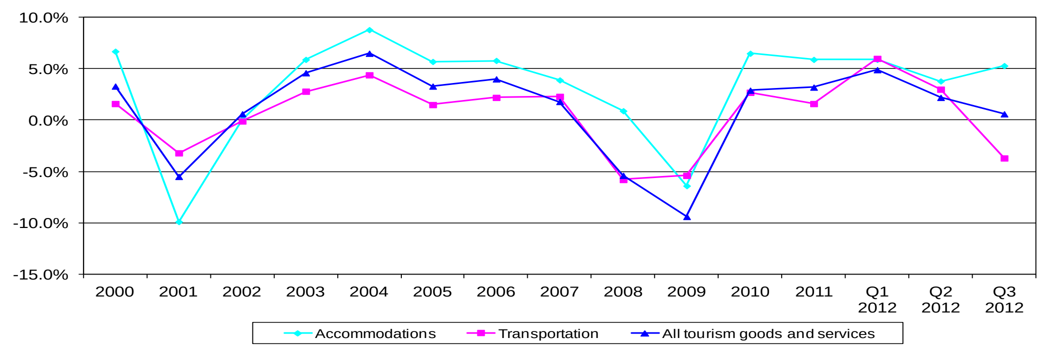
Travel suppliers have also been trying to get consumers to book travel directly from them, so that they can bypass the cost of OTAs. While conflicts are not good, we believe that the mutually beneficial relationships of suppliers and OTA will help mitigate potential issues. We believe that consumer's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

Furthering Priceline's investment in this area, in November 2012, Priceline announced that it will acquire KAYAK Software for ~$1.8 billion. Based in Norwalk, CT, KAYAK is a leading travel metasearch website which compares airfares, hotel rates, and car rental rates. KAYAK had 2011 revenue of $225 million and currently processes over 100 million user queries each month.

Improving Travel Industry

We believe an improving travel industry bodes well for Priceline whose revenue is generated all within the travel industry. 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 have grown 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 2: U.S. Tourism Spending Growth

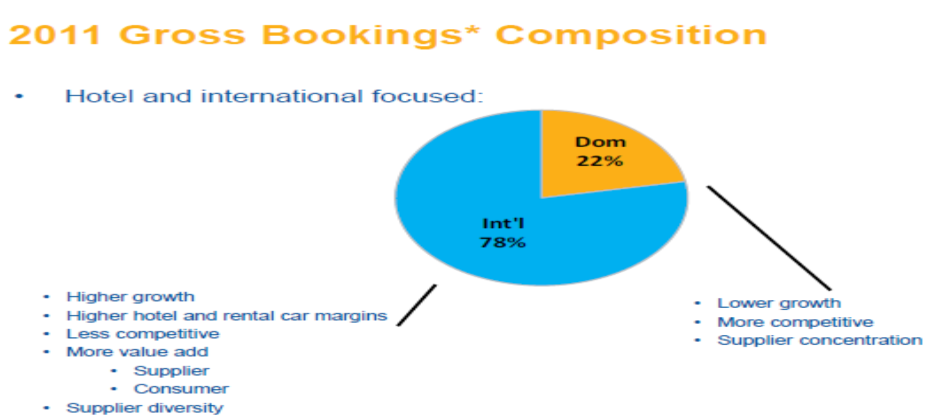


Source: U.S. Bureau of Economic Analysis

Strong International Business

Priceline's business is heavily weighted towards international, which has greater growth potential for OTAs due to lower penetration with consumers. In 2011, 59% of revenue and 78% of gross bookings were from international compared with 41% of revenue and 22% of gross bookings from the U.S. Priceline has had very high growth in international markets with 78% growth (y-o-y) in gross bookings in 2011 (which followed 67% growth in 2010). Through Booking.com (a leading European OTA) and Agoda.com (a leading Asian OTA), Priceline has a strong presence and exposure to many of the fastest growing economies and travel markets in the world.

Exhibit 3: Priceline International Opportunities



Source: Priceline presentation

INVESTMENT CONCERNS

Highly Competitive Environment

Priceline 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 Expedia (Nasdaq:EXPE; Buy), Travelocity (Nasdaq:TZOO; Neutral) and Orbitz (NYSE:OWW; Not Rated) compete with Priceline on factors such as pricing, technology, and supply breadth. Priceline also faces competition directly from travel suppliers. Increased competition may lower revenue growth, reduce revenue margin, or increase costs as Priceline spends more for branding or technology. In addition, as Priceline looks for continued 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! (Nasdaq:YHOO; Not Rated), and Microsoft/Bing (Nasdaq:MSFT; Not Rated) compete with Priceline 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 Priceline.

Threat From Google

Online search engines, predominantly 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 their 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 (Nasdaq:TRIP; Not Rated) (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 Priceline's websites.

Relationship with Travel Suppliers

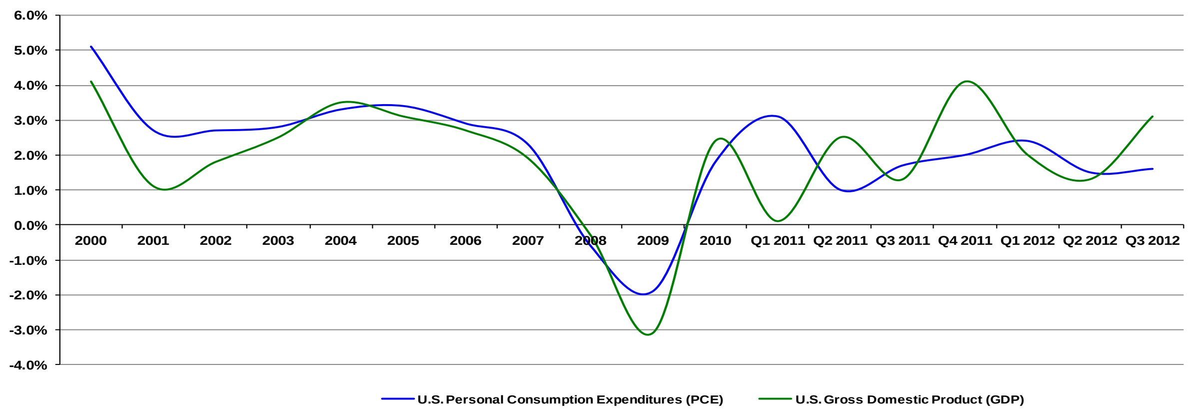
Priceline's success depends on its relationship with travel suppliers and global distribution systems (GDS) to ensure access to the widest selection of travel products to sell. Most agreements with travel suppliers and GDS are short term in nature, so major changes in economic or other terms can occur 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.

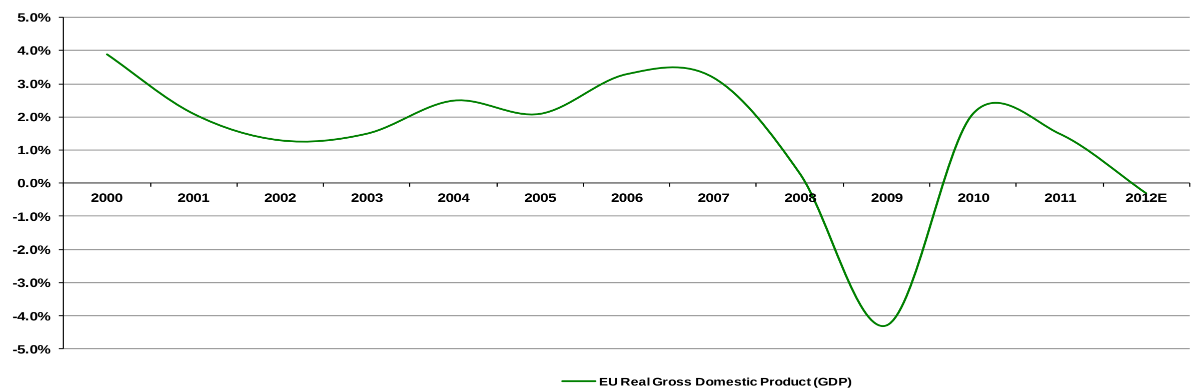
In 2010, American Airlines implemented a new distribution policy which required Priceline (and other OTA) to directly connect to American Airline's computer reservation systems (CRS) rather than through a traditional GDS if they were to continue to sell American Airlines flights. This "direct connections" for OTA would have lowered the revenue generated from AA ticket sales to OTAs. While Priceline did not experience disruptions since it agreed to the direct connection, Orbitz (in December 2010) and Expedia (in January 2011) dropped American Airlines flights from their websites, though they have since returned to both Expedia (in April 2011) and Orbitz (in June 2011). An increase in these types of activities by travel suppliers may limit the overall selection of travel products on Priceline's 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 Priceline, 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, Priceline is currently involved in ~50 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 Priceline (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, Priceline (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 Priceline (along with other OTAs).

International Risks

Priceline generates a significant portion of its revenues internationally (mainly in Europe and to a lesser extent in Asia). In 2011, 59% of revenue and 78% of gross bookings were from international markets. The company's international operations include Booking.com (Europe), Agoda (Asia) and Rentalcars.com (Europe), and have accounted for the majority of its recent growth and success. This subjects the company to fluctuations in foreign currency exchange rates (primarily the Euro and the U.S. Dollars). In addition, operating in international markets involves additional risks, such as regulations, taxes, technology, and incremental operating costs.

VALUATION

We are initiating coverage of Priceline with a BUY rating and a 12-month price target of $870, which reflects a target P/E multiple of 23x our 2013 EPS estimate of $37.74. This P/E multiple is in line with the current 2013 forward peer group median of 23x for online travel companies to reflect our expectations for Priceline to grow earnings at least in line with the rate of its peers over the next several years. Our earnings estimates are about in line with consensus expectations and represent ~27% average annual growth from 2011's EPS of $23.45. While we believe that this high earnings growth rate will likely moderate over time, we believe that for the near term, a forward P/E multiple slightly below its current growth rate is still reasonable. We also 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 1/28/13	52 Week Range Low	52 Week Range High	Diluted Shares	Market Cap	Enterprise Value (EV)
Priceline.com	**PCLN**	**Dec**	**Buy**	**$870**	**$704.98**	**$522.37**	**$774.96**	**51**	**36,095**	**32,872**
Online Travel related										
Expedia	EXPE	Dec	Buy	$77	$66.66	$30.97	$66.86	141	9,399	8,269
HomeAway	AWAY	Dec	Not Rated	N/A	$23.31	$19.19	$27.50	85	1,981	1,737
KAYAK Software	KYAK	Dec	Not Rated	N/A	$40.32	$26.02	$41.15	45	1,814	1,636
Orbitz Worldwide	OWW	Dec	Not Rated	N/A	$3.00	$2.07	$4.75	107	322	610
Travelzoo*	TZOO	Dec	Neutral	$24	$21.96	$16.56	$28.90	16	345	284
TripAdvisor	TRIP	Dec	Not Rated	N/A	$46.50	$26.93	$47.81	142	6,603	6,469

	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
Priceline.com	**$31.07**	**$37.74**	**22.7x**	**18.7x**	**5,282**	**6,309**	**6.2x**	**5.2x**	**1,938**	**2,430**	**17.0x**	**13.5x**
Online Travel related												
Expedia	$3.15	$3.68	21.2x	18.1x	3,975	4,475	2.1x	1.8x	795	907	10.4x	9.1x
HomeAway	$0.47	$0.66	49.6x	35.3x	280	337	6.2x	5.2x	80	100	21.7x	17.4x
KAYAK Software	$0.86	$1.11	46.9x	36.3x	296	371	5.5x	4.4x	70	93	23.4x	17.6x
Orbitz Worldwide	$0.19	$0.24	15.8x	12.5x	774	809	0.8x	0.8x	120	123	5.1x	5.0x
Travelzoo*	$1.33	$1.10	16.5x	20.0x	151	155	1.9x	1.8x	32	28	8.8x	10.1x
TripAdvisor	$1.51	$1.83	30.8x	25.4x	760	913	8.5x	7.1x	350	421	18.5x	15.4x
Average			30.1x	24.6x			4.2x	3.5x			14.6x	12.4x
Median			26.0x	22.7x			3.8x	3.1x			14.4x	12.7x

Note: For companies not under coverage, Thomson Reuters estimates are used *TZOO is 2012A

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

We compared Priceline 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.

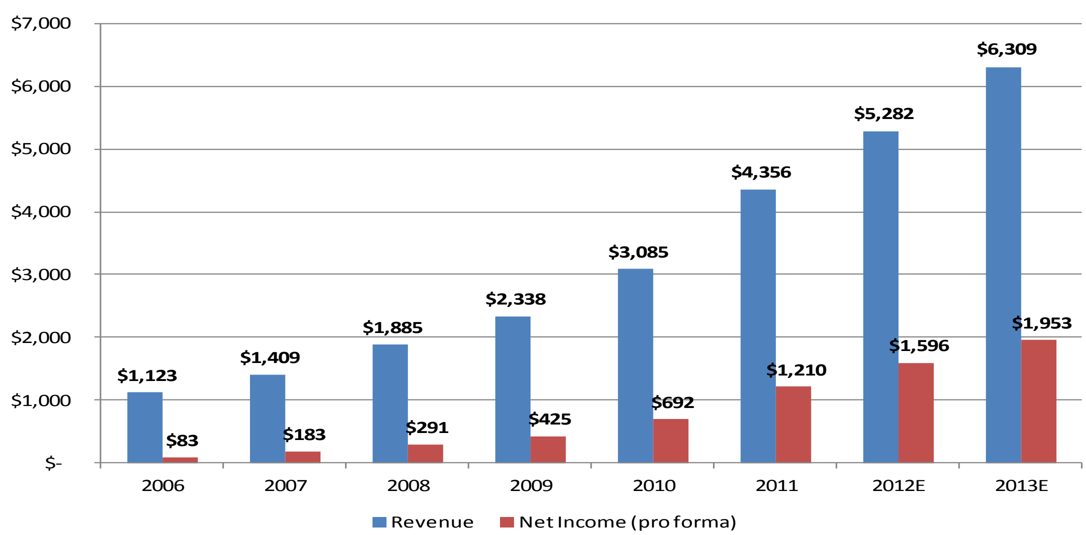
Priceline is trading at comparative multiples that are around its peers. On a P/E basis, Priceline is trading below at 19x 2013E EPS compared with the median of 23x. On an EV/Revenue basis, Priceline is trading above at 5.2x 2013E revenue compared with the median of 3.1x. On an EV/EBITDAS (operating income plus depreciation, amortization, and stock compensation) basis, Priceline is trading slightly above its peers (at 13.5x 2013E EBITDAS compared with the median of 12.7x).

As Priceline is likely to continue to grow at a high rate over the next several years, we believe this will result in a higher comparative valuation with its peers. We expect valuations for Priceline to improve as visibility into solid above average growth and profits becomes clearer. Even with solid share price appreciation of +33% in 2012 (based on share price of $467.71 on 12/30/11 and $620.39 on 12/31/12), we believe that there is still significant upside to current share price.

COMPANY HIGHLIGHTS

Based in Norwalk, CT, Priceline.com is a global online travel company offering travel products and services from airlines (over 200), hotels (over 270,000), car rental companies, cruise lines and other travel product and service companies. Priceline is the 2nd largest online travel agent (OTA) in the U.S. and in the world, and operates through brands including Booking.com in Europe, priceline.com in U.S., Agoda in Asia, and Rentalcars.com for car rentals. Priceline's revenue is from the sale of travel products (2011 transaction was 82% from hotel rooms, 4% from airline tickets, and 14% from car rentals). In 2011, 41% of revenue was from the U.S. (the majority from priceline.com) and 59% from international (the majority from Booking.com). As of January 31, 2012, Priceline had ~5,000 employees (80% in international).

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



Source: Company reports and Ascendiant Capital Markets estimates

Priceline was started in 1997 based on its "Name Your Own Price" deep discount opaque travel buying services. While Priceline is still well known in the U.S. for its "Name Your Own Price" (and its spokesman William Shatner), its strength is now in its traditional OTA services. The stock grew quickly (reaching ~$974 (split-adjusted) in 1999) and deflated (reaching ~$8 (split-adjusted) in 2003) during the original Internet bubble in the early 2000s, but has since rebounded on the strength of its international hotel booking business.

Exhibit 7: Priceline's Historical Stock Chart

Source: Yahoo! Finance

Exhibit 8: Priceline Key Businesses

Source: Company reports

Priceline's global network of brands provides a wide selection of travel products and services worldwide. Here are some of the key Priceline brands:

Priceline.com – Its flagship website offers travelers a variety of travel products and services in the U.S. in both a published prices listing format (traditional OTA) or its Name Your Own Price (NYOP) service. NYOP is a deep discount opaque travel buying service, where consumers bid for travel products (with certain criteria such as location, dates, quality level), and the supplier would only be revealed after a "winning bid" is accepted by the supplier. Unlike traditional travel purchase, NYOP services are non-refundable or changeable once a bid is accepted.

Booking.com - Based in the Netherlands, Booking.com is the number one online hotel reservation service in the world, offering over 268,000 hotels in over 179 countries and available in 41 languages. Booking.com is Priceline's largest business and has been responsible for most of its recent growth and profitability. Priceline acquired Booking.com in 2005 for ~$133 million.

Agoda.com - Based in Thailand, Agoda.com is an Asian focused online hotel reservation service that is available in 38 languages. Agoda.com is one of Asia's leading and fastest growing online hotel reservation service, with instant availability bookings at over 40,000 hotels.

Rentalcars.com - Based in the U.K., Rentalcars.com (formally TravelJigsaw) is one of the largest online car rental reservation agencies in the world, arranging over 2 million rentals a year. Its services are available in over 6,000 locations in 180 countries, with customer support provided in 40 languages. Rentalcars.com primarily offers its services under a semi-opaque merchant model that allows customers to see the price, vehicle type and rental location, but not the identity of the supplier until the reservation is made.

KAYAK ACQUISITION

In November 2012, Priceline announced that it will acquire KAYAK Software for ~$1.8 billion (1/3 in cash and 2/3 in stock). 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). This 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). Priceline expects the impact of Kayak on its 2013 pro forma EPS to be very minimal.

MANAGEMENT TEAM

Jeffrey H. Boyd, Chairman, President and Chief Executive Officer, age 55. Mr. Boyd has served as President of Priceline since May 2001 and Chief Executive Officer since November 2002. Mr. Boyd was President and Co-Chief Executive Officer from August 2002 to November 2002 and Chief Operating Officer from November 2000 to August 2002. He previously served as Executive VP, General Counsel and Secretary of Priceline from January 2000 to October 2000. Prior to joining the company, Mr. Boyd was Executive VP, General Counsel and Secretary of Oxford Health Plans, Inc.

Daniel J. Finnegan, Chief Financial Officer and Chief Accounting Officer, age 50. Mr. Finnegan has been the Chief Financial Officer since January 2009. Previously, he was the company's Senior VP, Controller and Chief Accounting Officer from October 2005 to January 2009. Mr. Finnegan joined Priceline in April 2004 as VP and Chief Compliance Officer. Prior to joining the company, he served as the CFO for CS Technology, Inc. from October 2000 to April 2004.

Darren Huston, Chief Executive Officer, Booking.com B.V., age 46. Mr. Huston was named Chief Executive Officer of Booking.com in September 2011. In January 2013, he was promoted to take on additional responsibility of Priceline's international brands (Booking.com, Agoda and Rentalcars.com). Prior to joining Booking.com, Mr. Huston served as Corporate VP, Consumer & Online for Microsoft Corporation. Prior to joining Microsoft in 2003, Mr. Huston served as an executive with Starbucks Corporation, McKinsey & Company, and as an economic advisor to the Government of Canada.

PRODUCT MIX

Priceline (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 Priceline (or other third-parties) to facilitate the booking of hotel rooms, airline seats, car rentals, cruises, and other travel services. Priceline serves as the merchant of record in these transactions. Under the agency model, Priceline (or other third-parties) act as agents in a transaction, passing reservations booked by travelers to the relevant travel supplier.

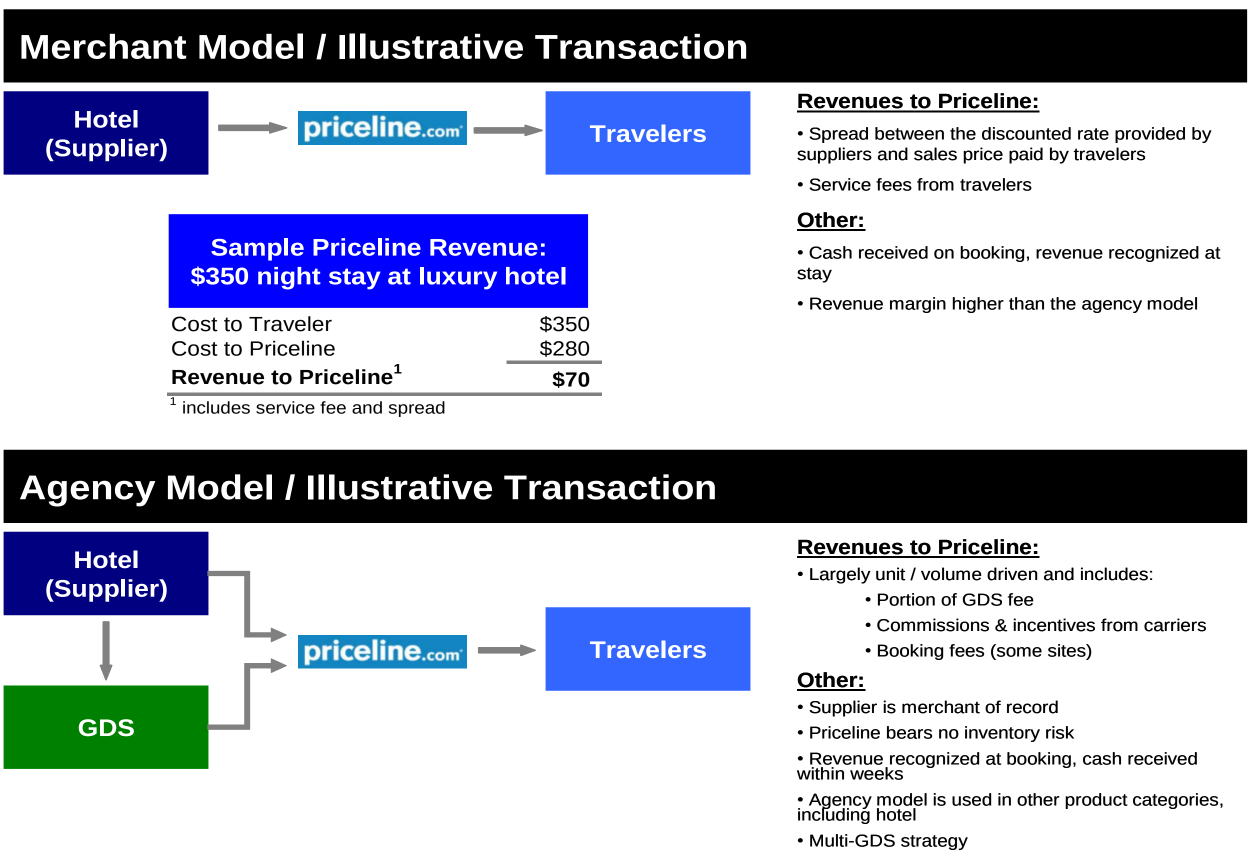
Merchant model revenue is based on the difference between the total amount the customer pays for a product and the net amount the company pays its suppliers for that product. Priceline is able to establish prices charged to travelers and negotiate supply allocation as well as pricing with its suppliers, 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 Priceline'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. For most OTA, agency revenue is primarily air and merchant revenue is primarily hotels, but for Priceline, most of its hotel revenue is in agency revenue.

In 2011, agency accounted for 81% of total gross bookings, while merchant was 19%, and agency accounted for 54% of total revenue, while merchant was 46%. 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 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 revenues.

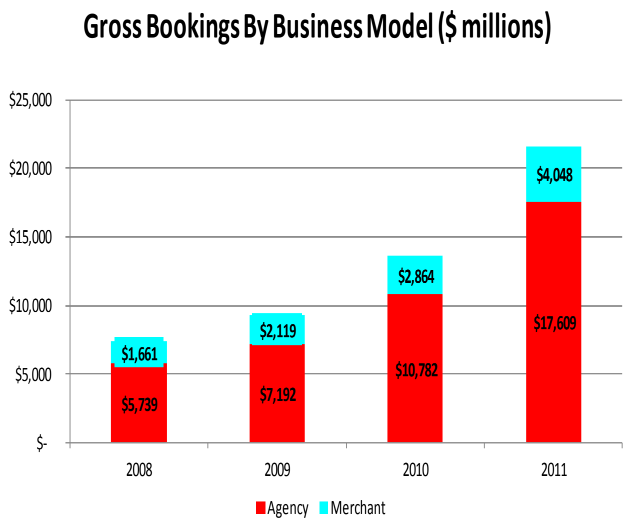
We note Priceline records NYOP revenue on a gross basis, while its traditional OTA services are primarily recorded on a "net" basis. Most of Booking.com revenue is agency revenue, while NYOP, Agoda, and Rentalcars.com are merchant revenue.

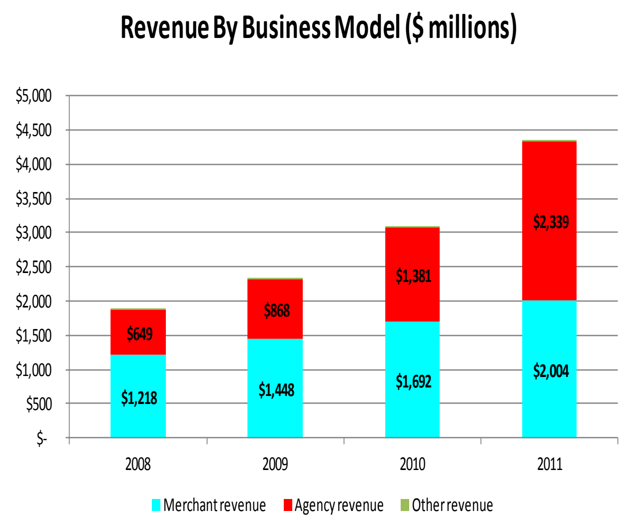
Exhibit 9: Merchant vs. Agency Model: An Illustration



Source: Expedia report, Ascendiant Capital Markets estimates

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)

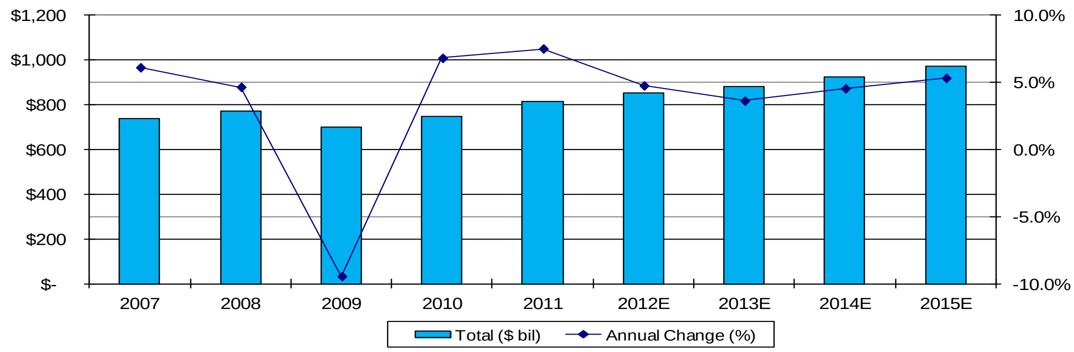
	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Europe	644	626	594	596	613	614	622	641	664
North America	548	520	485	514	532	539	551	574	596
Asia	481	474	473	490	505	535	568	606	647
Africa	131	136	140	144	141	146	152	161	168
Latin America	123	122	127	127	134	142	150	160	168
World Total	1,927	1,879	1,819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

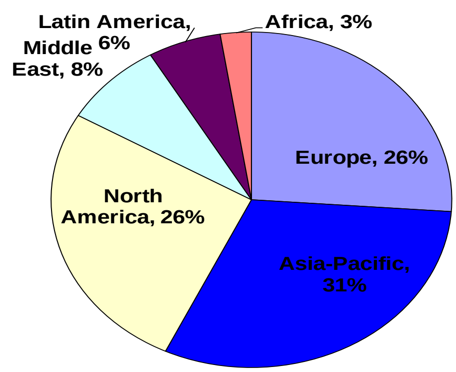
Exhibit 12: Total Travel Expenditure in the U.S. ($ billions)



Source: U.S. Travel Association (11/12)

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) November 2012

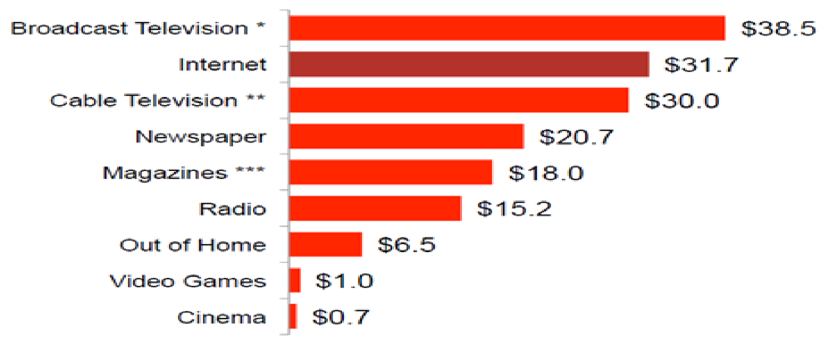
With Internet usage rates increasing globally, we believe that online travel commerce will continue to grow, presenting major opportunities for OTAs. In addition, the increased usage of the Internet is driving consumers to go online for travel content and research (which is increasing at a very fast 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%

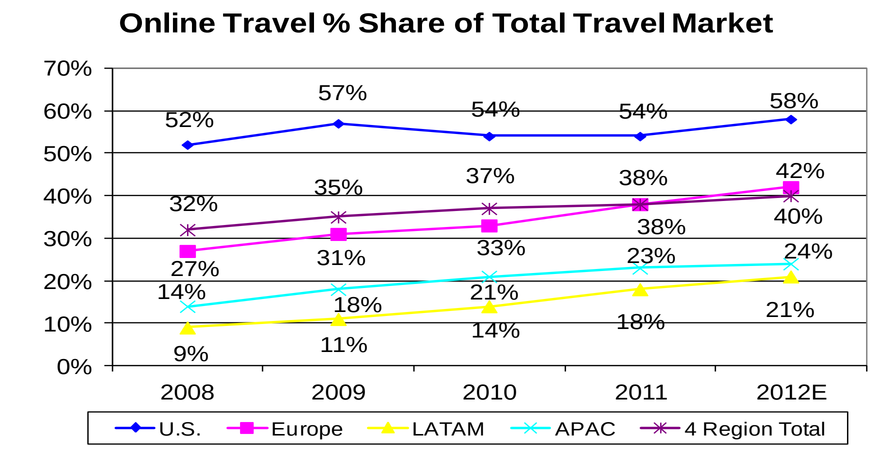
Source: www.internetworldstats.com

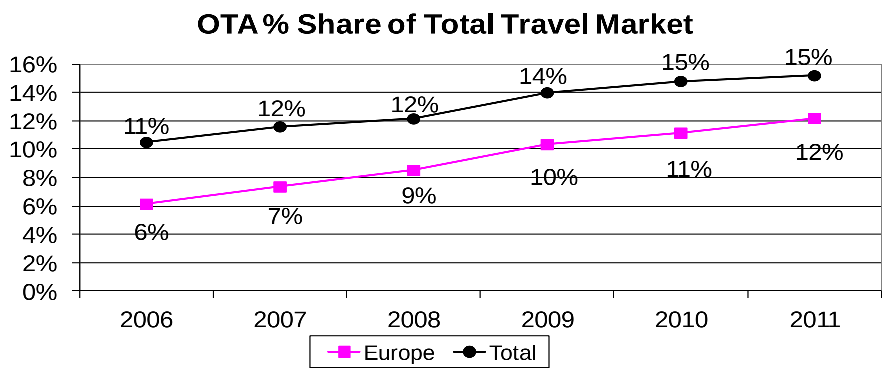
Exhibit 15: U.S. Advertising Market By Media Revenue – 2011 (in billions)



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

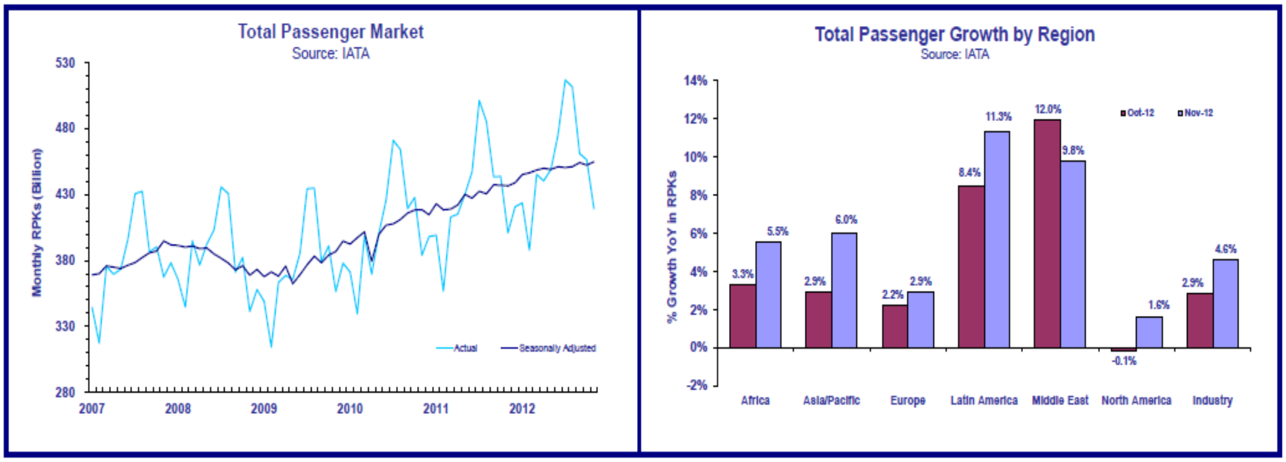
The global airline industry, consisting of over 300 carriers worldwide, is seeing continued improvement in air traffic and revenue, though it continues to be challenged by volatile and high fuel prices. According to the IATA, the total passenger market (in RPK) increased 4.6% y-o-y in November 2012 and 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 (~$95 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.

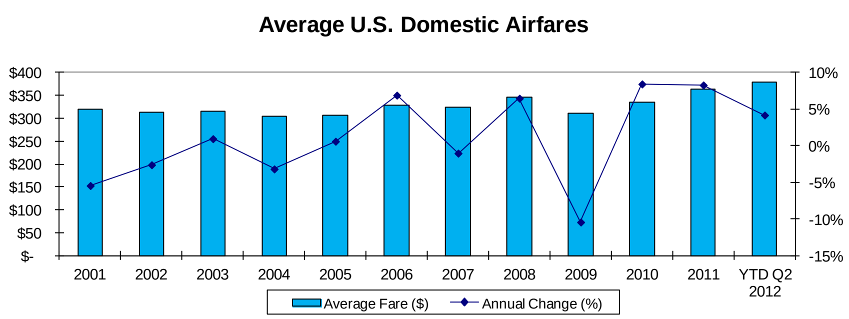
RPK (or RPM), which stands for Revenue Passenger Kilometers (or Miles), is an important measure of sales volume of air passenger traffic. Passenger Load Factor (PLF) and Available Seat Kilometers or Miles (ASK or ASM) are key measures of an airline's capacity utilization. Given the high fixed-cost and 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.

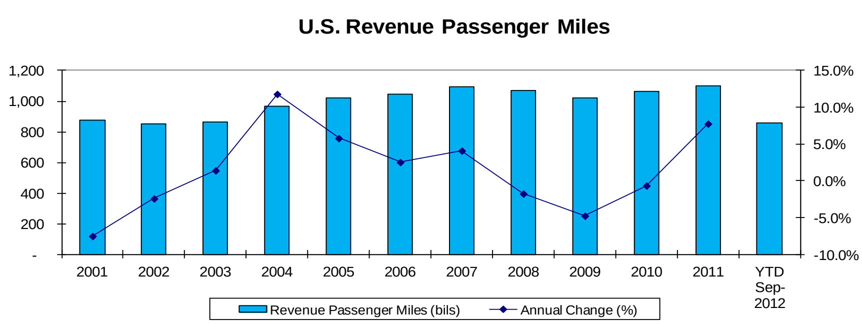
Exhibit 17: Total Worldwide Airline Passenger Data



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

	December 2012			December 2012 Annual Change		
	Occup %	ADR	RevPar	Occup %	ADR	RevPar
Asia Pacific	67%	$ 133.00	$ 88.64	0.2%	1.2%	1.4%
Americas	49%	$ 108.05	$ 53.25	3.0%	4.2%	7.3%
Europe	55%	$ 128.12	$ 70.48	2.8%	3.4%	6.3%
Middle East/Africa	58%	$ 177.27	$ 102.36	3.7%	1.1%	4.9%

	YTD December 2012			YTD December 2012 Annual Change		
	Occup %	ADR	RevPar	Occup %	ADR	RevPar
Asia Pacific	68%	$ 129.26	$ 88.25	0.5%	0.9%	1.4%
Americas	62%	$ 108.53	$ 66.77	2.4%	3.8%	6.3%
Europe	66%	$ 134.12	$ 88.76	0.1%	-4.0%	-4.0%
Middle East/Africa	60%	$ 161.64	$ 97.54	6.1%	-0.5%	5.6%

Source: 2012 STR Global Limited

Exhibit 20: U.S. Hotel Metrics

U.S. Hotel Data

	2007	2008	2009	2010	2011	2012	2013E	2014E
Occup %	63.1%	60.4%	55.1%	57.6%	60.1%	61.4%	61.9%	62.7%
ADR	$ 103.97	$ 106.55	$ 97.51	$ 98.08	$ 101.64	$ 106.10	$ 111.30	$ 116.42
RevPar	$ 65.62	$ 64.37	$ 53.71	$ 56.47	$ 61.06	$ 65.17	$ 68.88	$ 73.02

U.S. Hotel Growth Rate Forecast

	2007	2008	2009	2010	2011	2012	2013E	2014E
Occup %	-0.5%	-4.2%	-8.7%	5.7%	4.4%	2.5%	0.8%	1.3%
ADR	6.8%	2.4%	-8.8%	-0.1%	3.6%	4.2%	4.9%	4.6%
RevPar	6.4%	-1.9%	-16.7%	5.5%	8.2%	6.8%	5.7%	6.0%

Source: GBTA Hotel Industry Overview, August 22, 2011, Smith Travel Research, Inc., 2012 STR Global Limited (January 2013)

COMPETITION

The sale of travel products and services is highly competitive with companies differentiating themselves based on quality, breadth of products, channel features, technology, usability and price. On a broad level, Priceline competes against other online travel agencies (OTA), offline agencies, travel suppliers, and search engine and other Internet companies for customers, suppliers, and advertisers. Priceline's closest direct competitors are Expedia, 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 Priceline's larger public competitors:

Expedia [NASDAQ: EXPE – Buy]
Based in Bellevue, WA, Expedia is the world's largest online travel agent (OTA) with brands including Expedia, Hotels.com, Hotwire, Egencia, and eLong. Expedia's 2011 revenues were $3.8 billion (~58% of revenues in the U.S. and ~42% international). Its current market capitalization is ~$9.4 billion.

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 ~$2.0 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 ~$322 million.

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 22.5 million. Travelzoo's 2012 revenues were $151 million (~70% of revenues in the U.S. and ~30% international). Its current market capitalization is ~$345 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 ~$6.6 billion.

FINANCIALS

Priceline's fiscal year ends on December 31. Priceline generates revenue from the sale of travel products and services and, to a much smaller extent, advertising. Due to the seasonality of travel, Priceline's Q2 and Q3 typically are its strongest quarters.

Recent Results (fiscal Q3 ending September 2012)

Priceline's recent financial results have been strong. In Q3, the company recorded strong growth in revenue (+17% y-o-y) and gross bookings (+25%). This was driven by broad strength across its travel products with hotel room nights (+36% y-o-y), rental car days (+34%), and airline tickets (+6%). 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 international hotels, which is driven by its Booking.com business. International gross bookings was +30%. Agency gross bookings were +25% and agency revenue was +28%.

The large revenue growth drove operating leverage as operating margin increased to 44.3% in Q3 2012, compared to 42.4% in Q3 2011. This resulted in pro forma EPS of $12.40, up from $9.95 in Q3 2012 (+25%).

Exhibit 22: Operational Metrics Summary

(in millions)	2008	2009	2010	2011	Q1 2012	Q2 2012	Q3 2012
Gross Bookings	$7,400	$9,309	$13,645	$21,658	$6,712	$7,329	$7,832
y/y growth	53%	26%	47%	59%	44%	27%	25%
Hotel Room Nights	40.8	60.9	92.8	141.5	45.9	50.2	55.2
y/y growth	47%	49%	52%	53%	47%	39%	36%
Rental Car Days	10.0	11.2	16.3	23.8	6.9	8.6	9.4
y/y growth	16%	12%	45%	46%	41%	30%	34%
Airline Tickets	4.9	5.9	6.0	6.3	1.6	1.7	1.7
y/y growth	65%	22%	1%	6%	0%	0%	6%

Source: Company report

Exhibit 23: Consensus Expectations

	Revenue (mil) 2012E	Revenue (mil) 2013E		EPS 2012E	EPS 2013E
Q1 Mar	$1,037A	$1,230E	Q1 Mar	$4.28A	$5.14E
Q2 Jun	$1,327A	$1,606E	Q2 Jun	$7.85A	$9.24E
Q3 Sep	$1,706A	$2,089E	Q3 Sep	$12.40A	$15.32E
Q4 Dec	$1,187E	$1,425E	Q4 Dec	$6.54E	$7.91E
Total	$5,250E	$6,289E	Total	$30.90E	$37.43E

**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 typically provides financial guidance only for the current quarter. For Q4 2012, the company expects revenue growth (y-o-y) of 15 - 22% (revenues of $1.14 – 1.21 billion), and pro forma EPS of $6.12 - 6.57. Our and consensus estimates are about in line with the company's guidance. We note that this guidance does not include any transaction costs the company expects to incur as part of its acquisition of KAYAK Software (which was announced after the company provided its guidance).

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 (even if moderating) growth for Priceline.

We have modeled continued high revenue growth in 2013 (+19% y-o-y), though this is moderating from growth of +41% in 2011. 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 $6.3 billion and EPS of $37.74 (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 $4.7 billion in cash and $1.5 billion in debt. The company has not paid any dividends, but does have a stock buyback program. It currently has ~$459 million left in its existing repurchase program. The company has $1.6 billion of gross NOLs (net operating losses) but due to their nature (mainly from equity-related transactions) and a change in control of the company, their usage is limited.

We expect the company will report Q4 2012 results in late February.

FINANCIAL MODEL

Priceline.com, 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
Total Revenue	**809.3**	**1,102.7**	**1,452.8**	**990.8**	**4,355.6**	**1,037.2**	**1,326.8**	**1,706.3**	**1,211.7**	**5,282.1**	**1,266.2**	**1,593.1**	**2,022.6**	**1,426.8**	**6,308.6**
Cost of Revenues	303.5	353.5	352.7	266.1	1,275.7	294.0	322.6	309.8	272.6	1,199.0	350.7	387.1	364.1	306.8	1,408.7
Gross Profit	505.8	749.2	1,100.1	724.7	3,079.9	743.3	1,004.1	1,396.5	939.1	4,083.0	915.5	1,205.9	1,658.5	1,120.0	4,900.0
Advertising - offline	11.6	9.8	8.0	6.0	35.5	11.2	9.9	8.4	10.3	39.8	13.9	11.2	10.1	11.4	46.6
Advertising - online	185.1	236.3	279.9	217.9	919.2	277.1	314.5	375.2	315.1	1,281.9	338.1	366.4	424.7	371.0	1,500.2
Sales and marketing	34.8	41.0	47.1	39.8	162.7	45.5	47.4	53.0	53.3	199.3	57.0	58.9	64.7	54.1	234.7
Personnel	75.2	85.8	94.5	96.8	352.3	100.7	108.0	135.2	118.8	462.7	126.6	122.7	129.4	124.6	503.3
General and administrative	25.9	29.7	31.7	36.3	123.7	40.7	39.8	42.3	46.0	168.8	50.6	39.8	42.5	42.8	175.8
IT	6.7	8.2	8.5	10.4	33.8	10.7	10.4	10.8	14.5	46.5	13.9	11.2	14.2	10.0	49.2
Depreciation and amortizatio	12.5	13.7	14.0	13.7	53.8	15.8	15.7	16.0	14.8	62.3	14.8	14.8	14.8	14.8	59.3
Restructuring and other					0.0					0.0					0.0
Total operating expenses	351.7	424.5	483.8	420.9	1,681.0	501.8	545.8	640.9	572.8	2,261.3	615.0	625.0	700.5	628.6	2,569.1
Operating income (loss)	**154.1**	**324.7**	**616.4**	**303.8**	**1,398.9**	**241.5**	**458.4**	**755.6**	**366.3**	**1,821.7**	**300.4**	**581.0**	**958.0**	**491.4**	**2,330.8**
Interest income (expense)	(6.3)	(5.7)	(5.4)	(6.3)	(23.6)	(10.2)	(15.9)	(16.2)	(16.0)	(58.2)	(5.8)	(15.5)	(15.3)	(15.0)	(51.6)
Other income (expense)	(6.3)	(2.4)	(2.6)	0.9	(10.3)	(2.5)	2.9	(11.6)	(1.5)	(12.8)	(1.5)	(1.5)	(1.5)	(1.5)	(6.0)
Income before income taxes	141.5	316.7	608.5	298.4	1,365.0	228.8	445.4	727.8	348.8	1,750.8	293.1	564.0	941.3	474.9	2,273.3
Income taxes	36.7	60.3	139.0	72.7	308.7	47.2	93.0	131.2	55.8	327.2	64.5	124.1	207.1	104.5	500.1
Net income (loss)	104.8	256.4	469.5	225.7	1,056.4	181.7	352.3	596.6	293.0	1,423.6	228.6	439.9	734.2	370.4	1,773.2
Nonrecurring/noncash adjustm	32.5	26.5	43.1	51.1	153.1	39.2	49.8	38.2	45.0	172.1	45.0	45.0	45.0	45.0	180.0
Net income	**137.3**	**282.9**	**512.6**	**276.8**	**1,209.5**	**220.8**	**402.1**	**634.7**	**338.0**	**1,595.7**	**273.6**	**484.9**	**779.2**	**415.4**	**1,953.2**
EBITDAS	173.5	349.1	644.5	344.0	1,511.0	271.5	494.8	780.9	391.1	1,938.3	325.3	605.8	982.9	516.2	2,430.2
Shares, Basic	49.3	49.7	49.8	49.8	49.7	49.8	49.8	49.9	50.0	49.9	50.2	50.3	50.4	50.5	50.3
Shares, Diluted	51.5	51.5	51.5	51.5	51.6	51.6	51.2	51.2	51.4	51.4	51.6	51.7	51.8	51.9	51.8
EPS Basic (Pro forma)	$2.78	$5.69	$10.30	$5.56	$24.36	$4.43	$8.07	$12.73	$6.77	$32.00	$5.46	$9.65	$15.48	$8.23	$38.83
EPS Diluted (Pro forma)	**$2.66**	**$5.49**	**$9.95**	**$5.37**	**$23.45**	**$4.28**	**$7.85**	**$12.40**	**$6.58**	**$31.07**	**$5.30**	**$9.38**	**$15.04**	**$8.00**	**$37.74**
Income Statement Ratios															
Gross margin	62.5%	67.9%	75.7%	73.1%	70.7%	71.7%	75.7%	81.8%	77.5%	77.3%	72.3%	75.7%	82.0%	78.5%	77.7%
Advertising - offline	1.4%	0.9%	0.6%	0.6%	3.5%	1.1%	0.7%	0.5%	0.9%	3.2%	1.1%	0.7%	0.5%	0.8%	3.1%
Advertising - online	22.9%	21.4%	19.3%	22.0%	85.6%	26.7%	23.7%	22.0%	26.0%	98.4%	26.7%	23.0%	21.0%	26.0%	96.7%
Sales and marketing	4.3%	3.7%	3.2%	4.0%	15.3%	4.4%	3.6%	3.1%	4.4%	15.5%	4.5%	3.7%	3.2%	3.8%	15.2%
Personnel	9.3%	7.8%	6.5%	9.8%	33.3%	9.7%	8.1%	7.9%	9.8%	35.6%	10.0%	7.7%	6.4%	8.7%	32.8%
General and administrative	3.2%	2.7%	2.2%	3.7%	11.7%	3.9%	3.0%	2.5%	3.8%	13.2%	4.0%	2.5%	2.1%	3.0%	11.6%
IT	0.8%	0.7%	0.6%	1.0%	3.2%	1.0%	0.8%	0.6%	1.2%	3.7%	1.1%	0.7%	0.7%	0.7%	3.2%
Operating margin	19.0%	29.4%	42.4%	30.7%	32.1%	23.3%	34.5%	44.3%	30.2%	34.5%	23.7%	36.5%	47.4%	34.4%	36.9%
Tax rate, GAAP	25.9%	19.0%	22.8%	24.4%	22.6%	20.6%	20.9%	18.0%	16.0%	18.7%	22.0%	22.0%	22.0%	22.0%	22.0%
Net margin (a)	12.9%	23.2%	32.3%	22.8%	24.3%	17.5%	26.6%	35.0%	24.2%	27.0%	18.1%	27.6%	36.3%	26.0%	28.1%
Y/Y % change															
Total Revenue	38.5%	43.7%	45.0%	35.5%	41.2%	28.2%	20.3%	17.4%	22.3%	21.3%	22.1%	20.1%	18.5%	17.7%	19.4%
Gross margin	58.5%	68.3%	65.1%	51.5%	61.3%	47.0%	34.0%	26.9%	29.6%	32.6%	23.2%	20.1%	18.8%	19.3%	20.0%
Advertising - offline	-1.5%	-3.0%	3.4%	-0.4%	-0.7%	-3.9%	1.1%	5.1%	71.5%	12.3%	24.8%	12.4%	19.8%	10.8%	17.0%
Advertising - online	63.7%	78.3%	62.1%	62.9%	66.5%	49.7%	33.1%	34.0%	44.6%	39.5%	22.0%	16.5%	13.2%	17.7%	17.0%
Sales and marketing	44.2%	44.0%	42.5%	29.8%	39.9%	30.9%	15.6%	12.4%	34.1%	22.5%	25.1%	24.2%	22.2%	1.4%	17.8%
Personnel	51.1%	36.5%	15.2%	28.4%	30.4%	33.8%	26.0%	43.1%	22.6%	31.3%	25.8%	13.5%	-4.3%	4.9%	8.8%
General and administrative	43.5%	32.4%	101.6%	45.5%	52.3%	57.2%	33.9%	33.3%	26.8%	36.5%	24.5%	0.0%	0.4%	-7.0%	4.1%
IT	44.7%	68.3%	59.9%	68.5%	61.0%	60.9%	26.7%	26.3%	40.4%	37.6%	29.7%	6.8%	31.1%	-31.3%	5.8%
Operating income (loss)	75.2%	87.5%	83.0%	60.8%	77.8%	56.8%	41.2%	22.6%	20.6%	30.2%	24.4%	26.8%	26.8%	34.2%	27.9%
Net income (loss)	94.5%	123.0%	110.6%	66.3%	100.2%	73.4%	37.4%	27.1%	29.8%	34.8%	25.9%	24.8%	23.1%	26.4%	24.6%
EPS Diluted (Pro forma)	56.8%	77.9%	86.7%	58.0%	73.8%	60.5%	42.9%	24.6%	22.4%	32.5%	24.0%	19.5%	21.3%	21.7%	21.5%

Source: Company reports and Ascendiant Capital Markets estimates

Priceline.com, 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	$551.1	$611.2	$421.2	$632.8	$1,192.1	$812.8	$898.5	$1,290.8	$1,611.1	$2,006.5	$2,481.4	$3,153.8
Short term investments	1,194.5	1,338.2	1,983.5	2,024.8	2,426.6	3,129.6	3,769.5	3,769.5	3,769.5	3,769.5	3,769.5	3,769.5
Restricted cash	1.1	1.1	3.9	3.8	4.5	6.6	7.2	7.2	7.2	7.2	7.2	7.2
Accounts receivable, net	222.0	321.4	345.3	264.5	324.6	429.5	493.8	269.3	351.7	460.2	584.3	317.1
Prepaid expenses and other current assets	56.7	52.7	95.9	104.2	201.7	164.7	152.7	96.9	88.6	79.7	80.9	114.1
Deferred income taxes	80.4	51.9	32.2	36.8	53.6	35.1	44.0	44.0	44.0	44.0	44.0	44.0
Total current assets	2,105.7	2,376.4	2,882.0	3,066.8	4,203.1	4,578.3	5,365.7	5,477.8	5,872.2	6,367.1	6,967.4	7,405.8
Property and equipment, net	44.4	49.3	53.8	64.3	73.5	78.6	81.9	85.5	89.0	92.5	96.0	99.6
Intangibles, net	759.9	758.5	720.8	704.9	731.7	704.4	192.5	184.7	176.8	169.0	161.1	153.3
Deferred income taxes	138.0	158.7	137.5	111.1	43.2	29.0	517.7	517.7	517.7	517.7	517.7	517.7
Other	17.5	17.2	21.4	23.5	41.3	38.5	59.9	59.9	59.9	59.9	59.9	59.9
Total assets	**$3,065.4**	**$3,360.1**	**$3,815.6**	**$3,970.7**	**$5,092.8**	**$5,428.8**	**$6,217.8**	**$6,325.5**	**$6,715.6**	**$7,206.2**	**$7,802.2**	**$8,236.3**
Liabilities and stockholders' equity												
Accounts payable	$115.5	$127.8	$169.5	$146.9	$174.0	$201.2	$240.2	$145.4	$177.3	$239.0	$242.7	$171.2
Accrued expenses	322.7	267.9	305.7	222.1	298.2	272.1	377.3	363.5	506.5	398.3	404.5	428.0
Deferred merchant	166.8	243.7	213.8	239.2	314.8	384.5	343.3	266.6	253.2	350.5	202.3	313.9
Income tax payable and other												
Convertible/short term debt	481.6	486.8	492.2	497.6	503.2	508.8	514.5	514.5	514.5	514.5	514.5	514.5
Total current liabilities	**1,086.7**	**1,126.2**	**1,181.3**	**1,105.8**	**1,290.2**	**1,366.6**	**1,475.3**	**1,290.1**	**1,451.5**	**1,502.2**	**1,364.0**	**1,427.7**
Deferred income taxes	55.9	54.7	47.4	47.0	45.7	45.2	46.3	46.3	46.3	46.3	46.3	46.3
Other long term liabilities	47.2	33.9	37.1	39.2	43.5	41.1	47.8	47.8	47.8	47.8	47.8	47.8
Convertible/long term debt	93.6	88.2	82.8	77.4	938.4	937.8	937.3	937.3	937.3	937.3	937.3	937.3
Minority interest	57.5	67.5	76.6	127.0	183.3	110.2	133.2	133.2	133.2	133.2	133.2	133.2
Total other liabilities	**254.3**	**244.3**	**244.0**	**290.6**	**1,210.9**	**1,134.4**	**1,164.6**	**1,164.6**	**1,164.6**	**1,164.6**	**1,164.6**	**1,164.6**
Common stock	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Treasury Stock	(797.7)	(799.1)	(802.8)	(803.6)	(1,057.8)	(1,058.8)	(1,059.0)	(1,059.0)	(1,059.0)	(1,059.0)	(1,059.0)	(1,059.0)
Additional paid-in capital	2,347.7	2,372.3	2,394.0	2,431.3	2,536.6	2,569.1	2,593.9	2,593.9	2,593.9	2,593.9	2,593.9	2,593.9
Retained earnings	163.5	396.5	858.4	1,033.7	1,163.5	1,524.6	2,105.4	2,398.4	2,627.0	3,066.9	3,801.1	4,171.5
Accumulated other comprehensive (loss) income	10.4	19.5	(59.8)	(87.6)	(51.1)	(107.6)	(62.9)	(62.9)	(62.9)	(62.9)	(62.9)	(62.9)
Unearned compensation												
Total stockholders' equity	**1,724.4**	**1,989.6**	**2,390.3**	**2,574.3**	**2,591.7**	**2,927.8**	**3,577.9**	**3,870.9**	**4,099.5**	**4,539.4**	**5,273.6**	**5,644.0**
Total stockholders' equity and liabilities	**$3,065.4**	**$3,360.1**	**$3,815.6**	**$3,970.7**	**$5,092.8**	**$5,428.8**	**$6,217.8**	**$6,325.5**	**$6,715.6**	**$7,206.2**	**$7,802.2**	**$8,236.3**

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 as % of total rev	7%	5%	7%	11%	19%	12%	9%	8%	7%	5%	4%	8%
Deferred Merchant as % of total rev	21%	22%	15%	24%	30%	29%	20%	22%	20%	22%	10%	22%
Accounts payable as % of total rev	14%	12%	12%	15%	17%	15%	14%	12%	14%	15%	12%	12%
Accrued expenses as % of total rev	40%	24%	21%	22%	29%	21%	22%	30%	40%	25%	20%	30%
Activity Ratios												
A/R Days Sales Outstanding	25	26	21	24	28	29	26	20	25	26	26	20
A/P Days Payable	34	33	43	50	53	56	70	48	45	56	60	50
Deferred Merchant (w/ Revenue)	19	20	13	22	27	26	18	20	18	20	9	20
Book & Cash Value (per share)												
Book Value per Share (diluted)	$33.47	$38.65	$46.42	$49.97	$50.18	$57.15	$69.90	$75.31	$79.45	$87.80	$101.81	$108.75
Cash per Share (diluted)	$33.90	$37.89	$46.77	$51.66	$70.16	$77.09	$91.34	$98.59	$104.41	$111.86	$120.81	$133.54
Net cash per Share (diluted)	$22.74	$26.72	$35.61	$40.50	$42.24	$48.85	$62.98	$70.34	$76.28	$83.78	$92.79	$105.56

Source: Company reports and Ascendiant Capital Markets estimates

Priceline.com, 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	$104.0	$256.3	$472.9	$226.0	$1,059.1	$181.8	$352.7	$600.0	$293.0	$1,427.4	$228.6	$439.9	$734.2	$370.4	$1,773.2
Depreciation	4.2	5.1	5.6	5.8	20.6	7.7	7.5	8.2	7.0	30.3	7.0	7.0	7.0	7.0	28.0
Amortization	8.3	8.6	8.4	7.9	33.2	8.2	8.2	7.8	7.8	32.0	7.8	7.8	7.8	7.8	31.3
Provision for accounts receivable	2.8	2.0	2.8	1.7	9.3	4.0	2.8	4.4		11.3					0.0
Deferred income taxes	8.3	11.6	14.3	10.6	44.7	4.8	8.9	2.8	0.0	16.4	0.0	0.0	0.0	0.0	0.0
Stock comp	14.1	13.2	13.4	25.4	66.2	16.6	17.7	17.7	10.0	62.0	10.0	10.0	10.0	10.0	40.0
Amortization of financing	5.8	5.9	6.0	6.2	23.8	8.1	12.2	12.3		32.6					0.0
Tax benefit of stock option exercises					0.0					0.0					0.0
Other gains/losses		0.0			0.0					0.0					0.0
F/X gains/losses					0.0					0.0					0.0
Other					0.0				(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(40.0)
Changes in operating assets and liabilities:															
Accounts receivable	(56.5)	(97.7)	(47.9)	76.3	(125.8)	(58.2)	(118.5)	(55.9)	224.5	(8.2)	(82.4)	(108.5)	(124.1)	267.2	(47.8)
Prepaid expenses & other current assets	3.3	5.8	(3.1)	6.2	12.2	(145.3)	50.0	(1.7)	55.8	(41.3)	8.3	9.0	(1.3)	(33.2)	(17.2)
Accounts payable & accrued expenses	177.8	26.5	87.9	(81.8)	210.3	153.2	91.4	73.4	(185.3)	132.8	161.5	50.7	(138.2)	63.6	137.6
Income tax payable and other	4.2	(14.0)	0.3	(2.4)	(12.0)	1.5	(1.2)	6.0	0.0	6.2	0.0	0.0	0.0	0.0	0.0
Net cash (used in) provided by operating acti	**276.2**	**223.3**	**560.5**	**281.8**	**1,341.8**	**182.4**	**431.6**	**674.9**	**402.8**	**1,691.8**	**330.8**	**405.9**	**485.5**	**682.9**	**1,905.1**
Cash flow from investing activities															
Purchases of property and equipment	(8.3)	(9.8)	(11.7)	(17.1)	(46.8)	(13.7)	(14.7)	(10.5)	(10.5)	(49.5)	(10.5)	(10.5)	(10.5)	(10.5)	(42.1)
Purchases of short-term investments	(472.9)	(533.8)	(1,224.0)	(774.7)	(3,005.4)	(1,301.5)	(1,688.5)	(1,803.6)	0.0	(4,793.6)	0.0	0.0	0.0	0.0	0.0
Sale of short-term investments	618.4	407.1	504.5	699.6	2,229.6	925.4	945.4	1,198.5		3,069.2					0.0
Acquisitions	(66.2)	(0.9)	(0.9)	(0.2)	(68.2)	(13.3)	(0.1)	(0.4)		(13.9)					0.0
Other	(16.0)	(17.8)	(5.9)	25.8	(13.9)	31.6	27.2	17.8	0.0	76.6	0.0	0.0	0.0	0.0	0.0
Net cash used in investing activities	**55.1**	**(155.2)**	**(738.0)**	**(66.6)**	**(904.8)**	**(371.5)**	**(730.8)**	**(598.3)**	**(10.5)**	**(1,711.1)**	**(10.5)**	**(10.5)**	**(10.5)**	**(10.5)**	**(42.1)**
Cash flow from financing activities															
Issuance of debt					0.0	979.7	(0.1)	20.4		1,000.0					0.0
Repayment of debt		(0.2)			(0.2)			(20.9)	0.0	(20.9)	0.0	0.0	0.0	0.0	0.0
Repurchase of common stock	(157.3)	(1.4)	(3.7)	(0.8)	(163.2)	(254.2)	(0.9)	(0.2)	0.0	(255.4)	0.0	0.0	0.0	0.0	0.0
Proceeds from stock option exercises	10.1	6.0	2.9	2.1	21.0	5.1	9.1	1.4		15.6					0.0
Other		(13.0)			(13.0)		(61.1)	0.0		(61.1)					0.0
Proceeds from issuance of common stock				4.3	4.3				0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash provided by (used in) financing activitie	**(147.2)**	**(8.6)**	**(0.7)**	**5.6**	**(151.0)**	**730.5**	**(53.0)**	**0.6**	**0.0**	**678.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Effect of exchange rate on cash and cash equiva	8.0	0.7	(11.8)	(9.1)	(12.1)	17.8	(27.1)	8.4		(0.9)					0.0
Net increase (decrease) in cash and equivale	**192.1**	**60.2**	**(190.1)**	**211.7**	**273.9**	**559.2**	**(379.3)**	**85.7**	**392.3**	**657.9**	**320.3**	**395.4**	**475.0**	**672.4**	**1,863.0**
Beginning cash and equivalents	**359.0**	**551.1**	**611.2**	**421.2**	**359.0**	**632.8**	**1,192.1**	**812.8**	**898.5**	**632.8**	**1,290.8**	**1,611.1**	**2,006.5**	**2,481.4**	**1,290.8**
Ending cash and equivalents	**$551.1**	**$611.2**	**$421.2**	**$632.8**	**$632.8**	**$1,192.1**	**$812.8**	**$898.5**	**$1,290.8**	**$1,290.8**	**$1,611.1**	**$2,006.5**	**$2,481.4**	**$3,153.8**	**$3,153.8**

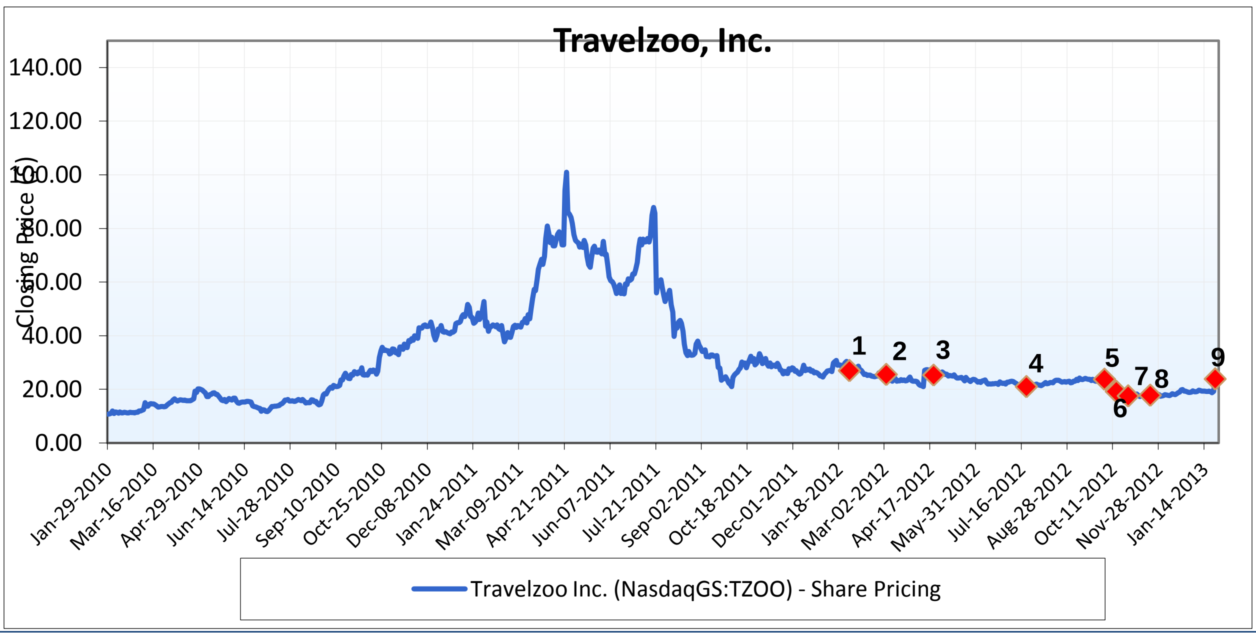
Source: Company reports and Ascendiant Capital Markets estimates

Public Companies Under Coverage Mentioned in this Report (priced as of close 1/28/13)

COMPANY	TICKER	RATING	PRICE	PRICE TARGET
EXPEDIA	EXPE	BUY	$66.66	$77
TRAVELZOO	TZOO	NEUTRAL	$21.96	$24

ANALYST CERTIFICATION

Each analyst hereby certifies that the views expressed in this report reflect the analyst's personal views about the subject securities or issuers. Each analyst also certifies that no part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The analyst who prepared this report is compensated based upon the overall profitability of Ascendiant Capital Markets, LLC, which may, from time to time, include the provision of investment banking, financial advisory and consulting services. Compensation for research is based on effectiveness in generating new ideas for clients, performance of recommendations, accuracy of earnings estimates, and service to clients.



	Date	Rating	Price Target
1	1/27/2012	Buy	$34
2	3/5/2012	Buy	$34
3	4/19/2012	Buy	$31
4	7/19/2012	Buy	$29
5	10/3/2012	Buy	$27
6	10/15/2012	Buy	$21
7	10/25/2012	Neutral	$19
8	11/19/2012	Neutral	$19
9	1/24/2013	Neutral	$24

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Risks & Considerations

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 28, 2013)

			Investment Banking Services Past 12 months	
Rating	**Count**	**Percent**	**Count**	**Percent**
Strong Buy	10	33%	1	10%
Buy	14	47%	1	7%
Neutral	5	17%	1	20%
Sell	1	3%	0	0%
Total	30	100%	3	10%

Other Important Disclosures

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