Airbnb Inc ABNB (NAS) | ★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
162.26 USD	102.00 USD	High	Narrow	Stable	Standard	Travel & Leisure	

Airbnb's Network Advantage Continues to Lead to Global Travel Recovery

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The primary analyst covering this company does not own its stock.

Research as of 08 Nov 2021
Estimates as of 08 Nov 2021
Pricing data through 08 Feb 2022 00:00
Rating updated as of 08 Feb 2022 00:00

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.
Rating as of 02 Feb 2022 00:00

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Business Strategy and Outlook 08 Nov 2021

We maintain that Airbnb's global online travel agency, or OTA, position will sustain over the next decade, driven by a leading alternative accommodation network (source of its narrow moat) of 4 million hosts and cumulative 1 billion guest arrivals since its start in 2008 through the third quarter of 2021. We believe this network advantage will be supported by continued expansion into the experiences vertical over the next several years. Moreover, Airbnb is positioned to benefit from increasing Asia travel, where it generated 14% of its nights and experiences booked in 2020, and the ongoing shift to mobile bookings, witnessed by Airbnb being a top-10 iPhone travel app in 75 markets (estimated) versus 15 for Expedia and 137 for Booking Holdings, according to App Annie on Nov. 1, 2021.

Mitigating our otherwise favorable view of Airbnb's network position in the online travel growth industry are competitive, regulatory, and structural cost threats. We expect Expedia and Booking's investment into the vacation rental industry to intensify during the next few years. Also, focused entry into the OTA market from Google, Alibaba, Amazon, and others could double the current handful of players that have dominant scale, leading to a meaningful impact on profitability. That said, replicating Airbnb's network would require significant time and expense, and we expect most of the aforementioned operators to deploy a metasearch model (which doesn't control hotel relationships) versus directly competing against Airbnb's OTA model (which does control hotel relationships). Beyond competitive threats, Airbnb's core alternative accommodation faces opposition concerned with the industry's impact on society (resident quality of life), safety (adhering to codes), and economics (cost of living). Regulation could place requirements (such as sharing personal information with local governments) and restrictions (such as the number days a listing can be rented out) on hosts and guests that reduces demand and elevates cost. And in addition to these regulatory costs, servicing individual vacation rental hosts can lift expenses compared with that found in the traditional accommodation industry.

Vital Statistics

Market Cap (USD Mil)	103,098
52-Week High (USD)	219.94
52-Week Low (USD)	129.71
52-Week Total Return %	-19.0
YTD Total Return %	-2.5
Last Fiscal Year End	31 Dec 2020
5-Yr Forward Revenue CAGR %	32.0
5-Yr Forward EPS CAGR %	—
Price/Fair Value	1.59

Valuation Summary and Forecasts

Fiscal Year:	2019	2020	*2021(E)*	*2022(E)*
Price/Earnings	—	NM	*NM*	*153.1*
EV/EBITDA	—	NM	*67.9*	*48.5*
EV/EBIT	—	NM	*409.7*	*107.3*
Free Cash Flow Yield %	—	-0.8	*-0.1*	*1.7*
Dividend Yield %	—	—	—	—

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2019	2020	*2021(E)*	*2022(E)*
Revenue	4,805	3,378	*6,055*	*7,776*
Revenue YoY %	31.6	-29.7	*79.2*	*28.4*
EBIT	-502	-3,590	*238*	*910*
EBIT YoY %	-2,775.8	615.8	*-106.6*	*281.8*
Net Income, Adjusted	-674	-4,585	*-192*	*723*
Net Income YoY %	3,899.6	579.9	*-95.8*	*-477.1*
Diluted EPS	-2.59	-16.12	*-0.28*	*1.06*
Diluted EPS YoY %	3,834.7	523.0	*-98.3*	*-477.1*
Free Cash Flow	244	-798	*-508*	*1,015*
Free Cash Flow YoY %	-61.2	-427.6	*-36.4*	*-299.9*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Started in 2008, Airbnb is the world's largest online alternative accommodation travel agency, also offering booking services for boutique hotels and experiences. Airbnb's platform offered 5.6 million active accommodation listings in 2020. Listings from the company's 4 million hosts are spread over 220 countries and 100,000 cities. In 2020, 53% of revenue was from the North American region, 30% from Europe/Middle East/Africa, 10% from Asia-Pacific, and 7% from Latin America. Transaction fees for online bookings account for all its revenue.

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Morningstar Analysis

Fair Value & Profit Drivers 08 Nov 2021

After reviewing Airbnb's third-quarter results, we've increased our fair value estimate to $102 per share from $90, driven by a stronger profit improvement and long-term demand due to elevated flexibility in remote work. We continue to incorporate an increase in the U.S. corporate tax rate to 26% from 21% starting in 2022. Our fair value estimate implies a 2022 enterprise value/adjusted EBITDA multiple of 30 times, using our 2022 EBITDA estimate of $2 billion.

Our bookings growth forecast is now for 25% average annual growth during 2021-30 versus 24% prior. Within this forecast, we expect Airbnb's 2021 bookings to reach 124% of 2019 levels versus 115% prior. Our increased view is driven by incremental business/leisure trips resulting from some sustained bump in U.S. full-time and hybrid remote working. We developed our positive outlook because we think higher-income occupations in fields like technology, finance, legal, and architecture are the most likely to sustainably work from remote locations. We see Airbnb's online vacation rental share lifting to over 50% in 2025, from the mid-40s in 2019. We expect Airbnb's revenue take rate to expand toward 14% in 2030 from 12.7% in 2019 (2020's 14.1% level had one-time timing benefits), aided by expanded experiences, insurance, and promoted listing offerings, but mitigated by hotel and competition.

We see Airbnb leveraging near-term platform investments over the intermediate- to longer term. We forecast operation and support costs as a percentage of revenue to stand at 11% in 2030 versus 17% in the prepandemic year of 2019, as near-term trust and safety investments wane and automated customer service drives savings long term. We also expect product development expense to leverage to 11.5% of revenue in 2030 versus the 20% posted in 2019, which was a heavier investment year (2018's product development as a percentage of sales was 15.9%), as Airbnb leverages a more complete network funded by near-term investment. Further, we expect Airbnb to lower marketing expense to 18% of revenue in 2030 from 34% in 2019 (2019 was a heavier investment year, with 2018 marketing costs at 30% of sales), as the company benefits from strong global awareness and a more complete platform offering long term.

As a result, we estimate Airbnb's revenue growth to average 24% over the next 10 years, with operating margins still expanding to 30% in 2030 (26% prior) from negative 17% in 2020 (before stock-based compensation; and the 10% in 2019).

Scenario Analysis

We rate Airbnb's uncertainty as high, based on competition, regulation, and economic growth factors.

Our bull-case forecasts little new competition emerging, lower regulatory hindrance, and higher global economic growth, which results in annual bookings growth of 28% versus 25% in our base case over the next 10 years. This stronger economic growth and lower level of competition and regulation drive commission take rates that are 20 basis points above our base case in 2021-30, and product development, marketing, and operation support expenses that are 1.5 percentage points lower as a percentage of total revenue compared with our base case during 2021-30. The higher revenue and lower expenses result in operating margins expanding to 34% toward the later part of this decade versus 30% level in our base case. Our bull-case fair value estimate is $162.

The bear case assumes new competition emerges, existing competition intensifies, regulatory costs elevate, and economic growth weakens. We account for these headwinds by subtracting 3 percentage points from bookings growth in 2021-30. Additionally, we model operation and support costs 2 percentage points higher as a percentage of revenue in 2021-30 to account for higher

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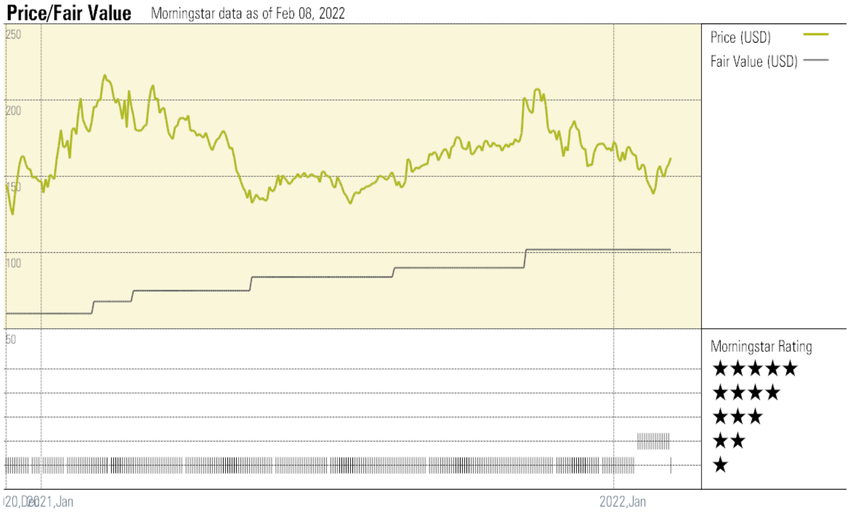
Price/Fair Value Morningstar data as of Feb 08, 2022



trust, safety, and regulatory costs. Meanwhile, we also forecast marketing costs as a percentage of sales 2 percentage points higher in 2021-30 to account for elevated competition and increased need to source demand. Finally, we boost product development 1 percentage point higher as a percentage of revenue in 2021-30, as Airbnb finds it necessary to improve the network user experience in the tougher bear-case scenario. The lower revenue and higher expenses result in 26% operating margins toward the later part of this decade versus a 30% level in our base case. Our bear-case fair value estimate is $66.

Economic Moat

Like narrow-moat companies Booking Holdings, Expedia, and TripAdvisor, we surmise that Airbnb has developed a two-sided marketplace network effect that it is able to properly monetize, thereby driving a narrow economic moat for the company. Airbnb's network advantage was established by attracting private accommodation owners to post their dwellings (supply side) on the company's platform, which in turn attracted more travelers (demand side) subsequently enticing more supply, creating a virtuous cycle that increases value for both new and existing users (hosts and guests).

Airbnb's platform took time to reach this point. In fact, it had to launch its platform a few times to generate an increased amount of interest, while resorting to aggressive marketing tactics like door-to-door communication and innovative engineering (links to Craigslist and Google AdWords that generated free or lower-cost advertising) before reaching critical-mass scale. Even when Airbnb launched its website for a third time on Aug. 11, 2008, it still had only 800 listings with an undisclosed amount of bookings. However, continued investment into the platform and word of mouth drove an inflection point, where the network of hosts and guests entered into a virtuous cycle. By March 2009, the company had 2,500 listings with 10,000 users, and by the end of 2010 around 700,000 cumulative nights had been booked on Airbnb, reaching 1.6 million by May 2011. Since then, Airbnb's network has continued to expand, reaching 5.7 million active listings (up 30% year over year) with 247 million guest arrivals (up 34%) in the prepandemic year of 2019.

Today, we think Airbnb's core alternative accommodations network has reached a critical-mass advantage, which we believe is achieved when a company garners at least 10% demand share of a market, at which point it becomes increasingly challenging for smaller competitors to catch up. This view is buoyed by Airbnb's $38 billion in alternative accommodation bookings in the pre-COVID-19 year of 2019, which surpassed the roughly $20 billion taken in by the number-two player Booking Holdings. Further, we calculate that Airbnb's bookings represented around a mid-40% (Booking and Expedia a mid-20s and midteens, respectively) of the 2019 online alternative accommodation market, far surpassing our defined 10% threshold of when critical-mass market share is reached.

In addition to a critical-mass booking advantage, Airbnb and its key peers Booking, Expedia, and Trip.com hold a

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marketing scale benefit over smaller competitors. This marketing scale advantage allows these leading operators to expand their network into other verticals and geographies while also acquiring customers faster than smaller competitors. Airbnb spent $1.6 billion on sales and marketing in the prepandemic year of 2019 (33.7% of its total revenue), which, while below the $5 billion laid out by leading online travel agency peers Booking (33%) and Expedia (41.8%), was near the $1.5 billion (26%) spent by Trip.com and well ahead of the $167 million (32.6%) expended by the next largest industry competitor MakeMyTrip in its latest reported fiscal year (ended March). Therefore, although we think MakeMyTrip can find success in its core geography of India, we believe it and other smaller competitors face an uphill battle to compete globally with Airbnb and other larger online travel agency peers.

Not only do we believe that Airbnb holds critical-mass booking and marketing scale, but also traffic advantages, which further support its network advantage by allowing it to test and implement platform changes quicker than smaller competitors, leading to an improved user experience and conversion. Here we see that during the pre-COVID-19 peak travel season in July 2019, total monthly traffic to the airbnb.com domain was 106 million, according to SimilarWeb. This compares with traffic that month of 697 million to booking.com, 230 million to tripadvisor.com, and 97 million to expedia.com (this is traffic only to these dot-com domains and doesn't represent other brands or geography domains controlled by these companies). For perspective, the domain marriott.com, home to the largest hotel brand, typically garnered around 30 million to 40 million in monthly traffic before the pandemic, while smaller hoteliers and online travel agency peers received even smaller domain traffic, making it tough for them to improve user experience and conversion to the degree of Airbnb and other larger peers.

In addition to critical-mass advantages, Airbnb's network advantage is also witnessed in its large global awareness, which aids in host and guest acquisition. Airbnb's global reach is illustrated by its platform being a top-10 iOS travel mobile app in 75 countries (estimated), which compares with the 137 at Booking, 15 at Expedia, and 15 at TripAdvisor, according to App Annie on Nov. 1, 2021. This awareness helped drive 80% of Airbnb's traffic from low-cost direct and free organic search channels in 2019, according to SimilarWeb, compared with 65% at Booking and 90% at TripAdvisor. And once hosts and guests become aware of Airbnb's network they tend to increasingly stay on the platform, highlighting the quality of the company's offering. For instance, in 2019, 84% of revenue came from stays at hosts with at least one booking before Dec. 31, 2018, up from 82% in 2018 (no update given for 2020). Also, in 2019, 69% of revenue was from guests who had booked at least one prior stay, up from 66% in 2018 (no update given for 2020).

Importantly, Airbnb's take rate (the percentage of revenue collected from a booking) shows that it can monetize its platform, supporting our stance that it holds a network advantage. To illustrate, Airbnb's take rate has increased steadily each year to 12.7% in 2019 from 11.4% in 2014 (we note its 2020 take-rate of 14.1% benefited from timing of shorter booking windows, which we don't expect to be replicated as COVID-19 is contained), indicating that both hosts and guests are finding value in its platform.

Although we expect Airbnb's leading alternative accommodation network and growing presence in experiences to generate excess economic profits over the next 10 years, a few factors keep us from assigning a wide moat rating. First, there is potentially meaningful competition beyond the next 10 years from new entrants that already have the customer traffic and budgets to build network scale, including wide-moat companies Google,

Morningstar Analysis

Facebook, Alibaba, and Amazon, not to mention any hotel consortium that might evolve. Focused entry from these competitors would double the current number of companies that have dominant scale (Booking, Expedia, Trip.com, and Airbnb), leading to commodification of the industry and a meaningful impact to margins. Second, we expect ongoing competition from large-scale peers Booking Holdings, Expedia, and Trip.com across all travel verticals. Finally, Airbnb's core alternative accommodations business faces higher regulatory risk than other travel verticals, which could hinder supply and demand as well as elevate costs. As such, we lack confidence that Airbnb will, with certainty, outearn its cost of capital for the next two decades.

Moat Trend

We believe the online travel competitive landscape is influenced by five key factors. One, what, if any, is the structural impact to demand caused by the global pandemic? Two, how are industry operators positioned in the growing alternative accommodations market? Three, what is the competitive landscape in the attractive experiences (tours and attractions) vertical? Four, who stands to benefit from the large traditional hotel industry? Five, what is the competitive threat from dominant technology firms like Google, Amazon, and Facebook?

We award Airbnb a stable moat trend. In our view, Airbnb's leading advantages in the key alternative accommodations and experiences verticals are offset by its lacking presence in the traditional hotel market.

We think Airbnb's sizable network advantage that underpins its narrow moat will not be altered as travel demand recovers once COVID-19 is contained. In fact, it could strengthen, as smaller competitors face increasing challenges in funding the substantial human and operational capital needed to replicate the online travel agency's giant platform. Along with peers Booking and Expedia, Airbnb can spend heavily on marketing ($1.6 billion spent in the prepandemic year of 2019, or 34% of its total sales), helping drive traffic to its platform. This was well above the $167 million expended by the next largest competitor, MakeMyTrip (33%).

In our view, the alternative accommodation market is key to operator networks given the robust 25%-30% average online annual booking growth we estimate for the vertical during 2021-25, which is aided by some sustainability of the recent lift in remote working resulting from COVID-19. Within the vertical, we see Airbnb's leading online booking share expanding to above 50% in 2025 from the mid-40s in 2019, driven by strong content and global awareness.

The $171 billion experiences market is another key vertical for online travel operator network effects, as we expect around 30% average annual industry growth during 2022-25. Here, we estimate Airbnb's communal culture will stoke a unique host-driven offering. As a result, we estimate Airbnb will expand its online experience booking share to 5.0% in 2025 from 0.7% in 2019. This compares with TripAdvisor's booking share growing to 5.1% in 2025 from 4.2% in 2019, Booking to 6.9% in 2025 from 0.1% in 2019, and Expedia to 3.4% in 2025 from 2.1% in 2019. Meanwhile, we expect Klook's share to drop to 5.2% in 2025 from 6.6% in 2019, and GetYourGuide's share to decline to 1.0% in 2025 from 1.3% in 2019.

We believe the traditional hotel market is a third key vertical to economic moats in the online travel space, with Expedia and Booking possessing the leading positions. The reason we surmise traditional hotels are a key influencer of online travel network moats is because of the vertical's large $548 billion booking market size (31% of the total $1.8 trillion 2019 travel bookings market). We estimate this trumps the $144 billion (8%) and $171 billion (10%) spent on the alternative accommodation and experiences verticals, respectively. When we analyze the supply side of the network equation, Booking and Expedia clearly have stronger positions in the online traditional hotels than Airbnb. Booking's platform hosts around 20 million traditional hotel rooms, and we estimate Expedia is in the same neighborhood, both towering over the estimated few hundred thousand boutique rooms on Airbnb's network. As a result, we estimate the Booking booked $71.7 billion in the vertical in the pre-COVID-19 period of 2019, versus our calculation of $60.4 billion for Expedia, and around $2 billion in boutique lodgings at Airbnb.

We believe the final factor to evaluate when considering online travel moats is the threat emanating from the large global platforms of Google, Amazon, and Facebook. In our view, the expansive reach of these platforms presents the biggest danger to Booking, Airbnb, Expedia, and TripAdvisor's economic moats, versus smaller competitors that no longer have the critical mass scale to impede the positioning of established operators. That said, we continue to believe that this competitive risk is manageable for the OTA operators–Booking, Airbnb, and Expedia. To illustrate, we believe Google's focus remains on providing information efficiently versus competing as a merchant into industries such as travel. Also, Google gets around a high-single digit percentage of its total advertising revenue from Booking, Expedia and Airbnb, so it will have to factor that into any future expansion plans. That said, we continue to monitor what Google does in the travel industry closely.

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Bulls Say/Bears Say

Bulls Say

- Airbnb's network has reached critical-mass scale, supported by its leading booking share of the alternative accommodation market and ongoing expansion into experiences.
- Mobile application usage is increasing rapidly, and Airbnb has strong global awareness, which aids its roughly 80%-90% of traffic that comes directly and through organic search to its platform.
- Airbnb stands to benefit from worker flexibility driving higher long-term travel demand, aided by higher-income occupations in fields like technology, finance, legal, and architecture.

Bears Say

- Booking and Expedia plan to invest into their U.S. alternative accommodation supply and awareness. Also, Google's continued emphasis on placing its paid ads and metasearch platform ahead of free organic search links could elevate marketing cost for Airbnb.
- Alternative accommodations face regulation headwinds around the industry's impact on society (resident quality of life), safety (adhering to codes), and economics (cost of living).
- Airbnb's core alternative accommodation market requires higher servicing costs than traditional hotels and other travel verticals.

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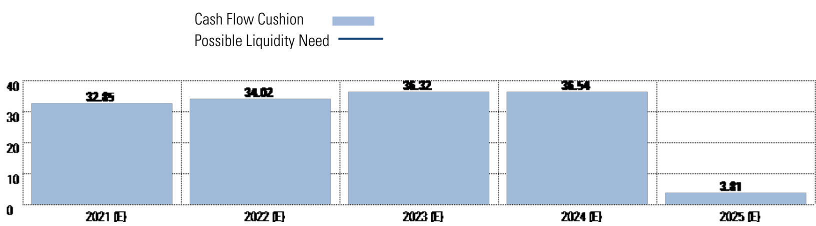
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2021(E)	2022(E)	2023(E)	2024(E)	2025(E)
Cash and Equivalents (beginning of period)	5,481	4,737	5,614	6,085	6,125
Adjusted Available Cash Flow	104	1,955	1,496	1,035	1,494
Total Cash Available before Debt Service	5,584	6,692	7,111	7,119	7,618
Principal Payments	-10	-10	-10	-10	-1,900
Interest Payments	-160	-187	-186	-185	-99
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-170	-197	-196	-195	-1,999

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	5,481	198.8
Sum of 5-Year Adjusted Free Cash Flow	6,083	220.7
Sum of Cash and 5-Year Cash Generation	11,564	419.5
Revolver Availability	500	18.1
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	12,064	437.6
Sum of 5-Year Cash Commitments	-2,757	—

Financial Strength

We view Airbnb’s financial health as extremely sound, and we believe the company has enough liquidity to operate at anemic travel demand levels for the foreseeable future, while still investing in key growth areas the next few years. Prior to COVID-19, Airbnb had no debt and over $3 billion in cash and marketable securities at the end of 2019, while generating $97 million in free cash flow during the year. To shore up its liquidity profile during the COVID-19 demand shock, Airbnb raised $1.8 billion in debt in 2020, and has maintained that level through Sept. 30, 2021. But we view this capital raise as one done out of extreme precaution, and note the company had $7.9 billion in pro forma cash and marketable securities as of Sept. 30, 2021.Given prudent investment opportunities in alternative accommodations and experiences over the next few years, we don’t expect Airbnb to distribute a dividend for the foreseeable future. Further, we only forecast share repurchases to begin in 2023, as the company begins to more meaningfully leverage product and operational investments around that time.

Risk & Uncertainty

The risks of additional waves of COVID-19 cases and elongated time until a vaccine is widely distributed remain, which could delay our forecast recovery in demand. But this should not affect Airbnb's uncertainty rating unless travel demand once again returns to near zero for an extended period, leading to the potential need for incremental liquidity, which could occur at value-destructive levels. Still, the spread of COVID-19 represented a material headwind to travel demand in 2020, driving Airbnb's revenue down 30% in 2020.

But even before the pandemic, the travel industry has been cyclical and affected by changes in economic growth. Additionally, terrorist attacks can lead to a near-term disruption in bookings. Moreover, potential European “gatekeeper” regulation could affect the competitive positioning of Airbnb and Booking. Also, changes to the innovation and lodging tax policy could increase tax provisions and working capital. Further, directors, executives, and 5%-plus stockholders combined have 58.8% voting control, as of December 2020, which could hinder the ability of individual shareholders to effect operational change.

Airbnb's core alternative accommodation market faces opposition concerned with the industry's impact on society (resident quality of life), safety (adhering to codes), and economics (cost of living). Regulation could entail guests and hosts sharing information with cities, having hosts register for a license to list on alternative accommodation platforms, limiting the amount of days a unit can be rented, and requiring units to meet safety standards. Further, Airbnb faces ESG risks around innovative tax code changes, data breaches, and potential fees should its platform be viewed as anticompetitive.

Focused entry from Google, Amazon, Alibaba, and Facebook, and accelerated investment from Booking and Expedia could have a meaningful impact on Airbnb's growth.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard US Total Market Shares ETF	1.47	0.11	300	31 Jan 2022
Vanguard Total Stock Market Index Fund	1.47	0.11	300	31 Jan 2022
Capital Group Growth Fnd of Amer Comp	1.42	0.52	1,239	31 Jan 2022
American Funds Growth Fund of Amer	1.42	0.52	1,239	31 Jan 2022
Invesco QQQ Trust	0.75	0.39	25	31 Jan 2022
Concentrated Holders				
Marsico Select Alpha Growth	0.00	10.00	7	31 Jan 2022
Harvest Travel & Leisure Index ETF	0.01	9.32	-3	31 Jan 2022
Kelly Hotel & Lodging Sector ETF	0.00	8.34	—	31 Jan 2022
Stonewater Aggressive	0.00	7.97	0	31 Jan 2022
Jennison Focused Global Equity Oppts	0.02	7.20	—	31 Jan 2022

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
T Rowe Price Associates, Inc	1.77	—	11,232	31 Jan 2022
Polen Capital	1.50	2.94	9,534	31 Jan 2022
Vanguard Group Inc	2.74	0.07	9,526	31 Jan 2022
FMR Inc	3.09	0.26	9,518	31 Jan 2022
FMR LLC	1.28	—	8,157	31 Jan 2022
Top 5 Sellers				
Greylock XII GP LLC	—	—	-5,631	31 Jan 2022
Susquehanna International Group, LLP	0.10	0.01	-3,619	31 Jan 2022
General Atlantic Llc	—	—	-2,856	31 Jan 2022
Hillhouse Capital Advisors, Ltd.	0.02	0.33	-1,964	31 Jan 2022
TPG Group Holdings (SBS) Advisors Inc	—	—	-1,842	31 Jan 2022

Capital Allocation 08 Nov 2021

Although we see Airbnb's balance sheet as sound, we view its investment strategy and shareholder distribution as fair, resulting in a Standard capital allocation ranking.

Airbnb's balance sheet remains sound, given the company's medium revenue cyclicality and operating leverage. Further, we see plenty of financial flexibility, as we forecast Airbnb to retain a net cash position for the foreseeable future, and note the company's existing debt of roughly $2 billion, is not scheduled to mature until 2025, which we see as very manageable, given our expectation for over $10 billion in free cash flow generation during 2021-25.

We hold a fair view on Airbnb's investment strategy. We are favorable that the company is investing in building out its advantaged alternative accommodation and experiences platform. We applaud Airbnb's entry into the experiences market in 2016 and see the company's communal culture positioning it well to compete in this growth industry, supporting its network advantage. We also are favorable on the company's 2018 Airbnb Plus initiative, which improves the quality of listings through a verification process, thereby aiding its network and buoying its prudent efforts to invest behind the corporate travel markets during the last few years.

But we hold some concern that Airbnb could too aggressively pullback on its marketing spend, while peers also build out competitive alternative accommodation and experiences networks, with higher levels of marketing expense. Also, given the lack of track record versus peers, we have some reservation on management's ability to execute cost efficiency initiatives, which could reduce the amount of platform reinvestment to support its network advantage.

Additionally, while Airbnb's founders deserve credit for building an industry leading vacation rental platform, our

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fair view of management's investment capability is balanced by the company's beginnings having benefitted from favorable timing and its leadership continuing to advance along a learning curve, in our view. To illustrate, technology advancement opened an opportunity to improve the user experience that existed in the online alternative accommodation space at the time when Airbnb was established. For instance, Amazon Web Services (launched in 2006) allowed the founders to outsource data center processing needs at a lower cost than it would have been to build, enabling them to focus time and capital on the user experience. Additionally, the launch of the iPhone in 2007 began to allow for accessible search of places across the world at any moment, helping drive Airbnb's mobile platform and expand the marketplace. The timing was also right for the Airbnb concept from an economic and demographic standpoint. Coming out of the Great Recession, people were looking for cheaper travel options and ways to generate income, which room-sharing on Airbnb's platform offered. Also, millennials were seeking an alternative to the commoditized nature of many hotels, preferring to experience the local culture of a destination, which was provided by the neighborhood-hosted listings on Airbnb's network.

Also, it is our stance that Airbnb management could have benefited from making more proactive versus reactive investments in regulatory and safety safeguards. As detailed in the book "The Airbnb Story," the company's founders received business training from investors during its early establishment years, which guided the young entrepreneurs to reach out to the platform's users (arguably something they could have been doing more of initially), allowing them to use their skill sets and build an improved user experience. Also, one could argue that the founders lacked a full understanding of the market environment, as it wasn't until an Airbnb host notified the company of New York anti-room-sharing legislation in 2010. Having an upfront understanding of affordability issues that often framed anti-room-sharing laws across cities throughout the world could have allowed the company to partner earlier with local governments and develop legislation more favorable to the accommodations platform operator.

Finally, we see Airbnb's shareholder distribution as appropriate, as the company refrains from paying dividend (something growth companies in growth industries tend to shy away from, given opportunity to invest into growth prospect). It is still unclear what Airbnb's strategy will be regarding share repurchases, which is something we plan to monitor.

Airbnb Inc ABNB (NAS) | ★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
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Analyst Notes

Airbnb's High Demand Levels Sustained by Work Flexibility and Desire to Travel; Shares Expensive 04 Nov 2021

Narrow-moat Airbnb saw stout third-quarter demand and profit improvement, aided by continued strength in the U. S., flexible working, and a broadening of travel to regions such as Europe. Specifically, sales reached 136% of 2019's level, up from 110% in the prior quarter, although bookings declined to 123% of 2019 levels versus 137% in the prior quarter, due to lengthened booking windows and delta variant concerns. Overall, demand continues to be driven by rates that were 132% of the prepandemic level, with room nights reaching 93% of 2019's level. Rates have been pushed higher by a travel mix of U.S. and larger home bookings, but this benefit is likely to wane as other lower price regions begin to increase. To this point, cross-border gross room nights improved to 33% of the mix in the quarter versus 27% and 20% in the second and first quarters, respectively. Also, high-density urban room night mix grew to 46% in the quarter versus just above 40% last quarter. Looking at the rest of 2021, Airbnb commented it was seeing improving booking growth in October, as delta concerns subside. We plan to increase our $90 fair value estimate around 10%, mostly to account for worker flexibility driving higher long-term travel demand, as well as for stronger near-term profitability. Our constructive stance on remote working conditions is formed by higher-income occupations (like computers, finance, legal, and architecture) being the most likely industries to sustain such flexibility. We view shares as overvalued.

EBITDA margins reached 49.2% in the seasonally strong third quarter, up from 37.3 last year and 19.1% in 2019. We plan to increase our 13% 2021 EBITDA margin forecast to the low 20s, although we expect marketing and overhead expense to increase in the fourth quarter. Even though Airbnb is ramping margins faster than expected, we still expect low 30s long-term margins versus 2019's inefficiently operated negative 7%, which coincides with Airbnb's guidance.

We reiterate that investors interested in travel exposure should shift their focus from nonurban U.S. players that have led the travel recovery (like narrow-moat Choice and Wyndham) to those with a Europe and China presence (like narrow-moat Booking and Accor), which we believe will experience stronger relative demand improvement next year versus the former. Specifically, we highlight Accor, which trades at a 20% discount to our EUR 40 fair value estimate while offering 60% hotel exposure to Europe.

Investors interested in our detailed analysis on the Europe hotel industry should review our October report, "Europe's Love of Travel Set to Take Flight."

Airbnb Continues to See Industry-Leading Demand, With Robust Profit Improvement; Shares Not Cheap 12 Aug 2021

Narrow-moat Airbnb saw stout second-quarter demand and profit improvement, aided by continued strength in the U. S., flexible working, and a broadening of travel to regions like Europe. Specifically, bookings reached 137% of 2019's level, up from 104% in the prior quarter. Bookings were driven by rates that were 138% of the prepandemic level, with room nights reaching 99% of 2019's level. Rates have been pushed higher by a travel mix of U.S. and larger home bookings. This driver should moderate as travel broadens out to other regions like Europe and if traveler flexibility is reduced by return to work. Looking at the rest of 2021, Airbnb commented it was starting to see some increased cancellation rates and slowdowns in booking volume due to pent-up demand already realized and the Delta variant. But we expect demand to remain buoyant. This view is supported by the resilience of U.S. travel demand during the case spikes around the July Fourth, Labor Day, and Thanksgiving holidays in 2020, as well as U.S. hotel and air volumes remaining strong into early August.

Airbnb Inc ABNB (NAS) | ★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
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Analyst Notes

Airbnb continued to improve greatly upon its inefficient cost structure as a private company. Operating margins were negative 4% (positive 13% when excluding stock compensation), an improvement from the negative 50% (negative 24%) last quarter, as well as the negative 10% in 2019. We think Airbnb is well positioned to see marketing, operational, product development, and general cost efficiencies over the next several years, and still think to can achieve mid-20% and roughly 30% operating and EBITDA margins, respectively, toward the latter half of this decade.

We plan to lift our near-term sales and profitability forecasts, while maintaining our intermediate and long-term estimates. As a result, we expect our $84 fair value estimate to lift to around $90 per share. We think the 5% drop in shares after hours is tied to valuation, which remains tough to accommodate, as Airbnb continues to post strong results.

We are encouraged by the product and marketing investment that Airbnb is making to improve its user experience for both travelers (demand side of its network advantage) and hosts (supply side of its network advantage). Specifically, Airbnb has made numerous updates to its website and mobile app, including search capabilities around flexible dates and locations. This enhancement is strategically smart, as remote working allows for more flexible travel. And Airbnb noted that 40% of its guests have signaled they currently have flexibility around when and where they travel. Host experience has also been enhanced, with a simpler onboarding process, which often leads to an individual listing his or her accommodation in half the time it previously took. As a result, Airbnb noted that supply increased sequentially (unquantified), which was encouraging given the intensifying competition for hosts from narrow-moat peers Expedia and Booking. We continue to award Airbnb's network a narrow moat and believe the company will grow its leading position in alternative accommodations, as well as hold one of the top shares in the experiences market during the next several years.

Those interested in a detailed analysis of Airbnb's competitive positioning and intrinsic valuation should review our June 2021 report, "Airbnb's Valuation Is Tough To Accommodate."

Airbnb Inc ABNB (NAS) | ★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2018	2019	2020	*2021* (Forecast)	*2022* (Forecast)	*5-Year Proj. CAGR*
Revenue	*9.7*	42.6	31.6	-29.7	*79.2*	*28.4*	*32.0*
EBIT	—	-123.0	-2,775.8	615.8	*-106.6*	*281.8*	—
EBITDA	*-261.0*	184.3	-248.4	-1.0	*-673.5*	*40.1*	—
Net Income	—	-75.9	3,899.6	579.9	*-95.8*	*-477.1*	—
Diluted EPS	—	-76.1	3,834.7	523.0	*-98.3*	*-477.1*	—
Earnings Before Interest, after Tax	—	-163.6	-1,668.1	216.9	*-71.9*	*-232.6*	—
Free Cash Flow	—	-2,121.1	-61.2	-427.6	*-36.4*	*-299.9*	—

Profitability	3-Year Hist. Avg	2018	2019	2020	*2021*	*2022*	*5-Year Proj. Avg*
Operating Margin %	*-38.7*	0.5	-10.4	-106.3	*3.9*	*11.7*	*14.7*
EBITDA Margin %	*-2.7*	4.7	-5.3	-7.4	*23.8*	*25.9*	*27.3*
Net Margin %	*-50.1*	-0.5	-14.0	-135.7	*-3.2*	*9.3*	*11.2*
Free Cash Flow Margin %	*-0.5*	17.2	5.1	-23.6	*-8.4*	*13.1*	*11.8*
ROIC %	*-37.2*	19.6	-76.7	-54.5	*6.1*	*161.8*	*163.4*
Adjusted ROIC %	*-15.2*	13.5	-33.8	-25.2	*3.4*	*93.3*	*101.2*
Return on Assets %	*-19.4*	-0.5	-9.0	-48.8	*-1.7*	*5.6*	*7.6*
Return on Equity %	*-109.9*	6.5	101.8	-437.9	*-6.8*	*23.5*	*33.8*

Leverage	3-Year Hist. Avg	2018	2019	2020	*2021*	*2022*	*5-Year Proj. Avg*
Debt/Capital	*0.13*	—	—	0.38	*0.42*	*0.36*	*0.33*
Total Debt/EBITDA	—	—	—	-7.24	*1.37*	*0.98*	*0.79*
EBITDA/Interest Expense	*-6.78*	6.53	-25.41	-1.46	*8.99*	*10.79*	*18.55*

Valuation Summary and Forecasts

	2019	2020	*2021(E)*	*2022(E)*
Price/Fair Value	—	2.45	—	—
Price/Earnings	—	NM	*NM*	*153.1*
EV/EBITDA	—	NM	*67.9*	*48.5*
EV/EBIT	—	NM	*409.7*	*107.3*
Free Cash Flow Yield %	—	-0.8	*-0.1*	*1.7*
Dividend Yield %	—	—	—	—

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	8.9
Long-Run Tax Rate %	24.0
Stage II EBI Growth Rate %	9.5
Stage II Investment Rate %	-2.2
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	15,948	26.5	23.45
Present Value Stage II	12,859	21.4	18.91
Present Value Stage III	31,315	52.1	46.05
Total Firm Value	**60,121**	**100.0**	**88.41**
Cash and Equivalents	6,425	—	9.45
Debt	-1,816	—	-2.67
Preferred Stock	—	—	—
Other Adjustments	—	—	—
Equity Value	**64,731**	**—**	**95.19**
Projected Diluted Shares	680		
Fair Value per Share (USD)	**102.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Airbnb Inc ABNB (NAS) | ★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
162.26 USD	102.00 USD	High	Narrow	Stable	Standard	Travel & Leisure	

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2018	2019	2020	*2021 (Forecast)*	*2022 (Forecast)*
Revenue	**3,652**	**4,805**	**3,378**	***6,055***	***7,776***
Cost of Goods Sold	864	1,196	876	*1,229*	*1,563*
Gross Profit	**2,788**	**3,609**	**2,502**	***4,826***	***6,213***
Selling, General & Administrative Expenses	479	697	1,135	*892*	*992*
Advertising & Marketing	1,101	1,622	1,175	*1,249*	*1,617*
Other Operating Expense (Income)	1,188	1,792	3,782	*2,446*	*2,693*
Depreciation & Amortization (if reported separately)	—	—	—	—	—
Operating Income (ex charges)	**19**	**-502**	**-3,590**	***238***	***910***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**19**	**-502**	**-3,590**	***238***	***910***
Interest Expense	26	10	172	*160*	*187*
Interest Income	54	100	-920	*-270*	*50*
Pre-Tax Income	**47**	**-412**	**-4,682**	***-192***	***773***
Income Tax Expense	64	263	-97	—	*50*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**-17**	**-674**	**-4,585**	***-192***	***723***
Weighted Average Diluted Shares Outstanding	256	261	284	*680*	*680*
Diluted Earnings Per Share	**-0.07**	**-2.59**	**-16.12**	***-0.28***	***1.06***
Adjusted Net Income	-17	-674	-4,585	*-192*	*723*
Diluted Earnings Per Share (Adjusted)	**-0.07**	**-2.59**	**-16.12**	***-0.28***	***1.06***
Dividends Per Common Share	—	—	—	—	—
EBITDA	**101**	**-387**	**-3,464**	***408***	***1,081***
Adjusted EBITDA	**171**	**-253**	**-251**	***1,438***	***2,014***

Airbnb Inc ABNB (NAS) | ★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
162.26 USD	102.00 USD	High	Narrow	Stable	Standard	Travel & Leisure	🌐🌐🌐

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2018	2019	2020	*Forecast* 2021	*Forecast* 2022
Cash and Equivalents	2,141	2,014	5,481	*4,737*	*5,614*
Investments	1,188	1,061	945	*910*	*910*
Accounts Receivable	240	342	310	*415*	*533*
Inventory	—	—	—	—	—
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	2,305	3,145	2,181	*4,000*	*5,137*
Current Assets	**5,875**	**6,561**	**8,916**	***10,062***	***12,194***
Net Property Plant, and Equipment	309	301	270	*191*	*176*
Goodwill	290	652	656	*656*	*656*
Other Intangibles	29	103	76	*76*	*76*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	—	386	384	*688*	*884*
Long-Term Non-Operating Assets	111	307	189	*189*	*189*
Total Assets	**6,613**	**8,310**	**10,491**	***11,862***	***14,175***
Accounts Payable	71	151	80	*101*	*128*
Short-Term Debt	—	—	—	*10*	*10*
Deferred Tax Liabilities (Current)	864	1,224	2,414	*1,500*	*1,545*
Other Short-Term Liabilities	2,801	3,858	2,646	*4,600*	*5,908*
Current Liabilities	**3,736**	**5,234**	**5,140**	***6,211***	***7,591***
Long-Term Debt	—	—	1,816	*1,966*	*1,956*
Deferred Tax Liabilities (Long-Term)	—	—	—	—	—
Other Long-Term Operating Liabilities	—	381	431	*772*	*992*
Long-Term Non-Operating Liabilities	163	271	203	*203*	*203*
Total Liabilities	**3,899**	**5,886**	**7,590**	***9,152***	***10,742***
Preferred Stock	3,232	3,232	—	—	—
Common Stock	—	—	—	—	—
Additional Paid-in Capital	259	618	8,905	*8,905*	*8,905*
Retained Earnings (Deficit)	-769	-1,421	-6,006	*-6,197*	*-5,474*
(Treasury Stock)	—	—	—	—	—
Other Equity	-8	-4	3	*3*	*3*
Shareholder's Equity	**2,714**	**2,424**	**2,902**	***2,710***	***3,433***
Minority Interest	—	—	—	—	—
Total Equity	**2,714**	**2,424**	**2,902**	***2,710***	***3,433***

Airbnb Inc ABNB (NAS) | ★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
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Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

	2018	2019	2020	*Forecast 2021*	*Forecast 2022*
Net Income	-17	-674	-4,585	*-192*	*723*
Depreciation	82	114	126	*170*	*171*
Amortization	—	—	—	—	—
Stock-Based Compensation	54	98	3,002	*892*	*893*
Impairment of Goodwill	—	28	82	—	—
Impairment of Other Intangibles	—	—	36	—	—
Deferred Taxes	-5	-6	-20	*-914*	*45*
Other Non-Cash Adjustments	60	41	1,013	—	—
(Increase) Decrease in Accounts Receivable	-103	-186	-16	*-105*	*-118*
(Increase) Decrease in Inventory	—	—	—	—	—
Change in Other Short-Term Assets	—	49	-33	*-1,819*	*-1,137*
Increase (Decrease) in Accounts Payable	30	76	-73	*21*	*27*
Change in Other Short-Term Liabilities	494	682	-162	*1,954*	*1,308*
Cash From Operations	**596**	**221**	**-630**	***8***	***1,912***
(Capital Expenditures)	-91	-125	-37	*-91*	*-156*
Net (Acquisitions), Asset Sales, and Disposals	-31	-192	—	—	—
Net Sales (Purchases) of Investments	-744	-615	-1,684	*35*	—
Other Investing Cash Flows	198	585	1,801	*37*	*24*
Cash From Investing	**-668**	**-347**	**80**	***-19***	***-132***
Common Stock Issuance (or Repurchase)	—	—	—	—	—
Common Stock (Dividends)	—	—	—	—	—
Short-Term Debt Issuance (or Retirement)	—	—	—	*10*	—
Long-Term Debt Issuance (or Retirement)	—	—	1,924	*150*	*-10*
Other Financing Cash Flows	141	855	1,017	*-892*	*-893*
Cash From Financing	**141**	**855**	**2,941**	***-732***	***-903***
Exchange Rates, Discontinued Ops, etc. (net)	2,073	-855	1,076	—	—
Net Change in Cash	**2,141**	**-127**	**3,467**	***-744***	***878***

Airbnb Inc ABNB (NAS) | ★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)
Booking Holdings Inc BKNG USA	0.96	472.9	81.4	26.6	104.9	52.5	19.6	NM	49.7	20.1	—	—	—	13.4	9.2	6.7
Expedia Group Inc EXPE USA	1.18	NM	95.5	34.3	NM	24.4	17.0	NM	10.0	25.9	—	—	—	3.7	3.4	2.7
TripAdvisor Inc TRIP USA	0.84	NM	71.8	16.9	NM	50.5	12.3	NM	19.7	17.1	—	—	—	6.4	4.2	2.8
Average		472.9	82.9	25.9	104.9	42.5	16.3	—	26.5	21.0	—	—	—	7.8	5.6	4.1
Airbnb Inc ABNB US	**1.59**	**NM**	**NM**	**153.1**	**NM**	**67.9**	**48.5**	**NM**	**NM**	**58.7**	**—**	**—**	**—**	**26.4**	**17.0**	**13.3**

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)
Booking Holdings Inc BKNG USA	21,874 USD	12.9	29.3	95.5	24.1	51.1	180.1	1.1	19.9	59.4	0.3	4.8	12.6	—	—	—
Expedia Group Inc EXPE USA	18,690 USD	187.8	-63.3	-83.4	-18.4	7.3	29.5	-98.1	-13.3	21.4	-13.4	-0.9	1.4	0.3	—	—
TripAdvisor Inc TRIP USA	1,969 USD	-186.9	-133.2	4,304.2	-12.5	-6.5	21.4	-28.2	-14.9	4.2	-14.6	-5.6	1.5	—	—	—
Average		4.6	-55.7	1,438.8	-2.3	17.3	77.0	-41.7	-2.8	28.3	-9.2	-0.6	5.2	0.3	—	—
Airbnb Inc ABNB US	**10,491** USD	**-54.5**	**6.1**	**161.8**	**-25.2**	**3.4**	**93.3**	**-437.9**	**-6.8**	**23.5**	**-48.8**	**-1.7**	**5.6**	**—**	**—**	**—**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)
Booking Holdings Inc BKNG USA	6,796 USD	-54.9	66.6	37.3	-89.2	284.0	116.1	-95.4	562.1	206.5	-115.9	-514.5	101.5	—	—	—
Expedia Group Inc EXPE USA	5,199 USD	-56.9	69.2	29.0	-401.1	-106.7	320.4	-239.9	-123.1	179.5	-375.9	-172.0	-64.6	-74.2	-100.0	—
TripAdvisor Inc TRIP USA	604 USD	-61.3	52.5	51.8	-252.4	-61.6	-171.9	-169.8	-131.7	324.3	-419.8	-131.7	-92.2	-100.0	—	—
Average		-57.7	62.8	39.4	-247.6	38.6	88.2	-168.4	102.4	236.8	-303.9	-272.7	-18.4	-87.1	-100.0	—
Airbnb Inc ABNB US	**3,378** USD	**-29.7**	**79.2**	**28.4**	**615.8**	**-106.6**	**281.8**	**523.0**	**-98.3**	**-477.1**	**-427.6**	**-36.4**	**-299.9**	**—**	**—**	**—**

Airbnb Inc ABNB (NAS) | ★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)
Booking Holdings Inc BKNG USA	194 USD	100.0	100.0	100.0	12.9	17.4	34.0	8.5	19.7	31.0	2.9	11.4	24.7	-3.0	18.5	33.5
Expedia Group Inc EXPE USA	-1,242 USD	67.7	82.5	82.5	-7.1	16.1	17.9	-52.3	2.1	6.7	-23.9	3.3	7.0	-89.1	34.5	10.3
TripAdvisor Inc TRIP USA	-167 USD	90.9	92.0	93.5	-8.4	8.9	24.0	-47.2	-11.9	5.6	-27.7	5.8	16.1	-41.2	21.3	16.2
Average		86.2	91.5	92.0	-0.9	14.1	25.3	-30.3	3.3	14.4	-16.2	6.8	15.9	-44.4	24.8	20.0
Airbnb Inc ABNB US	**-4,585** USD	**74.1**	**79.7**	**79.9**	**-7.4**	**23.8**	**25.9**	**-106.3**	**3.9**	**11.7**	**-135.7**	**-3.2**	**9.3**	**-19.8**	**-1.4**	**22.6**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)
Booking Holdings Inc BKNG USA	12,014 USD	245.5	182.4	256.5	71.1	64.6	72.0	2.5	7.0	21.1	13.7	5.5	1.9	4.5	3.9	5.9
Expedia Group Inc EXPE USA	8,216 USD	324.5	350.5	268.4	76.4	77.8	72.9	-1.0	4.0	7.0	-22.3	5.8	3.4	7.4	9.6	8.4
TripAdvisor Inc TRIP USA	491 USD	55.4	108.9	73.0	35.7	52.1	42.2	-1.5	1.9	9.6	-9.6	10.2	1.7	2.2	3.1	2.7
Average		208.5	213.9	199.3	61.1	64.8	62.4	—	4.3	12.6	-6.1	7.2	2.3	4.7	5.5	5.7
Airbnb Inc ABNB US	**1,816** USD	**62.6**	**72.9**	**57.3**	**38.5**	**42.2**	**36.4**	**-1.5**	**9.0**	**10.8**	**7.2**	**1.4**	**1.0**	**3.6**	**4.4**	**4.1**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)
Booking Holdings Inc BKNG USA	104,358 USD	256.61	282.75	262.14	3.56	2.84	2.14	3.56	2.84	2.14	10.72	13.39	21.02	—	—	—
Expedia Group Inc EXPE USA	30,196 USD	23.78	49.48	45.11	1.04	0.94	0.91	1.04	0.94	0.91	—	9.06	12.83	-1.8	—	—
TripAdvisor Inc TRIP USA	3,869 USD	3.10	6.12	4.14	2.37	2.50	1.86	2.37	2.50	1.86	—	—	—	—	—	—
Average		94.50	112.78	103.80	2.32	2.09	1.64	2.32	2.09	1.64	10.72	11.23	16.93	-1.8	—	—
Airbnb Inc ABNB US	**103,098** USD	**19.27**	**6.97**	**8.26**	**1.73**	**1.62**	**1.61**	**1.73**	**1.62**	**1.61**	**—**	**473.69**	**561.45**	**—**	**—**	**—**

Research Methodology for Valuing Companies

Qualitative Equity Research Overview
At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group (“we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

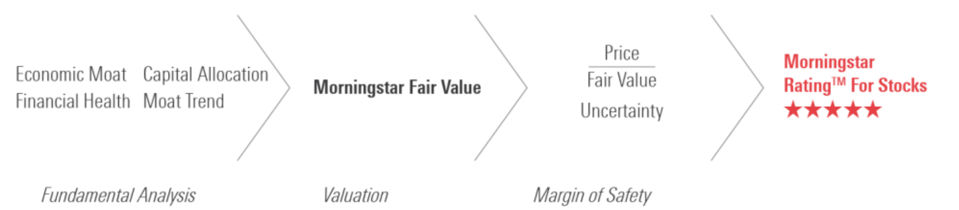
1. Economic Moat
The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm’s economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

Morningstar Research Methodology for Valuing Companies



2. Estimated Fair Value
Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.
Our model is divided into three distinct stages:

Stage I: Explicit Forecast
In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

3. Uncertainty Around That Fair Value Estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to

Research Methodology for Valuing Companies

assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

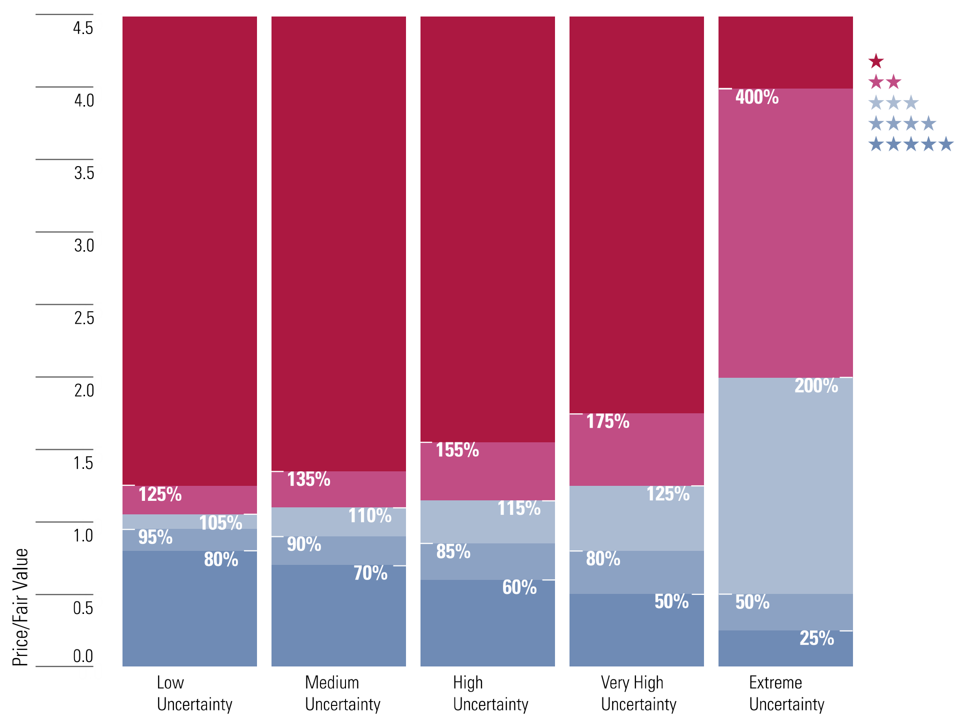
- ► Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ► Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ► High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ► Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ► Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environmental, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/.

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Airbnb Inc ABNB (NAS) | ★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
162.26 USD	102.00 USD	High	Narrow	Stable	Standard	Travel & Leisure	

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