

Priceline.com, Inc. Ticker: PCLN Sector: Consumer Discretionary Industry: Internet Retail	Intrinsic Value: \$1,659.05 Current Price: \$1,279.98 Stop Loss: \$1,087.98 Upside Review: \$1,824.96	TTM P/E: 36.93 Forward P/E: 24.94 FV Imp. P/E: 25.46 Beta: 1.48	Market Cap: \$65.83B Dividend Yield: Nil 52 Wk Range: \$665.05-\$1,284.70
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Industry Trends:

The overall outlook for internet retail industry is positive. U.S. e-commerce sale is predicted to increase from \$262 billion in 2013 to \$370 billion in 2017. Although personal spending increase remains at lower rate, the potential improvement is expected once the labor market recovers, banks are slowly increasing the lending, which stimulates the consumer spending. Customers enjoy the convenience and reliable online service, and obtain comparable and transparent information to get products at attractive prices easily. Online booking is replacing traditional offline channels. Favorable economic outlooks in emerging markets drive the growth in this industry as well.

Business Summary:

Priceline.com provides various travel services, including flight tickets, hotel reservation, car rentals, vacation packages, etc. The company runs lots of branded travel booking sites, such as Priceline.com, Booking.com, Agoda.com, rentalcars.com and acquiring Kayak in 2013. Revenues come from Agency revenues (59.7%, travel commissions, no cost, 53.53% 3Y growth), Merchant revenues (40%, mainly selling price of "Name Your own Price" products in U.S., 44.1% gross margin, 13.29% 3Y growth), and Advertising (0.3%).

Investment Thesis:

PCLN intends to build itself as leading global provider of online travel services. In 2004 and 2005, it acquired activehotels.com and booking.com that were two European hotels booking websites to expand the European market. The acquisition of booking.com was considered as the most profitable acquisition in the digital travel space in the 2000s. In 2010, PCLN purchased TravelJigsaw (rebranded as rentalcars.com), a rental car provider in Europe. The acquisition of Agoda and alliance with CTRP (Chinese biggest online travel services provider) shows an aggressive posture to pursue Asian markets. Its focuses on expanding international markets and strategic acquisitions make it an attractive equity.

PCLN 5 year stock performance:



Competitive Analysis:

PCLN's key competitor is Expedia. Different from Expedia's domestic focus, PCLN's international expansion makes it outstanding. PCLN's gross bookings and revenue grew at 43% while Expedia grew at 23% in the past five years. "Name Your Own Price" allows branded supplier to clear the inventory at discount without damaging brand image, which attract more suppliers than its competitors.

Pros:

- Favorable travel trends around the world
- Seizing international market share by successful acquisitions, plenty of room in the \$600 billion international markets is foreseeable
- A favorable position to sign up stand-alone, boutique hotels and negotiate better commission rates in Europe and Asia
- "Network effect" bring more users and suppliers
- Economic growth and rising disposable income drive increase in demand in emerging markets in Asia and Latin America
- "Name Your Own Price" product is popular in U.S.
- Back-end system integration from different websites helps cross-sell traveling inventories to make the best use of resources

Risk Factors:

- Effective tax rate will increase due to not maintaining "Innovation Box Tax" benefit (CIT at 5% for earnings qualifying innovative activities rather than 25% in the Netherlands, R&D certificate required every 6 months)
- Competitor is looking for international markets. Expedia expanded in Asia by partnership with Tencent (China's largest internet firm) and AirAsia (leading budget airline)
- Google is participating in online travel markets
- European markets' growth slows down since economies are uncertain
- Natural disaster, political instability, terrorism threat

Total Return Estimates:

3 Yr FV Reversion*:	9.03%
5 Yr FV Reversion*:	5.32%

(* - From limit order price of \$00.00)

Key Valuation Assumptions:

Est. Revenue Growth	23.2%
WACC	11.24%
Expected Inflation	3%
Terminal Growth Rate	4%
10 yr. Risk Free Rate	2.68%
Equity Risk Premium	5.9%
Tax Rate	19.18%

Key Financial Data:

Est. 2013 EPS	33.46
Est. 2014 EPS	40.09
3-5 Yr. Est. EPS Growth	17.57%
Credit Quality	B+
ROE	35.70%
ROA	17.36%
Price/Book	10.19
Price/Cash Flow	29.0
Debt/Equity	36.05%
Current Ratio	3.9
Quick Ratio	3.8
CSR Scores	PCLN / Ind. Avg.
Human Rights	0/0
Business Ethics Policy	1/1
ESG Disclosure Score	14.05/12.07
Equal Opportunity Score	0/0
Emission Reduction	0/0
Environmental Disclosure Score	n/a/0

Direct Competitor Comparison					
	PCLN	EXPE	OWW	PVT1	Industry
Market Cap:	65.83B	9.99B	952.59M	N/A	264.25M
Employees:	9,400	14,570	N/A	N/A	725.00
Qtrly Rev Growth (yoy):	0.33	0.18	0.04	N/A	0.15
Revenue (ttm):	6.44B	4.77B	847.00M	3.04B ¹	198.12M
Gross Margin (ttm):	0.83	0.78	0.82	N/A	0.36
EBITDA (ttm):	2.41B	654.93M	116.13M	N/A	22.80M
Operating Margin (ttm):	0.36	0.11	0.08	N/A	0.06
Net Income (ttm):	1.80B	232.85M	165.09M	-670.70M ¹	N/A
EPS (ttm):	34.66	1.67	1.46	N/A	0.08
P/E (ttm):	36.93	46.19	6.02	N/A	22.81
PEG (5 yr expected):	1.54	1.52	0.72	N/A	1.38
P/S (ttm):	10.19	2.08	1.14	N/A	1.97

EXPE = Expedia Inc.
OWW = Orbitz Worldwide, Inc.
Pvt1 = Sabre Corporation (privately held)
Industry = Business Services
¹ = As of 2012

Sources:

Bloomberg, Value Line Investment Survey, S&P Net Advantage, Morningstar, Yahoo! Finance, sec.gov
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