Long Ideas | Tech

Airbnb Valuation - Growth Is Expensive

Dec. 11, 2020 2:23 PM ET | 18 comments | 5 Likes | About: Airbnb, Inc. (ABNB), Includes: BKNG, EXPE, H, VAC

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Summary

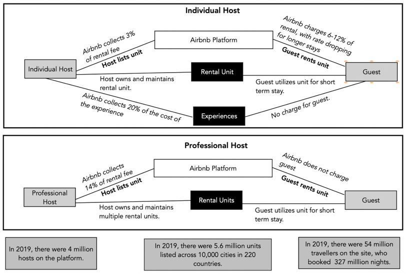
- AirBnb has more than 4 million hosts offering private rooms in their own homes to luxury experiences, from one night to several weeks or months.
- AirBnb intends to disrupt the one-size-fits-all approach that was the standard for travel and leisure. The company believes that hosting is at the center of the AirBnb experience.
- In 2019, the company generated Gross Booking Value ((GBV)) of $38bn, 29% growth y/y, and has generated $507mm in free cash flow since inception, signifying its cash generation potential.
- Thecompany business model has shown resilience in the face of the pandemic withbusiness beginning to pick up within two months of travel shutting down aroundthe world per the company S-1.
- The stock is priced incredibly high, and while we love the company and what it's doing, the valuation is simply not enticing as an investor. The stock is trading near our absolute Bull Case scenario which we outline in our valuation.

Business Model

The concept of AirBnb was born in 2007 when the two founders, Brian and Joe, noticed an international conference was coming to town and every hotel was sold out. The founders quickly created a website, AirBedandBreakfast.com, and were able to rent their apartment to the conference attendees.

Airbnb is the latest company to make use of the sharing economy, or the peer-to-peer economy. The business model is built on buyers and sellers sharing resources through collaborative consumption of goods, services, and of ownership. The Airbnb platform provides tools that make it easy to connect hosts who own houses and apartments with guests who seek to rent them for short-term stays. Airbnb's revenues comes from fees collected on guest rental stays with fees being charged on both the host and the guest side per the company S-1. In 2016, Airbnb added another business line with experiences, but the business has been slow to gain any meaningful traction with only $10 million in sales in 2017.

This is a handy graphic summarizing the business model courtesy of Aswath Damodaran.


Individual Host
Airbnb Platform
Airbnb collects 3% of rental fee
Host lists unit
Airbnb charges 6-12% of rental, with rate dropping for longer stays
Guest rents unit
Individual Host
Rental Unit
Guest
Host owns and maintains rental unit.
Guest utilizes unit for short term stay.
Airbnb collects 20% of the cost of the experience
Experiences
No charge for guest.
Professional Host
Airbnb Platform
Airbnb collects 14% of rental fee
Host lists unit
Airbnb does not charge guest
Guest rents unit
Professional Host
Rental Units
Guest
Host owns and maintains multiple rental units.
Guest utilizes unit for short term stay.

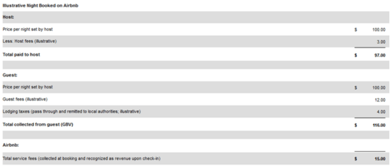
In 2019, there were 4 million hosts on the platform.

In 2019, there were 5.6 million units listed across 10,000 cities in 220 countries.

In 2019, there were 54 million travellers on the site, who booked 327 million nights.

Source: Aswath Damodaran

And Airbnb provides an illustrative example of the business model at work with the fees they would collect in their S-1.



Illustrative Night Booked on Airbnb

Host:		
Price per night set by host	$	100.00
Less: Host fees (illustrative)		3.00
Total paid to host	**$**	**97.00**
Guest:		
Price per night set by host	$	100.00
Guest fees (illustrative)		12.00
Lodging taxes (pass through and remitted to local authorities; illustrative)		4.00
Total collected from guest (GBV)	**$**	**116.00**
Airbnb:		
Total service fees (collected at booking and recognized as revenue upon check-in)	**$**	**15.00**

Source: Company S-1

Hosts

As of September 30, 2020, AirBnb had 4 million hosts around the world, with 86% of hosts outside the United States, and 7.4 million available listings of homes and experiences, 5.6 million of which were active listings per the company S-1. Per the company, "We consider a listing of a home or an experience to be an active listing if it is viewable on Airbnb and has been previously booked at least once on Airbnb."

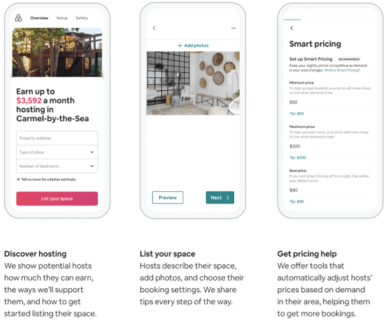
Hosts generally fall into two categories – individual and professional. Individual

Axel
Add symbol Edit

AMZN	3,116.42	0.48%
NFLX	503.22	0.43%
BABA	264.54	-0.13%
VEEV	264.05	-0.38%
PYPL	214.06	-0.59%
V	206.24	-0.66%
BKNG	2,089.21	-0.74%
TOT	45.17	-1.05%

Expand Portfolio

hosts activate their listings directly on the Airbnb platform through the website or app. Professional hosts in contrast run their own property management or hospitality business and use programs to list their properties on the Airbnb platform. As of December 31, 2019, 90% of hosts were individual hosts and 72% of nights booked were with individual hosts per the company S-1. Individual hosts are the core component and key supply for Airbnb.



Discover hosting
We show potential hosts how much they can earn, the ways we'll support them, and how to get started listing their space.

List your space
Hosts describe their space, add photos, and choose their booking settings. We share tips every step of the way.

Get pricing help
We offer tools that automatically adjust hosts' prices based on demand in their area, helping them to get more bookings.

Source: Company S-1

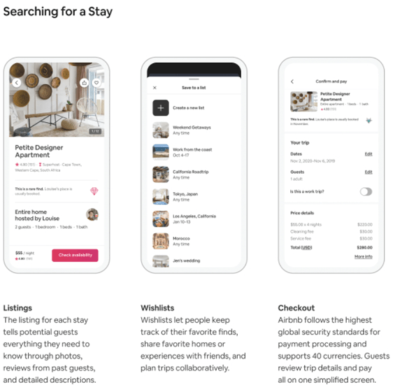
Airbnb provides a number of services to enable their 4 million hosts. Anyone can become a successful host on the Airbnb platform and Airbnb is able to provide a number of services per the S-1 including:

- Global demand: Anyone with an internet connection can book an Airbnb experience from anywhere in the world
- Merchandising: Airbnb helps hosts create and activate their listings on the platform. By taking hosts step-by-step through the process, Airbnb is able to make posting effective and easy.
- Pricing: Hosts can set their own prices, but Airbnb does provide smart pricing tools that suggest prices based on changes in demand for other similar listings based on factors like the season and expected demand.
- Scheduling: Hosts can easily manage their calendars and accept and manage their listings and reservations on the platform through the website or app.
- Payments: Airbnb facilitates all payments by collecting payments from guests and processing the payments to hosts. In 2019, Airbnb processed approximately $70bn of guest and host transactions.

Airbnb also provides services like community support, host protections, posted reviews and feedback, and a superhost program.

Key Metrics and Covid resilience

According to the company S-1 filing, the majority of guests who have ever made a booking on Airbnb were between the ages of 18-34. In 2019, 54 million active bookers worldwide booked 327 million nights and experiences on the platform.



Listings
The listing for each stay tells potential guests everything they need to know through photos, reviews from past guests, and detailed descriptions.

Wishlists
Wishlists let people keep track of their favorite finds, share favorite homes or experiences with friends, and plan trips collaboratively.

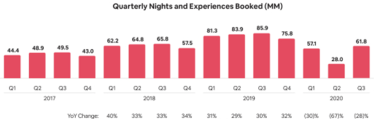
Checkout
Airbnb follows the highest global security standards for payment processing and supports 40 currencies. Guests review trip details and pay all on one simplified screen.

Source: Company S-1

Nights and experiences booked are a key measure of the true scale of the Airbnb platform. Per the company S-1, "Nights and Experiences Booked on our platform in a period represents the sum of the total number of nights booked for stays and the total number of seats booked for experiences, net of cancellations and alterations that occurred in that period."

In 2019, Airbnb had 326.9 mm Nights and Experiences booked, a 31% increase from the 250.3 mm in 2018, which grew 35% from 2017. Typically, the first, second, and third quarters of the year each have higher Nights and Experiences Booked compared to the fourth quarter, as guests travel during the peak travel season, which is in the third quarter for North America and EMEA according to the company S-1.

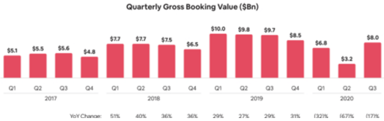
Covid has obviously had an effect on the hotel industry, and Airbnb is not immune with 2020 being a down year and Q2 being particularly severe across several key metrics. However, the business model has shown resilience and management attributes this to the renewed ability and willingness of guests to travel. I know personally I'm looking at Airbnb's in warmer climates as I'm itching to get out of the cold and soon to be lock downed northeast US.


Quarterly Nights and Experiences Booked (MM)

Source: Company S-1

For the nine months ended Sept 30, 2020, the company had 146.9 mm Nights and Experiences Booked, a decrease of 41% compared to the prior year period according to the company S-1. However, the decline was most severe in the second quarter and business has rebounded with Q3 being down only 28% y/y. The company credits this improvements primarily to stronger results in North America and Europe and in particular to resilience in domestic and short-distance travel.

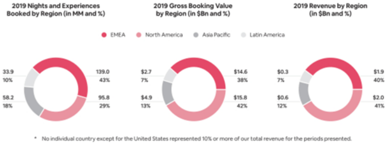
Gross Bookings value (GBV) is defined in the S-1 as “the dollar value of bookings on our platform in a period and is inclusive of host earnings, service fees, cleaning fees, and taxes, net of cancellations and alterations that occurred during that period.” Growth in GBV reflects the company’s ability to attract and retain hosts and guests and reflects growth in Nights and Experiences booked. In 2019, GBV grew 29% y/y and 2018 grew 40% y/y.


Quarterly Gross Booking Value ($Bn)

Source: Company S-1

In 2020, there is a similar drop in GBV due to the Covid pandemic. For the first nine months ended Sept 30, 2020 GBV was $18bn, a 39% decrease from the prior year period according to the S-1. The decline was once again most severe in Q2 and Q3 rebounded, being down only 17% y/y.

In 2019, GBV and revenue by region were about equal between EMEA and for North America. However, as a result of the pandemic, GBV and revenue have reflected a shift toward NA where the recovery has been strongest. “For the first nine months of 2020, GBV was $9.7 billion, or 54% of the total, in North America compared to $5.6 billion, or 31%, in EMEA, $1.6 billion, or 9%, in Asia Pacific, and $1.1 billion, or 6%, in Latin America” – company S-1


2019 Nights and Experiences Booked by Region (in MM and %)

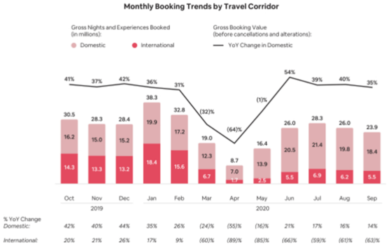
2019 Gross Booking Value by Region (in $Bn and %)

2019 Revenue by Region (in $Bn and %)

* No individual country except for the United States represented 10% or more of our total revenue for the periods presented.

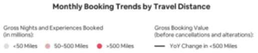
Source: Company S-1

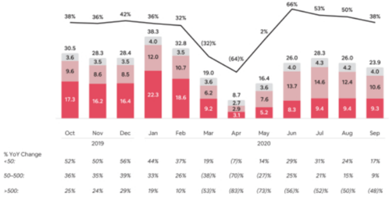
Historically, Airbnb has had a strong weight toward cross-border travel, with 49% of nights in 2019 compared to management’s estimate of 20% of total overnight paid trips for the travel industry as a whole according the company S-1. However, the pandemic has marked a shift to domestic travel in Airbnb’s traditional travel corridor mix. In September 2020, 77% of experiences booked were domestic compared to 52% in January. In fact, domestic bookings have grown at a rapid clip with 54% growth in June 2020 and 35% growth in September 2020.


Monthly Booking Trends by Travel Corridor

Source: Company S-1

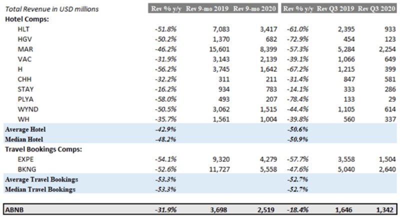
This shift has been especially pronounced in short-distance (within 50 miles of guest origin) travel and travel outside of Airbnb’s top 20 cities. From May through September 2020, short-distanced GBV actually grew year over year and travel between 50 miles and 500 miles returned to growth in June of this year. Airbnb’s top 20 cities typically make up high single to low double digits of total experiences booked, but travel outside of these cities has been resilient throughout Covid being down only 19% y/y in September 2020 according to the company S-1.


Monthly Booking Trends by Travel Distance



Source: Company S-1

Clearly, Airbnb is well-positioned because of its wide offering to cater shifting consumer travel habits and this has enabled the company to be more resilient in a downturn than travel competitors, in some metrics even being able to achieve grow. If we look at hotel and travel booking competitors, we see that Airbnb has weathered the pandemic much better than most peers when looking at 9 months ended Sept 30 2020 revenue. Airbnb revenue is down -31.9% so far in 2020 compared to the median hotel revenue being down -48.2% and travel bookings being down -53.3%. Airbnb has also bounced back faster than every competitor minus Choice Hotels in Q3 with revenues down -18.4% compared to the 50.9% median for hotels and -52.7% for travel bookings companies.



Total Revenue in USD millions	Rev % y/y	Rev 9-mo 2019	Rev 9-mo 2020	Rev % y/y	Rev Q3 2019	Rev Q3 2020
Hotel Comps:						
HLT	*-51.8%*	7,083	3,417	*-61.0%*	2,395	933
HGV	*-50.2%*	1,370	682	*-72.9%*	454	123
MAR	*-46.2%*	15,601	8,399	*-57.3%*	5,284	2,254
VAC	*-31.9%*	3,143	2,139	*-39.1%*	1,066	649
H	*-56.2%*	3,745	1,642	*-67.2%*	1,215	399
CHH	*-32.2%*	311	211	*-31.4%*	847	581
STAY	*-16.2%*	934	783	*-14.1%*	333	286
PLYA	*-58.0%*	493	207	*-78.4%*	133	29
WYND	*-50.5%*	3,062	1,515	*-44.4%*	1,105	614
WH	*-35.7%*	1,561	1,004	*-39.8%*	560	337
Average Hotel	*-42.9%*			*-50.6%*		
Median Hotel	*-48.2%*			*-50.9%*		
Travel Bookings Comps:						
EXPE	*-54.1%*	9,320	4,279	*-57.7%*	3,558	1,504
BKNG	*-52.6%*	11,727	5,558	*-47.6%*	5,040	2,640
Average Travel Bookings	*-53.3%*			*-52.7%*		
Median Travel Bookings	*-53.3%*			*-52.7%*		
ABNB	***-31.9%***	**3,698**	**2,519**	***-18.4%***	**1,646**	**1,342**

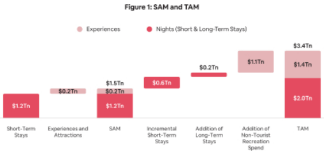
Source: Company 10-Qs and Airbnb S-1

Total Addressable Market and Growth Strategy

Management highlights massive market opportunities in its S-1 filing, "We have a substantial market opportunity in the growing travel market and experience economy. We estimate our serviceable addressable market (SAM) today to be $1.5 trillion, including $1.2 trillion for short-term stays and $239 billion for experiences. We estimate our total addressable market (TAM) to be $3.4 trillion, including $1.8 trillion for short-term stays, $210 billion for long-term stays, and $1.4 trillion for experiences."

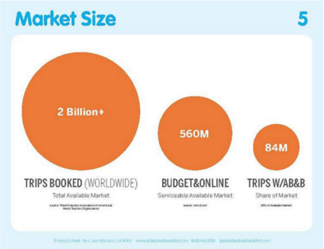
In general, these assumptions are based on the belief that new travel behaviors will expand the market opportunity over time as well as the need to justify a large market cap. Management uses their own internal estimates to come up with the $1.2trn for short-term stays and Euromonitor estimates of tourist spend on attractions and experiences to estimate the $239mm for Experiences.

To get the TAM short-term stays estimate, management assumes an increase in trips per capita based on The World Travel and Tourism Council estimated 3.5% CAGR. For long-term stays, the company uses 10% of the $1.6trn global residential rental market. And for experiences, they add $1.1trn of non-tourist recreational spend, again as estimated by Euromonitor.



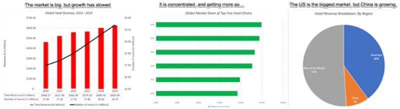
Source: Company S-1

In its early stages when it was a startup pitching to VCs back in 2009. Airbnb estimated the TAM to be 2billion+ trips a year and its SAM to be 560mn trips a year.



Source: Airbnb 2009 pitch to VCs

Another way to look at Airbnb's TAM is to look at the hotel business globally. According to NYU professor Aswath Damodaran's Airbnb analysis. The industry generated over $600bn in revenues in 2019, but its growth has stalled and the industry remains concentrated among the top 5 hotel chains. The US is the leading geographical market, but Asia has been gaining ground.



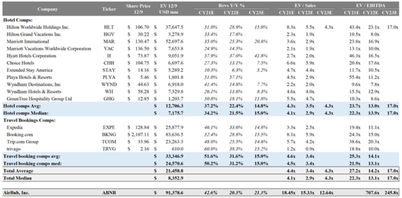
Source: Aswath Damodaran

The truth is Airbnb's TAM, and we agree with Damodaron's analysis here, is probably somewhere in between these two numbers. Ignoring Airbnb's experiences portion of the TAM calculation because that business line is nascent at best, we get an upper estimate of $2trn and a lower estimate of $600bn for Airbnb's TAM.

Peers

We identify comparable peers to get a sense of Airbnb's valuation and how in-line it is with the industry, while also keeping in mind Airbnb is growing faster and attempting to disrupt the hotel and travel booking industries. Current Hotel comparable peers are trading at a median of 4.1x 2021 sales and 2.0x 2022 sales according to Bloomberg Analyst Consensus estimates, while Airbnb's IPO price implies – 18.45x and 15.33x Sales based on our own estimates of 2021 and 2022 sales, respecively. The EBITDA comparison is tough to make with Airbnb because we estimate they will be EBITDA negative in 2021, and the EBITDA in 2022 and 2023 will be $130mm and $370mm leading to high multipliers. We can see that the median hotel company is trading at 22.3x 2021 estimated EBITDA and 13.9x 2022 estimated EBITDA according to Bloomberg consensus.

However, perhaps a more apt comparison is looking at online travel booking peers such as Expedia (EXPE) and Booking.com (BKNG). The EV / Sales and EV / EBITDA are slightly higher for this comparable group vs the pure hotels peers, primarily due to Booking.com. The median among this group trade at 4.5x 2021 sales and 3.4x 2022 sales according to Bloomberg consensus.



Company	Ticker	Share Price 12/9	EV 12/9 USD mm	Revs Y/Y % CY21E	Revs Y/Y % CY22E	Revs Y/Y % CY23E	EV / Sales CY21E	EV / Sales CY22E	EV / Sales CY23E	EV / EBITDA CY21E	EV / EBITDA CY22E	EV / EBITDA CY23E
Hotel Comps:												
Hilton Worldwide Holdings Inc.	HLT	$ 106.70	$ 37,647.5	*51.0%*	*28.9%*	*15.0%*	8.3x	5.5x	4.3x	43.4x	23.1x	17.0x
Hilton Grand Vacations Inc.	HGV	$ 30.22	$ 3,278.9	*33.4%*	*17.6%*		2.3x	1.9x		10.5x	8.0x	
Marriott International	MAR	$ 130.47	$ 52,697.6	*35.0%*	*25.3%*	*20.8%*	3.6x	2.9x		23.8x	16.9x	
Marriott Vacations Worldwide Corporation	VAC	$ 136.50	$ 7,653.8	*24.9%*	*14.5%*		2.1x	1.9x		13.1x	10.0x	
Hyatt Hotels Corporation	H	$ 73.87	$ 9,051.9	*57.9%*	*37.0%*	*41.8%*	2.7x	2.0x		46.3x	16.5x	
Choice Hotels	CHH	$ 104.75	$ 6,697.6	*27.3%*	*13.1%*	*7.5%*	6.6x	5.9x		20.8x	17.6x	
Extended Stay America	STAY	$ 14.16	$ 5,289.2	*10.3%*	*6.3%*	*5.2%*	4.7x	4.4x		11.7x	10.5x	
Playa Hotels & Resorts	PLYA	$ 5.46	$ 1,801.8	*51.0%*	*57.1%*		4.5x	2.9x		55.4x	11.2x	
Wyndham Destinations, Inc	WYND	$ 44.63	$ 6,918.0	*41.4%*	*14.8%*	*7.7%*	2.2x	2.0x		9.6x	7.8x	
Wyndham Hotels & Resorts	WH	$ 58.28	$ 7,529.8	*26.1%*	*13.6%*	*8.3%*	4.6x	4.0x		15.5x	12.9x	
GreenTree Hospitality Group Ltd	GHG	$ 12.85	$ 1,203.7	*50.8%*	*18.1%*	*11.8%*	5.5x	4.7x		10.3x	8.6x	
Hotel comps Avg:			**$ 12,706.3**	**37.2%**	**22.4%**	**14.8%**	**4.3x**	**3.5x**	**4.3x**	**23.7x**	**13.0x**	**17.0x**
Hotel comps Median:			**$ 7,175.7**	**34.2%**	**21.5%**	**15.0%**	**4.1x**	**2.9x**	**4.3x**	**22.3x**	**13.9x**	**17.0x**
Travel Bookings Comps:												
Expedia	EXPE	$ 128.84	$ 25,877.9	*46.1%*	*33.6%*	*14.8%*	3.3x	2.5x		19.4x	11.1x	
Booking.com	BKNG	$ 2,107.11	$ 83,636.5	*52.4%*	*28.8%*	*15.5%*	8.1x	5.9x		24.3x	15.0x	
Trip.com Group	TCOM	$ 33.96	$ 23,263.3	*48.0%*	*25.5%*	*14.6%*	5.7x	4.2x		38.6x	20.3x	
trivago	TRVG	$ 2.16	$ 610.0	*60.0%*	*38.3%*	*15.2%*	1.2x	0.9x		18.8x	10.0x	
Travel booking comps avg:			**$ 33,346.9**	**51.6%**	**31.6%**	**15.0%**	**4.6x**	**3.4x**		**25.3x**	**14.1x**	
Travel booking comps med:			**$ 24,570.6**	**50.2%**	**31.2%**	**15.0%**	**4.5x**	**3.4x**		**21.9x**	**13.1x**	
Total Average			**$ 21,458.8**				**4.4x**	**3.4x**	**4.3x**	**27.2x**	**14.2x**	**17.0x**
Total Median			**$ 8,352.9**				**4.1x**	**2.9x**	**4.3x**	**22.3x**	**13.1x**	**17.0x**
AirBnb, Inc.	**ABNB**		**$ 91,378.6**	***42.6%***	***20.3%***	***21.3%***	**18.45x**	**15.33x**	**12.64x**		**707.6x**	**245.8x**

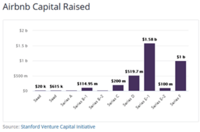
Source: Bloomberg Consensus Estimates

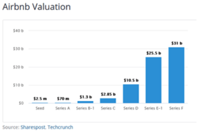
Is the Airbnb premium justified? One can argue a more resilient business model

Is the Airbnb premium justified? One can argue a more resilient business model, the promise of fast growth, and large market opportunities created by disruption and innovation may make the premium seem reasonable when we try to compare the company to peer groups. There truly is only one Airbnb and these peer groups aren't entirely indicative of the future company profile of Airbnb.

Valuation

Setting the stage for the valuation, we take a look at Airbnb's Venture Capital pricing in the rounds leading up to the IPO. We can see that the company has raised $5.8bn in VC funding and it's latest Series F round in 2016. In April 2020 the company was valued at $18bn.



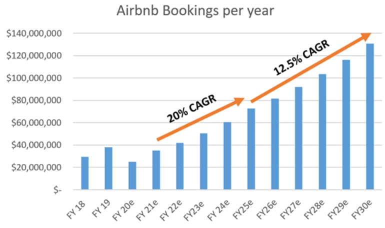


The IPO has clearly priced in a lot of generous assumptions as well as simple speculation with a hot market. Initially, Airbnb planned to sell shares for a range of $44-$50 per share in a filing made December 1. Then on December 7, they announced plans to sell shares for a range of $56 - $60. The company then priced their IPO at $68 a share on Wednesday, December 9. Shares opened trading at around $150 and ended the day at $144.71.

Here's some institutional investor background on how this IPO is being looked at, "Sanford Bernstein ran a Procensus investor survey to compile major talking points. ~100 investors participated, representing >$10T in AUM. Consensus suggests Airbnb delivers a +16% revenue CAGR in the next decade with steady state margins at ~25%. Bulls will argue the IPO price range (now indicating near ~$60) is reasonable"

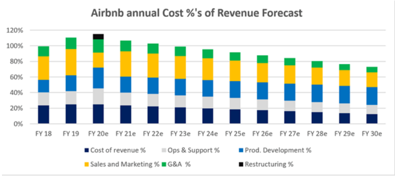
+16% Revenue CAGR seems somewhat reasonable to us, so the biggest assumption in question really is the ~25% margins in our view. With that being said, and trying to remain reasonable from an assumptions stand point, here are our main assumptions:

- In 2020 Airbnb Bookings will be down ~34%, but Airbnb will have a bounce back year in 2021, with high Bookings growth in 2022-2025, and Bookings growth slowing in 2026-2030. Our Base case in Bookings growth is shown below.



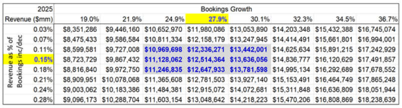
Source: Our assumptions

- Revenues as a % of Bookings will continue to increase in the future as the new host model for professional hosts and Experiences business gain steam and a larger % of Airbnb Bookings. Revenue as a % of Bookings was 12.6% in 2019 and we estimate it will be around 14.6% in 2025 for example.
- Operating costs will continue to decrease as a % of revenue as Airbnb continues to grow in scale. This continuing growth in scale culminates in a high single digit operating margin by 2025 and a 27.1% operating margin by 2030. This is lower than Booking's (BKNG) operating margin of 35.5% in 2019, but higher than hotel operators such as Marriott's (VAC) or 17.4% Hyatt (H), 9.1% respectively in 2019.



Source: Our assumptions

Taking a look into future revenue growth scenarios with revenues increasing as a % of Bookings and Bookings growth, we get a range of potential 2025 revenues. We think anywhere from $11bn to $13.7bn in revenue is the likeliest scenario for Airbnb in 2025.

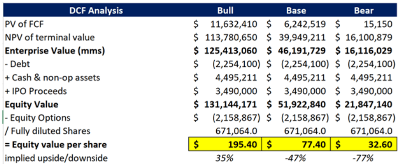


	2025	Bookings Growth							
	Revenue ($mm)	19.0%	21.9%	24.9%	27.9%	30.1%	32.3%	34.5%	36.7%
Revenue as % of Bookings inc/dec	0.03%	$8,351,286	$9,446,160	$10,652,970	$11,980,086	$13,053,890	$14,203,348	$15,432,388	$16,745,074
	0.07%	$8,475,433	$9,586,584	$10,811,334	$12,158,179	$13,247,945	$14,414,491	$15,661,801	$16,994,001
	0.11%	$8,599,581	$9,727,008	**$10,969,698**	**$12,336,271**	**$13,442,001**	$14,625,634	$15,891,215	$17,242,929
	0.15%	$8,723,729	$9,867,432	**$11,128,062**	**$12,514,364**	**$13,636,056**	$14,836,777	$16,120,629	$17,491,857
	0.18%	$8,816,840	$9,972,750	**$11,246,835**	**$12,647,933**	**$13,781,598**	$14,995,134	$16,292,689	$17,678,552
	0.21%	$8,909,951	$10,078,068	$11,365,608	$12,781,503	$13,927,140	$15,153,491	$16,464,749	$17,865,248
	0.24%	$9,003,062	$10,183,386	$11,484,381	$12,915,072	$14,072,681	$15,311,848	$16,636,809	$18,051,944
	0.28%	$9,096,173	$10,288,704	$11,603,154	$13,048,642	$14,218,223	$15,470,206	$16,808,869	$18,238,639

Source: Our estimates

Using a discounted cash flow model with a Weighted Average Cost of Capital of 8% and a perpetual growth rate of 3%, we get a Base Case price of $77.40.

What's interesting in our valuation is that the vast majority of value in Airbnb is from the Net Present Value of the terminal value. Because Terminal Value is based on the company's value in perpetuity beyond our 10-year cash flow forecast, assumptions have an incredibly large effect on the current valuation. Any sort of valuation can be justified based on any set of input growth assumptions. We try to stay reasonable while acknowledging the upside that Airbnb does really exhibit. We show a range of cases below:



DCF Analysis	Bull	Base	Bear
PV of FCF	$ 11,632,410	$ 6,242,519	$ 15,150
NPV of terminal value	$ 113,780,650	$ 39,949,211	$ 16,100,879
Enterprise Value (mms)	**$ 125,413,060**	**$ 46,191,729**	**$ 16,116,029**
- Debt	$ (2,254,100)	$ (2,254,100)	$ (2,254,100)
+ Cash & non-op assets	$ 4,495,211	$ 4,495,211	$ 4,495,211
+ IPO Proceeds	$ 3,490,000	$ 3,490,000	$ 3,490,000
Equity Value	**$ 131,144,171**	**$ 51,922,840**	**$ 21,847,140**
- Equity Options	$ (2,158,867)	$ (2,158,867)	$ (2,158,867)
/ Fully diluted Shares	671,064.0	671,064.0	671,064.0
= Equity value per share	**$ 195.40**	**$ 77.40**	**$ 32.60**
implied upside/downside	*35%*	*-47%*	*-77%*

Source: Our estimates

Upside and Downside Risks

Upside risks include higher than anticipated Bookings leading to higher revenue estimates. It is certainly possible we (and the market) are underestimated top line growth potential as Airbnb continues to expand domestically and abroad.

Another upside risk is profitability. Airbnb in theory should be able to scale effectively given its business model and that the company itself does not own or hold the properties. They provide a platform and services, not the physical product, so as they become larger more efficiencies should be achieved and redundancies should be eliminated.

The main downside risks are two: valuation and regulatory issues. We love this company, but the valuation is simply incredibly rich and already at our Bull Case. A good company does not equal a good investment if the price is not good. However, we are not calling for shorting this because the market is red hot and can continue to be for months or even years. We are simply stating that odds are not in your favor here at this price level.

Another meaningful risk is regulatory scrutiny. Airbnb lists what regulations apply may to a host's city and there has been push-back in certain cities and communities against short-term rentals through platforms like Airbnb. Here is a list of certain short-term rental laws across the US.

Final Investor Takeaway

If you were in on the offering, congratulations. If you are a trader then do as you see fit as this name will be volatile and has a lot of interest. However, if you are an investor, this is clearly overvalued even though it's a great company. Is it possible that Airbnb grows into this valuation years from now? Certainly, but everything must go absolutely right to justify this valuation. Is it likely to grow into today's valuation? Not very.

Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it. I have no business relationship with any company whose stock is mentioned in this article.

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Publish

Kevin Dunn

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Are such valuations methods still valid? I will buy a business if I love it and valuations be damned. I'm in this for the long term and a popular stock like this will be bought whether you think it's undervalued or not.

11 Dec 2020, 10:07 PM Like 0 Reply

Anarchy99

Comments (2198) | + Follow

@Kevin Dunn LMFAO!

11 Dec 2020, 11:21 PM Like 0 Reply

RJMC

Comments (383) | + Follow

I have a buy limit order set at $75.

11 Dec 2020, 08:16 PM Like 0 Reply

notjake

Comments (869) | + Follow

What something is worth is largely based on supply and demand.

While some of the recent IPOs may seem frothy - DoorDash, Snowflake, etc.,

the bottom line is people want to own these stocks - Not necessarily those of us born before 1970 who, for the most part, are clueless in terms of what Milenials and GenZ want.

Why is Tesla the largest auto maker by market cap?

And I clearly remember 10 years ago when most everyone and their brother were dissing Amazon and Facebook saying they were overvalued.

I had my limit order filled at 140 for 100 shares and I am going to sit on AIRBNB for at least 6 months and ride the ups and downs.

GLTA!

11 Dec 2020, 04:24 PM Like 3 Reply

junzhang.gsd@hotmail.com

Comments (54) | + Follow

$90-100 is about the right price to pay. Now I will buy AAPL TSM.

11 Dec 2020, 03:26 PM Like 0 Reply

Entreri

Comments (3889) | + Follow

All the growth for the next 3-4 years priced in.

Given Fed pumping, very likely we will have a market crash before then. Dotcom, but for the entire market.

All risk, no reward to owning Airbnb.

11 Dec 2020, 03:11 PM Like 2 Reply

SomeGuy14

Comments (2024) | + Follow

What a world. Don’t need to earn a cent in a decade to have a company worth hundred(a) of billions. Just a website and sell some dreams.

11 Dec 2020, 02:48 PM Like 2 Reply

oldfatguy

Comments (121) | + Follow

@SomeGuy14

I don’t get why people keep saying AirBnB does not make money. Even in the last quarter there was well over 200 million profit.

11 Dec 2020, 04:31 PM Like 0 Reply

SomeGuy14

Comments (2024) | + Follow

@oldfatguy

Probably because they've literally never turned an annual profit. That'd most likely be why you keep hearing that.

"Airbnb has not turned an annual profit since its launch in 2008, and warned this will likely also be the case this year despite it being profitable in the third quarter."

www.reuters.com/...

11 Dec 2020, 10:51 PM Like 0 Reply

Thorden

Comments (27) | + Follow

Might as well buy 🍎 at least it's making money and will keep making.

11 Dec 2020, 02:42 PM Like 1 Reply

V_uniqueacc

Comments (3158) | + Follow

another downside risk: their customers are still young so they like to go to different destinations each year. As they get older they might just settle down with their usual holiday destinations. Same has happened to us - with two kids we’re not venturing a world expedition but rather just contact the host directly we got to know over airbnb earlier and enjoy our holidays at the usual seafront apartment while avoiding the middle-man fees.

11 Dec 2020, 02:39 PM Like 0 Reply

johnfairplay

Comments (2862) | + Follow

I'm not positive, but I'm pretty sure all the people who are currently too young to travel are getting older as well.

11 Dec 2020, 03:03 PM Like 4 Reply

bbarnezz

Comments (191) | + Follow

I have a couple AirBnB properties which are also listed on VRBO. The listing contract with these companies provides for cancellation if the owners are caught taking reservations which were initiated through their system, but which later are accepted directly to avoid the fees. I know that it happens, and I have been approached by a few previous guests asking for a discount in this way. But it seems to me to be a short-sighted risk for a relatively small payoff. The business that we receive through the websites far outweighs any other method of connecting with potential guests.

11 Dec 2020, 03:27 PM Like 2 Reply

V_uniqueacc

Comments (3158) | + Follow

@bbarnezz “which were initiated through their system, but which later are accepted directly to avoid the fees”

yeah I know what you mean, I was a host myself years ago. However we do not violate rules, we were staying at the host years ago and became friends, now I ask him directly over whatsapp. What is considered rule violation is if I would book a place, get the host’s contact details then I’d cancel the reservation and get in touch directly afterwards for the same nights. Airbnb can’t forbid “making friends” during your stay where you could later (let’s say next your in holiday season) ask directly if they have some nights available

11 Dec 2020, 03:32 PM Like 0 Reply

V_uniqueacc

Comments (3158) | + Follow

@bbarnezz btw as I mentioned I was a host myself years ago, stopped doing it for the following reasons:

- price squeeze: as I started hosting in 2011 I could rent the property for X/night. Over the years nightly rate went down to almost half as number of hosts in the city has tripled until 2015 (stopped following airbnb that year)

- I kept receiving more and more very short term bookings, the usual 1-2 weeks went down to 2-3 days mostly

- tax regulations are changing rapidly

- neighbours getting irated due to higher noise level throughout the week etc

- the apartment depreciates heavily if you take short term guests. They simply do not know how to use devices etc and everything fails much more frequently. As an example our $$$ steam cabin has failed after one year due to ignorance of the user’s manual. Then subsequent guests still tried to turn it on even though you especially ask them not to try it as it got a leakage and the bathroom would be soaked. Now, we had at least 3 such guests who simply did not want to believe us and wanted to try. From my experience French and US tourists are the worst

So we stopped hosting in 2015 and started long-term for ca. 20% lower and I say it’s better considering the yield-to-risk ratio (edited)

11 Dec 2020, 03:44 PM Like 1 Reply

r cohn

Comments (2323) | + Follow

The author only mentions in passing the issues with local regulations . This problem of failing to register with local authorities and failing to pay the required fees and taxes was becoming much larger before Covid19 and will rear its ugly head when travel resumes. In the context of astronomical sill valuations of some other stocks , Airbnb is fairly valued. In the context of reality, Airbnb is vastly overvalued.

11 Dec 2020, 02:36 PM Like 2 Reply

V_uniqueacc

Comments (3158) | + Follow

@r cohn I agree. They say you have to try the products before you go long on their stock. This is especially true for airbnb, in fact it’s better if you experience hosting as well, not just booking some nights as guest. As a guest I am pretty satisfied with the service though as a host I wouldn’t do it for now due to the pricing pressure. Once you crunch the numbers you realize it’s not that good business hosting strangers for the change and trying to comply with the ever changing government regulations and being concerned about the more and more stricter restrictions. Just too many moving parts and nowadays hosts are on the shorter end...

11 Dec 2020, 03:52 PM Like 0 Reply

LessIsLess

Comments (3) | + Follow

The stock is not worth the 140+ price. Lower than 100? Sure, its worth a punt.

11 Dec 2020, 02:31 PM Like 0 Reply

+ **Add a comment**

Disagree with this article? Submit your own.

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