EVERCORE

United States | Equity Research

Technology | Internet

October 30, 2013

PRICELINE.COM INCORPORATED

PCLN | $1069.52

OVERWEIGHT | TARGET PRICE: $1,250

Change in Price Target

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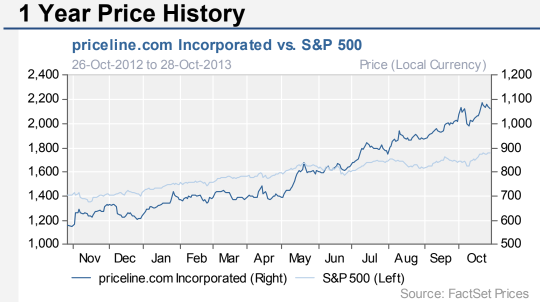
Company Statistics

Market Capitalization	$54,787
Enterprise Value	$52,627
52-Week Price Range	$568.62 - $1098.70

Earnings Summary

		2012A	2013E	2014E
Sales (M)		$5,261	$6,816	$8,357
EPS		$31.46	$40.49	$48.27
EBITDA (M)		$1,973	$2,636	$3,222
P/E		34.0x	26.4x	22.2x
EV/EBITDA		26.7x	20.0x	16.3x
Prior EPS		$31.46	$41.15	$47.47
EPS:	Q1	$4.28A	$5.76A	$7.38E
	Q2	$7.90A	$9.70A	$11.36E
	Q3	$12.47A	$16.06E	$18.39E
	Q4	$6.80A	$8.71E	$11.14E
	FY	$31.46A	$40.49E	$48.27E

1 Year Price History



Source: FactSet

Strategy Guide for Cold-Starting the U.S.

This report delves into Priceline's organizational makeup and how its "destination-based" marketing approach offers a structural advantage that we see driving share gains here in the U.S. over the next several years. In conducting this research, we drew insight from industry veteran, Bill Beckler, a founding member of AllTheRooms.com, and former Director of Innovation and Head of Marketing Analytics for Travelocity.

- **Booking's advantage boils down to organizational structure that is "destination-based" as opposed to "origination-based."** As example, Booking.com optimizes marketing spend for UK-based hotels on a U.K. P&L, regardless of where those marketing dollars get spent globally (i.e., Indonesia or the United States). This subtle distinction allows them to more seamlessly scale conversion improvement across a broader footprint, align incentives across marketing and sales personnel for better timing of attack, and cold-start new territories, such as here in the U.S.
- **Destination approach drives better conversion.** Because Priceline's structure tends to be more centralized, pushing keywords locally on the basis of language and behavioral requirements, its utilization of A/B testing to determine what drives higher conversion (i.e., button location, colors, etc.) can be more seamlessly leveraged across its entire platform, resulting in conversion levels 2-3x the industry average. Moreover, given that OTA's tend to bid until ROI neutrality, PCLN can outbid its peers consistently, allowing an added source of competitive moat.
- **Facilitates "timing of attack."** Importantly, its destination-based marketing approach aligns incentives between Sales and Marketing teams where conflicts tend to otherwise be present. Specifically, Priceline's organizational structure better enables it to pursue share gains through a combined use of promotional sales activity (lower fee to hoteliers) and marketing efforts (higher spending on keywords) in designated markets. We review this important organizational distinction in exhibits 2 thru 4

Raising outer-year revenue CAGR to 19% from 18% driven by higher margins (take rates) on bookings and slightly higher hotel partners. We also now model 22.6% 5-year EPS CAGR versus 20.4% previously.

Overweight Rated. Priceline has extended the benefits of its early destination-based marketing structure across its organization to create operational efficiencies over time. We believe the continued benefits of this approach (i.e. leveraging A/B testing for higher conversions and coordinating efforts across Sales and Marketing for maximum effect) have resulted in a competitive capability that cannot be underestimated. On higher outer-year estimates, our target increases to $1,250 from $1,100, which implies a 20x EBITDA and 26x EPS on our 2014 estimates, in line with our 5-year EPS growth CAGR.

Strategy Guide for Cold-Starting the U.S.

Following comments made by Bill Beckler at a speaker event we hosted last month, we outline what we believe to be the cornerstone of Priceline and Booking.com's success: a strategy which involves an organizational structure that fosters better conversions, better incentive alignment within Sales and Marketing, and an unparalleled ability to jumpstart new territories. As we hope to show, this structural distinction contributes to incentive misalignments for competitors; something which we believe Priceline/Booking is able to effectively exploit. Moreover, because of their early discovery of how to optimize on the basis of "destination" vs. "origination," we argue that Priceline has extended the benefits of that decision across its organization to create operational efficiencies over time. The result is a competitive advantage greater than what the organizational structure could account for on its own. This is potentially best described by Richard Rumelt's Chain Link System, in *Good Strategy, Bad Strategy*, in which Rumelt describes chain-link businesses as those where the entire system (or business) is "limited by its weakest subunit, or 'link'." In other words, Priceline's early insight into how to organize its management incentives strengthened each area of its business. Now, for its competitors, changing or investing more to improve just one "link" makes little sense as it will have little consequence when considering the entire chain, or business.

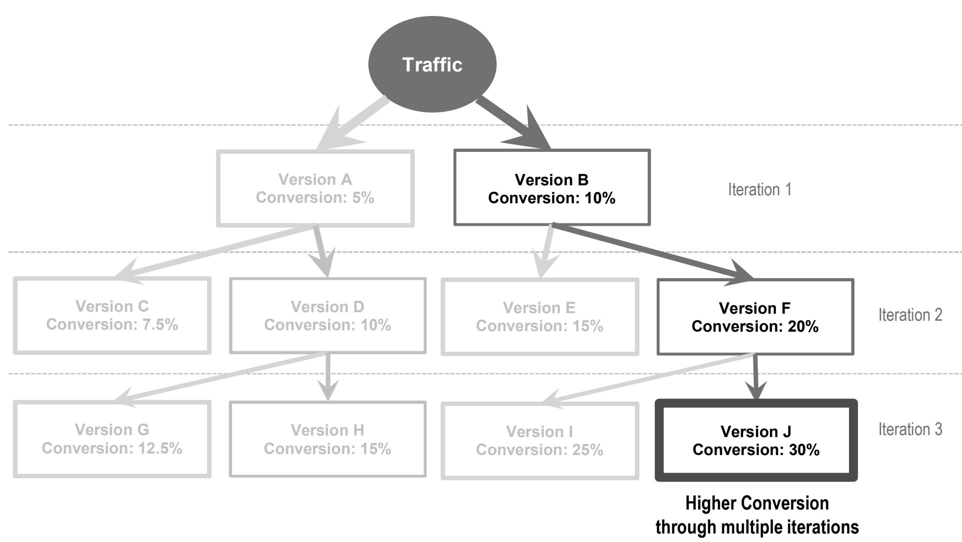
Notion of "Destination" vs. "Market Origination"

At the core, we argue that Priceline is structured to win as its marketing and sales P&Ls roll-up on the basis of "destination" as opposed to "origination." This is in contrast to most other OTA players whereby P&Ls are "origin-based." For instance, Booking.com optimizes marketing spend for UK-based hotels on a U.K. P&L, regardless of where those marketing dollars get spent globally (i.e., Indonesia or the United States). For its competitors, marketing efforts on U.K.-based hotels within Indonesia and the U.S. would be accounted for within the Indonesia and U.S. P&Ls. What we intend to show in this section is that the destination approach allows Priceline to more seamlessly scale conversion improvements across its broader platform, align incentives between marketing and sales personnel, and create a situation in which new territories can be more easily on-boarded, even in locations where Priceline / Booking has a share disadvantage, such as here in the U.S.

ADVANTAGE 1: Better Leverages Conversion Improvements

Because Priceline/Booking.com's structure is destination-based, its marketing efforts can be centralized (i.e., the Netherlands) in which marketing efforts are pushed locally on the basis of language and behavioral requirements. As a result, Booking's utilization of A/B testing to determine what drives higher conversion (i.e., button location, colors, etc.) can be better leveraged across a wider footprint, as it does not need to be bound by perceived constraints in local markets being run by regional heads. We understand that this alone has contributed to Booking.com enjoying conversion rates that approximate 2-3x the industry average.

Figure 1: Booking's Core Technology Allows for Quick Iteration and A/B Testing



Source: Company data, Evercore Group L.L.C. Research

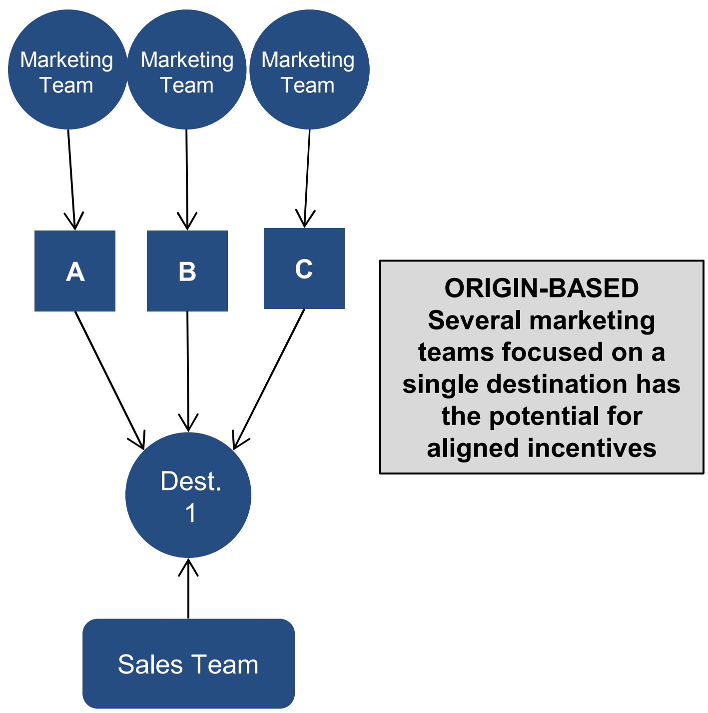
Moreover, on the technology side, Booking uses a "scripting language" (*Perl*) over a "compiling language," which allows for faster iteration on the front-end. This is of particular importance as they enter new markets as scripting language translates source-code to machine executable code on the fly. For compiled languages, changes require all of the code to be recompiled (or translated) before it can be used, making the iteration process slower even if the language is considered to be more robust.

ADVANTAGE 2: Enables Better "Timing of Attack" in New Markets

In addition to providing a better ability to leverage conversion advances at scale, a destination-based marketing approach also aligns incentives between Marketing and Sales departments. This is of key importance when timing an attack on a competitor or a territory. Typically, as we explained before, most OTAs are structured around origination, in which a marketing manager in a country is looking to promote travel conversions within that country. This would *seem* to make sense in that localized search behaviors, language, and other factors make a centralized bidding effort (i.e., Priceline) less optimal. Moreover, because of the multi-product nature of many OTAs (e.g. flights, hotels, cars), a destination-based marketing approach seems difficult to fathom.

In addition, when the scale is small, an origin-based marketing structure seems effective enough. For instance, given a single destination below, we show how an origination based marketing approach shows several marketing teams optimizing conversions and spend into a single destination. In this scenario, it would be relatively painless for a marketing team to time their efforts to attain share with sales efforts within that destination to sign-up new hotels.

Figure 2: Standard OTA Approach: Origination P&L (Single Destination)

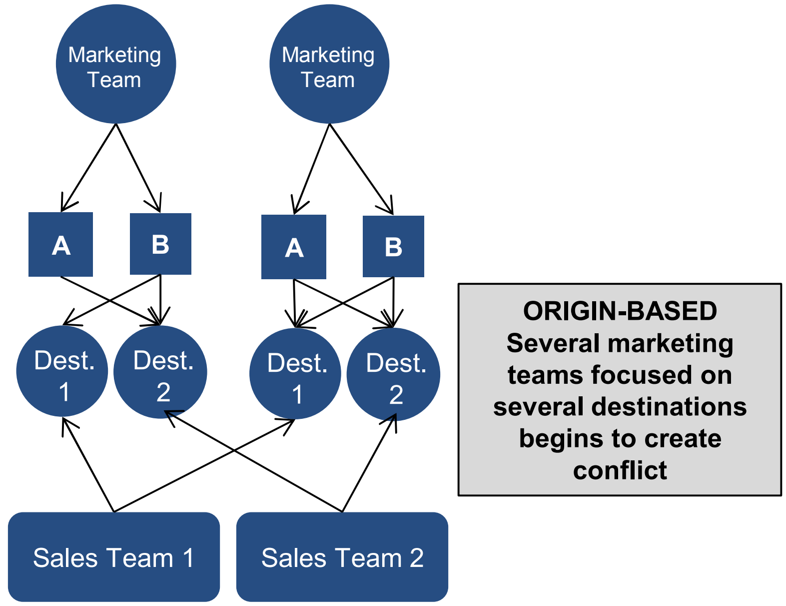


Source: Company data, Evercore Group L.L.C. Research

The problem with an "origin-based" marketing approach is when an organization begins to handle many destinations at scale, communication between Marketing and Sales breaks down, and incentives become misaligned.

The problem here is when an organization begins to handle many destinations at scale. Specifically, as destinations get added, marketing teams become less connected to the sales efforts within the growing number of destinations. In our UK example, if a US marketing department finds that UK-based keywords are not performing as well as French ones, budgeting could be reallocated without consideration to UK-based sales efforts that may be underway. As a result, the UK sales team may find it harder to sign new hotels, despite its promotional activity, given that US-originating traffic is suffering on the basis of P&L optimization locally.

Figure 3: Standard OTA Approach: Origination P&L (Multiple Destination)

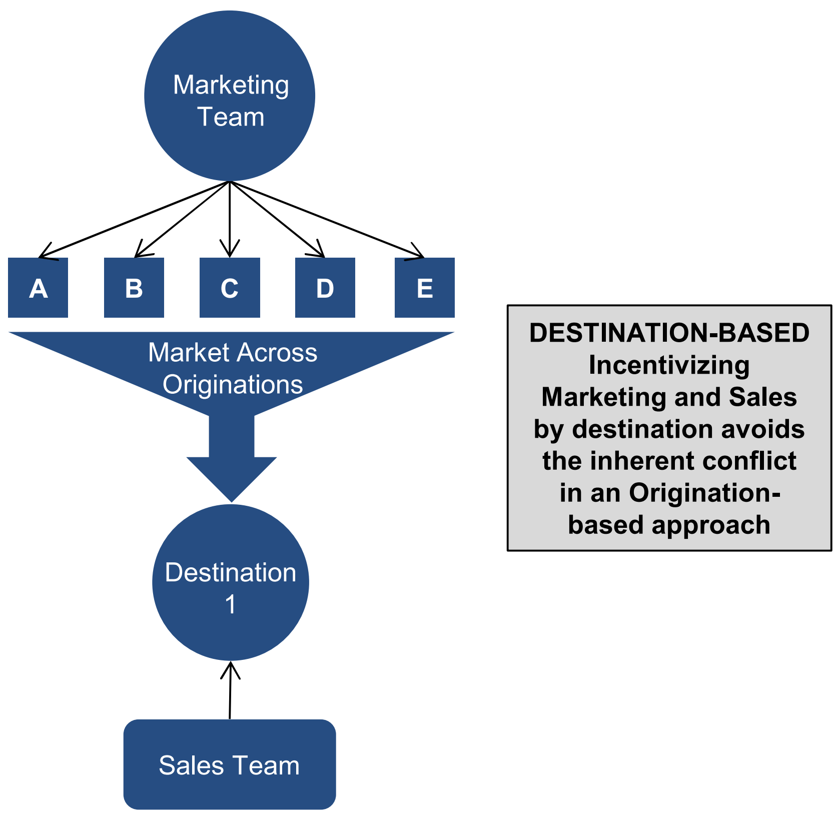


Source: Company data, Evercore Group L.L.C. Research

Priceline / Booking solved for this incentive / conflict between Sales and Marketing, largely thanks to their birth in Europe

In contrast, Booking solved for this incentive / conflict between Sales and Marketing, largely thanks to their birth in Europe, where local fragmentation matters, as opposed to the United States where it is less an issue. The result is that share gains can be pursued through a combined effort of promotional sales activity (lower fee to hoteliers) and marketing behavior (higher spending on keywords). Effectively, the right-hand knows very well what the left hand is doing, and the model can scale efficiently.

Figure 4: Priceline Approach: Destination P&L



Source: Company data, Evercore Group L.L.C. Research

RESULT: Unparalleled Ability to Jump Start New Territories

The company's ability to leverage a better converting web experience, a global Sales reach, where incentives are aligned on the basis of destination, and a flexible bookings platform geared to SMB hotels means that it is easier for Priceline/Booking to onboard new territories than its peers. In terms of the IBE technology, Booking.com offers small hotels booking engine capabilities at a small ~3% rate, with the only catch being that the hotel permits their data to flow through the Booking.com website. This is in contrast to TripAdvisor's recent "Connect" launch, which requires hoteliers to utilize third-party IBEs where rates vary by vendor.

Figure 5: Priceline Booking Engine for Hoteliers

Source: Company data, Evercore Group L.L.C. Research

A Word on the Strategy

While it may seem as though the attributes described can be replicated, we suspect them to be increasingly impenetrable based on the company's early discovery of how best to optimize an organizational structure for cross-border incentive alignment. As a result, each piece of the business, from A/B testing for the sake of higher conversions, to leveraging those higher conversions in their bidding strategy, to coordinating efforts between Sales and Marketing for maximum share gain effect, has been refined with the benefits extending to other aspects of its organizational structure, creating advantage within other operating nodes as well. This is potentially best described by Richard Rumelt's, Chain Link System, in *Good Strategy, Bad Strategy*, in which Rumult describes chain-link businesses as those where the entire system (or business) is "limited by its weakest subunit, or 'link'." In other words, Priceline's early insight into how to organize its management incentives strengthened each area of its business. Now, for its competitors, changing or investing more to improve just one "link" makes little sense as it will have little consequence when considering the entire chain, or business.

Raising Outer Years

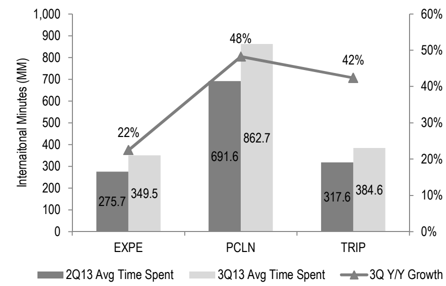
For our outer year estimates we are raising our revenue CAGR to 19% from 18% driven by higher margins (take rates) on bookings and slightly higher hotel partners. We also now model 22.6% 5-year EPS CAGR versus 20.4% previously. For 3Q13, however, we are modestly lowering estimates, albeit still above Street. The reason is that while Priceline continues to outpace internationally and here in the U.S., at least against Expedia, overall traffic growth in the U.S. appears muted, suggesting to us that additional conservatism is likely necessary.

Specifically, our lower hotel room nights estimate causes our total revenue estimate to fall modestly (2%) to $2.25 billion, implying 32% y/y growth versus 35% previously and the Street's 30%. Our adjusted EBITDA estimate also decreases slightly to $1.06 billion from $1.08 billion; however, margins increase by ~100 bps to 54.5% due to lower offline advertising expense. Finally, this implies adj. Operating Income margins of 51.5%, consistent with the companies guide for 250 bps of deleverage.

Traffic Trends Strong Internationally

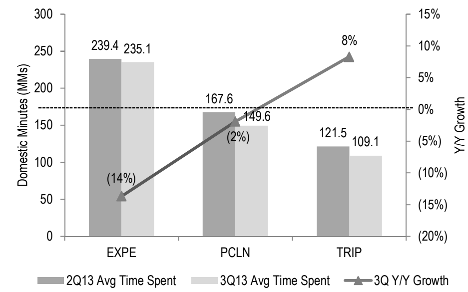
Through 3Q, comScore shows that PCLN continues to dominate in international time spent with an average of 863 million minutes spent on the site from July-September. Even more impressive, is the fact that it continues to outpace both Expedia and TripAdvisor in y/y growth, despite its much larger scale. Despite the strength internationally, domestic online travel trends were somewhat weak in 3Q as Priceline time spent fell 2% y/y to 150 million average minutes. Expedia (whose strongest market is the US), however, is showing even worse trends as total time spent for their site declined 14% y/y to 235 million average minutes.

Figure 6: Int'l Time Spent 2Q13-3Q13



Source: comScore, Company data, Evercore Group L.L.C. Research

Figure 7: Domestic Time Spent 2Q13-3Q13

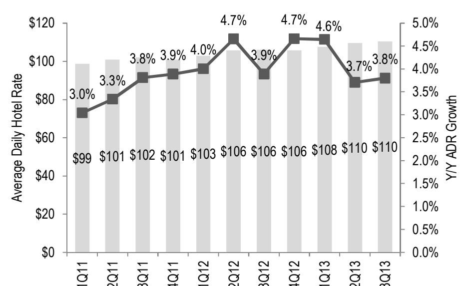


Source: comScore, Company data, Evercore Group L.L.C. Research

Broader Domestic Industry Travel Trends Appear Consistent

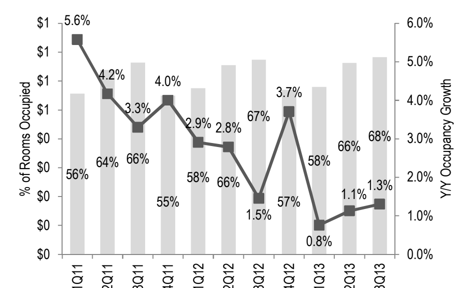
For 3Q, Domestic Average Daily Rates remained consistent around $110, implying year-over-year growth to 3.8% consistent with the prior quarter. Furthermore, occupancy rates continue to tick upwards at 68%, or +1.3% y/y.

Figure 8: Domestic ADR Remains Steady



Source: Company data, Evercore Group L.L.C. Research

Figure 9: Same for Occupancy



Source: Company data, Evercore Group L.L.C. Research

Valuation & Investment Conclusion

Priceline has extended the benefits of its early destination-based marketing structure across its organization to create operational efficiencies over time. We believe the continued benefits of this approach (i.e. leveraging A/B testing for higher conversions and coordinating efforts across Sales and Marketing for maximum effect) have resulted in a competitive capability that cannot be underestimated. On higher outer-year estimates, our target increases to $1,250 from $1,100, which implies a 20x EBITDA and 26x EPS on our 2014 estimates, in line with our 5-year EPS growth CAGR.

Comparisons

Figure 10: Comparative EV/EBITDA Multiples, 2014E

10/29/2013	GOOG	YHOO	AOL	AMZN	EBAY	LNKD	FB	GRPN	ZNGA	PCLN	EXPE	TRIP
Stock Price	$1,036.24	$33.17	$37.35	$362.70	$53.34	$247.14	$49.40	$9.44	$3.69	$1,069.52	$50.68	$82.26
x Shares Outstanding	339	1,042	82	457	1,310	119	2,502	662	804	52	141	145
= Equity Market Cap	**$351,529**	**$34,552**	**$3,044**	**$165,754**	**$69,875**	**$29,456**	**$123,586**	**$6,251**	**$2,967**	**$55,722**	**$7,152**	**$11,965**
+ Net Debt (Cash)	(56,523)	(3,215)	(161)	(4,646)	(8,469)	(1,794)	(8,752)	(1,195)	(1,524)	(3,673)	(1,051)	(220)
+ Other Adjustments	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$302.2	$0.0	$0.0	$0.0
= Adjusted Enterprise Value	**$295,006**	**$31,337**	**$2,883**	**$161,108**	**$61,406**	**$27,662**	**$114,834**	**$5,056**	**$1,746**	**$52,049**	**$6,100**	**$11,745**
- Off Balance Sheet Assets	$350.0	$24,264	$0.0	$0.0	$881.0	$0.0	$2,900.0	$0.0	$0.0	$0.0	$0.0	$0.0
+ Minority Interest	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
= Enterprise Value	**$294,656**	**$7,073**	**$2,883**	**$161,108**	**$60,525**	**$27,662**	**$111,934**	**$5,056**	**$1,746**	**$52,049**	**$6,100**	**$11,745**
/ EBITDA *(includes SBE)*	$22,379	$1,289	$437	$5,843	$5,523	$443	$5,664	$201	($0)	$3,116	$844	$466
= EV/EBITDA Multiple	**13.2x**	**5.5x**	**6.6x**	**27.6x**	**11.0x**	**62.4x**	**19.8x**	**25.2x**	**n.m.**	**16.7x**	**7.2x**	**25.2x**

*Source: Company data, Evercore Group L.L.C. Research; *EBITDA excludes non-cash stock option expense*

Figure 11: Comparative P/E Multiples, 2014E

10/29/2013	GOOG	YHOO	AOL	AMZN	EBAY	LNKD	FB	GRPN	ZNGA	PCLN	EXPE	TRIP
Stock Price	$1,036.24	$33.17	$37.35	$362.70	$53.34	$247.14	$49.40	$9.44	$3.69	$1,069.52	$50.68	$82.26
/ GAAP EPS	$45.80	$1.40	$2.10	$3.52	$2.53	$1.48	$0.96	$0.07	$0.05	$44.60	$2.21	$2.12
= P/E (incl-Stock Comp)	**22.6x**	**23.8x**	**17.7x**	**103.1x**	**21.1x**	**166.4x**	**51.4x**	**141.9x**	**67.9x**	**24.0x**	**23.0x**	**38.8x**
/ 4 Year Growth Rate	18.7%	8.1%	6.2%	81.5%	15.7%	79.1%	42.8%	88.8%	10.9%	23.8%	5.7%	34%
= PEG	**1.2x**	**2.9x**	**2.9x**	**1.3x**	**1.3x**	**2.1x**	**1.2x**	**1.6x**	**6.2x**	**1.0x**	**4.1x**	**1.2x**

*Source: Company data, Evercore Group L.L.C. Research; *EPS excludes non-cash stock option expense*

Figure 12: Comparative P/FCF Multiples, 2014E

10/29/2013	GOOG	YHOO	AOL	AMZN	EBAY	LNKD	FB	GRPN	ZNGA	PCLN	EXPE	TRIP
Op. Cash Flows	**$24,982**	**$1,381**	**$463.8**	**$9,254**	**$5,658**	**$692.0**	**$6,119.0**	**$370.9**	**$181.7**	**$2,625**	**$975.1**	**$367.1**
- CAPEX	$5,192	$502	$101	$4,133	$1,483	$298	$2,165	$115	$22	($400)	$236	$48
= FCF	**$19,789**	**$879**	**$363**	**$5,121**	**$4,175**	**$394**	**$3,954**	**$256**	**$159**	**$3,025**	**$739**	**$319**
/ EBITDA	$22,378.9	$1,288.6	$437.2	$5,843.2	$5,523.2	$443.1	$5,663.8	$200.7	($0.2)	$3,115.6	$844.1	$466.3
= FCF/EBITDA Conversion	**88.4%**	**68.2%**	**82.9%**	**87.6%**	**75.6%**	**88.8%**	**69.8%**	**127.4%**	**n.m.**	**97.1%**	**87.6%**	**68.5%**
Free Cash Flow	$19,789.2	$879.0	$362.6	$5,120.8	$4,174.8	$393.7	$3,954.4	$255.7	$159.3	$3,024.9	$739.4	$319.3
/ Shares Outstanding	339	1,042	82	457	1,310	119	2,502	662	804	52	141	145
= Free Cash Flow per Share	**$58.33**	**$0.84**	**$4.45**	**$11.21**	**$3.19**	**$3.30**	**$1.58**	**$0.39**	**$0.20**	**$58.06**	**$5.24**	**$2.20**
Stock Price	$1,036.24	$33.17	$37.35	$362.70	$53.34	$247.14	$49.40	$9.44	$3.69	$1,069.52	$50.68	$82.26
/ Free Cash Flow per Share	$58.33	$0.84	$4.45	$11.21	$3.19	$3.30	$1.58	$0.39	$0.20	$58.06	$5.24	$2.20
= P/FCF Multiple	**17.8x**	**39.3x**	**8.4x**	**32.4x**	**16.7x**	**74.8x**	**31.3x**	**24.4x**	**18.6x**	**18.4x**	**9.7x**	**37.5x**
FCF Yield	**5.6%**	**2.5%**	**11.9%**	**3.1%**	**6.0%**	**1.3%**	**3.2%**	**4.1%**	**5.4%**	**5.4%**	**10.3%**	**2.7%**

Source: Company data, Evercore Group L.L.C. Research

Financial Models

Figure 13: PCLN Income Statement, 1Q12-4Q14E

	Qtr. Ending Mar			Qtr. Ending Jun			Qtr. Ending Sep			Qtr. Ending Dec		
	1Q12	1Q13	1Q14E	2Q12	2Q13	2Q14E	3Q12	3Q13E	3Q14E	4Q12	4Q13E	4Q14E
Total revenues	**$1,037.2**	**$1,302.0**	**$1,726.0**	**$1,326.8**	**$1,680.2**	**$2,085.1**	**$1,706.3**	**$2,253.2**	**$2,684.3**	**$1,190.6**	**$1,580.3**	**$1,861.5**
- Cost of revenues	294.0	292.3	336.8	322.6	296.4	345.4	309.8	302.7	336.7	250.9	252.8	260.1
= Gross Profit	**$743.3**	**$1,009.7**	**$1,389.1**	**$1,004.1**	**$1,383.9**	**$1,739.7**	**$1,396.5**	**$1,950.5**	**$2,347.7**	**$939.8**	**$1,327.6**	**$1,601.4**
- Offline Advertising	11.2	27.7	33.6	9.9	32.1	34.6	8.4	34.1	36.0	6.0	17.1	11.5
- Online Advertising	277.1	403.2	580.3	314.5	463.1	604.0	375.2	550.0	680.7	306.8	450.6	526.3
- Sales and Marketing	45.5	52.3	59.3	47.4	59.9	73.9	53.0	65.2	96.7	50.0	60.1	73.8
- Personnel	84.2	112.5	158.0	90.4	131.3	187.8	117.7	161.3	191.7	103.0	159.7	168.7
- G&A	40.7	50.2	54.3	39.8	64.9	64.3	42.3	47.3	82.9	50.4	51.0	58.0
- Info Technology	10.7	13.2	16.5	10.4	17.0	19.7	10.8	21.7	25.8	11.7	15.0	17.6
- Depreciation	15.8	19.1	26.1	15.7	26.0	32.7	16.0	36.7	44.2	17.6	25.0	30.1
+ Amortization of intangibles in D&A, Other	8.2	29.8	2.4	0.0	0.0	2.4	7.8	0.0	2.4	8.1	0.0	2.4
= Adj. Op Income	**$266.2**	**$361.4**	**$463.4**	**$476.0**	**$589.6**	**$725.1**	**$781.0**	**$1,034.2**	**$1,192.1**	**$402.3**	**$549.0**	**$717.8**
- Stock compensation	16.5	21.7	23.7	17.6	34.7	28.4	17.6	28.9	28.9	19.9	25.5	25.3
- Amortization of intangibles in D&A, Other	8.2	29.8	2.4	0.0	0.0	2.4	7.8	0.0	2.4	8.1	0.0	2.4
= Reported EBIT	**$241.5**	**$309.8**	**$437.3**	**$458.4**	**$554.8**	**$694.3**	**$755.6**	**$1,005.3**	**$1,160.8**	**$374.3**	**$523.5**	**$690.1**
+ Interest income	1.1	0.9	5.9	1.0	1.1	5.9	0.9	1.5	5.9	0.9	1.5	5.9
- Interest expense	11.3	17.3	11.1	16.9	19.6	11.1	17.1	19.6	11.1	16.9	19.6	11.1
- Foreign currency exchange	2.4	2.9	0.0	(3.2)	0.8	0.0	8.3	8.3	0.0	2.3	2.3	0.0
+ Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
= Pretax Income	**$229.0**	**$290.4**	**$432.1**	**$445.7**	**$535.6**	**$689.1**	**$731.2**	**$978.9**	**$1,155.6**	**$356.0**	**$503.1**	**$685.0**
- Income tax expense	47.2	46.2	82.1	93.0	98.1	134.4	131.2	156.6	231.1	66.4	80.5	137.0
- Net income attrib. to noncontrolling interests	(0.2)	0.0	0.0	0.3	0.1	0.0	3.4	0.0	0.0	0.9	0.0	0.0
- Preferred stock dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
= Net income (GAAP)	**$182.0**	**$244.3**	**$350.0**	**$352.3**	**$437.3**	**$554.7**	**$596.6**	**$822.3**	**$924.5**	**$288.7**	**$422.6**	**$548.0**
/ Diluted Wtd avg shares	51.3	51.4	53.3	51.2	52.1	53.3	51.2	53.3	53.3	51.2	53.3	53.3
= EPS (GAAP)	3.54	4.76	6.57	6.88	8.39	10.41	11.66	15.43	17.35	5.63	7.93	10.28
Adj EPS (Non-GAAP)	**4.28**	**5.76**	**7.38**	**7.90**	**9.70**	**11.36**	**12.47**	**16.06**	**18.39**	**6.80**	**8.71**	**11.14**
Non-GAAP Diluted Shares	51.65	51.57			**52.40**							
Tax rate	20.6%	15.9%	19.0%	20.9%	18.3%	19.5%	17.9%	16.0%	20.0%	18.7%	16.0%	20.0%
Y/Y Growth												
Total Revenue	28.2%	25.5%	32.6%	20.3%	26.6%	24.1%	17.4%	32.1%	19.1%	20.2%	32.7%	17.8%
Gross Profit	47.0%	35.8%	37.6%	34.0%	37.8%	25.7%	26.9%	39.7%	20.4%	29.7%	41.3%	20.6%
Cost of revenues	-3.1%	-0.5%	15.2%	-8.7%	-8.1%	16.5%	-12.1%	-2.3%	11.2%	-5.7%	0.7%	2.9%
Advertising - Offline	-3.9%	148.5%	21.1%	1.1%	223.8%	7.7%	5.1%	304.1%	5.5%	-0.5%	186.6%	-32.7%
Advertising - Online	49.7%	45.5%	43.9%	33.1%	47.3%	30.4%	34.0%	46.6%	23.8%	40.8%	46.9%	16.8%
Sales and Marketing	30.9%	14.8%	13.6%	15.6%	26.2%	23.5%	12.4%	23.1%	48.4%	25.7%	20.2%	22.8%
Personnel	37.4%	33.7%	40.4%	24.5%	45.2%	43.1%	45.0%	37.1%	18.8%	44.1%	55.0%	5.6%
G&A	57.2%	23.3%	8.2%	33.9%	63.1%	-0.9%	33.3%	11.9%	75.3%	38.8%	1.2%	13.7%
Info Technology	60.9%	23.2%	24.7%	26.7%	62.4%	16.2%	26.3%	101.2%	18.7%	13.1%	28.3%	16.9%
Margins as % of GROSS PROFIT												
Gross Profit (as % of Rev)	71.7%	77.5%	80.5%	75.7%	82.4%	83.4%	81.8%	86.6%	87.5%	78.9%	84.0%	86.0%
Cost of revs (as % of Rev)	28.3%	22.5%	19.5%	24.3%	17.6%	16.6%	18.2%	13.4%	12.5%	21.1%	16.0%	14.0%
Advertising - Offline	1.5%	2.7%	2.4%	1.0%	2.3%	2.0%	0.6%	1.7%	1.5%	0.6%	1.3%	0.7%
Advertising - Online	37.3%	39.9%	41.8%	31.3%	33.5%	34.7%	26.9%	28.2%	29.0%	32.6%	33.9%	32.9%
Sales and Marketing	6.1%	5.2%	4.3%	4.7%	4.3%	4.2%	3.8%	3.3%	4.1%	5.3%	4.5%	4.6%
Personnel	11.3%	11.1%	11.4%	9.0%	9.5%	10.8%	8.4%	8.3%	8.2%	11.0%	12.0%	10.5%
G&A	5.5%	5.0%	3.9%	4.0%	4.7%	3.7%	3.0%	2.4%	3.5%	5.4%	3.8%	3.6%
Info Technology	1.4%	1.3%	1.2%	1.0%	1.2%	1.1%	0.8%	1.1%	1.1%	1.2%	1.1%	1.1%
EBITDA	36.5%	36.5%	35.1%	49.3%	44.9%	43.4%	55.9%	54.5%	52.6%	45.3%	44.0%	46.6%

Source: Company data, Evercore Group L.L.C. Research

Figure 14: PCLN Income Statement, 2011-2018E

	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	CAGR '12-'18
Total revenues	**$4,355.6**	**$5,261.0**	**$6,815.8**	**$8,356.9**	**$10,189.8**	**$12,147.0**	**$14,299.7**	**$16,568.4**	**21.1%**
- Cost of revenues	1,275.7	1,177.3	1,144.2	1,279.0	1,507.2	1,727.3	1,939.1	2,159.9	10.6%
= Gross Profit	**$3,079.9**	**$4,083.7**	**$5,671.6**	**$7,077.9**	**$8,682.6**	**$10,419.7**	**$12,360.6**	**$14,408.5**	23.4%
- Offline Advertising	35.5	35.5	111.1	115.7	125.3	131.5	135.5	137.0	25.3%
- Online Advertising	919.2	1,273.6	1,866.9	2,391.3	2,917.5	3,402.0	3,819.2	4,188.3	21.9%
- Sales and Marketing	162.7	195.9	237.4	303.8	390.4	466.0	549.4	637.2	21.7%
- Personnel	286.6	395.3	564.8	706.1	928.0	1,106.0	1,301.7	1,507.9	25.0%
- G&A	123.7	173.2	213.4	259.5	317.6	378.3	444.8	515.0	19.9%
- Info Technology	33.8	43.7	66.9	79.6	97.6	116.5	137.3	159.3	24.1%
- Depreciation	53.8	65.1	106.8	133.1	160.0	188.2	218.8	250.0	25.1%
+ Amortization of intangibles in D&A, Other	32.6	24.1	29.8	9.6	10.0	11.5	13.3	15.3	
= Adj. Op Income	**$1,497.2**	**$1,925.5**	**$2,534.2**	**$3,098.4**	**$3,746.3**	**$4,631.2**	**$5,753.9**	**$7,013.8**	24.0%
- Stock compensation	65.7	71.6	110.9	106.3	140.5	167.8	197.8	229.4	21.4%
- Amortization of intangibles in D&A, Other	32.6	24.1	29.8	9.6	10.0	11.5	13.3	15.3	
= Reported EBIT	**$1,398.9**	**$1,829.8**	**$2,393.5**	**$2,982.5**	**$3,605.8**	**$4,463.5**	**$5,556.2**	**$6,784.4**	**24.4%**
+ Interest income	8.1	3.9	5.0	23.6	33.9	50.8	72.3	199.1	92.9%
- Interest expense	31.7	62.1	76.2	44.2	31.6	32.9	32.9	0.0	-91%
- Foreign currency exchange	7.5	9.7	14.3	0.0	0.0	0.0	0.0	0.0	-100%
+ Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	---
= Pretax Income	**$1,367.8**	**$1,761.9**	**$2,308.0**	**$2,961.9**	**$3,608.1**	**$4,481.3**	**$5,595.5**	**$6,983.5**	**25.8%**
- Income tax expense	308.7	337.8	381.4	584.6	721.6	896.3	1,119.1	1,396.7	26.7%
- Net income attrib. to noncontrolling interests	2.8	4.5	0.1	0.0	0.0	0.0	0.0	0.0	-100.0%
- Preferred stock dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	---
= Net income (GAAP)	**$1,056.4**	**$1,419.6**	**$1,926.5**	**$2,377.3**	**$2,886.4**	**$3,585.0**	**$4,476.4**	**$5,586.8**	**25.7%**
/ Diluted Wtd avg shares	51.2	51.2	52.5	53.3	53.3	53.3	53.3	53.3	0.7%
= EPS (GAAP)	20.63	27.70	36.69	44.60	54.15	67.26	83.98	104.82	24.8%
Adj EPS (Non-GAAP)	**23.61**	**31.46**	**40.49**	**48.27**	**58.65**	**72.57**	**90.32**	**112.12**	**23.6%**
Non-GAAP Diluted Shares									
Tax rate	22.6%	19.2%	16.5%	19.7%	20.0%	20.0%	20.0%	20.0%	
Y/Y Growth									
Total Revenue	41.2%	20.8%	29.6%	22.6%	21.9%	19.2%	17.7%	15.9%	
Gross Profit	60.7%	32.6%	38.9%	24.8%	22.7%	20.0%	18.6%	16.6%	
Cost of revenues	9.2%	-7.7%	-2.8%	11.8%	17.8%	14.6%	12.3%	11.4%	
Advertising - Offline	-0.7%	0.1%	213.0%	4.2%	8.3%	5.0%	3.0%	1.1%	
Advertising - Online	66.5%	38.6%	46.6%	28.1%	22.0%	16.6%	12.3%	9.7%	
Sales and Marketing	39.9%	20.4%	21.2%	28.0%	28.5%	19.4%	17.9%	16.0%	
Personnel	42.0%	37.9%	42.9%	25.0%	31.4%	19.2%	17.7%	15.8%	
G&A	52.3%	40.0%	23.2%	21.6%	22.4%	19.1%	17.6%	15.8%	
Info Technology	61.0%	29.2%	53.2%	18.9%	22.7%	19.4%	17.9%	16.0%	
Margins as % of GROSS PROFIT									
Gross Profit (as % of Rev)	70.7%	77.6%	83.2%	84.7%	85.2%	85.8%	86.4%	87.0%	
Cost of revs (as % of Rev)	29.3%	22.4%	16.8%	15.3%	14.8%	14.2%	13.6%	13.0%	
Advertising - Offline	1.2%	0.9%	2.0%	1.6%	1.4%	1.3%	1.1%	1.0%	
Advertising - Online	29.8%	31.2%	32.9%	33.8%	33.6%	32.6%	30.9%	29.1%	
Sales and Marketing	5.3%	4.8%	4.2%	4.3%	4.5%	4.5%	4.4%	4.4%	
Personnel	9.3%	9.7%	10.0%	10.0%	10.7%	10.6%	10.5%	10.5%	
G&A	4.0%	4.2%	3.8%	3.7%	3.7%	3.6%	3.6%	3.6%	
Info Technology	1.1%	1.1%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%	
EBITDA	49.1%	48.3%	46.5%	45.5%	47.2%	48.6%	50.7%	53.9%	

Source: Company data, Evercore Group L.L.C. Research

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