

Hyperion Asset Management

Company Profile

Airbnb, Inc. Class A

Main Business Activities

Airbnb Inc. (Airbnb) is the dominant global marketplace for alternative (non-hotel) accommodations, with listings in approximately 220 countries and 100,000 cities. The two-sided network acts as an intermediary between travellers/guests on one side, and hosts/accommodation providers (of houses, apartments, boutique hotels, tree-houses, islands, etc.) on the other.

Unlike traditional, professionally managed accommodations (hotels, motels, resorts, etc.) that are branded and relatively homogenous, Airbnb inventory is largely unique, unbranded, and managed by non-professional hosts. This creates issues such as a lack of standardised quality, customer service and security, which Airbnb manages with a rich set of tools to commoditise trust.

Airbnb's non-core products include:

- Airbnb Experiences: in-destination activities for guests such as cooking classes, tours, and adventures;
- Airbnb Collections: curated listings for specific trips/occasions;
- Airbnb Luxe: exclusively lists private villas and includes a personal trip planner and airport pick-up; and
- Airbnb Plus: highly rated listings (host rating higher than 4.8 which is the threshold for a 'super host') that must be either an entire dwelling or a private room with a private bathroom, and come with standard amenities. Airbnb also has a Plus Support team offering enhanced customer support (Plus hosts must agree to platform exclusivity).

Key Value Proposition to Customers

Airbnb appeals to travellers seeking unique local experiences through home-sharing (or renting whole homes) versus traditional, standardised accommodations in proximity to crowded hotel districts and tourist attractions.

In addition to the accommodation transaction, the concept of common accountability or mutual trust between strangers is fundamental, and minimises bad actors on the platform. This is achieved via a rich set of tools including a double-blind two-way peer review system, risk scoring, watchlist and background checks, fraud and scam prevention, secure payments, insurance and protections, age restrictions and a refund policy. This commoditisation of trust is the core element of Airbnb's value proposition. Without this, the home-sharing platform would not have mass-market appeal (and with it, Airbnb can compete with hotels in other areas such as cost, space, convenience and amenities).

The host value proposition includes income, efficient distribution (where 75% of hosts receive their first booking within two weeks), ease of use (onboarding, booking tools/calendars, support, payments), protections (including Host Guarantee Program with reimbursement of up to \$1 million for damage caused by guests), connection/meeting new people. Hosts with high guest-ratings are defined as 'super hosts' and benefit from more bookings. Hosts have no obligation to accept bookings from prospective guests. As at FY20, 90% of Airbnb's hosts are individuals, and 70% are exclusive to the platform despite not needing to be.

The guest's value proposition includes a unique and authentic local travel experience, better value accommodation (lower cost versus hotels on average, with more space), trusted platform with vetted hosts, platform user experience and global accommodation options from the same platform. Airbnb hosts often also facilitate a local experience for the traveller (and are incentivised to do so to enhance their rating).

Revenue models:

- Individual hosts: Airbnb charges hosts 3% of total rent, and guests 6-12% with lower rates for longer stays;
- Professional hosts: Airbnb charges hosts 14% of total rent, and guests 0%; and
- Experiences: Airbnb charges the operator 20% of the cost of the Experience.

Sustainable Competitive Advantages and Outlook

There are three core pillars to Airbnb's sustainable competitive advantage, each driven by the strength of Airbnb's brand as a trusted, global platform that's become a verb, and synonymous with non-hotel accommodation. These include:

- 1) Network effect: Airbnb has a large listings lead over major competitors, with 2.6 times more inventory than both Expedia (VRBO) and Booking.com as at FY20. This listings lead, combined with strong brand recognition, underpins Airbnb's virtuous network effects, where guests are drawn to the platform with the greatest selection, and hosts are drawn to the platform with the most guests/bookings. This network effect will become more powerful as the network scales (Metcalfe's Law), and combined with a strong brand and far higher barriers to entry than traditional Online Travel Agencies (OTAs), will be very difficult to disrupt;
- 2) Organic traffic and fragmented inventory: Airbnb's brand recognition translates to over 75% of bookings traffic to its marketplace being either direct or from unpaid, organic search results (rather than paid search channels such as Google Ads). Hotels and Google have been focused on disintermediating OTAs with search auction competitiveness and top-of-funnel products (e.g. Google Travel that sits above organic Google Search results), respectively, which has been eroding the profit margins of traditional OTAs such as Bookings.com and Expedia, as they rely heavily on paid (versus organic) channels and need to consistently maintain (or increase) marketing spend as a proportion of revenues to protect their brands' mindshare among consumers. Airbnb does not have this problem as it focuses on unpaid distribution channels and highly fragmented, non-hotel inventory that cannot be easily acquired by competitors (approximately 90% hosts are individuals, meaning competitors would need to acquire each host's inventory separately versus hotel chains who can provide distribution partners/aggregators their entire database). These factors make Airbnb's revenues higher quality than aggregators of hotel inventory, and underpin the company's sustainable competitive advantage; and
- 3) Commoditisation of trust: As well as being a component of Airbnb's value proposition, providing both hosts and guests a high degree of confidence they're not transacting with bad actors is also part of the company's sustainable competitive advantage given it enhances the marketplace's network effect.

Overall Company Growth Options

Hyperion believe Airbnb's growth can be summarised through three main areas.

1) Volume (gross bookings) growth:

- This will be driven by a combination of overall travel industry growth, and share gains from hotels as the business model becomes more mainstream on both the supply and demand sides, and as global penetration increases;
- This is accessible by product extension, including boutique hotels (following the 2019 HotelsTonight acquisition) and the nascent Experiences product;
- Airbnb will also be a beneficiary of remote workforces and reduced cost of travel (on the demand side of the marketplace), as well as increased unemployment and low wage growth as individuals seek alternative income streams (on the supply side of the marketplace); and
- Finally, through geographic expansion, particularly into large frontier markets such as China and India.

2) Price/yield (average revenue per user (ARPU)) growth:

- This is achieved through ancillary product cross-sell (e.g. Experiences, travel insurance, ground transport), up-sell (through premium products such as Airbnb Plus), product innovation (e.g. depth products such as promoted listings), and price increases.

3) Profit margin expansion:

- Scale economies will be achieved across all expense lines, the most notable and material of which is sales and marketing (which is the key expense line for all online travel agents). The high mix of organic traffic (over 75%) means Airbnb is less reliant on performance marketing to attract guests (as is the case with traditional OTAs and hotel listings, who have experienced significant sales and marketing deleverage with scale); and
- Combined with scale efficiencies elsewhere (research and development, payments, cloud hosting, customer support), Hyperion believe Airbnb should be able to generate higher than 40% operating margins in the long term.

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