eDreams Odigeo

Date: 22-June-2021

Ticker: EDR.MC (Madrid Exchange)
Current Price: Euro $6.85, **MarketCap**: Euro 753 MM, **EV:** Euro 1,254 MM

Background:

eDreams Odigeo is the leader in Europe for OTA Flights, and according to the company, third in the world behind Expedia and Ctrip. The company is an amalgamation of several brands including eDreams, GoVoyages, Opodo, Travelink, Liligo. Initially primarily focused on flights, the management team, led by Dana Dunne (previously of EasyJet and AOL) has transformed the company to focus on non-flight bookings (seats, insurance, car rentals, hotels) in the past several years, and has launched an ambitious (but successful) Prime program which gives travellers large discounts on flights and hotels for a EUR 50-70/annum fee. As of May 2021, prime has over a million subscribers, a number which doubled over the pandemic.

History:

The company was founded by Javier Pérez-Tenessa, James Hare and Mauricio Prieto in 2000, predominantly offering its services in the Spanish and Italian markets. The company was then bought out in 2006 by TA Associates and then again in 2010 by Permira PE (which still owns 25% of the company). The company was then combined with Go Voyages in 2011 to take on its current form. In 2014 the company launched its IPO which went very poorly, with the stock correcting 60%. The company hit a wall with regards to growth and blamed the google algorithm for changes in traffic. Further, eDreams was hit by bad press (and a suit which they lost) after RyanAir complained that the company was misleading customers by offering the "guaranteed best prices on all flights," and then adding a surcharge on top of that. The leverage taken on via the LBOs was also in focus, when rating agencies started to downgrade their debt[1].

Current State:

In 2015, the management was shaken up, and the then-COO Dana Dunne was appointed CEO. Dunne was previously CEO of AOL Europe and CCO of EasyJet. Since then, Dana Dunne and his team have transformed the company. For one, eDreams has moved away from purely flight OTA, to a diversified revenue play (ie for every 100 flight products, eDreams is now selling 88 ancillary products such as insurance, car rental, etc). Currently, flight revenue is only 30% of total revenue vs 52% five years ago. Second, the launch of "Prime" which is an annual membership (~EUR 50-70/year), which gives average discounts of EUR55 on all hotel and flight bookings. They have a target to get to two million subscribers by end-2023 but are already at one million as of May 2021 and are adding 100k subscribers/quarter during a pandemic low for travel bookings. In fact, they almost doubled their membership during the pandemic. Prime makes customers 2.2x more profitable over 12 months and over 4x more profitable

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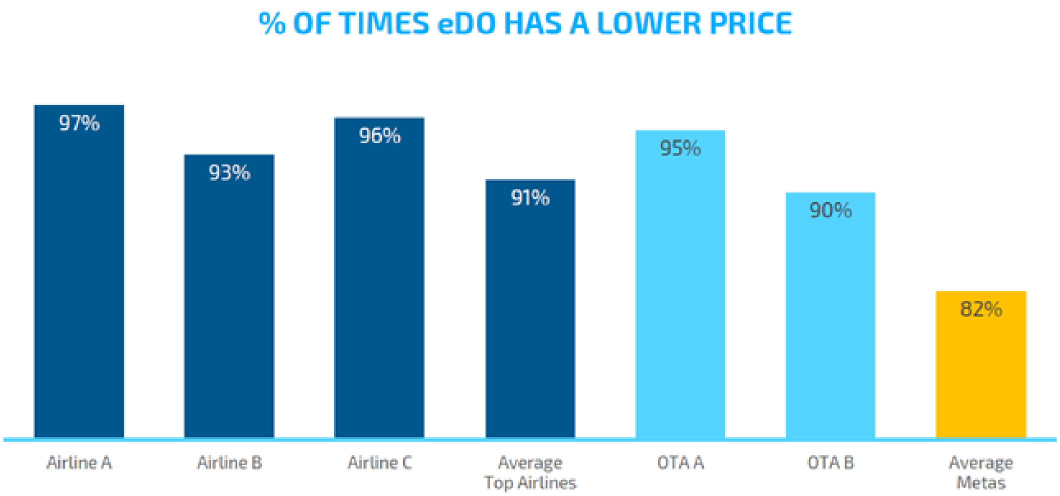
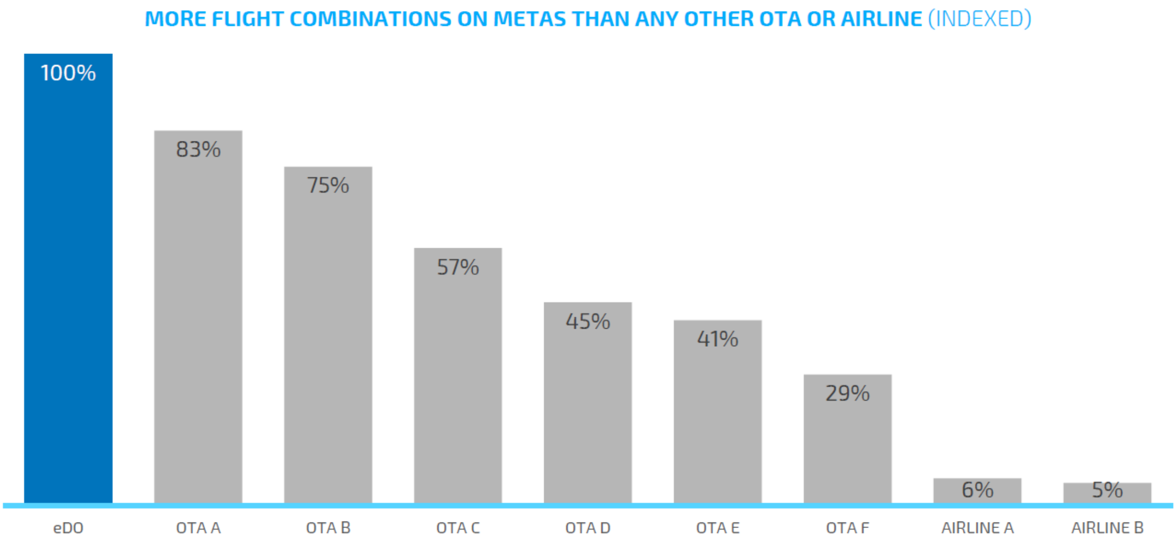
[1] Excerpts from the "Debt Trap" Canderle, Sebastian (link)

over 36 months. Prime members now make up ~40% of bookings, which reduces reliance on metasearch/Google as members become captive audiences. 56% of flight bookings are now made on their app, reducing CAC by 37% from Fy15-21.

The most difficult change to quantify has been to the technology of the company. The management has invested significant amounts with almost 90% of pre-covid operating cash-flow invested into their technology and algorithms to bring their customers the best prices.



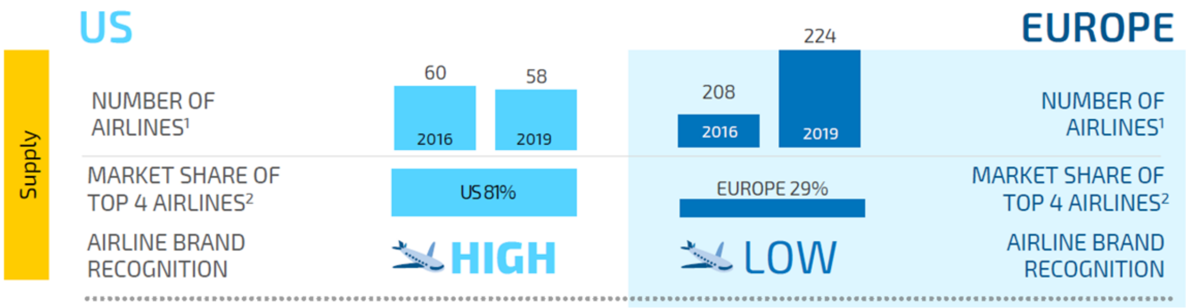
Cheap pricing is a significant top-of-the-funnel tool when it comes to winning the metasearch game (i.e., websites that compare prices rather than sell directly). On top of that, the company has also increased reach for top-of-the-funnel activities. They've done this by having more flight combinations than their competitors, which allows them to have the greatest 'selection' on the market.



There is a lot of power that comes with having both the greatest selection and lowest prices (think Amazon), which we will discuss in our thesis below.

A quick word on the industry dynamics:

In general, we love marketplaces, but have not usually warmed up to OTAs. This is because the 'supply' (airlines) typically control most of the market. This makes the value prop of the OTA quite weak, as travellers can go directly to the airline to get the best prices/routes. However, competitive dynamics in Europe make it so that any given supplier doesn't have too much market power.



As can be seen from the above infographic, Europe has a significantly larger number of Airlines than in the US, making any sort of 'oligopoly' difficult to maintain. Given this, the marketplace model is far more attractive for European OTAs than it is for US-based or focused OTAs. Further, hotels are also far more fragmented in Europe with the average major European country having ~20% market share controlled by chains, whereas in the US, this number is over 40%[2,3].

Thesis:

1) Greatest Selection at Cheapest prices

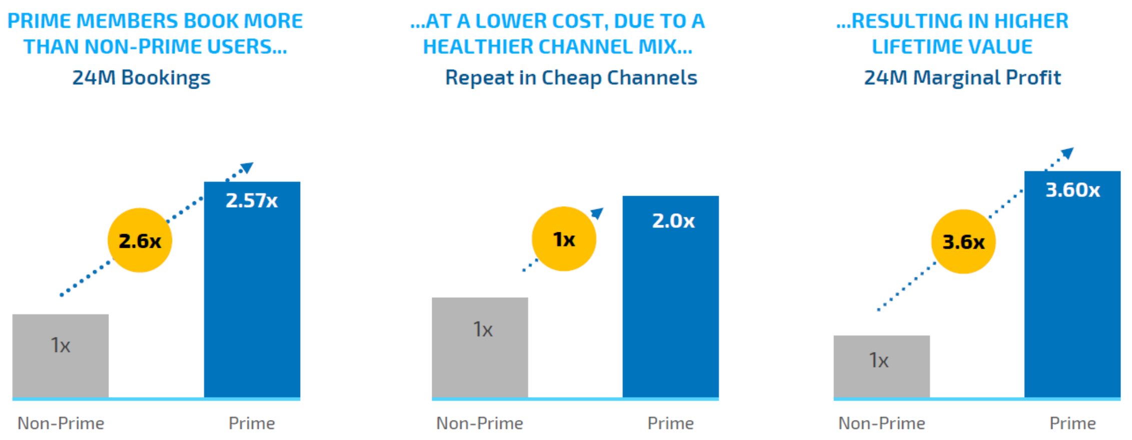
We have so far established that eDreams has the most connections on offer than any other provider. A point made by Tom Bushey in this talk (Bushey owns 5.36% of the company) also states that this feature about eDreams' offering will become even more powerful. Given the change we have experienced in business meetings moving online, it is feasible that Airlines will cancel routes which relied heavily on business travel. eDreams is focused on leisure travel where customers are more cost-sensitive, and they will no longer be able to get cheap direct flights. Instead, they'll have to search for indirect flights, for which eDreams offers the greatest selection. Leisure travellers also start with booking their flights first 70% of the time when planning their trips, so even though eDreams does fall behind the likes of Expedia and Bookings in hotel inventory, it does not play as large of a role in capturing the customer.

Further, we've also established that eDreams tends to be one of the cheapest options available. So not only do they have the greatest selection, but they also have it at the cheapest prices (sound familiar?)

[2] https://www.statista.com/statistics/808598/chain-hotels-share-by-country-in-europe/
[3] https://www.researchgate.net/figure/Top-US-Hotel-Companies-by-US-Market-Share_tbl1_287390994

2) Lower Customer Acquisition costs via captive audience

One of the biggest issues related to OTAs is the fact that they are beholden to Google's search algorithm or their anti-competitive practices (i.e., launching their own metasearch product). Thus, it's made us shy away from the industry for quite some time. However, eDreams' launch of its Prime product has helped to create a captive audience that helps to circumvent the Google problem. Prime customers book 2-3x more than non-customers, and each of the subsequent purchases can be done without paying marketing cost to metas/search engines, as it's a captive audience of subscribers. This lower customer acquisition cost increases LTV of prime customers and makes them much more profitable in the long-term.



Dynamics of Prime:

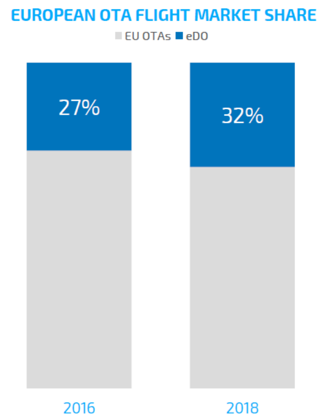
It's important to explain that based on the above, Prime is not a loss-making product, though it might appear so. The average cost of Prime is EUR 50-70 per person/year and the average discount offered on Prime is a similar amount. So, it's easy to think that after a few purchases, eDreams makes a loss on the Prime product. Further, you could have edge cases where large bookings cause losses, as a Prime subscriber can extend their discount to all others on their itinerary (see post-script for why edge cases might be even rarer than we initially believed).

However, as explained by the company, most of the discount is paid for via the revenue received from the GDS (global distribution system) or the commission from the Airline/Hotel. So on average, (figures very rough) a transaction works something like this

Average Booking Value: EUR 450
Discount: EUR 50
Revenue: EUR 45
Loss: EUR -5
Revenue recognized from portion of subscription value: EUR25
Final Gross Profit: EUR 20

Again, the numbers above are an illustration based on our understanding of how the unit economics works. That said, the company has been opaque about this but has reiterated the profitability metrics in the infographic above several times.

The bottom line here is that Prime is profitable on a gross profit level, while the first transaction will incur marketing costs, the second and third will not as the customer becomes a subscriber. Prime customers are 50% more likely to visit eDreams than non-prime, and 100% more likely to convert. They have NPS scores double that of non-prime members (they also have dedicated customer support), and are over the long-term 2.2-4.4x more profitable than a non-prime customer.



Quick Thesis Summary:

We feel that eDreams will remain the market leader in OTA Airline and continue to gain market-share given the change in industry dynamics. The company will be on better footing than pre-covid due to a more profitable customer base allowing them to re-invest in the business to continue to gain market share.

Past Financials (FY ending in March):

Statement (Euro 000s)		2014	2015	2016	2017	2018	2019	2020	2021
Revenue		479,920	465,732	484,650	497,408	512,090	551,320	561,762	107,172
growth			*-3%*	*4%*	*3%*	*3%*	*8%*	*2%*	*-81%*
Gross Profit		*429,543*	*435,962*	*463,255*	*486,563*	*508,574*	*533,013*	*528,663*	*111,090*
growth			*1%*	*6%*	*5%*	*5%*	*5%*	*-1%*	*-79%*
% margin		*90%*	*94%*	*96%*	*98%*	*99%*	*97%*	*94%*	*104%*
Operating Costs		*- 383,958*	*- 560,966*	*- 396,275*	*- 409,683*	*- 436,784*	*- 442,638*	*- 537,912*	*- 222,039*
EBITDA		*84,454*	*74,523*	*85,348*	*98,025*	*100,898*	*114,568*	*103,111*	*- 46,433*
growth			*-12%*	*15%*	*15%*	*3%*	*14%*	*-10%*	*-145%*
% margin		*18%*	*16%*	*18%*	*20%*	*20%*	*21%*	*18%*	*-43%*
Profit/Loss		- 20,362	- 181,306	12,427	10,474	19,723	9,520	- 40,523	- 124,229
Shares Oustanding		101,810	104,801	112,973	116,378	116,018	119,000	109,522	109,937
EPS		*- 0.200*	*- 1.730*	*0.110*	*0.090*	*0.170*	*0.080*	*- 0.370*	*- 1.130*

- Typical revenue growth was ~3-4% pre-covid. This may not seem very high but it is about double the growth rate of the European Domestic travel market, which from 2021-2019 grew about 1.7% a year[4].
- EBITDA margins were around 18-20% pre-covid. While these margins were already best in-class, with Prime in full swing post-covid, we see EBITDA margins going up to mid to high 20%, rivalling that of the industry leader, Bookings.com

[4] https://www.statista.com/statistics/617517/domestic-tourism-expenditure-europe/

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Projected Financials (EBITDA Level):

Assumption (Euros)		Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26	
Prime Share			40%	50%	55%	60%	65%	
Users		876,000	1,400,000	2,100,000	2,835,000	3,827,250	4,592,700	
Avg. Users during Year			1,138,000	1,750,000	2,467,500	3,331,125	4,209,975	
Total Bookings			2,276,000	3,500,000	4,935,000	6,662,250	8,419,950	
Gross Bookings Value			1,017,759,568	1,565,095,997	2,206,785,356	2,979,160,231	3,765,151,441	
Bookings Revenue			*108,900,274*	*167,465,272*	*236,126,033*	*318,770,145*	*402,871,204*	
Prime Revenue			*68,280,000*	*105,000,000*	*148,050,000*	*199,867,500*	*252,598,500*	
Total Revenue			177,180,274	272,465,272	384,176,033	518,637,645	655,469,704	
Total Expenses			- 97,818,343	- 147,112,840	- 199,543,247	- 269,383,384	- 325,165,408	
Contribution Profit			79,361,931	125,352,431	184,632,786	249,254,261	330,304,296	
Profit/Booking			**35**	**36**	**37**	**37**	**39**	
Non-Prime Share			60%	50%	45%	40%	35%	
Total Bookings			3,414,000	3,500,000	4,037,727	4,441,500	4,533,819	
Gross Bookings Value			1,526,639,353	1,565,095,997	1,805,551,655	1,986,106,821	2,027,389,237	
Total Revenue			163,350,411	167,465,272	193,194,027	212,513,430	216,930,648	
Marketing Expense			- 106,834,597	- 109,525,803	- 126,352,949	- 138,988,244	- 141,877,197	
Contribution Profit			56,515,814	57,939,469	66,841,078	73,525,186	75,053,451	
Profit/Booking			**17**	**17**	**17**	**17**	**17**	
								CAGR (2019-2026)
Total Revenue (Combined)			340,530,685	439,930,543	577,370,060	731,151,074	872,400,353	7.29%
growth %			207%	29.2%	31.2%	26.6%	19.3%	
Total Contribution Profit			135,877,745	183,291,900	251,473,864	322,779,447	405,357,747	
Employee Cost			- 40,863,682	- 52,791,665	- 69,284,407	- 87,738,129	- 104,688,042	
Other Costs			- 20,431,841	- 26,395,833	- 34,642,204	- 43,869,064	- 52,344,021	
EBITDA			74,582,221	104,104,403	147,547,254	191,172,254	248,325,684	
EBITDA %			21.90%	23.66%	25.56%	26.15%	28.46%	
EBITDA growth %				40%	42%	30%	30%	
								CAGR (2019-2026)
Total Bookings			5,690,000	7,000,000	8,972,727	11,103,750	12,953,769	2.10%
growth %			75%	23.0%	28.2%	23.8%	16.7%	

Explanation:

- This model is based on Prime share of total bookings increasing from 40% now to 65% by 2026 (65% of Amazon sales are done by prime members)
- Contribution profit/booking is higher for Prime members due to lower CAC
- As a sanity check we've tracked the CAGR for Revenue. The CAGR of Revenue is higher than the historical ~4% but assuming 1MM additional Prime Members which is an additional EUR 50-60MM in revenue (considering the quantum of growth prior to covid was ~14-15MM, a 7.29% CAGR is quite reasonable).

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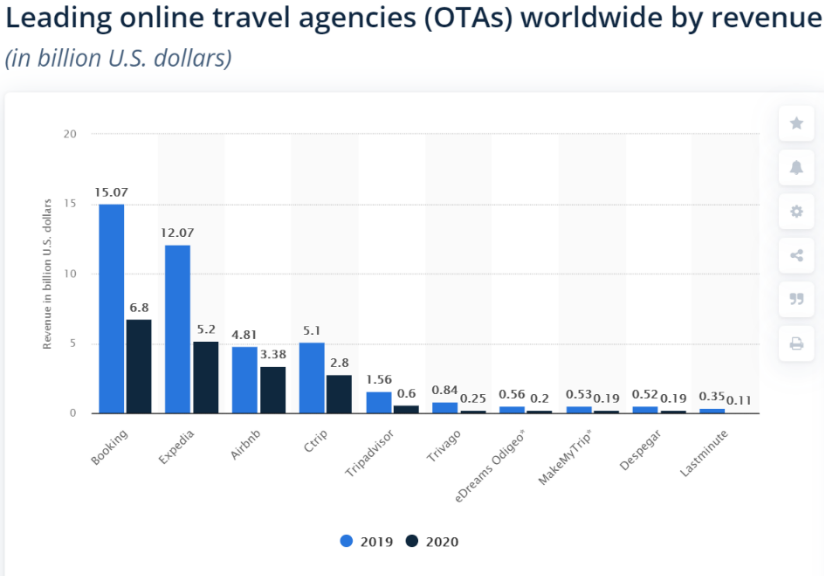
Competition:

The OTA space is highly competitive with several players across geographies. The relative revenues are shown in this figure[5].



However, each agency has its own strengths. For example, Bookings.com is not present directly in Flights, preferring to offer a metasearch product via Kayak. Similarly, AirBnb is a vacation home behemoth, but operates almost exclusively in that category. TripAdvisor has a hybrid model, and focuses mostly on hotels (most of which is not their own inventory). eDreams' closest competitor would be Expedia (which also owns most of Trivago), which is the only non-Chinese OTA (CTrip) that is bigger than eDreams in flights globally.

Now the obvious question is, "Why can't any of these other business start subscription models?". The answer is that a few of them have. But each business has taken its own approach.

TripAdvisor – TripAdvisor in June 2021 announced a subscription program where they will charge US$99/year to get discounts on hotels. The company claims that the average savings per trip will be US$350. On the surface this is quite attractive. However, one must remember TripAdvisor was never known as a place to make bookings. It was predominantly an advertising model where people went to look at reviews before they decided on restaurants/hotels (from Trip 10K: *"The largest source of Hotels, Media & Platform segment revenue is generated from click-based advertising on Tripadvisor-branded websites, which is primarily comprised of contextually-relevant booking links to our travel partners' websites"*). They launched a meta business but that took a huge hit when Google launched their own. Now, TripAdvisor is targeting a hybrid model (where most bookings are still sent to a 3rd party site but some bookings will be direct with TripAdvisor). So TripAdvisor is up against two problems; For one, it has to do a lot of work to get people to book on their site, as that's not what their brand is known for and second, they don't offer a complete trip package nor do they have a very large captive inventory base. Further, TripAdvisor's model is a bit different as the 'discount' is not pushed by Trip itself but offered by the hotel. As we can see from their latest earnings call, the company states: "*So the basic model we're working with, and there perhaps are some exceptions, is that we're encouraging hotels of all types to identify a discount that we are able to pass along to the traveller. And we're in fact passing along the entire discount, whatever they're able to offer to be kind of the most beneficial to the consumer to get them -- to get that consumer to book the properties.*" This is a bit strange to us as it makes the subscriber experience quite uneven – i.e., not only will discounts not be offered on every product but it won't be an even discount. Further, TripAdvisor will

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[5] https://www.statista.com/statistics/934995/revenue-of-leading-otas-worldwide/

have to rely on their relationships with hotels, but considering they were a meta business for much of their history, it's doubtful their relationships are particularly strong.

Bookings.com – Bookings does have its own sort of discount program for loyal users. It's called "Genius." This kicks in after you make two bookings with them (10% discount), and increases as you make more bookings (i.e., after five bookings, you get between 15-20%), although this is for select properties. It's not obvious to say this is a loyalty program, but not a subscription one. For example, someone who is planning to only make one or two bookings a year may not really avail of this discount, as the following year they wouldn't be tied in via a subscription.

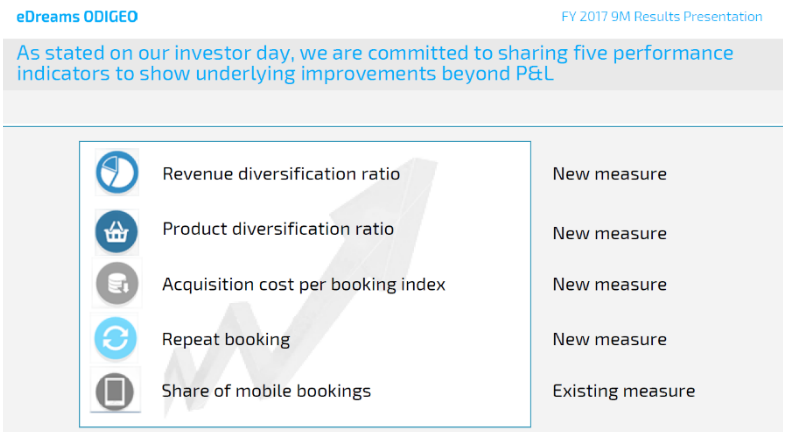
Expedia – Expedia has a loyalty program where members save $48 on average per booking. While loyalty programs can be quite attractive, subscription models tend to spur greater action due to an upfront associated with the membership. Further, with eDreams subscription you get the discount right away, which is a much better customer experience.

As you can see, every OTA is tackling the capture of more share-of-wallet in their own way. However, we feel that a subscription model is far more attractive for the business and consumer than a loyalty program (which is what Expedia and Bookings have), and while many businesses will try to replicate the subscription model (TripAdvisor), few have the branding and breadth of selection that eDreams has.

Shareholders & Management

According to public filings, the largest shareholder is still Permira which owns a 27% stake (largest), followed by Ardian PE which owns a 15.76% stake. Management owns a low single-digit stake, which is not ideal, but according to some investors we've talked to, it makes up a significant part of their net worth. For example, Dana Dunne owns over EUR 12MM worth of stock (1.8MM shares) as of March 2021.

On management, we've understood a few things about Dana Dunne and his team. For one, as quoted in an expert interview, "They're a highly-driven and execution-oriented team. So they get stuff done. They move quickly. It's a very sort of fast pace, sort of high energy, just get it done sort of execution." More importantly though, it seems that everything they've done everything they said they would do, and this trait has been stressed by other investors. For example, management made a bold claim of hitting two million Prime subscribers by the end of 2023, and they're likely to do that more than a year in advance. Another example is that in Feb 2017 they shared these KPIs with the market.



Here are the results of those goals:

Revenue Diversification Ratio:
Then: 29%, Now: 57%
Product Diversification Ratio:
Then: 44%, Now: 88%
Acquisition Cost/Booking:
Then: 77 (based on 100 baseline), Now: 63

Customer Repeat Rate: Then: 40%, Now: 41% (pre-covid)
Share of Mobile Bookings: Then: 30%, Now: 56%

As you can see, the company has improved significantly on every metric. The only one where they have struggled a bit is in the Repeat Rate. However, prime should change that number going forward, and will be a number to watch.

We've often found it hard to judge management based on what they say or how they might market their company. It's much easier comparing what they promise to how they deliver against those promises. So far, eDreams' management has lived up to those expectations.

Valuations:

Versus Competitors

in 000s

Company	CCY	2019 EBITDA	EBITDA Margin %	Adj. EBITDA	Market Cap (var	Net Debt	Current EV	Multiple	Multiple (Adj)
Lastminute	EUR	55,321	15.8%	63,100	442,111	- 42,111	400,000	7.23	6.34
Bookings	USD	5,814,000	38.6%	5,900,000	92,405,780	1,062,000	93,467,780	16.08	15.84
Expedia	USD	2,054,000	17.0%	2,134,000	24,533,800	7,936,000	32,469,800	15.81	15.22
Trivago	EUR	50,134	5.98%	70,025	1,030,950	- 218,106	812,844	16.21	11.61
eDreams	EUR	102,621	18.4%	115,100	755,880	486,599	1,242,479	12.11	10.79
On The Beach	GBP	20,900	14.9%	29,700	551,300	- 36,500	514,800	24.63	17.33
							Average	15.34	12.86

Just as it is, it seems like eDreams is underpriced. It has the second-best margins in the industry, but has the second lowest multiple. Further, its EBITDA growth rate in the years running up to covid were just shy of industry leader Bookings (eDreams grew around 11% p.a whereas Bookings grew around 13%). Now the question should be why is the market pricing eDreams lower? We suspect it's because it's an 'odd' stock. It has headquarters in the UK, it trades out of Madrid, but is a pan-European business, and trades on low volume in an industry that was untouchable for a good part of the last 1.5 years. Now, some might argue that it could also be because eDreams has a high-debt load (see risks section), however, if you look at Lastminute (LM), which has no debt, you'll see it also trades at low-multiple. What eDreams and LM do have in common however is that LM is also an 'odd' stock (founded by an Italian, trades on low volume and in Switzerland, but is based out of Amsterdam). Further, while the debt load is an annoyance, it should be noted that eDreams was one of the only OTAs (LM was the other one) that didn't have to raise any external capital during the pandemic.

Discounted Valuation:

EBITDA Mar - 2026	248,325,684
Multiple	15
Value	3,724,885,254
PV (8% WACC)	2,535,094,314
Net Debt	501,107,000
Market Cap	2,033,987,314
Shares O/S	109,937,168
Price per Share	18.50
Current Price	6.85
Upside	170%

Where this valuation could go wrong:

- The market does not give eDreams a higher multiple: It could be that the multiple sticks to the 11-12x it's currently trading at. However, we feel with more success of the Prime program, investors will take notice, and as the EBITDA profile improves, so will the multiple. We have also been told the company has hired an IR firm and is conducting roadshows in the US to attract investors, which has already unlocked value (see stock price move in May/June). Another fair point would be that pre-covid eDreams traded at a 7-8x trailing EBITDA, so doubling the multiple from there is aggressive. Our argument however is that eDreams was woefully undervalued pre-covid and the resurgence in travel will unlock significant value (i.e. we're already at 11-12x).
- Prime numbers don't hit the 5MM we're expecting by 2026 or repeat rates don't go up: This needs to be watched and is a risk to the thesis. However, we feel we've been quite conservative on our growth rates/basket sizes and our vision of what the future looks like w.r.t travel is a bit like the past. That said, pre-covid eDreams was doing 11MM+ bookings a year, during covid they were doing only 3MM and still adding over 100K subscribers a quarter. Given the pent-up demand, we could very well see frequency and basket size increase for the next few years. If that is so, even if we miss on the Prime numbers, the overall EBITDA should grow.

Risks:

- **Debt:** Current Debt (Euro 500MM) to Equity Ratio is 1.89x predominantly due to one 5.5% bond due in 2023. This isn't a great balance sheet for a growth company generating cash, and the risk here is that they will not be able to refinance the bond if the market environment is poor in 2023. That said, it's assumed that as covid ends travel should be a hot segment for the next few years, mitigating the refinancing risk.

- **Another covid-wave:** If North America and/or Europe experience waves like those that have wrecked the developing world, then our assumptions go out the window. However, vaccination rates by the end of summer in Europe are said to hit 70%, making this a bit unlikely. Recovery is underway with key markets boasting 44% vaccination rates at the minimum (one dose). Bookings down only 29% from 2019 during May 2021 (as opposed to 70% down a year ago). Further, if there is a second wave, we don't think it would be worse than the first lockdown, which eDreams survived without having to raise capital. If there is another wave and sales do not recover, then eDreams will draw down on their credit facility, which has a Gross Leverage Ratio covenant, but has been waived till June 2022, and the company expects it to be waived again if covid resurfaces.

- **Forced Sale:** Two PE Firms, Permira and Ardian own more than 40% of the company, and could force a sale of the company if the stock reaches an all-time-high. That would mean they could force a sale in the low- to mid- teen stock price. That said, if that does happen, there would be a vocal minority shareholding that would oppose this.

- **Liquidity:** Share volume is a little over one million Euro a day, so while not illiquid, could take a few days to exit if you have a large position. That said, as stock does better, the liquidity will improve.

- **Prime subscription is a black box:** The unit economics we have derived above are frankly guesses (educated ones though). The company has kept a bit tight-lipped on the unit economics of the Prime model, so until they give us more details (expecting they will at their investor day in the second half of the year), we will have to keep to our assumptions.

Post-Script:

The above writeup was compiled toward the end of June 2021, since then we've done a lot of work on the company including talking to current management (CEO/CFO) as well as the ex-c suite member of the company. Below we give some of our updates on a few key topics.

- ***Q1 Earnings (June 2021):*** We were quite impressed by Q1 earnings for two main reasons. For one, bookings during the quarter were higher than 2019 numbers for the months of June, July and August (August was up 27%). While there was a far greater concentration on shorter flights (thus lower booking value), it does show that the Delta variant is not having as big of an effect as might be portrayed by the media. Second Prime numbers skyrocketed with 1.5MM users as of August 21 (our model used only 1.4MM for March 2022!). The company added 150K subscribers per month, which makes it plain that they will likely hit their 2MM target either by the end of this year or early next year (almost 2 years in advance of the initial target). Further the company released some more details on Prime, and accounting for Prime bookings (remember prime subscription revenue is not recognized upfront) the company had a positive cash EBITDA for the quarter.

- **Views on Management:** Our conversation with Dana (CEO)/David (CFO) as well as with an ex-C Suite were really illuminating. Both conversations painted a picture of a company that's incredibly disciplined with its marketing spend (Every campaign is A/B tested and must have a minimum ROIC), a strong internal push to reduce the cost of customer acquisition, as well as a constant drive to improve technology and offer more services. This has led to significant innovation in the company including "cancel for any reason" and Prime. It became far clearer why eDreams has such strong margins as well as a dominant market share.

- **Prime Unit economics:** One of the key pushbacks we've gotten from other investors is that Prime appears to be a loss-making product. While we thought that losses could occur if a subscriber purchased too frequently, we didn't think it was the norm. It turns out though not only is it not the norm, but it's also actually quite rare to make a gross margin loss on a subscriber. For one, we've discovered that the "discount" is not the same for subscribers, rather eDreams, using its algorithms will determine the discount to the customer based on how many additional products that they think the subscriber might purchase. This allows them to offset the discount with the margin achieved from ancillary product sales. As one of the experts we spoke to said "the way the product works is that a Prime subscriber is either earning you the same/higher margin as a non-prime or if it is earning you a lower-margin than it is earned back in a far lower customer acquisition cost."

- **Changes in model:** A slight "mistake" in our above model is that we allowed EBITDA margins to get into the high 20s. Our conversations with management make it clear that they wont let margins get so high as they would rather re-invest in growth or new innovation. That said, we also really underestimated the short-term numbers of Prime subscribers, so overall we are quite comfortable with our target price.

  Now we will admit that it can be hard to model the unit economic of Prime (although it's become a lot clearer to us now), however there's a simpler way to look at the valuation. Let's assume Prime doesn't exit. Currently the company is trading at an EV of EUR 1,265.70MM. The EBITDA in FY2019 (the last year completely untouched by covid) was EUR 115MM, which implies you're getting the company at a 2019 EBITDA of 11x EBITDA, which is still cheaper than the rest of the industry. Considering eDreams is the leader in European travel, is likely to have block-buster years in the future due to pent up demand, and has the optionality of Prime revenues and margins, we think this is quite a bargain.

Additional Disclaimer:

None of the above should be construed as investment advice. This write-up is not a recommendation to buy, hold, or sell the discussed security. Please do your own diligence before investing and do know that investing in small-cap stocks carries extreme risk. Farrer Wealth Advisors is not responsible for any investment losses that may arise by construing the above as an investment recommendation.