



**ALPHA APEX GLOBAL**  
Finance & Equity



# INVESTMENT DECK

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# INVESTMENT THESIS

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Airbnb is the leading online home sharing marketplace. I've assessed the opportunity to invest \$1B on a \$20B premoney valuation.

- **The Big Picture:** Smartphone penetration and social network growth have enabled consumers to grant each other temporary access to their under-utilized physical assets by removing key friction points to asset owners and potential users.
- **The Market:** The vacation rental market is ~\$85B, but Airbnb is also creating a market that didn't exist 7 years ago by enabling people in cities to rent out their rooms; furthermore, Airbnb is a viable substitute to hotels. In total, Airbnb is attacking a \$500B - \$600B market.
- **The Business Model:** As an online marketplace, Airbnb is asset-light and does not hold spare room inventory. Unlike hotels, Airbnb is unconstrained by real estate and can add thousands of rooms in a matter of weeks rather than months or years.
- **The Company:** Airbnb has dug deep moats around its business by exerting powerful, "overlapping" network effects and building a global community through its trusted service.
- **The Exit:** At a \$20B valuation, Airbnb will likely IPO within the next 2 years; though some expect an IPO relatively soon, private tech companies are waiting longer to go public.

Though Airbnb is a strong business, I recommend passing on this deal because at \$20B the company is priced near its intrinsic valuation. Another round of financing (IPO) in the next year or two will likely result in a flat round, generating 0.7x – 1.1x cash-on-cash returns.

# THE TARGET COMPANY

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Airbnb is the premier short-term rental online marketplace, where people rent out their homes or individual rooms to complete strangers.

## Company Basics

- Founded in 2008 by Brian Chesky, Joe Gebbia, and Nate Blecharczyk
- Presence in +34K cities and +190 countries
- Listings are mostly primary homes in urban centers, but also include second homes in traditional vacation destinations
- Raised \$795M from top VCs, including Sequoia, Greylock, and Andreessen Horowitz
- Operates as a merchant by handling all transactions and cash flows; technically selling the rental to the consumer and then paying the owner
- Two main sources of revenue:
  - Guests pay 6% - 12% of the reservation cost (sliding fee depending on the total cost)
  - Hosts pay a 3% fee for each booking

## Value Proposition

### For Guests (Buyers)

- +1M listings and 350K hosts worldwide
- Previous guest reviews reinforce the integrity of each listing
- Average nightly rate ~\$100, 16% less than the average nightly rate of hotels in the US
- Secure payment processing
- Unique lodging experience each time

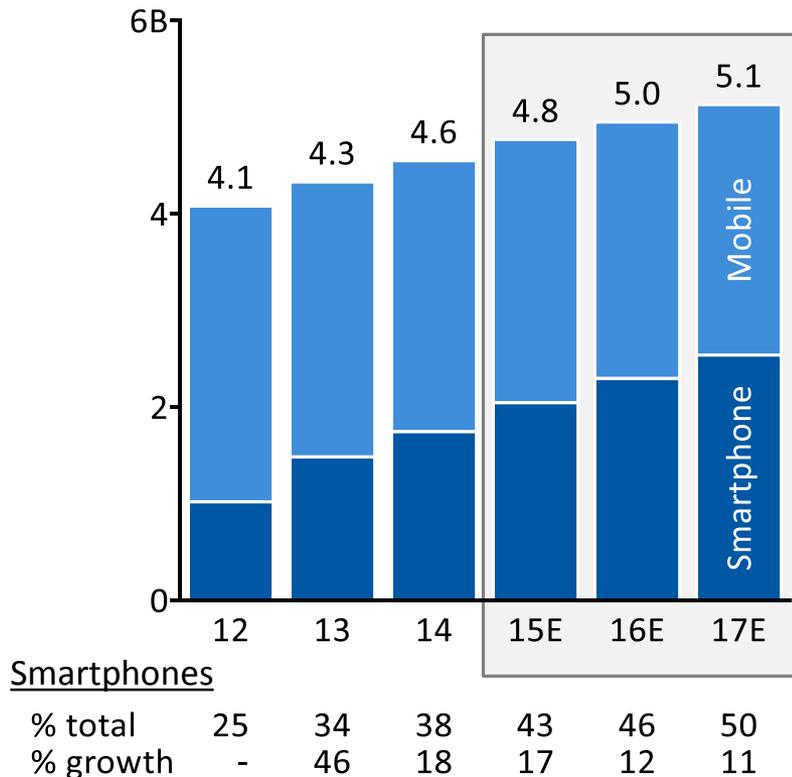
### For Hosts (Sellers)

- +25M total guests
- Price premium for positive guest reviews
- Relatively thorough user profiles, vetted by Airbnb (Verified ID)
- Airbnb Guarantee protects hosts up to \$1M
- Seamless payment processing
- Untapped source of rental income

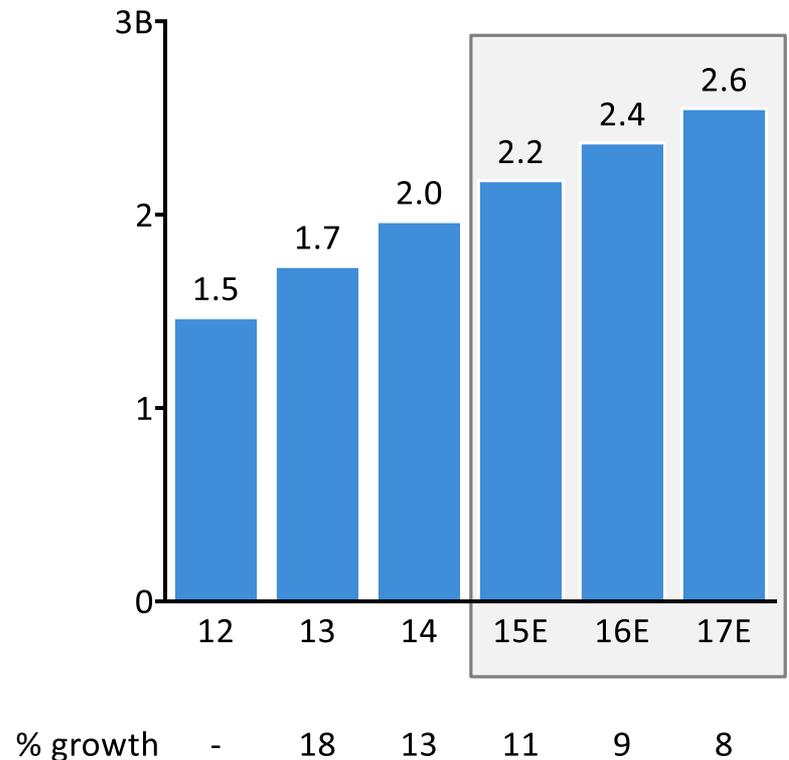
# THE BIG PICTURE

Mobile and social have unleashed the sharing economy, allowing Airbnb to create and capture value from untapped potential residing in goods not entirely exploited by their owners.

Worldwide Mobile Phone Users



Worldwide Social Network Users



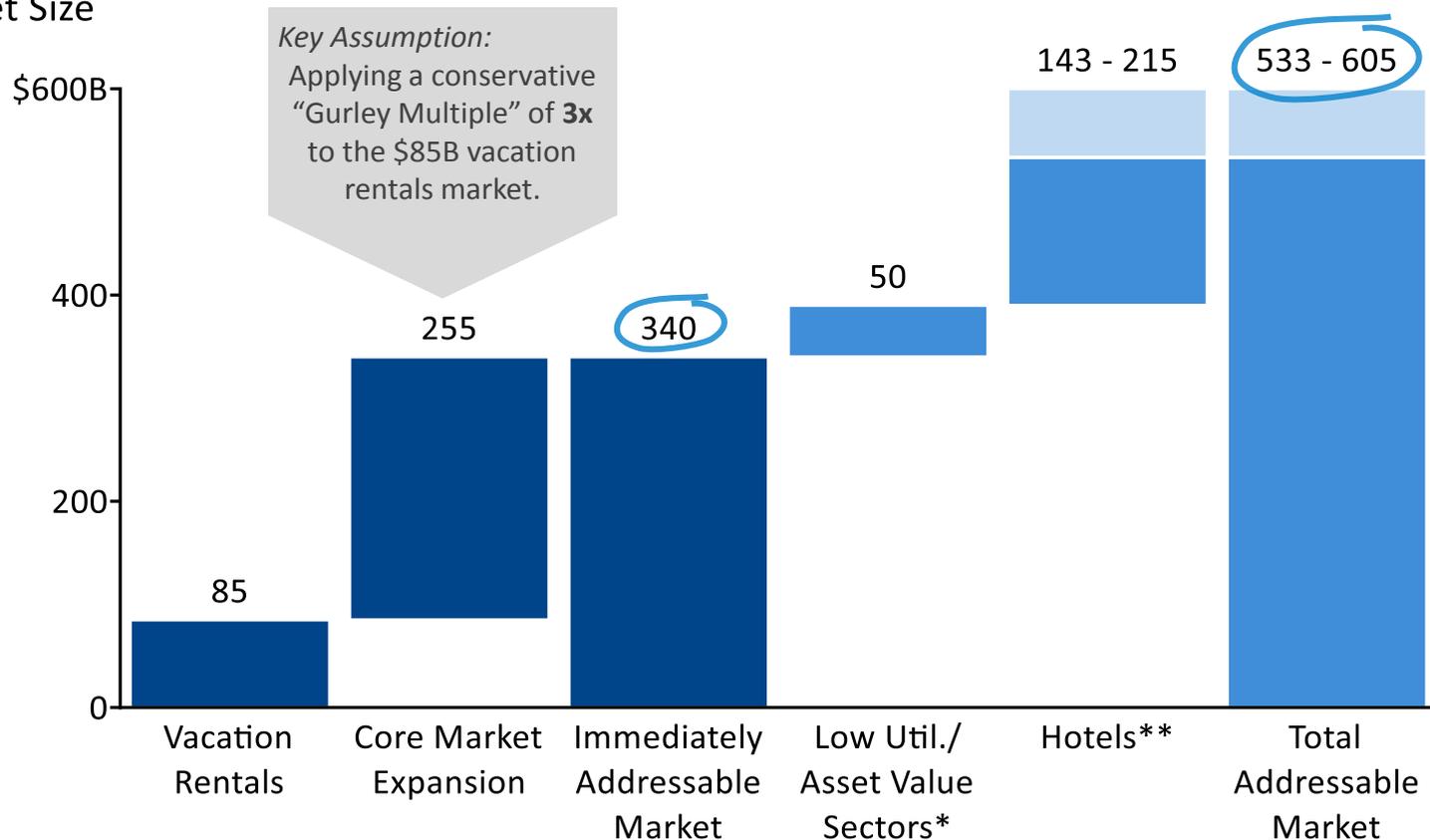
For Airbnb, smartphones reduce seller friction by making it easy to snap a picture and post it online

Social media enables Airbnb to verify users and facilitates the creation of more thorough profiles

# MARKET POTENTIAL

Beyond vacation rentals, Airbnb has enabled people living in cities to rent out spare rooms or entire apartments, creating a market that didn't exist. Going forward, Airbnb will eat into the hotel industry as well as other low utilization-to-asset-value sectors. Estimated TAM = ~\$570B.

## Market Size



\*Low Utilization/Asset Value Sectors = Private travel services such as helicopters, private planes, private yachts and even car rentals

\*\*Hotel industry reached \$717B in 2014; assuming Airbnb will play in 20%-30% of that market (mainly midscale hotels)

Source: Euromonitor, PhoCusWright, HBS Publishing, HomeAway 10K, Above the Crowd

# COMPETITIVE ADVANTAGE

Airbnb's competitive advantage is strong, boasting network effects and customer captivity.

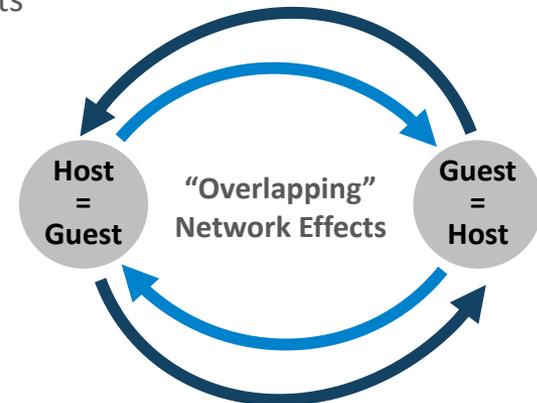
## Competitive Landscape

	 Airbnb	HomeAway	Craigslist	OTAs	Hotels
Scale					
Fixed Costs					
Network Effects					
Customer Captivity					
Cost					
Government					

Regulation remains big risk to Airbnb

## Network Effects

- Airbnb's supply and demand are often one and the same, creating uniquely overlapping network effects



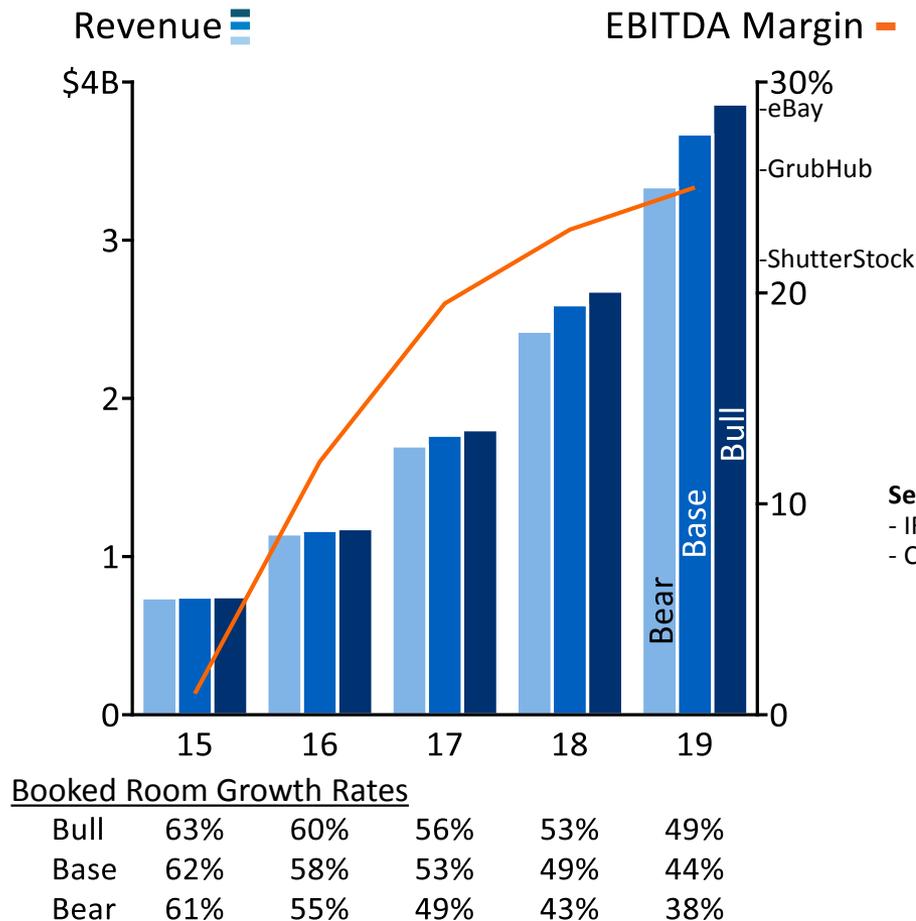
## Customer Captivity

- Online verification techniques, \$1M Host Guarantee, and payment platform build trust
- Continuous* stamp of approval → each additional review is another valuable data point that fosters further trust among members (reinforcing the network effects); prices also adjust due to reviews
- Strong sense of community is habit inducing; fanatical following willing to evangelize friends

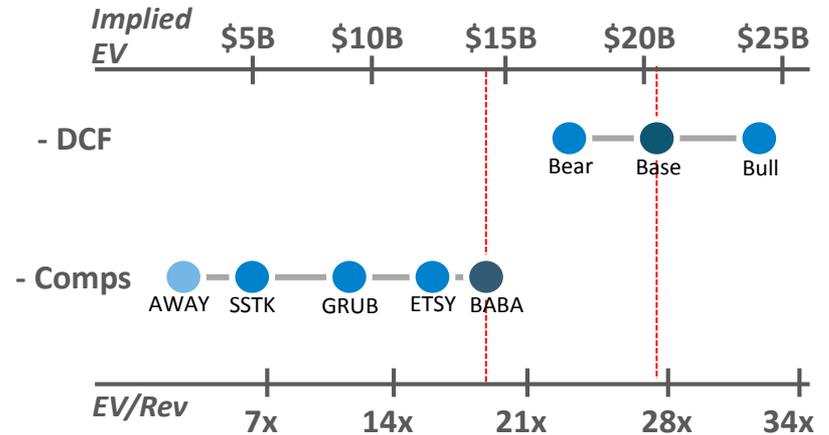
# FINANCIALS

Revenue projections driven by booked rooms growth at an average nightly rate of \$100 and a take rate of 11%. Steady-state EBITDA margins fall within those of marketplace comps.

## Model Drivers & Projections



## Valuation & Returns



## Sensitivity Output:

		Exit Year				
		1	2	3	4	5
- IRR (%)						
- Cash-on-Cash (x)						
Exit Rev. Mult.	10x	-63% 0.4x	-24% 0.6x	-5% 0.8x	5% 1.2x	11% 1.7x
	15x	-45% 0.6x	<b>-7% 0.9x</b>	8% 1.3x	16% 1.8x	20% 2.5x
	20x	<b>-26% 0.7x</b>	<b>7% 1.1x</b>	19% 1.7x	25% 2.4x	27% 3.3x
	25x	-8% 0.9x	20% 1.4x	29% 2.1x	32% 3.0x	33% 4.2x
	30x	11% 1.1x	31% 1.7x	37% 2.5x	38% 3.6x	38% 5.0x

Using Base Case Revenue Projections

\*DCF Assumptions = Tax Rate @ 35%, Terminal Value Growth Rate @ 3% and Discount Rate @ 9.3%  
Source: Capital IQ, Skift