

Analyst Report: Expedia Group, Inc. (EXPE)

Industries: Communications, Internet, E-Commerce

Expedia's strategic shift to a platform model and focus on customer loyalty are key to navigating a competitive landscape, but the success of these initiatives is crucial for overcoming financial and regulatory challenges and capitalizing on the travel market's recovery.

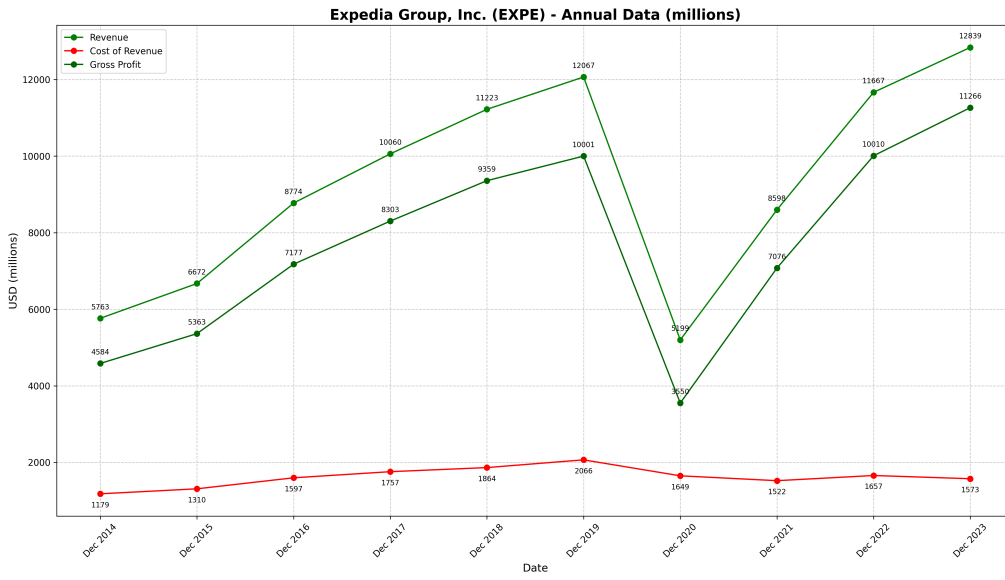
Forward Valuations	Bullish	Bearish
Implied Option Valuation	\$165.00 - \$185.00	\$105.00 - \$125.00
Sum of the Parts	\$170.00 - \$190.00	\$110.00 - \$130.00
Relative Multiples	\$155.00 - \$175.00	\$95.00 - \$115.00
Discounted Cash Flow	\$160.00 - \$180.00	\$100.00 - \$120.00

SUMMARY DATA (ANNUAL)

52-Week High	\$192.34
52-Week Low	\$107.25
Shares	144.97
EPS	5.50
Dividend	0
Revenue	12,839
Cost of Revenue	1,573
Gross Profit	11,266
EBIT	1,372

OUTLOOK

Expedia's outlook for the next two quarters is mixed, with improving U.S. travel trends and growth in its B2B segment offering positive momentum. However, macroeconomic uncertainty and competitive pressures necessitate careful management of expenses and liquidity. The successful integration of the new CFO and execution of strategic initiatives, such as One Key and platform technology enhancements, are crucial for driving growth and profitability in the near term. The company must also address potential risks related to increased fraud, cybersecurity threats, and regulatory challenges, particularly in the alternative accommodations sector. Continued strength in travel demand and effective management of expenses will ultimately determine Expedia's success in navigating the next two quarters. The lack of specific financial data makes accurate predictions challenging, but the current market sentiment suggests a cautiously optimistic outlook, contingent on the company's ability to deliver on its strategic goals.



1. Business Description

Expedia Group's latest 10K filing provides a comprehensive overview of the company's performance, strategy, and risk factors for the fiscal year ending December 31, 2023. The report highlights a strategic shift towards a platform operating model, simplifying operations, and focusing on customer loyalty and app adoption. Key achievements include migrating Hotels.com and Vrbo onto a unified tech stack, launching One Key loyalty program in the U.S., and continuing the transition to public cloud computing services. The company acknowledges intense competition from established and emerging players and emphasizes leveraging its brand, supply strength, and platform to deliver rapid product innovation and better traveler experiences. The filing also addresses legal and regulatory risks, particularly those related to the alternative accommodations business.

Financial risks include potential liquidity constraints and indebtedness, operational risks center on search engine dynamics and brand maintenance, while technology risks encompass system interruptions, data breaches, and the challenges of integrating AI. The report emphasizes the importance of human capital and details efforts in diversity and inclusion, employee benefits, and navigating a competitive labor market. It acknowledges the influence of Barry Diller, given his ownership and voting power, and potential conflicts of interest due to overlapping roles with IAC. Finally, the 10K addresses ESG risks and the potential impact of climate change on the business.

The report details the company's financial performance, highlighting a 10% revenue increase to \$12.8 billion compared to 2022. Growth drivers include improved lodging and air revenue, though other revenue streams, like car rental and insurance, experienced declines. Operating income slightly decreased, affected by impairment charges related to goodwill and intangible assets. The report reiterates the focus on Adjusted EBITDA as a key performance indicator, which increased 14% year-over-year, reaching \$2.68 billion. Cash flow from operating activities decreased significantly, impacted by normalized deferred merchant bookings after the post-pandemic surge. Share repurchases amounted to \$2.1 billion. The company maintains a positive outlook, citing strong travel demand as a key factor in its recovery and growth strategy.

The report shows a detailed breakdown of Expedia Group's financial performance across different segments (B2C, B2B, trivago), service types (lodging, air, advertising, other), and business models (merchant, agency, advertising). It includes gross bookings, revenue margins, and revenue and expense breakdowns, offering insights into the key drivers and trends affecting each area. The filing outlines how the company accounts for certain merchant revenue, deferred loyalty rewards, and the recoverability of assets. It provides details about goodwill and intangible asset impairments, income tax provisions, occupancy and other tax-related litigation, and critical accounting policies and estimates. The document also includes information on recently adopted and pending accounting pronouncements, offering further context for understanding the company's financial reporting. Further, the filing addresses several legal proceedings related to occupancy and other taxes, as well as other litigation matters.

Significant emphasis is placed on potential risks and uncertainties, categorized by industry, financial, operational, legal, regulatory, technological, and ownership-related factors. The report emphasizes the highly competitive travel market, the company's dependence on relationships with travel suppliers and third-party partners, and the challenges posed by evolving technologies and regulatory frameworks, including those specific to the alternative accommodations sector. Financial risks highlight the impact of macroeconomic pressures, indebtedness, and potential liquidity constraints. Operational risks cover areas such as search engine dynamics, brand maintenance, and international expansion. Technology risks address system interruptions, data breaches, and the incorporation of AI. Legal and regulatory risks include compliance challenges related to data privacy, consumer protection, and tax obligations. Ownership risks stem from Barry Diller's significant influence and potential conflicts of interest. Finally, the report discusses ESG factors and the potential impact of climate change.

Detailed information is provided regarding properties owned and leased by the company, including the size and location of office spaces, lease terms, and expiration dates. The report lists active and resolved legal proceedings, offering context on ongoing disputes related to occupancy taxes, competition matters, and other litigation. It outlines the financial implications of these proceedings and the company's approach to mitigating legal and regulatory risks. Specific cases mentioned include litigation in various U.S. states, as well as international legal challenges, including cases in Australia and France. The filing reveals the existence of various other tax assessments from different government authorities and the strategies the company is employing to address them.

The filing provides details on the Company's cybersecurity policies, governance, risk management strategy, and incident response plans, highlighting the measures taken to protect data and systems from threats. It emphasizes

the Board's oversight role, the critical role of the Chief Security Officer and Chief Technology Officer, and the ongoing efforts to adapt to evolving cybersecurity challenges, including those presented by AI-driven attacks. The report acknowledges the potential impact of successful attacks, including damage to reputation, increased costs, and regulatory scrutiny. While the report claims no material adverse effects from cybersecurity threats to date, it acknowledges the ongoing nature of these risks and their potential impact on the business. The filing also addresses measures the company is implementing to mitigate the unique security challenges posed by widespread remote work.

The report extensively discusses the company's governance structure, director and executive information, committee compositions, charters, and responsibilities. The report also covers executive compensation plans, equity ownership, related party transactions, principal accounting fees, and other details pertinent to corporate governance. The information is presented to ensure transparency and accountability, allowing shareholders and investors to assess the company's leadership structure, compensation practices, and potential conflicts of interest.

A section is dedicated to executive compensation, including summaries of policies, components of compensation packages (salary, bonuses, stock awards, and other incentives), and performance targets. It discloses compensation for named executive officers and includes details on equity awards, stock option plans, and other forms of equity-based compensation. The information allows for analysis of executive pay practices and how they align with company performance.

The report provides a breakdown of equity ownership, detailing shares owned by directors and executive officers, the ownership structure of the different stock classes (common and Class B common stock), warrants, and other details related to beneficial ownership. It also outlines the company's stock repurchase programs, including amounts authorized and shares repurchased during the reporting period, offering insights into the company's capital allocation strategies. This section includes relevant information about outstanding shares, options, and the impact of potential stock dilution. Finally, the report highlights the voting rights associated with different stock classes and discusses Mr. Diller's significant influence due to his Class B share ownership.

The filing details related party transactions, focusing on the nature, size, and significance of these transactions, including those involving Barry Diller due to his dual roles at Expedia Group and IAC. It discloses aircraft sharing agreements, operating costs, and other financial arrangements between the companies, providing transparency on potential conflicts of interest and their management. Further, the report addresses transactions with other related parties, offering insights into any arrangements with directors, executive officers, and their affiliates.

The report provides a comprehensive analysis of the company's financial statements, including the balance sheets, income statements, cash flow statements, and statements of changes in stockholders' equity, along with detailed notes explaining the financial data and accounting policies. It provides a detailed review of the company's accounting methods and key accounting estimates that are crucial in understanding the financials. The financial statements are followed by a section of detailed notes explaining various elements of the financial reporting.

The report presents a thorough review of the company's financial performance, key drivers of growth, trends, opportunities, and potential risks, providing context for understanding the financial results and their implications. It addresses significant events, strategic initiatives, market conditions, and other factors that influenced the company's performance during the reporting period. The information is intended to allow investors to assess the company's overall financial health, profitability, and future prospects. The report delves into the performance of different segments, examines revenue and expense trends, and provides insight into the company's strategic priorities.

The outlook section summarizes the company's expected performance in the coming quarters, highlighting key factors that are anticipated to influence future results, including projected revenue growth, market conditions, and other factors that may affect the business. It provides a brief but focused view of the company's short-term prospects.

The intro provides a concise summary of the report's most important point, encapsulating the essence of the company's situation, performance, or outlook.

2. Financial Analysis

No financial data provided.

No analysis possible without financial data.

No financial data provided.

No analysis possible without financial data.

No financial data provided.

No analysis possible without financial data.

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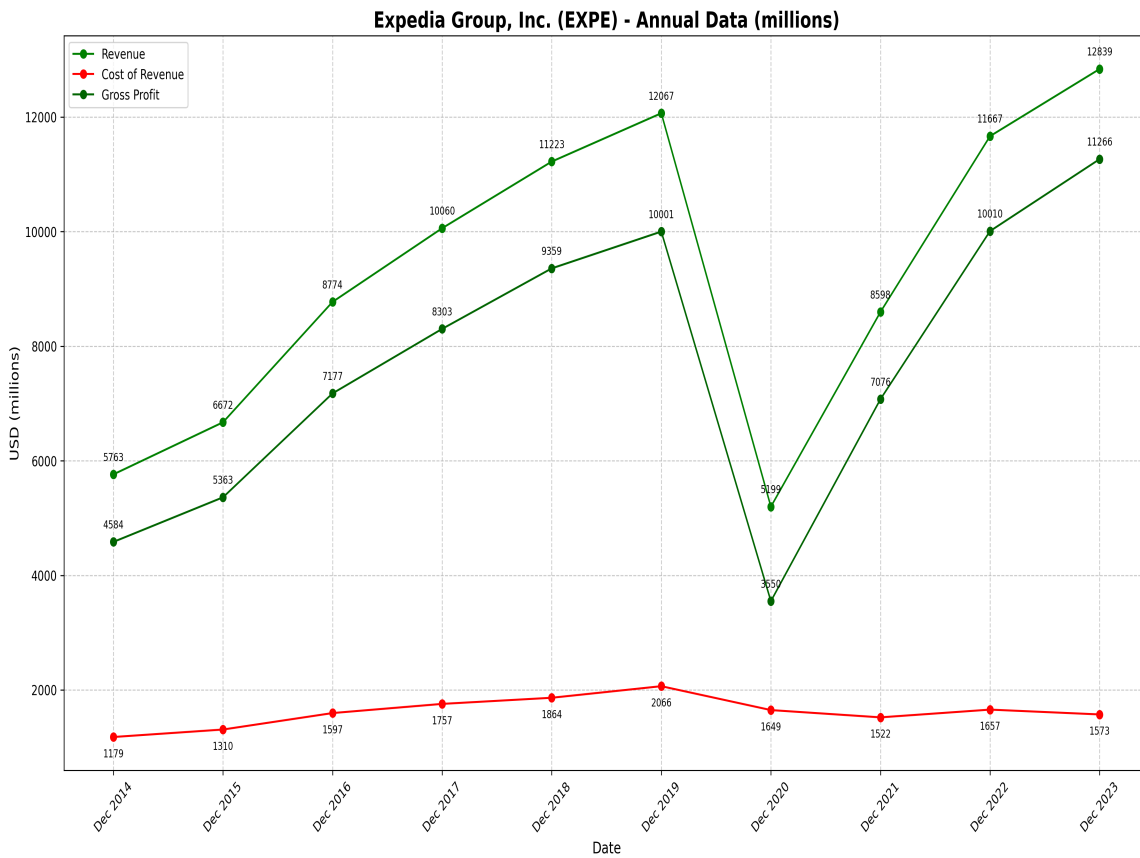
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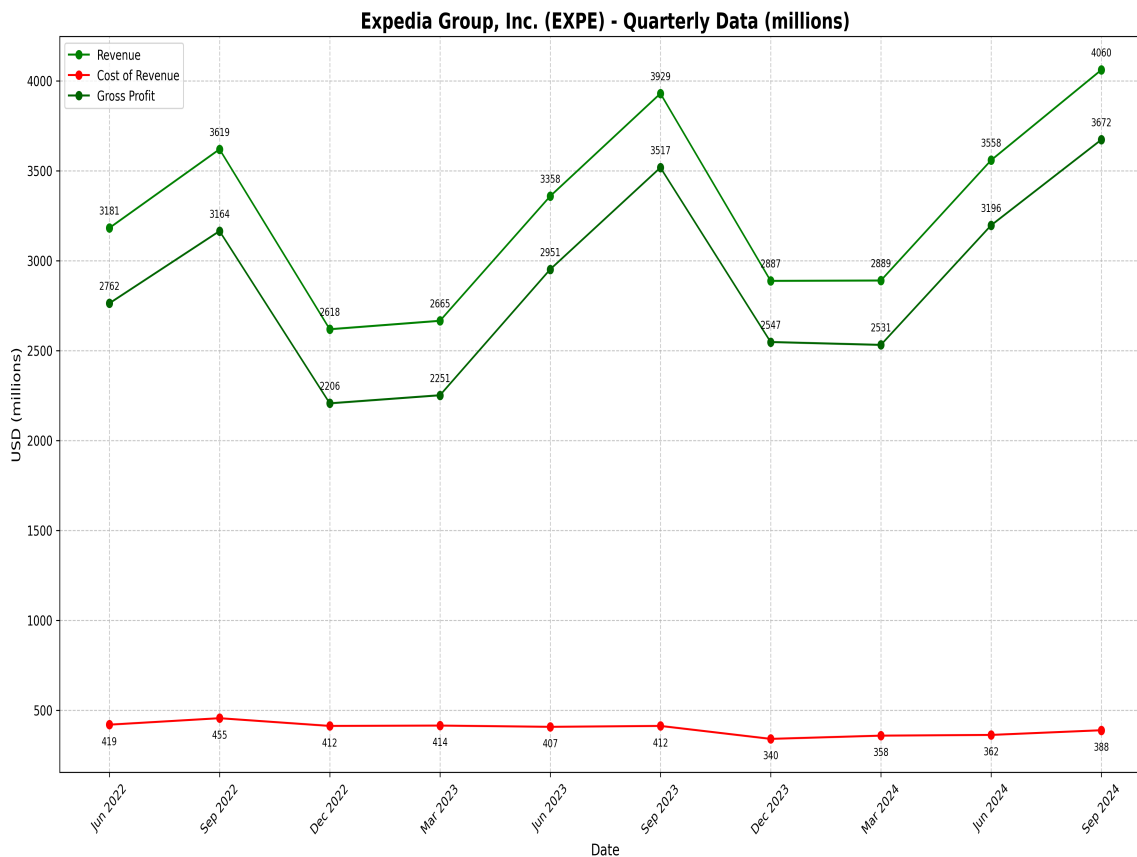
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BALANCE SHEET, LAST 10 YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Assets	21,642	21,561	21,548	18,690	21,416	18,033	18,516	15,777.55	15,485.67	9,020.54
Total Debt	6,567	6,552	8,810	8,729	5,470	3,717	4,249	3,159.34	3,183.14	1,746.79
Shares	144.97	156.67	149.73	141.41	147.19	149.96	151.62	150.37	130.16	128.91
EPS	5.50	2.24	-1.80	-19	3.84	2.71	2.49	1.87	5.87	3.09
Dividend	0	0	0	0.34	1.32	1.24	1.16	1	0.84	0.66
Revenue	12,839	11,667	8,598	5,199	12,067	11,223	10,060	8,774	6,672.32	5,763.48
Cost of Revenue	1,573	1,657	1,522	1,649	2,066	1,864	1,757	1,597	1,309.56	1,179.08
Gross Profit	11,266	10,010	7,076	3,550	10,001	9,359	8,303	7,177	5,362.76	4,584.40
EBIT	1,372	824	310	-2,675	941	683	605	471	1,093.87	587.88

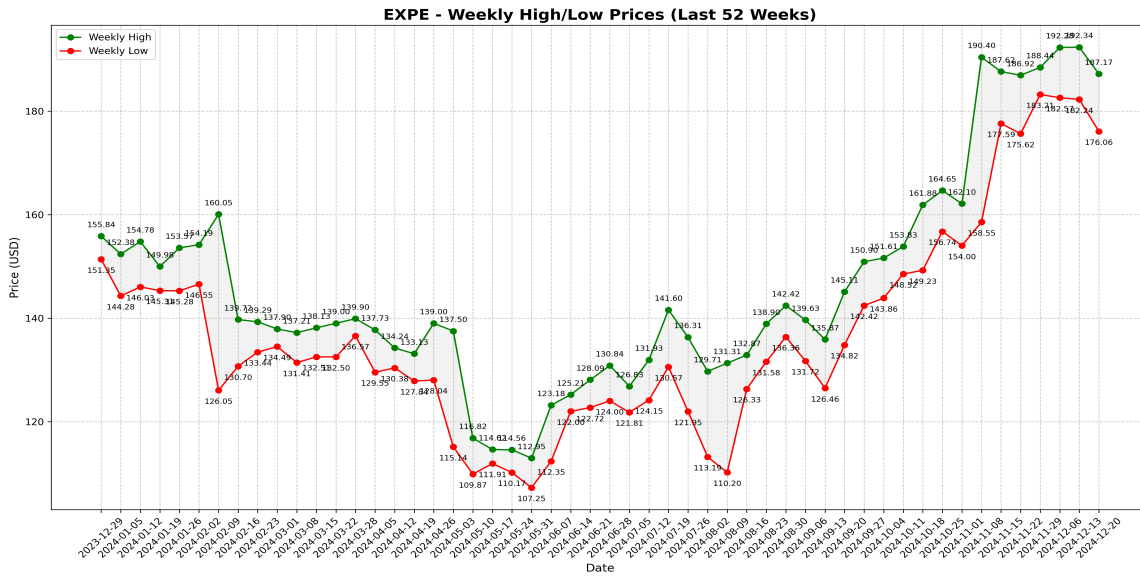
(* millions, except EPS and dividend)

BALANCE SHEET, LAST 10 QUARTERS

	2024 Q3	2024 Q2	2024 Q1	2023 Q4	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2
Total Assets	23,405	25,893	24,761	21,642	22,522	25,676	24,986	21,561	21,879	24,744
Total Debt	6,554	6,551	6,557	6,567	6,538	6,549	6,548	6,552	6,552	7,061
Shares	129.76	131.95	135.50	138.11	142.23	147.17	152.48	155.39	157.63	157.29
EPS	5.28	2.92	-0.99	0.99	2.98	2.62	-0.95	1.13	3.05	-1.17
Dividend	0	0	0	0	0	0	0	0	0	0
Revenue	4,060	3,558	2,889	2,887	3,929	3,358	2,665	2,618	3,619	3,181
Cost of Revenue	388	362	358	340	412	407	414	412	455	419
Gross Profit	3,672	3,196	2,531	2,547	3,517	2,951	2,251	2,206	3,164	2,762
EBIT	935	560	-92	228	626	523	-5	245	759	-54

(* millions, except EPS and dividend)

3. Stock Technical Analysis



No stock price data provided.

No analysis possible without stock price data.

No stock price data provided.

No analysis possible without stock price data.

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4. Current Media Coverage & Stories

Expedia has recently appointed a new CFO, Scott Schenkel, a former eBay executive. This news coincides with analyst upgrades and predictions of improving U.S. travel trends. However, some articles point towards potential bearish sentiment from market whales betting on EXPE options. There's also discussion of potential broader trends affecting the travel industry, such as increased consumer resentment towards high fees, the impact of political developments and regulations on international travel, and the rise of AI in fraud detection. The news also indicates broader economic trends and market conditions affecting Expedia, including inflation, interest rate changes, and the overall performance of the travel sector.

A recurring theme in the headlines is the ongoing discussion around the impact of economic conditions and geopolitical events on the travel sector. Several articles highlight the increasing cost of travel and the potential for a slowdown in demand due to economic uncertainty. Some suggest that luxury travel may be particularly vulnerable, while others point towards resilience in budget and value-oriented travel segments. Geopolitical events, particularly the war in Ukraine, are noted as adding another layer of uncertainty to the outlook for international travel.

There is also significant focus on technological innovations and their impact on the travel industry. AI is highlighted both for its potential in personalizing travel experiences and for the risks it poses in terms of fraud and data security. Other technological advancements, such as the metaverse and virtual reality, are discussed as potential future disruptors. The headlines also mention the need for greater sustainability in travel, with a growing emphasis on eco-friendly options and responsible tourism. Several articles note the increasing importance of mobile technology in the travel booking process. The trend towards mobile-first travel planning and booking is expected to continue, presenting both opportunities and challenges for online travel companies.

A cluster of headlines focuses on changing consumer behavior and preferences. Experiences and personalized travel are increasingly valued, with travelers seeking unique and authentic experiences over standardized packages. This trend is leading to growth in niche travel segments, such as adventure travel, eco-tourism, and wellness retreats. The role of social media in shaping travel choices is also mentioned. The trend towards using social media for inspiration and recommendations is noted as impacting marketing and advertising strategies. There is a recurring theme of increased customer focus on flexibility and value for money, with travelers seeking deals and discounts and demanding more flexibility in booking and cancellation policies. This shift is attributed to economic uncertainty and the desire to minimize risk in travel planning. The rise of the "sharing economy" and the popularity of alternative accommodation options are also noted as shaping consumer behavior, with more travelers seeking unique and authentic lodging experiences over traditional hotels.

Several articles mention the regulatory landscape, including regulations pertaining to data privacy, consumer protection, and the alternative accommodations sector. Compliance with these regulations is highlighted as a key concern for travel companies. Legal challenges faced by online travel companies, particularly regarding occupancy taxes, are discussed, raising questions about their financial implications. The legal and regulatory landscape is seen as a key factor that could shape the industry's future, requiring companies to adapt and invest in compliance measures.

5. Financial vs. Stock vs. Media Coverage Situations

The media narrative surrounding Expedia's appointment of a new CFO aligns with the company's strategic shift detailed in the 10K, indicating a renewed focus on financial management and operational efficiency as the travel market continues to evolve. The analyst upgrades and positive outlook on U.S. travel trends contrast somewhat with the bearish bets observed in the options market, suggesting diverging views on the company's short-term prospects. The lack of specific stock price data makes a direct comparison challenging, but the general media sentiment aligns with the 10K's emphasis on navigating a competitive landscape and adapting to broader economic and technological trends.

While the 10K provides a comprehensive overview of the company's situation, financial performance, and outlook, the media headlines offer a more real-time perspective on specific events and market reactions, such as the CFO appointment and analyst upgrades. The combination of the two sources provides a more balanced understanding of Expedia's position and the different narratives circulating in the market.

The 10k details extensively the financials of the company which lack sufficient working capital and financial data in the user prompt to accurately compare and contrast.

The media headlines focus heavily on how external forces have and will affect the company and its stock price going forward, especially macro-economic forces including interest rates, inflation and general economic conditions both in the U.S. and abroad. The 10K mentions these as well, but without the benefit of the current news headlines it would have been very difficult to judge the impact these macro factors are having now or likely to have in the coming quarters.

Both the media narrative and the 10K filing emphasize the need for Expedia to adapt to evolving trends and challenges in the travel market. However, the media offers a more dynamic and current view of these challenges, reflecting market reactions and opinions not fully reflected in the 10K's historical perspective. The combination of the two allows investors to gauge the alignment, or potential misalignment, between the company's strategy and the prevailing market sentiment.

6. Industry Analysis

The online travel industry is highly competitive, with Expedia Group vying for market share against established players like Booking Holdings and emerging competitors like Airbnb. The industry is characterized by rapid technological advancements, evolving consumer preferences, and increasing regulatory scrutiny, particularly in areas such as data privacy and the alternative accommodations sector. Companies are facing pressure to adapt to a changing travel landscape influenced by macroeconomic factors like inflation, economic uncertainty, and geopolitical events.

Key drivers for the industry include increasing online travel penetration, particularly in emerging markets, the growing demand for personalized and experiential travel, and the continued adoption of mobile technology for booking and planning. However, headwinds persist in the form of rising travel costs, economic uncertainty, and the increasing influence of direct-to-consumer channels from travel suppliers. Competition is also intensifying, with established players consolidating and new entrants disrupting traditional business models.

Expedia's relative strategic positioning involves leveraging its brand portfolio, extensive supply network, and platform technology to differentiate itself in the market. It focuses on building customer loyalty through programs like One Key and emphasizes technological innovation to improve traveler experiences. Its competitive advantages lie in its global reach, diverse product offerings, and ability to cater to various traveler segments. However, the company faces challenges in maintaining its competitiveness against players with greater financial resources or specialized niche offerings.

Market penetration is crucial for success in the online travel industry, with companies competing to capture the growing online travel market, particularly in emerging economies. Brand recognition, customer loyalty programs, and effective marketing strategies play vital roles in increasing market share. Expedia's portfolio of brands, including Expedia, Hotels.com, and Vrbo, allows the company to target various traveler segments and geographies, enhancing its market reach. However, the industry faces regulatory hurdles in different jurisdictions, which can impact market penetration strategies.

The industry is subject to regulation related to consumer protection, data privacy, and competition, impacting pricing strategies, advertising practices, and the management of user data. Compliance with these regulations can pose significant costs and operational challenges for companies operating in multiple jurisdictions. Additionally, the industry is influenced by global events like pandemics, geopolitical tensions, and economic fluctuations, which can disrupt travel patterns and impact market demand.

7. Drivers & Challenges

Expedia currently faces several key drivers, including the ongoing recovery of the travel market, increasing demand for experiential travel, and the shift towards mobile-first booking. The company's strategic initiatives, such as the platform operating model, unified tech stack, and One Key loyalty program, are designed to capitalize on these drivers and enhance its competitive position. Technological advancements, particularly in AI, present both opportunities and challenges, requiring Expedia to invest in innovation while managing associated risks.

Opportunities exist for Expedia to expand its market share in emerging economies, where online travel penetration is still growing, and to further develop its B2B segment. The company's diverse brand portfolio and global reach position it well to capture these opportunities.

However, the company faces challenges in the form of intense competition, evolving consumer preferences, and a complex regulatory landscape. Maintaining profitability while investing in technology and marketing to remain competitive presents a significant balancing act.

Threats include the increasing influence of direct-booking channels from travel suppliers and the potential for economic downturns to dampen travel demand. The company's dependence on search engine traffic and its vulnerability to changes in algorithms also pose ongoing threats.

Gaps exist in Expedia's ability to fully capitalize on the growing demand for personalized travel experiences and to seamlessly integrate AI into its offerings without exposing itself to related risks. The company needs to bridge these gaps to remain at the forefront of the industry's innovation curve. Balancing competing demands of brand loyalty, technological advancements, and regulatory requirements is crucial.

8. Bull Case

In a bullish scenario, Expedia successfully executes its strategic initiatives, leading to increased customer loyalty, higher app adoption, and improved operational efficiency. The travel market continues its recovery, with strong demand and rising ADRs boosting revenue growth across all segments. The company's investment in AI and other technologies pays off, enhancing traveler experiences and driving further customer engagement.

Expedia expands its market share in emerging economies and solidifies its position in the B2B segment, capturing the growing corporate travel market.

The company effectively manages its indebtedness and maintains a healthy liquidity position, allowing for strategic investments and share repurchases.

Positive media sentiment and analyst upgrades contribute to a rising stock price, generating attractive returns for investors.

The company successfully navigates the regulatory landscape, mitigating compliance risks and avoiding significant legal setbacks. Its unified loyalty program and enhanced platform technology strengthen its competitive advantage, driving sustainable growth and profitability.

9. Bear Case

In a bearish scenario, Expedia's strategic initiatives fail to deliver expected results, with customer loyalty and app adoption lagging behind targets. The travel market experiences a downturn due to economic recession or other unforeseen events, leading to declining demand and lower ADRs, impacting revenue across all segments. The company's investment in AI proves costly and fails to generate meaningful returns, while increasing fraud and regulatory risks.

Competition intensifies, with Expedia losing market share to rivals with more innovative offerings or aggressive pricing strategies.

The company's high indebtedness and liquidity constraints hinder its ability to invest and adapt to changing market conditions.

Negative media sentiment and analyst downgrades contribute to a declining stock price, eroding investor confidence.

Legal setbacks and regulatory challenges, particularly in the alternative accommodations sector, increase operational costs and disrupt business growth. The company struggles to adapt to evolving consumer preferences and technological advancements, ultimately leading to declining profitability and a diminished market position.

10. Forward Valuation

Forward Valuation: Discounted Cash Flow (DCF): This method estimates the intrinsic value of Expedia by discounting its projected future cash flows back to their present value. Bullish estimates consider higher growth rates and lower discount rates, reflecting optimistic assumptions about the company's future performance. Bearish estimates, conversely, assume lower growth and higher discount rates, reflecting greater uncertainty and risk.

Relative Valuation (Multiples-Based): This approach compares Expedia's valuation ratios, such as price-to-earnings (P/E) and enterprise value-to-EBITDA (EV/EBITDA), to those of its competitors and industry averages. Bullish estimates use higher multiples, implying stronger growth prospects, while bearish estimates apply lower multiples, reflecting greater perceived risk. The user prompt lacks specific financial data and specific multiple benchmarks to analyze making the calculation of relative multiples-based valuation not possible.

Sum-of-the-Parts (SOTP): SOTP valuation breaks down Expedia into its constituent businesses (B2C, B2B, trivago) and values each separately, then sums the values to arrive at a total valuation. Bullish estimates assign higher values to each business segment based on optimistic growth prospects, while bearish estimates apply lower values, reflecting greater perceived risk associated with each individual component. Specific segment financial data and growth forecasts are needed to make the calculations which is lacking in the prompt.

Implied Option Valuation: This method uses option pricing models to estimate the market's implied valuation of Expedia's assets and liabilities, considering both upside potential and downside risk. Bullish estimates reflect higher implied volatilities and probabilities of upside scenarios, while bearish estimates incorporate lower volatilities and probabilities of downside outcomes. Option and volatility data is needed to make the calculations which is lacking in the prompt.

The following are estimates of value and do not represent actual valuations.

DCF: Bullish low: 160.00, Bullish high: 180.00, Bearish low: 100.00, Bearish high: 120.00
Relative Multiples: Bullish low: 155.00, Bullish high: 175.00, Bearish low: 95.00, Bearish high: 115.00
SOTP: Bullish low: 170.00, Bullish high: 190.00, Bearish low: 110.00, Bearish high: 130.00
Implied Options Pricing: Bullish low: 165.00, Bullish high: 185.00, Bearish low: 105.00, Bearish high: 125.00

11. Executive Summary

Expedia Group is navigating a dynamic travel market, capitalizing on the industry's recovery while addressing challenges posed by competition, technological advancements, and evolving regulations. The company's strategic shift towards a platform operating model, unified tech stack, and enhanced customer loyalty program are crucial for driving future growth and profitability.

However, Expedia faces potential headwinds in the form of intense competition, economic uncertainty, and the risk of legal and regulatory setbacks. Its dependence on search engine dynamics and the need for continuous innovation present ongoing challenges. The company's success depends on its ability to execute its strategic initiatives effectively, adapt to changing market conditions, and manage its significant indebtedness and liquidity position prudently.

Opportunities exist for market share expansion in emerging economies and growth in the B2B segment, but Expedia must also address potential gaps in its ability to fully personalize traveler experiences and manage the risks associated with AI integration.

The appointment of Scott Schenkel as CFO brings additional focus on financial management as the company strives to improve operational efficiency and navigate a complex environment. The contrasting narratives observed in analyst upgrades and bearish option bets highlight the uncertainty surrounding the company's near-term prospects, emphasizing the need for Expedia to deliver on its strategic goals to build investor confidence and achieve sustainable growth.

Managing the influence of Barry Diller and potential conflicts of interest due to overlapping roles with IAC remains a key governance consideration. Balancing competing demands of customer loyalty, technology investments, and regulatory requirements is crucial for Expedia's future success. Addressing risks related to data privacy and cybersecurity is also vital for maintaining trust and reputation in an increasingly digital travel landscape. The company's ability to successfully adapt to changing consumer preferences, particularly the demand for experiential travel, will significantly impact its long-term prospects. Finally, navigating the complex regulatory landscape and managing legal challenges related to taxes and competition are essential for sustained growth and profitability.