

Financial Statement Analysis of Expedia and TCO before and after COVID-19

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Abstract: Due to the outbreak of the epidemic, the global economic situation has been greatly affected, among which the two most serious impacts are the fluctuations of the global financial market and the regression of the global tourism industry, whether it is the sharp decline of the stock market or the foreign exchange market, or the travel ban of many countries and the suspension of major airlines. All of these have led to severe turmoil in the global economy, so how to recover the economy has become a particularly critical global issue. In this paper, the financial statements of two well-known travel companies, Expedia and TCOM, are theoretically analyzed and calculated. It can be clearly seen that the post-epidemic economic recovery is remarkable when the epidemic is in progress, and the two companies are expected to reach the pre-epidemic peak point or even exceed the peak point in the next five years through discounted cash flow calculations.

Keywords: Tourism, Travel Restriction, Covid-19, Financial Crisis, Discounted Cash Flow

1. Introduction

Since 2019, there have been strict limitations on both domestic and international travel due to the COVID-19 pandemic's global expansion. Most nations have imposed restrictions on, or stopped altogether, international travel. As a result, nations that depend largely on tourism have suffered greatly. The Chinese tourism business, however, has gotten worse ever since China imposed modified country lockdown measures at the beginning of 2020. The number of tourists has sharply decreased. This decline has had a direct impact on the tourism supply chain and related industries to varying degrees. In addition, on the other hand, the epidemic also triggered a negative attitude towards the end of the COVID-19. This in turn will lead to a reduction in travel demand for domestic passengers [1]. As a result, China's tourist sector has experienced severe difficulties, which has caused enormous losses for key players, particularly the connected businesses and families. This phenomenon is significantly reflected in the discount cash flow of Expedia and TCOM, two of the world's most famous travel management companies. Stevan Luković has theoretically analyzed the impact on the world economy. To prevent COVID-19 from spreading further, most countries around the world are taking immediate and vital health measures, such as bans and border closures. However, these imposed restrictions have a certain negative impact. For example, for the global economy, especially the tourism industry. It is estimated that the number of international tourists will drop significantly by the end of 2020. It would reduce global tourism revenues by about 70%. Therefore,

COVID-19 is not only a disease that endangers human life. It can also have numerous short-term and long-term negative impacts on the economy, society, and environment. The number of countries is expected to greatly exceed that of developed countries. When the COVID-19 pandemic is over, tourism is likely to experience changes due to changes in tourist attitudes and behaviors. As countries around the world search for effective policies in the wake of the pandemic, the report discusses how easing travel restrictions can help the industry recover and apply it to benefit society in the world where tourism leads the economy. This will enable decision-makers to make effective decisions. It provides necessary assistance to affected stakeholders and formulates effective sustainable tourism development plans. These decisions can effectively utilize the country's short-term and long-term budget [2].

2. Expedia and TCOM's Corporate Image

Travel fare aggregators and travel metasearch engines are owned and run by Expedia Group, Inc., an American corporation in the travel technology sector. The company uses a proxy business model. Specifically, the operation mode of this mode is to facilitate travel booking and transfer passengers' booking to the appropriate travel provider on behalf of customers. Its way of profiting is by collecting certain commissions or airfare fees from travelers and travel suppliers [3].

TCOM can be said to be the world's leading one-stop travel platform. It not only provides a comprehensive range of travel products, but also includes services and differentiated travel content. Faced with Chinese tourists and a growing number of tourists from around the world, it helps users explore travel, provides information to complete cost-effective travel bookings, and provides in-line services anytime, anywhere, as well as encourages users to share travel experiences [4].

3. The Impact of COVID-19

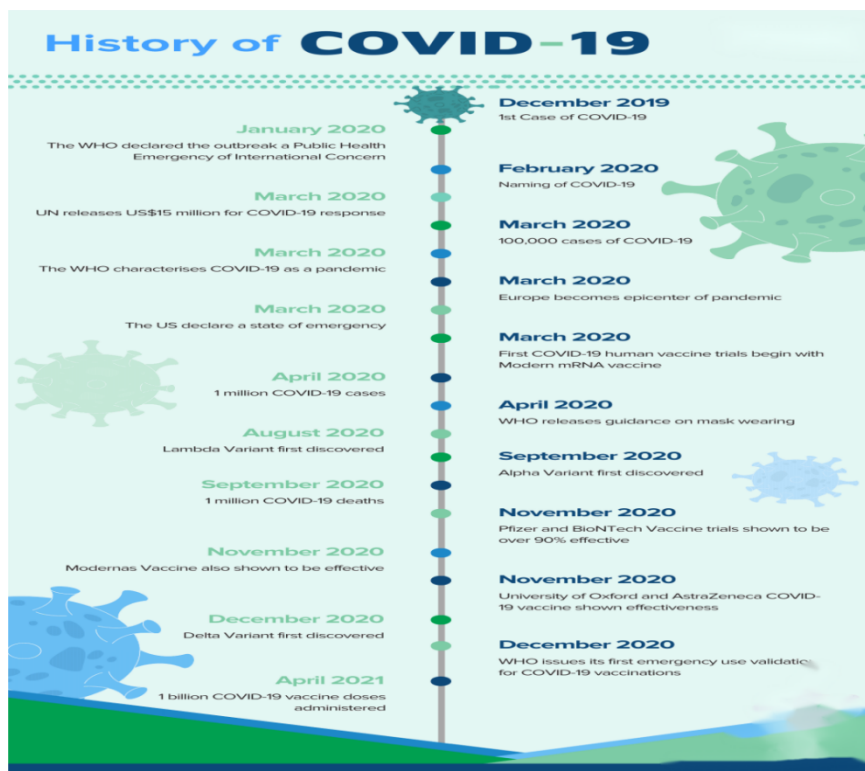


Figure 1: A flowchart about the COVID-19 pandemic [5]

This global pandemic is not only a serious employment and economic catastrophe, but also a global public health crisis from a macro perspective. The coronavirus pandemic may also result in additional employment losses. COVID-19 was originally discovered in Wuhan, China, in 2019 (Figure 1). As we are all aware, the impact of COVID-19 on the entire world is significant and may be broadly categorized into the following areas:

Recession

Growth has stalled, adversely affecting the whole global economy. The Organization for Economic Cooperation and Development (OECD) predicts that the coronavirus pandemic would cause global economic growth to fall to its lowest level since 2009. The US GDP shrank by 4.8% in the first quarter of 2020, bringing to an end the greatest stretch of economic expansion in history. The world economy, according to the IMF's Global Financial Stability Report, has entered a "great lockdown" and is predicted to contract by 3% this year, with developed economies expected to contract by 6.1% and emerging and developing economies expected to contract by 1%. This is a lot worse than the global financial crisis of 2008. These circumstances directly contribute to a brief labor supply crunch in China's service and manufacturing sectors. The usual flow of labor and raw materials will be hampered by the blockade and restrictions on transportation logistics, which will also negatively impact the majority of small and microbusinesses.

Global market turmoil

Since the outbreak started, the FTSE, Dow Jones Industrial Average, and Nikkei have all experienced significant declines. The US stock market crashed once more on March 18, 2020, setting off the fourth circuit breaker of the month and the fifth circuit breaker in history. The Dow Jones Index hasn't dropped 20,000 points in nearly three years, so this is a significant development. There have been five circuit breakers since the system was formed in 1987, with the most recent one occurring in 1997. The U.S. stock market has had four circuit breakers in the last ten days. The value of the three main US stock markets lost \$20 trillion at one point, which is equal to the country's entire GDP. The epidemic's short-lived effects on the stock market will cause further damage to the global stock market [8].

4. The Destruction of Tourism in Various Countries

Before COVID-19, tourism was one of the most important economic sectors in the world. Its overall contribution to global GDP is 10%. The global economy is expected to decline by 4.4% in 2020. The larger shock is also felt in tourism-dependent economies. For African countries dependent on tourism, their real GDP will fall by 12%. Not to mention the Caribbean countries that are heavily dependent on tourism, which will also see a 12% decrease. In 2020, the real GDP of Pacific Island countries such as Fiji could fall by 21%. That's a pretty staggering number for a country's economy. In the U.S., Hawaii will see one out of every six jobs disappear by August. Officials in Florida say it could take up to three years for the industry to recover. As a result, global tourism revenue won't return to 2019 levels until 2023. Here's what can reasonably be expected.

This paper will analyze the financial statements and cash flow tables of the world's two famous travel management companies Expedia and TCOM, as well as the business models of the two companies. It is used to infer the impact of COVID-19 on the world economy and the recovery of the world economy after the end of COVID-19 and the future development trend.

Based on the changing trends of Chinese tourists and inbound tourists from December 2019 to March 2020, combined with the Forecast Report on the Changing trends of Chinese tourists and Inbound Tourists in 2020 released by the China Tourism Academy, the impact of COVID-19 on China's domestic tourism and inbound tourism during the 6, 9, and 12-month recovery period was studied. Therefore, it can be estimated that when the new coronavirus epidemic recovers after six months, the total number of domestic tourists in China will fall by 2.05 billion, which will also

directly lead to a decline in domestic tourism revenue of about 1.98 trillion yuan. The total number of tourists will be reduced by 38,720,400, and the inbound tourism revenue will be 35.062 billion US dollars. If the COVID-19 epidemic recovers within nine months, the total number of domestic tourists will decrease by 2.673 billion, and domestic tourism revenue will decrease by 2.53 trillion yuan. The total number of tourists decreased by 50,217,400, which will affect China's inbound tourism revenue, which decreased by about \$46.123 billion. Therefore, it is not difficult to see that this has generated a huge loss for China's tourism income. In order to more intuitively perceive the turbulence and recession of the national economy, the data shows that the financial statements and cash flow statements of TCOM, the largest tourism management company in China.

The net income of TCOM began to decline in 2018, reached its lowest point in 2020, which was 18316 billion, bounced back and forth in 2021 and 2022, and began to rise to 41980 billion in 2023. Such data clearly shows the great impact of COVID-19 on the tourism industry, and it can also be shown that people's income is greatly reduced due to COVID-19. Because most of the consumers TCOM faces come from China, and from the analysis of relevant national strategies formulated by China, such as restricting tourists to travel abroad, it can also be seen that China's economy will suffer serious turbulence and recession from 2019 to 2022 due to the novel coronavirus epidemic but will gradually recover in 2023. The QoQ% below can more intuitively show the impact of TCOM under the COVID-19 epidemic. Quarter-to-quarter (QOQ) is a measurement technique that calculates the change between one accounting quarter and the previous accounting quarter [9]. The term is similar to a year-over-year (YOY). It measures the performance of a quarter of the year compared to the same period last year [10]. Investors and analysts can gain a certain level of understanding of a company's quarterly growth situation through the specific performance of this indicator. It began to decline slowly in 2018, but plummeted to twice as much in 2020, which was -49%, and only gradually recovered to pre-COVID-19 normal levels in 2022. It raised back to 0% and still grew up.

SG&A (The Selling, General, and Administrative Expenses (SG&A) category below the table includes all general and administrative expenses (G&A) and the business's direct and indirect selling expenses. This line item includes nearly all expenses not directly attributable to manufacturing. The business cost of a product or service (SG&A includes the cost of managing the company and the cost of delivering the product or service.) To analyze the answer we want, through the formulas $R\&D/SG\&A$, $S\&M/SG\&A$, and $G\&A/SG\&A$, each item can be calculated. As a percentage of the company's total profit and loss, it is obvious that no matter which one of the items has abnormal performance in 2019–2022, it does not meet the average value of the company's normal state or is high or low, so it also intuitively shows the new crown epidemic.

Based on the above analysis method, we can similarly analyze Expedia's financial situation during the COVID-19 pandemic. We can use Expedia's EBITDA (earnings before interest, taxes, depreciation, and amortization) as an alternate measure of profitability to net income. We can clearly see that Expedia's QoQ% was steadily rising in 2018–2019 but plunged directly into negative territory in 2020, with losses reaching five times as much as the peak, and there was a downward trend of varying degrees every quarter until the end of 2021, when it returned to the state of 2018, but also did not return to the peak. It's just a pre-COVID-19 average. Looking at the cash flow table below, the blue grid indicates the annual total of cash flow. From 2018 to 2019, it was also in a steady state of rise, but in 2020, it fell four times as much as in 2019, from \$1607.0 million to \$-4631.0 million, which shows the depth of the impact of the new coronavirus epidemic on the world tourism industry.

5. Conclusion

Based on the financial statements and cash flow statements of the above two companies and the analysis of the data, one can intuitively feel the COVID-19 epidemic. The impact on world tourism

is not only reflected in the proportion of various items in total assets but also in the company's net income, profit and loss income, as well as the relevant restrictions in various countries and the quarantine measures to control the epidemic, which have pressed the pause button on the economy, thus putting pressure on both the consumption side and the production side at the same time. Although the growth rate has increased to some extent, it is still far below the average growth rate of 3.1% in the 20 years before the epidemic. This is the result of the data display. At present, the factors analyzed in this paper are too one-sided, and some data have not been analyzed and discussed as a whole. For example, the changes in the world economy under the new coronavirus outbreak cannot be analyzed only from the perspective of the tourism industry. There are many industries worth analyzing, and more financial statements and market values of related companies can be found for business analysis in future in-depth research, not only from a single sector to make an overall summary.

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