

Action Summary – 4 September 2024

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Initiating coverage. We are initiating coverage of Travelzoo with a Buy rating and a \$35 price target. We believe its plan to institute paying memberships will be a hit.

Countdown to massive transformation beginning Jan 2025. The company converted to a hybrid advertising and paid membership model last year but delayed until Jan 2025, collecting fees for members who joined on or before Dec 31, 2023. We believe revenue from paying members will be transformative.

Potential order of magnitude changes in revenue and earnings. Our analysis looks at several scenarios, all of which are transformative. Under the “mild” scenario, earnings triple in 2026. Under the “moderate” scenario, they triple in 2025. In the case of a 50% conversion, earnings could rise by 10x or an order of magnitude.

This could have positive, not negative impacts on the legacy business. Management hasn't provided meaningful details, but we believe this could set up an attractive two-tiered advertising strategy with opportunities to advertise to both paying and non-paying members with a differentiated pricing structure.

We believe that meaningful impact will be clear no later than 2Q25. If the membership program is a great success out of the gate, we will know by the time 1Q25 is reported, but even under our “mild” conversion scenario, we should see a positive financial impact by 2Q25.

Attractive valuation. The shares sell at a discount to both our discounted earnings model and compared to peers. Our discounted earnings model points to a share price of US\$35. Looking at comparables, the average Market Cap/Sales for 2025 is ~2X. Were TZOO shares to only attain the average 2025 sales multiple, the shares would trade for ~\$16. If that same multiple holds for 2026, based on our most conservative estimates, its market cap would be \$320MM or \$26 per share. Both methods suggest the stock is substantially undervalued.

9/3/24 price: US\$ 10.99	Market cap: \$143MM	2025 Market Cap/Sales: 1.29x	2025 EV / Sales: 1.46x
Shares outstanding: 13MM	Insider ownership: ~40%	3-mo. avg. trading volume: >100,000	Dividend/Yield: NA/NA

GAAP estimates (EPS in \$ – Revenue in \$Million)

Period	EPS	Revenue	Op Margin
1Q23A	0.23	21.6	
2Q23A	0.17	21.1	
3Q23A	0.16	20.6	
4Q23A	<u>0.27</u>	<u>21.1</u>	
FY23A	<u>0.83</u>	<u>84.5</u>	<u>18.4%</u>
1Q24A	0.31	22.0	
2Q24A	0.23	21.1	
3Q24E	0.23	21.6	
4Q24E	<u>0.25</u>	<u>22.0</u>	
FY24E	<u>1.01</u>	<u>86.8</u>	<u>20.7%</u>
1Q25E	0.16	23.0	
2Q25E	0.21	24.0	
3Q25E	0.26	26.0	
4Q25E	<u>0.26</u>	<u>28.0</u>	
FY25E	<u>0.89</u>	<u>101.0</u>	<u>15.3%</u>
FY26	<u>2.96</u>	<u>160.0</u>	<u>32.1%</u>

Note: September ending year. Numbers may not add due to rounding. See our full model at the back of this report.

Cash balance (in \$000)

• 2022A	• 18,693
• 2023A	• 15,713
• 2024E	• 37,767
• 2025E	• 45,883
• 2026E	• 83,115

LT Debt (in \$000)

• 2022A	• 0
• 2023A	• 0
• 2024E	• 0
• 2025E	• 0
• 2026E	• 0

Adj. EBITDA (in \$000)

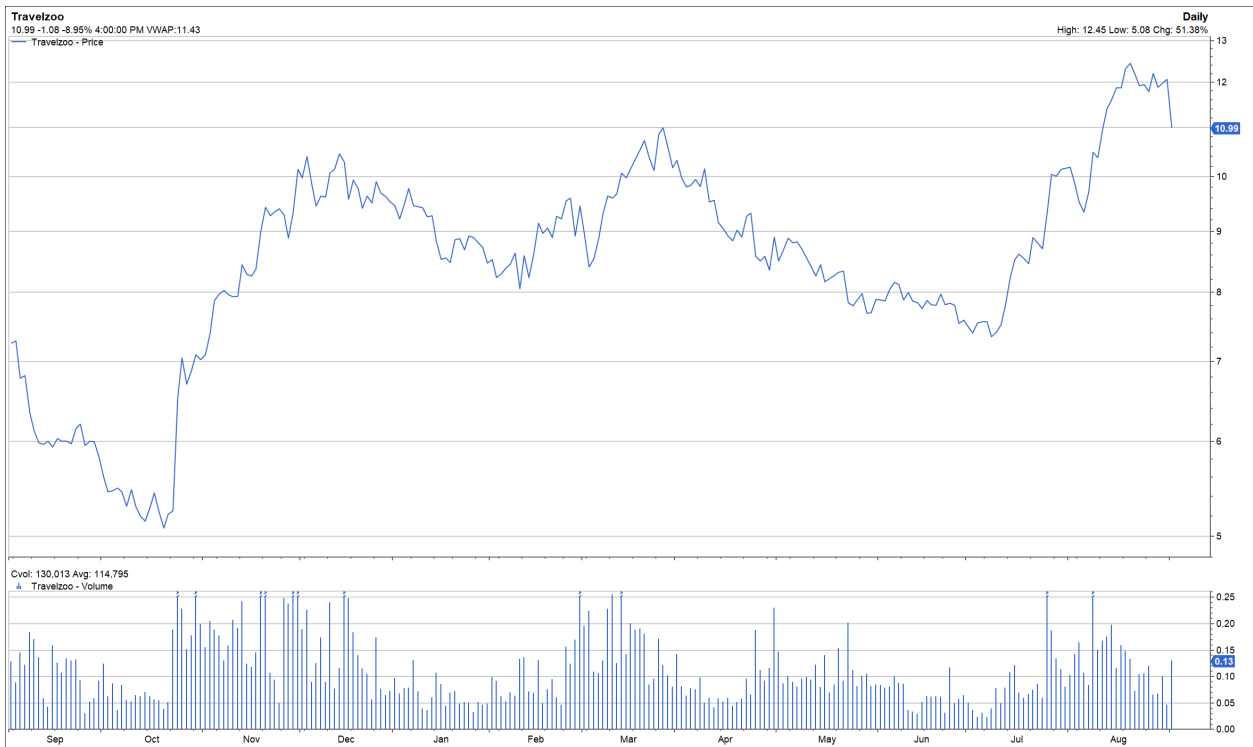
• 2022A	• 10,958
• 2023A	• 18,113
• 2024E	• 19,510
• 2025E	• 16,879
• 2026E	• 52,760

Risks/Valuation

- Risks include competition, regulatory issues, new technology, and new product introduction.
- Our USD\$35.00 target is derived using a discounted future earnings model.

Company description: Travelzoo® is the club for travel enthusiasts. Its 30 million members receive exclusive offers and one-of-a-kind experiences personally reviewed by their deal experts around the globe. It has its finger on the pulse of outstanding travel, entertainment, and lifestyle experiences. It works in partnership with more than 5,000 top travel suppliers—its long-standing relationships give its members access to irresistible deals.

Figure 1 – Travelzoo – One-Year Trading snapshot



Source: FactSet

Investment Thesis

We are initiating coverage of Travelzoo with a Buy rating and a \$35 price target. We believe the transition to paying memberships will be a hit.

Countdown to massive transformation beginning Jan 2025. The company converted to a hybrid advertising and paid membership model last year but delayed until Jan 2025, collecting fees for members who joined on or before Dec 31, 2023. While management has not revealed specific details of the plan beyond the annual cost of \$40, recognized ratably through the year, we believe revenue from paying members will be transformative.

Potential order of magnitude changes in revenue and earnings. Our analysis looks at several scenarios, all of which are transformative. We find the difference in earnings between a “mild” conversion to membership (four quarter conversion of 4% of membership in 2025) to a “moderate” conversion of 17% of membership is simply the timing of when earnings triple. Under the “mild” scenario, earnings triple in 2026. Under the “moderate” scenario, they triple in 2025. In the case of a 50% conversion, earnings could rise by 10x or an order of magnitude.

This could have positive, not negative impacts on the legacy business. Management hasn’t provided meaningful details, but we believe this could set up an attractive two-tiered advertising strategy with

opportunities to advertise to both paying and non-paying members with a differentiated pricing structure. We believe that convincing people to pay \$40 for a membership is going to come with some rewards for members. These could take the form of discounts, special opportunities and benefits only available to members, points to use on travel or some combination of all three. Those members are likely to be more engaged and this could set up an attractive two-tiered advertising strategy with opportunities to advertise to both paying and non-paying members with a differentiated pricing structure. In case you were wondering, we don't believe TZOO has any incentive kicking non-paying members off the platform.

We believe that meaningful impact will be clear no later than 2Q25. If the membership program is a great success out of the gate, we will know by the time 1Q25 is reported, but even under our "mild" conversion scenario, we should see a positive financial impact by 2Q25.

Attractive valuation. The shares sell at a discount to both our discounted earnings model and compared to peers. Our discounted earnings model points to a share price of US\$35. Looking at comparables, the average Market Cap/Sales for 2025 is ~2X. Were TZOO shares to only attain the average 2025 sales multiple, the shares would trade for ~\$16. If that same multiple holds for 2026, based on our most conservative estimates, its market cap would be \$320MM or \$26 per share. Both methods suggest the stock is substantially undervalued.

Valuation Methodology

We believe TZOO is undervalued, and we support that belief with an absolute and relative valuation. To determine our price target, we use a discounted future earnings model. The following valuation techniques are being used:

- 1) The discounted value of all future earnings was used for our price target (see Figure 2)
- 2) Valuation relative to peers (see Figure 3)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$35 is based on a discounted earnings model. For valuation purposes, we sum up all future earnings discounted at 13%, which we feel more than adequately addresses the risk associated with the change in business strategy. We have chosen to use the estimates from our "mild" success model because it is the most conservative, but even under that scenario, the shares appear grossly undervalued. **In other words, with the stock priced below what it would be valued at under our most conservative scenario, there is no need at this point to get more aggressive, even if we think the outcome will be much better.** Our valuation model is shown in Figure 2 below. Note, this model understates future new products and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$35.49 which we round to \$35.00.

Figure 2 – Travelzoo – Price Target Calculation

Discounted future earnings: \$35.49		
YEAR	EPS	Discounted EPS
2024	\$1.01	\$1.01
2025	\$0.89	\$0.79
2026	\$2.96	\$2.32
2027	3.40	\$2.36
2028	3.90	\$2.39
Terminal Value		\$26.62

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

Figure 3 is a summary of our TZOO peer comparison. The average Market Cap/Sales for 2025 is ~2X. Were TZOO shares to only attain the average 2025 sales multiple, the shares would trade for ~US\$16. If that same multiple holds for 2026, based on our most conservative estimates, its market cap would be \$320MM or \$26 per share. This broadly confirms our view that, along with our discounted earnings model, the shares are undervalued.

Figure 3 – Travelzoo – Comp Table

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2025 Metrics			2024 EBITDA Growth Rate
					Market Cap/Sales	EV / Sales	EV / EBITDA	
BKNG-US	Booking Holdings Inc.	\$3,909.23	131,055	134,419	5.16	5.43	15.45	9%
EXPE-US	Expedia Group, Inc.	\$139.09	17,338	18,227	1.22	1.28	5.98	6%
FLT-AU	Flight Centre Travel Group Limited	\$14.62	3,148	2,949	1.63	1.72	8.24	66%
WEB-AU	Webjet Limited	\$5.25	2,086	1,829	4.96	4.81	11.40	13%
TRIP-US	TripAdvisor, Inc.	\$14.51	1,826	1,887	0.98	0.87	4.82	-3%
EVER-US	EverQuote, Inc. Class A	\$24.70	778	916	1.37	1.26	11.47	
GRPN-US	Groupon, Inc.	\$13.87	551	656	0.94	0.91	5.69	33%
CTV-US	Innovid Corp.	\$1.83	268	273	1.39	1.24	6.57	41%
LVO-US	LiveOne, Inc.	\$1.74	172	209	0.91	0.97	7.24	57%
TSQ-US	Townsquare Media, Inc. Class A	\$10.57	154	656		1.49	6.93	1%
BZFD-US	BuzzFeed, Inc. Class A	\$2.59	94	159				
DHX-US	DHI Group, Inc.	\$1.94	94	127		0.83	3.49	
VCSA-US	Vacasa, Inc. Class A	\$3.35	52	(291)				
TRVG-US	trivago N.V. Sponsored ADR Class A	\$2.02	45	881	1.81		4.79	
IZEA-US	IZEA Worldwide, Inc.	\$2.21	36	(16)	0.70			
AREN-US	Arena Group Holdings, Inc.	\$0.95	28	146				
ONVC-US	Online Vacation Center Holdings Co	\$1.55	23	19				
NTRP-US	NextTrip, Inc.	\$2.59	3	3	1.16	0.26		
	Average				1.85	1.76	7.67	25%
TZOO-US	Travelzoo	\$10.90	148	147	1.29	1.46	6.62	37%
TZOO shares trading at a (discount)/premium to peers:					-30%	-17%	-14%	

Source: Litchfield Hills Research LLC and FactSet

Financial Estimates and Guidance

The company does not provide direct revenue or earnings guidance. For our financial projections we are using our “Mild” success model. In this model, we assume a slow, 1%/quarter conversion rate to paying memberships. The memberships are \$40/year, and it is recognized over the course of four quarters, for a \$10/quarter revenue contribution. We also assume a step function in the increase of Sales and Marketing expenses to promote the new business model and this could take the form of additional outreach, or other costs associated with converting (see Figure 4). In this model, those costs have a small impact on 2025 earnings, resulting in a small decrease in EPS YoY, but they bear fruit in 2026. Under this model, 2026 EPS grows >3x from 2025 (see Figure 4). Under our “Moderate” scenario (see Figure 5), the additional revenue more than makes up for the additional Sales and Marketing expenses with the result that 2025 EPS estimates exceed \$5.

Figure 4 – Travelzoo – “Mild” Model (US\$000)

December ending year	2024E Year	2025E				2025E Year	2026E Year
		Q1E	Q2E	Q3E	Q4E		
Total revenue	\$86,755	\$23,000	\$24,000	\$26,000	\$28,000	\$101,000	\$160,000
<i>Growth</i>	3%	5%	14%	20%	27%	16%	58%
Cost of Goods	10,395	2,640	2,640	2,760	2,880	10,920	15,640
Gross Profit	76,359	20,360	21,360	23,240	25,120	90,080	144,360
Gross Margin	88.0%	88.5%	89.0%	89.4%	89.7%	89.2%	90.2%
Sales and marketing	\$37,384	\$12,000	\$12,000	\$13,000	\$15,000	\$52,000	\$70,000
% of total revenue	43.1%	52.2%	50.0%	50.0%	53.6%	51.5%	43.8%
Product development	2,369	700	700	700	700	2,800	3,200
General and administrative	18,611	4,800	5,000	5,000	5,000	19,800	19,800
Reorganization costs	-	-	-	-	-	-	-
Total Operating Expenses	58,364	17,501	17,701	18,701	20,701	74,601	93,000
Opex %	67.3%	76.1%	73.8%	71.9%	73.9%	73.9%	58.1%
Operating Income	17,995	2,859	3,660	4,540	4,419	15,479	51,360
Operating Margin	20.7%	12.4%	15.2%	17.5%	15.8%	15.3%	32.1%
Total Other Items	515	100	100	100	100	400	400
Pre-Tax Income	18,510	2,959	3,760	4,640	4,519	15,879	51,760
Pre-Tax Margin	21.3%	12.9%	15.7%	17.8%	16.1%	15.7%	32.3%
Taxes (benefit)	5,350	888	1,128	1,392	1,356	4,764	15,528
Tax Rate	28.9%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Net income from continuing ops	13,160	2,072	2,632	3,248	3,164	11,116	36,232
Net income from disc. ops.	0	0	0	0	0	0	0
Net income	13,160	2,072	2,632	3,248	3,164	11,116	36,232
Non-controlling interest income	(8)	5	5	5	5	20	20
Net income attr. To TZOO cont, ops.	13,168	2,067	2,627	3,243	3,159	11,096	36,212
Net Margin	15.2%	9.0%	10.9%	12.5%	11.3%	11.0%	22.6%
Diluted EPS from cont. ops.	<u>1.01</u>	<u>0.16</u>	<u>0.21</u>	<u>0.26</u>	<u>0.26</u>	<u>0.89</u>	<u>2.96</u>
Diluted EPS from disc. Ops.	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total GAAP EPS	<u>1.01</u>	<u>0.16</u>	<u>0.21</u>	<u>0.26</u>	<u>0.26</u>	<u>0.89</u>	<u>2.96</u>
Diluted Shares Outstanding	13,025	12,600	12,500	12,400	12,300	12,450	12,225

Source: Litchfield Hills Research LLC

Figure 5 – Travelzoo – “Moderate” Model (US\$000)

December ending year	2024E	2025E				2025E
	Year	Q1E	Q2E	Q3E	Q4E	Year
Total revenue	\$86,755	\$26,000	\$36,000	\$52,000	\$72,000	\$186,000
<i>Growth</i>	3%	18%	70%	140%	227%	114%
Cost of Goods	10,395	2,920	3,720	5,040	6,640	18,320
Gross Profit	76,359	23,080	32,280	46,960	65,360	167,680
Gross Margin	88.0%	88.8%	89.7%	90.3%	90.8%	90.2%
Sales and marketing	\$37,384	\$12,000	\$12,000	\$13,000	\$15,000	\$52,000
% of total revenue	43.1%	46.2%	33.3%	25.0%	20.8%	28.0%
Product development	2,369	700	700	700	700	2,800
General and administrative	18,611	4,800	5,000	5,000	5,000	19,800
Reorganization costs	-	-	-	-	-	-
Total Operating Expenses	58,364	17,500	17,700	18,700	20,700	74,600
Opex %	67.3%	67.3%	49.2%	36.0%	28.8%	40.1%
Operating Income	17,995	5,580	14,580	28,260	44,660	93,080
Operating Margin	20.7%	21.5%	40.5%	54.3%	62.0%	50.0%
Total Other Items	515	100	100	100	100	400
Pre-Tax Income	18,510	5,680	14,680	28,360	44,760	93,480
Pre-Tax Margin	21.3%	21.8%	40.8%	54.5%	62.2%	50.3%
Taxes (benefit)	5,350	1,704	4,404	8,508	13,428	28,044
Tax Rate	28.9%	30.0%	30.0%	30.0%	30.0%	30.0%
Net income from continuing ops	13,160	3,976	10,276	19,852	31,332	65,436
Net income from disc. ops.	0	0	0	0	0	0
Net income	13,160	3,976	10,276	19,852	31,332	65,436
Non-controlling interest income	(8)	5	5	5	5	20
Net income attr. To TZOO cont, ops.	13,168	3,971	10,271	19,847	31,327	65,416
Net Margin	15.2%	15.3%	28.5%	38.2%	43.5%	35.2%
Diluted EPS from cont. ops.	<u>1.01</u>	<u>0.32</u>	<u>0.82</u>	<u>1.60</u>	<u>2.55</u>	<u>5.25</u>
Diluted EPS from disc. Ops.	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total GAAP EPS	<u>1.01</u>	<u>0.32</u>	<u>0.82</u>	<u>1.60</u>	<u>2.55</u>	<u>5.26</u>
Diluted Shares Outstanding	13,025	12,600	12,500	12,400	12,300	12,450

Source: Litchfield Hills Research LLC

Company Overview

Summary

Based in New York, Travelzoo (NASDAQ: TZOO) is a global internet media company offering exclusive deals and unique experiences related to travel to its customers. The company attracts travel enthusiasts from across the globe through multiple digital platforms, including email, websites, social media and mobile applications. It has more than 30MM members spread over North America, Europe and Asia Pacific and 16 offices worldwide.

TZOO collaborates with over 5,000 leading travel suppliers, such as airlines, hotels, cruise liners, vacation packagers, tour operators, car rental companies, travel agents, theater and performing arts groups, restaurants, spas and activity companies to provide exclusive and discounted travel and entertainment deals to its customers. Some of its partners include Alaska Airlines, Cathay Pacific Airways, Club Med, Emirates, Etihad, Exoticca, Fairmont Hotels & Resorts, Globus Family of Brands, Hilton Hotels & Resorts, Holland America Line, Hyatt Corporation, Icelandair, Imagine Cruising, InterContinental Hotels Group, KLM Royal Dutch Airlines, Lion World Travel, Singapore Airlines, Starwood Hotels & Resorts, Swan Hellenic,

Tourism Ireland, Travelodeals, United Airlines, Vacation Express USA, and Wingbuddy.com.

In terms of global presence, the Travelzoo website has over 6 MM unique monthly visitors and more than 4.5 MM followers on social media platforms such as Facebook, Instagram and X. Its application has over 7.5 MM downloads on the Apple and Android Play stores. The company had 31.1 MM members worldwide at the end of 2023. Of this, roughly 52% of the unduplicated members were concentrated in North America, and 30% reside in Europe. Jack's Flight Club had 2.4 MM subscribers at the end of 2023.

Travelzoo was founded by Ralph Bartel in 1998. He is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro Capital Inc. Azzurro Capital Inc. is Travelzoo's largest shareholder, holding 39.6% of its outstanding shares. Holger Bartel, the company's global CEO, is Ralph Bartel's brother and holds a 3.9% stake in the company as of March 31, 2024. Key financial data is shown in Figure 6.

Figure 6 – Travelzoo – Key Financial Data – 2022 and 2023

Key Financial Data	2022	2023
Revenue (USD MM)	70.6	84.5
Net Income (USD MM)	6.6	12.5
Total Members (MM)	30.4	31.1
Average cost per acquisition per new member (USD)	2.36	3.02
Revenue per member (USD)	2.32	2.72
Revenue per employee (USD)	297	359
Mobile application downloads (MM)	6.5	7.5
Social media followers (MM)	4.1	4.5

Source: Litchfield Hills Research; Company filings

Business Model

Travelzoo provides its members information and access to exclusive discounted travel, entertainment, and local offers and experiences through its websites, e-mail newsletters, iOS and Android apps, and social media channels. Offers are well-researched, negotiated, and personally selected by Travelzoo's deal experts sourced from more than 5,000 top travel and entertainment partners. The company operates through:

- **Travelzoo website and newsletters:** The website and newsletters allow members to purchase vouchers for offers from local businesses, including spas, hotels and restaurants.
- **Jack's Flight Club:** A subscription service that offers members information on exceptional airfares. It generates revenue from paid subscriptions by members. Subscription options are quarterly, semi-annually, and annually. The revenue is recognized monthly pro-rata over the respective subscription period.

- **Travelzoo META:** TZOO launched META to extend the range of experiences offered to its customers. This paid membership service grants members exclusive access to innovative, high-quality Metaverse travel experiences.

Travelzoo connects travel suppliers with a vast audience of travel enthusiasts seeking high-quality travel deals, entertainment offerings and local experiences through the following channels:

- **Website:** Offers an extensive array of travel deals from over 5,000 businesses in multiple countries, attracting over 6 MM unique visitors monthly. Advertisers benefit from unmatched reach, continuous visibility and targeted placements.
- **Top 20 Newsletter:** A weekly newsletter highlighting the 20 best deals, reaching 27 MM members. It serves as a mass advertising platform, driving incremental travel purchases for advertisers.
- **Standalone Emails:** A regionally targeted email service featuring notable travel offers, reaching 27 MM members. Advertisers benefit from regional targeting, share of voice and flexible publication.
- **Travelzoo Network:** A network of over 400 third-party websites featuring Travelzoo's handpicked offers, providing advertisers with extended reach.
- **Mobile Apps:** iPhone and Android apps enable advertisers to reach 7.5 MM users through travel, entertainment and local offers.
- **Jack's Flight Club:** A subscription-based platform offering affordable airfare alerts and travel content through websites, mobile apps and newsletters. It serves markets in the U.S., Europe and the UK, reaching millions of travellers.

Revenue Streams

Advertising Fees

Travelzoo's revenue model is centred around advertising and publishing fees from travel companies and local businesses, as well as commissions from the sale of travel packages and vouchers through its various media platforms and channels. It generates revenue primarily from advertising fees from two streams – Travel and Local.

- a) **Travel:** This category includes advertising fees paid by travel companies for the publishing of their offers on Travelzoo's media properties. These fees are based on factors such as audience reach, placement in email newsletters, number of listings, impressions, clicks and actual sales generated. It also includes commissions generated from the operation of the company's hotel booking platform and the sale of Getaways vouchers. For Getaways vouchers, the company recognizes a percentage of the face value of the vouchers upon sale, net of an allowance for future refunds. Lastly, TZOO recognizes revenue through email and click delivery throughout advertising placements.
- b) **Local:** The local revenue stream comprises publishing revenue derived from negotiated high-quality offers from local businesses, such as restaurants, spas, shows and various activities. This also includes revenue from the sale of local deal vouchers and entertainment offers.

Membership fees

Membership fee revenues are generated from subscription fees paid by Travelzoo, Jack's Flight Club and Travelzoo META members. Travelzoo's membership was historically free. However, beginning in 2024, new members in the US, Canada, United Kingdom and Germany, are charged an annual fee of USD 40 (or local equivalent), with the 2024 annual fee waived for existing members as of December 31, 2023. For any subscription revenue derived from paid memberships, the company recognizes revenue monthly pro rata over the subscription periods.

Other Revenues

Other revenues include licensing fees and fees generated from the existing retail and fashion business acquired by Travelzoo when it acquired MTE. The company licenses its products, services and intellectual property to licensees in Australia, New Zealand, Singapore, Japan and South Korea. As licensing fees, the company is entitled to quarterly royalty payments based on a percentage of net revenue. TZOO recognized USD 71,000 and USD 25,000 in 2023 and 2022, respectively.

Business Segments

Travelzoo currently has four reportable segments:

Travelzoo North America: In 2023, Travelzoo's North America segment, comprising Canada and the US, contributed around 66% of the company's total revenue. It recorded a revenue of USD 56 MM in 2023, representing a 17.7% year-over-year (YoY) increase (see Figure 7). This growth was fuelled by a USD 9.0 MM surge in travel revenues, mainly from higher advertising fees, hotel booking commissions and Getaways voucher sales. Partially offsetting this was a USD 564,000 decline in local revenues, attributable to lower local deal voucher commissions.

Figure 7 – Travelzoo – North America Key Financial Data – 2022 and 2023

Travelzoo North America	2022	2023
Total members (MM)	16.3	16.2
Average cost per acquisition per new member (USD)	2.81	2.81
Revenue per member (USD)	2.92	3.45
Revenue per employee (USD)	381	456
Mobile application downloads (MM)	4.1	4.2
Social media followers (MM)	3.2	3.3
Revenue (USD MM)		
Travel	44.4	53.4
Local	3.2	2.6
Travelzoo North America revenues	47.6	56.0

Source: Litchfield Hills Research; Company filings

Travelzoo Europe: Travelzoo's Europe segment, covering France, Germany, Spain and the UK, accounted for 29% of the total revenues. It recorded revenues of USD 24 MM in 2023, a 23.5% YoY increase (see Figure 8). This growth was driven by a USD 4.1 MM rise in travel revenues, primarily from higher Top 20

and standalone email revenues and hotel booking commissions. Local revenues also increased by USD 175,000, largely due to higher local deal voucher commissions. Additionally, favourable foreign currency movements relative to the US dollar contributed USD 343,000 to the revenue growth.

Figure 8 – Travelzoo – European Key Financial Data – 2022 and 2023

Travelzoo Europe	2022	2023
Total members (MM)	9.0	9.2
Average cost per acquisition per new member (USD)	2.08	3.32
Revenue per member (USD)	2.17	2.61
Revenue per employee (USD)	193	240
Mobile application downloads (MM)	2.3	2.4
Social media followers (MM)	0.94	0.98
Revenue (USD MM)		
Travel	18.1	22.4
Local	1.4	1.6
Travelzoo Europe revenues	19.5	24.0

Source: Litchfield Hills Research; Company filings

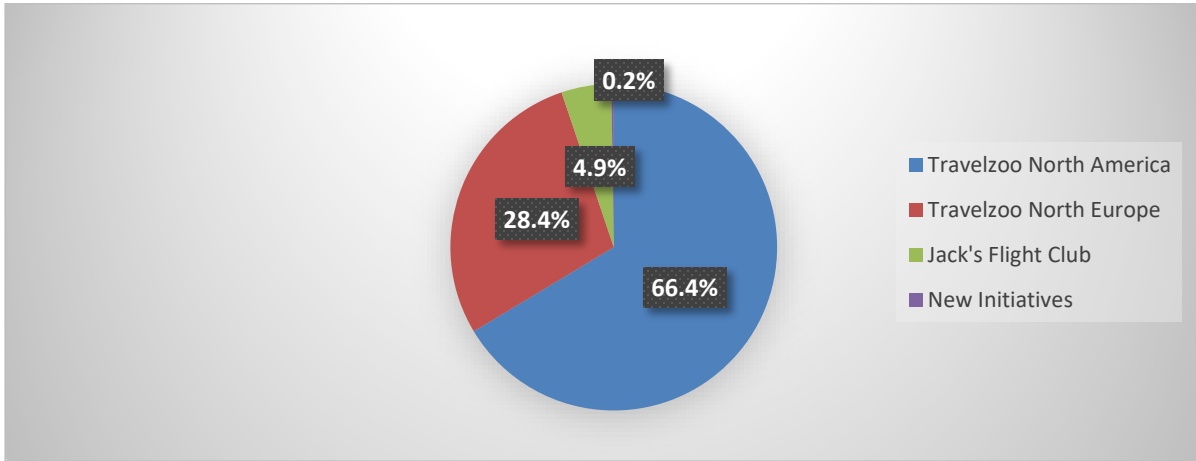
Jack's Flight Club generates revenue from members' paid subscriptions. Subscription options are quarterly, semi-annual and annual. Jack's Flight Club contributes around 5% of the total revenues. Its revenues were USD 4.2MM in 2023, an increase of USD 695k, or 20.0% compared with 2022, primarily driven by a growth in its premium member base. The subscriber base for the Club increased to 2.4MM in 2023, compared with 1.9MM in 2022. See Figure 9.

New Initiatives consist of revenue from Travelzoo's licensing business, the Travelzoo META subscription service and Metaverse Travel Experiences, Inc (MTE). The segment is currently very small compared to other revenue streams. Travelzoo has traditionally operated on a free membership model for consumers. However, following the acquisition of a 60% stake in Jack's Flight Club in 2020, the company ventured into the paid subscription services market, adding a new revenue stream. Beginning 2024, Travelzoo has introduced an annual membership fee of USD 40, signaling a strategic shift toward a hybrid business model that combines free and paid offerings. The company is actively developing marketing and advertising strategies to acquire new paying members and convert existing free members to paid subscribers, aiming to capitalize on the growing demand for premium travel experiences and exclusive deals.

In 2023, Travelzoo launched Travelzoo META, a paid membership service that offers its customers a range of curated travel, entertainment and local experiences. This innovative platform leverages metaverse technology to provide immersive and social virtual experiences, enabling consumers to explore destinations and travel through space and time uniquely and engagingly. Through these initiatives, Travelzoo is

positioning itself to tap into emerging trends, diversify its revenue streams and enhance its value proposition to advertisers and consumers in the rapidly evolving travel and leisure industry.

Figure 9 – Travelzoo – Business Segment Revenue 2023



Source: Litchfield Hills Research; Company filings

Strategy Outlook

Travelzoo's strategic focus revolves around strengthening its travel, entertainment and local brands, augmenting the value proposition for its member base, enticing advertisers with more exclusive and compelling offerings and diversifying into new revenue streams. The company aims to execute this strategy through the following key initiatives:

- I. Expanding its Travelzoo member base to drive scale and reach.
- II. Leveraging strong existing relationships with prominent travel suppliers while forging new partnerships to negotiate more exclusive deals and offerings.
- III. Capitalizing on higher operating margins to drive earnings per share growth.
- IV. Accelerating the profitable subscription revenue growth of Jack's Flight Club
- V. Developing and scaling the innovative Travelzoo META platform to unlock new revenue opportunities in the metaverse space.

Through this multi-pronged approach, Travelzoo seeks to solidify its position as a leading travel media platform, enhance value creation for advertisers and consumers and unlock sustainable long-term growth opportunities.

Industry Overview

Travel and tourism sector

The travel and tourism sector is an important economic activity worldwide. It has significant direct, indirect and induced economic impacts (see Figure 10).

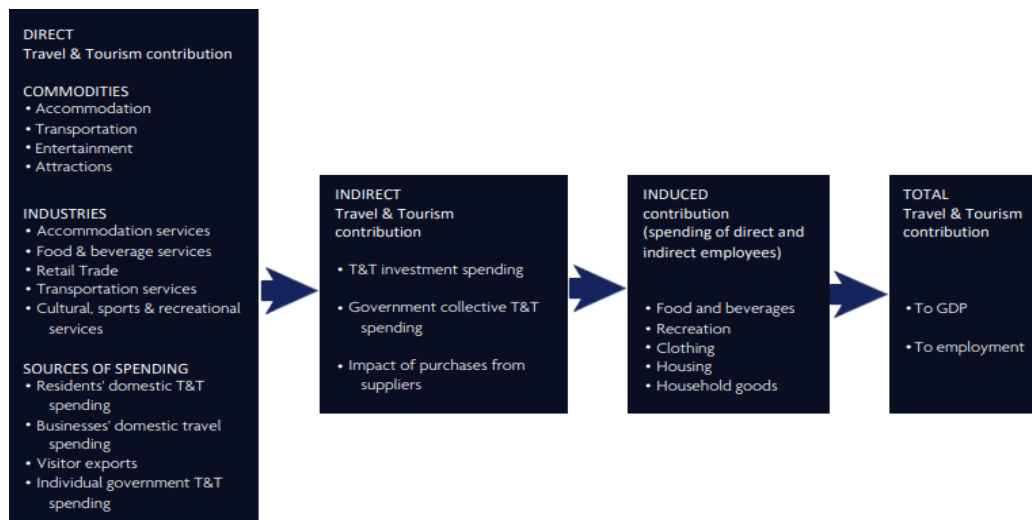
Contribution to the travel and tourism sector

The direct contribution of the travel and tourism sector refers to the internal spending on travel and tourism (total spending on travel and tourism for leisure and business purposes). It also includes government spending linked to the travel and tourism sector directly linked to visitors, such as cultural (such as museums) or recreational (such as national parks) spending. The total contribution of the travel and tourism sector includes wider impacts, including indirect contributions such as:

- Travel and tourism investment spending for current and future activity, including investment activity such as the purchase of new aircraft and construction of new hotels.
- Government ‘collective’ spending which includes tourism marketing and promotion, aviation, administration, security services, resort area security services and resort area sanitation services.
- Domestic purchases of goods and services by the sectors dealing directly with tourists, including, purchases of food & cleaning services by hotels, fuel and catering services by airlines and IT services by travel agents.

The induced contribution refers to the gross domestic product (GDP) and jobs supported by the spending of those directly and indirectly linked to the travel and tourism sector.

Figure 10 – Travelzoo – Schematic Contribution of Travel & Tourism Industry to GDP



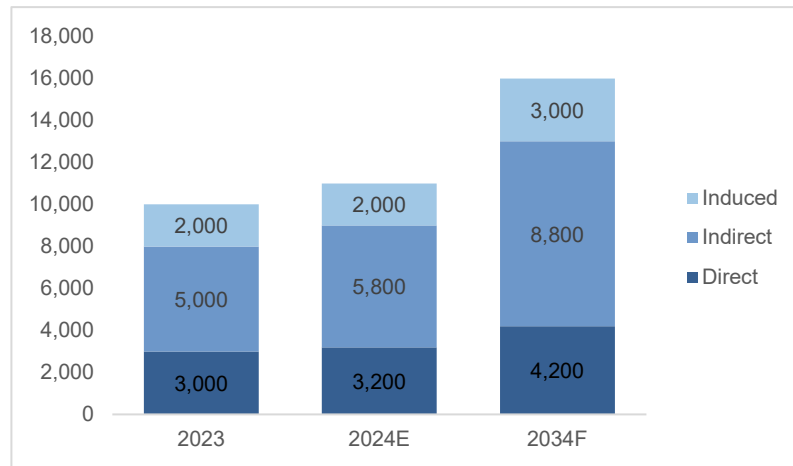
Source: Litchfield Hills Research; World Travel & Tourism Council

Contribution of the travel and tourism sector to the GDP

The direct contribution of the travel and tourism sector to the GDP was USD 3 trillion (T) in 2023. It included economic activities generated by industries such as hotels, travel agents, airlines and other passenger transportation services and the activities of the restaurant and leisure industries directly supported by tourists (see Figure 11).

The direct contribution of travel and tourism to global GDP is forecasted to grow by 3.7% annually to USD 4.2T in 2034. The total contribution of the travel and tourism sector to the GDP (including wider effects from investment, the supply chain and induced income impact) was USD 10T in 2023. The total contribution is expected to grow by 3.7% annually to USD 16T in 2034.

Figure 11 – Travelzoo – Contribution of Travel & Tourism Industry to GDP



Note: Constant 2023 USD B

Source: Litchfield Hills Research; World Travel & Tourism Council

Key Trends in the Travel and Tourism industry

The global travel and tourism industry reached USD 10 T at its summit in 2019, representing 10.4% of global GDP, according to the World Travel & Tourism Council (WTTC) see Figure 12.

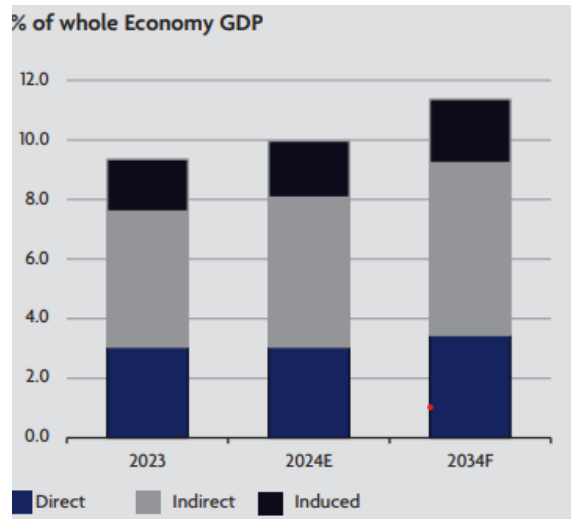
The outbreak of the coronavirus (COVID-19) in 2020, however, had a material impact on the industry, including severe restrictions on and reductions in travel, dining and in-person activities, with the industry size declining by approximately one-half, according to WTTC.

In 2021, the effects of the pandemic started to subside, and travel, in general, began to recover, with the industry growing by 24.7%, according to WTTC. Consumer demand outpaced the readiness of airlines, hotels and restaurants, which had reduced staff to save costs in response to the pandemic. Airlines began adding flights and routes back, and the industry's advertisement market rebounded.

According to WTTC, the industry rebound continued in 2022, growing by 22% to USD 7.7 tn. Airline and hotel supply and capacity resumed, and restaurants resumed normal operations. In 2023, the industry grew by 23.2%, adding a further USD 1.9 T to the global GDP.

According to WTTC, the global value of travel and tourism will grow by over 50% in the next decade, expanding the industry's value, contribution to GDP and employment.

Figure 12 – Travelzoo – WTTC’s forecast of Travel & Tourism industry as a % of GDP



Source: Litchfield Hills Research; World Travel & Tourism Council

Digital Advertising

Digital advertising refers to promoting products, services or brands through digital channels such as websites, social media platforms, search engines, email and mobile apps.

It encompasses a variety of formats, including:

- **Display Ads:** Banner ads, rich media and interactive ads displayed on web pages.
- **Search Engine Marketing (SEM):** Paid advertisements on search engine result pages.
- **Social Media Advertising:** Sponsored posts, stories and ads on social media platforms such as Facebook, Instagram, Twitter and LinkedIn.
- **Video Ads:** Ads that appear before, during or after video content on platforms such as YouTube.
- **Native Advertising:** Ads that match the form and function of the platform on which they appear, often found in content feeds and recommendations.
- **Email Marketing:** Promotional messages sent directly to a user's inbox.
- **Affiliate Marketing:** Ads placed by affiliates who earn a commission based on conversions or sales generated through their referral links.

Key Trends in Digital Advertising

Global digital advertising spending is projected to reach USD 526 B by the end of 2024, up from USD 485 B in 2023. Online advertising continues to be the fastest-growing category of advertising and is expected to account for 59% of global advertising spending in 2024. In the US alone, internet advertising revenues grew by 10.8% YoY, highlighting a continued shift toward digital platforms.

According to the Kelsey Group's (BIA/Kelsey) US local advertising forecast in March 2024, local advertising spending will reach USD 172 B in 2024. Social media advertising accounts for 33% of the total digital ad spend, with an estimated USD 220 B spent on social media ads by 2024.

Advantages of Digital Advertising

There are several factors that will contribute to the already growing preference of travel, entertainment and local providers for digital advertising:

- Consumers' preferred information source – Industry studies show that consumers prefer digital media formats as information sources for travel.
- Broad and timely audience reach – The growing number of customers researching, shopping and transacting on digital devices has made digital advertising the most effective way for businesses to provide relevant information.
- Other benefits – These include more precise audience targeting, real-time listings, real-time updates and performance targeting.

Additionally, traditional media formats such as print, TV and radio advertising face several limitations concerning advertising excess inventory, which digital advertising and media do not encounter. Firstly, advance commitments and schedules are typically required before publication or airing dates, making it challenging to advertise last-minute inventory. Additionally, ads often cannot be updated once published or removed when an offer is sold out. Moreover, a limited number of traditional media outlets can lead to reduced competition in many markets, resulting in relatively high rates of traditional advertising. Furthermore, detailed performance tracking is often unavailable for offline advertising in a manner that facilitates optimization. Creative content development can also be expensive in traditional media contexts. Lastly, traditional media delivery can be slow, with limited touchpoints to reach consumers effectively.

Management

Holger Bartel, Ph.D. Global CEO

Holger Bartel, Ph.D., has been Travelzoo's Global Chief Executive Officer since January 2016. From July 2010 to May 2017, he was the Chairman of the Board of Directors. From September 2015 to December 2015, he was Travelzoo's Executive Chairman. From October 2011 to October 2013, he was Head of Strategy. From October 2008 to June 2010, he was Travelzoo's Chief Executive Officer. From September 1999 to November 2007, he was Executive Vice President. From 1995 to 1998, he was Engagement Manager at McKinsey & Company, a global management consulting firm. From 1992 to 1994, he was a research fellow at Harvard Business School. Holger Bartel holds a Ph.D. in Economics and an MBA in finance and accounting from the University of St. Gallen, Switzerland. He is the brother of Ralph Bartel. Areas of Holger Bartel's relevant experience include deep knowledge of Travelzoo's operations, Internet, strategy, management of growth companies, travel and international management.

Christina Sindoni Ciocca General Counsel and Head of Global Functions

Christina Sindoni Ciocca has been a member of Travelzoo's Board since May 2019 and has been serving as Corporate Secretary and, since December 2022, as the Chair of the Board. She has been General Counsel and Head of Global Functions for Travelzoo since April 1, 2022, and General Counsel since June 2019. Ms. Ciocca previously served as Counsel for Travelzoo since April 2018. Prior to joining Travelzoo, Ms. Ciocca was an attorney at Sidley Austin LLP, practicing in mergers & acquisitions in both Chicago, IL

and New York, NY, from September 2014 to March 2018. Ms. Ciocca earned her juris doctor degree from the Law School of the University of Notre Dame and a Bachelor of Science in Economics degree from the Wharton School of the University of Pennsylvania, with concentrations in marketing and operations & information management. Prior to law school, Ms. Ciocca worked in digital marketing, including for American Express. Areas of Ms. Ciocca's relevant experience include corporate governance, law, mergers & acquisitions and marketing.

Figure 13 – Travelzoo – Income Statement (US\$000)

December ending year	2022A	2023A				2023A	2024E				2024E	2025E				2025E	2026E
	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1A	Q2A	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year	Year
Total revenue	\$70,599	\$21,601	\$21,128	\$20,599	\$21,149	\$84,477	\$21,985	\$21,141	\$21,629	\$22,000	\$86,755	\$23,000	\$24,000	\$26,000	\$28,000	\$101,000	\$160,000
<i>Growth</i>						20%	2%	0%	5%	4%	3%	5%	14%	20%	27%	16%	58%
Cost of Goods	10,003	2,691	2,880	2,665	2,698	10,934	2,640	2,520	2,595	2,640	10,395	2,640	2,640	2,760	2,880	10,920	15,640
Gross Profit	60,596	18,910	18,248	17,934	18,451	73,543	19,345	18,621	19,033	19,360	76,359	20,360	21,360	23,240	25,120	90,080	144,360
Gross Margin	85.8%	87.5%	86.4%	87.1%	87.2%	87.1%	88.0%	88.1%	88.0%	88.0%	88.0%	88.5%	89.0%	89.4%	89.7%	89.2%	90.2%
Sales and marketing	\$33,072	\$9,296	\$10,142	\$9,840	\$8,496	\$37,774	\$8,598	\$9,386	\$9,800	\$9,600	\$37,384	\$12,000	\$12,000	\$13,000	\$15,000	\$52,000	\$70,000
% of total revenue	46.8%	43.0%	48.0%	47.8%	40.2%	44.7%	39.1%	44.4%	45.3%	43.6%	43.1%	52.2%	50.0%	50.0%	53.6%	51.5%	43.8%
Product development	2,064	490	518	525	580	2,113	566	603	600	600	2,369	700	700	700	700	2,800	3,200
General and administrative	17,903	4,413	4,315	4,460	4,896	18,084	4,590	4,621	4,600	4,800	18,611	4,800	5,000	5,000	5,000	19,800	19,800
Reorganization costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	53,039	14,199	14,975	14,825	13,972	57,971	13,754	14,610	15,000	15,000	58,364	17,501	17,701	18,701	20,701	74,601	93,000
Opex %	75.1%	65.7%	70.9%	72.0%	66.1%	68.6%	62.6%	69.1%	69.4%	68.2%	67.3%	76.1%	73.8%	71.9%	73.9%	73.9%	58.1%
Operating Income	7,557	4,711	3,273	3,109	4,479	15,572	5,591	4,011	4,033	4,360	17,995	2,859	3,660	4,540	4,419	15,479	51,360
Operating Margin	10.7%	21.8%	15.5%	15.1%	21.2%	18.4%	25.4%	19.0%	18.6%	19.8%	20.7%	12.4%	15.2%	17.5%	15.8%	15.3%	32.1%
Total Other Items	2,401	350	479	314	398	1,541	139	176	100	100	515	100	100	100	100	400	400
Pre-Tax Income	9,958	5,061	3,752	3,423	4,877	17,113	5,730	4,187	4,133	4,460	18,510	2,959	3,760	4,640	4,519	15,879	51,760
Pre-Tax Margin	14.1%	23.4%	17.8%	16.6%	23.1%	20.3%	26.1%	19.8%	19.1%	20.3%	21.3%	12.9%	15.7%	17.8%	16.1%	15.7%	32.3%
Taxes (benefit)	3,270	1,378	1,091	1,018	1,618	5,105	1,505	1,267	1,240	1,338	5,350	888	1,128	1,392	1,356	4,764	15,528
Tax Rate	32.8%	27.2%	29.1%	29.7%	33.2%	29.8%	26.3%	30.3%	30.0%	30.0%	28.9%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Net income from continuing ops	6,688	3,683	2,661	2,405	3,259	12,008	4,225	2,920	2,893	3,122	13,160	2,072	2,632	3,248	3,164	11,116	36,232
Net income from disc. ops.	(59)	(2)	2	(5)	465	460	0	0	0	0	0	0	0	0	0	0	0
Net income	6,629	3,681	2,663	2,400	3,724	12,468	4,225	2,920	2,893	3,122	13,160	2,072	2,632	3,248	3,164	11,116	36,232
Non-controlling interest income	(5)	8	37	52	5	102	(11)	(7)	5	5	(8)	5	5	5	5	20	20
Net income attr. To TZOO cont. ops.	6,693	3,675	2,624	2,353	3,254	11,906	4,236	2,927	2,888	3,117	13,168	2,067	2,627	3,243	3,159	11,096	36,212
Net Margin	9.5%	17.0%	12.4%	11.4%	15.4%	14.1%	19.3%	13.8%	13.4%	14.2%	15.2%	9.0%	10.9%	12.5%	11.3%	11.0%	22.6%
Diluted EPS from cont. ops.	0.53	0.23	0.17	0.16	0.23	0.80	0.31	0.23	0.23	0.25	1.01	0.16	0.21	0.26	0.26	0.89	2.96
Diluted EPS from disc. Ops.	(0.00)	(0.00)	0.00	(0.00)	0.03	0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total GAAP EPS	0.53	0.23	0.17	0.16	0.27	0.83	0.31	0.23	0.23	0.25	1.01	0.16	0.21	0.26	0.26	0.89	2.96
Diluted Shares Outstanding	12,561	15,779	15,338	14,821	13,916	14,964	13,625	12,976	12,800	12,700	13,025	12,600	12,500	12,400	12,300	12,450	12,225

Source: Company reports and Litchfield Hills Research LLC

Figure 14 – Travelzoo – Balance Sheet (US\$000)

December ending year	FY2026E	FY2025E	FY2024E	FY2023A	FY2022A
Balance sheet					
Current Assets					
Cash and S.T.I.	\$83,115	\$45,883	\$37,767	\$15,713	\$18,693
Accounts receivable	16,000	15,000	14,000	12,965	13,820
Inventories	0	0	0	0	0
Other assets	<u>20,000</u>	<u>15,000</u>	<u>5,000</u>	<u>2,090</u>	<u>3,078</u>
Total Current Assets	119,115	75,883	56,767	30,768	35,591
Net PP&E	6,000	6,000	6,000	6,015	7,440
Other non-current assets	<u>10,000</u>	<u>8,000</u>	<u>6,000</u>	<u>5,564</u>	<u>9,648</u>
Total Assets	<u>\$145,115</u>	<u>\$100,883</u>	<u>\$80,767</u>	<u>\$55,382</u>	<u>\$67,274</u>
Current Liabilities					
Accounts and other payables	\$34,000	\$32,000	\$30,000	\$25,168	\$36,845
Accrued expenses	18,000	14,000	9,000	5,702	7,265
Other current liabilities	<u>6,000</u>	<u>5,000</u>	<u>4,000</u>	<u>3,320</u>	<u>3,424</u>
Total current liabilities	58,000	51,000	43,000	34,190	47,534
LT Operating lease liabilities	7,000	7,000	7,000	6,717	8,326
Other non-current	<u>8,000</u>	<u>7,000</u>	<u>6,000</u>	<u>5,592</u>	<u>2,563</u>
Total Liabilities	73,000	65,000	56,000	46,499	58,423
Additional paid in capital	500	500	500	439	23,274
Stockholders' Equity					
Preferred stock					
Total stockholders' equity	<u>72,115</u>	<u>35,883</u>	<u>24,767</u>	<u>8,883</u>	<u>8,851</u>
Total Liabilities and equity	<u>\$145,115</u>	<u>\$100,883</u>	<u>\$80,767</u>	<u>\$55,382</u>	<u>\$67,274</u>

Source: Company reports and Litchfield Hills Research LLC

Figure 15 – Travelzoo – Cash Flow (US\$000)

	<u>2026E</u>	<u>2025E</u>	<u>2024E</u>	<u>2023A</u>
Net Income	\$36,232	\$11,116	\$13,160	\$12,468
Accounts receivable	(1,000)	(1,000)	(1,035)	855
Inventories	0	0	0	0
Other assets	(5,000)	(10,000)	(2,910)	988
Operating lease ROU	0	0	15	1,425
Goodwill and intangibles	1,000	1,000	1,035	1,560
Other non-current	(2,000)	(2,000)	(436)	4,084
Accounts and other payables	2,000	2,000	4,832	(11,677)
Accrued expenses	1,000	1,000	342	(1,391)
Deferred revenue	3,000	4,000	2,956	(172)
Other current liabilities	1,000	1,000	680	(104)
LT Operating lease liabilities	0	0	283	(1,609)
Other non-current	1,000	1,000	408	3,029
Additional paid in capital	0	0	61	(22,835)
Tax indemnification	0	0	0	0
Note receivable from shareholder	0	0	1,753	3,000
Accumulated other comp. income	0	0	607	298
Treasury stock and non-controlling	0	0	303	7,232
Dividend/Financing/Adj. Other	0	0	0	(131)
Total Cash Flow	<u>\$37,232</u>	<u>\$8,116</u>	<u>\$22,054</u>	<u>(\$2,980)</u>

Source: Litchfield Hills Research LLC

Disclosures:

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