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Aug 04, 2020

eBay Inc. (EBAY)

$56.57 (As of 08/03/20)

Price Target (6-12 Months): **$59.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/03/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: B | Momentum: A	

Summary

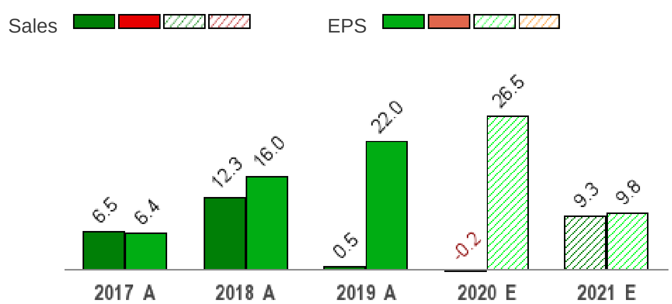
eBay reported strong second quarter results wherein both earnings and revenues topped the estimates and grew year over year. The company witnessed solid performance of Marketplace platform. Further, growing momentum across sellers accelerated the revenues generated by Promoted Listings. Also, robust managed payments offerings and strong traction among new customers were tailwinds. Notaby, stable cash flows, low capital intensity and disciplined capital management remain key catalysts. Further, booming e-commerce space owing to coronavirus pandemic is likely to continue benefiting the company's Marketplace business. The stock has outperformed its industry on a year-to-date basis. However, intensifying e-commerce competition remains a major concern for the company. Further, highly leveraged balance sheet is a risk to its financial performance.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$61.06 - $26.02**
20 Day Average Volume (sh)	**10,279,410**
Market Cap	**$39.6 B**
YTD Price Change	**56.7%**
Beta	**1.38**
Dividend / Div Yld	**$0.64 / 1.1%**
Industry	**Internet - Commerce**
Zacks Industry Rank	**Bottom 31% (175 out of 254)**
Last EPS Surprise	**2.9%**
Last Sales Surprise	**2.5%**
EPS F1 Est- 4 week change	**3.4%**
Expected Report Date	**10/28/2020**
Earnings ESP	**-0.2%**
P/E TTM	**17.0**
P/E F1	**15.8**
PEG F1	**1.7**
P/S TTM	**3.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,684 E	2,857 E	2,874 E	3,102 E	11,775 E
2020	2,374 A	2,865 A	2,704 E	2,795 E	10,776 E
2019	2,643 A	2,687 A	2,649 A	2,821 A	10,800 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.93 E	$0.98 E	$0.97 E	$1.06 E	$3.93 E
2020	$0.77 A	$1.08 A	$0.86 E	$0.88 E	$3.58 E
2019	$0.67 A	$0.68 A	$0.67 A	$0.81 A	$2.83 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/03/2020. The reports text is as of 08/04/2020.

Overview

eBay operates as an online shopping site that allows visitors to browse through available products listed for sale or auction through each company's online storefront.

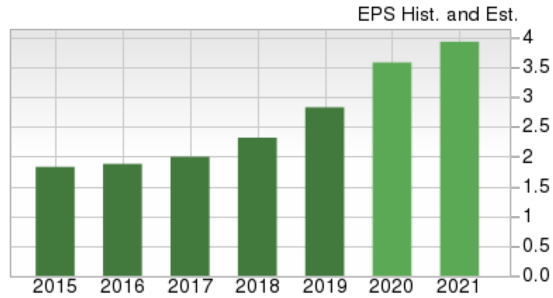
Over the years, the company has evolved from a relatively small community user-based auction site to a worldwide commercial behemoth store.

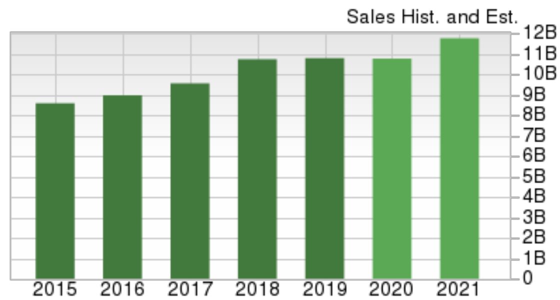
The company is well positioned in the online marketplace space. Since the separation from Paypal in 2015, its marketplace business continues to be the key growth driver for eBay.

eBay's structured data initiatives to better understand, organize and leverage inventory on its site for delivering more personalized user experiences continues to drive gross merchandise volume (GMV) growth.

In addition to the marketplace business, the company's advertising business has been doing well. Its focus on growing promoted listing fees (as part of the first-party advertising business) should continue to expand the company's growth.

Total net revenues were $10.8 billion in 2019. The company's revenues are classified into two types, namely Net transaction revenues and Marketing services and other (MS&O) revenues, which generated 80% and 20% of total revenues, respectively, in 2019.





Net transaction revenues primarily include final value fees, feature fees, store subscription and other fees, often from sellers and buyers on Marketplace and StubHub platforms.

MS&O revenues consist of Marketplace, StubHub and Classifieds revenues, primarily from the sale of advertisements, classifieds fees, revenue sharing arrangements and first-party inventory programs.

Reasons To Buy:

eBay's focus on user experience, strengthing Marketplaces business, opportunities in the fast-growing mobile space, solid international expansion and a strong balance sheet remain positives.

- eBay is very well positioned to take advantage of the changing ways in which consumers shop. The company offers an **online marketplace** where any given day, there are millions of items across thousands of categories for sale. The retailers are now being wooed by the online platform with all kinds of tools to build an effective online business. Moreover, the divestiture of Enterprise is further helping eBay's management to focus on the core marketplace business.

- eBay's **push into mobile** paves the way for continued growth in the future. Mobile commerce volumes have been growing rapidly in recent quarters helped by a number of mobile apps already available and several others (for specific shopping verticals) along the way. Despite the very strong growth in mobile users, their relatively low contribution to volumes is because of the fact that they are mainly a younger demographic, often located in various emerging markets. In order to revamp mobile experience, eBay is continuously redesigning its mobile apps for improving their speed and usability. The mobile platform also pushes up auction rates, since mobile alerts are particularly helpful in this regard and help a buyer to stay in contention for a longer period of time. eBay also united the mobile experience across platforms enabling a consistent user interface that is already resulting in faster product iteration.

- As a strategy to defend its market share against growing competition, eBay keeps doors open for **technology partnership with offline peers.** We are optimistic about this move and believe that this can become one of the important growth drivers for eBay in the near future. E-commerce growth, increased smartphone usage and "24/7" shopping opportunity are believed to be the major growth drivers for eBay in the long term.

Reasons To Sell:

- E-commerce, with a large user base worldwide, has turned out to be a sweet spot with more and more companies jumping into the area and further intensifying the **competitive scenario**. eBay's core business faces tough competition from Amazon, Alibaba, Etsy and Facebook. Recently, Facebook rolled out Facebook Marketplace that allows users to buy and sell items within their local communities. Lack of appropriate counter strategies could be a matter of worry in the long run.

The increasing competition from e-commerce players like Amazon, Alibaba and other small players remain concerns. Also, integration risks, increasing investments and a weak global economy are overhangs.

- eBay **dependence on Google** for driving traffic is a cause for worry in more ways than one. First, Google makes changes to its algorithms that at times affect traffic to its site. Second, Google is becoming more of a marketplace itself through its product listing ads and Buy buttons. And while eBay can compete for those, it could have the effect of increasing its costs, since the slots are limited and competition high. Moreover, Facebook is opening store fronts within its app, making it easier for consumers to purchase rather than through a separate eBay app, thus making deeper penetration much more difficult. eBay could have its own store there too, but this could ultimately raise costs again and impact its brand value.

- eBay also has a leveraged balance sheet. As of Jun 30, 2020, the company's net debt was $3.4 billion which decreased from $4.3 billion as of Mar 31, 2020. Further, the company's debt-to-total capital was 74.9% as of Jun 30, 2020 compared to 80.5% as of Mar 31, 2020. Although declining net debt balance and debt-to-capital ratio are positives, the presence of current debt worth $516 million as of Jun 30, 2020 remains a major concern. Accumulating high debt levels might restrict sufficient cash flow generation which is needed to meet future debt obligations. Moreover, this may keep the company away from accessing the debt market and refinancing at suitable rates.

Last Earnings Report

eBay Surpasses Earnings and Revenue Estimates in Q2

Quarter Ending	06/2020
Report Date	**Jul 28, 2020**
Sales Surprise	**2.49%**
EPS Surprise	**2.86%**
Quarterly EPS	**1.08**
Annual EPS (TTM)	**3.33**

eBay reported second-quarter 2020 non-GAAP earnings of $1.08 per share, beating theZacks Consensus Estimate by 2.8%. The bottom line also improved 63.6% year over year and 40.2% sequentially.

Net revenues of $2.9 billion surpassed the Zacks Consensus Estimate of $2.8 billion. The top line was up 18% and 21% from the prior-year quarter on reported and FX-neutral basis, respectively. Further, the figure surged 20.7% from the prior quarter.

Solid performance of Marketplace platform across all the major end-markets drove the top line. Further, accelerating gross merchandise volume (GMV) of the company contributed significantly to the performance.

Further, solid momentum across its managed payments offerings, which has processed $4.7 billion of GMV for around42,000 sellers since its launch till date, was a major positive.

Further, eBay's Promoted Listings delivered robust performance by generating revenues of $196 million in the second quarter, up 120% from the year-ago quarter. This can be attributed to growing momentum across sellers.

Additionally, the company witnessed year-over-year growth of 5% in the active buyer number.The active buyer base totaled182 million at the end of the second quarter.

Further, strong momentum across new customers was a tailwind. During the reported quarter, the company added 8 million new customers to its platform.

Stable cash flows, low capital intensity and disciplined capital management remain key catalysts. Further, strength across Marketplace platform courtesy of expanding buyer base and increasing traffic is a positive.

Further, the company's growing initiatives toward strengthening managed payments offerings remain major positives. Further, eBay remains optimistic regarding growth initiatives, which are based on enhancing seller experience by offering innovative seller tools and delivering better buyer experience by utilizing structured data.

Owing to shelter-in-place protocol on account of coronavirus, the company is witnessing solid growth in e-commerce space, which has been benefiting from its Marketplace business. This is likely to act as a tailwind in the third quarter as well.

In July, eBay signed a definitive agreement to sell its Classifieds business to Adevinta. This move is likely to aid company's focus toward strengthening its Marketplace business further.

GMV Details

The company's total GMV of $27.1 billion in the second quarter exhibited year-over-year growth of 26% and 29% on reported and FX-neutral basis, respectively. Further, the figure surpassed the Zacks Consensus Estimate of $26.7 billion.

Notably, eBay's GMV is entirely generated by Marketplace platform after the sale of StubHub. Marketplace GMV is categorised into two parts:

U.S. GMV totaled$10.5 billion, which accounted for 38.7% of total GMV, up 35% from the year-ago quarter.

International GMV was $16.6 billion, which accounted for 61.3% of total GMV, grew 22% on a year-over-year basis.

Revenues in Detail

eBay's revenues are classified into two types:

Net Transaction: The company reported net transaction revenues of $2.4 billion in the reported quarter, accounting for 85.4% of the total revenues. Further, the figure was up 30% from the year-ago quarter. Notably, net transaction revenues are completely generated by the Marketplace platform whose strong performance in the second quarter drove year-over-year growth.

Marketing Services and Other: eBay generated $418 million of total marketing services and other revenues (14.6% of total revenues), which fell 22% from the year-ago quarter.This was due to sluggish performance of Marketplace that generated $221 million of these revenues, down 18% year over year. Further, Classifieds comprised $201 million revenues, down 26% year over year.

Operating Details

In the second quarter, eBay's gross margin was 79.1%, expanding 190 basis points (bps) year over year.

Operating expenses of $1.4billion contracted 360 bps as a percentage of net revenues from the year-ago quarter.

Non-GAAP operating margin was 34.3% in the second quarter, expanding510 bps year over year.

Balance Sheet and Cash Flow

As of Jun 30, 2020, cash equivalents and short-term investments came in at $5.3 billion, up from $4.4billion as on Mar 31, 2020.

Further, eBay's balance sheet is highly leveraged with a long-term debt of $8.2 billion at the end of the reported quarter compared with $7.7

billion at the end of the last reported quarter.

The company generated $964 million of cash from operating activities during the second quarter, down from $702 million in the previous quarter.

The company’s free cash flow stood at $866million during the reported quarter.

Further, the company repurchased $3 billion of shares and paid dividend of $112 million in the second quarter.

Guidance

For third-quarter 2020, eBay expects net revenues within the range of $2.64-$2.71 billion.

Non-GAAP earnings are anticipated in the range of81-87 cents.

For 2020, the company has raised guidance for net revenues from the range of $9.56-$9.76 billion to the band of $10.56-$10.75 billion.

The guidance for non-GAAP earnings per share has also been revised upward from $3.00-$3.10 to $3.47-$3.59.

Recent News

On **Jul 21, 2020**, eBay signed a definitive agreement to sell its Classifieds business to Adevinta. This move is likely to aid company's focus toward strengthening its Marketplace business further.

On **Apr 13, 2020**, eBay revealed about the appointment of Jamie Iannone as the Chief Executive Officer who was previously serving as the Chief Operating Officer of Walmart eCommerce.

On **Feb 13, 2020**, eBay completed the StubHub sale to viagogo for $4.05 billion in cash. Notably, the company received net proceeds worth $3.1 billion, thanks to which it expanded its share buyback plans for 2020 from $1.5 billion to $4.5 billion. Further, eBay revised the first-quarter 2020 non-GAAP earnings guidance upward from 70-73 cents per share to 72 -75 cents per share. However, it lowered the revenue guidance for same quarter from $2.55-$2.60 billion to $2.31-$2.36 billion.

Valuation

eBay shares are up 56.7% in the year-to-date period and 45.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 51.9% and 24.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 74.8% and 40.1%, respectively.

The S&P 500 index is up 1.6% in the year-to-date period and 15.5% in the past year.

The stock is currently trading at 17.79X forward 12-month earnings, which compares to 59.68X for the Zacks sub-industry, 34.61 for the Zacks sector and 22.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.41X and as low as 10.05X, with a 5-year median of 16.95X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $59 price target reflects 18.55X forward 12-month earnings.

The table below shows summary valuation data for EBAY

Valuation Multiples - EBAY

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.79	59.68	34.61	22.62
	5-Year High	25.41	59.68	34.61	22.62
	5-Year Low	10.05	24.71	19.07	15.25
	5-Year Median	16.95	41.74	23.44	17.55
P/S F12M	Current	3.49	4.76	1.24	3.6
	5-Year High	4.67	5.99	1.24	3.6
	5-Year Low	2.13	3.16	0.82	2.53
	5-Year Median	3.31	4.71	0.97	3.04
P/B TTM	Current	13.64	9.22	5.83	4.5
	5-Year High	17	11.2	6.02	4.56
	5-Year Low	1.48	4.89	3.69	2.83
	5-Year Median	4.9	7.96	5	3.72

As of 08/03/2020

Industry Analysis **Zacks Industry Rank:** Bottom 31% (175 out of 254)

Top Peers

Company (Ticker)	Rec	Rank
Etsy, Inc. **(ETSY)**	Outperform	2
Amazon.com, Inc. **(AMZN)**	Neutral	3
Alibaba Group Holding Limited **(BABA)**	Neutral	3
Facebook, Inc. **(FB)**	Neutral	3
Alphabet Inc. **(GOOGL)**	Neutral	3
JD.com, Inc. **(JD)**	Neutral	1
MercadoLibre, Inc. **(MELI)**	Neutral	2
Walmart Inc. **(WMT)**	Neutral	4

Industry Comparison Industry: Internet - Commerce

	EBAY	X Industry	S&P 500	AMZN	BABA	MELI
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	A	-	-	A	F	F
Market Cap	39.59 B	3.17 B	22.67 B	1,558.71 B	656.30 B	58.29 B
# of Analysts	12	3	13.5	14	7	6
Dividend Yield	1.13%	0.00%	1.77%	0.00%	0.00%	0.00%
Value Score	A	-	-	C	C	F
Cash/Price	0.14	0.10	0.07	0.05	0.08	0.05
EV/EBITDA	14.84	7.82	13.08	40.69	20.48	1,760.65
PEG Ratio	1.66	3.85	2.94	3.91	1.87	NA
Price/Book (P/B)	13.64	5.44	3.10	21.14	5.34	31.36
Price/Cash Flow (P/CF)	16.94	18.80	12.34	46.41	31.01	2,776,286.00
P/E (F1)	15.70	57.59	21.71	117.80	30.05	NA
Price/Sales (P/S)	3.70	2.03	2.46	4.84	9.02	23.56
Earnings Yield	6.33%	0.31%	4.38%	0.85%	3.33%	-0.08%
Debt/Equity	2.95	0.33	0.75	0.45	0.14	0.42
Cash Flow ($/share)	3.34	0.47	6.94	67.05	8.32	0.00
Growth Score	B	-	-	A	D	F
Hist. EPS Growth (3-5 yrs)	5.56%	10.52%	10.46%	97.34%	36.01%	-45.77%
Proj. EPS Growth (F1/F0)	26.65%	2.22%	-7.08%	14.80%	14.76%	74.44%
Curr. Cash Flow Growth	8.64%	1.48%	5.47%	31.33%	41.50%	-99.77%
Hist. Cash Flow Growth (3-5 yrs)	-6.76%	11.42%	8.55%	49.26%	37.90%	-83.10%
Current Ratio	1.58	1.57	1.32	1.18	1.91	2.23
Debt/Capital	74.71%	29.71%	44.21%	31.00%	12.94%	32.15%
Net Margin	46.91%	-3.99%	10.25%	4.10%	29.16%	-8.28%
Return on Equity	77.65%	7.06%	14.72%	20.47%	14.56%	-5.29%
Sales/Assets	0.56	1.42	0.52	1.42	0.42	0.54
Proj. Sales Growth (F1/F0)	-0.22%	0.00%	-1.79%	29.58%	31.31%	35.55%
Momentum Score	A	-	-	A	F	D
Daily Price Chg	2.33%	1.16%	0.27%	-1.67%	2.76%	4.27%
1 Week Price Chg	0.29%	1.00%	0.14%	5.18%	0.81%	13.71%
4 Week Price Chg	0.71%	9.58%	2.96%	1.79%	7.47%	17.74%
12 Week Price Chg	34.28%	29.62%	10.90%	29.18%	25.58%	50.12%
52 Week Price Chg	45.76%	46.70%	2.35%	76.30%	67.85%	104.20%
20 Day Average Volume	10,279,410	301,681	2,043,624	5,637,020	18,713,980	465,233
(F1) EPS Est 1 week change	3.65%	0.00%	0.00%	31.30%	0.00%	0.00%
(F1) EPS Est 4 week change	3.44%	0.00%	0.82%	32.16%	-0.37%	9.11%
(F1) EPS Est 12 week change	17.49%	-5.34%	0.59%	33.77%	-5.13%	47.85%
(Q1) EPS Est Mthly Chg	7.70%	0.00%	0.25%	24.74%	-0.39%	33.72%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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