

eBay Inc. (EBAY)

\$35.72 (As of 01/21/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 11/25/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

eBay continues to benefit from increasing global active customers, international expansion, higher advertising revenues and solid cost-cut efforts. Moreover, the company's strength across all its platforms, namely Marketplace and Classifieds in the United States and international markets is a major positive. In addition, eBay is progressing well with mobile initiatives, payment and advertising business. Notably, the stock has underperformed the industry it belongs to in the past year. However, it is currently being impacted by a weak global economy and slower-than-expected e-commerce growth. Management expects GMV to remain under pressure in the near term. The company plans to sell its ticket marketplace StubHub to Viagogo as it has been seeing slowdown in StubHub's volume.

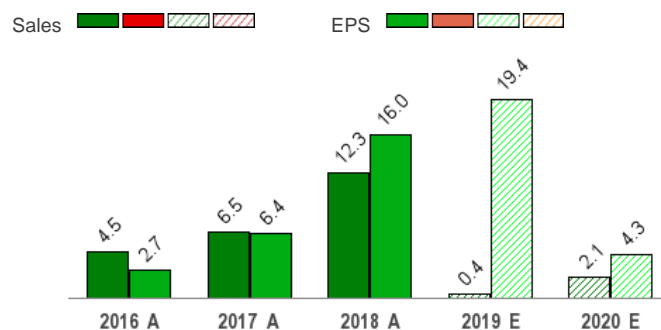
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$42.00 - \$32.33
20 Day Average Volume (sh)	6,050,419
Market Cap	\$29.1 B
YTD Price Change	-1.1%
Beta	1.36
Dividend / Div Yld	\$0.56 / 1.6%
Industry	Internet - Commerce
Zacks Industry Rank	Bottom 25% (192 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.1%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/28/2020
Earnings ESP	0.0%
P/E TTM	12.5
P/E F1	12.4
PEG F1	1.3
P/S TTM	2.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,667 E	2,706 E	2,711 E	2,944 E	11,017 E
2019	2,643 A	2,687 A	2,649 A	2,805 E	10,786 E
2018	2,580 A	2,640 A	2,649 A	2,877 A	10,746 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.70 E	\$0.68 E	\$0.70 E	\$0.82 E	\$2.89 E
2019	\$0.67 A	\$0.68 A	\$0.67 A	\$0.75 E	\$2.77 E
2018	\$0.53 A	\$0.53 A	\$0.56 A	\$0.71 A	\$2.32 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 01/21/2020. The reports text is as of 01/22/2020.

Overview

Currently, eBay Inc. is one of the largest online retailers in the world. The company started humbly as an online auctioning platform, bringing together small sellers and buyers. It floated its IPO in 1998. eBay has undergone a sea change since then, with the number of buyers and sellers increasing exponentially.

Management has sold the enterprise business and classified it as discontinued operations. The company has reduced core marketplaces operations, post the Enterprise divestment and PayPal spin-off. The company's platforms now include Marketplace, StubHub and Classifieds.

Its Marketplace platform attracts and retains sellers and brands that bring differentiated inventory to eBay, and provide consumers with everyday items as well as unique goods.

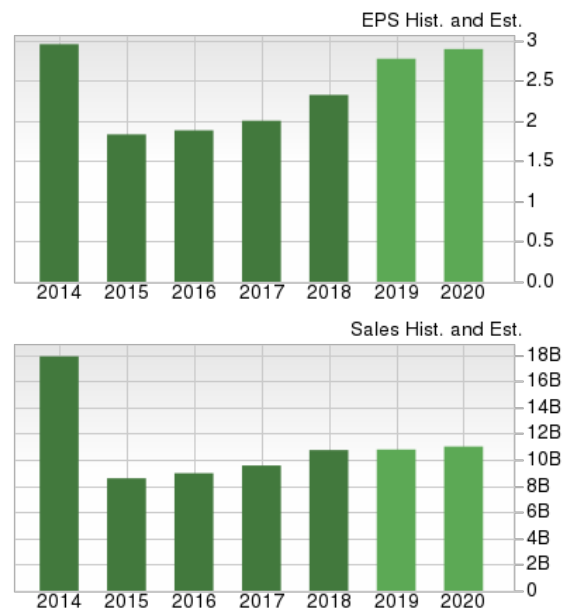
StubHub connects people through inspiring live experiences. Its aim is to extend StubHub's reach by focusing on supply expansion and broadening StubHub's international footprint to provide consumers a global major events catalog.

eBay Classifieds are designed to help people in free listing of products and services.

eBay delivered revenues of \$10.7 billion, growing 8% on a reported basis and 6% on a Fx-neutral basis in 2018.

The company sells under both the fixed-price and auction-style formats. Under the auction-style system, the seller fixes the minimum price, but sells to the highest bidder. The fixed-price format, as the name implies, offers no room for negotiation.

Since eBay is an online marketplace, almost any retailer — traditional, online or shopping networks operating in consumer-to-consumer, business-to-business, or business-to-consumer formats — may be considered a competitor. Amazon may be considered its closest competitor.



Reasons To Buy:

- ▲ 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.

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

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.
- ▼ 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 (for example the Panda 4.0 update). 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.
- ▼ There remains a concern about eBay's **increased investment** in overall platform technology and slower growth rate compared to its peers. Furthermore, eBay's growth continues to suffer due to a weak world economy. The company is heavily dependent on countries outside the U.S for its transaction and Internet sales. Although the U.S. is flourishing, emerging economies are slowing down. So a weak global economy remains a major headwind.

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.

Last Earnings Report

eBay Surpasses Earnings and Revenue Estimates in Q3

eBay reported third-quarter 2019 non-GAAP earnings of 67 cents, beating the Zacks Consensus Estimate by 2 cents. The reported figure also improved 19.6% year over year.

Net revenues of \$2.65 billion also surpassed the Zacks Consensus Estimate of \$2.64 billion. The top line was flat on a year-over-year basis (up 2% on an FX-neutral basis).

The company witnessed strong performance by its Classifieds platform during the reported quarter. Further, eBay experienced strong momentum across its managed payments offerings, which processed over \$500 million worth of payments during the third quarter.

However, StubHub volume failed to exhibit year-over-year growth which affected eBay's gross merchandise volume (GMV).

eBay's shares have plunged almost 8% in pre-market trading which can be blamed on the disappointing fourth-quarter guidance.

Nevertheless, the company's introduction of tools, advanced features and seller protections is likely to aid its momentum among customers and sellers in the near term.

Revenues and GMV

In the second quarter, the Marketplace platform accounted for \$2.1, down 1% year over year on a reported basis and up 1% on an FX-Neutral basis. Further, Marketplace GMV was \$20.5 billion, down 5% year over year on a reported basis and 2% on a FX-Neutral basis.

StubHub contributed \$1.2 billion of GMV, flat with the year-ago quarter level. It generated \$306 million of revenues, up 5% on a year-over-year basis.

The Classifieds platforms performed well during the quarter, contributing \$265 million to revenues, up 4% year over year on a reported basis and 8% on an FX-Neutral basis.

Total GMV of \$21.7 billion in the third quarter was down 4% year over year on a reported basis and 2% on an FX-neutral basis.

During the quarter, global active buyers/customers increased 4% from the year-ago period to 183 million.

Margins and Income

In the third quarter, eBay's gross margin was 76.4%, down 60 basis points (bps) year over year.

Adjusted operating expenses of \$1.49 billion increased 0.3% from the prior-year quarter. This was due to the 1.9% and 14.1% respective hike in product development and general & administrative expenses.

Non-GAAP operating margin was 26.6% in the third quarter, up 20 bps year over year.

Balance Sheet and Cash Flow

As of Sep 30, 2019, cash equivalents and short-term investments came in at \$3.1 billion, down from \$4.5 billion as on Jun 30, 2019.

Further, eBay's balance sheet is highly leveraged, with a long-term debt of \$7.2 billion at the end of the third quarter.

The company generated \$1 billion of cash from operating activities and had free cash flow of \$913 million during the reported quarter. It made dividend payments worth \$115 million.

Guidance

For the fourth quarter of 2019, eBay expects revenues within \$2.77-\$2.82 billion.

Non-GAAP earnings are expected within 73-76 cents.

For 2019, the company expects revenues between \$10.75 billion and \$10.80 billion, indicating FX-neutral growth of 2-3%.

Adjusted earnings per share are expected within \$2.75-\$2.78.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	0.22%
EPS Surprise	3.08%
Quarterly EPS	0.67
Annual EPS (TTM)	2.73

Recent News

On **Dec 19, 2019**, eBay agreed to acquire Cox Automotive Media Solutions for an undisclosed amount. Cox Automotive Media Solutions is a leading automotive platform in Australia that allows users to review, buy and sell cars there. The company owns two consumer brands - CarsGuide.com.au and Autotrader.com.au. Post the completion of the acquisition, both the automotive platforms will join the Gumtree business in Australia which is a part of the eBay Classifieds Group (eCG) portfolio.

On **Nov 26, 2019**, EBay stated that it plans to sell its ticket marketplace StubHub to European rival Viagogo for \$4.05 billion in cash.

Valuation

eBay shares are down 12.9% in the 6-month period but up 8.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 5.5% and 16% in the 6-month period, respectively. Over the past year, the Zacks sub-industry and the sector is up 22.4% and 35.3%, respectively.

The S&P 500 index is up 11.6% in the 6-month period and 25.6% in the past year.

The stock is currently trading at 15.19X forward 12-month earnings, which compares to 41.71X for the Zacks sub-industry, 25.63X for the Zacks sector and 19.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.41X and as low as 10.19X, with a 5-year median of 17.28X. Our Neutral recommendation indicates that the stock will perform inline with the market. Our \$38 price target reflects 16.2X 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 F 12M	Current	15.19	41.71	25.63	19.18
	5-Year High	25.41	53.04	26.23	19.34
	5-Year Low	10.19	24.74	19.07	15.17
	5-Year Median	17.28	42.17	22.95	17.44
P/S F12M	Current	2.62	4.14	1.09	3.57
	5-Year High	4.67	5.77	1.11	3.57
	5-Year Low	1.77	3.1	0.8	2.54
	5-Year Median	3.49	4.58	0.91	3
P/B TTM	Current	8.89	6.72	5.27	4.37
	5-Year High	9.77	10.73	5.87	4.37
	5-Year Low	1.48	4.69	3.6	2.85
	5-Year Median	4.6	8.1	4.83	3.49

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (192 out of 255)



Top Peers

JD.com, Inc. (JD)	Outperform
Amazon.com, Inc. (AMZN)	Neutral
Alibaba Group Holding Limited (BABA)	Neutral
Etsy, Inc. (ETSY)	Neutral
Facebook, Inc. (FB)	Neutral
Alphabet Inc. (GOOGL)	Neutral
MercadoLibre, Inc. (MELI)	Neutral
Walmart Inc. (WMT)	Neutral

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	EBAY Neutral	X Industry	S&P 500	AMZN Neutral	BABA Neutral	MELI Neutral
VGM Score	B	-	-	C	B	D
Market Cap	29.06 B	2.51 B	24.43 B	938.05 B	565.52 B	32.73 B
# of Analysts	14	3	13	13	7	3
Dividend Yield	1.57%	0.00%	1.75%	0.00%	0.00%	0.00%
Value Score	B	-	-	D	D	F
Cash/Price	0.11	0.13	0.04	0.05	0.06	0.10
EV/EBITDA	9.87	8.10	14.00	32.73	26.50	828.96
PEG Ratio	1.31	1.32	2.06	2.63	1.17	NA
Price/Book (P/B)	8.89	5.58	3.39	16.60	5.61	16.06
Price/Cash Flow (P/CF)	13.35	19.21	13.69	36.57	38.45	3,232.79
P/E (F1)	12.37	27.25	19.00	72.25	30.21	NA
Price/Sales (P/S)	2.68	1.88	2.68	3.53	8.78	15.97
Earnings Yield	8.09%	1.78%	5.26%	1.38%	3.31%	-0.15%
Debt/Equity	2.36	0.23	0.72	0.40	0.17	0.38
Cash Flow (\$/share)	2.67	0.42	6.94	51.74	5.78	0.20
Growth Score	B	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	-5.49%	16.19%	10.60%	116.18%	29.66%	-38.47%
Proj. EPS Growth (F1/F0)	4.33%	13.27%	7.57%	27.69%	28.62%	66.41%
Curr. Cash Flow Growth	0.23%	4.60%	14.00%	85.21%	6.63%	-93.98%
Hist. Cash Flow Growth (3-5 yrs)	-8.09%	14.92%	9.00%	48.43%	30.02%	-41.56%
Current Ratio	1.41	1.53	1.23	1.10	1.38	2.73
Debt/Capital	70.28%	24.51%	42.99%	28.45%	15.19%	30.18%
Net Margin	18.33%	-0.94%	11.15%	4.27%	34.02%	-5.87%
Return on Equity	41.12%	9.20%	17.16%	22.52%	14.92%	-1.29%
Sales/Assets	0.51	0.90	0.55	1.45	0.44	0.52
Proj. Sales Growth (F1/F0)	2.12%	15.50%	4.05%	18.56%	32.84%	38.10%
Momentum Score	D	-	-	F	A	D
Daily Price Chg	-0.28%	0.00%	-0.27%	1.46%	-2.27%	-2.16%
1 Week Price Chg	2.67%	2.63%	2.29%	-0.98%	1.61%	0.53%
4 Week Price Chg	-1.35%	5.88%	2.13%	5.74%	3.73%	10.75%
12 Week Price Chg	-1.08%	2.28%	6.99%	7.33%	25.65%	21.49%
52 Week Price Chg	8.57%	-1.99%	21.25%	15.92%	46.08%	99.01%
20 Day Average Volume	6,050,419	100,102	1,415,064	3,171,680	10,278,670	389,429
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.44%	0.10%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-1.19%	0.10%	7.60%
(F1) EPS Est 12 week change	-4.22%	-6.04%	-0.34%	-18.92%	3.39%	-145.88%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-3.28%	0.00%	0.00%

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	B
Growth Score	B
Momentum Score	D
VGM Score	B

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.

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