

eBay Inc. (EBAY)

\$37.61 (As of 04/21/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/20/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: C

Summary

eBay is riding on robust managed payments offerings which deliver better shopping experience. This is aiding the company's customer momentum. Further, strong Promoted Listings are contributing well to the top-line. Additionally, growing momentum across Classifieds remains a positive. Also, strengthening global active customer base, international expansion and solid cost-cut efforts are acting as tailwinds. eBay remains optimistic about its initiatives toward enhancing seller experience by offering innovative seller tools and delivering better buyer experience by utilizing structured data. Further, growing focus toward strengthening its managed payments offerings and advertising revenues is a major positive. However, declining Marketplace platform and StubHub volumes are concerns. The stock has underperformed its industry over a year.

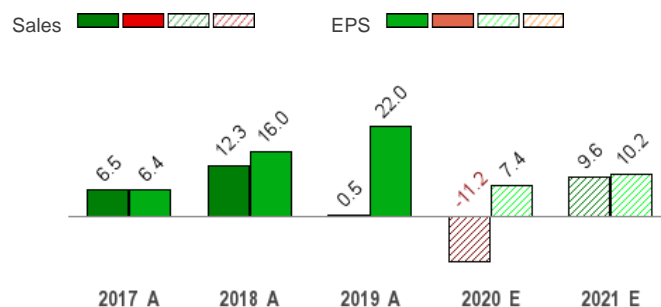
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$42.00 - \$26.02
20 Day Average Volume (sh)	12,832,486
Market Cap	\$29.9 B
YTD Price Change	4.2%
Beta	1.16
Dividend / Div Yld	\$0.64 / 1.7%
Industry	Internet - Commerce
Zacks Industry Rank	Top 35% (88 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.0%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	-1.4%
Expected Report Date	04/29/2020
Earnings ESP	0.0%
P/E TTM	13.3
P/E F1	12.4
PEG F1	1.3
P/S TTM	2.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,445 E	2,515 E	2,553 E	2,760 E	10,503 E
2020	2,335 E	2,349 E	2,387 E	2,583 E	9,587 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	\$0.90 E	\$0.90 E	\$0.91 E	\$1.05 E	\$3.35 E
2020	\$0.74 E	\$0.75 E	\$0.74 E	\$0.86 E	\$3.04 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 04/21/2020. The reports text is as of 04/22/2020.

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.

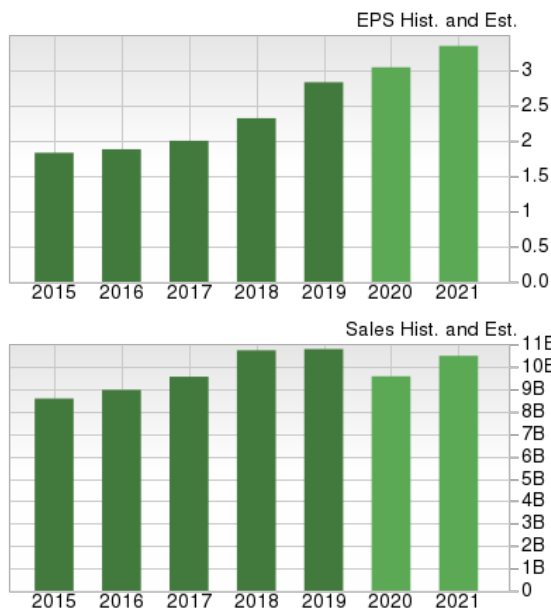
eBay's structured data initiatives to better understand, organize and leverage inventory on its site for delivering more personalized user experiences continues to drive gross merchandise volume (GMV) growth.

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 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 Q4

eBay reported fourth-quarter 2019 non-GAAP earnings of 81 cents, beating the Zacks Consensus Estimate by 8%. The reported figure also improved 14.1% year over year and 20.9% sequentially.

Net revenues of \$2.82 billion also surpassed the Zacks Consensus Estimate by 0.4%. The top line was up 6.5% from the prior quarter.

However, it was down 2% on a year-over-year basis (flat on an FX-neutral basis). This can be attributed to slowdown in gross merchandise volume (GMV) due to sluggish contribution from Marketplace platform and StubHub.

Nevertheless, the company witnessed solid momentum across its managed payments offerings. Further, eBay's Promoted Listings delivered robust performance by generating revenues of \$136 million, up 73% from the year-ago quarter.

Additionally, the company witnessed growth of 2.2% in the active buyer number. The active buyers base came in at 183 million at the end of the fourth quarter.

The company's growing initiatives toward strengthening its managed payments offerings and advertising revenues 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.

Moreover, integration between listing flows and Seller Hub remains a tailwind.

Notably, the company entered into a definitive agreement to sell StubHub to viagogo as a result of slowdown in StubHub's volume.

GMV Details

Total GMV of \$23.3 billion in the fourth quarter was down 5% year over year on a reported basis and 4% on an FX-neutral basis. Further, the figure missed the Zacks Consensus Estimate of \$23.8 billion.

Marketplace GMV came in \$21.9 billion (94.3% of total GMV), down 5.4% year over year. We note that U.S. GMV fell 9% from the year-ago quarter primarily due to imposition of Internet Sales tax. Further, international GMV was down 1% year over year thanks to uncertainties related to Brexit.

StubHub GMV came in \$1.3 billion (5.7%), down 5.4% on a year-over-year basis due to sluggish landscapes in concerts and theatres.

Revenues in Detail

eBay's revenues are classified into two types:

Net Transaction: The company generated \$2.28 billion of net transaction revenues in total in the fourth quarter. The figure accounted for 80.9% of the total net revenues and declined 1% year over year. This can be attributed to sluggish performance of Marketplace and StubHub, which generated \$1.97 billion and \$305 million transaction revenues, down 0.4% and 1.9% from the prior-year quarter, respectively.

Marketing Services and Other: eBay generated \$539 million of total marketing services and other revenues (19.1% of total revenues), which fell 7.4% from the year-ago quarter. This was due to sluggish performance of Marketplace that generated \$259 million revenues, down 18% year over year.

Nevertheless, StubHub delivered marketing revenues \$16 million during the reported quarter, significantly increasing from \$3 million in the year-ago quarter. Further, Classifieds generated \$269 million revenues, up 3% year over year.

Operating Details

In the fourth quarter, eBay's gross margin was 76.9%, contracting 160 bps year over year.

Operating expenses of \$1.55 billion expanded 20 bps as a percentage of net revenues from the year-ago quarter. This was due to the 80 bps and 290 bps respective expansion in product development and general & administrative expenses.

However, sales and marketing expenses contracted 340 bps year over year.

Consequently, non-GAAP operating margin was 29.3% in the fourth quarter, up 10 bps year over year.

Balance Sheet and Cash Flow

As of Dec 31, 2019, cash equivalents and short-term investments came in at \$2.8 billion, down from \$3.1 billion as on Sep 30, 2019.

Further, eBay's balance sheet is highly leveraged, with a long-term debt of \$6.7 billion at the end of the fourth quarter.

The company generated \$811 million of cash from operating activities and had free cash flow of \$672 million during the reported quarter.

Further, the company returned \$1.1 billion to shareholders, which includes dividend payments worth \$113 million, in the fourth quarter.

Quarter Ending 12/2019

Report Date	Jan 28, 2020
Sales Surprise	0.55%
EPS Surprise	8.00%
Quarterly EPS	0.81
Annual EPS (TTM)	2.83

Guidance

For first-quarter 2020, eBay expects revenues within \$2.55-\$2.60 billion.

Non-GAAP earnings are expected within 70-73 cents per share.

For 2020, the company expects revenues between \$10.72 billion and \$10.92 billion, indicating FX-neutral growth of 1-3%.

The company expects Marketplace GMV to be down low-single-digit in 2020.

Adjusted earnings per share are expected within \$2.95-\$3.05.

The company has considered StubHub in the full year guidance.

Recent News

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.

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.

Valuation

eBay shares are up 4.6% in the year-to-date period and 2.5% over the trailing 12-month period. Stocks in the Zacks sub-industry is up 14.6% but the Zacks Retail-Wholesale sector is down 6.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector is up 12% and 0.9%, respectively.

The S&P 500 index is down 12.4% in the year-to-date period and 4.3% in the past year.

The stock is currently trading at 11.99X forward 12-month earnings, which compares to 46.5X for the Zacks sub-industry, 27.99X for the Zacks sector and 19.24X 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 17.08X. Our Neutral recommendation indicates that the stock will perform inline with the market. Our \$40 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	11.99	46.5	27.99	19.24
	5-Year High	25.41	52.97	27.99	19.34
	5-Year Low	10.19	24.72	19.06	15.19
	5-Year Median	17.08	41.99	23.16	17.45
P/S F12M	Current	3.01	3.85	1.01	3.14
	5-Year High	4.67	5.75	1.11	3.44
	5-Year Low	1.77	3.09	0.8	2.54
	5-Year Median	3.39	4.54	0.93	3.01
P/B TTM	Current	10.43	6.69	4.63	3.74
	5-Year High	10.68	10.7	5.88	4.55
	5-Year Low	1.48	4.68	3.6	2.84
	5-Year Median	4.72	7.87	4.83	3.64

As of 04/21/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 253)



Top Peers

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

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	EBAY	X Industry	S&P 500	AMZN	BABA	MELI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	B	C	F
Market Cap	29.94 B	1.66 B	18.60 B	1,160.63 B	527.55 B	28.50 B
# of Analysts	7	3	14	12	6	6
Dividend Yield	1.70%	0.00%	2.28%	0.00%	0.00%	0.00%
Value Score	C	-	-	D	D	F
Cash/Price	0.09	0.12	0.05	0.05	0.10	0.10
EV/EBITDA	11.89	5.84	11.41	30.22	23.76	821.97
PEG Ratio	1.33	1.82	2.13	3.60	0.97	NA
Price/Book (P/B)	10.43	4.06	2.52	18.67	4.27	14.37
Price/Cash Flow (P/CF)	11.26	18.17	10.05	34.72	35.87	1,357,530.13
P/E (F1)	12.61	27.60	17.41	83.48	23.91	NA
Price/Sales (P/S)	2.77	1.51	1.98	4.14	7.48	12.41
Earnings Yield	8.08%	1.61%	5.58%	1.20%	4.18%	-0.25%
Debt/Equity	2.52	0.20	0.71	0.38	0.14	0.41
Cash Flow (\$/share)	3.34	0.44	7.01	67.05	5.78	0.00
Growth Score	C	-	-	A	B	F
Hist. EPS Growth (3-5 yrs)	-2.66%	15.28%	10.92%	110.19%	33.64%	-42.08%
Proj. EPS Growth (F1/F0)	7.52%	-8.38%	-4.01%	21.20%	18.29%	61.32%
Curr. Cash Flow Growth	8.64%	1.30%	5.93%	31.33%	6.63%	-99.77%
Hist. Cash Flow Growth (3-5 yrs)	-6.76%	12.56%	8.55%	49.26%	30.02%	-83.10%
Current Ratio	1.16	1.58	1.24	1.10	1.75	2.16
Debt/Capital	71.58%	18.31%	42.91%	27.39%	12.78%	31.38%
Net Margin	16.54%	-1.06%	11.57%	4.13%	34.90%	-7.49%
Return on Equity	50.71%	10.27%	16.74%	21.07%	15.82%	-3.50%
Sales/Assets	0.54	0.98	0.54	1.41	0.44	0.50
Proj. Sales Growth (F1/F0)	-11.23%	2.72%	-0.39%	20.02%	34.22%	36.20%
Momentum Score	C	-	-	C	F	D
Daily Price Chg	-0.08%	-2.08%	-2.84%	-2.74%	-2.26%	-4.70%
1 Week Price Chg	10.72%	4.41%	0.42%	16.26%	6.69%	12.04%
4 Week Price Chg	35.92%	13.06%	10.78%	20.00%	11.62%	17.02%
12 Week Price Chg	3.87%	-14.33%	-22.58%	25.62%	-1.37%	-15.02%
52 Week Price Chg	2.56%	-28.90%	-16.41%	21.02%	10.70%	14.68%
20 Day Average Volume	12,832,486	210,865	2,973,334	5,791,247	14,358,074	651,430
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.91%	9.95%
(F1) EPS Est 4 week change	-1.35%	0.00%	-6.75%	1.72%	-2.41%	-14.82%
(F1) EPS Est 12 week change	6.48%	-22.59%	-11.09%	6.50%	-0.61%	-76.51%
(Q1) EPS Est Mthly Chg	0.28%	0.00%	-9.83%	-5.46%	-11.30%	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	C
Growth Score	C
Momentum Score	C
VGM Score	C

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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