

eBay Inc. (EBAY)

\$35.06 (As of 01/30/20)

Price Target (6-12 Months): **\$37.00**

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:A

Value: B

Growth: B

Momentum: A

Summary

eBay reported mixed fourth-quarter results wherein earnings improved year over year but revenues declined over the same time frame due to slowdown in gross merchandise volume. Nevertheless, the company witnessed solid momentum across managed payments offerings. Further, eBay's Promoted Listings delivered robust performance during the reported quarter. The company remains optimistic about its initiatives toward enhancing seller experience by offering innovative seller tools and delivering better buyer experience by utilizing structured data. However, declining Marketplace platform and StubHub volumes remain concerns. Additionally, imposition of Internet Sales tax does not bode well for U.S. volume. Uncertainties related to Brexit are hurting the company's international volume. The stock has underperformed its industry over a year.

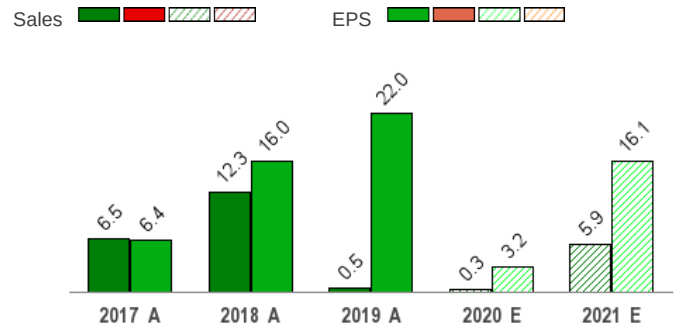
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$42.00 - \$33.63
20 Day Average Volume (sh)	8,809,295
Market Cap	\$28.5 B
YTD Price Change	-2.9%
Beta	1.36
Dividend / Div Yld	\$0.64 / 1.6%
Industry	Internet - Commerce
Zacks Industry Rank	Bottom 34% (168 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.0%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	2.0%
Expected Report Date	04/28/2020
Earnings ESP	1.3%
P/E TTM	12.4
P/E F1	12.0
PEG F1	1.3
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,783 E	2,871 E	2,887 E	3,145 E	11,480 E
2020	2,594 E	2,686 E	2,686 E	2,886 E	10,835 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	\$0.80 E	\$0.78 E	\$0.80 E	\$0.97 E	\$3.39 E
2020	\$0.71 E	\$0.70 E	\$0.71 E	\$0.84 E	\$2.92 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 01/30/2020. The reports text is as of 01/31/2020.

Overview

Currently, San Jose, CA-based 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.

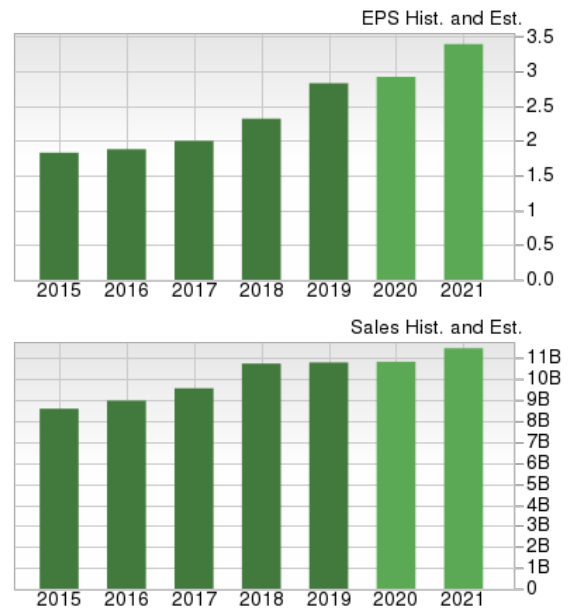
StubHub connects people through inspiring live experiences. Its aim is to extend StubHub's reach by focusing on supply expansion and broadening StubHub's international footprint to provide consumers a global major events catalog.

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

eBay delivered revenues of \$10.8 billion, growing 1% on a reported basis and 2% on a Fx-neutral basis in 2019.

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 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 **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 14% in the six-month period but up 3.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 8.5% and 8.6% in the six-month period, respectively. Over the past year, the Zacks sub-industry and the sector is up 13.6% and 16.6%, respectively.

The S&P 500 index is up 12.7% in the six-month period and 23% in the past year.

The stock is currently trading at 11.95X forward 12-month earnings, which compares to 39.59X for the Zacks sub-industry, 24.88X for the Zacks sector and 18.83X 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 17.24X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$37 price target reflects 12.63X 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	11.95	39.59	24.88	18.83
	5-Year High	25.41	53.04	26.23	19.34
	5-Year Low	10.19	24.74	19.07	15.18
	5-Year Median	17.24	42.28	22.98	17.46
P/S F12M	Current	2.57	3.97	1.06	3.49
	5-Year High	4.67	5.77	1.11	3.49
	5-Year Low	1.77	3.1	0.8	2.54
	5-Year Median	3.48	4.58	0.91	3
P/B TTM	Current	8.72	7.24	5.13	4.49
	5-Year High	9.77	10.73	5.87	4.55
	5-Year Low	1.48	4.69	3.6	2.85
	5-Year Median	4.61	7.98	4.85	3.62

As of 01/30/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (168 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	A	-	-	B	B	D
Market Cap	28.52 B	2.47 B	23.94 B	927.48 B	530.71 B	33.36 B
# of Analysts	15	3	13	14	7	3
Dividend Yield	1.60%	0.00%	1.77%	0.00%	0.00%	0.00%
Value Score	B	-	-	D	C	F
Cash/Price	0.11	0.13	0.04	0.05	0.07	0.10
EV/EBITDA	9.57	8.11	14.14	32.35	24.81	846.11
PEG Ratio	1.24	1.28	2.01	2.61	1.10	NA
Price/Book (P/B)	9.94	5.16	3.25	16.41	5.27	16.37
Price/Cash Flow (P/CF)	10.73	18.47	13.56	36.16	36.08	3,294.75
P/E (F1)	11.69	25.11	18.90	71.64	28.26	NA
Price/Sales (P/S)	2.64	1.88	2.64	3.31	8.24	16.27
Earnings Yield	8.33%	1.92%	5.28%	1.40%	3.54%	-0.14%
Debt/Equity	2.52	0.23	0.72	0.40	0.17	0.38
Cash Flow (\$/share)	3.27	0.42	6.92	51.74	5.78	0.20
Growth Score	B	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	-5.49%	16.19%	10.68%	116.18%	29.66%	-38.47%
Proj. EPS Growth (F1/F0)	3.23%	13.17%	7.59%	13.49%	29.02%	68.95%
Curr. Cash Flow Growth	8.64%	7.63%	10.81%	85.21%	6.63%	-93.98%
Hist. Cash Flow Growth (3-5 yrs)	-8.09%	14.92%	8.78%	48.43%	30.02%	-41.56%
Current Ratio	1.16	1.51	1.22	1.10	1.38	2.73
Debt/Capital	71.58%	24.51%	42.99%	28.45%	15.19%	30.18%
Net Margin	16.54%	-0.94%	11.69%	4.13%	34.02%	-5.87%
Return on Equity	50.71%	9.20%	17.33%	22.00%	14.92%	-1.29%
Sales/Assets	0.54	0.90	0.55	1.48	0.44	0.52
Proj. Sales Growth (F1/F0)	0.32%	16.51%	4.12%	17.99%	33.24%	38.10%
Momentum Score	A	-	-	C	A	D
Daily Price Chg	1.39%	0.00%	0.36%	0.68%	-1.62%	0.37%
1 Week Price Chg	-1.28%	-0.77%	-1.09%	-0.17%	-6.02%	-1.85%
4 Week Price Chg	-3.42%	0.00%	-0.22%	-1.44%	-5.09%	9.98%
12 Week Price Chg	0.49%	1.46%	4.08%	4.61%	11.74%	36.40%
52 Week Price Chg	4.19%	-7.19%	16.06%	8.84%	23.79%	84.36%
20 Day Average Volume	8,809,295	119,286	1,808,632	3,261,434	13,516,382	408,275
(F1) EPS Est 1 week change	2.12%	0.00%	0.00%	-0.28%	0.51%	0.00%
(F1) EPS Est 4 week change	2.04%	0.00%	0.00%	-0.44%	0.61%	16.32%
(F1) EPS Est 12 week change	2.04%	-3.30%	-0.09%	-1.65%	0.41%	-249.27%
(Q1) EPS Est Mthly Chg	5.68%	0.00%	0.00%	0.09%	0.82%	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	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.

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