

eBay Inc.

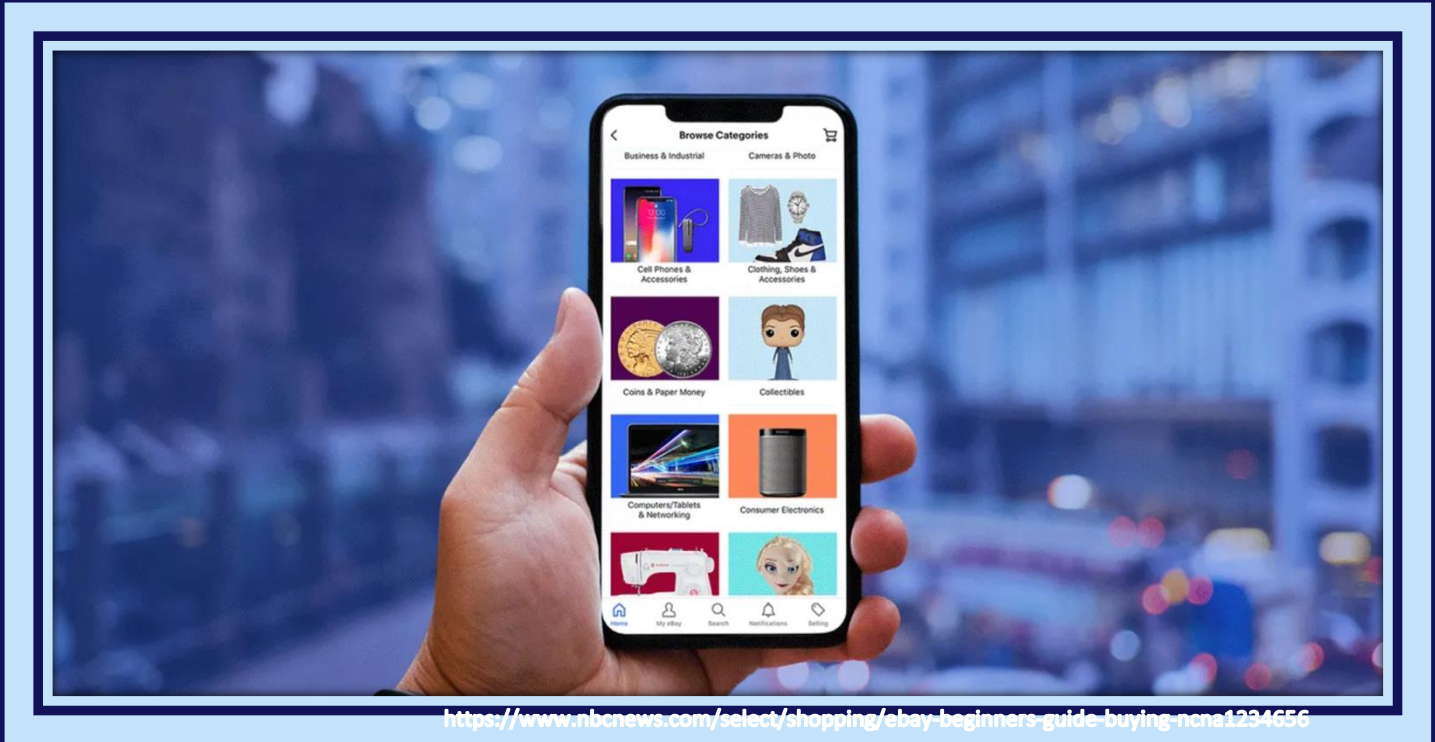
Sydney Seufzer

EBAY

ebay

Table of Contents

Investment Thesis.....	3
Business Description.....	4
Industry Analysis.....	6
Financial Analysis.....	7
Valuation.....	11
Investment Risks.....	13
Sources.....	14



Investment Thesis

Key Drivers

Global eCommerce Growth



- Expected to grow 50% over the next four yearsⁱ
- Increasing competition

Internationalization



- Consumers expect ability to ship/sell across bordersⁱⁱ
- eBay has been a long-standing international company

Specialized Markets

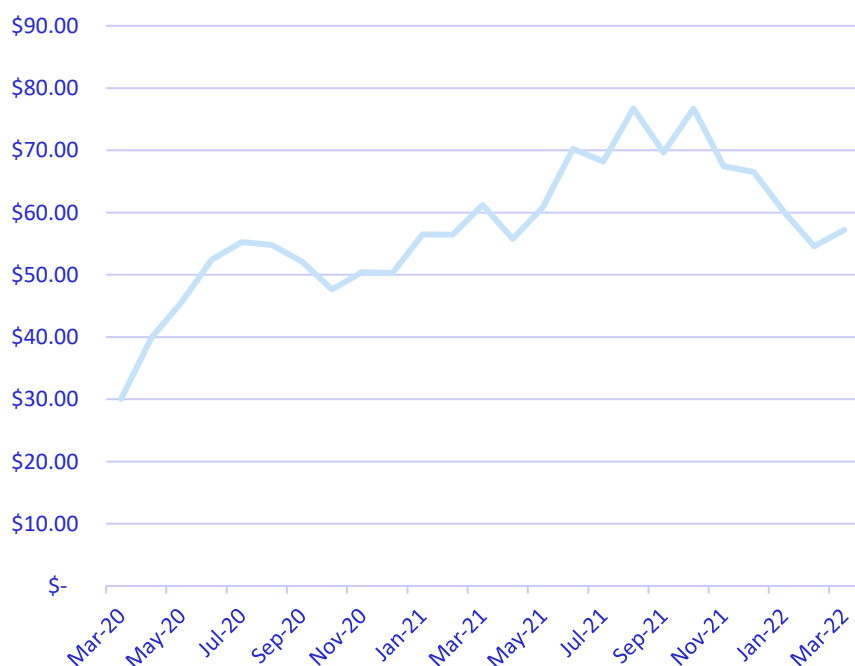


- Niche markets attract specific consumers
- Focusing on specific markets can increase brand loyaltyⁱⁱⁱ

iv

Performance

eBay Stock Price Performance



BUY

I am initiating a BUY rating with a 12-month target price of \$97.93 for eBay Inc. This target price offers a 56.93% upside from their current price of \$58.31. eBay's unique marketplace-auction house platform, long standing reputation, and new buyer guarantee differentiate eBay from the many competitors in the eCommerce industry. eBay's high return on equity and low price to earnings ratio indicate that the share price is undervalued.

Key Metrics

Price	\$58.31
52-Week Range	\$51.51 - \$81.19
Market Cap	34.7B
Beta	1.14
P/E	16.85
P/B	11.86
EPS	2.91
ROE	79.05%
ROA	8.27%
Dividend Yield	1.22%
Debt to Equity	208%
Revenue	\$10,271,000,000
Profit Margin	75.60%

Business Description

Company Overview

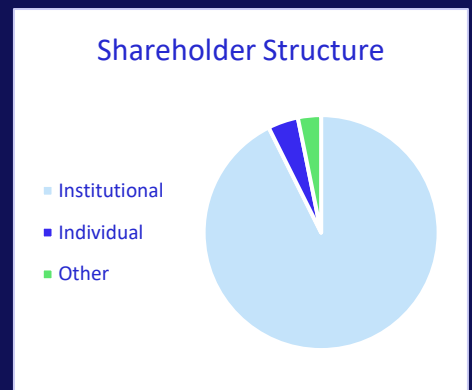


Pierre Omidyar

In 1995, 28-year-old Pierre Omidyar^v creates AuctionWeb, an online auction site that would soon turn into eBay. Within a year the total value of merchandise sold on AuctionWeb reaches \$7.2 million and in 1997 AuctionWeb officially turns into eBay.^{vi} Created and based in San Jose, California, eBay is now an international eCommerce platform. Since its AuctionWeb days, eBay has expanded its buying-selling options to include instant purchases (“buy now”). eBay’s online marketplace and auction house offer sellers and buyers a streamlined, secure platform to conduct business transactions. eBay operates on an international level with most transactions occurring in the United States, Germany, United Kingdom, South Korea, and many other countries. Their company structure has changed over the years with the acquisitions, divestments, and selling of PayPal, Classifieds, and StubHub. Currently, eBay’s structure consists of Marketplace, Corporate, and Payments segments.

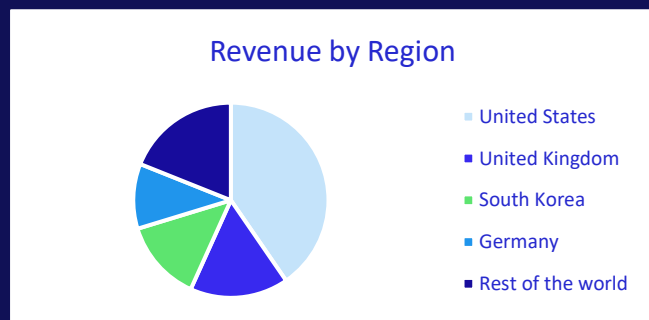
Management & Corporate Governance

eBay is managed by a number of executives including current President and CEO Jamie Iannone, SVP of eBay International Joo Man Park, SVP of eBay North America Jordan Sweetnam, and SVP of eBay Europe Rob Hattrell.^{vii} Iannone has held the CEO position since April of 2020. Under his guidance, eBay is navigating the eCommerce industry during/after the COVID-19 pandemic and reevaluating the profitability of major segments of the company – such as selling Classifieds and StubHub. eBay’s Board of Directors is led by Chairman Paul S. Pressler with 12 other board members. Within the board, there are four committees – audit, compensation and human capital, corporate governance & nominating, and risk – that contain 5-6 members.^{viii} eBay’s reported shareholder structure consists of 92.63% institutional ownership and 4.18% individual investors.^{ix}



Demographics

As previously stated, eBay is a global online marketplace and auction house. Beyond North America, eBay operates in Europe, Asia, South America, and Australia. The United States accounts for the largest regional revenue stream at 40%, United Kingdom following at 16%, South Korea 14%, Germany 11%, and the rest of the world 19%.^x International operations account for 52% of all yearly revenue.^{xi} The United States contains 31% of eBay sellers, higher than any other country.^{xii} Although the company does not specify their target audience, eBay appeals to sellers by offering a platform to connect with a global network of buyers and selling tools. eBay appeals to buyers by highlighting the “vast inventory & unique selection” available on the online marketplace.^{xiii}



Revenue Streams

eBay primarily earns revenue through “fees collected on successfully closed sales and... growth drivers of managed payments and first-party advertisements.”^{xiv} Net revenue is generated by (1) final value fees, feature fees, fees to promote listings, listing fees, and subscription fees and (2) marketing services. Although, marketing services only accounts for 9.5% of all net revenue in 2020. eBay charges a final value selling fee per sale (on most categories) of 12.9% + \$0.30. They also charge an “insertion fee” of \$0.35 per listing if a seller lists more than 250 per month.^{xv} These numbers vary based on the category of the item being sold. eBay

defines the average percentage taken from each sale as the “take rate.” In 2020, the transaction take rate was determined to be 9.30%, a 0.44% increase from the prior year.^{xvi}

Key Strategies

As noted above, eBay earns revenue primarily through listing and selling fees. eBay’s success is determined the success of its sellers. By focusing on technology enhancement, managed payments systems, and advertising, eBay reinvestments into the success of its users.

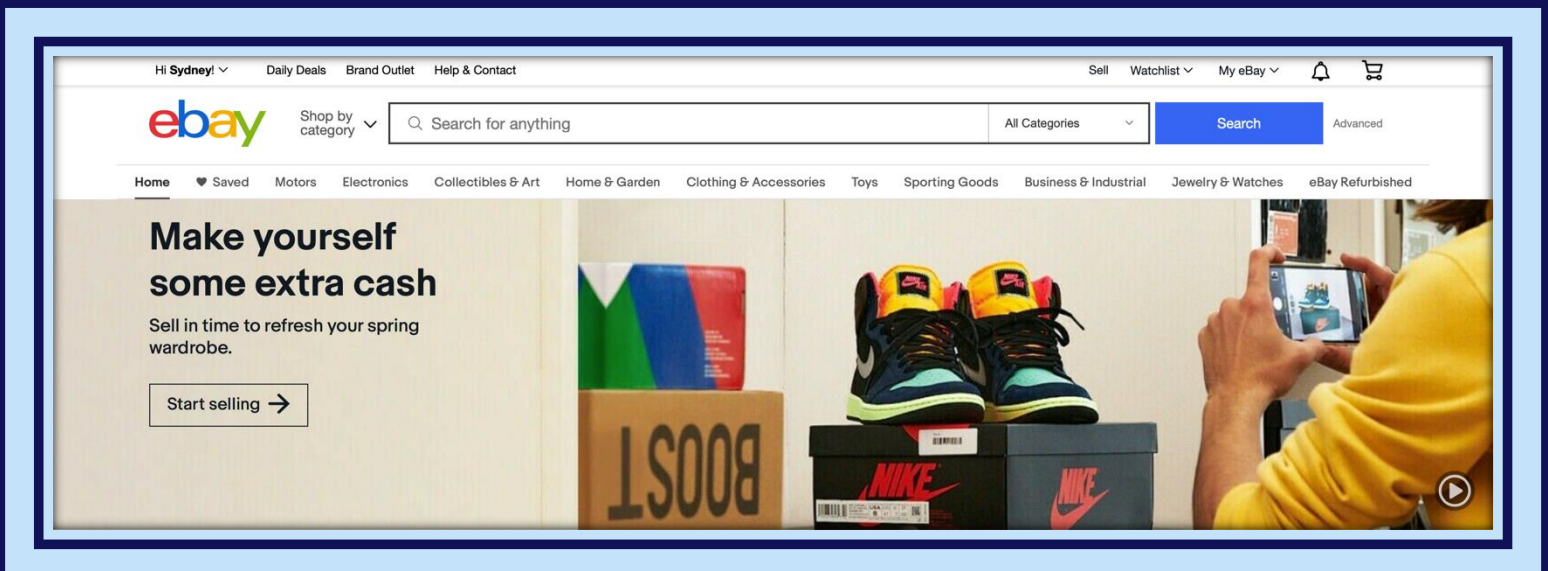
Leveraging Technology: eBay invests in technology to better the experience for its customers. After the sale of

$$12.9\% + \$0.30 + (\$0.35) \rightarrow \text{Average Take Rate} = 9.3\%$$

StubHub and Classifieds, eBay has shown its intention to focus on the marketplace platform and “build more compelling experiences for [their] customers, become the partner of choice for sellers and strengthen trust in relationships with buyers.”^{xvii}

Managed Payments: eBay has transformed its managed payment system after the divestment of PayPal. In 2020, eBay launched its managed payment system in its five largest markets and later expanded internationally. By investing in a managed payment system, eBay creates a streamlined experience for current and future customers.

Advertising: Focusing specifically on promoted listings within the marketplace to reduce third-party advertising. eBay is able to provide sellers with data-driven recommendations.



Industry Analysis

The eCommerce industry is heavily populated and competition is constantly increasing. The total Market Cap of the industry is \$2.9 trillion and generates total yearly revenues around \$4.9 trillion. This revenue number is expected to grow to \$7.4 trillion in the next four years.^{xviii} In reference to the graph on the right, eBay's market share of the eCommerce industry is 35.16B.^{xix}

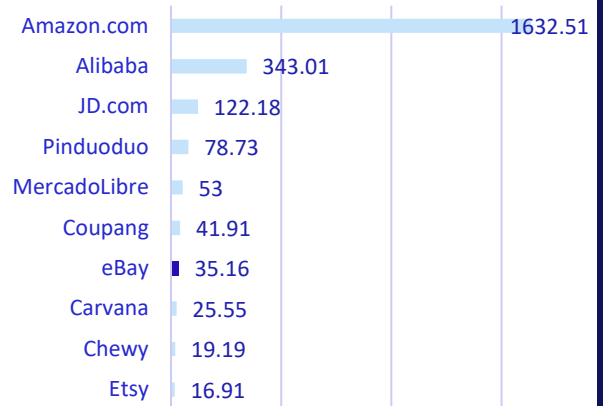
eCommerce Industry

Within the eCommerce industry, we are seeing a trend of increasing lack of brand loyalty. Consumers are completing transactions based on convenience, price, and quality rather than loyalty to a brand. For example, if a consumer is searching for a specific car part and they can find the same item on eBay for a lower price, cheaper or free shipping, more reviews, etc. than a competitor, they will most likely purchase it on eBay. Today, 52% of consumers will conduct online research before making any major purchases.^{xx} With eBay's mobile app and mobile website capabilities, consumers can easily cross-compare goods online. Similarly, we are also seeing that being online is not enough in today's market, businesses must also invest in mobile-optimized websites or apps. The graph on the following page illustrates the leading shopping apps on the iOS app store in the US based on daily active users. eBay's marketplace app is fairly high in the ranking at 1,752,090 daily users.

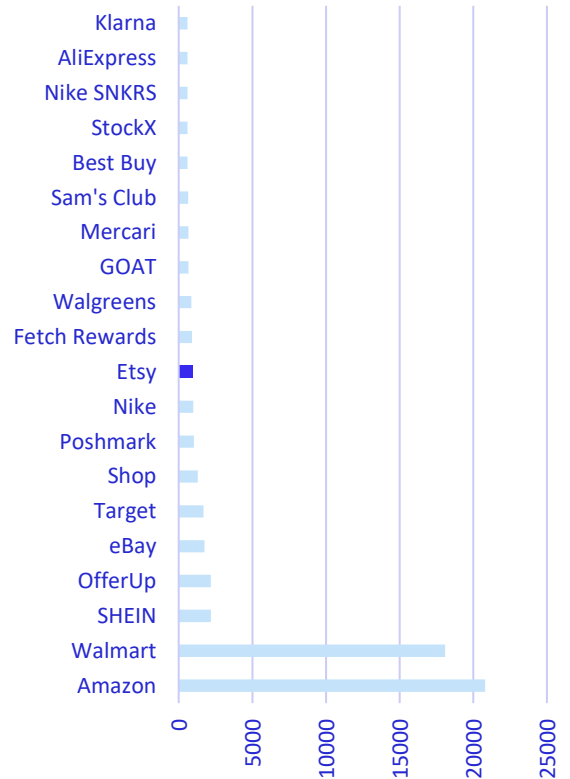
COVID-19 & eCommerce

The eCommerce industry is growing two to five times faster than the pre-pandemic industry. In 2020, we saw a 19% increase in eCommerce sales due to consumers avoiding in-store purchases.^{xxi} As more consumers move online to purchase goods, marketplace and SEO optimization is increasingly important. eBay holds an advantage in this trend as they had already established a well-known online presence and innovation of their mobile app. We also see businesses simplifying the checkout and payment process to reduce barriers for online shoppers. Additionally, we can see the further integration of with Google pay, Apple Pay, PayPal, or login capabilities with Amazon, Google, or Facebook in the payment process.^{xxii} The COVID-19 pandemic dramatically increased the necessity and usage of eCommerce platforms. Businesses that already had a presence, like eBay, or where able to adapt quickly still hold a massive advantage in the eCommerce industry.

Internet Retail Market Share - Worldwide

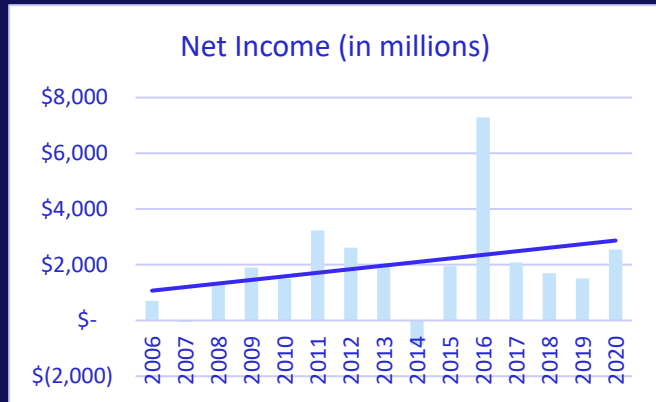


Leading Shopping Apps in US (by daily active users (in 1,000))



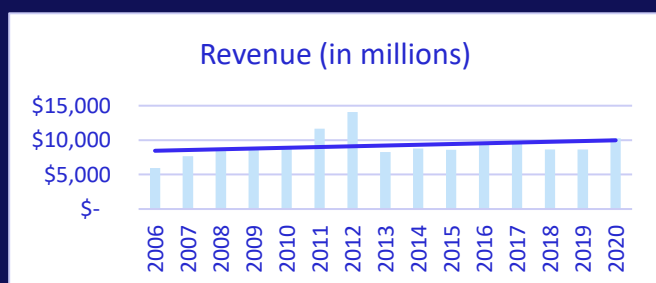
Financial Analysis

Net Income^{xxiii}



eBay's net income has grown at a CAGR of 9.59% since 2006. While generally trending upward, there are some discrepancies in 2007, 2014, and 2016. These are mostly due to changes in income tax provisions. For example, the change in taxes paid between 2013 and 2014 was 471%. And the effective tax rate in 2014 was 99% compared to 19% in 2013.^{xx} Also, the eBay 2014 Annual Report states it was "due primarily to the recognition during the year of deferred tax liabilities of approximately \$3.0 billion of U.S. income and applicable foreign withholding taxes on \$9.0 billion of undistributed foreign earnings of certain of our foreign subsidiaries for 2013 and prior years, partially offset by the release of the valuation allowance on our capital loss carryover."^{xx}

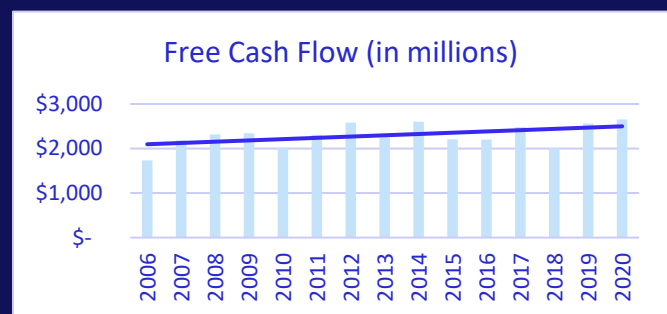
Revenue^{xxiv}



As for revenue, eBay has seen relative growth with a CAGR of 3.95%. Not as aggressive

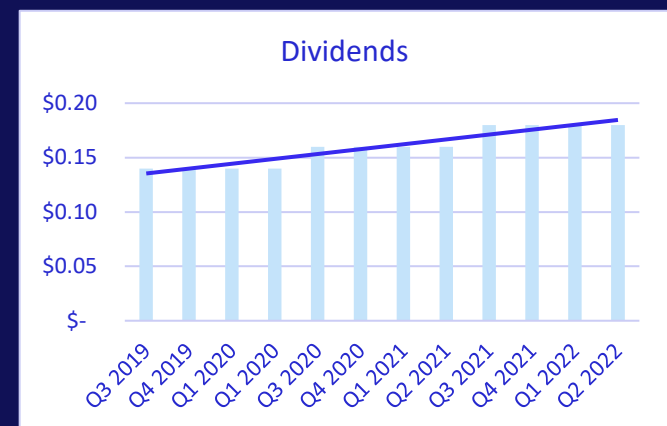
as net incomes compound annual growth rate, but still positive. Revenue peaked in 2012, increasing 21% in one year, due to increases in all business segments. It was also driven by gains resulting from the sale of their remaining 30% equity interest in Skype and a lower effective tax rate. In 2011, the 27% increase in revenue is attributed to a 29% increase in PayPal net NPV, a 13% increase in Marketplaces, and the acquisition of GSI.

Free Cash Flow^{xxv}



eBay's free cash flows have also been steadily increasing at a CAGR of 3.09%. Free cash flow is eBay's most steady statistic. Even prior to 2006 we see a similar trend.

Dividends^{xxvi}

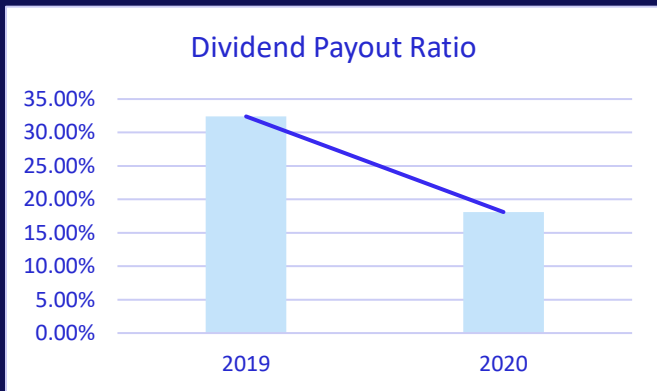


eBay began paying dividends in 2019 due to pressure from shareholders. eBay first went public in 1998 and has never paid dividends until 2019. eBay dividends are paid quarterly – as seen in the graph – and have

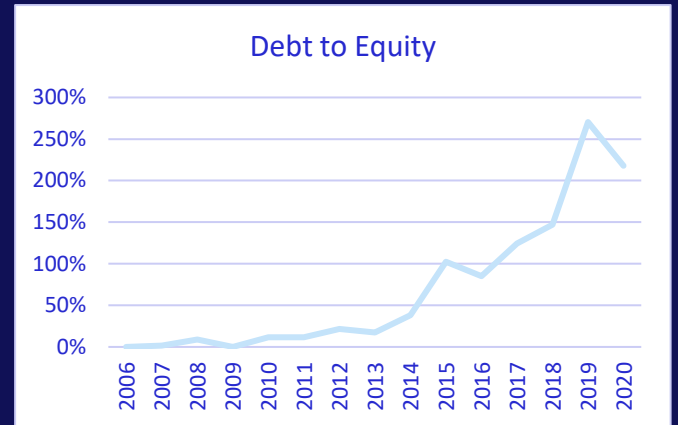
slowly been increasing on a yearly basis. While some company's cut paying dividends during the COVID-19 pandemic, eBay continued to keep it's word and continuing paying dividends. As later discussed, we can expected to see eBay's dividends increasing gradually, but it would be a shock for them to stop increasing or stop paying them at all.

For the online retail industry, a return on equity around 44.11% is considered good. The spike in ROE in 2016 can be attributed to extremely high net income that year – which is good. But, the high ROE in 2020 is a sign of increased risk since net income was not also abnormally high.

Dividend Payout Ratio^{xxvii}



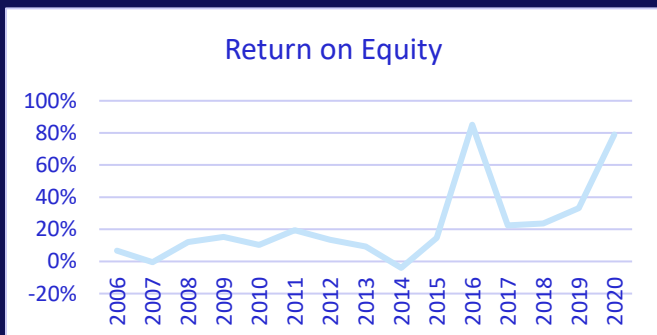
Debt to Equity^{xxix}



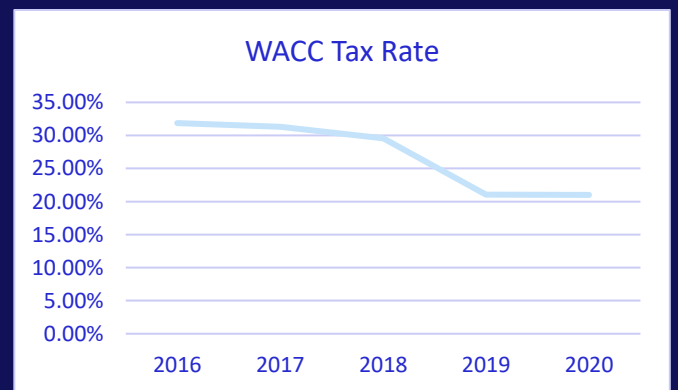
eBay has only been paying dividends since 2019, therefore we have limited data on the dividend payout ratio. eBay's first year paying dividends, 2019, they had a healthy dividend payout ratio of just over 30%. But we see that number decrease in 2020 to just under 20%. Generally, a dividend payout ratio between 30-50% is best. This is a volatile measurement as eBay continues to pay dividends in the next several years.

While eBay's debt to equity ratio has been generally safe from 2006 to ~2017, after 2017 we see this ratio begin to dramatically increase. This is an alarming signal to some investors that this investment might be too risky as their debt to equity ratio begins to level around 2.0

Return on Equity^{xxviii}



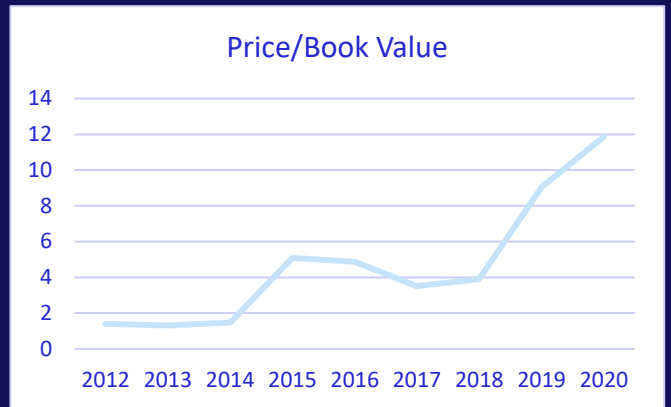
WACC Tax Rate^{xxx}



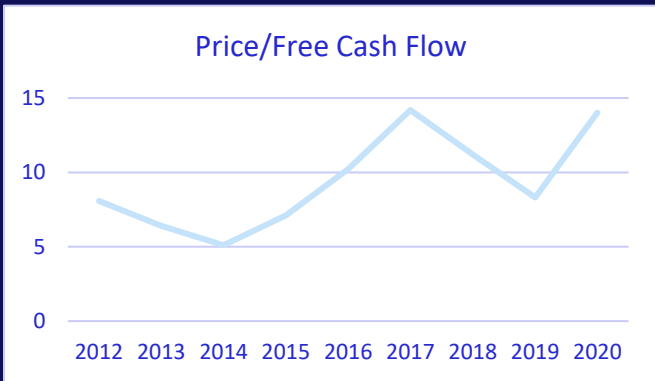
Valuation Metrics Over Time^{xxx}



eBay's price to earnings ratio has generally leveled out around 20 which is fairly average – although some may consider it high.



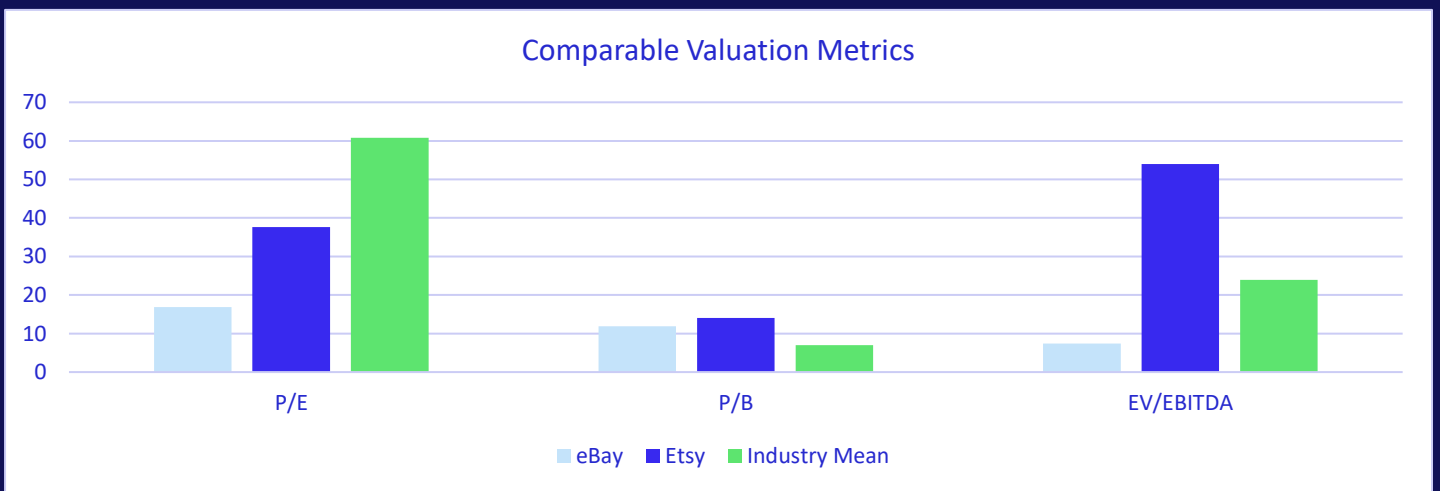
eBay used to have a solid price to book ratio of under 2 from 2006 to 2014. We then see a spike in the ratio that continues to increase until peaking at 12 in 2020.



As expected – based on eBay's years of steady free cash flow metrics – eBay's P/FCF ratio is consistently in a healthy range.



Comparable Companies^{xxx}



	Market Cap	P/E	P/B	EV/EBITDA
Amazon	1.5T	46.78	8.25	28.31
Alibaba	296B	15.26	1.59	28.53
JD.com	108.8B	27.83	3.05	50.04
Pinduoduo	64B		5.65	
MercadoLibre	52B	614.03	19.87	104.34
Coupage	41.4B		26.46	
eBay	34.7B	16.85	11.86	7.44
Carvana	21.8B		126.63	
Chewy	17B	1,677.97	94.82	
Etsy	16.3B	37.63	14.05	54.00
Wayfair	13.2B	176.49		83.84
Vipshop	6B	8.36	0.93	3.17
Farfetch	5.8B			
Global-e	5.5B	7,237.25	7.73	
Revolve	3.8B	38.62	8.83	35.22
Fiverr	2.7B			
Ozon	2.7B		8.96	
Qurate	2.5B	2.10	0.50	5.74
Overstock	2.3B	16.89	2.74	15.99
Dada Nexus	2.1B		3.93	
Mean	16B	60.75	7.00	23.91



<https://www.ebayinc.com/stories/news/ebay-to-sell-its-holdings-in-flipkart/>

Valuation

Dividend Discount Model

Using the dividend discount model, we are able to see where the current stock price is derived from. eBay began paying out dividends in 2019 due to shareholder pressure for the stock to be more valuable and more appealing to shareholders.

Beginning with a conservative three stage growth model – specifics in the corresponding table – we calculate the fair stock price to be **\$39.91**. Since 2019, eBay's quarterly dividends have been growing at a CAGR of 13.39%.

DDM Three Stage Growth Model: Conservative	
Stage 1 Growth Rate	13.00%
# of Years in Stage 1	3
Stage 2 Growth Rate	8.00%
# of Years in Stage 2	3
Stage 3 Growth Rate	5.00%
Cost of Equity Capital	6.99%
Dividends per Share	\$0.72

DDM Three Stage Growth Model: Aggressive	
Stage 1 Growth Rate	20.00%
# of Years in Stage 1	3
Stage 2 Growth Rate	13.00%
# of Years in Stage 2	3
Stage 3 Growth Rate	8.00%
Cost of Equity Capital	6.99%
Dividends per Share	\$0.72

While it has been gradually growing, it is shaky to assume that they will continue to grow at such an aggressive rate in the future.

Using the dividend discount model again, but taking a more aggressive approach, we calculate the fair stock price to be **\$45.03**. The numbers in the table that we used for the conservative dividend discount model are the same for the aggressive model, but we change the Stage 1 Growth Rate to 20.00%, Stage 2 Growth Rate to 13.00%, and Stage 3 Growth Rate to 8.00%. eBay may experience short-term increase in their CAGR due to dividends payouts being relatively new, but it still can be expected that this growth rate will inevitably decline over time.

Free Cash Flow Model

In the past 10 years eBay's free cash flows have been growing at a CAGR of 2.75%. Using this CAGR as an estimated future growth rate, we can calculate the fair stock price to be **\$144.57**. This number is dramatically higher than both stock prices calculated with the dividend discount model and the current stock price. Again, this is due to dividends only starting to be paid in 2019.

Using a more conservative growth rate for the free cash flow model of 0.00%, the fair stock price drops to **\$62.25**. While a growth of 0.00% does provide a closer number to the actual stock price, it assumes that eBay's cash flow growth rate will come to a standstill. This would be highly unexpected.

FCF One Stage Growth Model	
Growth Rate	3.00%
# of Years in Stage 1	5
Growth Path	Constant
Cost of Equity Capital	6.99%
Free Cash Flow	\$2,652.00
Total Debt	\$7,763.00
Cash	\$3,826.00
Shares Outstanding	684.00
WACC	6.07%

FCF One Stage Growth Model: Conservative	
Growth Rate	0.00%
# of Years in Stage 1	5
Growth Path	Constant
Cost of Equity Capital	6.99%
Free Cash Flow	\$2,652.00
Total Debt	\$7,763.00
Cash	\$3,826.00
Shares Outstanding	684.00
WACC	6.07%

Free Cash Flow to Equity Model

eBay's free cash flow to equity has also been steady over the past 10+ years with a CAGR of 3.09%. Free cash flow to equity in 2020 was slightly less than free cash flow by \$6,000,000. When using a growth rate of 3.00% in the free cash flow to equity model, the fair stock price is **\$113.48**.

Using a more conservative growth rate of 0.00%, the stock price then drops to **\$57.99**. Like stated above (when using 0.00% for the free cash model as well), a growth rate of 0.00% would be highly unexpected and unlikely to occur over the next five years.

FCFE One Stage Growth Model	
Growth Rate	3.00%
# of Years in Stage 1	5
Growth Path	Constant
Cost of Equity Capital	6.99%
Free Cash Flow to Equity	\$2,646.00
Total Debt	\$7,763.00
Cash	\$3,826.00
Shares Outstanding	684.00
WACC	6.07%

FCFE One Stage Growth Model: Conservative	
Growth Rate	0.00%
# of Years in Stage 1	5
Growth Path	Constant
Cost of Equity Capital	6.99%
Free Cash Flow to Equity	\$2,646.00
Total Debt	\$7,763.00
Cash	\$3,826.00
Shares Outstanding	684.00
WACC	6.07%

Weight of Valuations

To value eBay's stock, we use the dividend discount model, free cash flow model, and free cash flow to equity model. It is important to note that eBay has only been paying out dividends since 2019 and the dividend discount model valuations are only based on two years of dividend information (using 2021 dividends as well). Contrastingly, the free cash flow models and free cash flow to equity models are based on 10+ years of cash flow information.

eBay's target stock price is calculated by the formula below:

$$(39.91 \cdot .10) + (45.03 \cdot .10) + (144.57 \cdot .30) + (62.25 \cdot .10) + (113.48 \cdot .30) + (57.99 \cdot .10)$$

$$(\text{DDM Conservative}) + (\text{DDM Aggressive}) + (\text{FCF}) + (\text{FCF Conservative}) + (\text{FCFE}) + (\text{FCFE Conservative})$$

Target Stock Price = \$97.93

Upside of 56.93%

Investment Risks

Competitive Risks



The eCommerce industry has seen impressive growth over the past 10 years. It is enticing to new competition, but is also highly competitive. eBay is susceptible to lower revenue due to decreases in consumer loyalty and consumer migration to other companies.

eBay is able to differentiate themselves from competition by its long-standing reputation as a safe and secure platform for buyer to consumer or consumer to consumer transactions. eBay has been able to provide consumers an easy-to-use mobile app, which almost all strong competitors also offer, to attract new consumers and maintain current consumers. eBay's main differentiation from other eCommerce competition is the combination of marketplace and auction house capabilities. Amazon, Etsy, Chewy all offer specific or unique products to a certain demographic, but they are all marketplaces. eBay's unique qualities come from the auction capabilities.

Financial Risks



Over 50% of eBay's revenues are generated outside of the United States, but all of financials are reported in U.S. dollars. eBay is susceptible to exchange rate fluctuations that can negatively impact the state of the business.

eBay mitigates this risk by entering into "transactions to hedge portions of [their] foreign currency translation exposure."^{xxxiii}

Regulatory Risks



eBay is subject to extensive government regulation and oversight – especially in the area of privacy and protection of user data. Compliance with these regulations may be costly, but eBay has implemented policies and procedures designed to ensure compliance with applicable laws and regulations.

Specifically with the privacy and protection of user data, regulatory scrutiny has been increasing on a global scale. Such regulations like the General Data Protection Regulation ("GDPR") which became effective in 2018, the Telephone Consumer Protection Act ("TCPA"), and in California, the California Consumer Privacy Act of 2018 ("CCPA") have dramatically changed the ways eBay handles consumer data and privacy. eBay is very public with their privacy policies and practices concerning the collection, use, and disclosure of user data that follows the enacted regulations, but there is still risk of actions or fines.^{xxxiv}

Legal Risks



eBay has been subject to a handful of patent litigation and allegations by third parties that have accused them of infringing upon intellectual property rights. For example, one of the largest conversations about the second-hand/auction markets are about counterfeit goods. These claims brought against them and/or customers, meritorious or not, are costly to defend and resolve.

In order to mitigate fraudulent (like scams) or counterfeit activities, eBay offers buyers the ability to withdraw from a sale made by a professional seller within a specified time period. eBay also suspends accounts of users who fail to fulfill their payment or delivery obligations to other users. In the United States, the eBay Money Back Guarantee protects buyers from these activities as well.^{xxxv}

Sources

- ⁱ Statista “Global retail e-commerce sales 2014-2025” Stephanie Chevalier
- ⁱⁱ Statista eCommerce Report 2021 Page 17
- ⁱⁱⁱ Statista eCommerce Report 2021 Page 17
- ^{iv} Thomson Reuters EBAY.O
- ^v <https://www.forbes.com/profile/pierre-omidyar/?sh=2166afd766da>
- ^{vi} <https://www.ebayinc.com/company/our-history/>
- ^{vii} <https://www.ebayinc.com/company/our-leaders/>
- ^{viii} <https://investors.ebayinc.com/corporate-governance/committee-composition/default.aspx>
- ^{ix} Thomson Reuters EBAY.O, Ownership, Breakdown
- ^x eBay Annual Report 2020 Page 81
- ^{xi} <https://investors.ebayinc.com/fast-facts/default.aspx>
- ^{xii} Statista “eBay: global seller location 2020, by country” Stephanie Chevalier
- ^{xiii} <https://www.ebayinc.com/company/>
- ^{xiv} eBay Annual Report 2020 Page 2
- ^{xv} <https://www.ebay.com/help/selling/fees-credits-invoices/frais-pour-les-vendeurs-particuliers?id=4822>
- ^{xvi} eBay Annual Report 2020 Page 36
- ^{xvii} eBay Annual Report 2020 Page 2
- ^{xviii} Statista “Global retail e-commerce sales 2014-2025” Stephanie Chevalier
- ^{xix} Thomson Reuters EBAY.O, Peers & Valuation
- ^{xx} Statista Global Consumer Survey Page 22
- ^{xxi} Statista eCommerce Report 2021 Page 8
- ^{xxii} Statista eCommerce Report 2021 Page 12
- ^{xxiii} Thomson Reuters EBAY.O
- ^{xxiv} eBay Annual Report 2012 Page 58
- ^{xxv} Thomson Reuters EBAY.O
- ^{xxvi} Thomson Reuters EBAY.O, eBay Annual Report 2020
- ^{xxvii} Thomson Reuters EBAY.O
- ^{xxviii} Thomson Reuters EBAY.O
- ^{xxix} Thomson Reuters EBAY.O
- ^{xxx} Thomson Reuters EBAY.O
- ^{xxxi} Thomson Reuters EBAY.O
- ^{xxxii} Thomson Reuters EBAY.O, Thomson Reuters ETSY
- ^{xxxiii} eBay Annual Report 2020 Page 13
- ^{xxxiv} eBay Annual Report 2020 Page 21
- ^{xxxv} eBay Annual Report 2020 Page 17