Boyar research

eBay Inc.

EBAY
NASDAQ

Capitalization Summary ($MM)	
Price	$35.31
Diluted Shares (MM)	837
Market Cap	$29,554
Total Debt	$7,753
Cash	($3,086)
Enterprise Value	$34,221

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	7.3
52-Week Price Range	$42.00-$26.01
Short % of Float	2.9%
Major Shareholder	Elliott: ~4%

Valuation and Misc. Stats ($MM) 9/30/19	
Book Value	N/A
Price/Book Value	N/A
EPS (ttm)	$2.17
Price/Earnings	16.3x
EBITDA (ttm)	$3,019
EV/EBITDA	11.3x
Dividend Rate/Yield	$0.56/1.6%

P&L Analysis ($MM)

Fiscal Year Ending December 31,	**2016**	**2017**	**2018**	**2019E***
Revenues	$8,979	$9,595	$10,754	$10,787
Operating Income	$2,318	$2,282	$2,230	$3,009
Margin	*25.8%*	*23.8%*	*20.7%*	*27.9%*
EBITDA	$2,979	$2,958	$2,919	$3,643
Margin	*33.2%*	*30.8%*	*27.1%*	*33.8%*

**FactSet Consensus Estimates*

Catalysts/Highlights

- Activist investors Elliott Management and Starboard Value have pushed for a number of value-enhancing initiatives
- The pending $4 billion StubHub sale unlocks hidden value, and the proceeds will likely further increase share repurchases
- eBay has reduced shares outstanding by ~36% since 2013 and will return further cash to shareholders in 2020
- 2020 expiration of PayPal operating agreement should lead to rapid penetration of eBay's Managed Payments product

INVESTMENT RATIONALE

eBay is a global e-commerce Company that operates online marketplace eBay.com (80% of revenue), various international online classifieds platforms (10%), and ticket reseller StubHub (10%), which it recently agreed to sell. The Company generated 2018 revenue of $10.7 billion and EBITDA of $2.9 billion.

eBay was one of the early pioneers of online marketplaces but was eclipsed by Amazon.com's rapid growth. Consequently, investors have not viewed eBay's auction model as very attractive (average 5-year forward P/E of 13.6x). However, auctions make up less than 10% of the business, the core marketplace continues to grow while holding #1 or #2 e-commerce positions in many countries, and its Classifieds business has exhibited fast growth and high margins. (Elliott management estimates ~50% EBITDA margins.) The marketplace has grown revenues in 4 out of the last 5 years, driven by gross merchandise volume (GMV) sold on the platform and a steadily increasing buyer base (now above 180 million).

Elliott management unveiled an ~4% stake in eBay in January 2019. It subsequently outlined a 5-point plan to help eBay increase shareholder value. This included a portfolio review of the StubHub and Classifieds businesses, a refocus on the core marketplace business, which has shown solid growth despite perceived management misexecution, an operational review intended to remove inefficiencies and improve margins (EBITDA margins have decreased from 33% post PayPal spin to ~27% in 2018 despite growing revenues), increased capital returns, and a review of management. Elliott believes that eBay should be worth $55-$63 per share after implementing these changes. Starboard Value also took a stake in eBay.

In response, management implemented initiatives to improve shareholder value. A dividend yielding slightly more than the 1.5% target sought by Elliott was initiated, and the share repurchase authorization was increased by $4 billion to enable repurchases of $5 billion in 2019 (up from $4.5 billion in 2018) and a total capital return target of $7 billion (~24% of eBay's market value) through 2020. eBay also sought to eliminate low ROI marketing spend so as to boost margins. In management, eBay added a rep from Elliott to the board, and CEO David Wenig stepped down after 8 years with the Company. (CFO Scott Schenkel is serving as interim CEO.) Finally, StubHub and the Classifieds business were put under review for potential divestments, resulting in the recent announcement of a StubHub sale for $4 billion (1Q 2020 expected close). We view this pending sale as prudent given that Wall Street was valuing the business at just $2 billion or less, indicating the unit's hidden value within eBay. The potential net proceeds of ~$3-$3.5 billion may be returned to shareholders (bringing 2020E repurchases to ~$4 billion, or ~14% of current market value), as net leverage remains in line with management's target of 1.5x. The classifieds business potentially represents a greater source of hidden value, as transactions in the space have been valued at 20.0x EBITDA and greater, and press reports have indicated interest from parties at an ~$10+ billion valuation. Combined, the two units, which only represent 20% of eBay's revenues, are thus worth approximately half of the Company's total market value. Consequently, the core marketplace business is being assigned a valuation of just 9.0x EBITDA, just a 3-4 turn premium to declining brick-and-mortar retailers, despite its consistent growth profile, global scale, and strong margins (we estimate 2019 EBITDA margins of 26% growing to 28.4% in 2021).

Financial engineering aside, eBay has a couple of new products that should help drive growth in the core business. It has steadily been phasing out external third-party advertisements in favor of promoted listings from sellers on the platform. This product generated over $100 million in 3Q 2019 (up over 120% year over year), and management believes that it could eventually reach $1 billion in annual revenue. Compared with third-party ads, promoted listings should lead to greater pricing power by generating business for marketplace sellers. Another new product, "managed payments," offers sellers a more convenient and cheaper option for accepting payments (managed via just one account) and provides buyers a more seamless checkout process without leaving eBay's site. The ability to harness data for use in generating increased sales may be another benefit. Since launching in September 2018, the product has expanded to include ~9% of sellers. We note that the post-spin operating agreement with PayPal will limit further penetration until July 2020, after which we expect eBay to be more aggressive. Finally, we believe that reducing dependence on PayPal and monetizing a large user base via the fast-growing payments market are two additional selling points to potential acquirers like Google or Facebook, which have attempted to capture share in online marketplaces and payments. However, we note that no interest by potential acquirers has thus far been reported.

On a sum-of-the-parts basis, applying the foregoing estimated private market values for StubHub and the classifieds businesses, and a 14x EBITDA multiple to the marketplace business (deservedly at a premium to brick-and-mortar retailers yet still significantly below Amazon's ~26.0x multiple), we estimate an intrinsic value of $50 per share (upside potential of 41%). FCF (2019E $2.6 billion, or ~9% yield), and cash raised from asset sales should enable robust capital returns of ~$4.5 billion in 2020 (yield of 15%).

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