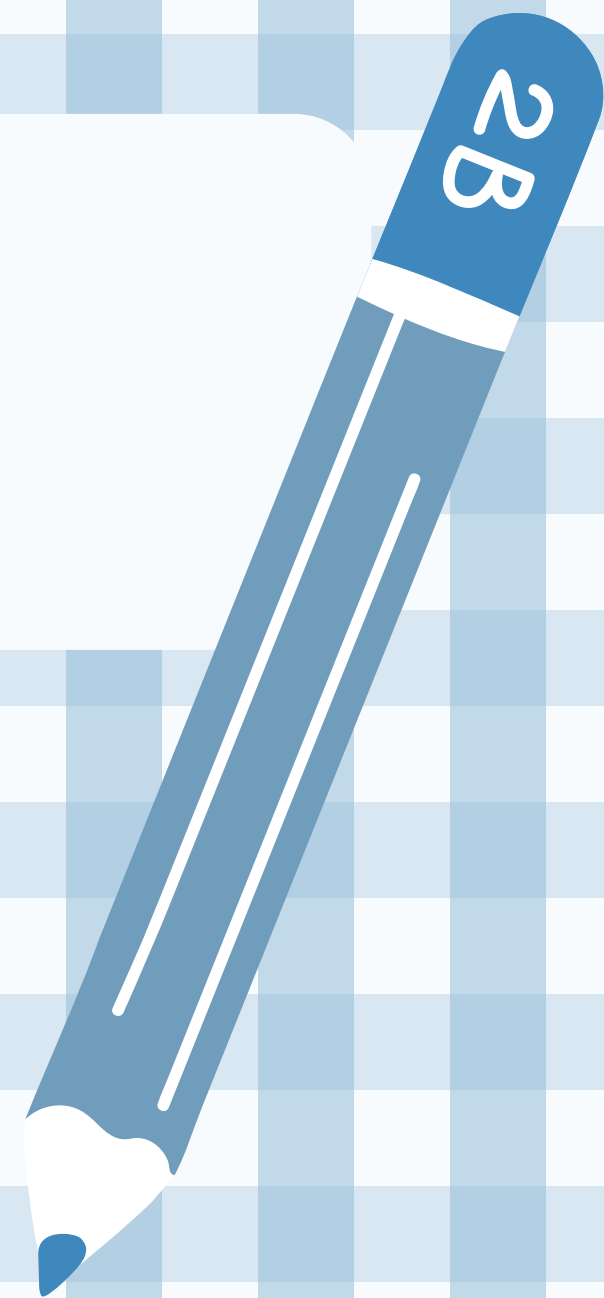




TEAM FINTASTIC

ANANYA SIVAKUMAR
VARUN SAXENA
ANAND MANGAL

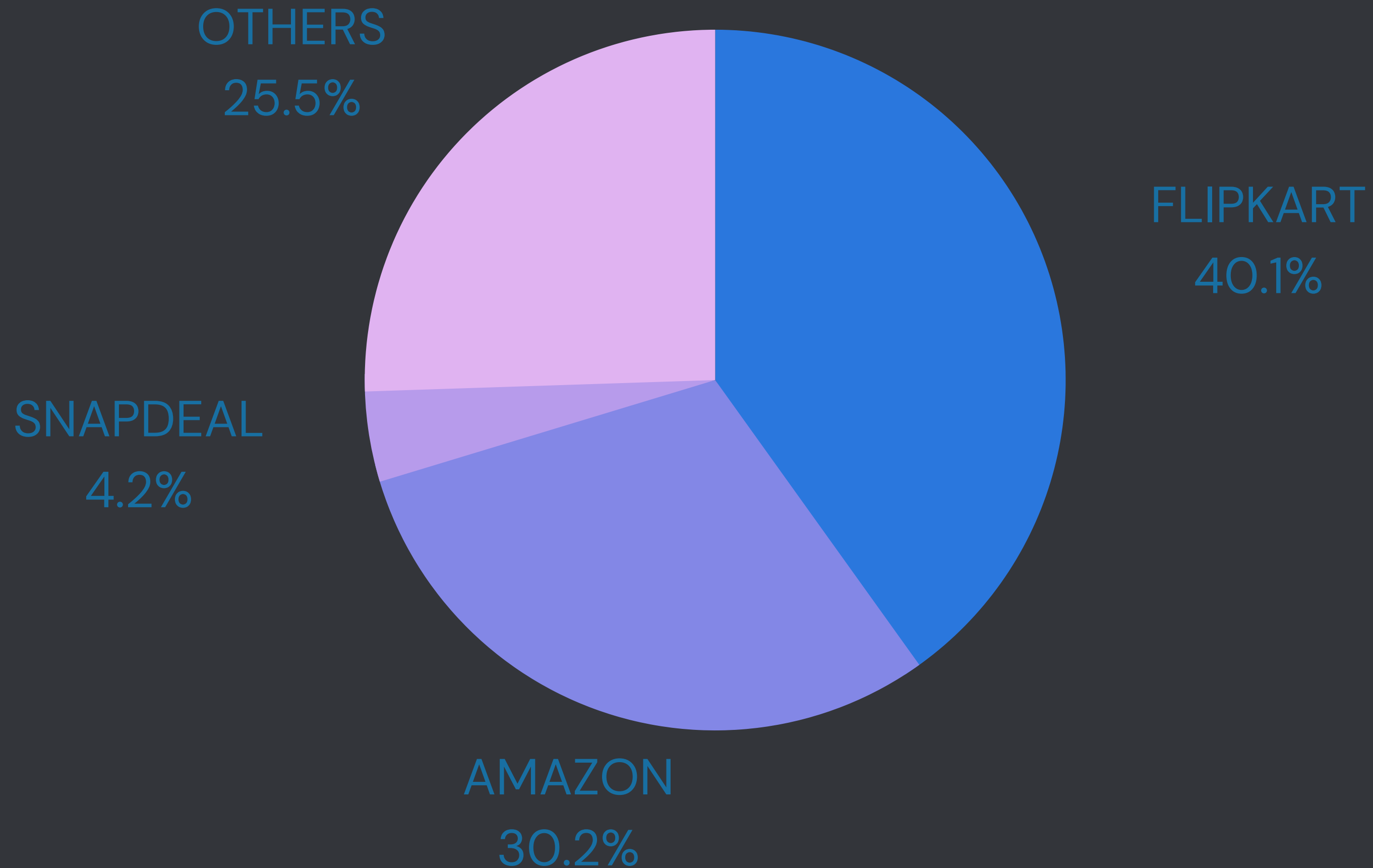


INDUSTRY OVERVIEW

For the fiscal year 2016–17, the growth of the Indian E-Commerce industry slowed down. While the industry grew rapidly in 2015 at a mammoth rate of 43% to become a \$13 billion sector, it grew only by 12% to reach \$14.5 billion in 2016 contributing almost 0.76% to the Indian GDP.

Although Flipkart's market share decreased by 1.5% compared to last year, it is still the largest market share holder holding about 38.5% share in the market. Amazon, being the second-largest shareholder holds about 29% share of the industry. Snapdeal's market share slipped to 4%. eBay India incurred losses in this fiscal year also.

MARKET SHARE DISTRIBUTION



SITUATION OVERVIEW AND OUR RECOMMENDATION

Our team recommends Flipkart pursue a friendly takeover of eBay India at the current price.

The major reasons are as follows:-

- BENEFICIAL FOR BOTH SELLERS AND CUSTOMERS – Flipkart would be able to increase its reach to new customers and its existing customers will have access to the huge global inventory of eBay India. Also, its sellers would be able to sell their products worldwide.
- TO INCREASE THE VALUATION – Flipkart has to regain its older valuation of \$15.5 billion which has now fallen to \$11 billion. In order to do so, it has to raise funds and this merger provides the best opportunity

- TO ELIMINATE COMPETITION – Although, eBay India is not a threat to Flipkart in the present scenario, it has a huge potential to expand. Therefore, it is a great opportunity to merge with it and eliminate future competition.
- AMAZON INDIA – THE BIGGEST THREAT – Amazon India's market share in the industry is increasing rapidly. In order to sustain its position as the largest shareholder, this deal will give it a strategic backup and will help Flipkart to increase its market share, revenue, and profits and compete with its arch-rival.
- WHY AT THE CURRENT PRICE – As eBay India has already agreed to a mutual secrecy agreement with a competitor in the industry, it's possible that eBay India will reject our offer if we increase the price. Also, eBay India might merge with any other rival like Amazon India which will increase competition, narrowing our ways of expansion.

SIMILAR M&A DEALS AND

TRENDS:-

- ACQUISITION OF MYNTRA BY FLIPKART – Flipkart acquired 100% stakes in Myntra in 2014 in exchange for \$300 million.
- ACQUISITION OF UNICOMMERCE BY SNAPDEAL
- ACQUISITION OF JABONG BY MYNTRA – It took place in June 2016 for \$70 million.
- ACQUISITION OF UNCLE CHIPS BY FRITO LAY
- ACQUISITION OF INSTAGRAM BY FACEBOOK
- ACQUISITION OF MINUTE MAID BY COCA-COLA
- ACQUISITION OF PIXAR ANIMATION STUDIOS BY DISNEY
- ACQUISITION OF MOBIL BY EXXON

EBAY BUSINESS ANALYSIS

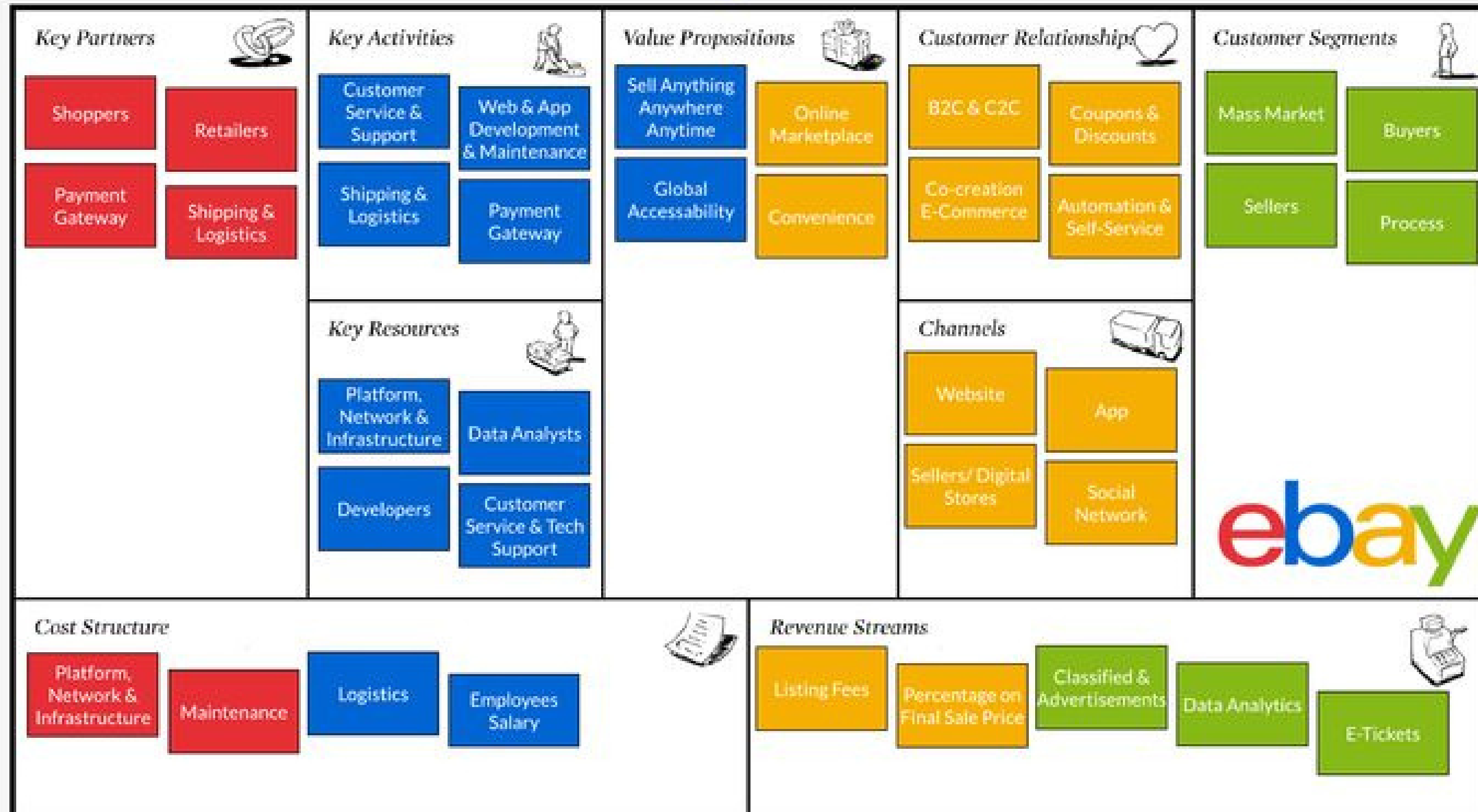
The Business Model Canvas

Designed for



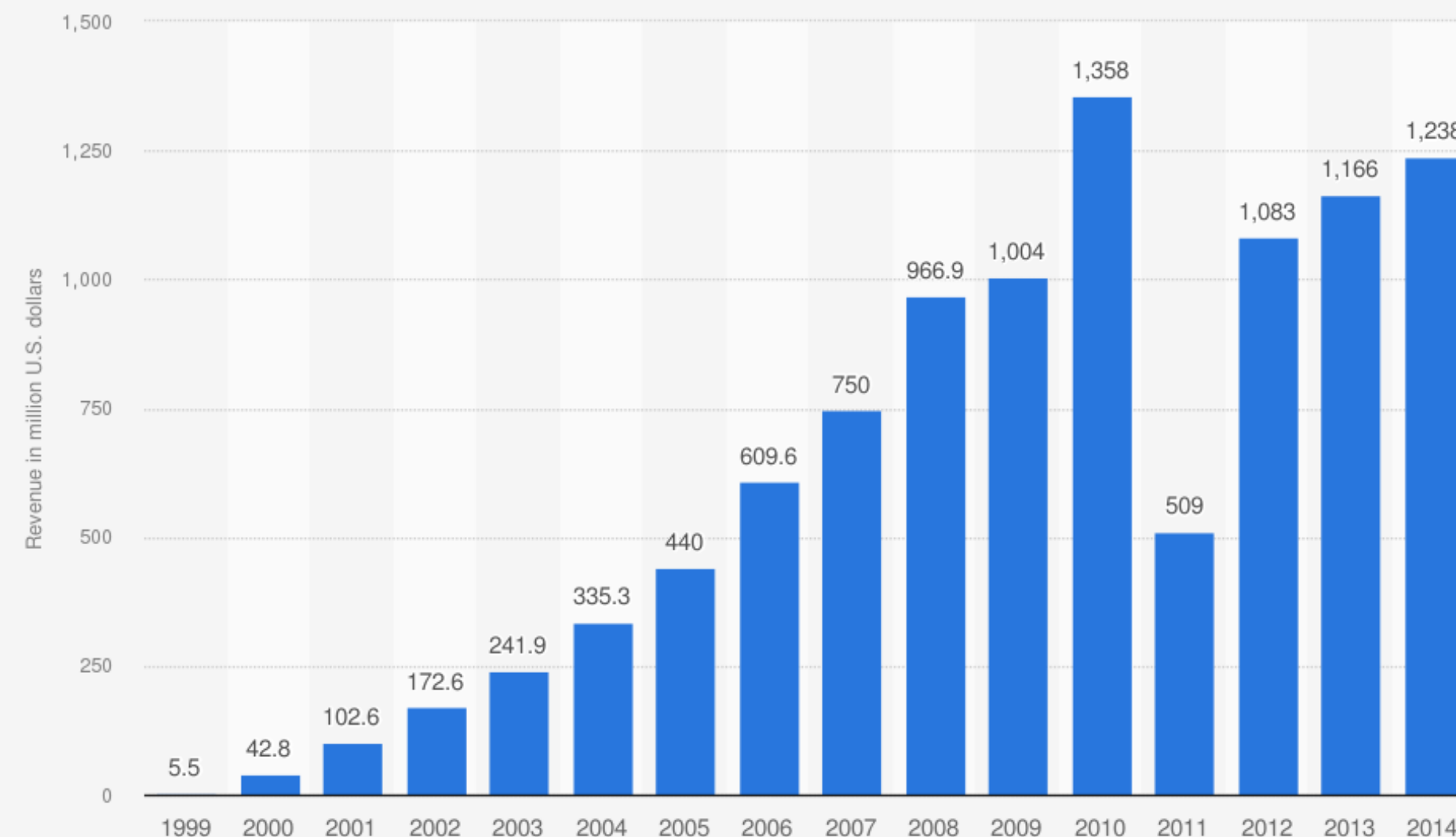
Designed by

Denis Oakley



REVENUE OF EBAY AND FLIPKART

eBay Enterprise's annual net revenue from 1999 to 2014 (in million U.S. dollars)



FACTS & FIGURES

Standalone financials of Flipkart India

Figures in ₹ bn

Year	FY18	FY17	FY16	FY15	FY14
Revenue (₹ billion)	216.5	155.6	131.7	95.3	28.4
Revenue growth (%)	39.1	15.3	27.6	70.1	140.6
Profit (₹ billion)	-20.6	-2.4	-5.4	-8.3	-4.0
Profit growth (%)	758.0	-55.5	-53.7	107.5	207.6

Source: Company

HOW FLIPKART AND EBAY FIT WITH EACH OTHER?

FLIPKART:

- With this acquisition, Flipkart can now take a gigantic step into the relatively more profitable and exponentially growing refurbished and pre-owned products space. It will also be a strong competitive differentiator for the company as they go head to head with Amazon in India.
- Provide a new opportunity for Flipkart sellers to expand their sales globally.
- Flipkart customers will get expanded product choices with the wide array of global inventory available on eBay.
- eBay also provided advantages on the logistics front as it has done a lot in terms of building a shipping platform and estimated delivery platform that allows it to manage seller-buyer relationships without handling logistics.

eBAY:

- eBay customers will have access to more unique Indian inventory from Flipkart sellers.
- Ebay came to India in 2005, which was a couple of years before Flipkart in the country. The marketplace model didn't suit the choice of Indian sellers and buyers back then, especially not on the internet.
- People who bought stuff from Ebay India had basic issues with the platform. There were no guarantees for the buyer or seller, which meant either of them could take the other one for a ride. The merger will help gain confidence among the Indian buyers.

IMPACT OF THE MERGER:

- eBay's investment in Flipkart in order to strengthen its own position against Amazon and will no doubt help to weaken its long-time rival. This alignment with a company which was previously a competitor is a bold and controversial move, but one which will no doubt foster a strong partnership between the two.
- While eBay is working on a transformation program and making its platform more efficient for buyers and sellers to transact, a merger with an established player may be the best route to success in India.
- Flipkart is a pioneer in Indian e-commerce and was dominating the market until Amazon entered India. It is a local player and understands the nuances of the market, which would likely be beneficial for eBay.
- Flipkart will remain a strong player and has a competitive edge over other competitors given its local advantage. eBay would benefit from this association and be able to tap into the huge growth potential of this emerging market.
- While Flipkart has a leading share in the Indian market, in 2016 Amazon had surpassed it to become the largest player in the region. So a merger would help Flipkart to gain a hold in market and become the bigger player.

7 STEPS OF DCF ANALYSIS

Projections of
the Financial
Statements

Calculating the
Free Cash
Flow to Firms

Calculating
the Discount
Rate

Calculating
the Terminal
Value

Present Value
Calculations

Adjustments

Sensitivity
Analysis

Comparable Company Analysis

A comparable company analysis (CCA) is a process used to evaluate the value of a company using the metrics of other businesses of similar size in the same industry. Comparable company analysis assumes that similar companies will have identical valuation multiples, such as EV/EBITDA. Analysts compile a list of available statistics for the companies being reviewed and calculate the valuation multiples to compare them.

For CCA, companies must belong to :

- Same geography
- Similar size of the company
- Same sector/working field

Ratios taken out for eBay India will determine whether it is undervalued or valued in the market. Here a vital assumption taken is that market as a whole is considered reasonably prized. The data clearly shows that eBay India is in high losses and is not up to the market's competition.

Risks Associated that Flipkart must be aware of :

- Fast forward six years from 2004, eBay India reported a three-fold rise in revenue and a more comprehensive loss for the financial year 2015-16. According to filings with the Registrar of Companies, losses stood at Rs 262 crore versus Rs 172 crore in the year-ago period. Revenues rose to Rs 392 crore in 2015-16 from Rs 132 crore in the previous financial year.
- Arvind Singhal, chairman at retail consultancy Technopak, thinks there is a certain degree of complacency as far as eBay's India operations go. "See Amazon. Jeff Bezos has been traveling to India, making public statements about Amazon's India aspirations. He has met the Prime Minister. Pierre Omidyar may have come to India many times...but I have not seen that sort of a commitment from eBay," he says. He adds that being a startup backed by private capital, Flipkart has a certain hunger for expanding business, but that's not the case with eBay.
- Its pure-play marketplace model based on consumer-to-consumer transactions has clearly cut no ice with the price-sensitive Indian customer. It shows that flipkart has to change the pre existing policies with eBay india.

- Meanwhile, in 2014, eBay led a \$134-million funding round in Snapdeal, acquiring a significant minority stake in the e-commerce firm. Subsequently, it pared down its stake in a \$500-million funding round that Snapdeal raised from Foxconn and Alibaba, among others, in 2015. eBay's stake in the troubled e-commerce major is down to low single digits. As of March 2016, it held a 6% stake in Snapdeal.
- In November 2016, eBay fired nearly 30% of its product and technology team at its Bengaluru development center. The company had said that the work done by these teams was transferred to other global locations. Showing much instability associated with eBay India's internal affairs.
- “These deals are not done with operating marketing budgets. When eBay puts money in Flipkart, it comes from the funds lying with its APAC units, which it cannot take back to the US without paying a huge amount in taxes. eBay is sitting with much money outside the US. This is a balance sheet transaction they would do. eBay's advantage is not just unloading a market-facing deal that would add an X amount of cost to them—it's also to spend the money that they cannot take back to the US,” a person close to the development said.

Impact on e-commerce market

-Potential Merger or not

- The merger is unlikely to cause a visible impact on the Indian e-commerce market, except the fund infusion gives Flipkart more firepower in its fight against Amazon.
- The US-based company, which started operations in India in June 2013, has already invested \$2 billion. In June last year, founder and chief executive Jeff Bezos committed to spend another \$3 billion in India, taking total investments to \$5 billion. On the other hand, Flipkart has raised around 3.6 billion, excluding the current round.
- The fresh funding for Flipkart comes nearly 19 months after the \$700-million fundraising at its peak valuation of \$15.2 billion.
- Flipkart's likely acquisition of eBay's India arm has more to do with its eagerness to get the badly-needed capital than what the static e-commerce site, a distant sixth in the pecking order, would bring to the table in terms of business, say industry watchers.

Clearly, eBay's annual revenues of Rs 392 crore are but a speck in the vast Indian e-commerce Indian market. It's not exactly an apple-to-apple comparison, but Flipkart generated gross sales of Rs 3,000 crore during last year's Big Billion Day sale.

“eBay was not a big player in India, it just had a mere presence. The merger looks like a pre-condition for the fundraise. The backing and the funding is more significant here, not how eBay can contribute to Flipkart's business,” Satish Meena, analyst at Forrester Research, said.

Conclusion

Our Recommendation: Continue to pursue a friendly takeover at the current price by Flipkart over ebay India

The need for funds for Flipkart and Apart from the funds, the most obvious advantage would be to access eBay's global inventory. eBay has 25 million sellers globally and has deep relationships with sellers from China. It would be much work for Flipkart to build that relationship from scratch and gain access to sellers from China, Eastern Europe, and the US. They must tap this opportunity if they are serious about competing with Amazon. Also, it would be a better and smooth play for eBay India instead of withdrawing or shutting down their operations here.

THAT'S ALL FROM OUR SIDE



THANKS!

