

eBay

Reducing headcount to help deliver margin growth; Neutral

Reiterate Rating: NEUTRAL | PO: 49.00 USD | Price: 41.41 USD

Layoff to impact approximately 9% of employees

eBay announced plans to lay off roughly 1,000 people, or approx. 9% of the company's full-time workforce, and scale back the number of contractors over the coming months. The announcement is the biggest cost action since eBay laid off approx. 500 employees in February 2023, which represented approx. 4% of staff at the time. Despite last year's RIF, the company indicated that overall headcount and expenses have continued to outpace revenue growth, and that eBay needs to be more "nimble" amid a persistently challenging macro environment (one that we believe is compounded by incremental competition). Constructively, CEO Jamie Iannone noted in a memo to employees that eBay is seeing a "meaningful" improvement in growth relative to the market in areas that eBay is investing in, suggesting progress in focus categories that include motor parts & accessories and high-end streetwear. However, layoff suggests other categories remain under pressure.

Cuts could aid operating margins by 150bps

eBay did not specify the roles impacted, but commentary emphasizing the need for innovation and customer satisfaction suggest functions in S&M and G&A were likely impacted most. Assuming the average salary + bonus is \$150k annually (it could be higher), cost savings would translate to \$150mn in GAAP cost savings. All else equal, \$150mn in annualized savings would represent roughly 150bps of incremental y/y operating leverage and \$0.23 in after-tax GAAP EPS benefit.

Some cost cutting may have been expected

On eBay's 3Q'23 earnings call, CFO Stephen Priest said "we remain committed to finding an appropriate balance between growth and profitability to ensure we are positioned for durable financial returns in the years ahead [and we therefore] plan to grow expenses more slowly than revenue next year". Given a persistently weak macro (eBay last noted the UK and Germany were tracking down 3/7pts y/y in September), commentary suggested that cost cuts may be needed for margin improvement. Street estimates project roughly 1pt of GAAP operating leverage in 2024, primarily from G&A, and a declining cost base in 2024 may be needed to get there. We note eBay stock was up 3% after-hours on the news.

Rolling forward valuation basis to 2025; Maintain Neutral

While cost cuts are a cautious sign for revenues, eBay's actions follow several other companies in the eCommerce sector (including Amazon, Etsy, & Wayfair) and should be a net positive for EPS. While we are not changing our revenue or expense estimates on the news, we are comfortable with our EPS outlook, and are rolling forward our PO basis to 2025 GAAP EPS ests (from '24). We raise our PO to \$49 (from \$44) using an unchanged 13x multiple, a three-turn discount to our retail comp group at 16x. Our PO implies 10x 2025 non-GAAP P/E, near the low-end of eBay's historical range of 8x-18x. We would expect the multiple to stay at the lower half of eBay's historical range while GMV is expected to trend in the low-single digits and share losses continue. Biggest catalyst could be accelerated buybacks from proceeds from asset sales. Maintain Neutral.

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Timestamp: 24 January 2024 06:51AM EST

24 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	44.00	49.00

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Stock Data

Price	41.41 USD
Price Objective	49.00 USD
Date Established	24-Jan-2024
Investment Opinion	B-2-7
52-Week Range	37.17 USD - 52.23 USD
Mkt Val (mn) / Shares Out (mn)	21,492 USD / 519.0
Free Float	99.7%
Average Daily Value (mn)	269.72 USD
BofA Ticker / Exchange	EBAY / NAS
Bloomberg / Reuters	EBAY US / EBAY.OQ
ROE (2023E)	38.8%
Net Dbt to Eqty (Dec-2022A)	130.4%
ESGMeter™	High

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RIF: Reduction in Force

Price objective basis & risk

eBay (EBAY)

Our PO of \$49 is based on 13x 2025E GAAP EPS, a discount to peers given continued GMV share loss, and incorporates eBay's investment asset value. Our PO implies 10x 2024E non-GAAP P/E.

Risks to our price objective are: 1) competition from Amazon, Walmart, and other new Marketplaces in the U.S., and competition from Amazon, Alibaba and local incumbents in International markets, 2) macroeconomic pressure on lower-income consumers, 3) disruption from Google search ranking changes, and 4) currency risk including FX volatility impact on cross border trade. The stock has been subject to volatility based on GMV growth and market share trends and this volatility could increase in periods of economic uncertainty.

Analyst Certification

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Important Disclosures

eBay Inc (EBAY) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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