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Financial Analysis of eBay Inc.

1. Analysis

1.2. Company Introduction

Headquartered in San Jose, California, eBay, Inc. ("eBay") is an American multinational eCommerce company. The company includes its online marketplace, ebay.com, as well as a variety of mobile apps, which are designed to allow its users to buy and sell goods and services across the globe. The website is free to use for buyers, but requires a small fee for sellers to list and sell items.

eBay, formerly known as AuctionWeb, which was founded in 1995 by Pierre Omidyar, with the purpose of starting his own online marketplace to sell goods to others. The first item sold was a broken laser pointer sold at \$14.83 to Mark Fraser, a Canadian broken laser collector. In 1998, eBay went public, and exceeded its target stock price of \$18 and reached \$53.50 on the first day of trading. eBay later acquired then split with Paypal in 2002 and 2014, and it is currently worth around \$18 billion in assets.

Currently, eBay holds 5% of the US eCommerce market share, as it was recently beaten by Walmart, whose market share is 7%, to third place. Amazon has a market share of 52.4%. Monthly, eBay brings in about 167 million users monthly. eBay also has a more niche customer base, as it focuses more on auction-type sales of unique items rather than common everyday appliances, which is what Amazon mostly focuses on. eBay's users are also younger, with 32% aged 35 to 49, while Amazon's average shopper age is from 45 to 54.

1.2. Corporate Governance

Most of the Board of Directors are not internally affiliated with the company. Out of the 13 board members, Paul S. Pressler, Anthony J. Bates, Adriane M. Brown, Diana Farrell, Logan D. Green, Bonnie S. Hammer, E. Carol Hayles, Kathleen Mitic, Matt Murphy, Mohak Shroff, Robert H. Swan, and Perry M. Traquina are all independent of the company. They've previously been affiliated with companies like LinkedIn, Marvel, Disney, etc.

However, Jamie Iannone, who was recently appointed to President and Chief Executive Officer in April of 2020, is also a member of the Board.

Before Iannone was appointed, the previous Chief Executive Officer of eBay was Devin Wenig. Wenig had stepped down from the position following the scandal of him and 6 other eBay employees harassing and stalking a couple who ran EcommerceBytes, an online blog which had criticized Wenig's leadership skills at eBay. Wenig had long been under pressure to perform, and along with Vice President Steve Wymer, Senior Director of Security Safety & Security James Baugh, Director of Global Resiliency, Senior Manager of Global Intelligence Stephanie Stockwell, an Senior Manager of Special Operations Brian Gilbert, Veronica Zea and Philip Cooke stalked and threatened the EcommerceBytes Blog couple using the security team at eBay. They sent live cockroaches and spiders, funeral wreaths, bloody pig masks, and made online ads to send people to their house for inappropriate parties. Employees flew from California to Boston to stalk and harass them further, and even planned to break into their house and place a GPS tracker onto their car.

Following this scandal, besides Wenig and Wymer stepping down from their positions, two of them were charged and arrested, and the other five were only charged. Wenig got \$57 million in compensation. As eBay kept its CEO and employees in check and didn't try to sweep this incident under the rug, we can conclude that eBay's management is relatively independent. However, the fact that Wenig and Wymer could even mobilize eBay's resources to commit these crimes shows that eBay's environment allows for corruption, which they should work on in the future.

1.3. Stockholder Analysis

A large majority of shares in eBay are owned by institutional investors. In the quarter that ended in June of 2019 alone, institutional investors bought a net \$44.4 million worth in eBay shares, and they now own 92.33% of eBay's total shares. Compared to other companies in the same industry, eBay has a much greater percentage of stocks owned by institutional investors, showing that their stock is seen as important to hold.

The current top 10 owners of eBay are The Vanguard Group, Inc. with a stake of 7.26%, Fidelity Management & Research Co. LLC with 6.19%, BlackRock Fund Advisors with 4.96%, SSgA Funds Management, Inc. with 4.61%, Comprehensive Financial Management LLC with 3.46%, Columbia Management Investment Advisers LLC with 2.95%, Nordea Investment Management AB with 1.78%, Geode Capital Management LLC with 1.71%, Lindsell Train Ltd. with 1.46%, and Northern Trust Investments, Inc. with 1.45%.

The most recent institutional activity regarding eBay shares include Fidelity Management & Research Co. LLC buying 6.7 millions shares on September 30, 2021. On the same day, Capital Research & Management Co. and Goldman Sachs Asset Management SP both bought 6.6 million and 2.7 million shares respectively. These institutions, including other similar large institutions, are the marginal investors of eBay.

1.4. Dividend Policy

Before 2019, eBay didn't give its shareholders any cash dividend payments. This is unique for a company of this size, but in the eCommerce industry, eBay was not alone. Its largest competitor, Amazon, also doesn't pay its investors dividends. However, eBay began paying its investors in March of 2019. eBay's current quarterly dividend yield is \$0.18. Typically, an indicator of how well a company is doing is the amount of dividends they pay their investors. Companies that are doing well financially will pay 50% of their total earnings in dividends. eBay makes around eight to ten billion dollars every year, and in 2020, they made \$10.2 billion, meaning they should pay \$5 billion in dividends per year. In 2020, eBay paid \$447 million to its shareholders through dividends. However, as many eCommerce companies, like Amazon and Shopify, do not pay dividends due to a variety of reasons including low margins, I would not recommend eBay to increase its dividends to match 50% of their total earnings. Instead, I'd advise them to consider removing their dividends, as it did not seem to impact investors' opinions on buying and holding eBay stocks in 2019. Investors already view eBay stock as an important foothold in the eCommerce market, and declaring a cash dividend would likely not change people's perspectives on buying eBay shares.

1.5. Risk and Return

The following are the risks that eBay is aware of. Current global events, such as the COVID pandemic may amplify these risks, and there may be risks that eBay is unaware of.

eBay's operating profit and financial results have always varied on a quarterly basis, and its period-to-period comparisons are not very telling of the company's actual performance and may not be useful to evaluate eBay as a company. Recently, increasingly intense global competition in ecommerce has made eBay's performance even more difficult to predict. Buyers have more and more alternatives to find items and deals, and sellers have more ways to reach their customers. Barriers to entry in the ecommerce sector are low, as local, in person businesses can easily start online sites with low costs through using already made software. The influx of companies selling online has also raised consumers' expected quality of service. Additionally, other platform businesses like Alibaba, Amazon, Apple,

Facebook and Google have secure market positions in other industries and offer services and products eBay does not, such as music and search engines, which allows them to differentiate themselves and get customers from other markets. One example is that Google can change their algorithm to lower traffic to eBay's site to compete, therefore decreasing eBay's chances of getting sales online. If eBay is unable to change their products and offerings to match their competitors, their business will suffer.

eBay's international businesses have generated a majority of its net revenues in the past few years, but there are many inherent risks to doing international business. eBay has to comply with US laws regarding foreign business, such as the Foreign Corrupt Practices Act, and foreign countries's laws regarding international business as well. Violation of these laws could cause fines, reputation damage, criminal actions against employees or the company itself, and harm eBay. There also tends to be more political and social unrest, repression, and economic instability in foreign countries, which could greatly impact eBay's business returns.

There are also many factors inside and outside of eBay's control that could impact its future business prospects. Unexpected geopolitical events, natural disasters, or seasonal factors cause users to spend less time on eBay's website and web platforms. The rapid evolving market for technological devices and eBay's ability to keep up with other companies greatly impact its future performance as well. Changing laws regarding patents and user information protection can also harm eBay's sales, and eBay is currently facing many lawsuits regarding infringement on other parties' patents, which increase eBay's risks to continue using particular business models and sales methods.

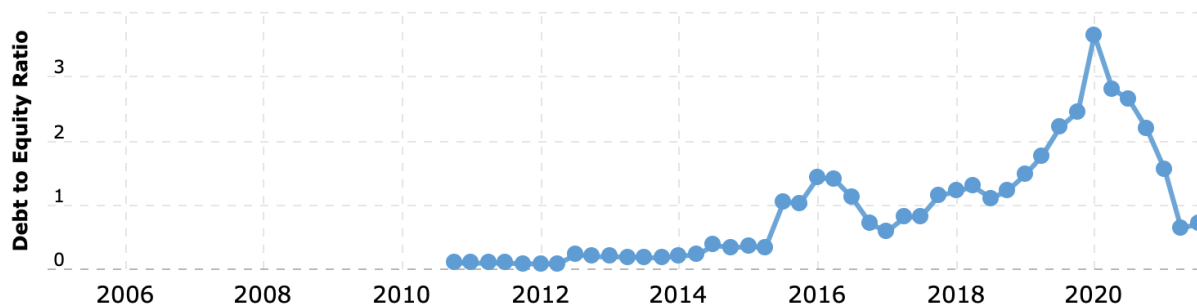
The COVID pandemic in 2020 and 2021 have also led to many factors of risk becoming more difficult to predict, such as delivery speed being impacted by closing borders and stricter security on goods and services traveling overseas and across countries. However, the pandemic has currently not negatively impacted eBay's sales and profit. eBay's Marketplace platforms have received more traffic and experienced better buyer acquisition due to the pandemic's mobility restrictions on buyers, forcing them to find other methods of consuming, namely shopping online.

1.6. Capital Structure

To numerically analyze eBay's risk, we need to calculate its weighted average cost of capital (WACC), commonly referred to as the firm's cost of capital. A company's WACC is the average of the costs used to source financing like debt and equity, weighted by their respective uses. Using eBay's market capitalization, book value of debt, interest expenses,

and the Capital Asset Pricing Model, we find that eBay's cost of equity is 8.78% and eBay's cost of debt is 4.12%. Thus, eBay's weighted average cost of capital is 7.85%. To compare, eBay's return on invested capital (ROIC) is 16.13%, meaning eBay is earning excess returns. It generates a higher return on investment than it costs to raise the capital needed for their investment, meaning eBay's value will likely increase in the future. To put eBay's WACC in perspective, the global top ecommerce WACC benchmarks range from 5.5% (Alibaba) to 12.8% (Boqii Holdings).

eBay's debt to equity ratio, calculated by long term debt over shareholder's equity, for the three months ending on September 30, 2021, was 0.71. As shown by the figure below, eBay's debt to equity ratio peaked in the beginning of 2016 and 2020.



Typically, a healthy debt to equity ratio for a company is anywhere near 1.0 to 1.5, as it shows that the company is financed by a relatively equal amount of debt and equity. It's also considered healthy if a company's debt to equity ratio is below 1.0, as it's usually better for a company to be primarily financed by equity, than primarily financed by debt.

As stated previously in the stockholder analysis, eBay's top shareholders and investors are Benchmark Capital Management Co. LLC 69,502,032 with 8.29%, The Vanguard Group, Inc. 61,888,201 with 7.38%, Icahn Associates Holding LLC 46,271,370 with 5.52%, SSgA Funds Management, Inc. 37,481,148 with 4.47% and The Baupost Group LLC 24,146,000 with 2.88%.

eBay also generates revenues transactions that take place across its platforms and services. eBay has also grown through acquisitions and selling its acquisitions, such as acquiring Paypal, Craigslist, Skype, Stubhub, and Qoo10.

1.7. Measuring Investment Returns

When eBay was growing into the company it is today, it had to invest heavily in order to gain customer relationship management (CRM) and IT skills. However, it's since gained

over 170 million users and now maintains its online presence as one of the largest ecommerce sites with little additional costs. Now, eBay primarily increases their services and product portfolio through acquiring other companies. As of November 2021, eBay has acquired over 60 companies, mostly related to online auctions. eBay has successfully acquired and sold many companies to offer more services and gain revenue.

Below is a table of the 20 most recent acquisitions eBay has made. Most acquired companies' value of acquisitions were not disclosed, and this table only includes when eBay acquired companies fully.

Date	Company	Business	Country
November 29, 2021	Sneaker Con	Sneaker authentication service	USA
May 31, 2020	CarsGuide, Autoscout	Online commerce	Australia
October 19, 2018	Motors.co.uk	Online commerce	UK
December 13, 2017	Terapeak	Data tools	US
August 1, 2017	Flipkart	Online commerce	India
October 30, 2016	Corrigan	Image recognition	US
July 12, 2016	SalesPredict	Online commerce	Israel
May 23, 2016	Ticketbis	Online ticket marketplace	Spain
May 5, 2016	ExpertMaker	Machine learning	Sweden
March 29, 2016	Cargigi	Inventory management	US
July 20, 2015	Twice	Secondhand clothing retailer	US
January 28, 2015	Vivanuncios	Online classifieds	Mexico
February 19, 2014	PhiSix Fashion Labs	Virtual clothing	USA
October 22, 2013	Shutl	Rapid fulfillment	UK

		service	
September 27, 2013	Bureau of Trade	Content / commerce	US
September 26, 2013	Braintree	Payments	US
September 6, 2013	Decide.com	Price forecasting	US
July 4, 2013	2dehands.be and 2dmemain.be	Classified advertising	Belgium
September 6, 2012	Svpply	Social shopping	US
December 22, 2011	BillSAFE	Billing technology	Germany
December 11, 2011	Zvents	Local event listings	US

One significant recent acquisition eBay has made is acquiring Giosis' Japan sector in early 2018. This acquisition significantly expanded eBay's mark in Japan, which houses one of the largest ecommerce markets globally. With Giosis, eBay was able to increase its customer base and increase its presence in the Japanese ecommerce market. eBay acquired Giosis' Japan business in exchange for \$306 million in cash and relinquishing its existing equity investment in the company (\$266 million). The amount eBay has profited from this acquisition is undisclosed, but we can assume eBay purchased Giosis's Japan sector because they thought they would earn back the \$572 million and more in the long run.

Below is eBay's aggregate purchase of Giosis's Japan business (in millions).

	Giosis
Goodwill	\$ <u>532</u>
Purchased intangible assets	<u>91</u>
Net liabilities	<u>(50)</u>
Total	\$ <u><u>573</u></u>

eBay funded this acquisition and other similar investments through their revenue, which comes from charging sellers a fee for every transaction, and their short and long-term investments in corporate debt securities.

1.8. Business Projection

Based on multiple different metrics, eBay is estimated to be in the mature stable stage. We came to this conclusion through analyzing eBay's revenue growth, dividends, and operating cash flow to equity ratio.

eBay's revenue growth has slowed considerably in recent years. The table below shows the change in eBay's revenue from 2001 to 2021. As shown, eBay's growth has gone from averaging around 65% to less than 10% in recent years. However, eBay's growth is not strictly negative in recent years, so eBay is not in the declining stage yet. A mature stable company has slow revenue growth.

Year	Revenue	Change
2021 (TTM)	\$11.06 B	3.24%
2020	\$10.71 B	-0.81%
2019	\$10.80 B	0.5%
2018	\$10.74 B	12.32%
2017	\$9.56 B	6.55%
2016	\$8.97 B	-32.22%
2015	\$13.24 B	-26%
2014	\$17.90 B	11.56%
2013	\$16.04 B	14.03%
2012	\$14.07 B	20.77%
2011	\$11.65 B	27.25%
2010	\$9.15 B	4.91%
2009	\$8.72 B	2.18%
2008	\$8.54 B	11.33%
2007	\$7.67 B	28.52%
2006	\$5.96 B	31.13%
2005	\$4.55 B	39.16%
2004	\$3.27 B	51.09%
2003	\$2.16 B	78.33%
2002	\$1.21 B	62.13%
2001	\$0.74 B	

eBay also has stable dividends, which is another indicator eBay is in the mature stable stage. Ever since beginning to give dividends in 2019, eBay's dividends have not changed

drastically since. In 2019, eBay gave \$0.14 in dividends, and they increased that to \$0.16 in 2020. In 2021, they increased their dividends by the same amount, \$0.02, and gave \$0.18 in dividends.

Another indicator that eBay is in the mature stable stage of growth is its operating cash flow to equity ratio, which is both positive and stable. From 2019 to 2020, eBay's operating cash flow increased from \$2,583 million to \$3,146 million, and its shareholders equity increased from \$2,870 million to \$3,561 million. Both the operating cash flow and equity ratio increased in similar amounts, and the ratio didn't change by much.

eBay currently has 626 million shares outstanding, each valued at around \$56, meaning that eBay's market value is approximately \$35 billion. Additionally, eBay's price to book value, or the ratio of its stock price to its book value, has hovered around 4 in the past year. Compared to its main competitors like Amazon and Etsy, who have price to book values of 11.38 and 31.38 respectively, eBay is valued pretty accurately in comparison.

If I were hired to enhance value at eBay, I would advise the firm to do a couple of things. First of all, as eBay has gone through a very dark scandal in recent years, I would advise eBay to clean up its reputation, as well as its internal management to prevent such an event from ever happening again. I would also advise eBay to reevaluate its dividend policy, and see if it really is necessary for them to continue giving out dividends, when they could be reinvesting that profit back into the company.

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