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eBay Inc. (EBAY) Interim CEO Scott Schenkel on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-23-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $0.67 beats by $0.03 | Revenue of $2.65B (0.00% Y/Y) beats by $2.55M

Earning Call Audio

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eBay Inc. (NASDAQ:EBAY) Q3 2019 Earnings Conference Call October 23, 2019 5:00 PM ET

Company Participants

Joe Billante - VP, IR

Scott Schenkel - Interim CEO

Andy Cring - Interim CFO

Conference Call Participants

Colin Sebastian - Robert W. Baird

Eric Sheridan - UBS

Ross Sandler - Barclays Capital

Heath Terry - Goldman Sachs

Stephen Ju - Credit Suisse

Justin Post - Bank of America Merrill Lynch

Dan Salmon - BMO Capital Markets

Thomas Forte - DA Davidson

Brian Nowak - Morgan Stanley

Brian Fitzgerald - Wells Fargo

Kunal Madhukar - Deutsche Bank

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the eBay Inc. Third Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Mr. Joe Billante, VP of Investor Relations. Thank you. Please go ahead, sir.

Joe Billante

Thank you. Good afternoon. Thank you for joining us, and welcome to eBay's earnings release conference call for the third quarter of 2019. Joining me today on the call are Scott Schenkel, our Interim Chief Executive Officer; and Andy Cring, our Interim Chief Financial Officer.

We're providing a slide presentation to accompany Andy's commentary during the call, which is available through the Investor Relations section of the eBay Web site at investors.ebayinc.com.

Before we begin, I'd like to remind you that during the course of this conference call, we will discuss some non-GAAP measures related to our performance. You can find the reconciliation of these measures to the nearest comparable GAAP measures in the slide presentation accompanying this conference call. Additionally, all revenue and GMV growth rates mentioned in Scott and Andy's remarks represent FX-neutral year-over-year comparisons, unless they indicate otherwise.

In this conference call management will make forward-looking statements including, without limitation, statements regarding our future performance and expected financial results. These forward-looking statements involve known and unknown risks and uncertainties, and our actual results may differ materially from our forecast for a variety of reasons. You can find more information about risks, uncertainties, and other factors that could affect our operating results in our most recent periodic reports on Form 10-K and Form 10-Q, and our earnings release from earlier today. You should not rely on any forward-looking statements. All information in this presentation is as of October 23, 2019, and we do not intend and undertake no duty to update this information.

With that, let me turn the call over to Scott.

Scott Schenkel

Thanks, Joe. Good afternoon, everyone. I'm excited to have the opportunity to take our company forward during this period of transition. In times of change it is important to step back and make clear-eyed assessment of where we are, confirm what does not change, and identify what needs to be different. Our value proposition remains clear. eBay is one of the world's largest global marketplaces where consumers can shop unique inventory at great value. Sellers of all sizes have low-cost access to over 180 million buyers, with a partner that does not compete with them. Our near-term priorities are unchanged.

We are delivering our 2019 commitments, including our growth initiatives of advertising and payments, improving seller capabilities, and growing the buyer base. In addition, we have completed an operating review and are implementing plans to expand margins. Lastly, we are executing a portfolio review to best position the company for the long-term. For 2020 and beyond, changes needed to improve the underlying health of the marketplace's business, we are reassessing how to best deliver for our buyers and sellers and ensuring we match investments to serve them in an authentically eBay way. We will discuss this further at the January earnings call.

With regards to our Q3 performance, total GMV was down 2%, organic revenue was up 3%, while our active buyer base grew 4%, up to 183 million. Underlying these results GMV on our Marketplace platform was down 2%, StubHub volume was flat, and our Classifieds platform grew revenue at 8%. We also returned $1.1 billion in capital to investors through share repurchases and dividends. Andy will go into more detail on our financial results shortly. Our growth initiatives continue to make meaningful progress. Advertising sustained momentum in Q3, where Promoted Listings drove $103 million of revenue, up over 120% from a year ago.

Over one million sellers promoted more than 300 million listings in the quarter. This increased adoption was partly due to our integrated mobile experience, where sellers can opt in, revenue recommendations, and manage Promoted Listing performance. In addition, we improved our ability to vary the number of ads that appear in search results, while balancing relevance for our buyers and conversion for sellers. There is incremental opportunity to grow Promoted Listings through adoption and conversion gains, and we see more untapped growth in ad rates and product formats. All of these levers give us confidence in achieving our goal of $1 billion in total advertising revenue.

Moving to payments, adoption is accelerating in the U.S. and was recently launched in Germany. Since we began intermediating payments on our site approximately a year ago, we have processed over $1.1 billion in payments for over 20,000 sellers. In September, in the U.S., we processed more than 9% of volume on our payment rails, accelerating close to the limit of our operating agreement. Sellers continue to share positive feedback on the more simple experience that pays them directly into their bank account while saving them money. For buyers, we have enabled more payment choices, including Amex, and SEPA Direct Debit, which is commonly used in Germany. More payment methods will be added over time as we expand globally.

We are on track with our plan to realize $2 billion in revenue, and $500 million of operating income at scale, and this initiative will be a meaningful contributor to revenue growth in the second-half of 2020. In addition to ads and payments, we continue to deliver capabilities that are specific to eBay and drive customer success. Sellers on eBay have the unique ability to directly interact with individual buyers. For example, seller-initiated offers saw increased adoption as we added more ways for sellers to drive conversion by targeting potential customers who abandoned carts. We have also added protections for sellers in major markets against abusive buyer behavior and events outside of their control.

In addition, we expanded our Seller Hub toolkit by integrating capabilities we acquired from Terapeak. In major markets sellers now have a suite of features that identify what and when to sell, and how to price inventory. In Germany, we helped sellers comply with new VAP requirements while avoiding significant disruption.

One of the most important ways we serve sellers is by growing the buyer base. In Q3, we grew active buyers at 4% for the seventh quarter in a row. Acquisition of new and lapsed customers continues to be the main growth driver, and is due to more focused marketing spend and new user improvements that we have launched over the past several months. In Q3, we exposed new buyers to popular eBay features after their first purchase, and are encouraging app downloads with more aggressive calls to action to migrate users to our best customer experience.

Related to the long-term health of the marketplaces business, we are continuing on a path started a few years ago to organize one of the world's largest sets of unstructured inventory to power unique and compelling experiences. While progress has been made, we have changed our approach to make it easier for sellers to provide product details or aspects when they list items for sale. This is particularly relevant in categories like fashion and home, where product aspects are not specific to a catalog ID. With this rich dataset, we will continue and reenergize your efforts to create engaging experiences showcasing the full spectrum of value. We'll update you further on our progress in January.

Moving on from our initiatives, one hit at headwind continuing to impact the U.S. is internet sales tax. As law has taken effect, government officials have chosen to tax small out-of-state businesses with the low no local nexus, and are requiring marketplaces to collect.

Buyers are seeing higher prices at checkout and are purchasing less particularly large dollar items. In Q3, the impact of U.S. GMV was more than three points, and we expect that headwind to grow in Q4 as new laws in California, Texas, and nine other States take effect. While this impact is not unique to sellers on our platform, it is disproportionately affecting small businesses, many of whom sell on eBay.

Looking at our international marketplaces, overall performance was slightly down versus last quarter. In the U.K. lower consumer confidence is driving a softer market, which we all set in Q3 with improved marketing efficiency. In Korea, we saw competitors significantly increased couponing and rather than match their investment levels at low ROI, we chose to focus our investments on our loyalty program. We are on track to double the number of members in our Korean Smile Club Loyalty Program this year to almost 2 million. In Japan, we saw GMV acceleration due to successful marketing program in our acquired businesses Qoo10.

At StubHub, Q3 growth was pressured by landscapes softness and concerts and theater as fewer top artists in shows were active this summer. This headwind more than offset a solid start to the NFL season and strong double-digit performance in our international markets. In addition to these landscape dynamics, our first party sales initiatives help revenue growth outpace GMV, but more importantly it gave buyers more value and increased selection.

Turning into classifieds, our portfolio continues to grow at healthy rates as we build on a leading position in many markets. Both our German and U.K. platforms, including our acquisitions of Motors.co.uk., are performing well. Looking across our portfolio or motor's verticals representing roughly half of our global revenue base continue to grow at strong double-digit rates. Recently, we have seen headwinds from lower display advertising yields in some of our horizontal platforms, including Canada and Australia.

Now, let me update you on our operating and portfolio reviews. As previously communicated, we have been conducting an operating review of our cost structure, and we committed to provide an update in the fall. Today, I'd like to share that update. This extensive review has resulted in a plan aligned with our board and leadership team. We will deliver incremental margin over the next three years. The plans are robust and will impact all elements of our cost structure at different levels, while enabling us to maintain and grow critical customer initiatives. We are both building on the two-points gross, one point net margin rating gains delivered in 2019, and we intend to deliver another two points net of investments by 2022.

Regarding the ongoing portfolio review, our leadership team and the board are evaluating the role of StubHub and classifieds businesses in our portfolio in a discipline manner. We anticipate sharing an update on StubHub before our next earnings release. For the classifieds portfolio, we did not expect to have an update to share this year, but are considering long-term options. Rest assured, we have made progress, and the outcome will be determined by the actions the board believes will maximize long-term shareholder value.

In summary, eBay exist to empower people and create economic opportunity. This shared purpose has driven our culture for 24 years and it motivates our 14,000 employees to look to deliver for our customers every day. In the near-term, we will focus on delivering our 2019 commitments, scaling ads and payments, implementing our operating review plans and optimizing our portfolio. In the long-term, the opportunity remains substantial in the multi-trillion dollar market we play, and we will evolve our business in an authentically eBay way.

Now, let me turn it over to Andy to provide more details on our quarterly financial results. Before he begins, let me say that I'm thrilled he's agreed to step in as the Interim CFO. We've worked together directly during his many years at eBay and prior to, and I appreciate his dedication and leadership during this critical time for the company.

Andy?

Andy Cring

Thank you, Scott. I will begin my prepared remarks with our Q3 financial highlights starting on slide four of the earnings presentation. In Q3, we generated $2.6 billion of total revenue, $0.67 of non-GAAP EPS, $913 million of free cash flow, and we have returned $1.1 billion to shareholders through repurchases and dividends.

Moving to active buyers on slide five, in the quarter, we increased our total active buyer base by 1 million to a total of $183 million, up 4%. Consistent with the first-half of the year, we've maintained stable buyer growth by focusing on marketing spend towards new and lapsed buyer acquisition, which has been offset by a more, by a modest increase in existing by return. Moving forward, we will allocate more spend towards driving retention and increasing customer lifetime value of new buyer cohorts.

Turning to slide six, in Q3, we enabled $21.7 billion of GMV, down 2% year-on-year, decelerating two points versus Q2. The U.S. generated $8.5 billion, down 6%, while international delivered $13.2 billion, up 1%.

Moving to revenue on slide seven, we generated net revenues of $2.6 billion, up 3% organically. We delivered $2.1 billion of transaction revenue, up 3%, and $534 million of marketing services and other revenue, down 2%, inclusive of a two-point headwind from the sale of brands for friends.

Turning to slide eight, our marketplace platform GMV was down 2% in Q3, decelerating one-point versus the prior quarter. U.S. GMV was down 6% flat quarter-on-quarter with two points of deceleration from Internet sales tax, offset by reduced headwinds in marketing and modest conversion improvements from our evolving buyer experience, including the reduction of third-party ads.

On a year-on-year basis, internet sales tax accounts for over three points of headwind and we expect that impact to increase in Q4. This dynamic will sustain into 2020 and we believe it will taper off towards the end of the year as we lapse states that rolled out in 2019.

International GMV grew 1%, decelerating one point driven by factor Scott covered earlier. Total marketplace revenue was $2.1 billion up 1% decelerating two points from the prior quarter. Transaction revenue grew 4% a one-point deceleration, and six points higher than GMV. The gap between GMV and revenue continues and is being driven primarily by two factors, triple digit growth and promoted listings, which made up more than half of the six points, and over a point from category mix effects. Keep in mind, as our payment's initiative scales further, transaction revenue will continue to grow at a higher level than GMV. Today, it's less than one point of the difference and we expected to increase in the second-half of 2020.

Marketing Services and other revenue was minus 13%, decelerating seven points versus Q2, with four points coming from the sale of brands for friends, and the continuation of our ad strategy moving from the third-party ad placements towards our first party promoted listings product. We continue to expect total advertising revenue in 2019 to be more than $700 million.

Marketplace margin was 31%, up year-on-year primarily due to continued cost leverage and reduce marketing, partially offset by our investments in payments and advertising. Moving to slide nine on payments, since our launch in September of last year, we've intermediate over $1.1 billion a GMV over $500 million of that in the third quarter. In September, the U.S. penetration rate was over 9% and we expect to remain near this level until the end of July of 2020.

Turning to slide 10, StubHub GMV was flat, decelerating six points primarily from the factors Scott mentioned. StubHub revenue grew 5% decelerating two points from Q2. Transaction revenue was flat, a one-point deceleration driven by volume, partially offset by a higher take rate from pricing changes and event mix. MS&O has more than tripled year-on-year for the third straight quarter, delivering $20 million of revenue in Q3. Most of StubHubs MS&O revenue is first party sales, which provides buyers access to unique and exclusive inventory and insurance for purchase tickets. Both are nascent and have potential for a significant revenue growth. StubHub segment margin was 10% flat year-on-year.

Moving to slide 11, classifieds revenue grew 8%, decelerating four points primarily from lower display advertising yields in some of our horizontal platforms as Scott covered. Segment margin for classifieds was 41%, up two points year-on-year, driven by operating leverage and marketing reductions.

Turn to slide 12 and major cost drivers. In Q3, we delivered non-GAAP operating margin of 26.6%, which is up 20 basis points versus last year. Despite our continued investment payments and FX pressure from the stronger U.S. dollar. Cost of revenue increased 80 basis points year-over-year driven by side operations, and first party cost of sales in Korea and step-up.

Q3 sales and marketing expense decelerated, 170 basis points, driven by reduction in marketplaces on platform marketing, and operational leverage, partially offset by investments in Japan. Product development costs were up 10 basis points from our investments in payments and advertising, mostly offset by increased productivity. G&A was up 20 basis points year-on-year driven primarily by investments in risk management for our payments initiative and cost to support the operating and portfolio reviews.

Moving to EPS, slide 13, we delivered $0.67 of non-GAAP EPS, up 19% versus the prior year, our sixth consecutive quarter of double-digit non-GAAP EPS expansion. Non-GAAP EPS growth was primarily driven by our share repurchase program and improved cost controls, offsetting our investments and payments.

Favorability versus our guidance in July was mostly driven by a lower tax rate and continued cost control. GAAP EPS for the quarter was $0.37, down 50% versus last year. The decrease in GAAP EPS is primarily driven by lapping the gain on the sale of our Flipkart stake, the current and prior year changes in the value of the audient warrant, the divestiture of brands for friends, and severance costs, partially offset by a reduced share count. As always, you can find a detailed reconciliation of GAAP and non-GAAP financial measures and our press release and earnings presentation.

On slide 14, in Q3, we generated $913 million of free cash up 140% primarily driven by lower cash taxes, working capital timing, and lower capital expenditures.

Moving to slide 15, a capital allocation strategy and our key tenants and targets have not changed. We've executed our third dividend payment of $115 million, while continuing to aggressively buyback shares, demonstrating our confidence and commitment to return capital to shareholders in a disciplined and diversified manner. In Q3, we repurchased nearly 25 million shares at an average price of $40.12 cents per share, amounting to $1 billion. We ended the quarter with $3.2 billion of share repurchase authorization remaining. For the quarter, we ended with cash and investments of $4.2 billion and debt at $7.8 billion, including paying down $1.6 billion of debt as planned.

Turning to guidance on slide 16, for Q4, we are projecting revenue between $2.77 billion and $2.82 billion, representing organic FX-neutral growth between negative 1% and positive 1%. We expect non-GAAP EPS of $0.73 to $0.76 per share, representing 3% to 8% growth. EPS growth is driven primarily from the benefit of our share repurchase program and a modestly lower tax rate, partially offset by the effect of a stronger U.S. dollar, reduced income on our lower cash balances and our continued investments in payments. We are expecting GAAP EPS in the range of $0.55 to $0.60 per share in Q4.

For the full-year revenue guide is in the range of $10.75 billion to $10.8 billion maintaining our organic FX-neutral growth rate of 2% to 3%. We are raising our full-year non-GAAP EPS guide to $2.75 to $2.78 cents per share based on a stronger Q3 and modestly lower tax rate and continued discipline cost control. We expect operating margin to be approximately 28% and non-GAAP effective tax rate of 15% to 16% for the year. We are increasing our cash flow guidance to the range of $2.25 to $2.35 billion and we've narrowed the range of CapEx to 5% to 6% of revenue.

Finally, we are updating the range of full-year GAAP EPS to 197 to 202 per share driven by changes in the value of the audient warrant and severance costs, partially offset by cost control, lower stock based compensation, and a modestly lower tax rate. Similar to last year at this time, we thought it would be helpful to give some initial perspective on our expectations for 2020 in the context of our 2019 performance.

We entered this year with a plan to drive modest revenue growth, expand margins, and grow EPS double-digits. Through three quarters of the year, we are at the higher end of our original organic FX-neutral growth rate revenue guidance, delivering on our margin commitments, growing GAAP and non-GAAP EPS higher than the original guidance and generating more free cash flow.

As we look forward to 2020, we expect to drive modest revenue growth through our key initiatives, expand margins and grow EPS. Our growth in this initiatives advertising and payments are on track to deliver a combined $3 billion of revenue in the next few years.

In 2020 we expect total advertising revenue to be approximately $800 million benefiting overall revenue growth by almost one point. And in payments we expect approximately two points of benefit, most of that coming in the second-half of the year. We estimate internet sales tax to negatively impact total revenue growth rates for the business by approximately two points a year-on-year. We also expect revenue headwinds in 2020 of nearly $200 million from a combination of a stronger U.S. dollar and the full-year impact of the sale of the brands for friend's business.

Turning to margin, as Scott mentioned, we've completed the operational review in line with the timeline communicated in February. We've executed a comprehensive assessment across all expense lines of the business. Our margin expansion plan relies on continued marketing optimization, focus product and technology investments, best-in-class corporate functional costs, and more effective procurement. We expect these plans to deliver two points of net incremental operating margin expansion over the next three years, while providing us capacity to continue to invest in key initiatives. When combined with our anticipated 2019 results, we will have delivered three points of operating margin accretion while funding key investments including payments and advertising.

Looking at EPS, we expect growth headwinds of approximately seven points from the combination of a stronger U.S. dollar, less interest income based on lower cash balances and a higher tax rate as settlement for past tax audits concluded in 2019 likely won't repeat. We will continue to return capital to shareholders in line with our capital allocation tenants and within our midterm leverage targets of 1.5 times net debt and gross debt below three times EBITDA, and we will provide additional color on shareholder return plans in January.

Our preliminary expectation based on today's portfolio are that organic FX-neutral revenue should grow in the low single digits. Keeping in mind that with the dynamics mentioned above, growth in the second-half of the year will be higher than in the first-half. We expect to continue margin expansion while making significant investments in our payments and advertising capabilities. Combined these dynamics will likely lead to EPS growth in the low single digits, inclusive of the seven points of headwind mentioned earlier. Finally, we expect to continue generating strong free cash flow and a returning cash to shareholders through dividends and share buybacks. We will give more detailed 2020 guidance on our January earnings call as per our normal process.

And now we'd be happy to answer your questions, Operator?

Question-and-Answer Session

Operator

[Operator Instructions] And your first question comes from the line of Colin Sebastian from Baird. Your line is open.

Colin Sebastian

Great. Thanks, guys. I guess, related to the operational review, curious if that out year margin benefit includes the full $500 million operating income from payments, and then we're generally hoping you could rank the customer initiatives in terms of priority as well as the level of investment required.

Andy Cring

Yes, Colin, thanks, I'll take the first part of that. Yes, the out year margin rate does include the impact of payments. If you take the roughly $2 billion of income, on a revenue we expect in the $500 million of Op income, that's an incremental, that comes to at about a 25% margin rate. But the two points of accretion does include that impact.

Scott Schenkel

Yes, and specific to the first question around -- or the second question, I guess, on priority of investment, I would say, as we look towards 2020, we don't have a finalized plan yet, but broadly speaking I would say our investments are behind our key growth initiatives of payments and ads, those are going to take up -- consume a fair amount of our resources focused on customers. We'll also be working on the managed delivery plan that Devin talked about at the eBay Live event. And then we'll be working on structured data and kind of aspects as I covered, and all those will be priorities, and we're also looking to do an overlay of what else we could do in the short-term to solve buyer and seller pain points on our platforms. So, we don't have a finite list for 2020, but that's, broadly speaking, how we're thinking about it.

Colin Sebastian

Okay. So is the managed delivery still on schedule to roll out the first-half of next year?

Scott Schenkel

Yes, so we're working on that. As we've talked about over the last couple of months, if you think about the managed delivery aspects that we've been working on, broadly speaking, what we're trying to do is solve customer pain points, right. We're looking at a number of different aspects to try and resolve what customers are thinking as problems. For sellers it's making sure that they have access to lower cost faster shipping alternatives. And for buyers, it's making sure that we illuminate that value for them as we look forward. That's -- we're going to have a pilot. We already have pilots ongoing, and we'll expand those as we move forward.

Colin Sebastian

All right, thanks, Scott.

Operator

And your next question comes from the line of Eric Sheridan from UBS. Your line is open.

Eric Sheridan

Thanks so much. I wanted to know if I could delve in on the internet sales topic in terms of where you're seeing the pain points of the business, is it in new buyer growth, is it sellers listing on the platform, how you're overcoming some of that in terms of some of the initiatives to outrun some of the headwinds. And you made mention in the comments that the pressure from that would likely move all the way through to next year. Can you give us a little sense of sort of the slope of the pressure, what you've seen Q2-Q3, how it might build in Q4 early next year just so we could get a better sense of how you might comp against it, and how you can invest against the headwinds to outrun that? Thank you so much.

Scott Schenkel

Yes, sure. Thanks for the question, Eric. Let me just kind of take the construct here. So, the internet sales tax laws that have kind of rolled across the country over the past year, as we've called out the last few quarters, have been a headwind. And the U.S., and remember first off, the U.S. business is 40% of the Marketplace business so that's where we're feeling that pressure, and while it doesn't fundamentally create a competitive disadvantage, what it does do is hurt small sellers whose buyers when they see the prices have to pay up to 9% more for their items. So it's really less about brining new buyers, and it's really less about sellers listing items. It's just in that flow, particularly for higher dollar items is where we see buyers abandon the cart at checkout because they're like, "Oh, wait a second, why is it more?" depending on the sales tax that were being added.

Now, like I said, it doesn't fundamentally create a competitive disadvantage, but for a period of time as it rolls out across the different states, because remember this is rolling out state by state, and I'll let Andy talk to that in a second, but as that rolls out and as we assess user behaviors, which are a little bit different state to state depending on the magnitude of the sales tax, et cetera, we're just seeing different behaviors. And one of them is, if I will, cart abandonment, for lack of a better way to say it.

Andy Cring

Okay. And Eric, on just in terms of how to think about slope, I'd point you to a couple of things. One, in the third quarter of '19 there were an additional 14 states that came live, and as we indicated today that that took the impact in the U.S. from what we said in the second quarter of a little more than a point to the third quarter of over three points. And what went live in October were 11 additional states, including a couple of big ones, in California and Texas. So that'll give you a little indication of how to think about that impact impacting the U.S. and impacting the business in the fourth quarter. And then in terms of the year-over-year impact, clearly the full load of that fourth quarter playing through the first three quarters next year will have an impact, and that's what I had included in the discussion around the 2020 guide with roughly two points of revenue impact for the full-year.

Eric Sheridan

Great, thank you.

Operator

Your next question comes from the line of Ross Sandler from Barclays. Your line is open.

Ross Sandler

Hey guys. A question on strategic review, so you're putting a timeline on the StubHub part of that, the portfolio, but you said ECG isn't going to be happening this year. So is the delay on ECG a function of that being like larger kind of more countries, more different entities, and which is more complicated? Are there no intricate parties, any color on why that would take longer than StubHub given you kind of started the whole process at the same time? And the second one is your revenue and margin outlook for next year makes a lot of sense, and can you walk us through again what those 700 basis points of EPS headwind are taxing a few other things, but typically your EPS would grow faster than operating income. It seems like it will be slower next year. So just can you walk us through that, those factors? Again that'll be great. Thank you.

Scott Schenkel

Yes, Ross, I'll take the first one. Look, I think if you step back we're pretty proud of our willingness at the Board level and the leadership team level to continually assess our portfolio, and have a track record of divesting assets where it makes sense for shareholders. As I think anyone would expect, this is done by carefully assessing the strategic competitive and operational dynamics for every business, and we've done this carefully and diligently. And it also gets into, as you little bit call out, how the businesses are integrated with systems people and processes, and all of the dynamics that you mentioned. I can only comment that in the case of StubHub we should culminate in an announcement here by the next earnings call, and no comment further on Classifieds.

Andy Cring

Okay. And on the 700 basis points, the three key drivers, tax rate, OI&E primarily interest income, and FX, I'll handle each of those just with little more detail. On tax rate, our ongoing normal tax rate is probably somewhere in the range of 15.5% to 17.5%. We'll finish this year at about 15% if we deliver on the Q4 guide which is a little below the midpoint of that range. And so there's a small impact from that included. In terms of OI&E, we entered the year with close to $9 billion of cash, we'll exit close to the target that we've been talking about all year, about $3.5 billion. That's a relatively large reduction in cash balances, and therefore interest income, and that will have an impact on earnings growth on a year-over-year basis.

And then the final piece if Fx, you'll recall we hedge currencies 12 to 18 months in advance. The impact of the dollar strengthening late last year has been somewhat muted in our results through this year given the hedges we had in place. And as we roll forward into 2019 some of the benefit of those hedge gains will not be in the P&L. So but the combination of those three things will kind of mute the margin expansion and revenue growth as you get down to EPS growth.

Operator

And your next question comes from the line of Heath Terry from Goldman Sachs. Your line is open.

Heath Terry

Great, thanks. I was just wondering if you could give us a bit of a sense, looking at the 180 basis points in leverage in sales and marketing in the quarter, how will you think about driving further leverage in that line relative to investing in growth in GMV? And are the limitations in marketing a function of ROI or conversion rates preventing you from doing that or is it something else. And then just a short one on StubHub, what kind of impact would you say digital ticketing is having? I know there have been some pretty significant developments there just in the last quarter. And do you see that transition as impacting the value of that business either positively or negatively?

Scott Schenkel

Yes, first on the 180 basis points. Look, for this year, as we talked about, we had raised really over the course of 2017, particularly latter half of '17 and '18, our amount of marketing spend as we turn, pushing the boundaries of CLV and ROIs to try and learn what type of cohorts we'd bring in during that time and how they would mature. And 2019 was really about just kind of re-leveling that amount, and removing particularly the lower ROI, A lot of that ending up in contra, as we've talked about in the past. As we think about the future we'll continue to look at our marketing spend, everything from brand down to paid search, and really take a look at critically where the spend is, what type of returns we're seeing, as we always do, year-to-year. And then -- and also look at how we might diversify and really expand.

We haven't made as much progress on social as we would've liked. How do we spend an iterate there, who do we continue to optimize around our paid search efforts, where and how do we deploy our brand spend, and how do we sharpen our brand message to make the branding efforts that we do do be more effective? And so it's just really around optimizing, but I don't really look at as much of a takeout next year in our outlook, and thus don't really expect the less high quality GMV to deceleration that we had this year to repeat to some extent. But we're going to be pressurizing our marketing spend, to the question.

On the digital ticketing, yes, absolutely, this is quarter-to-quarter, it's a competitive battle. Since 95% of the business, or more, is in the U.S. we have to really stay on top of the capabilities. I think Sukhinder and the team have done an excellent job at integrating digital ticketing and making it as seamless as possible depending on the venue, the league, the performer, et cetera. And honestly, I think they've done an excellent job at compensating for the pressures of digital ticketing. And quite frankly it's pretty seamless in most cases.

Heath Terry

Great. Thank you very much.

Operator

And your next question comes from the line of Stephen Ju from Credit Suisse. Your line is open.

Stephen Ju

Okay, thank you. So, it looks like the number of sellers using your payment rails has accelerated. So wondering if we should assume that this is signaling a greater comfort around the stability of the platform, and you will be looking to move even faster from here.

And secondarily, anything you can share at this point about the profile of the person that the Board is looking to hire as the next CEO? Thanks.

Scott Schenkel

Yes, look, first off on payments. Look, we feel great about our execution. Quite frankly, we've seen accelerated adoption, as we talked about, in the U.S. Germany has launched successfully. Since a year ago it's quite amazing. We've actually enabled over $1 billion of GMV as we've talked about and as you called out. You know 20,000 sellers is a lot. Now, we've processed really up to the limit that we can for the next six months, seven months until we get to the -- or actually a little bit longer, till we get to the end of the operating agreement, in July of next year. and when we do that we're preparing to ramp after that. And we'll continue to ramp in Germany over the next six to nine months.

The feedback, the feedback remains strong. Look, sellers love a simpler experience that's paying them directly into their bank account and saving them money, all right. I mean what's not to like. And so as we continue to expand this globally we're going to be adding more forms of payment like SEPA Direct Debit, like we called out for Germany, and really being in the position of being able to offer more choices for our consumers.

Specific to what the Board is looking for, look, I'll just say, right now we're heads down on making sure that we focus on our priorities for 2019 and deliver the numbers that we committed to you guys and to our investors. And then, as we look towards 2020, making sure that we set the company up for success and beyond. In the interim, the board, it's discretion will be looking for it will be out doing a search and we're going to worried about is running the company.

Stephen Ju

Thank you.

Operator

Your next question comes from the line of Justin Post with Bank of America. Your line is open.

Justin Post

Great. A couple of questions, I know a pullback in marketing will just focus on the international GMV has been part of the deceleration. They don't have the sales tax issues next year. Do you think as you kind of level that off, you could see some re-acceleration there, you are thinking about that? And then secondly, just thinking about StubHub, you did mention you might have an update. We're thinking about valuation too, do you consider that a growth asset and how do you see the major growth drivers for StubHub from here? Thank you.

Scott Schenkel

Yes. So, look, it's a little early to be applying on 2020 GMV acceleration. You know, we called out a number of countries specific dynamics in my script and Andy script and I just point to those and we're working plans to make sure that we do the best that we can for 2020 and beyond with investments in marketing and product and loyalty programs, et cetera. As we think about as we think the through the different country dynamics. I look at StubHub like it's an amazing business, right? It's got an amazing seller base tickets to almost every venue and every league for every game and every show in a way that in many respects, uniquely StubHub, and those, it's got a good share. And it's got a really nice user experience that we continue to evolve. And so, we think it's a wonderful asset that we will continue to grow and has tons of opportunities, as a standalone or as a part of our portfolio and we will update you within the next 3 to 4 months at the plans.

Justin Post

Great, thank you.

Operator

And your next question comes from the line of Dan Salmon from BMO Capital Markets. Your line is open.

Dan Salmon

Hey, good afternoon everyone and thanks in particular for some of those forward-looking comments on 2020. I just wanted to follow-up a little bit just maybe not on 2020 specifically, but first on payments. Scott and Andy reiterated the target of $2 billion in revenue and $500 million in operating income for new payments. Can you just remind us your expectations for how the payments to PayPal sort of wind down on the opposite side of that, and maybe where they sit today and what your expectations are? And then likewise, just on the advertising side, again, thanks for the 800 million number that you're looking forward to next year. Any comments or color you can add on mix there between first party and third-party and promoted listings in third-party, and yes, I am trying to understand a little bit better on where the wind down in third-party is the question. So, any help or color would be great.

Scott Schenkel

Look, first, let me take the ads and then Andy way in if you have anything else. The way we look at this is, is first-off the user experience. I think, we have to be very careful with how we architect the user experience to make sure that the sellers that are only that offer listings that it comes up in a natural search way. Interesting flow, if we don't want it to become an all-encompassing promoted listings only type of search results. That said, there's a lot of opportunity that was called out and I won't necessarily rehash each of those, but from placements to alternative forms of monetization to merchandising and things like that. So we're very -- we remain very excited about first party.

In the meantime, absolutely third-party ads, particularly display ads will reduce even further and will provide some headwinds in that advertising number for another year or two, and on a material basis, and so as we look at getting to that billion dollars, it's going to be a balance of making sure that the user experience with our first party promoted listings ad product works great and that it improves the user experience, doesn't hurt it and that third-party ads, how quickly it unwinds. I don't know if there's anything else Andy, you would add to that.

Andy Cring

Not on the ads. Dan, on the question on the PayPal wind down, you're talking about op agreement payments between the company?

Dan Salmon

Yes, basically, yes, exactly.

Andy Cring

So that is all factored into the guidance I gave. Those have been declining as we've been ramping payments. They will stop at the same time July next year when we start to ramp payments -- you know, when we'd come clear with the operating agreement. There is also data center sharing agreements between the companies. One of the reasons are we've had some increased costs on costs of sales is kind of prepping data centers to catch information going back and forth. So while we'll lose a little bit on the op agreement side, from a revenue perspective we'll gain some costs and clearly once we're clear the op agreement, the payments ramp will be significant.

Dan Salmon

That's very helpful. Thank you, guys.

Operator

And your next question comes from the line of Thomas Forte from DA Davidson. Your line is open.

Thomas Forte

Great. Thanks for taking my question. So I had two kind of high level questions on eBay. First is how should we think about the impact of tariffs on your business. Is there any flow through on pricing, especially in consumer electronics, and in second, how should we think about the counter cyclicality of eBay as the potential exists for one or more major economies entering recession over the next 12 months?

Scott Schenkel

Yes, I think that the user base is going to dictate -- I think relatively clearly the counter cyclicality. I think we broadly view our unique differentiated advantages offering alternative selection and lower prices. And obviously in a recession, we should make sure that we have consumers having us squarely in their consideration set if the downturn would happen. Specific to tariffs, look the reality is, tariffs will impact everyone relatively equally, but we believe that the current customs thresholds may mitigate some of the impact for us should they happen.

Thomas Forte

Great. Thank you, Scott.

Scott Schenkel

Thanks, Tom.

Operator

And your next question comes from the line of Brian Nowak from Morgan Stanley. Your line is open.

Brian Nowak

Thanks for taking my questions. I have a couple of just, the first one sort of a big picture question on getting in the marketplace, GMV back to growth after we get through the sales tax headwinds. How do you think about the one or two most important categories you need to focus on to really bring the U.S. business back to growth over the long-term? Second one on payments, what are you sort of expecting the 2 billion of revenue in the 500 million of operating profit at scale. Just we can start to think about the cadence of everything? Now, I just want to make sure I didn't miss here, are there share repurchases in your 2020 EPS guidance or is that excluding share repurchases? Thanks.

Scott Schenkel

Why don't we work backwards?

Andy Cring

Yes. So I'll start in the middle instead of backwards, but the 2 billion and half a billion payments at scale is a 2022 number, if that's helpful. And we talked a little bit about what '20 is and then we should be at '21 we'll ramp until we get to the '22 number. In terms of share repurchase and guidance, I don't think I'd talk about a specific number yet. I'll point you to what we've been doing in the past returning capital pretty aggressively. We're going to stick to the mid-term leverage guidelines of approximately one and a half times debt and below three times gross debt-to-EBITDA. If you look at forecasted year-end cash balance of 3.5 billion with the cash flow profile of the business and maintaining a dividend, it'll give you a pretty decent range of what is possible in terms of share count or up share, buy back and we'll provide more clarity on that when we get to January.

Scott Schenkel

Yes, look, I think back on payments, work it back up here, on payments, we're going to scale as rapidly as we can and just our focus on specific markets should let us ramp relatively quickly over the course of the second-half of '20 into '21. And then '22 will be about the kind of remaining markets or remaining corridors that need to happen. And so, my expectation is that a will go pretty rapidly up to '22 to the numbers that we're talking about.

Andy Cring

As it relates to -- I don't know if there is one vertical Brian to answer your question directly, I think that there are things that we can do across the entire ecosystem. Leave payments and ads aside, we've talked about a lot, but first I talked about earlier solving buyer and seller pain points, that's across all verticals, managed delivery will help particularly with sellers offering lower cost alternatives and then buyers having alternatives in the form of both tracking and speed of shipment and then structured data and the focus on aspects as we head into the latter part of this year and into next. That's not to say that we won't have new experiences and new products by vertical and you'll be seeing some of those relatively shortly, but we got a focus on both the kind of horizontal base level of platform as well as the verticals as we moved forward.

Brian Nowak

Great, thanks.

Scott Schenkel

Thanks, Brian.

Operator

And your next question comes from the line of Brian Fitzgerald from Wells Fargo. Your line is open.

Brian Fitzgerald

Thanks, guys. Maybe a follow-up on advertising promoted listings. Growth is great. I'm wondering if there is any differential to call out with respect to how things are looking heading into this holiday season relative to '17 or '18, when it was newer? And then you mentioned, the integrated mobile app and that's helping out a bunch there. Any color, any of the dynamics you can give us with respect to how adoption has been going across the mobile app in particular or use just dynamics across the mobile app? Thanks.

Scott Schenkel

That's for ads, Brian, just I am clear.

Brian Fitzgerald

Yes. That's right. Yes.

Scott Schenkel

Yes. So for sellers, this quarter we launched a capability for sellers to manage their 1P ads via the mobile app and that is expanding very rapidly and has been very well-received by customers, obviously managing those on the fly and having the capability to adapt to the different -- what's selling and not has been very well-received.

In terms of -- did you mean ads growth specific to 1P ads for the holiday or did you mean just generally?

Brian Fitzgerald

Yes, that's right. Yes, that's right. Yes.

Scott Schenkel

Look, I think what we'll see in Q4 is a continued performance in line with Q3. I don't think there'll be any material difference, at growth rate wise and kind of trajectory wise.

Brian Fitzgerald

Appreciate it. Thanks, guys.

Scott Schenkel

Thanks, Brian. Operator, we've got time for one more question.

Operator

And your final question comes from the line of Kunal Madhukar from Deutsche Bank. Your line is open.

Kunal Madhukar

Hi. Great, thanks for squeezing me in. Just a quick one, as you talked about the evolution in the future, you talked about authentically we'll continue to work the business in authentically eBay way, can you help us how we should kind of think about growth longer-term?

Scott Schenkel

Yes. Look…

Kunal Madhukar

I think from the impact of payments.

Scott Schenkel

Yes. Look, I think we all look at the growth objectives and kind of capability for this business, particularly marketplaces to grow at above retail, but likely below e-commerce and that spot there, and I think if we can focus our efforts around some of the items, not to rehash everything that we talked about, but items that we've been laying out and modifying a bit and solving for some of the buyer and seller pain points in a more short-term manner, I think we can create an ecosystem that delivers that type of growth for the long-term.

Thanks for the question.

Kunal Madhukar

Thank you.

Operator

And ladies and gentlemen, this concludes today's conference call. We thank you for participating, and you may now disconnect.