

**Street Takeaways - eBay Q2 Earnings**  
**Thursday, July 17, 2014 12:51:12 PM (GMT)**

- **Overview:**

- Stock is trading up 0.6% following last night's Q2 earnings release, with a \$0.01 EPS beat driving a slightly negative reaction from analysts given mixed segment results and expectations for slower growth and greater investment in the near-term. Today's notes consistently highlighted PayPal as the continued key growth driver at the company, posting robust revenue and TPV growth, though some optimism was tempered due to the inclusion of Braintree contribution in growth rates as well as a slowdown in higher-margin eBay-based transactions.
- The modest revenue miss in Q2 was primarily driven by weakness in Marketplaces due to the impact of a security breach in May and changes in Google Panda SEO, as both GMV growth and revenue growth decelerated slightly from Q1 levels. Although the company sustained solid active customer growth through increased marketing spend, analysts now believe these near-term growth headwinds may extend the timing and investment cost necessary for a full segment recovery.
- Initial guidance for Q3 came in slightly below expectations on the top and bottom line due to factors driving near-term Marketplaces softness, while full-year revenue came down slightly with EPS guidance reaffirmed, due largely to the impact of buybacks. Looking ahead, most analysts believe the company will need to re-accelerate revenue growth in Marketplaces for the market to ascribe greater value to the stock. However, several also note that eBay has several strategic options should the core business not recover as planned including a potential opportunity to spin-off PayPal or monetization of highly valuable consumer transaction data to support a mobile payment platform.
- We tracked a few downward price target revisions driven by lower F14 and F15 EPS estimates as analysts now expect greater marketing investment to both sustain PayPal growth and drive a recovery in Marketplaces. A quick look at sell-side sentiment shows 61% of firms keeping Buy-equivalent ratings compared to a 50% average for the S&P 500; average price target of \$60.08 represents a 18% premium to current levels.

- **Analyst Commentary:**

- **CLSA** analyst James Lee
  - Notes negative impact from security breach and search algorithm changes appear to be temporary given reiteration of full-year guidance; believes sentiment should get better in the back half of 2014 due to potential of a new leadership appointment at PayPal, a recovery in Marketplaces and recognition of eBay's valuable assets in intent and transaction data for mobile commerce
  - Target is \$66
  - Maintains Buy rating
- **Cantor** analyst Youssef Squali
  - Believes Q3 and F14 outlook show that recovery from security breach and Google's Panda update is underway but will be gradually; notes slower growth in 1H14 has made it more challenging to hit already-reduced 2015 guidance, which now implies growth re-acceleration in 2015; believes failure to reignite growth is likely to increase pressure on management to unlock value either through a PayPal spin or sale of the entire company
  - Target is \$63
  - Maintains Buy rating
- **Susquehanna** analyst Brian Nowak - lowers target
  - Leaves Q2 earnings still with multiple long-term strategy questions around potential Marketplaces acceleration, data breach issues, PayPal leadership and local; believes eBay will need to spend more to grow as fast as previously thought; continues to struggle getting overly excited about material long-term margin expansion as PayPal's higher margin on-eBay business is slowing and PayPal is having to invest harder to grow and compete in merchant services
  - Target to \$52 from \$54
  - Maintains Neutral rating
- **Evercore** analyst Ken Sena - lowers target

- Notes company is seeing a recovery in Marketplaces in July, but expects heavier marketing expense in the coming quarters to accelerate GMV growth in the back half; encouraged by strength in Payments, but believes TPV growth ex-Braintree and FX impact has remained steady; weighs eBay's large addressable market opportunities against potential for share losses to GOOG and AMZN as well as sustained take-rate pressure and/or margin compression
  - Target to \$54 from \$58
  - Maintains Equal Weight rating
- **Cowen** analyst John Blackledge
  - Notes Q2 results were mostly in-line, with Marketplaces softness mostly offset by Payments; suggests Payments beat was driven by upside from GE credit card business and higher transaction margins; believes management's more constructive tone on a potential PayPal spin could reflect reality down the road, but does not expect a break-up in the near-term
  - Target is \$55
  - Maintains Market Perform rating
- **Atlantic Equities** analyst James Cordwell
  - Believes Q2 results were broadly in-line with underlying expectations given weak sentiment due to well publicized issues in the quarter; notes that PayPal Merchant Services continues to perform very well, but with segment only contributing a mid-teens share of operating profit, would need to see improving Marketplaces trends before becoming more constructive
  - Target is \$58
  - Maintains Neutral rating

**Industries:** Retail (Internet & Catalog)

**Primary Identifiers:** EBAY-US

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