

eBay Inc. (EBAY): Buy @ \$40.00

Buy Thesis: EBAY continues to improve on the execution of its Structured Data Initiative (SDI) which we believe resulted in a renewed momentum of GMV growth this quarter. Despite Fierce Competition from Amazon and other E-commerce players, EBAY continues to remain in the Top Rankings of Site Traffic and Shopper Engagement. We believe with the gradual progress of its turnaround strategy, EBAY could deliver a Positive Upside Surprise in 4Q16.

TABLE 1: EBAY 2Q16 Results

2Q16 Results			3Q16 Guidance			2Q16 Results			3Q16 Guidance		
EPS	Cons.	Result	EPS	Cons.	Result	Total Rev.	Cons.	Result	Total Rev.	Cons.	Result
0.43	0.42	beat	0.42-0.44	0.44	miss	2.23B	2.17B	beat	2.16-2.19B	2.18B	in-line

Source: eBay Inc. and Estimote.com

eBay's 2Q16 results surprised the market on the upside with revenue and EPS ahead of analyst expectations. More importantly, 3Q guidance showed some stabilization on its core e-commerce platform as it competes against the much larger Amazon. Moreover, the ongoing share buyback remains an attractive data point for value investors as the board approved an additional \$2.5B stock repurchase after completing a \$500M share repurchase this quarter.

2Q16 Highlights

- GMV reached \$20.9B, up 6% y/y showing stability in the core marketplace
- Revenue of \$2.2B, up 6% y/y; non-GAAP EPS of 43 cents up 2.1% y/y
- Generated ~\$600M free cash flow
- Raising FY guidance for revenue to \$8.85-8.95B (up 5-6% from previous 2-5% y/y) and EPS to \$1.85-1.90 (up 1-4% y/y)
- Added over 1M buyers to reach 164M active buyers (+4% y/y)
- Live listings reached 1B for the first time on its marketplace
- eBay has been leveraging its structured data to facilitate listings and improve user experience through better search, browsing, merchandising and ranking in search results
- User engagement has been strong, judging by the doubling of product reviews in 2Q16 to 3.1M for a total of 12M reviews on the platform
- Marketplace mobile volume growth accelerated to 19% y/y due to improvements in mobile app efficiency

I. eBay Ranks High in Site Traffic and Shopper Engagement

While Amazon remains the leading platform in the U.S. e-commerce space, traffic and engagement data shows eBay holding up well relative to Amazon (see Table 2). We believe eBay is the next preferred marketplace for U.S. online shopping ranking #7 not far below Amazon, which ranks #4.

Site Ranking is an estimate of the “popularity” of a site among U.S. internet users, based on user research by analytics firm *Alexa.com*. As a rule of thumb, sites with rankings closer to #1 will get more traffic than sites with a higher number. The exact number varies slightly from week to week, but Table 2 gives a rough estimate of the site’s popularity compared to other sites.

TABLE 2: AMZN, EBAY and ETSY Traffic and Online Engagement

	Site Ranking (U.S.)	Monthly Unique Visitors	Unique Visitors per Seller	Bounce Rate	Daily Time Spent	
Amazon	4	146M	116	22.5%	11:39	Amazon boasts ~146M monthly unique visitors on its site and ~116 unique visitors per seller, given the sheer size of its catalog.
eBay	7	71.5M	8	22.8%	11:36	
Etsy	43	22.9M	18	26.2%	9:37	

Source: WhereToSellOnline.com

However, eBay also has a good chance of driving up its monthly unique visitors and the number of unique visitors per seller, as long as it continues to consistently execute well on its Structured Data Initiative (SDI). Both Amazon and eBay have a bounce rate of less than 25%, which is a positive sign, indicating that less than 1 in 4 visitors leave the site after landing on the first page. Finally, the average daily shopper spends roughly the same amount of time perusing the product pages of both Amazon (11 mins. 39 secs.) and eBay (11 mins. 36 secs.).

II. Improved Execution of SDI Could Deliver a Potential Upside Surprise in 4Q16

In 2Q16, eBay showed some signs of accelerating growth in its core metrics, giving hope that the SDI strategy put into place is starting to bear some fruit. We note that same store sales (SSS) for 2Q16 was 2%, according to *ChannelAdvisor*. The following areas which have shown some improvement include:

- U.S. GMV grew to 5% from 3% last quarter (this includes *StubHub* – without *StubHub*, core marketplace growth would be ~4.5%)
- International GMV increased to 6%, driven by *StubHub*
- Total GMV accelerated to 4% up from 3% last quarter

Management gave credit for the early signs of improvement to higher mobile penetration, greater C2C activity and better SEO results from the Structured Data Initiative. According to management, the continued execution of SDI in 2Q16 has yielded some positive results:

- Most importantly, SDI is generating higher conversion rates, 10% higher for new product pages compared to old view item pages
- SDI now covers 42% of product listings (which grew to 1B listings in 2Q16); there are 15M browse/product pages (which could go as high as 100M)
- eBay added 3M product reviews in 2Q16

If the momentum of SDI continues into 2H16, then this could set up eBay nicely for a strong holiday season and potentially deliver an upside surprise in 4Q16.

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Analyst Certification

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