Binghamton Investment Fund- Consumer Discretionary 11/8/21

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**BUY: EBAY**

Current Price:  $75.57

YTD/Investment Performance: 47%/35%

**Investment Thesis:**

EBAY has driven significant value accretion since our initial investment in May 2021, as the firm has taken massive strides to focus on improving the seller experience and optimizing operations. We believe that our initial catalysts are still very much in play and further upside will be achieved from them. While investors are cautious of the reversing pandemic related ecommerce trends, EBAY’s strategic shift towards high value buyers, repeat purchases, and seller performance, should mitigate decelerating ecommerce traffic in the long term. While the supply chain is a major concern moving into the holiday season, we believe EBAY is one of the few firms that stands to benefit from this issue, leading to short term upside.

**Long Term Catalysts:**

Integration of Managed Payment System

* System is at 90% integration, resulting in selling costs down 350 bps YoY and general costs down 230 bps YoY for Q3
* Take rate surpassed 12%, up 80 bps
* We expect this margin expansion to be sustained into the future

Refurbishing and Authenticity Initiatives

* Continued progress on strategic focus of attracting more high-value buyers through expanded certification services and 3D product imaging development
  + High-value buyers increased 6% YoY in Q3
* Launched sneaker authentication in Germany and added 30 brands to its catalog in Q3
* High-value buyers spend heavily in other product categories, offsetting decline in total active buyers that has mostly been made up of low-value buyers
  + Buyers of luxury items spend about $5,000 in other product categories

Promoted Listings

* Advertising revenue continues to be a strategic focus, as they look to improve seller experience, promoted listings started in September
* Currently testing 3 new promoted listing products to be offered by Q1 2022
* Promoted listings are up 9% YoY, driving $207 million in revenue for the quarter

M&A and Value Accretion

* Sale of Adevinta shares expected to close in Q4, sale of South Korea business expected to close by late 2021/early 2022 to Emart, the largest retailer in SK
  + Ebay will retain 19% stake, relying on Emart to deploy regional expertise while Ebay focuses on core operations
* Will receive $2.4bn in total for the sale of 135M Adevinta shares (Q2 2021)
  + Retained 33% stake in Adevinta and opportunity to participate in long term growth opportunities
* Strong balance sheet and strategic goal of synergistic acquisitions make future acquisitions likely
* Raised share buyback target to $7bn from $5bn for 2021, $.18 dividend

**Short Term Catalyst:**

Supply Chain Disruption Ahead of Holiday Season:

* Ebay has consistently maintained the reputation of connecting enthusiasts for “impossible to find” products
* Ebay’s focus and progress in buyer-seller trust will continue to drive transactions of used/refurbished products
  + 3D Product Imaging
  + Authentification
* Supply chain problems will push buyers to Ebay and push transactions for products that can’t be found elsewhere/used items

**Q3 Earnings Update:**

* Revenue: Expected- $2.46B, Reported: $2.5B, Beat by 1.82%, Up 11% YoY
* EPS: Expected- $.88, Reported- $.90, Beat by 1.82%
* Gross Merchandise Volume down 10% YoY, due to pandemic ecommerce environment
* 2.5 Million users have done a repeat purchases over 6 months due to CRM initiatives
* Annual active users flat at 19M, MAU down 5% YoY LTM
* “Strategic Playbook” has only been applied to 20% of listings
* Stock is down 2.7% since earnings due to underwhelming guidance
  + $2.57B - $2.62B vs Consensus $2.65B

**Potential Risks:**

* Potential for economic downturn leading to decline in consumer spending
* Pandemic related trends reverse worse than anticipated resulting in top line decline

**Relative Valuation and Price Target:**

* 2 Yrd FWD EV/EBITDA
* We estimate $3307M EBITDA for 2022 vs Street estimate of $4153M
* Median multiple: 23x, used a target multiple of 21x
* Target Price: $100, Upside: 33% Upside