


**COMPANY UPDATE / ESTIMATE CHANGE /
TARGET CHANGE / RATING CHANGE**
Key Metrics

EBA Y - NASDAQ - as of	2/1/18	\$46.19
Price Target		\$50.00
52-Week Range	\$31.80 -	\$46.99
Diluted Shares Outstanding (mm)		1,045
Market Cap. (\$mm)		\$48,249
1-Mo. Average Daily Volume		9,775,874
Institutional Ownership		88.0%
Debt/Total Capital (net)	Q4'17	0%
ROE		-10.9%
Book Value / Share		\$7.79
Price / Book Value		5.9x
Dividend Yield		0.0%
LTM EBITDA Margin		30.7%

non GAAP EPS FY 12/31

		Prior	Current	Prior	Current
	2017A	2018E	2018E	2019E	2019E
1Q	\$0.49	\$0.51	\$0.53	\$0.56	\$0.59
2Q	\$0.45	\$0.52	\$0.53	\$0.58	\$0.61
3Q	\$0.48	\$0.56	\$0.58	\$0.60	\$0.65
4Q	\$0.59	\$0.63	\$0.67	\$0.70	\$0.75
Year	\$2.00	\$2.21	\$2.30	\$2.44	\$2.59
P/E	23.1x		20.1x		17.8x

*Columns may not equal due to rounding

Revenue (\$mil)

		Prior	Current	Prior	Current
	2017A	2018E	2018E	2019E	2019E
1Q	\$2,217	\$2,355	\$2,497	\$2,468	\$ 2,677
2Q	\$2,328	\$2,472	\$2,611	\$2,584	\$ 2,787
3Q	\$2,409	\$2,494	\$2,684	\$2,617	\$ 2,858
4Q	\$2,613	\$2,703	\$2,929	\$2,829	\$ 3,089
Year	\$9,567	\$10,024	\$10,721	\$10,498	\$11,412

eBay Inc – is a leading global online marketplace with 168 million active buyers in 190 countries with brands that include eBay, eBay classifieds and StubHub. The company currently has over 1 billion live listings with GMV sales totaling \$88.5 billion in 2017. Ebay was founded in 1995 in San Jose, CA. and ranks as a leading global retail brand.

eBay Inc.

EBAY - NASDAQ – Neutral - 2

Strong Q4 Results; Improving Outlook; Downgrading to Neutral as Shares Approach Fair Value; Raising PT to \$50

- Key Metrics.** eBay reported 170 million active buyers, up 2 million sequentially. Active buyer growth increased 5% y/y during the quarter vs. 4% growth in the year ago quarter. Total gross merchandise value (GMV) of \$24.4 billion significantly beat our \$23.857 billion view, increasing 10% y/y, a substantially faster growth rate than in prior periods. Higher GMV was due to the sale of higher ASP merchandise. A take rate of 8.33% missed our 8.47% estimate and last year's 8.40% rate. The lower take rate was the result of higher incentives, especially at StubHub (which has a significantly higher take rate). Total revenue of \$2.61 billion was up 9% y/y, beating our \$2.597 billion view. Non GAAP EPS of \$0.59 increased 9% y/y, matching our \$0.59 view and beating the \$0.52 consensus estimate. Gross margin was down 40 bps y/y, while operating margin declined 100 bps y/y as spending on growth initiatives increased. eBay's tax rate declined from 24% to 19%. Free cash flow increased 64% y/y to \$796 million. Net cash and investments totaled \$1.3 billion. The company repurchased \$922 million on EBAY shares during the quarter and has \$7.7 billion remaining under both the old and the new \$6 billion share repurchase agreements.
- Guidance.** Management provided a Q1 revenue outlook of \$2.57 billion to \$2.61 billion with a midpoint well above our prior view of \$2.35 billion. EPS guidance was provided of \$0.52-\$0.54 vs. our prior \$0.51 estimate. FY'18 revenue guidance was \$10.9 billion to \$11.1 billion vs. our prior \$10.0 billion view. FY'18 EPS guidance range was given of \$2.25 to \$2.30 vs. our prior view of \$2.21 and a consensus estimate of \$2.20.
- Outlook.** We raise our Q1'18 EPS estimate to \$0.53. We also increase our FY'18 EPS estimate to \$2.30 and our FY'19 EPS estimate to \$2.59. Longer term, we expect further positive implications from a new deal reached with payment processor, Adyen, a move away from higher cost provider PayPal.
- Opinion:** Q4 results were slightly ahead of our expectation, while our updated outlook is well above our prior forecast. We continue to view eBay's growth strategy as positive and expect a higher degree of improvement going forward. We expect significant and positive change at eBay over the next 2-3 years from growth initiatives including Promoted Listings (advertising), A.I., Search, Delivery, and Authenticate; as well as cost reductions through Adyen altogether placing the company in an elite group of only a few global retail brands. We downgrade shares of EBAY to Neutral following recent share price strength while raising our price target to \$50 from \$44.

**Note Important Disclosures on Pages 6-7
Note Analyst Certification on Page 6**

ADDITIONAL DISCUSSION

eBay reported 170 million active buyers, increasing ~2 million, or up 5% y/y on an apples to apples comparison following the sale of eBay's India business. Growth initiatives benefitted Marketplaces GMV to growth of 9%. Initiatives include structured data pages, user optimized pages, guaranteed 3 day delivery, price match guarantee, promoted listings, new business sellers, A.I., simplification of the C2C business, improved SEO, and brand investments. StubHub also had strong GMV growth of 17% y/y on easier y/y comparisons. Total GMV was up 9.4%, also helped by higher average selling prices and a weaker Dollar. The total take rate of 8.33% declined from 8.4% last year. Lower take rates from Marketplaces and StubHub were the result of higher incentive payments. Marketing Services and Other (MS&O) revenue increased 11.4% y/y to \$578 million representing 22% of total revenue. Growth accelerated from strength in the Classifieds business. Classifieds revenue of \$244 million increased 21% y/y, boosted by the weaker Dollar as the Classifieds business is largely international.

OUTLOOK

Management provided a Q1 revenue outlook of \$2.57 billion to \$2.61 billion with a midpoint well above our prior view of \$2.35 billion. EPS guidance was provided of \$0.52-\$0.54 vs. our prior \$0.51 estimate. FY'18 revenue guidance was \$10.9 billion to \$11.1 billion vs. our prior \$10.0 billion view. FY'18 EPS guidance range was given of \$2.25 to \$2.30 vs. our prior view of \$2.21 and a consensus estimate of \$2.20. The improved outlook includes many positives including a weaker Dollar, lower tax rate, increased buybacks, and growth initiatives that we expect will boost organic growth. However, these growth initiatives will result in a higher level of spending. We believe this spending will provide a high level of return and is worth pursuing from a long-term shareholder perspective. We raise our Q1'18 EPS estimate to \$0.53. We also increase our FY'18 EPS estimate to \$2.30 and our FY'19 EPS estimate to \$2.59. Longer term, we expect further positives from a new deal reached with payment processor, Adyen, a move away from higher cost provider PayPal. This deal is expected to boost take rates and ultimately revenue by \$2 billion and increase operating income by \$500 million, which on today's operating performance equates to an 18% increase in operating income, which we expect by 2020.

Our long-term investment thesis remains intact despite our Neutral rating and is based on continued global macro-level ecommerce industry growth trends, company specific product initiatives, and improving new buyer acquisition. Robust industry-wide international ecommerce growth above 20% per year is expected near term, while slower growing developed markets including the U.S., remain underpenetrated at ~10% of total retail sales. We believe eBay has an achievable near-term organic revenue growth strategy and the increased spending on product development including the company's structured data initiative, product offering expansion, and enhanced product content can provide sustained GMV growth and improve the take rate longer term. We also believe eBay has a significant opportunity to grow top line results through new sales channels and partnerships as well as inorganic opportunities such as continued global M&A activity. We expect improving free cash flow generation to allow for continued share repurchases as indicated by management's new \$6 billion repurchase authorization.

VALUATION

We downgrade shares of EBAY to Neutral from Long-term Buy as share price performance recently surpassed our prior two year price target on better than expected results and an improved outlook. We raise our price target on shares of EBAY to \$50 from \$44 as our updated outlook suggests shares have some potential upside remaining but lack enough near-term upside to assign a positive rating. We base our higher target on our improved 2018 EPS estimate of \$2.59 multiplied by a 20x forward multiple, which is in line with the current forward multiple. We believe a 20x multiple is appropriate based on our improved global growth outlook. Our FYE'18 price target offers a potential return of 9.8% based on today's intraday share price of \$45.50. Our price target indicates there remains potential upside; however, we believe due to the recent run, shares may pause before moving higher in FY'19, thus our Neutral rating.

EBAY Forward Multiple vs. Sector and S&P 500 Index



Source: Thomson Reuters

SUITABILITY

We assign shares of EBAY a suitability rating of 2 on our scale of 1-4 (1 = most conservative, 4 = most aggressive). A 2 rating is given based on eBay’s recent divestitures while also incorporating the company’s industry leading market position, global scale, and profitability. We also believe the company has a solid balance sheet and generates significant free cash flow. We believe a suitability rating of 2 incorporates these attributes. Shares of EBAY are suitable for growth oriented investors seeking long-term capital appreciation, in our view.

eBay Inc. Consolidated Statement of Income (in millions except per share data)

	2014	2015	2016	2017	Q1'18E	Q2'18E	Q3'18E	Q4'18E	2018E	2019E
Net Revenue	\$ 8,790	\$ 8,592	\$ 8,979	\$ 9,567	\$ 2,497	\$ 2,611	\$ 2,684	\$ 2,929	\$ 10,721	\$ 11,412
Cost of revenue	1,598	1,712	1,962	2,151	564	612	613	657	2,447	2,594
Gross Profit	7,192	6,880	7,017	7,416	1,933	1,999	2,072	2,271	8,274	8,818
Operating expense										
Sales and marketing	2,348	2,173	2,273	2,421	619	685	689	728	2,721	2,884
Product development	862	814	959	1,046	283	295	294	321	1,192	1,225
General and administrative	755	741	773	864	238	235	245	276	995	1,070
Provision for transaction losses	262	271	231	272	65	65	67	69	266	269
Amortization of acquired intangible assets	-	-	(9)	(8)	-	-	-	-	-	-
Non-GAAP Total Operating Expenses	\$ 4,227	\$ 3,999	\$ 4,227	\$ 4,595	\$ 1,204	\$ 1,280	\$ 1,295	\$ 1,394	\$ 5,173	\$ 5,448
Non-GAAP Income from Operations	\$ 2,965	\$ 2,881	\$ 2,790	\$ 2,821	\$ 728	\$ 718	\$ 777	\$ 877	\$ 3,101	\$ 3,370
Interest and Other Income	39	-55	-43	-112	-30	-35	-40	-40	-145	-145
Non-GAAP Income Before Provision for Income Taxes	\$ 3,004	\$ 2,826	\$ 2,747	\$ 2,709	\$ 698	\$ 683	\$ 737	\$ 837	\$ 2,956	\$ 3,225
Provision for income taxes	-618	-594	-591	-546	-139	-135	-148	-178	-601	-662
Non-GAAP Net Income	\$ 2,386	\$ 2,232	\$ 2,156	\$ 2,163	\$ 559	\$ 548	\$ 589	\$ 659	\$ 2,355	\$ 2,563
Diluted Shares Outstanding	1,262	1,220	1,144	1,081	1,047	1,036	1,024	983	1,023	988
Non-GAAP EPS	\$ 1.89	\$ 1.83	\$ 1.88	\$ 2.00	\$ 0.53	\$ 0.53	\$ 0.58	\$ 0.67	\$ 2.30	\$ 2.59
Y/Y Growth Rate										
Net Revenue	6.5%	-2.3%	4.5%	6.5%	12.6%	12.2%	11.4%	12.1%	12.1%	6.4%
Cost of Revenue	7.1%	7.1%	14.6%	9.6%	13.5%	13.4%	14.1%	13.9%	13.7%	6.0%
Total operating expenses	-1.9%	-5.4%	5.7%	8.7%	14.1%	11.1%	11.7%	13.5%	12.6%	5.3%
Operating income	20.8%	-2.8%	-3.2%	1.1%	9.5%	13.1%	9.0%	8.6%	9.9%	8.7%
Net income	15.4%	-6.5%	-3.4%	0.3%	3.9%	11.2%	14.7%	6.6%	8.9%	8.8%
Diluted EPS	20.1%	-3.2%	3.0%	6.2%	9.4%	17.0%	20.7%	13.9%	15.1%	12.6%
Diluted share count	-3.9%	-3.3%	-6.2%	-5.5%	-5.0%	-5.0%	-5.0%	-6.4%	-5.4%	-3.4%
Percentage of Revenue										
Cost of Revenue	18.2%	19.9%	21.9%	22.5%	22.6%	23.5%	22.8%	22.4%	22.8%	22.7%
Gross Margin	81.8%	80.1%	78.1%	77.5%	77.4%	76.5%	77.2%	77.6%	77.2%	77.3%
Sales and marketing	26.7%	25.3%	25.3%	25.3%	24.8%	26.3%	25.7%	24.8%	25.4%	25.3%
Product development	9.8%	9.5%	10.7%	10.9%	11.3%	11.3%	10.9%	11.0%	11.1%	10.7%
General and administrative	8.6%	8.6%	8.6%	9.0%	9.5%	9.0%	9.1%	9.4%	9.3%	9.4%
Provision for transaction losses	3.0%	3.2%	2.6%	2.8%	2.6%	2.5%	2.5%	2.4%	2.5%	2.4%
Amortization of acquired intangible assets	0.0%	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total operating expenses	48.1%	46.5%	47.1%	48.0%	48.2%	49.0%	48.2%	47.6%	48.3%	47.7%
Operating income	33.7%	33.5%	31.1%	29.5%	29.2%	27.5%	29.0%	30.0%	28.9%	29.5%
Non-GAAP Net Income	27.1%	26.0%	24.0%	22.6%	22.4%	21.0%	22.0%	22.5%	22.0%	22.5%

Source: Company data & Hilliard Lyons estimates, highlighted figures used for valuation methodology.

eBay Inc. Consolidated Balance Sheets (in millions except per share data)

	2014	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'17	Q2'17	Q3'17	Q4'17	2017
Assets												
Cash and cash equivalents	\$ 4,105	\$ 1,832	\$ 2,686	\$ 2,001	\$ 1,753	\$ 1,816	\$ 1,816	\$ 1,979	\$ 2,636	\$ 1,760	\$ 2,120	\$ 2,120
Short term investments	3,730	4,299	5,327	6,085	6,292	5,333	5,333	4,775	6,381	4,270	3,743	3,743
Accounts receivable, net	600	619	599	628	626	592	592	592	619	626	695	695
Other current assets	1,048	1,154	1,091	1,200	1,112	1,134	1,134	1,147	1,270	1,202	1,185	1,185
Current assets of discontinued operations	17,048	-	-	-	-	-	-	-	-	-	-	-
Total current assets	26,531	7,904	9,703	9,914	9,783	8,875	8,875	8,493	10,906	7,858	7,743	7,743
Long term investments	5,736	3,391	3,370	3,541	3,921	3,969	3,969	4,540	4,754	6,302	6,331	6,331
Property and equipment, net	1,486	1,554	1,497	1,502	1,526	1,516	1,516	1,496	1,538	1,546	1,597	1,597
Goodwill	4,671	4,451	4,519	4,487	4,727	4,501	4,501	4,648	4,665	4,669	4,773	4,773
Intangible assets, net	133	90	82	74	117	102	102	86	92	78	69	69
Other assets	207	365	437	475	428	4,884	4,884	5,545	5,242	5,490	5,195	5,195
Long term assets of discontinued operations	6,368	-	-	-	-	-	-	-	286	-	273	273
Total assets	45,132	17,755	19,608	19,993	20,502	23,847	23,847	24,808	27,483	25,943	25,981	25,981
Liabilities and stockholders' equity												
Short term debt	850	-	6	-	1,449	1,451	1,451	2,210	2,215	749	781	781
Accounts payable	107	349	275	304	278	283	283	296	284	260	330	330
Accrued expenses and other current liabilities	3,830	1,736	1,651	1,718	1,813	1,893	1,893	1,693	1,870	1,964	2,134	2,134
Deferred revenue	108	106	115	116	116	110	110	112	125	117	117	117
Income taxes payable	125	72	60	68	107	110	110	122	102	100	177	177
Current liabilities of discontinued operations	12,511	-	-	-	-	-	-	-	-	-	-	-
Total current liabilities	17,531	2,263	2,107	2,206	3,763	3,847	3,847	4,433	4,596	3,190	3,539	3,539
Deferred and other tax liabilities	522	2,092	2,080	2,204	2,268	1,888	1,888	1,958	2,098	2,157	3,425	3,425
Long-term debt	6,777	6,749	9,030	9,054	7,582	7,509	7,509	6,756	9,251	9,249	9,234	9,234
Other liabilities	79	75	74	76	70	64	64	66	64	64	1,720	1,720
Long term liabilities of discontinued operations	317	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	25,226	11,179	13,291	13,540	13,683	13,308	13,308	13,213	16,009	14,660	17,918	17,918
Stockholders' equity:												
Total stockholders' equity	19,906	6,576	6,317	6,453	6,819	10,539	10,539	11,595	11,474	11,283	8,063	8,063
Total liabilities and stockholders' equity	45,132	17,755	19,608	19,993	20,502	23,847	23,847	24,808	27,483	25,943	25,981	25,981

Source: Company data

RISKS & CONSIDERATIONS

Risks to our valuation include but are not limited to:

- An ongoing concern includes the 2014 data breach that required eBay to reset consumer passwords, which reduced eBay's growth profile
- The unlawful distribution of user information, or the hacking of user information by an outside party and other privacy concerns that may drive users away from the site or create an unwillingness of buyers to transact with unknown sellers
- Search engine algorithm changes. These changes increase eBay's user acquisition costs.
- The ability to grow and/or retain the eBay marketplace of buyers and sellers and their current level of engagement
- The inability by eBay to further monetize mobile products, as customers shift shopping patterns.
- The threat of increased competition, through online, mobile app, or offline sources that could draw ecommerce dollars away from eBay
- The threat of eBay infrastructure failure, causing site downtime
- Regulations, tariffs, taxes, and restrictions imposed on eBay by U.S. or foreign governments
- Global macroeconomic risks resulting from uneven geographic performance and currency fluctuations which may reduce eBay revenue
- Other risks include: seasonal buying patterns of eBay consumers; rapid technological change; financial indebtedness offset with overseas cash; acquisition integration risks and unintended consequences resulting from recent divestitures; and the loss of key eBay executives.

Other stocks mentioned: PayPal Inc. (PYPL-\$78.40)

Additional information is available upon request.

Analyst Certification

I, Stephen Turner, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

The author of this report or members of his household have a long position in the common stock of eBay Inc., but may not engage in buying or selling contrary to our recommendation.

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

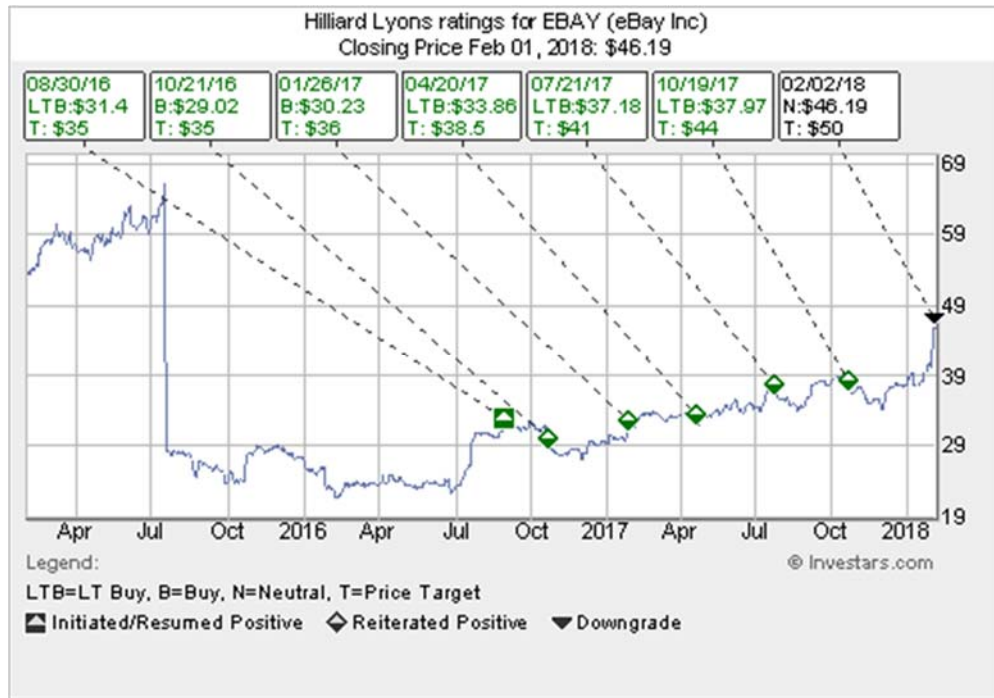
Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



Note: The chart above reflects the spinoff of PayPal which adjusted shares by 42% of their former value on 7-17-15.

Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	31	28%	10%	90%
Hold/Neutral	75	67%	9%	91%
Sell	6	5%	0%	100%

As of 8 January 2018

Other Disclosures

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