

eBay Inc. Q1-2017 Earnings Call

April 19, 2017

Management Prepared Remarks

Please note: The Company's actual estimate of full year 2017 GAAP earnings per diluted share from continuing operations is a range of \$1.85 - \$2.10, as presented in the Earnings Press Release and Presentation. The Company's guidance for full year 2017 GAAP earnings per diluted share from continuing operations announced during the Earnings Call reflected a draft range, which was narrowed to the range appearing in the Earnings Press Release and Presentation.

This posted copy of the prepared remarks from the Earnings Call reflects the range that appeared in the Earnings Press Release and Presentation.

Selim Freiha – Vice President, Investor Relations

Good afternoon. Thank you for joining us, and welcome to eBay's earnings release conference call for the first quarter of 2017. Joining me today on the call are Devin Wenig, our President and Chief Executive Officer, and Scott Schenkel, our Chief Financial Officer.

We're providing a slide presentation to accompany Scott's commentary during the call. We have also included a Structured Data update in the appendix. All revenue and GMV growth rates mentioned in Devin and Scott's remarks represent FX-Neutral year over year comparisons, unless they clarify otherwise.

This conference call is also being broadcast on the Internet, and both the presentation and call are available through the Investor Relations section of the eBay website (at investors.ebayinc.com). You can visit our Investor Relations website for the latest company news and updates. In addition, an archive of the webcast will be accessible for 90 days through the same link.

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.

In addition, management will make forward-looking statements that are based on our current expectations, forecasts and assumptions, and involve risks and uncertainties. These statements include, but are not limited to, statements regarding the future performance of eBay Inc. and its

consolidated subsidiaries, including expected financial results for the second quarter and full year 2017 and the future growth in our business.

Our actual results may differ materially from those discussed in this call 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 Annual Report on Form 10-K and subsequent quarterly reports on Form 10-Q, copies of which may be obtained by visiting the company's Investor Relations website at <https://investors.ebayinc.com> or the SEC's website at www.sec.gov. You should not rely on any forward-looking statements. All information in this presentation is as of April 19, 2017, and we do not intend and undertake no duty to update this information.

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

Devin Wenig – President & Chief Executive Officer

Thanks Selim. Good afternoon everyone.

Q1 was a strong start to the year for us. Heading into the year, we said our intention was to accelerate the business, and in Q1 we drove acceleration in active buyers, revenue and core US GMV, which grew at the fastest rate since Q3 2014. Our user experience improvements and brand marketing are making more of an impact, and driving a healthier ecosystem. We also saw a relatively robust consumer-spending environment in Q1, providing a tailwind for our business. Still, we have significantly more work ahead of us to deliver the business and results that we aspire to for 2017 and beyond. Our plans are not without risk, but I believe we are on the right path.

Overall, Total GMV was up 5 percent year-over-year, revenue was up 7 percent, and Active Buyers grew 4% to 169 million.

GMV and Revenue on our Marketplace platforms grew at 5 percent year-over-year. US Marketplace GMV grew at 4 percent, a one-point growth acceleration, while International GMV decelerated by a point to 6 percent. Our StubHub platforms grew volume at 6 percent, and our Classifieds platforms grew revenue at 10 percent.

Finally, we returned 350 million dollars to our shareholders through our share repurchase program, and recently announced a 500 million dollar cash investment in Flipkart, the leading eCommerce business in India.

We have been working on an ambitious re-platforming of eBay to drive the best choice, the most relevance and a powerful selling platform. This includes the work we are doing on our mobile platform, building product catalogs on structured data, launching new browse-inspired shopping journeys, reinvigorating our C2C business and sharpening our brand. Our user experience changes started to become more visible in Q1, and I expect the pace of change to accelerate as we progress through 2017.

This quarter, we expanded the number of user experiences built on our foundation of structured data. Traffic to these experiences is now at 7%, and conversion gains are holding in SEO traffic, while conversion in our organic experiences is on-par with broader organic traffic conversion. We started to land users directly on our new browse pages when they search for certain broad-based keywords, connecting structured data enabled experiences to our core organic traffic. We are leveraging our 25 million product reviews more extensively with the launch of a Top Rated module in our browse experience. And we have enabled users to upload pictures in product reviews making them more impactful. Finally, we laid the foundation that will enable us to move our paid search traffic to structured data pages by the end of the second quarter.

We also began rolling out a new homepage in late March, powered by the re-platforming work we have been doing. Using structured data and artificial intelligence, we are creating a shopping experience tailored to each eBay user's interests, passions and shopping history. Users will see a homepage that is simpler, more personal and discovery-based, helping them find their version of perfect, no matter what it is.

With nearly 50% of our volume closing on a mobile device, our mobile platform continues to be a key area of focus for us. This quarter, we released our latest core mobile app, 5.8, which enabled us to begin rolling out a significantly simplified consumer selling experience that uses our growing structured data catalog, coupled with a more efficient listing flow.

We also announced our Spring Seller Release, which included several upcoming changes to pricing and performance standards. As part of the changes we are making, we are enabling our sellers more direct access to market their inventory on eBay by removing all 3rd party ads on View Item and Search Results pages and increasing the number of Promoted Listing placements across the site.

Finally, we announced two significant customer experience improvements that will launch later this year, initially in the US. A new authentication program will further increase consumer confidence when purchasing high-end merchandise on eBay, and build upon our leadership as a trusted marketplace. We are also introducing, this summer, guaranteed delivery in 3 days or less for 20 million items on eBay, millions of which will also ship for free.

As we continue to evolve our customer experience, we are also activating a sharper, more clearly differentiated and globally consistent brand. In Q1, we advertised the eBay brand across multiple channels including TV, social and outdoors. You will see us step that effort up later this quarter by bringing our brand to life in a fresh, modern way that authentically connects with people and culture. People shop on eBay to find incredible value across our vast spectrum of inventory, and our updated eBay brand campaign will

address consumer misperceptions and bring to life the eBay we are building for the future.

StubHub is well positioned to capitalize on its leadership position as a global event experience marketplace. We saw strong growth internationally in Q1, and looking at our genres, a good SuperBowl drove strong NFL performance, and we also saw strength in college sports and theater. Most of this strong genre performance was offset by lapping of significant growth from last year. We expect to see lower growth rates through the third quarter based on these tougher comps.

Our Classifieds platform continues to innovate the user experience, and grew at double digits again this quarter. In the Netherlands, we launched a new personalized homepage experience powered by our data that is already driving better engagement. We also expanded the rollout of inventory integration with eBay, and are now beginning to generate meaningful synergy between our eBay and Classifieds platforms, exiting Q1 with over \$1M per week of GMV through this integration.

As I mentioned earlier, we recently announced the terms of our deal to invest in, and partner with, Flipkart, the leading ecommerce player in India. I am very excited about this new exclusive partnership, which enables us to increase our penetration in India by making eBay's global inventory accessible to a significantly larger set of Indian consumers. Additionally, eBay's millions of active buyers will have access to more unique Indian inventory provided by Flipkart. The team at Flipkart are strong executors with deep knowledge of the local Indian market, and we are committed to winning in India through this partnership.

We continue to believe there are significant opportunities to expand our business inorganically. Through our M&A and partnership strategy, we are continually evaluating opportunities to broaden our reach and our capabilities. We also constantly monitor our existing portfolio of assets and take action when we do not see a clear contribution to our strategy, or a path to win.

Finally, I am proud to say that we recently released our first Diversity and Inclusion report since spinning PayPal off in 2015. This report is a straightforward account of where we are and where we are committed to going. It includes data and qualitative content that shares the approach we are taking, which we believe is comprehensive, global and human. Our culture is built on the idea of economic empowerment and connecting people through the power of a global marketplace. We will continue to advocate for principles and policies that support the needs of the global eBay community, such as inclusion, trade, and the positive role that technology can play in peoples' lives around the world.

In summary, we are making steady progress in our journey of changing eBay. In the past year, we have improved the foundation of the business and our operating results. This improvement has not always been linear, and may not be going forward. However, Q1 was a good start to a year where we expect to make significant progress re-defining the eBay user experience and brand.

Let me now turn it over to Scott to provide more details on our quarterly financial results and our Q2 guidance.

Scott Schenkel – Chief Financial Officer

Thanks Devin. Let's begin with Q1 performance starting on Slide 4 of the earnings presentation.

[Slide 4 – Q1 Results]

In Q1 we generated \$2.2 billion dollars of total revenue, 49 cents of non-GAAP EPS, \$447 million dollars in free cash flow, and we repurchased \$350 million dollars of our stock.

[Slide 5 – Active Buyers]

Moving to Q1 active buyers on Slide 5. In the quarter, trailing 12-month growth was 4 percent year-over-year, a 1-point acceleration driving 2 million incremental active buyers. Underlying the overall trends, we saw slightly lower churn rates, stable growth in reactivated buyers, and some early momentum on new buyer acquisition exiting the quarter, particularly in the US and Korea.

[Slide 6 – GMV]

On Slide 6 ... In Q1, we enabled \$20.9 billion dollars of GMV, up 5 percent. By geography, the US generated \$8.8 billion dollars of GMV, up 4 percent, while international delivered \$12.1 billion of GMV, up 6 percent year-over-year.

As we discuss our growth rates, keep in mind that growth was negatively impacted by a point, as we lapped leap-year, somewhat offset by the timing of Easter.

[Slide 7 – Revenue]

Moving to revenue ... we generated net revenues of \$2.2 billion dollars, up 7 percent on an FX-neutral basis, a 1-point acceleration, and up 6 percent organically, stable versus the prior quarter. We delivered \$1.7 billion dollars of transaction revenue, up 6 percent, and \$488 million dollars of Marketing Services and Other revenue, up 9 percent.

[Slide 8 – Marketplace GMV & Revenue]

Diving a bit deeper into our Marketplace platform on Slide 8 ... Q1 GMV grew 5 percent, stable versus the prior quarter. US GMV accelerated 1 point quarter-over-quarter to 4 percent and international GMV grew at 6 percent, a one-point deceleration versus the prior quarter. Underlying those trends, our B2C growth rate was 6 percent year over year, and C2C growth was 3 percent vs prior year, both stable versus the prior quarter.

Total Marketplace revenue was \$1.8 billion dollars, up 5 percent year-over-year, a 1 point acceleration versus the prior quarter.

Transaction revenue grew 5 percent, in line with GMV, while Marketing Services and Other revenue grew 6 percent, accelerating 7 points versus Q4. MS&O performance was driven by strong growth of our co-branded credit card revenue agreement, and expansion of our first-party inventory program in Korea, where we supplement our third-party inventory with consumer staples to ensure consideration across a wide spectrum of shopping occasions.

We continue to shift our advertising revenue away from 3rd-party and towards 1st-party advertising such as our promoted listings product, which is recognized in transaction revenue. This will favor transaction revenue, but put pressure on MS&O revenue growth moving forward.

[Slide 9 – StubHub GMV & Revenue]

Moving to Slide 9 ... StubHub GMV grew 6 percent, accelerating 1 point from Q4, driven by International strength with the integration of our TicketBis acquisition. StubHub revenue grew 19 percent, down 1 point versus Q4. Excluding the impact of TicketBis, GMV growth was stable at 3 percent, and revenue decelerated 3 points to 13 percent. GMV and revenue growth dynamics resulted in a higher take rate this quarter versus the prior year. This was driven primarily by a reduction in our buyer incentives.

While StubHub is facing tougher growth comps and a more challenging near-term event landscape relative to last year, our long-term outlook of high-single to low-double digit growth for the platform hasn't changed.

[Slide 10 – Classifieds Revenue]

Moving to Slide 10 ... In Q1, Classifieds grew revenue 10 percent, a 3 point deceleration versus Q4. We saw strong growth in eBay Kleinanzeigen, offset by lapping price increases in our motors vertical last year, and continued ad monetization pressure from the ongoing shift of traffic to mobile. Looking forward, we continue to expect Classifieds to grow revenue in the low- to mid-teens.

[Slide 11 – Operating Expenses]

Turning to Slide 11 and major cost drivers ... In Q1, we delivered non-GAAP operating margin of 30 percent, which is down 340 basis points versus last year, driven by 110 basis points each, in Product Development and G&A. Additionally, the stronger US dollar negatively impacted margin by 95 basis points. The impact of FX was felt across all spend categories, so I will focus my comments on the operational dynamics of our expenses.

Cost of revenue increased year-over-year driven by expenses related to our Ticketbis operations and the previously mentioned expansion of our first-party inventory program in Korea, partially offset by good operating leverage.

Q1 sales & marketing expense was relatively flat as a percent of revenue, as productivity and reallocations across channels and platforms helped fund increased Marketplace brand advertising. This quarter, we ran a significant outdoor campaign across the US and an eBay Motors campaign with TV spots airing during major NASCAR events.

Product Development costs were up as we continue to invest in our product experiences across all of our platforms. Key areas of investment include ongoing expansion of structured data, new user experience development and efforts around AI and Machine Learning.

G&A expense was up year-over-year as operating leverage was more than offset by lapping a one-time insurance recovery last year and Ticketbis operating expenses.

[Slide 12 – Non-GAAP EPS]

Turning to EPS on Slide 12 ... In Q1, we delivered 49 cents of non-GAAP EPS, up 4 percent versus prior year, with Fx negatively impacting EPS growth by 4 points. EPS growth was driven by revenue growth and the net benefit of share repurchases, partially offset by the cost dynamics explained earlier.

GAAP EPS for the quarter was 94 cents, up 53 cents versus last year. The primary driver of the year-over-year increase in GAAP EPS was a non-cash

GAAP income tax benefit of \$695 million dollars, which we recorded to recognize a deferred tax asset related to our Classifieds entities. This is part of the ongoing realignment of our legal structure, and the non-cash impact of this realignment is reflected in our GAAP tax rate and GAAP EPS, but has no impact on our free cash flow, non-GAAP tax rate or non-GAAP EPS.

As always, you can find the detailed reconciliation of GAAP to non-GAAP financial measures in our press release and earnings presentation.

[Slide 13 – Free Cash Flow]

On Slide 13 ... In Q1, we generated \$447 million dollars of free cash flow, which was down 7 percent on a year-over-year basis primarily driven by lower net income, and differences in the timing of cash tax payments. CapEx was 6 percent of revenue in Q1, and we continue to expect to be in the range of 7 to 9 percent of revenue for the year.

[Slide 14 – Cash Flow & Capital Allocation]

Turning to Slide 14 ... We ended the quarter with cash, cash equivalents and non-equity investments of \$11.2 billion, with \$2.6 billion in the US.

We continue to be disciplined capital allocators, and align our actions against our capital allocation tenets. In Q1, we repurchased 10.4 million shares at an average price of 33 dollars and 65 cents per share, amounting to \$350 million dollars in total. This amount is in-line with our capital return commitment of a minimum of 50% of free cash flow for the full year. We ended the quarter with \$986 million dollars of share repurchase authorization remaining.

We are excited about the recent announcement of our partnership with Flipkart, and believe our \$500 million dollar investment, along with the contribution of our eBay India business, significantly improves our competitive position in a strategically important market. We expect this deal to close early in the second half of 2017, and upon deal close, we will no longer report active buyer, GMV, and related financials for eBay India. We do not expect the GMV or financial impact to be material to our overall 2017 results; however, we do expect to remove approximately 4 million buyers from our active buyer reporting.

[Slide 15 – Q2 Guidance]

Turning to Q2 Guidance on Slide 15 ... we are projecting revenue between \$2.28 and \$2.32 billion dollars, representing organic Fx-neutral growth of 5 to 7 percent year-over-year. This growth range takes into account Marketplace volume and revenue growth acceleration, offset by StubHub and PayPal operating agreement comps.

We expect Non-GAAP EPS of 43 to 45 cents per share, representing year-over-year growth of 0 to 5 percent on an as-reported basis. EPS growth will be driven by revenue growth and the net benefit of our share repurchase program, offset by our increased investment to drive improved user experiences and to market our brand. Additionally, we expect Fx to impact us by approximately 5 points of growth on a year-over-year basis. For Q2, we expect GAAP EPS in the range of 20 to 40 cents.

Our full-year non-GAAP guidance remains unchanged from January, as we continue to execute on our strategy to deliver the best choice, the most relevance and a powerful selling platform. Our focus through the

remainder of the year will be growing our base of active buyers and delivering a significant number of new user experiences to increase traffic and conversion, while facing into tougher lapping with StubHub and our PayPal operating agreement.

As a reminder, for the year, we expect revenue in the range of \$9.3 to \$9.5 Billion, operating margin of 29 to 31 percent, a non-GAAP effective tax rate between 20 and 21 percent, and non-GAAP EPS of \$1.98 to \$2.03 per share. Additionally, we continue to expect CapEx of 7 to 9 percent of revenue and free cash flow of \$2.2 billion to \$2.4 billion.

We are increasing our full year GAAP EPS guidance to \$1.85 to \$2.10 per share, reflecting the impact of the previously mentioned deferred tax asset recorded this quarter. The difference between our non-GAAP and GAAP EPS primarily consists of the amortization of intangibles, stock-based compensation and tax impacts from our ongoing legal structure realignment.

[Closing]

In summary, we are making progress on our plans for the year, launching a significant number of new user experiences that are starting to impact our results, and drive a healthier ecosystem. While growth may not always be perfectly linear, we expect to deliver acceleration in our Marketplace platform, and exit the year having made significant progress in re-defining the eBay user experience and brand.

Now, we'd be happy to answer your questions. Operator?