

eBAY INC.: THE PORTFOLIO DECISION¹

On January 22, 2019, Devin N. Wenig, the President and CEO of the San Jose, California-based eBay Inc. received an 18-page letter² addressed to him and to eBay's Board of Directors from Jesse Cohn, a partner at Elliott Management Corporation (Elliott), a New York City-based hedge fund. The letter was quite critical of the stewardship of the company. More specifically, Cohn indicated that Elliott was calling for eBay to separate two of its businesses – StubHub and Classifieds – and focus on improving its legacy Marketplace business that was facing stiff competition from the leading online retailers. Using a sum-of-the-parts argument³, Cohn's letter indicated that eBay was underperforming its peers, even while having an enviable network of 180 million buyers and 25 million sellers.

Wenig reviewed the letter with eBay's Board chairman, Thomas Tierney. Elliot's charges echoed those of another hedge fund, Starboard Value, that six months ago had indicated that they owned about 1 percent of eBay stock and was privately agitating for change⁴. The two realized that per eBay's governance policy, all 15 Board members were up for reelection at the May 30th, 2019 annual stockholder meeting⁵ and that there was every possibility that both Elliott and Starboard Value would put up their own nominees for Board seats if eBay did not act on the hedge fund's charges. The leadership team of eBay had to decide how to respond to the hedge funds' criticism of the company's portfolio.

EBAY BACKGROUND

Brief History

After working for a subsidiary of Apple right out of college, Pierre Omidyar started an ecommerce company called eShop Inc in 1991. Over the Labor Day break in 1995, Omidyar wrote the code for an interface that brought buyers and sellers together. Omidyar called this site AuctionWeb, and launched it immediately. Omidyar later went to work for General Magic, a software company, while running AuctionWeb on the side. In its first full year of operation, AuctionWeb accounted for a total merchandise value sold of \$7.2 million. Upon reaching this milestone, Omidyar quit his General Magic job to devote full time to his auction site. He began hiring employees and also a President to run his company. The company sold its one millionth item in mid-1997, roughly two years after its launch. At this time, Omidyar changed the company's name to eBay. As eBay grew, Omidyar gave up his title of CEO, let go his erstwhile President and hired Meg Whitman (who had held senior management positions at Procter and Gamble and The Walt Disney Company) as President and CEO. In the midst of the Internet boom of the late 1990s, eBay went public via an initial public offering (IPO) in September 1998.

¹ *Review copy submitted to NACRA 2019, Tempe, AZ. Not for reproduction or distribution.*

² "Elliott Management Sends Letter to Board of Directors of eBay," January 22, 2019, MarketWatch, accessed May 9, 2019, <https://www.marketwatch.com/press-release/elliott-management-sends-letter-to-board-of-directors-of-ebay-2019-01-22>

³ The sum-of-the-parts valuation "is a process of valuing a company by determining what its aggregate divisions would be worth if they were spun off or acquired by another company," Investopedia, "Sum-of-the-parts Valuation – SOTP Definition," accessed May 13, 2019, <https://www.investopedia.com/terms/s/sumofpartsvaluation.asp>

⁴ Cara Lombardo and Laura Stevens, "Activist Investors Urge eBay to Restructure," January 23, 2019, accessed May 9, 2019, <https://search-proquest-com.stetson.idm.oclc.org/docview/2169571601/fulltext/D64F3D94651D4D51PQ/1?accountid=2193>

⁵ Schedule 14A Proxy Filing, April 9, 2019, accessed May 9, 2019, <https://d18rn0p25nwr6d.cloudfront.net/CIK-0001065088/b883846d-d4e2-40c8-b210-09b1ecbc77ea.pdf>

eBay grew both organically and via acquisitions after its IPO. It also began expanding internationally, starting with Germany, Australia, and the United Kingdom in 1999. As eBay grew, accolades came its way, such as its inclusion in 2003 in *Fortune* magazine's list of fastest growing companies and in 2008 in *Fortune*'s "100 Best Companies to Work For." In 2008, John Donahoe replaced Meg Whitman as CEO. Following a public battle with activist investor, Carl Icahn and the spin off of PayPal, in 2015 Devin Wenig became eBay's fourth CEO.

Profile

eBay was purely an auction site when it was founded. Omidyar saw it as a site where people could buy and sell things that would normally be sold in a garage sale or in a flea market. Omidyar envisioned his site to be a pure marketplace, in that the site would not hold any inventory and would generate income solely from fees charged to sellers for listing their products and a commission on completed sales. The first item sold on the site was Omidyar's used laser pointer. Items listed for sale had a "Place Bid" icon next to a box for buyers to enter bids. Auctions were open for a predetermined time period and at the end of the auction period, the listed item was sold to the highest bidder. A 1998 article identified eBay as the "world's leading personal trading community."⁶ Gradually, sellers began to use the site to list and sell new (i.e., unused) items. In 2000, eBay acquired half.com, an online retailer. The acquisition enabled eBay to launch "Buy It Now" – a fixed price sales format. The two formats – auction and fixed price – continued to be present on eBay's site. In August 2008, eBay announced a change in its fee structure that emphasized the fixed price format over auctions. A *New York Times* article gave the rationale for this move:

"The move is intended to help eBay compete more effectively with Amazon.com and other big online retailers. The announcement, timed to increase sales during the holiday shopping season, is just one of the changes eBay has made in the last few months aimed at reducing its dependence on its auction business, which is growing more slowly than fixed-price sales. It provides yet more evidence that consumers are losing interest in auctions now that online shopping sites have become more affordable and easier to use."⁷

In a 2011 interview, then CEO, John Donahoe talked about the transition to fixed price:

"Well, auctions provide price transparency and help items of uncertain value establish a market price. With the emergence of product search on the internet, that role is no longer needed, so a lot of the changes I've made over the past couple of years have been to make our marketplace indifferent to format. If a buyer and a seller want to transact in a

⁶ "eBay's Popularity Soars Above the Competition: Shoppers Spend More Time on eBay Than Any Other E-Commerce Site," *Business Wire*, May 9, 1998, p. 1

⁷ Laurie J. Flynn, "eBay is Planning to Emphasize Fixed-Price Sales Format Over Its Auction Model," *The New York Times*, August 20, 2008, accessed May 8, 2019, <https://www.nytimes.com/2008/08/20/technology/20ebay.html>

fixed-price format, they can. A couple of years ago we saw fixed-price sales surpass auctions for the first time; I expect the ratio to settle at about 70 percent fixed price and 30 percent auction. But that will require a complete re-architecting of almost every element of the business system; pricing, incentive and feedback policies, search algorithms, seller tools and onloading.⁸

In 2017, eBay indicated that 88 percent of its gross merchandise value came from fixed price transactions⁹. At the beginning of 2019, eBay reported that it had 180 million active buyers¹⁰, a seller network that collectively listed over 1.2 billion items, and a gross merchandise value¹¹ of \$95 billion, 60 percent of which was generated outside the United States.

Portfolio

As a company, eBay consisted of three businesses in 2019: Marketplace (which was the legacy online interface connecting buyers and sellers), StubHub, and Classifieds. In fiscal 2018, about 80 percent of total eBay revenues came from Marketplace, and about 10 percent each from StubHub and Classifieds.

Marketplace employed 11,000 people and was led by Jay Lee, who reported to CEO, Devin Winig. The bulk of its revenues came from the take rate percentage that was calculated as net transaction revenues divided by gross merchandise value. Marketplace increased its take rate from 8.11 percent in 2016 to 8.25 percent in 2018. Ever since its emphasis on fixed rate transactions, eBay competed with leading online retailers such as Amazon, Alibaba, and Walmart.com.

StubHub was an online secondary (i.e., resale) ticket platform that eBay acquired in January 2007 for \$310 million. In 2019 StubHub was the world's largest ticket marketplace that enabled buyers and sellers to transact tickets for over 10 million live sports, music, and theatre events in more than 40 countries. It was the official fan-to-fan ticket exchange platform for a variety of professional leagues such as Major League Baseball and the National Football League. StubHub's business model was similar to that of Marketplace, in that, the key driver of both businesses was the network of buyers and sellers and the growth of gross merchandise value that drove revenues. StubHub's take rate was significantly higher than that of Marketplace. Its take rate increased from 21.77 percent in 2016 to 22.48 percent in 2018. StubHub employed 1,540 people in its San Francisco headquarters and was led by Sukhinder Singh Cassidy, who reported directly to the CEO. While StubHub was the market leader in the secondary tickets market, it competed with a number of smaller players such as Vivid Seats, SeatGeek, Razorgator, and Ticket Liquidator¹².

⁸ Adi Ignatius, "How eBay Developed a Culture of Experimentation," *Harvard Business Review*, March 2011, pp. 92-97.

⁹ Reported in eCommerce Bytes, December 1, 2017,

<https://www.ecommercebytes.com/C/letters/blog.pl?/pl/2017/12/1512179179.html>

¹⁰ eBay defined an active buyer as "a buyer who successfully closed a transaction on our Marketplace or StubHub platforms within the previous 12-month period" (2018 10-K, page)

¹¹ eBay defined gross merchandise value (GMV) as "the total value of all successfully closed transactions between users on our Marketplace and StubHub platforms during the applicable period regardless of whether the buyer and seller actually consummated the transaction (2018 10-K, page)

¹² <https://www.investopedia.com/articles/company-insights/090816/stubhubs-top-4-competitors.asp>

eBay's Classifieds business (headquartered in Amsterdam, The Netherlands) was the online version of the classifieds section found in local newspapers. It connected buyers and sellers in local communities. eBay's Classifieds business grew both organically (e.g., Kijiji in Canada and Italy) and via acquisitions (e.g., Bilbasen in Denmark). The various sites that combined to form the Classifieds business operated under their own name, such as Gumtree in the U.K. and alaMaula in Argentina. Classifieds' revenues came entirely from advertising, in that it did not charge any transaction fees. Classifieds employed around a 1,000 people and was led by Alessandro Coppo, who, like StubHub's Cassidy, reported directly to CEO, Wenig. Operating in over 1,000 cities worldwide, Classifieds competed with both local newspapers and a variety of online sites. Even after changing Kijiji's name to "eBay Classifieds" in the U.S., the U.S. site was lagging behind Craigslist, the market leader. However, eBay indicated that its Classified site was the leading player in many of its non-U.S. markets. **Exhibit 1** profiles eBay's portfolio businesses.

Portfolio Management

Over the course of its corporate history, eBay had made a number of acquisitions (e.g., StubHub) as well as a number of divestments. Former CEO, John Donahoe talked about eBay's rationale for acquisitions in a 2011 interview:

"We think about acquisitions in three categories: acquisitions to strengthen our core, adjacent acquisitions, and capability acquisitions. The easiest are the first kind, like the acquisition two years ago of [the Korean auction site] Gmarket. We're letting adjacent acquisitions, such as StubHub and Bill Me Later, run relatively independently. With Bill Me Later we've integrated core capabilities into PayPal and eBay. Positronic, a small search company, is in the third category. In many cases we're buying the people Which helps us integrate faster and acquire great talent."¹³

Three key divestments shaped its 2019 portfolio:

Skype

Skype, an internet-based telecommunications application, was acquired by eBay in 2005 for \$4.1 billion when Meg Whitman was the company's CEO. The rationale for the acquisition was that Skype would enable eBay's buyers and sellers to communicate with each other. When John Donahoe succeeded Whitman in 2008, the decision was made to divest Skype. Donahoe provided the rationale:

"Skype is an enormously successful way to connect people, but not through commerce. When I became CEO, I felt it was really important to focus – that you can't compete and succeed on multiple fronts. Skype was a fantastic business, but it didn't have synergy with eBay and PayPal, so I made the decision early in my tenure to divest it."¹⁴

¹³ Adi Ignatius, "How eBay Developed a Culture of Experimentation," *Harvard Business Review*, March 2011, pp. 92-97.

¹⁴ Ibid.

eBay sold 70 percent of Skype to an investor group in 2009 and the remaining to Microsoft in 2011 when the latter acquired Skype outright for a total value of \$4.4 billion.

PayPal

PayPal was an online payments system that enabled the movement of money from payer to payee. eBay acquired PayPal in 2002 for \$1.5 billion. The company's rationale for the acquisition was that eBay could grow PayPal's transactions significantly by making it the company's in-house payment option. In 2014, PayPal accounted for \$8 billion in revenue and \$419 million in profits, with 26 percent of PayPal's business coming from eBay. On January 17, 2014, Carl Icahn, a leading hedge fund manager, publicized his activist campaign to seek a split of PayPal and eBay. He captured his rationale as:

"PayPal's a jewel, and eBay is covering up its value.¹⁵"

Elon Musk, a co-founder of PayPal offered his own take on eBay's ownership of PayPal:

"It doesn't make sense that a global payment system is a subsidiary of an auction website – it's as if Target owned Visa or something.¹⁶"

In September 2014, eBay announced that they were spinning off PayPal into an independent company. PayPal began trading on the NASDAQ stock exchange as an independent company in July 2015. An eBay shareholder owning one share of the company received a share of PayPal. At its IPO, PayPal's market capitalization was \$47 billion.

eBay Enterprise

In June 2011, eBay paid \$2.4 billion to acquire GSI Commerce and renamed it as "eBay Enterprise." The newly acquired unit managed e-commerce activities for large and medium-sized retailers such as Abercrombie & Fitch and Zales. eBay Enterprise provided inventory management, risk mitigation, and fraud protection to its clients' e-commerce operations, or as the unit's head put it, "We help you drive the best consumer experience after the click." eBay Enterprise was headquartered in Pennsylvania and at the time of its acquisition eBay announced that the new unit would operate as a separate business reporting directly to the CEO.

As a part of Carl Icahn's activism that resulted in the spin-off of PayPal, eBay announced that it was seeking to divest eBay Enterprise so that it could better focus on its core Marketplace business. In July 2015, eBay announced the sale of eBay Enterprise to a group of private investors for \$925 million. An analyst commented on the sale:

"eBay has succeeded in finding a resolution for Enterprise before the spinoff, something it has talked about since January, but the deal isn't exactly a win. eBay acquired Enterprise, formerly known as GSI Commerce, for \$2.4 billion — or almost three times the current sale price — in 2011. At the time, eBay spun off the majority or entire stakes of parts of GSI,

¹⁵ Cited in Steven Bertoni, "EBay and PayPal to Split: Carl Icahn and Elon Musk Wish Comes True," *Forbes*, September 30, 2014, accessed April 11, 2019, <https://www.forbes.com/sites/stevenbertoni/2014/09/30/ebay-and-paypal-to-split-carl-icahn-and-elon-musk-wish-comes-true/#7aae4a941d9a>

¹⁶ Ibid.

including flash sale site Rue La La and the online sports retailer Fanatics. What it was left with was a business that sells e-commerce and logistics services to midsize and large retailers. While parts of the business like the Magento software platform still hold promise, the business also faces challenges as some big long-term clients such as Toys “R” Us decide to leave the GSI platform¹⁷.”

eBay did not break out performance at the individual business level in its Securities and Exchanges (SEC) disclosures. The only breakdown it provided was the net revenue for each business and the take rate for StubHub and Marketplace. All expenses and profits were disclosed at the corporate level. The corporate office team size was approximately 120¹⁸. **Exhibit 2** contains eBay’s summary financial statements.

Portfolio Performance

In its proxy statement, eBay compared itself with three indices: NASDAQ Composite Index, S&P 500 Index, and S&P 500 Informational Technology Index. **Exhibits 3a and 3b** show eBay’s stock performance compared to its peers.

ELLIOTT MANAGEMENT’S THESIS

Elliott Management Corporation, a New York City-based hedge fund with around \$34 billion in assets¹⁹ used a three-question checklist in its activism campaigns: Is the company undervalued? Can it be fixed? Can the fund convince other shareholders of the need for change?²⁰ Elliott sent an 18-page letter²¹ on January 22, 2019 to the Board of Directors of eBay. The fund indicated that they owned around 4 percent of eBay’s shares with a market value of \$1.4 billion. While parts of the letter focused on the need for better execution of eBay’s strategic plan, Elliott’s thesis on improving eBay as a company centered on the company’s portfolio of businesses. Elliott argued that the real value of StubHub and the Classifieds business was not fully reflected in eBay’s stock price and that only a spin-off or a complete divestment of these businesses would benefit eBay’s stockholders. In a plan that Elliott titled “Enhancing eBay,” the hedge fund demanded that the company “unlock strategic value (and) refocus on the core Marketplace business.²²” **Exhibit 4** provides a summary of Elliott’s plan.

¹⁷ Jason Del Ray, “eBay Will Sell Enterprise Unit for \$925 Million as PayPal Spinoff Nears,” *Recode*, July 16, 2015, accessed April 29, 2019, <https://www.recode.net/2015/7/16/11614768/ebay-will-sell-enterprise-unit-for-925-million-as-paypal-spinoff-nears>

¹⁸ Hoover’s Company Records, accessed May 13, 2019, <https://search-proquest-com.stetson.idm.oclc.org/marketresearch/docview/1860787118/fulltextPDF/44DCAE8853344D94PQ/1?accountid=2193>

¹⁹ Elliott Management Corporation, “About Elliott,” accessed April 11, 2019, <https://www.elliottmgmt.com/about-elliott/>

²⁰ Jen Wieczner, “Inside Elliott Management: How Paul Singer’s Hedge Fund Always Wins,” *Fortune*, December 15, 2017, accessed April 11, 2019, <http://fortune.com/2017/12/07/elliott-management-hedge-fund-paul-singer/>

²¹ Molly Schuetz and Spencer Soper, “Elliott Says Urgent Changes are Needed at eBay in Letter to Board,” *Bloomberg*, accessed April 11, 2019, <https://www.bloomberg.com/news/articles/2019-01-22/elliott-says-urgent-changes-needed-at-ebay-in-letter-to-board>

²² Elliott Management Corporation, “Enhancing eBay,” accessed April 11, 2019, <https://enhancingebay.com/content/uploads/2019/01/Elliott-Management-Letter-to-eBay-1.pdf>, page 4.

LOOKING AHEAD

Elliot's campaign against eBay was not the company's first brush with hedge funds. eBay was targeted by activist investor, Carl Icahn, in 2014. After buying around 2 percent of eBay's stock, Icahn nominated two of his employees for seats on eBay's board and submitted a formal shareholder proposal to spin off PayPal. Then CEO, John Donahoe did not give in to Icahn's demands and eventually Icahn backed off. However, in September 2014, eBay announced the spin off of PayPal after an internal strategic review.

Elliott and its CEO, Paul Singer, had a reputation of being relentless activists, who had both the resources and the fortitude to wage long and often nasty activism campaigns. The hedge fund had waged a 15-year battle with the government of Argentina, eventually forcing a \$2.4 billion settlement. Elliott forced Arconic, an aluminum manufacturer, to spend \$58 million defending itself unsuccessfully against the hedge fund in 2018²³. In its campaign against eBay, Elliott was supported by Starboard Value, a hedge fund that had its own track record of waging long, relentless fights against company management.

eBay had a declassified Board of Directors, in that, all directors served annual terms and were up for reelection every year. Both Wenig and Tierney were aware that the hedge funds could use their cumulative investments in eBay's stock to put up their own nominees on the Board at the upcoming May stockholder meeting. Wenig and Tierney believed that they had the choice to fight off the activists much like eBay (under John Donahoe) did for the Icahn campaign or give in to the demands by conducting a strategic review of the company's portfolio that could eventually lead to the divestment of StubHub and Classifieds.

²³ Jen Wieczner, "Inside Elliott Management: How Paul Singer's Hedge Fund Always Wins," *Fortune*, December 15, 2017, accessed April 11, 2019, <http://fortune.com/2017/12/07/elliott-management-hedge-fund-paul-singer/>

Exhibit 1

Profile of eBay’s Portfolio

	Marketplace	StubHub	Classifieds
Origin/Profile	<ul style="list-style-type: none"> • Organic – eBay founded as a marketplace business in 1995 • Connect buyers and sellers • Fixed price and auction model 	<ul style="list-style-type: none"> • Acquisition in January 2007 for \$310 million • Online ticket platform • Subject to anti-scalping laws (inability to sell tickets above the listed price) both in the U.S. (some jurisdictions) and outside • Holds ticket inventory (via partnerships with teams, e.g., the New York Yankees) 	<ul style="list-style-type: none"> • Mostly via acquisitions; some are organic ✓ alaMaula (2011) – Argentina ✓ Bilbasen (2008) – Denmark ✓ dba (2008) – Denmark ✓ 2dehands/2ememain (2013) – Belgium ✓ eBay Kleinanzeigen (2009) – Germany [organic] ✓ Gumtree (2005) – U.K., Australia, Singapore, S. Africa ✓ Kijiji (2005) – Canada and Italy [organic] ✓ Marktplaats (2004) – Netherlands ✓ mobile.de (2004) – Germany ✓ vivanuncios (2015) -- Mexico • “Help people find what they are looking for in their local communities²⁴”
Primary Revenue Driver	Fees from closed sales	Fees from closed sales	Advertising
Key Financial Indices	<ul style="list-style-type: none"> • Gross Merchandise Volume (GMV) – total value of all successfully closed transactions 	<ul style="list-style-type: none"> • Gross Merchandise Value (GMV) • Take Rate Take Rate History: 2018 – 22.48% ²⁵ 2017 – 22.37%	

²⁴ eBay Inc., 2018 10-K, https://ebay.q4cdn.com/610426115/files/doc_financials/financials/2018/annual/2018_eBay_Annual_Report.pdf

²⁵ All revenue data from 2018 10-K, op. cit.

	<ul style="list-style-type: none"> Take Rate -- Net Transaction Revenues/GMV Take Rate History: 2018 – 8.25% 2017 – 8.12% 2016 – 8.11%	2016 – 21.77%	
Revenue History	2018: \$8,641 million 2017: \$8,001 million 2016: \$7,562 million	2018: \$1,083 million 2017: \$1,029 million 2016: \$945 million	2018: \$1,022 million 2017: \$897 million 2016: \$791 million
Leadership/Personnel	Jay Lee, Senior Vice President of eBay and General Manager of Markets Team size: ~11,440 ²⁶ Corporate office team size: ~120	Sukhinder Singh Cassidy, Senior Vice President of eBay and President of StubHub Team size: 1,540	Alessandro Coppo, Senior Vice President of eBay and General Manager of eBay Classifieds Group Team size: ~1,000

²⁶ eBay does not breakout employee count for its individual businesses. The count given in the table is the casewriter’s estimate based on the following sources: <https://www.ebayinc.com/our-company/who-we-are/>, <https://www.linkedin.com/company/stubhub/people/>, and Hoover’s Company Records, <https://search-proquest-com.stetson.idm.oclc.org/marketresearch/docview/1860787118/fulltextPDF/44DCAE8853344D94PQ/1?accountid=2193>

Exhibit 2

eBay Inc.

Summary Financial Statements

Income Statement

(year ending Dec 31, in \$ millions)

	2018	2017	2016
Net Revenues	10,746	9,927	9,298
Cost of Net Revenues	2,382	2,221	2,004
Gross Profit	8,364	7,706	7,294
Sales & Marketing	3,391	2,878	2,691
Product Development	1,285	1,224	1,114
General & Administration	1,131	1,030	899
Provision for Transaction Losses	286	272	231
Amortization of Intangibles	49	38	34
Income from Operations	2,222	2,264	2,325

Revenue Breakdown (\$ millions)

	2018	2017	2016
Marketplace	8,641	8,001	7,562
StubHub	1,083	1,029	945
Classifieds	1,022	897	791

Gross Merchandise Value (in \$ millions) and Take Rate

	2018		2017		2016	
	GMV	Take Rate	GMV	Take Rate	GMV	Take Rate
Marketplace	89,829	8.25%	83,883	8.12%	79,178	8.11%
StubHub	4,751	22.48%	4,520	22.37%	4,310	21.77%

Balance Sheet

(as of Dec 31, in \$ millions)

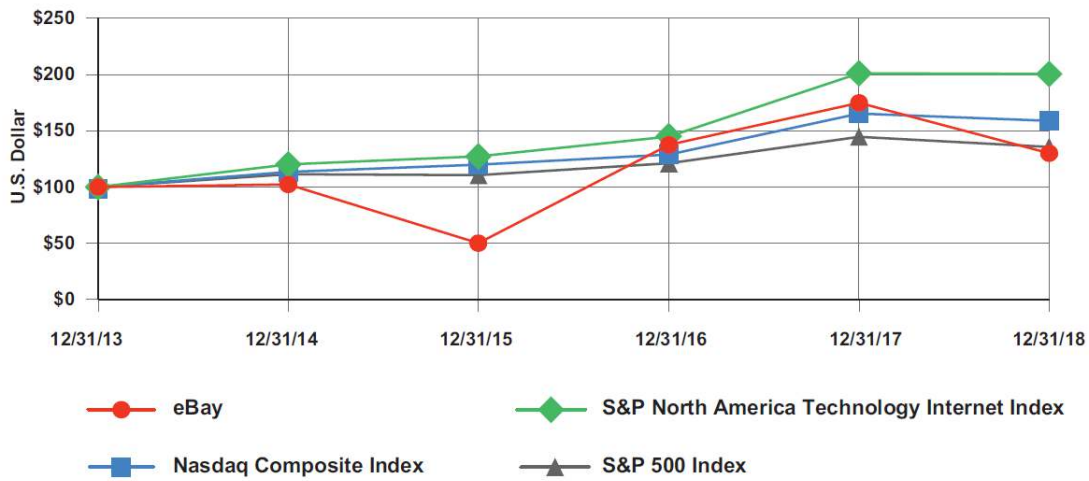
	2018	2017	2016
Current Assets	7,126	7,744	8,875
Other Assets	15,693	18,242	14,972
Total Assets	22,819	25,986	23,847
Total Liabilities	16,538	17,937	13,308
Total Stockholders' Equity	6,281	8,049	10,539
Total Liabilities and Stockholders' Equity	22,819	25,986	23,847

Cash Flow Statement

	2018	2017	2016
Net Cash From (Used By) Operations	2,661	3,146	2,827
Net Cash From (Used By) Investing	2,894	(1,295)	(2,017)
Net Cash From (Used by) Financing	(5,398)	(1,784)	(744)

Source: eBay 2018 10-K, accessed May 9, 2019,
https://ebay.q4cdn.com/610426115/files/doc_financials/financials/2018/annual/2018_eBay_Annual_Report.pdf, and eBay 2017 10-K, accessed May 9, 2019,
https://ebay.q4cdn.com/610426115/files/doc_financials/2017_eBay_AnnualReport.pdf

Exhibit 3a
eBay's Stock Performance vs. Peers



Source: eBay Inc., 2018 10-K, page 31, accessed May 9, 2019, https://ebay.q4cdn.com/610426115/files/doc_financials/financials/2018/annual/2018_eBay_Annual_Report.pdf

Exhibit 3b
A Comparison of eBay and its Stock Market Peers¹

	Price-Earnings Ratio ²	Market Capitalization ³ (\$ billions)
Amazon	74.99	894.13
Alphabet ⁴	23.98	824.239
Alibaba	45.50	414.28
Walmart	37.54	306.254
eBay	15.58	33.811

¹ Peers selected by case author by comparing list of companies in S&P North America Technology Internet Index and various internet lists of top online retailers

² Stock price per share divided by earnings per share; also referred to as "multiple"

³ Product of price per share and number of outstanding shares

⁴ Parent company of Google

Source: Yahoo Finance

Exhibit 4

Key Features of Elliot's "Enhancing eBay" Plan²⁷

- Over a 5-year period (2014-2019), eBay's total stockholder returns (TSR) has been 107 percent lower than its peers and around 35 percent to 65 percent lower than the NASDAQ and S&P500 Information Technology indices.
- eBay's stock trades at a significant discount to both the S&P500 and NASDAQ.
- Over the last five years, eBay's stock has underperformed 13 out of 15 peers.
- StubHub and Classifieds are high-value assets that are worth meaningfully more than what is ascribed to them as part of eBay. Separating these businesses would enable eBay to unlock their value.
- Separating StubHub and Classifieds would also allow eBay's top management team to refocus their efforts on the Marketplace business. The Marketplace business "has weathered prolonged, self-inflicted misexecution."²⁸
- Many of the properties in the Classifieds business operate under their own local brands. "Since eBay's Classifieds properties are each uniquely focused on their distinct markets, they already operate independently with their own geographic locations, organizational structures and strategic priorities. In addition to being readily separable from eBay as a whole, these sites can often be competitive with the core Marketplace insofar as they can compete for the same buyers and sellers."²⁹ Classified's value should be in the \$8-\$12 billion range instead of the approximately \$4.5 billion that it currently has as part of eBay.
- StubHub is non-core to the Marketplace business. "While StubHub is indeed a "marketplace" for tickets, the very nature of tickets makes this platform and the features required highly distinct from the core eBay Marketplace. Despite efforts over the years to better integrate the two platforms through initiatives such as cross-promoting tickets and merchandise, eBay has never succeeded in extracting meaningful strategic synergies. Instead, StubHub, which was a standalone company before its acquisition by eBay, continues to function autonomously and operates from a separate office in San Francisco."³⁰ StubHub's value should be in the \$3.5-\$4.5 billion range instead of the approximately \$2.2 billion that it currently has as part of eBay.
- As a standalone business, Marketplace makes for an attractive acquisition target at a premium price as a pure-play e-commerce platform.

²⁷ Elliott Management Corporation, "Enhancing eBay," accessed April 11, 2019, <https://enhancingebay.com/content/uploads/2019/01/Elliott-Management-Letter-to-eBay-1.pdf>

²⁸ Ibid., page 4

²⁹ Ibid., page 6

³⁰ Ibid., page 7