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Sellers adopting multi-channel e-commerce approach

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E-Commerce sellers diversifying from eBay to Amazon

Having attended the ChannelAdvisor Catalyst e-commerce conference, we believe that third-party sellers currently on eBay are increasingly diversifying their channels to incorporate direct (incl. paid search and comparison shopping) and most importantly Amazon.com. Seller feedback towards Amazon.com was particularly positive while eBay feedback was more bearish. Nonetheless, we maintain our HOLD investment ratings on Amazon and eBay despite these additional data points.

Majority of sellers experiencing weakness on eBay

Following a solid holiday selling season in 4Q, eBay sellers appear to be experiencing deteriorating sales trends in recent months. In fact, roughly 70% of the sellers we spoke to indicated that yearly growth trends on eBay were generally flattish or declining in February and March to date. However, there were notable bright spots such as consumer electronics, Motors/parts and clothing and accessories categories, in which sellers are enjoying sales gains.

Sellers looking to Amazon.com

In contrast, the same sellers have been aggressively shifting a portion of their inventories to Amazon with strong success (especially in the media categories). Sellers indicated that higher pricing, lower commission and higher collections (relative to eBay) represented key advantages for Amazon. However, it is important to note that sellers still enjoy profitability on eBay, yet would like to grow these profits (either by way of eBay, Amazon or direct).

Maintain HOLD investment ratings on Amazon and eBay

Our price target on eBay is \$32, based on 25x our 2007 PF EPS of \$1.27. Note that the ecommerce group trades at 30x 2007E earnings currently. Downside risks include a continued slowdown in the core business, increased competition, and increasing ad rates. Upside risks include potential for increased efficiency in transactions, improved conversion rates, higher levels of organic traffic, lower ad spending rates, and moderating level of competition. See page 4 for detail of valuation/risks.

Our Amazon price target is \$37, based on 28x our 2007 earnings estimate of \$1.33. Our PT values Amazon in line with the median multiple of the e-commerce group (trading at 30x median '07 earnings which we believe is fair as this juncture given Amazon's potential to gain market share in the long-term, but balanced out by near-term concerns over margin growth. Risks include increased competition from traditional retailers, potential weakness in consumer demand could adversely impact Amazon.com sales, impact of marketing and shipping initiatives (Amazon Prime, A9), slowdown in growth of international markets and FX rate volatility.

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Channel Check

Top picks			
eBay (EBAY.OQ),USD32.16			Hold
Amazon.com (AMZN.OQ),USD39.80			Hold
Companies featured			
eBay (EBAY.OQ),USD32.16			Hold
	2005A	2006E	2007E
EPS (USD)	0.86	1.05	1.27
P/E (x)	46.1	30.7	25.4
EV/EBITDA (x)	26.3	16.9	13.4
Amazon.com (AMZN.OQ),USD39.80			Hold
	2006A	2007E	2008E
EPS (USD)	1.09	1.33	-
P/E (x)	32.9	30.0	-
EV/EBITDA (x)	23.2	22.5	-

eBay's pain is Amazon's gain

Sellers speak out at ChannelAdvisor multi-channel e-commerce event

We are maintaining our HOLD investment ratings on shares of Amazon.com and eBay, despite mixed feedback from a slew of third-party merchants and sellers distributing inventories across both sales channels. We recently attended the ChannelAdvisor Catalyst conference, focused on multi-channel e-commerce strategies, and had an opportunity to speak with more than 20 sellers of the 300-plus people in attendance. Overall, the key takeaways from the conference included:

- we believe that roughly 70% of eBay sellers (in particular categories) are experiencing flattish to declining sales in recent months, following a strong holiday selling season
- Amazon.com appears to be a rapidly growing e-commerce channel for sellers in recent quarters, driven by higher ASPs, lower commissions, consistency in growth and solid payment collections relative to eBay
- a major initiative for eBay for 2007 remains enhancing the buyer experience, according to Bill Cobb (President of eBay North America).

While we are generally neutral on both stocks, at the margin we believe that Amazon is enjoying improved momentum from sellers while eBay trends appear to be a bit troubling. However, we note that shares of eBay have downside support from the company's buyback program and investors are still looking for the return of operating leverage at Amazon at some point in the future. To that end, the renewed enthusiasm of Amazon third-party from sellers should help improve the company's prospects for a return to operating leverage.

Mixed sales responses from eBay sellers...

Anecdotally, we believe that 70% of the eBay sellers we spoke with had been experiencing flat to declining sales on eBay in recent months. This abrupt change in business conditions was in stark contrast to a generally robust holiday selling season for eBay sellers. Overall sales activity had been brisk in 4Q, yet the pace of business has fallen off the mark in 1Q. In particular, the month of February represented a critical month whereby some sellers indicated a strong pickup in business and sales ahead of expectations, yet the majority of sellers indicated that the business slowed dramatically, a trend that has continued in the last two weeks.

Perhaps more importantly, sales trends among eBay sellers varied by category as well. We note that sellers in categories such as motors, consumer electronics, digital cameras and clothing and accessories continued to enjoy positive year-over-year sales trends thus far in 1Q. However, eBay sellers in the sporting goods, DVD, jewelry, books and memory categories were experiencing sales weakness and declines in the past several months. While the feedback ratings on the sellers is quite positive (implying that feedback did not create for varied sales trends), we do think that overall consumer demand coming to eBay may differ by category, thereby creating for varied responses from sellers.

In terms of overall exposure to eBay, third-party sellers have been slow to diversify their business mix. In fact, most sellers indicated that 40%-80% of their sales came from eBay, with the balance coming from direct storefront initiatives (aided by comparison shopping and paid search) as well as Amazon.com.

... yet Amazon.com continues to impress third-party sellers

The overwhelming majority of third-party sellers indicated that Amazon.com represents one of their fastest-growing sales channels in recent quarters. Since mid-2006, sellers have been adopting Amazon.com's third-party business with meaningful success. For sellers, Amazon.com accounted for roughly 25% of sellers' revenues, with notable success in the media categories (books, music, DVDs, video games). Sellers indicated that average selling prices on Amazon.com were higher than eBay, while commissions were lower on Amazon.com vs. eBay.

Additionally, sellers have found that the integration of the 'BUY' button with the payment system at Amazon leads to far higher collections, whereas the Non-Paying Bidder (NPB) percentage on eBay is in the 5%-20% range (suggesting that eBay sellers still pay insertion fees and final value fees even though buyers may not have paid for the items). The combination of slowing growth at eBay, relative under-exposure at Amazon, higher ASPs, commission-based pricing model and payment facilitation all represent key themes that have fostered the growth of the third-party business at Amazon.com. Importantly, at the ChannelAdvisor Catalyst conference, quite a few sellers appear to be in an evaluation mode in assessing Amazon as another e-commerce channel to sell into.

eBay North America President highlights 2007 initiatives

Despite a slightly contentious Q&A session with sellers (which centered on trust and safety issues), Bill Cobb (Pres. of eBay North America) provided insight into the 2007 initiatives for eBay – the buyer experience. Cobb indicated that the company plans to make shipping enhancements, provide total product costs, improve customer feedback (through FeedBack 2.0) to enhance the buyer experience. While the company plans to simplify the seller experience (via fewer features for new sellers), eBay plans to focus on buyers through an easier checkout process (hopefully the NPB percentage will come down) and an eBay Motors 2.0 rollout shortly.

Maintain HOLD investment ratings on eBay and Amazon.com

We maintain our HOLD investment rating on shares of Amazon.com and continue to wait for improved operating leverage in the model and for its technology investments to translate into growth for the business before becoming more constructive on the stock. Our price target is \$37, based on 28x our 2007 earnings estimate of \$1.33. Our price target values Amazon directly in line with the median multiple of the e-commerce group (trading at 30x 07' earnings) which we believe is fair as this juncture given Amazon's potential to gain market share in the long-term, but balanced out by near-term concerns over margin growth. Furthermore, the multiple represents a 25% premium to growth, appropriate with the sustained momentum in the business for years now.

On eBay, our price target of \$32 is based on 25x our 2007 PF EPS of \$1.27. Note that the ecommerce group trades at 30x 2007E earnings currently, while large cap Internet leaders trade within the range of eBay on earnings multiples currently (albeit enjoying faster underlying growth in the businesses). Despite encouraging 4Q results we still believe that the shares deserve less of a premium on growth until the company demonstrates sustained operating leverage and margin expansion. In addition, we would like to see stabilization in growth rates, purchase frequency improvements, and ad expense controls before re-visiting our estimates/stance on the stock.

Potential risks and uncertainties

While eBay is hitting some choppy roads, in terms of operating margin compression from investing for future growth, we do think these represent risks that could ease pressure on the stock.

- **Foreign currency exchange risk:** While the company has benefited from a strong Euro relative to the U.S. dollar in the past year, Deutsche Bank's view is that the strengthening US dollar in recent months may be short-lived. Any strengthening in the Euro could bode well for the top line.
- **Operating margin expansion:** Should eBay pare back on investing and/or the top-line came in better vs. expectations, we think that the operating leverage in the model could drive margins.
- **US transaction growth pickup:** Any recovery in US transaction growth could prove our estimates conservative, and help drive margins in the near term.
- **Open territory in Asia-Pacific:** While the market is certainly big, should the competition not retaliate to eBay's marketing activities, an open and less promotional marketing environment in Asia-Pacific could potentially benefit future growth.
- **Competition:** The paid search market has become a major facilitator of e-commerce activity on the Internet, and represents a new-age direct marketing service that delivers leads (and ultimately transactions) to sellers.

For Amazon.com the potential risks and uncertainties could take form against several distinct areas including:

- Increased competition from traditional retailers could force intense pricing pressure and advertising rate inflation.
- Potential weakness in consumer demand could adversely impact Amazon.com consumer demand, although this issue may be difficult to handicap given the solid growth rates industry-wide.
- Impact of marketing and shipping initiatives (Amazon Prime, A9)
- Potential that newer categories do not materialize as major verticals
- Slowdown in growth of international markets
- Foreign exchange rate volatility
- Potential upside could be driven from the company's technology and content investments

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
eBay	EBAY.OQ	32.16 (USD) 21 Mar 07	2,6,8,14
Amazon.com	AMZN.OQ	39.80 (USD) 21 Mar 07	2,6,14,15

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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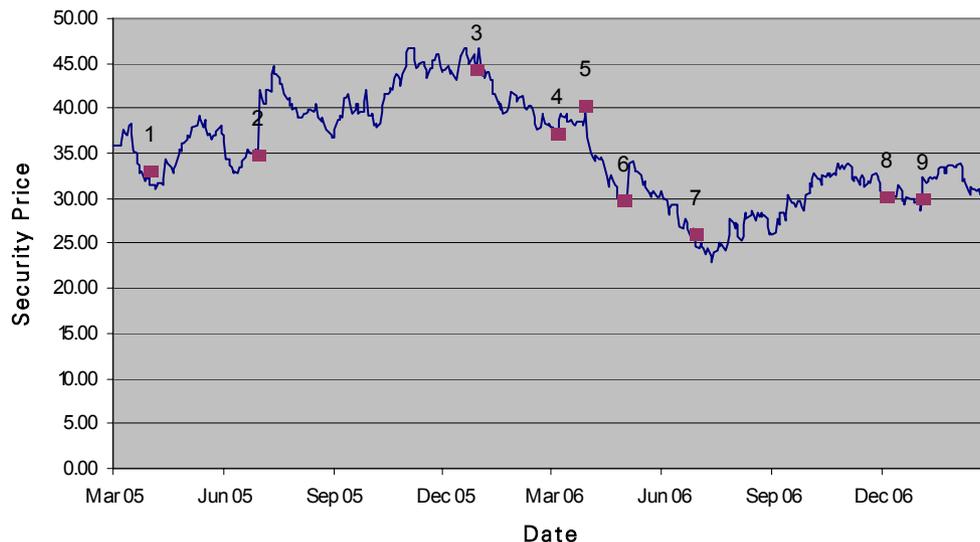
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Historical recommendations and target price: eBay (EBAY.OQ)

(as of 3/21/2007)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

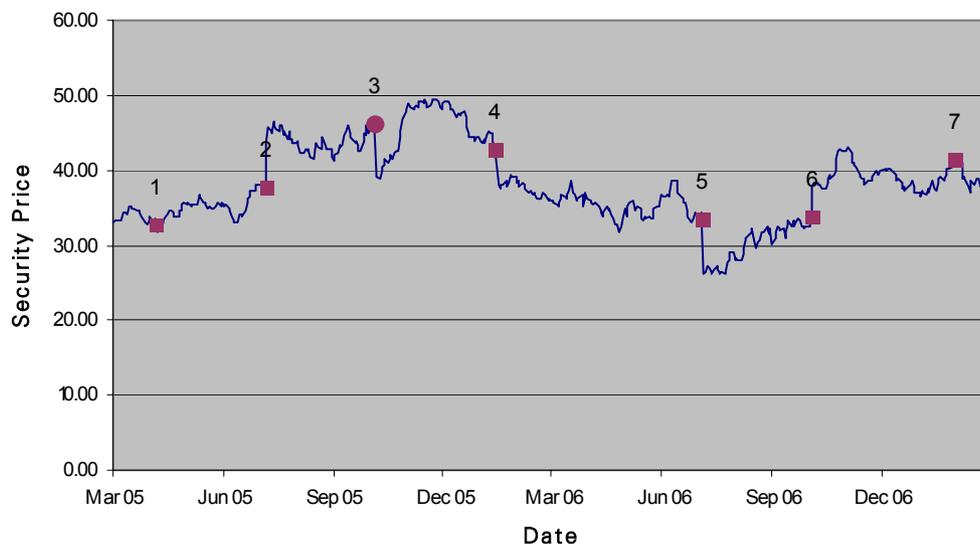
- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	4/21/2005:	Hold, Target Price Change USD35.00	6.	5/22/2006:	Hold, Target Price Change USD30.00
2.	7/21/2005:	Hold, Target Price Change USD36.00	7.	7/20/2006:	Hold, Target Price Change USD26.00
3.	1/19/2006:	Hold, Target Price Change USD44.00	8.	12/26/2006:	Hold, Target Price Change USD29.00
4.	3/27/2006:	Hold, Target Price Change USD40.00	9.	1/25/2007:	Hold, Target Price Change USD32.00
5.	4/20/2006:	Hold, Target Price Change USD35.00			

Historical recommendations and target price: Amazon.com (AMZN.OQ)

(as of 3/21/2007)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
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- Not Rated
- Suspended Rating

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Equity rating key

Equity rating dispersion and banking relationships

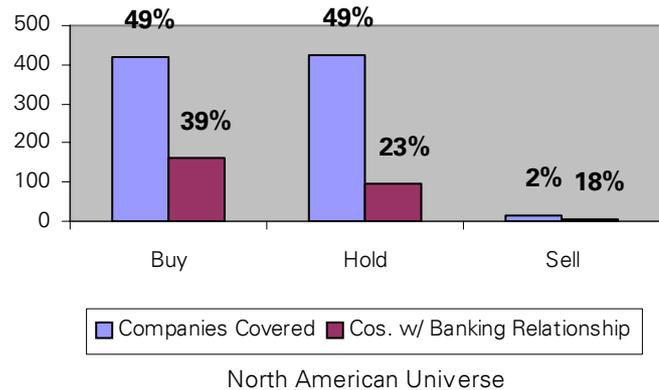
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