

244 Fifth Ave., 2nd Fl., Ste. 2801 • New York, NY 10001 • Tel: (212) 726 1408 • Fax: (413) 215 0880

EBay, Inc. (NASDAQ: EBAY)

The launching of four additional AOL co-branded sites and increased system reliability

Rating: STRONG BUY

February 11, 2000

KEY CONSIDERATIONS

- Registered users increased to 10.0 million by the fourth quarter end, an increase of 359 percent from the 2.2 million at December 31, 1998.
- Launched four additional AOL co-branded sites on AOL.com, Compuserve, Digital City and ICQ (<http://www.ebay.aol.com>.)
- eBay hosted 41.0 million auctions during the fourth quarter, compared to 13.6 million during the same period of last year. This represents year over year growth of 201 percent.
- eBay's stock price has increased sharply after the fourth quarter earning releases.
- Competitors such as Yahoo, Amazon, and Microsoft continue to threaten eBay's market shares.

Recent Price	\$153.36
52WK Low	\$64.00
52WK High	\$234.00
P/E	2948.47
P/Book	26.29
P/Sales	129.79
Market Capitalization	\$ 21.7 Billion
Shares Outstanding	129.34 M
Float	34.9 million
Daily Volume (3-month Average)	3.44 million
EPS	
1999	\$0.08
2000E	\$0.35
2001E	\$0.67
Current Ratio	6.07
Total Debt to Equity	0.02
LT Debt	0.01
Total Cash	\$386.7 million

ONE-YEAR PRICE AND VOLUME GRAPH



COMPANY PROFILE

eBay Inc. operates an online person-to-person trading community. eBay pioneered online person-to person trading by developing a Web-based community in which buyers and sellers are brought together in an auction format to trade personal items such as antiques, coins, collectibles, computers, memorabilia, stamps and toys. The eBay service permits sellers to list items for sale, buyers to bid on items of interest and all eBay users to browse through listed items in a fully-automated, topically-arranged service that is available online 24-hours-a-day, seven-days-a-week. Additional information about eBay Inc. can be found on its web site at <http://www.ebay.com>

This report was prepared by William Wai-Yin Kwok, Ron Israel and David R. Rivas, Ph.D.

The content of this report represents an interpretation and analysis of information generally available to the public or released by responsible individuals in the subject companies but is not guaranteed as to accuracy or completeness. InternetFundManager.com, LLC has not independently verified any of the information contained herein. Opinions expressed herein are subject to change without notice. This report is published solely for information purposes and is not to be construed as an offer to sell or the solicitation of an offer to buy any security. Recommendations made in this report are intended for investors who are aware of, suited to and financially able to bear the risks involved. InternetFundManager.com, LLC and its officers, from time to time, may have long or short positions in the securities mentioned or options to buy or sell the securities mentioned in this report. Past performance does not guarantee future performance. Forward looking statements that relate to future events or future business and financial performance can be only predictions and the actual events or results may differ from those discussed due to, among other things, those risks described in the company's reports on form 10-Q and 10-K. Copyright © 2000. All rights reserved.

THE COMPANY

eBay Inc. was incorporated in California in May 1996, and reincorporated in Delaware in April 1998. eBay pioneered the first Internet-based person-to person trading community in 1995 and is currently the largest and the leading personal trading community on the Internet, based on the number of items listed, number of users, and minutes of usage per month. The eBay service permits sellers to list items for sale, buyers to bid on items of interest, and all eBay users to browse through listed items. The company's 24-hour-a-day, seven-day-a-week service is fully automated, topically arranged, intuitive, and easy to use. Browsers and buyers can search auction listings for specific items or search by category, key word, seller name, recently commenced auctions, or auctions about to end. By accepting multiple bids at increasing prices, its auction format provides sellers a more efficient means of obtaining a maximum price for their products. To date, well over 50% of auctions listed on eBay have been successfully completed.

eBay's auction format and community-oriented structure require little intervention from the Company. Procedural rules designed to facilitate trade and communication, along with the Company's Feedback Forum that allows eBay users to provide comments and feedback on other eBay users, help make the eBay community self-policing. In addition, the Company offers user verifications, insurance, integrated escrow, and authentication and appraisals to bolster eBay's reputation as a safe place to trade. To list an item on eBay, sellers pay only a nominal placement fee, ranging from \$0.25 to \$2.00, and then pay an additional success fee that steps down from 5% to 1.25% of the transaction value only if an auction is concluded with a successful bid. Buyers are not charged for trading through eBay. eBay does not take ownership of any products sold over its site, eliminating the need for capital associated with inventory financing.

From December 31, 1997 to December 31, 1999, the number of registered eBay users grew from approximately 340,000 to 10 million. eBay hosted more than 41 million auctions during the fourth quarter of 1999, up from 2 million auctions in the fourth quarter of 1997. As of December 31, 1999, the Company had more than 2.8 million auctions listed in nearly 3,000 categories. This includes items within eBay's recently launched regional auctions, in which buyers and sellers can post certain items on a local basis, including cars, furniture, and other items that are expensive to ship nationally. However, these auction statistics do not include the recent launch of eBay's German and Australian auction sites, which collectively list nearly one million items for auction.

INDUSTRY OUTLOOK AND COMPETITION

The market for person-to-person trading over the Internet is rapidly evolving and intensely competitive. Barriers to entry are relatively low, and current and new competitors can launch new sites at a relatively low cost using commercially available software. eBay currently or potentially competes with a number of other companies. It indirectly battles with all e-businesses because a buyer can buy the same product being auctioned off at eBay at an e-commerce web site. Furthermore, eBay directly competes with all other e-auctions including Amazon.com, Yahoo!, Onsale Exchange, a division of Onsale, Inc.; Auction Universe, a Times-Mirror Company; Excite, Inc. and a number of other small services, including those that serve specialty markets.

eBay currently enjoys a first-mover advantage. It has about 73 percent of the person-to-person auction market with Amazon.com in the second place and Yahoo! (which charges no listing fees) in the third place. The person-to-person auction business is a high margin business and Amazon.com is aggressively trying to capitalize on its high traffic to divert it to its auction to make it grow. However, according to the recent Weekly Flash from Media Metrix, eBay's daily reach topped 6.5 percent, outpacing the number two site by 58 percent, and the number of unique visitors on a average daily basis set a new record of 1.782 million. In more threatening news, in a unified bid for eBay's 73 percent market share, on January 17, 2000, Fairmarket Inc., Microsoft Corp., Excite@Home and Ticketmaster Online-CitySearch Inc. officially announced a pact to create a new auction service. The four companies expect to capture 73 percent of the online audience. Users can bid through the portal or vendor of their choice, and view merchandise from all the

sites included in the network. The new mega auction boasts the largest distribution of any such network. Terms of the deal were not disclosed. Competition is becoming stiffer and eBay's competitive position is in danger, however, the more rigid it seems to get the more eBay adds to its strategy for growth.

STRATEGY FOR GROWTH

We believe that membership retention and expansion are crucial for staying competitive in the person-to-person auction sector. This important factor allows companies to have numerous item categories, which attract buyers, and efficiently higher bid prices, which attracts sellers. To date eBay has clearly succeeded in executing membership retention and expansion. On January 25th 2000 eBay had a reported 10 million registered users, over 1600 product categories with more than 2.8 million items for auction. Currently, there are over 3.7 million items listed for sale. More than 400,000 items are added daily in over 2,900 product categories. eBay continues to use various strategies to increase its customer base:

Marketing. In the past eBay marketing accomplishments came mostly from word of mouth. Last March, AOL and eBay announced their alliance to expand personal trading and community building on AOL properties. On November 1st 1999, eBay and America Online released four new sites together as a continuation of their four-year strategic alliance of launching co-branded sites. The launch will enable clients of AOL, CompuServe, ICQ, and Digital City to access eBay more easily. This allows more consumers in more places to benefit from eBay's services.

Mergers and Acquisitions. On December 16th 1999 eBay announced the acquisition of Blackthorne Software, a leading provider of software that automates the management of listings for eBay's sellers. Blackthorne Software specializes in products designed to help people sell merchandise on the web. By teaming with eBay, it will offer eBay sellers new levels of service. The terms of the acquisition were not disclosed.

New Services. On October 4th 1999 eBay declared that service will be available to users of the new Palm VII connected organizer, the first handheld computing product for out-of-the-box wireless Internet access. Using 3Com's Palm VII organizer, eBay's community can conveniently track their online trades without being in front of a desktop computer. A new web clipping application for the Palm VII, developed for eBay by WorkSpot Inc., delivers wireless access to ebay.com — allowing users to browse, search and bid on the over 3.7 million items available on eBay.

The nation's first national network of city-centric portals, CitiQuest.com, announced it has signed an agreement with eBay. Under the terms of the agreement, Citiquest.com users will have the opportunity to directly access eBay listings in specific geographic locations.

Joe DiMaggio's extensive personal collection of baseball souvenirs is an example of how eBay has extended into new fields of auctioneering such as memorabilia and rare collectibles. Under their agreed venture last September, Butterfield and Butterfield, an eBay company, will offer on eBay Great Collections of the 17th century the "Old Master" painting, "The adoration of the Shepherds," oil on canvas, by famous French artist Jean Le Clerc. All new services added by eBay are strategically positioned to have membership retention and expansion.

Expansion. Due to intense competition eBay has expanded internationally to Canada, Germany, UK, Australia, and China. eBay recently launched a nationwide network of 53 local sites where community members can easily find items located near them and browse through the items of local interest. The site also provides a more convenient venue for trading items that are difficult to ship long distances, such as cars, furniture and sporting good.

Safety and Trust Program. eBay uses various forms of safety and trust. It uses its partner, i-Escrow, to make sure that the item you want is the item received. Furthermore, it has free insurance for all its

members and finally, they have a feedback forum where members leave comments about each other's buying and selling. To date, eBay has not had any major dilemmas with the safety and trust of its buyers and sellers.

Technology. Due to four system outages in four days in the month of November, eBay, the 13th busiest and most trafficked site on the Internet, according to Media Metrix research, has purchased Segue's award winning SilkTest and SilkPerformer products as well as consulting services to help ensure the reliability and performance of its site.

ALLIANCES AND PARTNERSHIPS

eBay suffered a 22-hour crash in June, which resulted in \$2 million in lost revenue, and another series of shorter crashes in August. In an effort to prevent site crashes, which have plagued the auction site, Friday October 8, 1999 eBay announced that it will outsource its backend Internet technology to AboveNet Communications and Exodus Communications. eBay will outsource its Web servers, database servers and Internet routers as well as increasing its network bandwidth via its relationships with the two companies. Through the deal, eBay extends its previous alliance with Exodus and inks its first partnership with AboveNet. Since October eBay has had four system outages in four days.

On January 12th 2000, eBay and E-Stamp Corp. have formed an alliance aimed at boosting consumers' ability to print computerized postage at home. The multiyear deal, terms of which were not disclosed. E-Stamp is estimated to pay eBay \$10 million dollars a year. Under the agreement announced, buyers and sellers at eBay could get discounts on the E-Stamp Internet postage starter kit as well as reduced fees for buying postage online via E-Stamp. E-Stamp hopes in particular to snare e-Bay users that sell at least \$2,000 in goods a month over the auction site - and probably need a lot of postage for shipping. eBay is attempting to make their web site as convenient and simple to use, something that Steve Case has more than successfully done at AOL.

KEY RISK FACTORS

- **Failure to manage growth could harm its business.** To manage the expected growth of the operations and personnel, eBay will need to improve its transaction processing, operational and financial systems, procedures and controls. The company's current and planned personnel, systems, procedures and controls may not be adequate to support its future operation. The company may be unable to hire, train, retain and manage required personnel or to identify and take advantage of existing and potential strategic relationships and market opportunities.
- **New and existing regulations could harm its business.** Due to the increasing popularity and use of the Internet and online services, it is possible that laws and regulations will be adopted with respect to the Internet or online services. These laws and regulations could cover issue such as online contracts, user privacy, freedom of expression, pricing, fraud, content and quality of products and services, taxation, advertising, intellectual property rights and information security. Any of these new legislation or regulation, or the application of laws or regulations from jurisdictions whose laws do not currently apply to eBay's business, could harm its business.
- **The online auction market is intensely competitive.** The market for person-to person trading over the Internet is new, rapidly evolving and intensely competitive, and they expect competitors can launch new sites at a relatively low cost using commercially available software. They currently or potentially compete with a number of other companies. eBay's direct competitors include various online person-to person auction service, including Yahoo Auctions, Amazon.com, and a number of other small services, including those that serve specialty or regional markets such as CityAuction. They also compete indirectly with business-to-consumer online auction services such as Onsale, First Auction,

Surplus Auction and Ubid. Traditional auction companies such as Sotheby's are offering or have announced plans to create Internet auction sites.

- **System failures could lead to inefficiencies in terms of time and money loss.** eBay's success, and in particular its ability to facilitate trades successfully and provide high quality customer support, depends on the efficient and uninterrupted operation of its computer and communications hardware systems. It seeks to generate a high volume of traffic and transactions on the eBay service. Accordingly, the satisfactory performance, reliability and availability of eBay's web site, processing systems and network infrastructure are critical to the company's reputation and its ability to attract and retain large numbers of users who bid for or sell items on its service while maintaining adequate customer support levels. Any failures in the day-to-day operations of its site and any failure to expand or upgrade its systems sufficiently to accommodate growth could have a material adverse effect on its business, results of operations and financial condition.
- **eBay's business may be harmed by fraudulent activities on its website.** Any negative publicity generated as a result of fraudulent or deceptive conduct by users of their service could damage their reputation and diminish the value of its brand name. eBay may in the future receive additional requests from users requesting reimbursement or threatening legal action against them if no reimbursement is made. Any resulting litigation could be costly for eBay, divert management attention, result in increased costs of doing business, lead to adverse judgments or could otherwise harm their business.
- **Acquisitions could result in dilution, operating difficulties and other harmful consequences.** The process of integrating an acquired business into their business and operations may result in unforeseen operating difficulties and expenditures. In addition, expansion into international markets will require management attention and resources. They have limited experience in localizing their service to conform to local cultures, standards and policies.

FINANCIALS

Revenue. For the year 1999, the Company generated net revenues of \$224.7 million, a 161 percent increase over the net revenues of \$86.1 million in fiscal 1998. Net income for the current year was \$10.8 million, or \$0.08 per share on a diluted basis. The Company's net income before the effect of non-cash charges related to stock-based compensation and acquisition expenses was \$20 million, compared with \$12 million during the fiscal year 1998 (see Income Statement below).

Gross Profit. Person-to person online auctions have high gross margins due to non-existent costs of inventory management and shipping. eBay's cost of revenues has increased due to additional equipment depreciation, personnel costs, and purchases of ISP bandwidth. We expect that the company's future growth of profits will result from continuing increase in eBay's customer base and listing fees from its auction site.

Sales and Marketing. Sales and marketing expenses increased over the previous quarter due to increased online advertising costs, primarily as a result of a full quarter of expense recognition under the AOL agreement. We expect that eBay will have a slightly lower expense margin in this item due to the company's establishment of its strong brand name.

General and Administrative. General and administrative expenses are expected to increase as the company continues to expand and as a result of additional personnel.

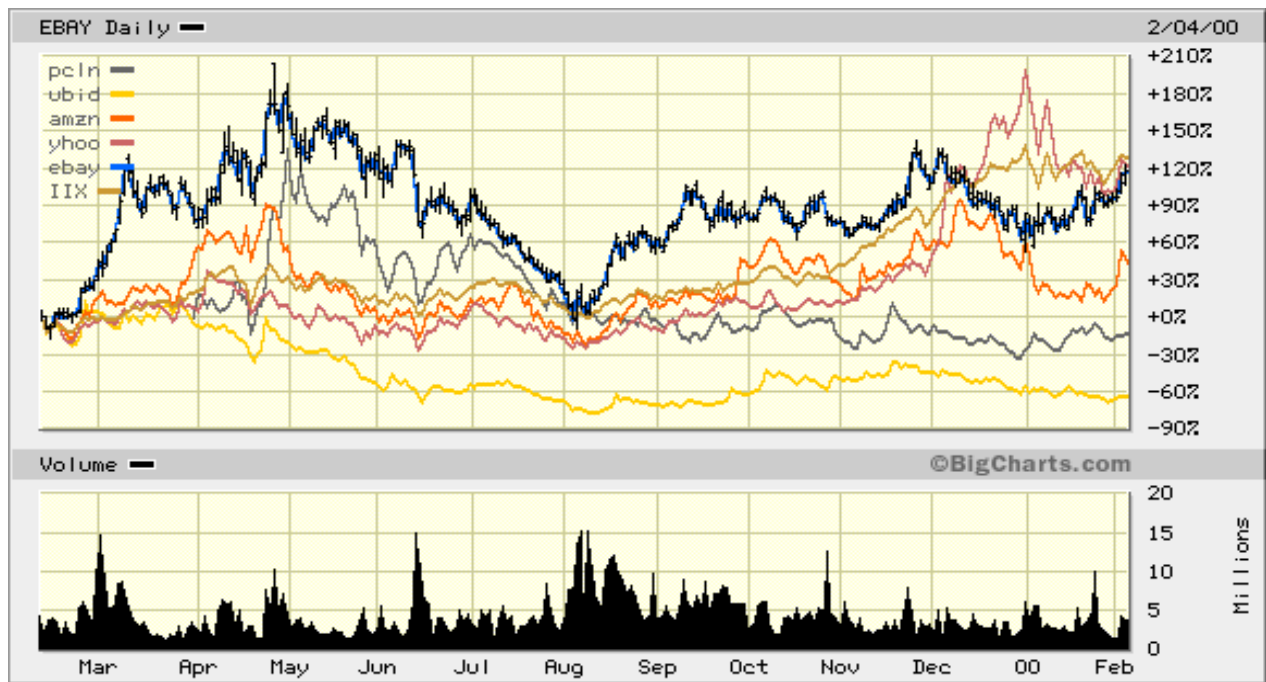
Product Development. The increases in product development expenses in the third and the fourth quarters were largely driven by the resolving of its server failures and additional contractor costs, in part to support new business initiatives. We expect that the expenses from these contributions will not be as large in year 2000 since most of its major server problems have been solved.

Net Income. Net income has been positive since the company's inception and we expect it to remain positive in the near future.

VALUATION

Internet Sector. eBay's stock price declined significantly between May and August 1999 due to its frequent server problems. However, after eBay spent \$10 million in engineering to improve its site performance in the second quarter and \$8.8 million in the third quarter to resolve the problems, eBay's stock price increased from its low \$64 in August 1999 to its current price \$153.

The Internet sector has been volatile relative to the rest of the stock market. The valuations of many Internet stocks are extraordinarily high based on conventional valuation standards such as price to earnings and price to sales ratios. The price of eBay's common stock has increased enormously from the initial public offering price. These trading prices and valuations might not be sustained. Internet Investors still have fears of the Fed raising interest rates and overvaluations of Internet stocks.



Value Comparison 2/11/2000					
	<i>\$ Price</i>	<i>Market Cap.</i>	<i>P/S</i>	<i>Gross Margin</i>	<i>Key Metric</i>
eBay Inc.	153.36	21.7 Billion	127.4	77.9%	10 million registered user
Amazon	76.19	28.7 Billion	16.75	21.7%	10 million customers
Yahoo	342.69	93 Billion	159.03	81.7%	235 million page views per day
Ubid	29.13	288 Million	1.19	9.14%	500,000 registered user
Priceline	53.88	8.8 Billion	16.82	10.04%	940,000 guaranteed offers per quarter

Margins. eBay's gross margin is higher than those of its potential competitors expect for Yahoo. We expect the margins to stay fairly constant over 2000 and 2001 as eBay continues to expand both domestically and

internationally. eBay's gross margin is high due to its non-existing inventory management and shipping costs. All eBay needs is a reliable automated website.

Price to Sales. In comparison with its competitors, eBay has a high P/S ratio. This high valuation can be justified by the following factors: (1) unlike most Internet companies, eBay is profitable with high gross margins, (2) it has a first-mover advantage in the person-to-person auction business with a strong brand and over 70% of the market and (3) it has an increasing customer base and an increasing (and largest) number of categories and services.

Cash. eBay has \$386.7 million in cash and marketable securities. The company has more cash than its competitors, except for Yahoo. We believe that eBay should continue to increase its cash reserves in order to enter into more agreements with other companies after the company launches the four additional AOL co-branded sites on AOL.com, Compuserve, Digital City and ICQ.

Customer Base. The company ended the fourth quarter with 10 million registered users, an increase of 359 percent from the 2.2 million at December 31, 1998. We believe that eBay's customer base will continue to expand rapidly because of its strong brand in the online person-to-person auction business.

INVESTMENT OPINION

We believe that the company's stock price is attractive at the current level. We expect eBay's strong, profitable growth in revenues to continue. And, since we believe that the company is fairly valued, we expect its stock price to appreciate in line with its revenues growth. Therefore, we reiterate our Strong Buy long-term rating. In addition, below we give other reasons for eBay's strength.

At over 10 million users, eBay is bigger than the eighth largest state in the United States. In addition, eBay has two major advantages over the e-commerce group. First, eBay has a first-mover advantage and thus represents the person-to-person e-auction business model. And second, price competition does not actually exist in the e-auction business. Forrester Research forecasts that the total online auction market will be over \$18 billion by year 2003.

eBay develops a community of trust, and has many services in place to ensure that its transactions are relatively fraud-free. These include rating services for buyers and sellers, and other services designed to reinforce the trust principle. These also raise the switching costs, as buyers and sellers gain reputation on the eBay site, which are not transferable between sites.

Also, eBay offers a tremendous value proposition to both individual sellers and buyers in comparison to traditional off-line forums. Off-line trading forums are highly inefficient due to the high user costs driven by listing or intermediary fees and pricing inefficiency resulting from low audience reach and the absence of a system to achieve a market-clearing price. The ubiquity of the Internet, eBay audience reach of 10 million registered users, and Internet-based auction clearing mechanism provide great advantages for both buyers and sellers.

	Year ended Dec 31, 1999				
	1997	1998	1999	2000E	2001E
	(Amounts in thousands except per share data)				
Net Revenue	5,140	86,129	224,724	449,448	786,534
Cost of Revenues	713	16,094	57,588	87,418	151,408
Gross Profit	4,427	70,035	167,136	362,030	635,126
Operating Expenses:					
Sales and marketing	1,647	35,976	95,956	177,307	306,748
General and administrative	855	15,849	43,055	82,653	133,711
Amortization of Acquired Intangibles		805	1,145	1,326	2,309
Merger Related Cost			4,359		
Product Development	773	4,640	23,785	42,473	73,384
Total Operating Expenses	3,275	57,270	168,300	303,760	516,152
Income (loss) from Operations	1,204	12,765	(1,164)	58,271	118,975
Interest and Other Income	54	(703)	21,377	22,066	48,099
Net Income (loss) before income taxes	1,206	12,062	20,213	80,337	167,074
(Provision) benefit for income taxes	(525)	(4,789)	(9,385)	(28,155)	(56,310)
Net Income (loss)	681	7,273	10,828	52,182	110,764
Fully Diluted EPS	0.03	0.06	0.08	0.35	0.67
Shares Outstanding (Diluted)	27,553	116,759	135,910	149,501	164,451
<u>Margin Analysis (%age of revenue)</u>					
Gross Margin	86%	81%	74%	81%	81%
Sales and Marketing	32%	42%	43%	39%	39%
General and Administrative	17%	18%	19%	18%	17%
Product Development	15%	5%	11%	9%	9%
Operating Margin	23%	15%	-1%	13%	15%
Net Margin	13%	8%	5%	11%	14%
<u>Growth</u>					
Total Revenue	N/A	1575.66%	160.92%	100.00%	75.00%
Gross Profit	N/A	1482.00%	138.65%	116.61%	75.43%
Operating Expenses	N/A	1648.70%	193.87%	80.49%	69.92%
Operating Income	N/A	960.22%	-109.12%	-5106.08%	104.18%
Net Income	N/A	967.99%	48.88%	381.92%	112.26%
Fully Diluted EPS	N/A	100.00%	33.33%	336.30%	92.97%