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The Earnings View for EBAY

Online marketer EBay will report Q4 earnings on Wed. Jan. 20th. Consensus estimates call for adjusted earnings of \$0.40 per share.

In our [Merriam Report](#) dual cash-flow and accrual analysis of EBAY, we do note improving operating cash-flow trends as well as strengthened capital productivity coming out of Q3 2009's earnings report.

However, the company experienced declines in each of the revenue metrics we follow during Q3 and the accrual reading in the same period rose to +5.35%, which is very bearish according to our model. We also note that accounts payable levels in the two prior periods rose significantly faster than sales during similar quarters.

Another concern is an exponential rise in Goodwill, both as a % of total assets and stockholder equity. Although the Skype sale and related legal issues look to be resolved, there is always a possibility of a future non-cash charge or restatement involved with the deal.

While we believe on line holiday spending and growing presence of their PayPal unit is positive, eBay's marketplace faces challenges. For example, the company offered free shipping and guaranteed returns for new items, while promoting products that were "new" but not the latest model to lure shoppers into name-brand products at steep discounts.

If today's (Tues.) price action is any indication, investors appear to be expecting good news. The company may very well beat consensus numbers, but we do think any potential earnings beat is already priced into the shares.

Fair-value looks to be \$20 a share, roughly 15% lower than current prices. There's a lot to like about EBAY, but the financial statements are telling us to be careful going into the Q4 announcement.