

# The Party is Over for eBay, amazon, and YAHOO!

BY MICHAEL MARKOWSKI

In 2001, the bursting of the dot-com bubble created an unprecedented opportunity for investors to scoop up the big three dot-com goliaths at deep discounts. eBay (NASDAQ: EBAY) hit a pre-bubble high of \$31.21 and collapsed to a low of \$7.18 in the first week of January 2001. Amazon's shares (NASDAQ: AMZN) rocketed to a high of \$113 during the first week of December 1999 only to fall to a low of \$5.67 during the week of September 24, 2001. Yahoo's shares (NASDAQ: YHOO) followed Amazon during that same week to an all time low of \$4.01 per share after it recorded its all-time and pre-bubble high of \$112 in December 1999. Of the three, eBay is the only one that has had its shares (\$59.21) eclipse its pre-bubble high. The post-bubble highs in the share prices of Amazon and Yahoo have come within about 50% of their all-time (pre-bubble) highs at prices of \$63.52 and \$43.57, respectively.

Why is the party over? The growth in cash flow from operating (CFFO) activities has slowed significantly for all three companies. The easy money has been taken off the table.

CFFO growth for all three over their latest 12 months was at a fraction of where it was five years ago. eBay's CFFO growth has been rapidly decelerating to a pace of 6.2% over its latest

12 months. This compared to 11.8% for its 12 months ended December 31, 2006 and 15.2% for its 12 months ended September 30, 2006. Prior to those three quarters, eBay's CFFO growth rate had been as high as 110% and had not been lower than 28% over its previous 17 quarters. The condition of Yahoo's CFFO growth rate is even worse than eBay's. After Yahoo generated 17 consecutive quarters of positive annualized CFFO growth at a minimum of 24% and as high as 324%, its growth rate declined over its last two consecutive quarters. The last time that Yahoo generated a decline in its CFFO rate of growth, its shares were trading at between \$4 and 7 per share. Amazon also failed to impress with its CFFO growth. It only generated CFFO growth of 0.1% over its latest 12 months, and prior to the miniscule gain, its CFFO growth rate had been in decline for the previous three consecutive quarters. Similar to Yahoo and eBay, Amazon had generated annualized CFFO growth for its previous 16 consecutive quarters. Over the 16 quarters, it had generated annualized CFFO as high as 489% and no lower than 29%.

The sudden and rapid deceleration in CFFO for Amazon, eBay, and Yahoo does not bode well for their respective shareholders. I've found that changes in CFFO momentum can be a good pre-

dictor of changes in earnings and revenue momentum. Therefore, I believe that Amazon, Yahoo, and eBay will be susceptible to reporting earnings disappointments for the rest of 2007. I also expect that the shares for all three of them will underperform when compared against the returns of the overall market.

The sudden halt in cash growth for the original big three at the same time poses two questions. Could this be an indicator of the maturation of online business? Are there any other dotcoms that are experiencing cash flow growth? Yahoo's industry (the Internet software and services) increased its CFFO by 83% over its most recent 12 months and currently ranks 17th out of 216 industries for CFFO growth. Amazon and eBay's industry (online retailers) increased CFFO by 9.9% over its latest 12 months and currently ranks 75th out of 216 industries. Google (NASDAQ: GOOG) is a dot-com that is growing its CFFO. Its cash flow grew at a pace of 45% over its latest 12 months. However, I believe that it's still overvalued since its price to CFFO multiple was recently at 39. One of the old dotcoms I like is Priceline (NASDAQ: PCLN). Its CFFO grew at an 83% clip over its latest 12 months, and its multiple of 22 makes it very attractive. **E**



#### About the Author:

Michael Markowski is the founder of StockDiagnostics.com and utilized its CFFO (cash flow from operations) and OPS (operational cash flow per share) metrics to predict the bankruptcies of several large companies and in EQUITIES in early 2005 General Motors' looming serious credit problems. StockDiagnostics.com publishes current and historical cash flow metrics on over 8,000 companies.