

The Virgin Islands Consortium

Ebay To Spinoff PayPal In 2015

Business / **Published On September 30, 2014 04:30 PM /**

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(Reuters) - EBay Inc (EBAY.O) plans next year to spin off PayPal, its fast-growing payments business, giving in to activist investor Carl Icahn's argument for a leaner company better equipped to compete in the competitive mobile payments market.

EBay's shares rose as much as 8 percent after the company said it would spin off PayPal as a publicly traded company in the second half of 2015, a transaction that will be tax-free to shareholders.

EBay Chief Executive John Donahoe had previously resisted Icahn's proposal, saying PayPal was integral to eBay's business, and vice versa.

Icahn, eBay's sixth-largest shareholder with a 2.48 percent stake as of June 30, backed off from his demand in April. He also withdrew his two nominees to eBay's board, but in a concession, the company added a 10th independent director.

Several activist investors have stepped up pressure on companies to spin off assets as a way to create value. B/E Aerospace Inc (BEAV.O) and JDS Uniphase (JDSU.O) are among those to have agreed, while others such as Darden Restaurants Inc (DRI.N) and EMC Corp (EMC.N) are fighting it out.

Donahoe, in an interview with the New York Times, acknowledged that eBay was following Icahn's recommended strategy. But he contended the company arrived at its conclusion through "a deliberate process" and not by reacting to pressure.

"A thorough strategic review with our board shows that keeping eBay and PayPal together beyond 2015 clearly becomes less advantageous to each business strategically and competitively," Donahoe said in a statement.

Icahn could not immediately be reached for comment.

The spinoff will separate the payment business - which contributes a little over 40 percent to eBay's revenue - from its marketplaces and enterprise businesses.

eBay said revenue in its marketplaces and enterprise businesses increased 10 percent to \$9.9 billion in the last four quarters, while PayPal's revenue rose 19 percent to \$7.2 billion.

"By separating marketplace and PayPal, it could make marketplace more attractive as an acquisition (target), which is something that investors have been thinking about since Alibaba's (BABA.N) IPO," PiperJaffray analysts wrote.

PayPal faces competition from Google Inc's (GOOGL.O) Google Wallet and a number of other vendors. Apple Inc (AAPL.O) also plans to enter the online payments market with its Apple Pay service.

"On PayPal, investors will still contemplate the risk of PayPal directly competing with Apple Pay and Google Wallet, which will likely add some uncertainty to PayPal's standalone valuation," PiperJaffray analysts said.

After the spinoff, the new eBay will be headed by Devin Wenig, president of eBay marketplaces and former head of the markets division of Thomson Reuters Corp (TRI.TO).

PayPal's chief executive after the spinoff will be Dan Schulman, former head of American Express Co's (AXP.N) online and mobile payment business.

"I don't think we would have got Dan if it weren't for having a CEO opportunity and he is just the right guy at the right time," Donahoe said on a conference call with analysts.

Donahoe and Chief Financial Officer Bob Swan will oversee the separation and serve on the boards of both companies.

EBay had a market value of \$65.36 billion as of Monday.

The company's shares were trading up 7 percent at \$56.32 on Tuesday morning.

PayPal was founded in the late 1990s and went public in 2002 and was acquired by eBay soon afterward for \$1.5 billion.

Goldman Sachs & Co and Allen & Co LLC are eBay's financial advisers and Wachtell, Lipton, Rosen and Katz is its legal counsel.

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