

eBay Spinning Off PayPal

By Molly Pon, J.D. Candidate 2017 | October 14, 2014

On Tuesday, September 30, 2014, eBay's 12 directors announced that they would be breaking up the company and spinning off PayPal as a separate publicly traded company. The highly anticipated split is expected to take place sometime during the second half of 2015.

The breakup reflects the growing popularity of spinoffs [among activist shareholders, who buy stakes in companies and then demand changes](#). In eBay's case the move had been urged for months by Wall Street investors, specifically activist and investor Carl Icahn.

Since eBay acquired it in 2002, PayPal has since grown to [generate over half of the company's overall revenue](#). In fact, PayPal is [responsible for one in every six dollars spent online today](#) and is growing much faster than eBay. Icahn and others contend that in light of these facts, PayPal should have more exclusive focus from executives and the freedom to pursue its own strategies. Mr. Icahn argued that creating a separate board would eliminate conflicts with the parent company and give management flexibility to target PayPal's core business.

Originally, eBay executives adamantly rejected the idea of a spinoff, arguing that keeping the company together was more logical. However, after lengthy consideration of how the e-commerce industry is developing, [with new payment standards and the rise of cardless payment systems](#), the company's chief executives began to concede the value of a split.

A number of specific considerations played into the board's change of heart. First, analysts contended that connection with eBay suppresses PayPal's potential as companies like Amazon.com and Alibaba [would likely avoid using the service as long as it's tied to a top competitor](#). Splitting the two companies would allow PayPal to more fully explore its potential and compete with other uninhibited cardless payment services. The growing competition from competitors such as Bitcoin and cardless payment services [like Apple Pay, Apple's new mobile in store payment service](#), solidified the board's decision.

In addition, some analysts suggest that management changes, [such as the planned departure of CEO and formerly vocal split opponent, John Donahoe, and Chief Financial Officer Bob Swan](#) may have played a role in the company's decision to separate PayPal.

It appears as though shareholders echo the approval of analysts and Wall Street investors. On the day of announcement alone eBay's shares rose 7.5% to [\\$56.63](#).