

Spin-Off Update

eBAY Inc. (EBAY) to Separate PayPal in 2H15; Enterprise Segment Separation Likely

eBay Inc.

Parent: eBay Inc. (NASDAQ: EBAY)

Sector: E-Commerce

Share Price: \$53.84*

Spin-Off: PayPal

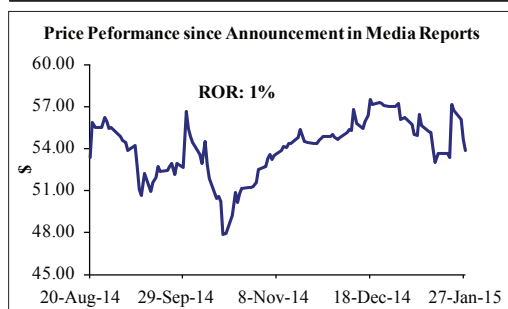
Sector: Payment Solutions

Carve-Out / Sale: eBay Enterprise

Sector: E-Commerce and Marketing Solutions

*As of January 28, 2015

Price Performance



Source: Bloomberg

Spin-Off Details

Announcement	September 30, 2014
Form-10 Filing	End February 2015
WI/RW Trading	TBA
Record/ Dist. Date	TBA
Spin-Off Ratio	TBA
Expected Completion	2H15
Tax-Status	Tax-Free
Index Impact	To be assessed

Top 5 Shareholders - EBAY

Holding %	
7.76	Omidyar Pierre M
5.21	Blackrock
4.74	Vanguard Group
4.02	State Street
3.69	Icahn Associates

On August 21, 2014, media reports surfaced about eBay Inc (NASDAQ: EBAY, \$53.84 Market Capitalization: \$67 billion) planning to separate its payment unit PayPal. On September 30, 2014, the company announced plans to separate PayPal via a tax-free spin-off to eBay shareholders. **In addition, during eBay's 4Q14 results conference call with analysts, management announced plans to look at strategic alternatives for eBay's Enterprise segment.** This could result into a full sale or IPO of the segment.

During the conference call, management stated that FY15 will be a transitional year for eBay with the separation of Paypal and potential sale or IPO of eBay Enterprise. With regards to the Paypal spin-off, the company expects to incur ~\$200 million in ongoing costs. The dis-synergy costs are associated with separating data centers, infrastructure and IT-related task as eBay migrates from a shared services type environment. Additionally, there will be facilities costs associated with separating shared facilities and G&A related costs associated with creating two public companies.

eBay also wants to ensure that both eBay and Paypal are well capitalized post separation. eBay is expected to have net cash of \$2 billion, with significant debt capacity, while PayPal will have net cash of ~\$5 billion. **Paypal's Form-10 is expected to be available by the end of February 2015 and the separation is expected in 2H15.**

Plan to Reduce Workforce by 7%

eBay announced plans to reduce ~2,400 positions or about 7% of its global work force. Management stated this was necessary to simplify the organization, reduce complexity, speed-up decision making and create competitive cost structures. eBay Marketplaces will have higher employee cuts than Paypal.

Agreement with Icahn

eBay announced a standstill agreement with investor Carl Icahn. The agreement lays down certain corporate governance provisions to be adopted by PayPal at the time of its spin-off. In addition, the agreement appoints Icahn Capital executive Jonathan Christodoro to eBay Inc.'s current board of directors. The agreement with Mr. Icahn allows him to determine which board (eBay or Paypal) Mr. Christodoro will serve on at the time of separation.

Deal Rationale

The separation is a result of pressure from activist investor Carl Icahn, who holds 3.69% stake in eBay. Separation of PayPal from eBay may also make the former more acceptable to other e-commerce providers such as Amazon, who could be currently vary of the unit being a part of rival eBay. Investor's favorably viewed the possible separation and this sent eBay's stock soaring 5% following the media reports.

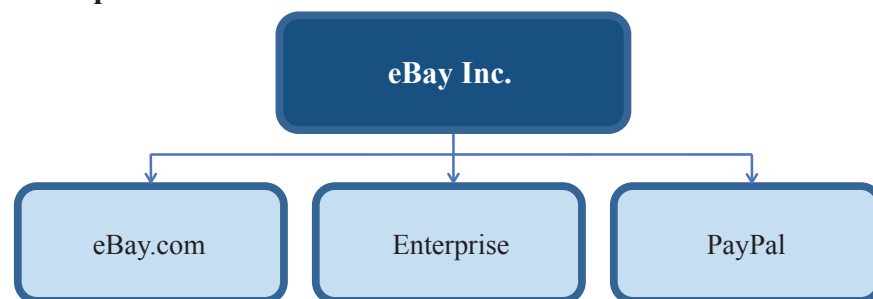
With regards to eBay Enterprise, management is exploring the separation option as eBay Marketplaces and eBay Enterprise have increasingly divergent opportunities.

Key Data - EBAY

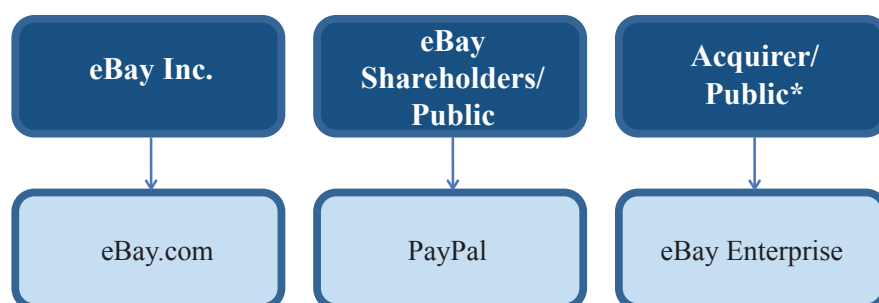
Bloomberg Ticker	EBAY US
Primary Exchange	NASDAQ
Price (\$ as of January 28, 2015)	53.84
52 Week Range (\$)	46.34 - 59.70
Shares Outstanding (billion)	1.2
Market Capitalization (\$ billion)	66.9
Net Cash (\$ billion)	2.5
Enterprise Value (\$ billion)	64.4
Market Float (%)	92
FY15 Estimated P/E (x)	17.35
Fiscal Year Ending	December 31
FY13 Revenue (\$ billion)	11.0
Index Member	S&P 500

Organization Structure

Pre Separation



Post Separation



*Will be owned by a buyer in case of sale or by the public in case of a carve-out
Source: Company data

FY15 Outlook

Management expects FY15 to be a challenging year for the company and expects eBay's performance to soften further before improving.

FY15 revenues are expected to come in the range of \$18.6-\$19.1 billion, representing currency adjusted growth of 7% - 10% YOY. Non-GAAP EPS is expected to come in the range of \$3.05 - \$3.15, up 3% - 7% YOY. Free cash flow for the year will be more than \$4 billion with capital expenditure at 8% - 10% of revenues.

The company's plan to reduce global workforce by ~7%, will result in a GAAP charge of ~\$100 million in 1Q15 and generate savings of more than \$300 million in FY15. These savings will be reinvested into the business.

For PayPal, management expects 15%-18% revenue growth on a currency adjusted basis. Segment margins are expected to come in the range of 24% - 25%, up 1-2 points YOY.

Share Buyback

eBay repurchased \$4.7 billion in shares in FY14. The company's board of directors has approved an increase in the outstanding authorization by \$2 billion, leaving another \$3 billion authorization remaining. Management plans to offset dilution from the compensation programs and continue to opportunistically reduce share count in FY15. This is expected to add ~\$0.10 per share to the year's EPS.

Company Description

eBay Inc. (Parent)

eBay Inc. (EBAY) operates an online trading community. The company's service is used by buyers and sellers for the exchange of products and services such as coins, collectibles, computers, memorabilia, stamps and toys, as well as concert and sporting tickets. eBay also offers, through a subsidiary, secure online payment services.

PayPal (Spin-Off)

PayPal offers an online service that enables individuals and businesses to securely, easily and quickly send and receive payments online and through a broad range of mobile devices in approximately 193 markets worldwide and in 26 currencies.

eBay Enterprise (Sale / Carve-Out)

The Enterprise segment includes GSI Commerce, Inc., which provides commerce technologies, omnichannel operations and marketing solutions for large, nationally recognized retailers and brands.