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Ebay Buys GSI For \$2.4B To Close Gap With Amazon

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Abstract: Ebay Inc. on Monday ratcheted up its battle with e-tailing behemoth Amazon.com with a \$2.4 billion deal to buy e-commerce and marketing service provider GSI Commerce, owner of designer and luxury goods flash sale site Rue La La.

Full text: EBay Buys GSI for \$2.4B To Close Gap With Amazon

Ebay Inc. on Monday ratcheted up its battle with e-tailing behemoth Amazon.com with a \$2.4 billion deal to buy e-commerce and marketing service provider GSI Commerce, owner of designer and luxury goods flash sale site Rue La La.

The deal will take eBay one step further away from its decelerating auction model while strengthening the company's fulfillment and customer service operations, two of Amazon's strengths. But while flash sales are one of the fastest growing areas in fashion retailing, eBay has no plans to maintain ownership of Rue La La. Instead, it will divest 70 percent of the business, along with GSI's sports merchandise operation and 70 percent of its e-commerce retail aggregator ShopRunner.

It will retain GSI's ongoing Web management relationships with fashion brands such as Polo Ralph Lauren Corp., Donna Karan, Levi Strauss & Co., Kenneth Cole Productions Inc., Aropostale Inc., New York & Company Inc. and Dick's Sporting Goods Inc.

Rue La La and ShopRunner were deemed by eBay to be not core to its long-term growth strategy and majority stakes of the two will be sold to a new holding company to be led by GSI founder and chief executive officer Michael Rubin. Rubin will leave GSI once the deal closes, as it's expected to do in the third quarter, with Chris Saridakis, currently ceo of marketing services, succeeding Rubin as president.

Included in the \$2.4 billion purchase price is \$467 million to be loaned by eBay to the new entity controlling Rue La La. In addition, eBay will retain a 30 percent stake in the two businesses and wait to see what Michael could do with them, according to eBay president and ceo John Donahoe.

Drawing a comparison to its company's valuable 30 percent interest in Skype, Donahoe said he foresees opportunities for the company to work with both Web sites, adding: If we can expose Rue to eBay, I mean, there are going to be some natural synergies that I think will develop with the commercial relationship.

EBay's decision not to buy Rue La La is somewhat surprising, as it purchased a German competitor, brands4friends, last December for about \$200 million. Moreover, the private sales site's rival Hautelook was recently scooped up by upscale retailer Nordstrom Inc. for \$270 million in February.

Still, nurturing and extending its reach to larger brands and retailers has been eBay's modus operandi.

According to eBay, the GSI deal will introduce more than 180 GSI Commerce customers to its marketplace channel, and will benefit its PayPal and BillMeLater payment and billing businesses as well.

The number of retailers, large and small, that have come to us saying, We're grappling with how you deal with mobile commerce, said Donahoe. We're grappling with how to deal in a social commerce world. We're grappling with how to go global. It's been striking, and that, we believe, represents an opportunity for our company. And so our strategy that we've outlined for the last several years where we connect buyers and sellers, we see GSI Commerce fitting squarely in that strategy because what GSI Commerce in essence does is enables large sellers, large retailers and brands to meet buyers successfully and effectively.

If consummated in its current form, the acquisition would be eBay's largest since the \$2.6 billion deal for Skype in 2005.

Experts say the deal, which will be financed with cash and debt, will put the San Jose, Calif.-based firm in prime

position to chip away at rival Amazon.com Inc.'s lofty online retailing business. Analysts estimate that Amazon's 2010 revenues will hit \$44.93 billion while eBay pulled in sales of \$10.47 billion, according to Yahoo. Net net, seems like a logical step for eBay, basically a buy-over-build decision, said RBC Capital Markets analysts Ross Sandler. The company is buying relationships with several top retail brands, and PayPal and Marketplaces should see acceleration once these megaretailers are integrated, assuming that happens over the next few years, which doesn't appear to be baked into the updated guidance.

According to RBC, the 2009 Web sales of GSI clients include \$200 million for Polo, \$129 million for Aropostale, \$105 million for Dick's, \$40 million for New York &Co. and \$25 million for Levi's. Clients also include the National Football League (\$121 million), Major League Baseball (\$70 million) and the NBA Properties (\$21 million).

GSI shares Monday closed up \$9.82, or 50.7 percent, at \$29.20. The \$29.25-a-share price represents a 51 percent premium to the company's closing price on Friday. Shares of eBay closed down \$1.36, or 4.3 percent, at \$30.34.

eBay has been advised by Goldman Sachs &Co. and Peter J. Solomon Co., and GSI by Morgan Stanley. GSI has a 40-day go-shop period to pursue better bids.

Credit: By ALEXANDRA STEIGRAD

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