



**The Motley Fool**<sup>®</sup>  
To Educate, Amuse & Enrich<sup>™</sup>

# The Future of Payments

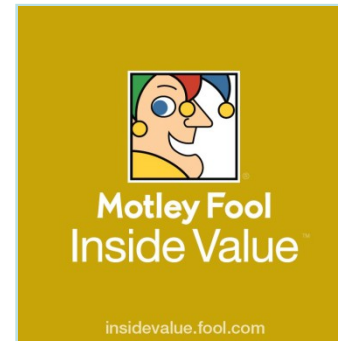
Joe Magyer





# Inside Value

- Focus
  - Widening Moats
  - Margin of Safety
- Performance
  - Annualized returns of 10.5% versus 5.4% by the S&P 500 since inception in 2004.
  - *“Top 10 Investing Newsletter of 2011”* -- MarketWatch

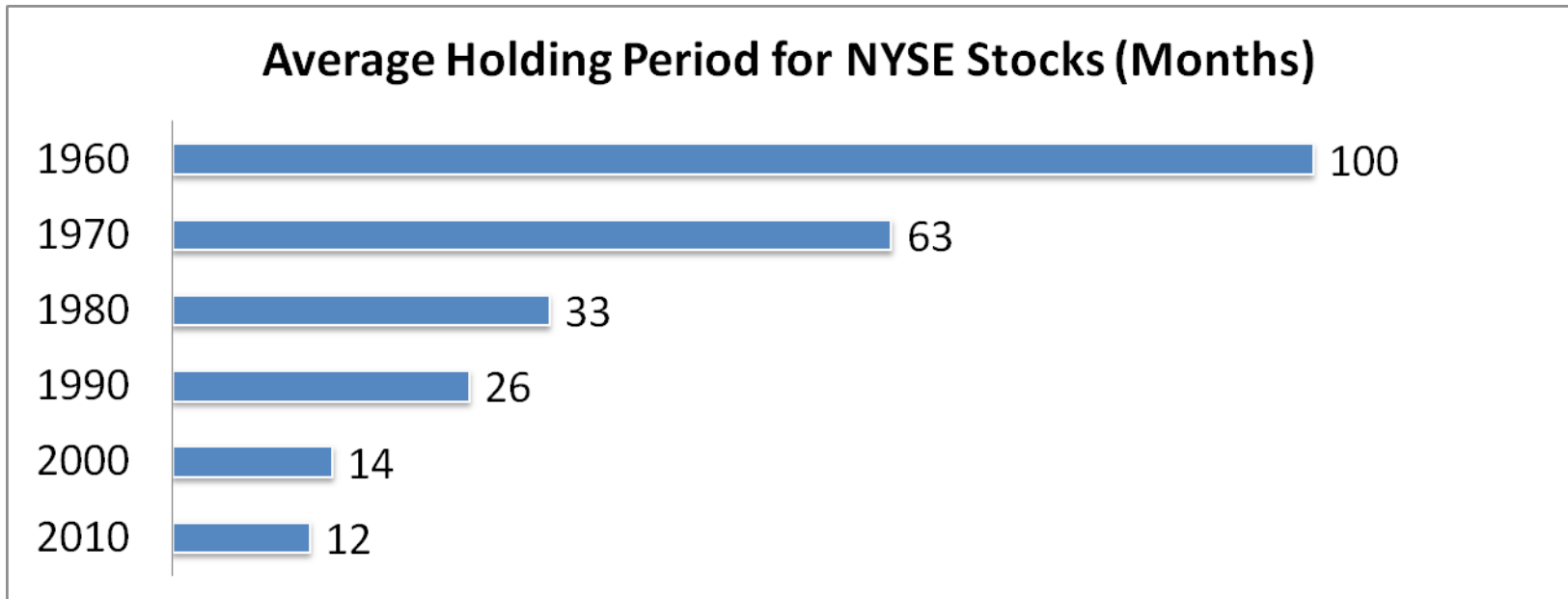


# A Case for Optimism for Stocks

- **Recessions Happen**
  - 14 in the past 84 years
  - S&P 500 up 1,100% over past 30 years
  - Stocks have fallen in 30% of years since 1825
- **Shrinking Time Horizons**
- **Flight to Safety**
  - Low Yields
  - High ERP's

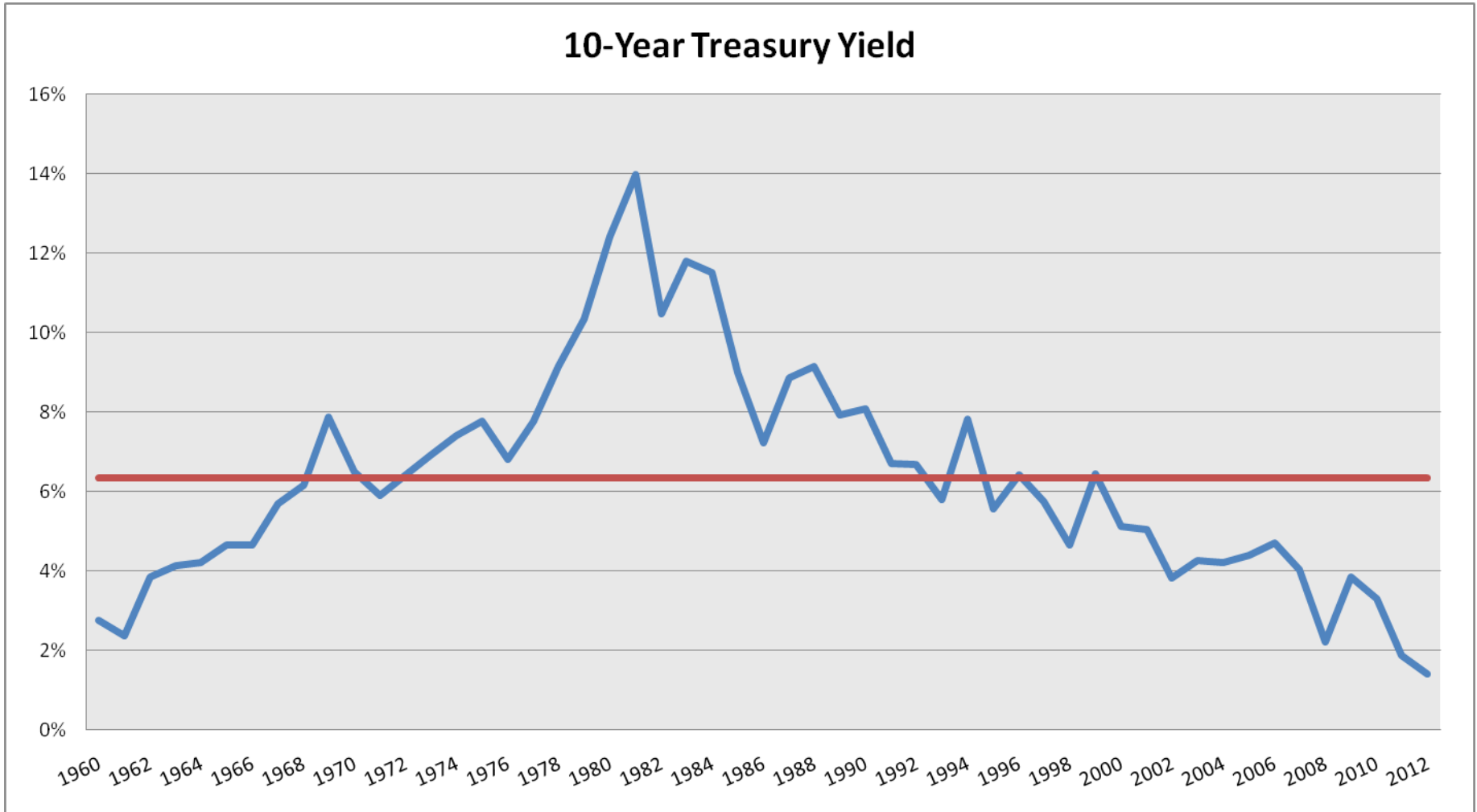


# Shrinking Time Horizons





# Record Low Yields



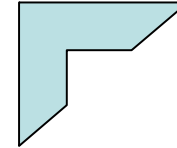
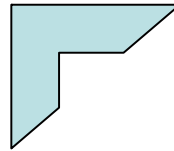
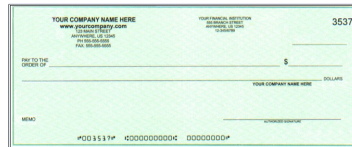
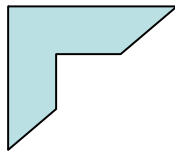
# The State of Payments Today

1. Why Change Happens
2. Big Trends
3. Metrics That Matter
4. Stocks to Avoid
5. Favorite Payment Investments



# Why Change Happens

1. Convenience
2. Security





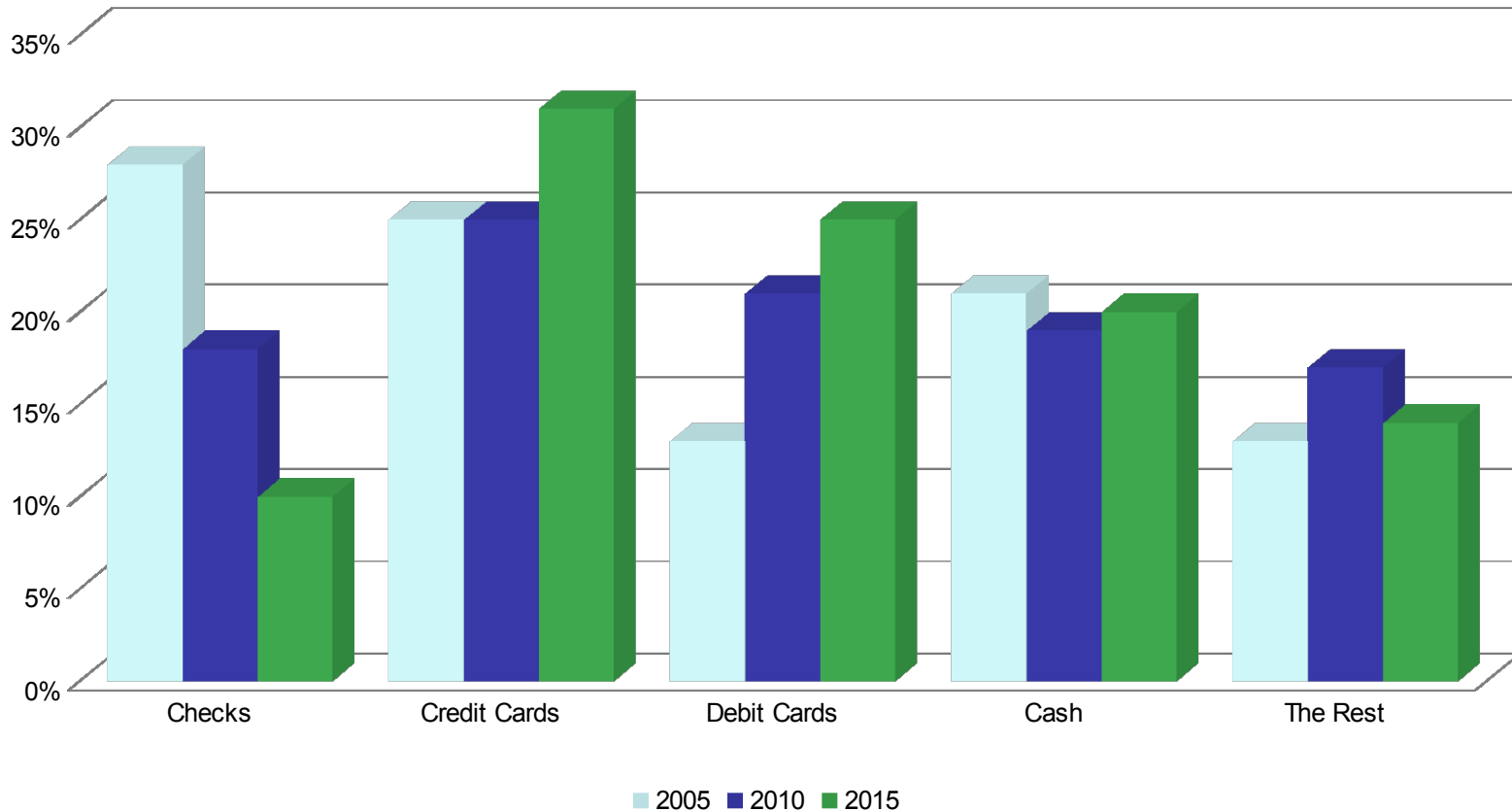
# 3 Big Trends

1. Paper to Plastic
2. Offline to Online
3. Mobile



# Paper to Plastic

**U.S. Transaction Share Estimates**  
Source: The Nilson Report



# Offline to Online

- Plays to plastic
  - 86% of global transactions are done in cash.
    - Source: MasterCard
  - U.S. e-commerce only 5.1% of total retail
    - Source: U.S. Census Bureau
- Buy the Numbers:
  - U.S. e-commerce spending up 15% YOY.
    - Source: U.S. Census Bureau
  - Global internet penetration still only 32%.
    - Source: [internetworldstats.com](http://internetworldstats.com)
  - Amazon's membership growth is accelerating

# Mobile

- Buy the Numbers
  - Only 18% of mobile phones are “smart”
    - Source: Mary Meeker, *2012 Internet Trends*
  - 29% of USA adults own tablets or e-readers
    - Source: Pew Research Center
- PayPal Mobile Payment Volume
  - 2010: \$800M
  - 2011: \$4B
  - 2012: ~~\$7B~~ **\$10B**

# Metrics That Matter

## 1. Network Size

- Market Share
- Merchants
- Users
- Trajectory

## 2. Activity

- Transactions / User
- Trajectory





# What's Next?

- Changes at the Point of Sale
  - Near field communications (NFC)
  - PayPal
  - Square
- Greater focus on speed and convenience.
- More than one winner.



# Why I'm Skeptical on NFC

- Small gain – if any – on security and convenience for stakeholders
- Doesn't displace current card networks
- Commerce is heading to an online POS
- Need adoption from numerous stakeholders:
  - shoppers
  - merchants
  - card issuers
  - handset manufacturers
  - point-of-sale terminal producers

# Long-Shot Dark Horses

- Amazon.com
  - Amazon Payments
  - Long reach, strong brand
- Apple
  - Tightly controlled ecosystem
  - 400M iTunes accounts with credit cards
- Google
  - Google Wallet
  - Google Checkout
- Square





# Cigar Butts to Avoid

- **Western Union** (NYSE: WU)
  - Strong execution and capital allocations...
  - But behind the technological 8-ball
- **Brinks** (NYSE: BCO)
  - Sorely underfunded pension
  - Long-term slog ahead
- **Coinstar** (Nasdaq: CSTR)
  - Disintermediation on two sides
  - Premium valuation

# Favorite: eBay (Nasdaq: EBAY)

- Recent price: \$47
- Market Cap: \$62 Billion
- T12 Revenue: \$13.5 Billion
- Cash/Debt: \$9.1 Billion / \$4.5 Billion
- P/E: 20.2
- Dividend Yield: 0.0%
- Return on Equity: 21.3%

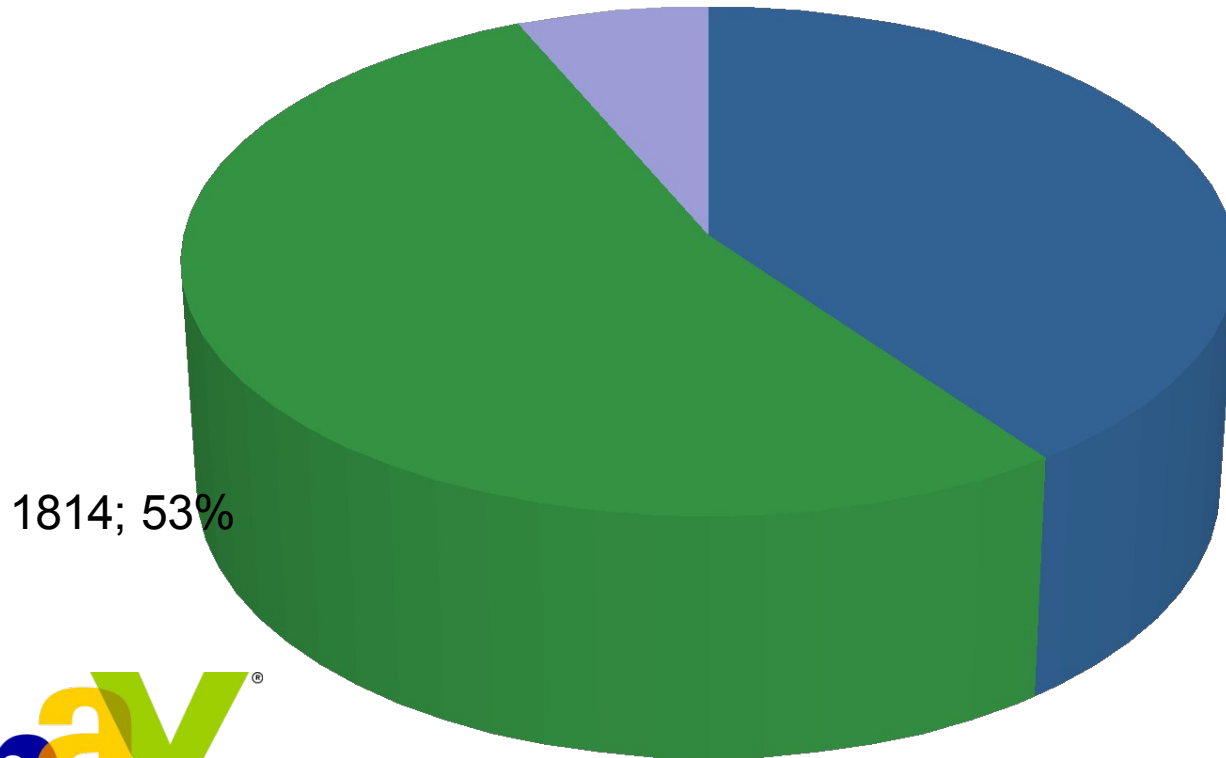
Disclosure: Joe owns shares of eBay.



# eBay's Stock Price



# eBay: A Tale of 2 Networks



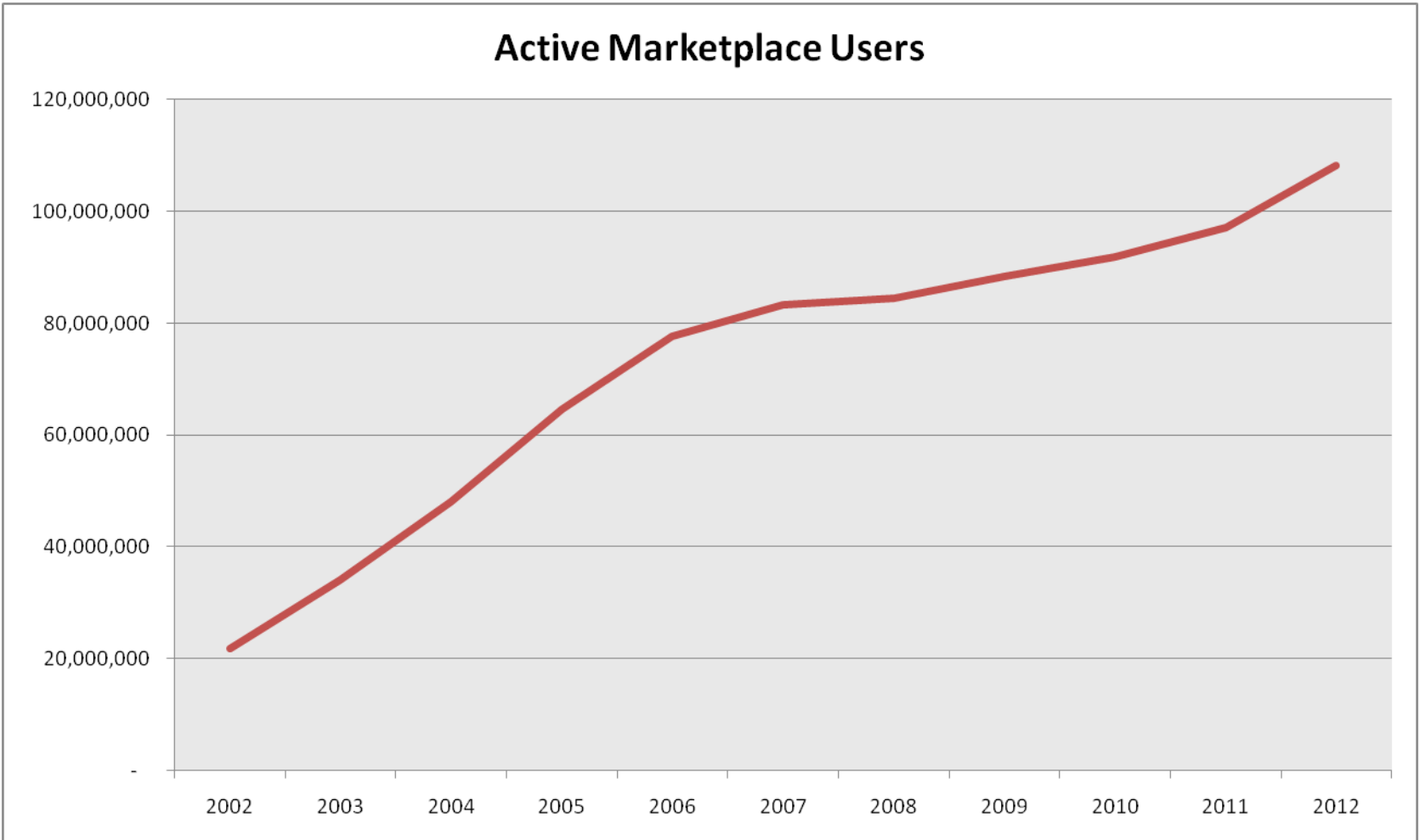
# Marketplaces

- The Business
  - 108 million users and growing
  - Textbook example of a network effect
- A Turnaround
  - Best quarter since 2006
  - Great mobile presence
  - Sales growth is accelerating





# Active User Growth

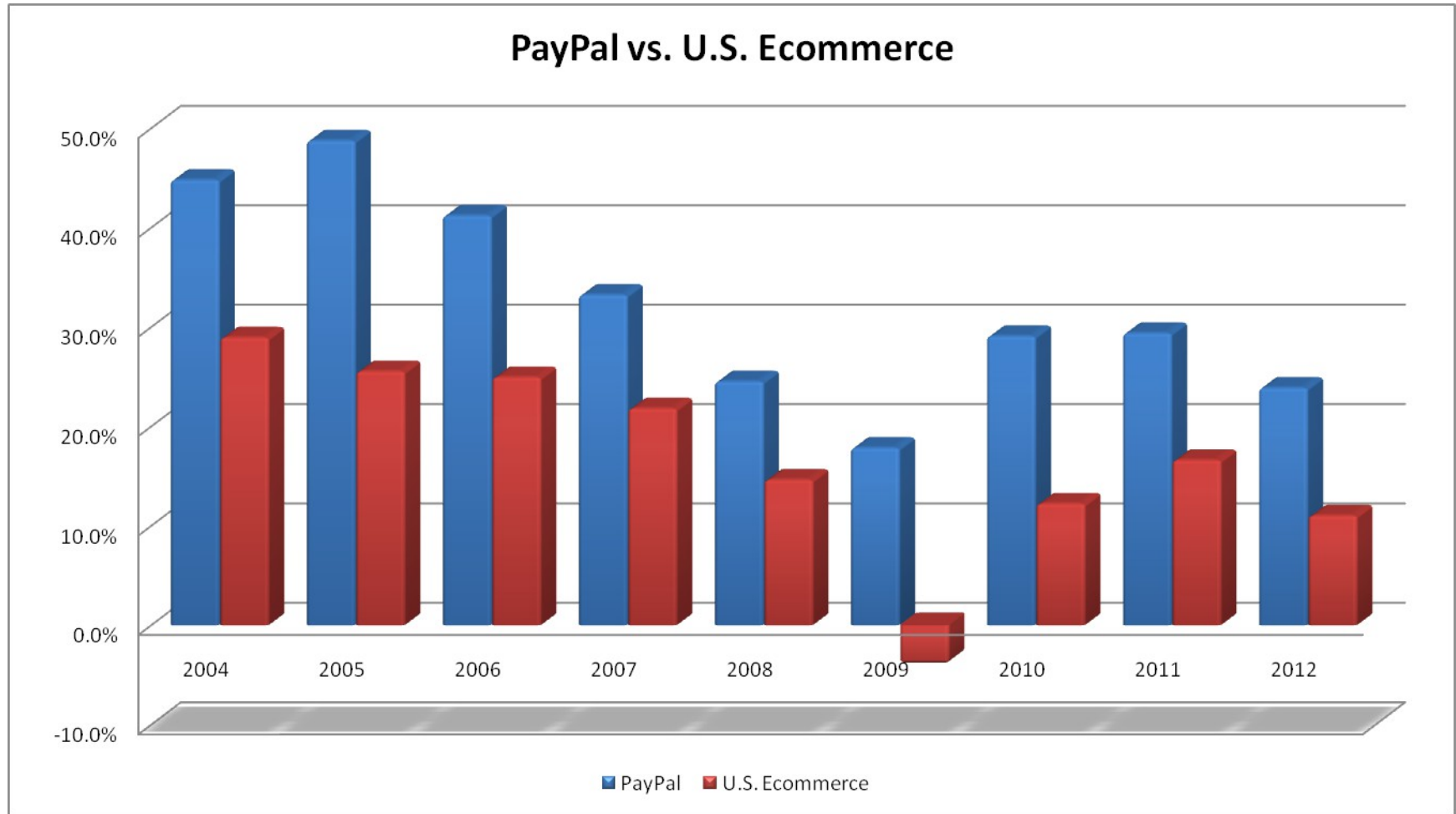


# Payments

- 117 million active users
  - 1 million new users a month
  - Doubled over 4 years
- Growing 2x Marketplaces
- First-Mover Advantage
- Accelerating Growth

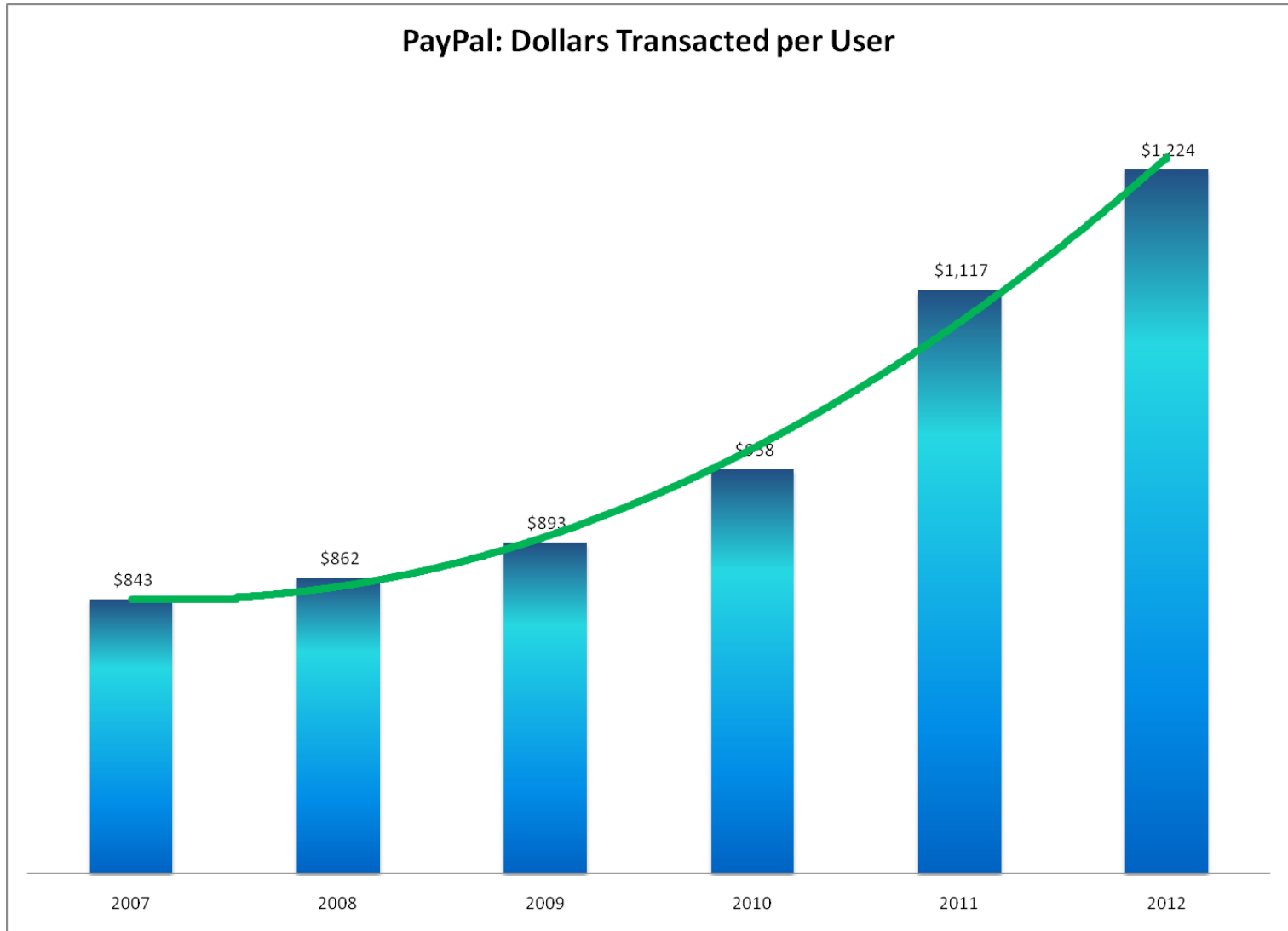
***PayPal***™

# PayPal: Devouring Share





# Favorites: eBay



## 2 Key Risks

1. Lots of competition in Payments
2. Amazon is fierce



# Recap: eBay

- Accelerating growth
- Strong balance sheet
- Well positioned in mobile
- Attractive valuation
- Possible spin-off



# Special Offer

**Inside Value**  
Value Stocks

~~\$199/yr~~ **\$49** *Special rate for Retail Investor  
Conference Participants*

Advisor Joe Magyer and his team are constantly on the lookout for truly great companies (at great prices!) that can consistently increase their values at above-average rates and provide investors with outstanding returns over the long haul.

[www.mot.ly/IVSpecial](http://www.mot.ly/IVSpecial)