



The Motley Fool[®]
To Educate, Amuse & Enrich[™]

The Future of Payments

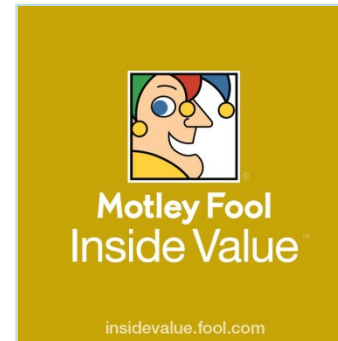
Joe Magyer





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

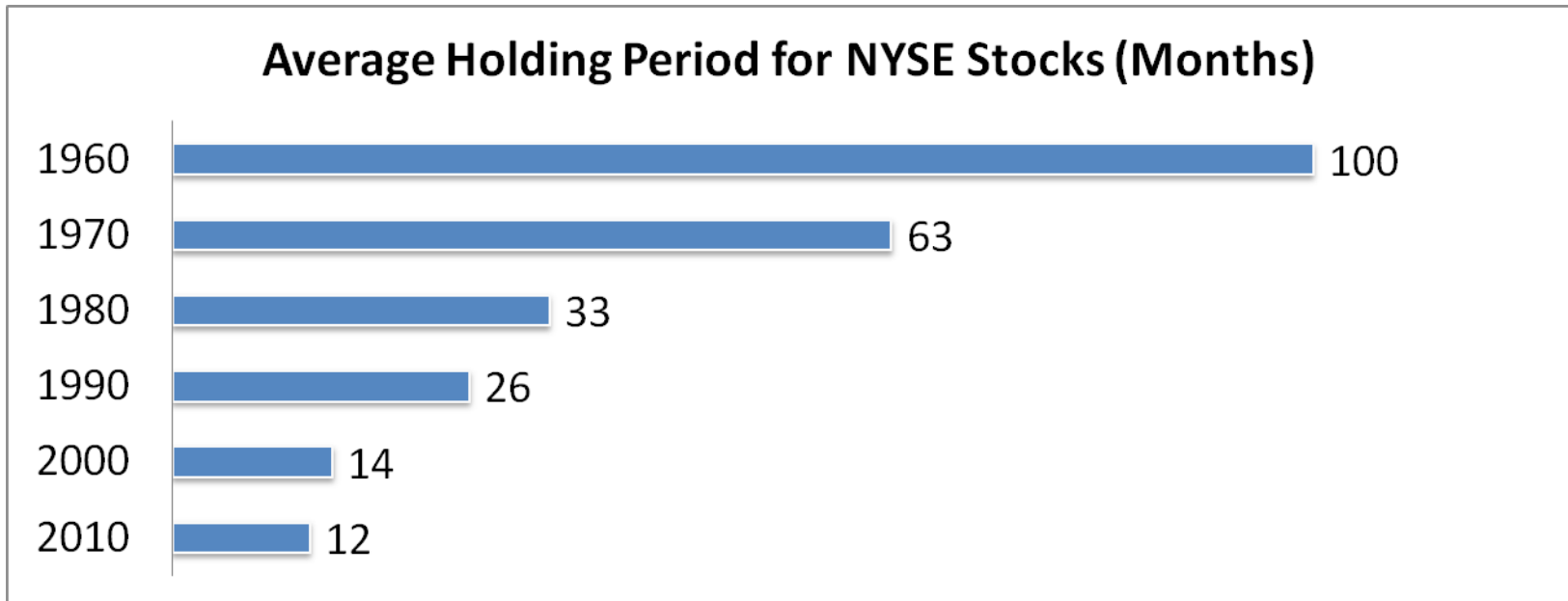


A Case for Optimism for Stocks

- **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

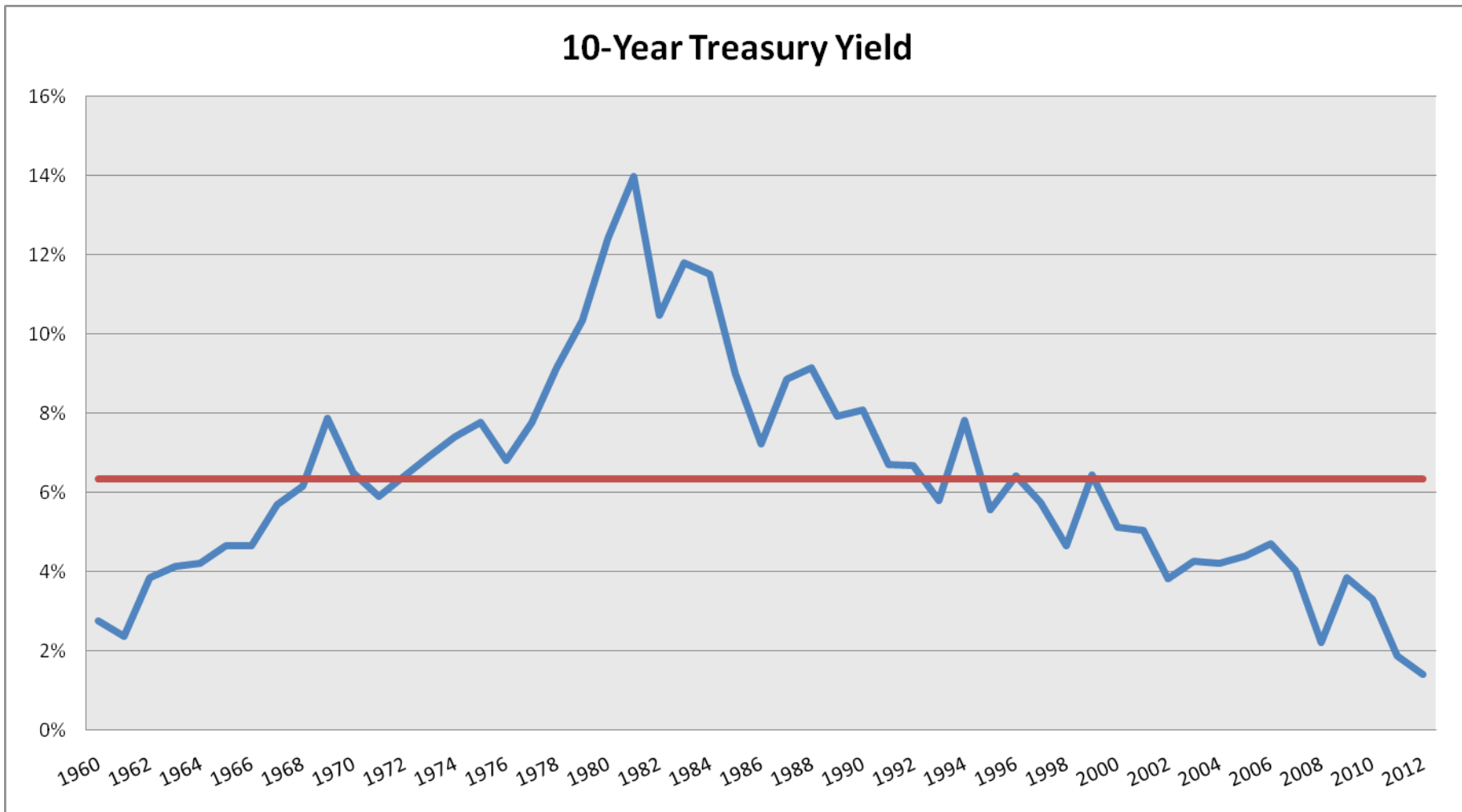


Shrinking Time Horizons





Record Low Yields

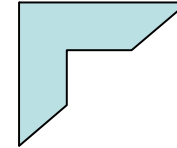
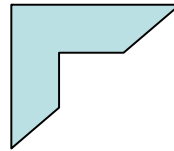
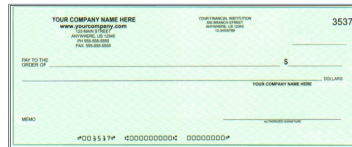
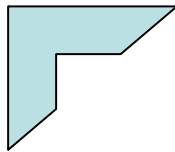


The State of Payments Today

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



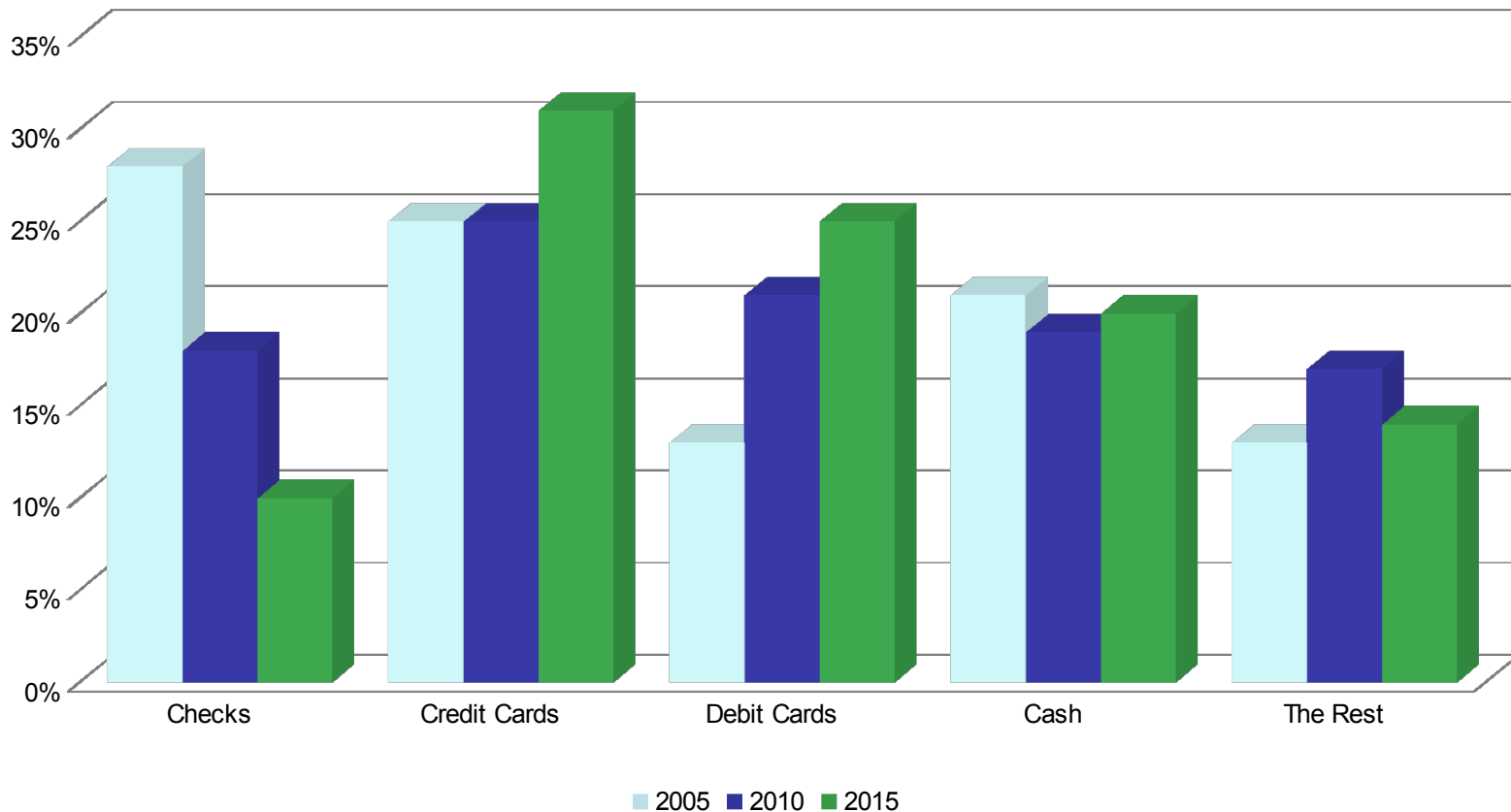
3 Big Trends

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
 - 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%

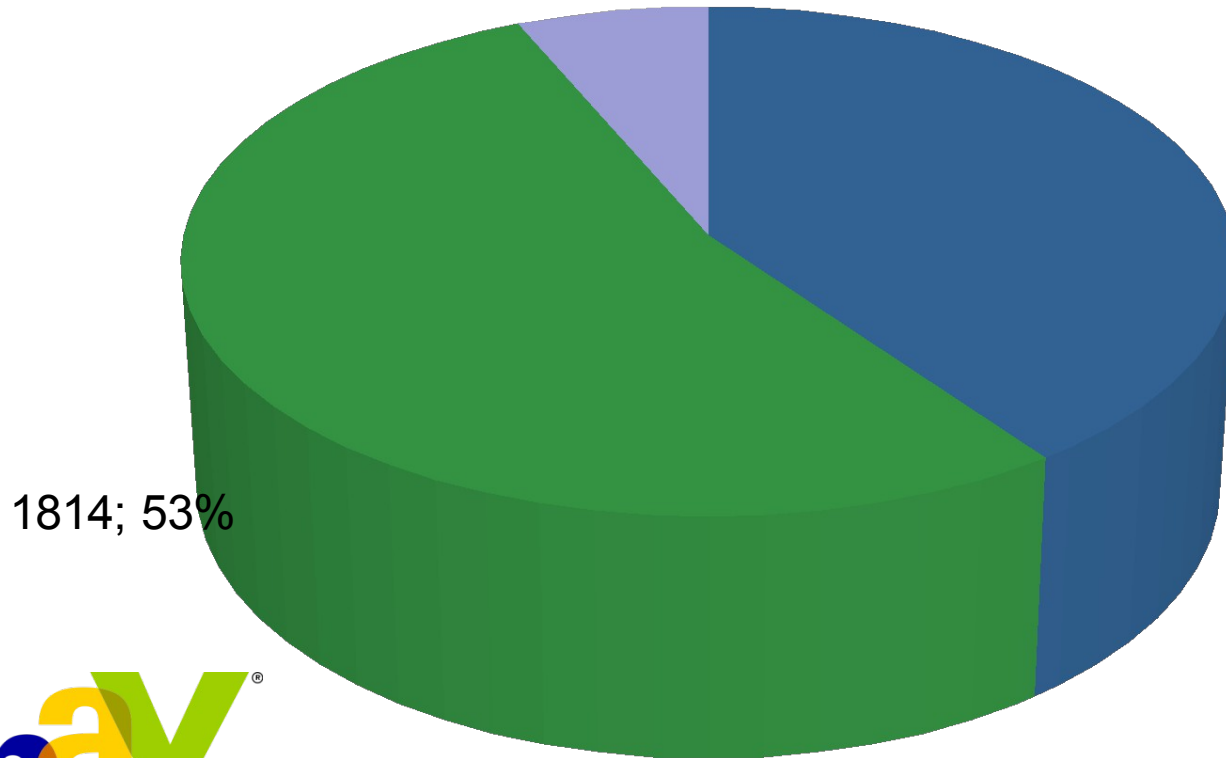
Disclosure: Joe owns shares of eBay.



eBay's Stock Price



eBay: A Tale of 2 Networks



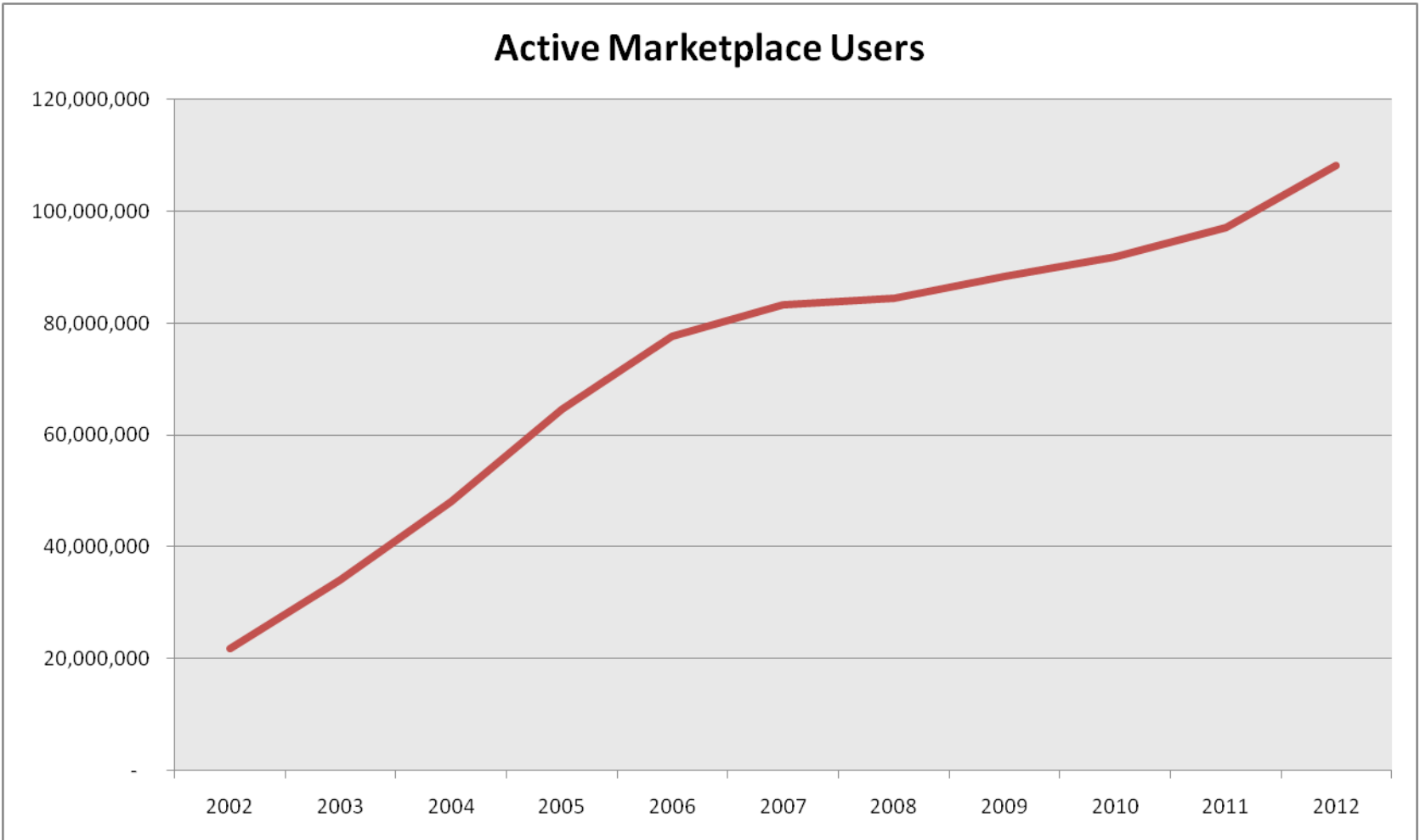
Marketplaces

- 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

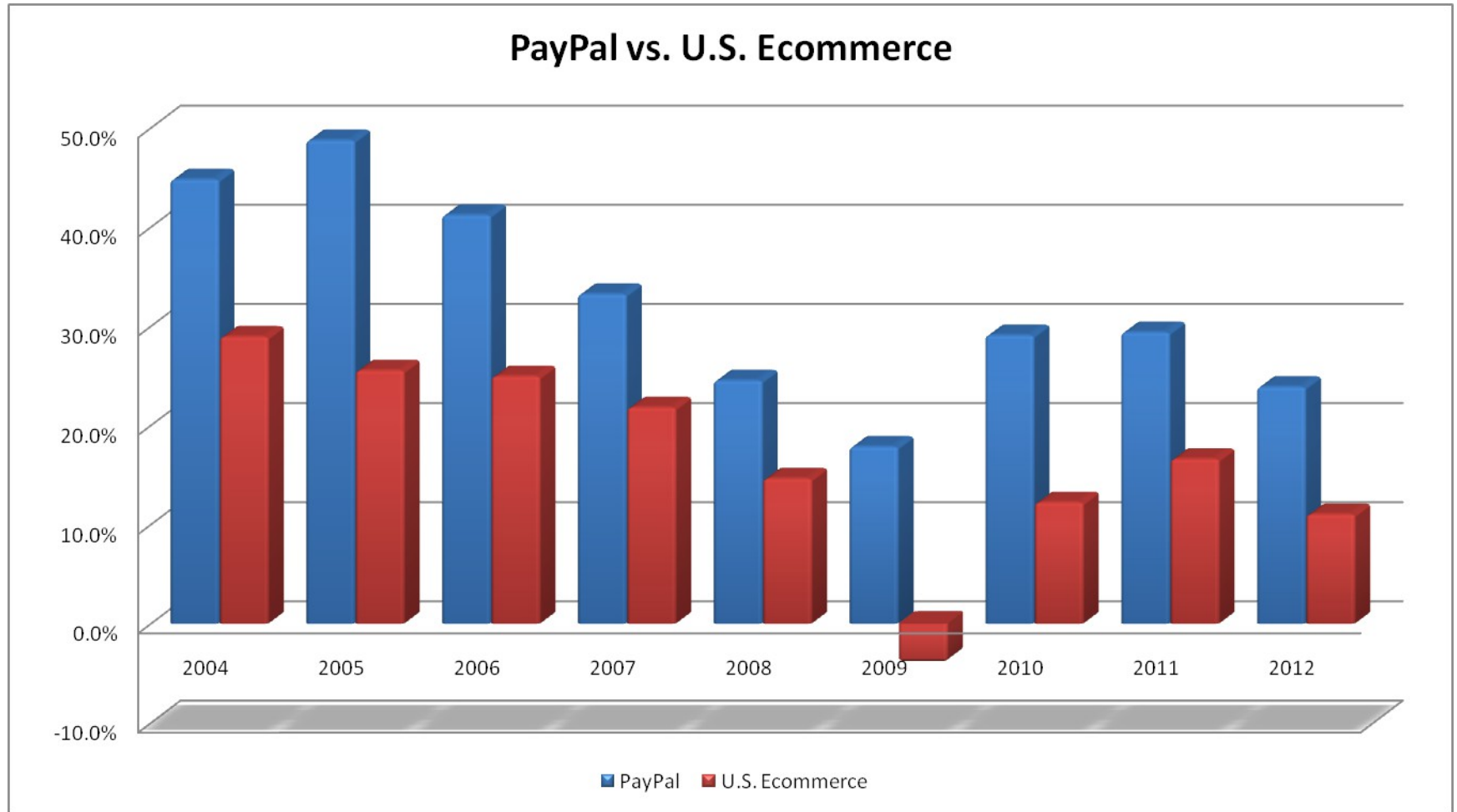


Payments

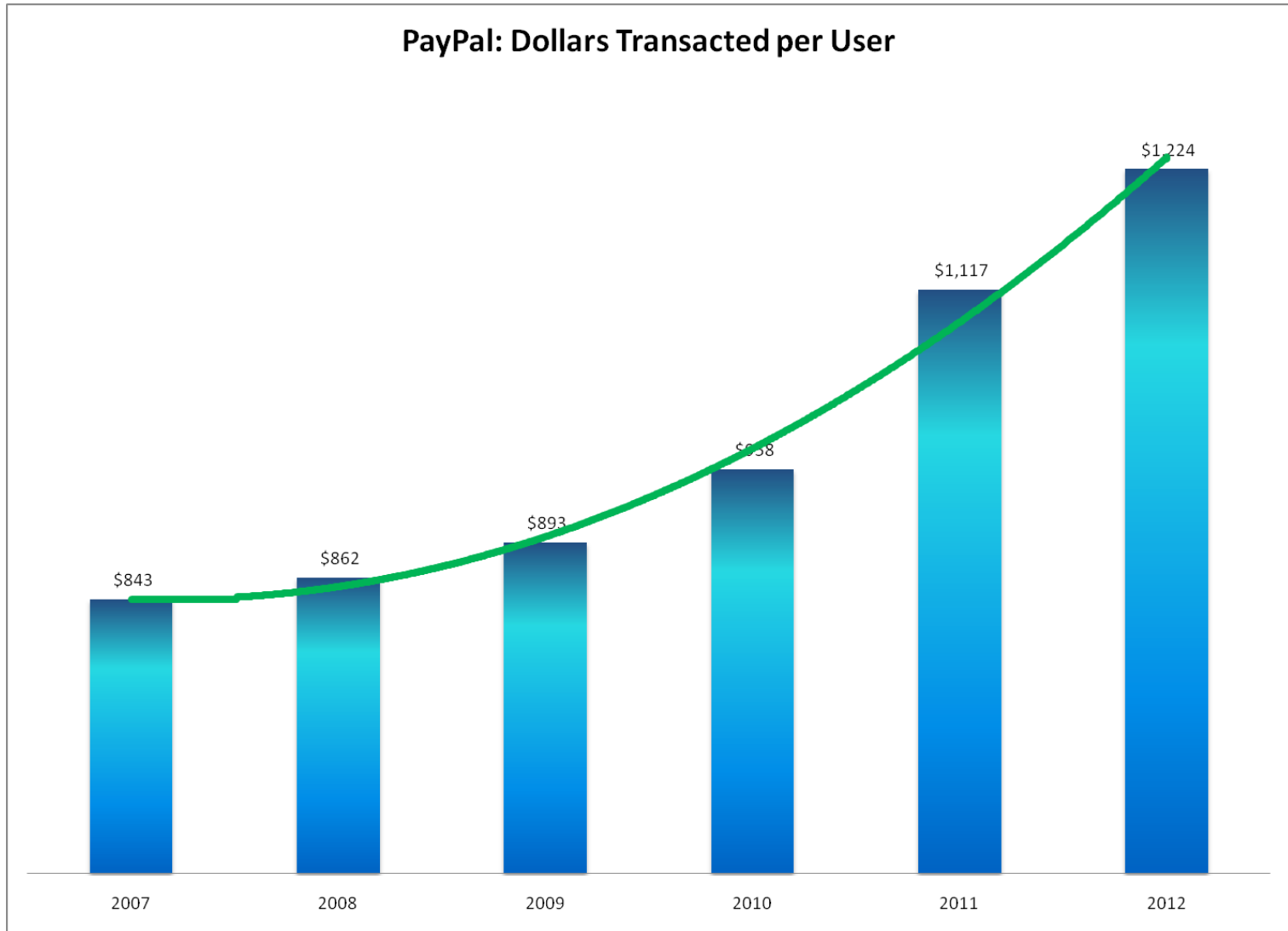
- 117 million active users
 - 1 million new users a month
 - Doubled over 4 years
- Growing 2x Marketplaces
- First-Mover Advantage
- Accelerating Growth

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.

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