

eBay, Inc

Braintree Acquisition Accelerates PayPal's Position in Mobile - ALERT

eBay announced today an agreement to acquire Braintree for \$800M in cash. Braintree is a global Payments platform with customers including Airbnb, Fab, LivingSocial, OpenTable, and Uber. We believe the acquisition makes strategic sense for PayPal as it improves PayPal's position in mobile while also adding significant technology and talent. Braintree will continue to operate as a separate service within PayPal under Braintree CEO Bill Ready. We remain positive on eBay shares and would be buyers on improving trends, muted expectations, and attractive valuation at 14.5x 2015E PF EPS.

- **Improves PayPal's strong position in Mobile.** Mobile is a fast-growing segment of PayPal's overall TPV, and we believe the Braintree acquisition accelerates PayPal's growth here. PayPal is expected to deliver \$20B in mobile TPV in 2013, up 54% from ~\$13B in 2012. Braintree is expected to process ~\$12B in payment volume in 2013, a third of which is from mobile. Venmo is Braintree's mobile application that enables P2P payments using mobile devices and social networks. We note that both PayPal and Braintree along with Stripe are partnered with Facebook's new "Autofill With Facebook" feature for simplifying payments on mobile apps.
- **Transaction details.** The \$800M all-cash transaction is expected to close late in 4Q13, and eBay anticipates an immaterial impact to PayPal's 2013 net total payment volume, which we're currently estimating at ~\$179B. eBay also expects that definitional differences between PayPal's net TPV and Braintree's estimated \$12B payment volume for 2013 will lead to a significant portion of Braintree's payment volume not being additive to PayPal's TPV and treated instead like PayPal's payment gateway business, with only the revenue being recorded. Assuming the acquisition closes in late 2013, eBay expects the deal to be immaterial to its 2013 revenue guidance, and to have a (\$0.01) impact on its 2013 non-GAAP EPS guidance and a (\$0.01) – (\$0.03) impact on its 2013 GAAP EPS guidance.

Overweight

EBAY, EBAY US

Price: \$54.21

25 September 2013

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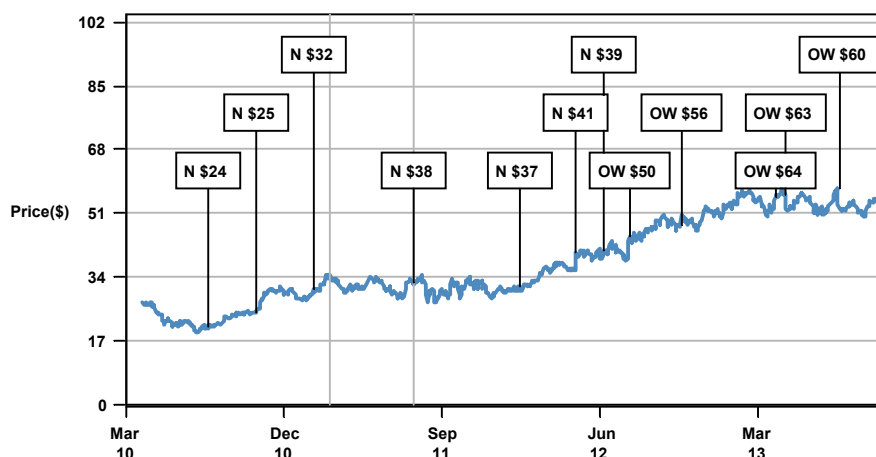
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eBay, Inc (EBAY, EBAY US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
22-Jul-10	N	20.94	24.00
13-Oct-10	N	24.44	25.00
20-Jan-11	N	30.78	32.00
13-Jul-11	N	32.38	38.00
13-Jan-12	N	31.58	37.00
19-Apr-12	N	40.62	41.00
06-Jun-12	N	40.94	39.00
20-Jul-12	OW	44.85	50.00
18-Oct-12	OW	48.20	56.00
01-Apr-13	OW	55.71	64.00
18-Apr-13	OW	56.10	63.00
18-Jul-13	OW	57.38	60.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Jul 22, 2010.

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*Percentage of investment banking clients in each rating category.

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