

Western Union Co. (WU)

\$22.39 (As of 02/28/20)

Price Target (6-12 Months): **\$24.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/29/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: B

Summary

Western Union's earnings of 38 cents per share missed the Zacks Consensus Estimate by 11.6%. The bottom line also declined 22.4% year over year. The company's shares have outperformed the industry in a year's time. It is streamlining its business with the sale of SpeepPay and Paymap mortgage payments services business. Its Business Solutions segment has started to show growth after remaining under pressure for three years. Its continuous investment to develop digital platform enables it to compete with other fintech players entering the remittance industry. Its disciplined capital management is another positive. Its consumer-to-consumer segment is under pressure due to competition in its domestic money transfer business. Increase in expenses weighs on its margin.

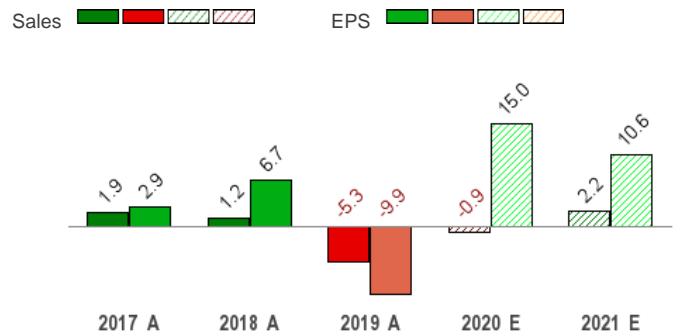
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$28.45 - \$17.52
20 Day Average Volume (sh)	8,026,139
Market Cap	\$9.2 B
YTD Price Change	-16.4%
Beta	0.78
Dividend / Div Yld	\$0.90 / 3.6%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 37% (93 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-11.6%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	1.0%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	13.1
P/E F1	11.3
PEG F1	3.3
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,289 E	1,354 E	1,365 E	1,366 E	5,362 E
2020	1,266 E	1,322 E	1,327 E	1,333 E	5,246 E
2019	1,337 A	1,341 A	1,307 A	1,308 A	5,292 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.50 E	\$0.55 E	\$0.57 E	\$0.58 E	\$2.20 E
2020	\$0.46 E	\$0.50 E	\$0.52 E	\$0.52 E	\$1.99 E
2019	\$0.39 A	\$0.45 A	\$0.49 A	\$0.38 A	\$1.73 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/28/2020. The reports text is as of 03/02/2020.

Overview

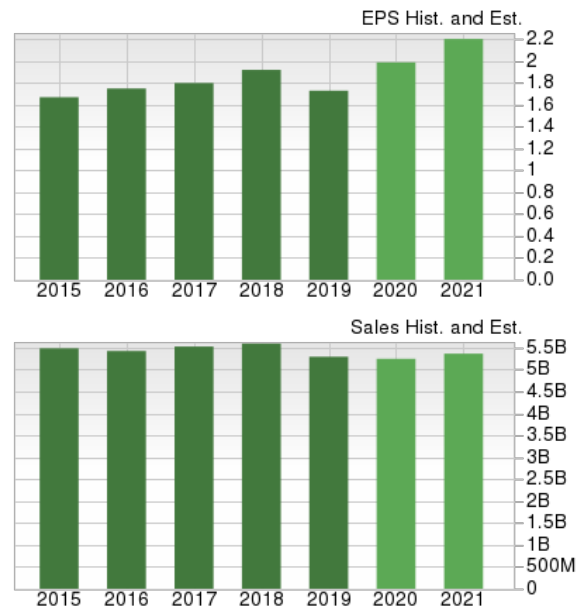
The Western Union Company, a leader in global money transfer, was formed as a result of a spin-off from First Data Corporation on Sep 29, 2006. Since then, it has been trading on the New York Stock Exchange (NYSE) under the symbol "WU".

Today, the company's vast platform capabilities include both digital and physical money movement networks with over 550,000 locations across more than 200 countries and territories, digital send capabilities in over 70 countries and bank account payout capabilities in over 100 markets offering across to billions of accounts.

Western Union's business consists of the following segments:

- **Consumer-to-Consumer:** (83% of 2019 revenues) The Consumer-to-Consumer operating segment facilitates money transfer between two consumers, primarily through a network of third-party agents. This segment also includes money transfer transactions that can be initiated through websites and mobile devices. A substantial majority of the transfer in this segment is cross-border. The segment faces competition from global money transfer providers, regional money transfer providers, electronic channels, banks, post banks and post offices, informal networks, and also alternative channels.
- **Business Solutions:** (7%) facilitates payment and foreign exchange solutions, primarily cross-border, cross currency transactions, for small and medium size enterprises and other organizations and individuals. The majority of the segment's business relates to exchange of currency at spot rates, which enable customers to make cross-currency payments. Other: (13.4%) which primarily consists of bill payments businesses in the U.S. and Argentina.
- **Other:** (10%) which primarily consists of bill payments businesses in the U.S. and Argentina.

In May 2019, the company sold its Speedpay business and Paymap mortgage payments services business.



Reasons To Buy:

- ▲ **Favorable Guidance:** For 2020, the company expects adjusted earnings per share in the range of \$1.95 to \$2.05, (which indicates 15.6% growth year over year), adjusted operating cash flow is anticipated to be approximately \$1 billion (compared with \$1.1 billion in 2019) and low single-digit revenue increase in constant currency (versus 3% growth reported in 2019). The company expects to spend \$500 million on share repurchases for 2020.

The company also affirmed its three-year (2019-2022) financial targets including operating margin of approximately 23% in 2022 and a low double-digit EPS CAGR for the three years ending 2022.

- ▲ **Business Streamlining:** Western Union sold its Speedpay business to ACI world for \$750 million. It also sold its Paymap mortgage payments services business. With the divestitures and smaller domestic money transfers, the company's business is now primarily focused on cross-border services for consumers, financial institutions, banks and other businesses. The company's focus aligns with its core competencies in foreign exchange, cross-border settlement, compliance and global retail and account payout network. Proceeds from both these transactions amounting to approximately \$600 million will be used to return capital to shareholders as well as manage its capital structure by paying off debt.
- ▲ **Growth of Digital Platform:** Digitally initiated money transfer, which includes westernunion.com and Mobile Money Transfer, is the fastest-growing segment of the market that is adding new customers and increasing business for the company. Revenues from the company's digital platform have been increasing over the years. The company's digital business continued its impressive run with 25% revenue growth in the fourth quarter of 2019. westernunion.com is becoming an increasingly important part of the company's business, representing nearly 15% of total money transfer revenues in 2019, up from 6% in 2015. In digital solutions, the company expects revenue growth to be led by adding more business verticals. The company continues to expand existing high-growth areas, such as education payments, while also leveraging its EDGE platform and digital self-service offerings.
- ▲ **Efficiency Improvement Initiative:** The company has started the implementation of its new Global Strategy, designed to drive improved efficiency, profitability, and long-term revenue growth. These initiatives are focused on improving efficiency and are expected to deliver approximately \$50 million of annual savings in 2020, \$100 million in 2021 and \$150 million by 2022, in addition to providing additional funds for reinvestment in the growth of the business.
- ▲ **Growth at Business Solutions Unit Catching Up:** After suffering from revenue declines for three years till 2018, the segment is now recovering. The company achieved constant currency revenue growth for the fifth straight quarter in this segment, driven by strong growth in Asia-Pacific and Europe. The segment continued its growth trend, led by strong performance in the education and financial institution verticals, which translated into solid revenue growth of 4% on a constant-currency basis for 2019.
- ▲ **Focus on Enhancing Shareholders' Value:** Western Union remains committed to enhance shareholders' value through share buybacks and dividend payments. Recently, the company increased its quarterly dividend by 13%. The company's current dividend yield of 3.6% is way higher than 0.6% for the industry. In March 2019, the company announced a new three-year share repurchase authorization of \$1 billion, set to expire on Dec 31, 2021.
- ▲ **Share Price Performance:** In a year's time, shares of the company have outperformed its industry. Its strong fundamentals should support its stock price. The stock has witnessed an upward revision in 2020 earnings estimates by 1% over the last 30 days. The company's long-term earnings growth rate of 15.4% is higher than the industry's growth rate of 13.9%.

Expanding digital platform, recovering Business Solutions unit, initiatives to streamline business will drive long term growth at the company.

Reasons To Sell:

- ▼ **Consumer to Consumer Unit Under Pressure:** The company's C2C business has shown anemic revenue growth in the previous quarters. The business remains highly affected by competition from other fintech players that have the ability to provide services at low cost. Moreover, pricing action taken in some markets have also brought revenues under pressure.
- ▼ **Forex Volatility:** The company is faced with foreign exchange volatility, given its vast international operations. The impact of currency translation reduced 2017 revenues by 1%. The strengthening of the dollar against the Argentine peso restricted revenue growth by approximately 2% to 2.5% in 2019. Reflecting the weakness of the euro, the Argentine peso, and other major currencies against the U.S. dollar, we expect a pressure on revenues from the same.
- ▼ **Increase in Expenses:** The company incurred restructuring expenses of approximately \$115.5 million in 2019 and further estimates nearly \$35 million in 2020 related to these changes. These expected expenses are comprised primarily of severance and employee related benefits, but also include costs for relocation of various operations, facility closures, consulting and other expenses. These costs might weigh on margins, before yielding results.
- ▼ **Return on Equity:** The company's return on equity (ROE) of -737% remains significantly below the 42.6% positive returns for the industry. This reflects the company's inefficiency in using shareholders'

We remain cautious due to pressure on its main business Consumer to Consumer and foreign exchange volatility.

Last Earnings Report

Western Union Q4 Earnings & Revenues Miss Estimates

The Western Union operating earnings of 38 cents per share, missed the Zacks Consensus Estimate by 11.6%. The bottom line also declined 22.4% year over year.

The downside resulted from increased tax rate, higher marketing investment and adverse impacts of the divestiture of Speedpay and Paymap businesses in May 2019.

Behind the Headlines

Total revenues of \$1.3 billion missed the Zacks Consensus Estimate by 1% but were up 3% on a constant-currency basis. Weakening of Argentine Peso led to a 2% decline in revenues, which was partly offset by positive effects of inflation in the company's Argentina-based business by 1%.

Total expenses of \$1.11 billion were down 4% year over year due to reduced cost of services.

Segment Update

Consumer-to-Consumer (C2C)

Revenues of \$1.13 billion remained flat on a reported basis and increased 1% on a constant-currency basis. Total transactions declined 1%. Growth was driven by cross-border sends originated in Europe, the United States and Latin America, partially offset by declines in the Asia Pacific, U.S. domestic money transfer and some countries dealing with civil unrest, macro-economic, and market-specific issues.

Operating income of \$228.1 million declined 13% year over year.

Revenues from westernunion.com C2C improved 17% on a reported basis and 18% on a constant-currency basis. Notably, westernunion.com represented 15% of total C2C revenues in the reported quarter.

Business Solutions

Revenues of \$97 million were flat on a reported basis but increased 1% in constant currency, driven by strong performance in Europe.

The segment reported operating income of \$11 million, up 111.5% year over year.

Balance Sheet

Cash and cash equivalents (as of Dec 31, 2019) were \$1.5 billion, up 49% from that at the end of 2018.

Borrowings declined nearly 6% from the year-end level to \$3.23 billion.

Stockholders' equity was a deficit of \$39.5 million compared with a deficit of \$309.8 million at the end of 2018.

At the end of the quarter, the company generated net cash of \$914.6 million from operations, up 11.4% from the end of 2018.

Dividend Hike

Owing to the company's promising 2020 outlook, with respect to margin expansion and adjusted EPS (earnings per share) growth, Western Union raised its quarterly dividend by 13% to 22.5 cents per common share. The dividend will be paid out on Mar 31, 2020, to shareholders of record at the close of business on Mar 17, 2020.

2020 Guidance Update

The company expects low-single-digit revenue growth (on a constant-currency basis), adjusted operating margin of 21%, adjusted EPS of \$1.95-\$2.05 and adjusted cash flow of \$1 billion from operating activities.

Long-Term Outlook

The company affirmed its previously established three-year (2019-2022) financial targets, which includes approximately 23% operating margin and low-double-digit EPS (CAGR).

Quarter Ending **12/2019**

Report Date	Feb 11, 2020
Sales Surprise	-1.00%
EPS Surprise	-11.63%
Quarterly EPS	0.38
Annual EPS (TTM)	1.71

Recent News

Western Union Extends Education Payment Services in Japan - Feb 26, 2020

The company has announced that its unit, Western Union Business Solutions, has tied up with Ritsumeikan Asia Pacific University ("APU"). The latter, being a diverse and multicultural university in Japan, is home to around 3,000 international students from more than 90 countries.

The collaboration will make use of a simple payment process and enable students to make hassle-free payment of enrollment fees, thereby ensuring the timely arrival of funds. Such payments, exclusive of any embedded charges, will be made using the company's international payment platform, namely GlobalPay for Students. The platform was initiated in 2017 in Japan.

Western Union Expands Money Transfer Services in Australia - Feb 13, 2020

The company has expanded alliance with Australia Post, which is a government-owned corporation, entitled to provide postal services in Australia.

For more than 16 years, the duo has been involved in enabling money transfer and making payments across the globe through a digital platform.

Along with innovating services, the extension appears to be Western Union's efforts to enhance customer connectivity in Australia with the rest of the world. At present, the world's leading money transfer company's services are available at more than 2800 Australia Post retail locations.

Western Union and France's La Banque Postale Expand Global Digital Payments - Jan 28, 2020

Western Union has entered into a partnership with La Banque Postale, the banking subsidiary of France's postal services' operator, La Poste Group.

The integration of Western Union's global cross-border, cross-currency digital money movement platform within La Banque Postale's mobile app and website will enable more than seven million online registered La Banque Postale customers to access Western Union's international payment services and experience.

La Banque Postale's customers have the choice to fund their payments within the app or website using bank card and pay-out at Western Union's Global Retail and Wallet Network.

Western Union Expands Real-Time Global Cross Border Payments to India - Oct 25, 2019

Western Union has advanced its leadership in digital payment innovation enabling customers to move money or make payments in real-time in India, one of the world's fastest growing economy.

The company became the first money transfer operator to offer cross border remittances via Unified Payments Interface (UPI), a real-time payment system developed by the National Payments Corporation of India under Reserve Bank of India guidelines.

It allows Western Union customers globally to send money into bank accounts in India simply by using the receivers UPI ID, instead of providing bank account and routing details.

Valuation

Western Union shares are up 22.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Business sector are up 21.5% and 6.9%, respectively.

The S&P 500 index is up 4.8% in the past year.

The stock is currently trading at 11X forward-12-month price to earnings, which compares to 25.5X for the Zacks sub-industry, 23X for the Zacks sector and 16.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.1X and as low as 8.5X, with a 5-year median of 11.2X.

Our Neutral recommendation indicates that the stock will perform better than the market. Our \$24 price target reflects 11.9X forward earnings.

The table below shows summary valuation data for WU

Valuation Multiples - WU					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	11.06	25.51	23.09	16.89
	5-Year High	15.09	28	25.26	19.34
	5-Year Low	8.53	20.78	18.78	15.18
	5-Year Median	11.16	23	20.58	17.44
P/S F12M	Current	1.76	9.69	3.7	3.12
	5-Year High	2.25	10.7	4.01	3.43
	5-Year Low	1.27	7.19	3.09	2.54
	5-Year Median	1.69	8.67	3.63	3.01
EV/EBITDA TTM	Current	12.74	21.11	12.66	12
	5-Year High	15.31	21.11	12.66	12.87
	5-Year Low	8.77	11.00	9.75	9.48

	5-Year Low	3.77	11.09	8.76	8.48
	5-Year Median	8.49	14.23	10.41	10.78

As of 02/28/2020

Industry Analysis Zacks Industry Rank: Top 37% (93 out of 254)



Top Peers

Diebold Nixdorf, Incorporated (DBD)	Neutral
Euronet Worldwide, Inc. (EFT)	Neutral
EVO Payments, Inc. (EVOP)	Neutral
Fiserv, Inc. (FISV)	Neutral
Global Payments Inc. (GPN)	Neutral
PayPal Holdings, Inc. (PYPL)	Neutral
Square, Inc. (SQ)	Neutral
WEX Inc. (WEX)	Neutral

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	WU Neutral	X Industry	S&P 500	EVOP Neutral	PYPL Neutral	SQ Neutral
VGM Score	A	-	-	B	C	D
Market Cap	9.25 B	2.51 B	21.48 B	2.07 B	126.67 B	35.81 B
# of Analysts	8	6	13	8	16	13
Dividend Yield	3.57%	0.00%	2.07%	0.00%	0.00%	0.00%
Value Score	B	-	-	C	D	F
Cash/Price	0.14	0.07	0.04	0.13	0.08	0.03
EV/EBITDA	6.37	16.38	12.57	30.17	30.91	832.77
PEG Ratio	3.36	1.55	1.84	2.40	1.70	2.74
Price/Book (P/B)	NA	4.22	2.88	NA	7.48	20.88
Price/Cash Flow (P/CF)	9.36	16.81	11.58	18.52	33.17	222.53
P/E (F1)	11.36	21.22	16.87	34.45	31.30	90.96
Price/Sales (P/S)	1.75	4.39	2.34	4.27	7.13	7.60
Earnings Yield	8.89%	4.62%	5.91%	2.89%	3.19%	1.10%
Debt/Equity	-81.75	0.35	0.70	-0.73	0.29	0.61
Cash Flow (\$/share)	2.39	2.86	6.94	1.36	3.26	0.37
Growth Score	B	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	2.99%	17.05%	10.85%	NA	20.43%	NA
Proj. EPS Growth (F1/F0)	14.96%	15.10%	6.79%	11.17%	11.31%	14.52%
Curr. Cash Flow Growth	-11.92%	8.28%	5.92%	146.30%	30.28%	130.71%
Hist. Cash Flow Growth (3-5 yrs)	-2.25%	10.92%	8.38%	NA	18.18%	22.37%
Current Ratio	0.97	1.15	1.23	1.12	1.43	1.90
Debt/Capital	99.03%	36.09%	42.53%	NA	22.68%	37.92%
Net Margin	20.00%	8.29%	11.57%	-2.08%	13.84%	7.97%
Return on Equity	-737.30%	19.79%	16.80%	-5.49%	17.33%	6.57%
Sales/Assets	0.59	0.46	0.54	0.28	0.36	1.07
Proj. Sales Growth (F1/F0)	-0.88%	10.17%	4.07%	33.08%	17.56%	19.06%
Momentum Score	B	-	-	A	C	F
Daily Price Chg	-1.41%	-0.48%	-1.44%	-5.46%	0.14%	5.07%
1 Week Price Chg	-1.79%	-0.20%	-0.94%	0.69%	-2.85%	1.99%
4 Week Price Chg	-18.88%	-10.14%	-10.98%	-10.50%	-7.80%	9.50%
12 Week Price Chg	-16.58%	-1.95%	-7.84%	-7.77%	3.25%	24.11%
52 Week Price Chg	25.29%	11.31%	1.20%	-5.39%	10.12%	2.57%
20 Day Average Volume	8,026,139	508,130	2,169,477	346,206	7,068,067	8,981,726
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.02%	0.00%	-0.09%	0.00%	0.09%	-24.29%
(F1) EPS Est 12 week change	0.57%	-0.23%	-0.24%	-1.55%	-0.10%	-37.03%
(Q1) EPS Est Mthly Chg	0.66%	0.00%	-0.72%	0.00%	-6.31%	-30.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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