

Western Union Co. (WU)

\$26.10 (As of 01/03/20)

Price Target (6-12 Months): **\$30.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 01/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: D

Momentum: B

Summary

Western Union's shares have outperformed the industry in a year's time. The company 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 its digital platform enables it to compete with other fintech players entering the remittance industry. Its disciplined capital management is another positive. The stock has seen the Zacks Consensus Estimate for 2020 earnings being revised 1.5% upward over the last 90 days. Its consumer-to-consumer segment is under pressure due to competition in its domestic money transfer business. Increase in expenses weighs on its margin.

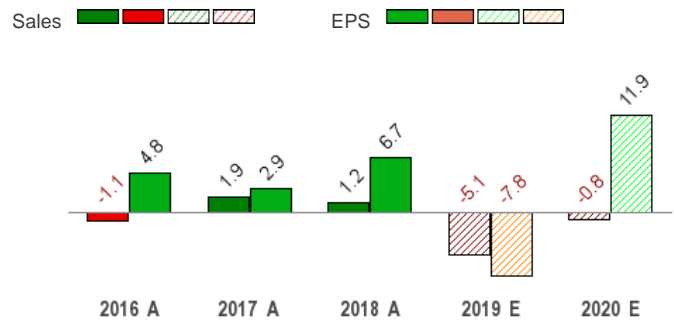
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$28.00 - \$16.87
20 Day Average Volume (sh)	4,879,957
Market Cap	\$10.9 B
YTD Price Change	-2.5%
Beta	0.79
Dividend / Div Yld	\$0.80 / 3.1%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 38% (96 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.3%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	14.3
P/E F1	13.2
PEG F1	3.9
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,267 E	1,326 E	1,329 E	1,344 E	5,262 E
2019	1,337 A	1,341 A	1,307 A	1,321 E	5,306 E
2018	1,389 A	1,411 A	1,388 A	1,402 A	5,590 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.45 E	\$0.50 E	\$0.51 E	\$0.51 E	\$1.98 E
2019	\$0.39 A	\$0.45 A	\$0.49 A	\$0.43 E	\$1.77 E
2018	\$0.45 A	\$0.46 A	\$0.52 A	\$0.49 A	\$1.92 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 01/03/2020. The reports text is as of 01/06/2020.

Overview

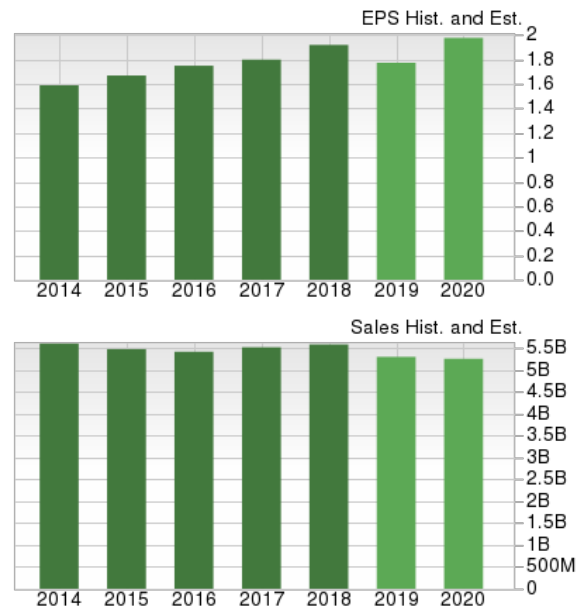
The Western Union Company, a leader in global money transfer, was formed as a result of a spin-off from First Data Corporation on Sep 29, 2006. Since then, it has been trading on the New York Stock Exchange (NYSE) under the symbol "WU". Western Union's globally recognized brand provides people with fast, reliable and convenient ways to transfer money.

The company is offering its services in more than 200 countries and territories. It offers money transfer services under the Western Union, Orlandi ValutaSM and Vigo brands. It also provides various payments and other services such as Western Union Business Solutions, Pago Fácil, Western Union, Payments, Quick Collect, Quick Pay, Pay@WU, Quick Cash, and Convenience Pay.

Beginning second-quarter 2017, the Western Union business consists of the following segments:

- **Consumer-to-Consumer:** (80% of 2018 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.
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In May 2019, the company sold its Speedpay business and Paymap mortgage payments services business.



Reasons To Buy:

▲ **Favorable Guidance:** For 2019, the company expects adjusted earnings per share in the range of \$1.72 to \$1.80, adjusted operating cash flow is expected to be \$950 million and low single-digit revenue increase (constant currency) . The company expects to spend between \$5 million and \$6 million on share repurchases for 2019.

Further, the company expects to achieve 23% operating margin in 2022 and low double-digit earnings per share compound annual growth for the next three years (2019-2022). Its three-year target (2019-2022) assumes 2% to 3% revenue growth, but over the long term, the company expects new cross-border solution services for third parties to contribute incremental growth to its business. The company also expects to generate more than \$3 billion of operating cash flow over the 2022 period and return \$2.5-\$3 billion to shareholders through dividends and share repurchases.

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

▲ **Business Streamlining:** Western Union sold its Speedpay business to ACI world for \$750 million. It has also sold its Paymap mortgage payments services business. The divestitures will allow Western Union to concentrate on its cross-border money transfer business. The company seeks to expand its digital services, thereby leveraging its platform to unlock new cross-border, cross-currency payments opportunities and generate additional operating efficiencies. 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 20% revenue growth in the third quarter of 2019. westernunion.com is becoming an increasingly important part of the company's business, representing nearly 13% of total money transfer revenues in the first nine months of 2019, up from 6% in 2015. Overall, westernunion.com revenues grew 16% or 17% in constant currency on transaction growth of 18% in the first nine months of 2019. 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 \$150 million of incremental profitability 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 company is taking additional actions to improve results going forward.

▲ **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 5.3%. The company's current dividend yield of 3.01% is way higher than 0.55% for the industry. In March, the company announced a new three-year share repurchase authorization of \$1 billion, set to expire on Dec 31, 2021, and is accretive to worth \$544 million remaining under its previous buyback plan as of Dec 31, 2018.

▲ **Share Price Performance:** In a year's time, shares of the company have outperformed its industry. Its strong fundamentals should support its stock price

Risks

- **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 the first nine months of 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 anticipates recording restructuring expenses of approximately \$100 million in 2019 and \$50 million in 2020 related to these changes, of which \$92 million was recorded in the third quarter. 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.
 - **Return on Equity:** The company's return on equity (ROE) of -476% remains significantly below the 42.6% positive returns for the industry. This reflects the company's inefficiency in using shareholders'
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Last Earnings Report

Western Union's Q3 Earnings Beat, Revenues Miss Estimates

Western Union's operating earnings of 49 cents per share, beat the Zacks Consensus Estimate by 1.43% but declined 6.1% year over year.

Total revenues of \$1.3 billion missed the Zacks Consensus Estimate by 0.5% but were up 4% 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 2%.

Total operating expense of \$1.11 billion was up 2% year over year due to a higher selling, general and administrative expenses.

Segment Update

Consumer-to-Consumer (C2C)

Revenues of \$1.11 billion increased 1% on a reported basis and 2% on a constant-currency basis. Total transactions grew 2%, driven by strength at westernunion.com. Growth was driven by cross-border sends originated in the United States and Latin America, as well as improvement in the Middle East, partially offset by declines in Asia Pacific and U.S. domestic money transfer.

Operating income of \$263.8 million declined 5% year over year.

Revenues from westernunion.com C2C improved 16% on a reported basis and 17% on a constant-currency basis. Notably, westernunion.com represented 14% of total C2C revenues in the reported quarter.

Business Solutions

Revenues of \$100.6 million was flat on a reported basis, but increased 3% in constant currency, driven by strong performance generated from customers in Europe.

The segment reported operating income of \$16.7 million, up 18% year over year.

Balance Sheet (As of Sep 30, 2019)

Cash and cash equivalents were \$1.4 billion, up 43% from year-end 2018 level.

Borrowings declined nearly 5.4% from the year-end level to \$3.25 billion.

Stockholders' equity was a deficit of \$19.7 million, compared with deficit of \$309.8 million at year-end 2018 level.

At the end of the quarter, the company generated net cash of \$665.3 million from operations, up 28.3% from year-end 2018 level.

2019 Guidance Update

The company expects low single-digit revenue growth (on a constant-currency basis), adjusted operating margin of approximately 20%, EPS in a range of \$1.7 to \$1.8 and cash flow of approximately \$950 million from operating activities.

Quarter Ending 09/2019

Report Date	Oct 31, 2019
Sales Surprise	-0.47%
EPS Surprise	4.26%
Quarterly EPS	0.49
Annual EPS (TTM)	1.82

Recent News

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.

Western Union and TRUE North Simplify Tuition Payments - Sep 5, 2019

The company has collaborated with TRUE North, a multi-user, web-based system to manage the information tracking, reporting and collaborative needs of international education programs. The collaboration will enable students to pay tuition and expenses using a simplified payment process, helping funds to arrive on-time and in-full, without hidden charges to the educational institution.

Western Union Present at BDO Unibank Across the Philippines - Aug 12, 2019

Western Union, has extended its relationship to expand reach in the Philippines with more than 1,100 BDO Unibank branches ready to pay-out Western Union international money transfers from across the world.

The choice to offer money transfer services at retail builds upon existing services which enables customers to receive money directly into their BDO Unibank accounts. With this launch, customers that don't have a BDO Unibank account may walk into any of the over 1,100 BDO Unibank branches or its rural bank subsidiary – One Network, Inc. (ONB), which has over 130 branches in Mindanao and the Visayas, and, rapidly expanding across Luzon, to receive money.

Valuation

Western Union shares are up 53.2% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Business sector are up 43.3% and 31%, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 13.18X forward-12-month price to earnings, which compares to 27.09X for the Zacks sub-industry, 24.96X for the Zacks sector and 18.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.09X and as low as 8.53X, with a 5-year median of 11.12X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$30 price target reflects 15.15X price to earnings ratio.

The table below shows summary valuation data for WU

Valuation Multiples - WU					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.18	27.09	24.96	18.7
	5-Year High	15.09	27.56	24.96	19.34
	5-Year Low	8.53	20.78	18.75	15.17
	5-Year Median	11.12	22.91	20.55	17.44
P/S F12M	Current	2.08	10.2	3.95	3.47
	5-Year High	2.22	11.65	5.13	3.47
	5-Year Low	1.27	7.19	3.09	2.54
	5-Year Median	1.69	8.67	3.63	3
EV/EBITDA TTM	Current	14.16	19.41	12.28	12.01
	5-Year High	14.98	20.24	12.55	12.86
	5-Year Low	3.77	11.09	8.74	8.49
	5-Year Median	8.46	14.47	10.37	10.66

As of 01/03/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 252)



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 Outperform	X Industry	S&P 500	EVOP Neutral	PYPL Neutral	SQ Neutral
VGM Score	B	-	-	B	C	B
Market Cap	10.94 B	2.51 B	23.66 B	2.17 B	127.71 B	27.07 B
# of Analysts	7	5.5	13	8	14	14
Dividend Yield	3.07%	0.00%	1.79%	0.00%	0.00%	0.00%
Value Score	B	-	-	C	D	F
Cash/Price	0.12	0.08	0.04	0.14	0.08	0.04
EV/EBITDA	9.11	17.89	13.88	31.35	38.77	628.46
PEG Ratio	3.90	1.70	1.99	2.55	1.69	1.89
Price/Book (P/B)	NA	5.00	3.36	NA	7.75	21.63
Price/Cash Flow (P/CF)	10.15	16.92	13.62	19.39	43.67	376.75
P/E (F1)	13.18	21.49	18.74	36.56	31.18	66.32
Price/Sales (P/S)	2.03	5.03	2.67	4.28	7.50	6.25
Earnings Yield	7.59%	4.59%	5.32%	2.72%	3.21%	1.51%
Debt/Equity	-164.87	0.33	0.72	-0.73	0.30	0.83
Cash Flow (\$/share)	2.57	2.62	6.94	1.36	2.49	0.17
Growth Score	D	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	3.73%	16.43%	10.56%	NA	19.98%	NA
Proj. EPS Growth (F1/F0)	11.45%	17.59%	7.41%	16.97%	13.49%	22.69%
Curr. Cash Flow Growth	-27.60%	10.67%	14.83%	146.30%	17.43%	-2,039.38%
Hist. Cash Flow Growth (3-5 yrs)	1.43%	10.92%	9.00%	NA	15.82%	22.37%
Current Ratio	0.96	1.14	1.23	1.12	1.43	1.68
Debt/Capital	99.03%	34.31%	42.92%	NA	23.15%	45.31%
Net Margin	21.07%	10.25%	11.08%	-2.11%	14.89%	-1.01%
Return on Equity	-475.84%	19.33%	17.10%	-5.02%	16.73%	5.72%
Sales/Assets	0.59	0.44	0.55	0.30	0.36	1.06
Proj. Sales Growth (F1/F0)	-0.82%	10.50%	4.20%	8.25%	16.77%	22.33%
Momentum Score	B	-	-	D	A	A
Daily Price Chg	-0.34%	-0.59%	-0.61%	-0.71%	-1.80%	-1.30%
1 Week Price Chg	-0.22%	0.00%	0.13%	1.61%	0.60%	0.27%
4 Week Price Chg	-2.76%	1.52%	2.60%	-3.47%	3.99%	-6.17%
12 Week Price Chg	10.78%	3.32%	8.87%	-3.92%	8.18%	1.56%
52 Week Price Chg	54.71%	47.04%	29.34%	12.31%	32.49%	20.18%
20 Day Average Volume	4,879,957	383,323	1,603,615	439,548	5,287,733	4,756,443
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.10%	6.93%
(F1) EPS Est 12 week change	1.48%	0.23%	-0.57%	1.76%	-3.02%	-54.35%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.88%	13.46%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	D
Momentum Score	B
VGM Score	B

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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