

Western Union (WU) Long Stock Report: Applied Portfolio Management
Analyst: Nicholas Kouyialis



Source: CNBC.com

Executive Summary: Western Union offers a unique opportunity for long-term value investors in the Graham/Buffett mold because it offers investors an intriguing valuation, a wide moat, a significant margin of safety and a considerable total return opportunity.

Valuation: In addition to currently trading at a 22% discount compared to its normalized P/E, Western Union is also trading at lower multiple levels compared to its primary competitors, the Information Technology Sector and the S&P 500.

Moat: Western Union's economies of scale, trusted brand name and massive global agent network help it earn a wide moat.¹ Western Union's moat is seen through its industry leading market share, superior operating margins and return on assets.

Margin of Safety: Compared to its primary competitors, Western Union offers a margin of safety that is unmatched. Western Union has been in existence for over 150 years, is a global leader in money transfers, and over the past five years has returned \$3.882 billion to its shareholders through share repurchases and dividends.

Recommendation and Price Target: I have a buy recommendation on Western Union with a 1-year price target of \$19.04, which based on projected 2014 EPS of \$1.43, results in an implied P/E of 13.31. The implied P/E is conservative as it is below Western Union's normalized P/E of 13.95. With a projected share price appreciation of 22.90% and a current dividend yield of 3.30%, Western Union offers a total return opportunity of 26.20%.

Recommendation: BUY

Current Price: \$15.49

1-Year Price Target: \$19.04

Current Yield: 3.30%

Expected 1-Year Total Return: 26.20%

Company Fundamentals

P/E: 10.83

Forward P/E: 10.75

EV/EBITDA: 7.18

Operating Margin (5-Year Average): 23.79%

Return on Assets (5-Year Average): 11.59%

¹ Horn, B. (2012, October 3). Dissecting The Sources Of Western Union's Moat. *NASDAQ.com*.
<http://www.nasdaq.com/article/dissecting-the-sources-of-western-unions-moat-cm178747>

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Company Overview:

Western Union was founded in 1851 under the name of New York and Mississippi Valley Printing Telegraph Company. In 1856 the Company was renamed Western Union and it entered the money transfer business in 1871. First Data Corporation acquired Western Union in 1995, but in 2006 First Data spun off Western Union as an independent company. Since then Western Union has grown both organically and through acquisitions. Currently, Western Union has more than 500,000 agent locations in 200 countries and territories, ranging from remote villages to large cities and over 100,000 ATMs.

Business Segments:

Western Union is divided into four business segments: Consumer-to-Consumer, Consumer-to-Business, Business Solutions and Other.

Revenue by Business Segment	2013	2012	2011
Consumer-to-Consumer	80%	81%	84%
Consumer-to-Business	11%	11%	11%
Business Solutions	7%	6%	3%
Other	2%	2%	2%
Total	100%	100%	100%

Source: Western Union 2013 10 K

Western Union’s core business is its Consumer-to-Consumer segment. This segment facilitates money transfers between two consumers, mostly through a network of third-party agents, and generates revenues primarily through transaction fees. International money transfers can be processed in more than 140 currencies. Consumers can send money through an agent, online, by phone or by mobile phone. When receiving money, consumers have many options including receiving money at their home, their bank account, on a prepaid card or a mobile “wallet.” A benefit of working with an agent is that minutes after the necessary forms are completed, the funds are available for pick up at an agent location of the receiver’s choice. Consumers looking for 24/7 service can send money by phone or online.

The Consumer-to-Business segment facilitates bill payments from consumers to businesses. Some examples of payments that consumers can make include utility, car loan or mortgage payments. As with the Consumer-to-Consumer segment, transaction fees are the principal source of revenue. Bill payments can be made with cash or through electronic payment and on a one-time or recurring basis. For urgent payments, Western Union offers a quick collect option that’s available at agent locations, online and by phone. Through its comprehensive and customizable bill payment solutions, Western Union helps to improve cash flow and reduce costs for both payers and payees.

The Business Solutions segment offers online foreign exchange payment platforms, risk management solutions, international payment services and corporate account management services. A few examples of the services offered are the ability to transfer funds 24/7, process currency transactions when rates are most favorable and manage currency risk through tailored hedging strategies. This segment has grown over the past two years with the acquisitions of business solution firms, Custom House and Travelex.

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Western Union’s “Other” business segment consists of money orders, prepaid cards, phone and gift cards. Consumers can use a prepaid card at any Western Union ATM and almost anywhere a debit card is accepted. All prepaid cards, phone and gift cards are reloadable, protected against theft or loss, and have no long-term commitments. Western Union has prepaid card relationships with both MasterCard and Visa.

Industry:

Consumers:

Western Union is the leader in the global money transfer industry. The primary consumers in the industry are “under banked” individuals who send remittances (when a foreign worker sends money back to an individual in his or her home country). Consumers who are “under banked” have limited or no access to banking services. Other industry consumers include individual consumers, who may or may not have access to banking and businesses that send money domestically or internationally for bill payments and other money transfer purposes.

Core Competitors:

Ticker	MGI	EEFT	XOOM	WU
Price	17.81	40.49	18.51	15.49
P/E	24.25	23.88	111.24	10.83
EPS	0.73	1.69	0.17	1.43
Market Cap	1.03 B	2.05 B	.712 B	8.49 B
Revenue	1.47 B	1.41 B	.122 B	5.54 B
Dividend Yield	N/A	N/A	N/A	3.30
PEG (5-Year)	0.77	1.23	N/A	1.01

Source: Yahoo Finance

MoneyGram is a money transfer company based in the United States and headquartered in Dallas, Texas. The Company services individuals and businesses through a network of agents and financial institutions. MoneyGram’s businesses are divided into two categories: Global Funds Transfers and Financial Paper Products. Its Global Funds Transfers segment consists of money transfer, bill payment and property payment services. MoneyGram’s Financial Paper Products segment includes its money order and official check services. Considered by many to be Western Union’s top competitor, MoneyGram competes directly against Western Union in the global money transfer industry and has the second highest market share.

Euronet Worldwide was founded in 1994. Euronet provides electronic payment solutions for financial institutions, retailers, service providers and individual consumers. It has three core business segments: Electronic Financial Transactions, Prepaid Services and Money Transfer Services. Euronet serves clients in approximately 150 countries. Recently, expanding its presence in the United States, Euronet reached a deal with Walmart to provide domestic money transfers. The Company has been ranked

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by Fortune magazine for two consecutive years, as one of the 100 Fastest-Growing companies. Euronet is a core competitor as it competes against Western Union in all four of Western Union's business segments.

Xoom Corporation is a digital money transfer company based in San Francisco. The Company was founded in 2001, went public on February 15, 2013 and is backed by venture capital firms Sequoia Capital and Fidelity Ventures. Xoom provides money transfer services to banks, money transfer companies and consumers. Money transfers through Xoom have to be transmitted online and from the United States to foreign countries only. Transfers cannot be sent from a foreign country to the United States. The Wall Street Journal listed Xoom among the top 50 most promising venture backed companies in both March 2011 and September 2012. As the industry trend of global remittances through online channels progresses, Xoom will become an even more significant competitor to Western Union.

Industry Trends:

Trends in the money transfer industry are affected by global economies, migration trends and employment levels. As global economies and employment levels have become more stable and have showed growth, albeit at a slow pace, more people are migrating for work opportunities. In 2013, Europe and Asia have seen the biggest increase in migration, as 72 million people migrated to Europe and 71 million people migrated to Asia.² This trend benefits Western Union pursuant to a United Nations report, 74% of international migrants are of working age (20-64 years old) and Western Union has a large and strong agent network in Europe.³ Western Union has also been increasing its presence in Asia, as it has recently expanded its operations in both China and Russia. Aite, an independent market research firm, predicts the cross-border remittances market will grow in the range of 5%-6% over the next three years and reach approximately \$622 billion of principal by 2016.⁴

An industry trend in the infancy stages is global remittances through online channels. The trend is expected to be gradual as "under-banked" consumers represent the main consumer base in the global remittance market and in order to transfer money online, a bank account is required. However, this trend is seeing growth from consumers who are new to the money transfer industry, as 80% of WesternUnion.com users are new to Western Union. Western Union has invested heavily in its online platform and is seeing the rewards, as online transaction volumes have increased by 65% in 2013 and 41% in 2012.

Impact of increased industry regulations:

Increasing money transfer regulations in both the United States and Europe are adding a financial burden on the money transfer industry. The regulations require money transfer providers to develop systems to prevent, detect, monitor and report certain transactions, which lead to increased compliance costs. The increasingly demanding regulatory environment is designed to help curtail money laundering, terrorist activities and increase consumer protection.

² United Nations. (2013, September 11). 232 million international migrants living abroad worldwide—new UN Global Migration Statistics Reveal. *International Migration and Development*. <http://esa.un.org/unmigration/wallchart2013.htm>

³ IBID. United Nations.

⁴ Shevlin, R. (2014, April 16). Cross-Border Money Transfers: 2014 Update. *Aite Group*. <http://www.aitegroup.com/report/cross-border-money-transfers-2014-update>

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Porter 5 Forces:

Threat of New Entrants is Low (Positive):

- New entrants would have to compete with well established brands
- The high initial costs involved with designing and installing the infrastructure needed to comply with new industry regulations act as a barrier to entry
- For new entrants, who want brick and mortar locations, it would take time to build an agent network that could compete with the industry leaders

Power of Suppliers is Low (Positive):

- Western Union is able to attract agents with its global reach and large consumer base
- Western Union's revenues are not heavily dependent on any one agent or location.

Power of Buyers is Medium (Neutral):

- With agents in more countries and territories than any other competitor, Western Union is often the most convenient and easily recognizable money transfer option, and in some locations, the only option available.
- Sending money is an emotional transaction and Western Union's brand name gives consumers confidence
- Buyers have proven to be price sensitive in certain locations, leading to Western Union lowering prices in these locations to stabilize its market share

Availability of Substitutes is Medium (Neutral):

- In markets such as developing countries and remote villages, there are very little substitutes that can compete with Western Union's vast experience and number of money transfer options
- However, in developed nations such as the United States and Europe, there are many substitutes, including international and regional money transfer providers, banks and other financial institutions

Competition is High (Negative):

- Competition is intense
- Industry has a history of pricing wars

Moat:

Moat Valuation Metrics	WU	MGI	EEFT	XOOM
Operating Margin (5-year average)	23.79%	9.65%	5.45%	-9.14%
Return on Assets (5-year average)	11.59%	-2.41%	1.76%	-2.21%

Source: Morningstar

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In addition to being held in Morningstar's Wide Moat Focus Exchange Traded Fund, Western Union's wide moat is evident as it is a global leader in the money transfer industry with 15% market share.⁵ Top competitor, MoneyGram has 5% market share.⁶ Western Union's wide moat is also evident as both its five-year average operating margin and return on assets are extraordinarily greater than the averages of its key competitors. Western Union built its wide moat through its economies of scale, trusted brand name and substantial global agent network.⁷

With Western Union having a larger network and greater market share than its competitors, it leads to economies of scale because the variable costs of processing additional transactions are minimal. Trust is an important factor when deciding what money transfer provider to use, which is why Western Union's strong global brand is a vital competitive advantage. With an agent network of over 500,000 globally, Western Union has approximately 200,000 more agents than its main competitor, MoneyGram. Western Union also has more agents than competitors, Euronet and Xoom (Xoom offers digital transfers only, therefore it does not have any agents).

Although challenged, Western Union's moat is still wide:

The competition in the money transfer industry is high and firms, such as MoneyGram are trying to take market share away from Western Union by lowering prices. Such strategy has had some success against Western Union's moat. However, Western Union countered its competitor's strategy with a pricing action of its own. Beginning in 2012 and throughout 2013 Western Union lowered prices in certain locations, which helped to stabilize its market share. The pricing strategy is now complete and its success was shown in 2013, as Western Union experienced a greater increase in transaction volumes compared to 2012.

Western Union's substantial global agent network has been challenged due to law changes and new industry regulations. Law changes have caused Western Union to lose some exclusive agent relationships and it had to terminate approximately 7,000 agent relationships in the US-Mexico corridor, due to the agents failing regulatory requirements. Nonetheless, Western Union has a substantially greater agent network than its competitors. Also, Western Union has long standing relationships with the majority of its agents and has recently renewed most of its agents' contracts.

Some investors are concerned that increasing regulations will hurt Western Union's moat, but the increase in regulatory costs actually acts as a barrier to entry into the global money transfer industry, as a whole. Additionally, Western Union has built a barrier to entry with its proprietary compliance system that develops a risk profile for both transactions and consumers, which helps ensure regulatory compliance.

The industry trend of increasing online remittances is considered by some to be an issue for Western Union's moat, however, I do not believe this is the case for two reasons. One, online transfers depend on a transfer from a bank account and Western Union's main consumer base are individuals who are "under banked."

⁵ Williams, C. (2013, May 18). Western Union Could Be in the Money. *The Wall Street Journal*.
<http://online.wsj.com/news/articles/SB10001424127887323582904578486972052308296>

⁶ IBID. Williams, C.

⁷ IBID. Horn, B.

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Secondly, Western Union is getting ahead of current and possible future competition as it is investing in online money transfer technology. As previously mentioned, Western Union has already seen substantial growth in its online platform during 2012 and 2013. Also, the strength of Western Union's brand name is apparent, as 80% of WesternUnion.com users are new to Western Union.

Overall, I believe Western Union's wide moat is stable.

Financial Statement Analysis:

Transition Years:

2012 and 2013 were transition years for Western Union as it saw increasing regulatory costs, enacted a strategic pricing strategy and invested in productivity and cost saving initiatives.

New regulations require money transfer providers to develop systems to protect, detect, monitor and report certain transactions. The development and installation of these systems require significant upfront costs. In 2013, Western Union's regulatory costs were 2.5% of revenue and in 2014 regulatory costs are expected to increase to approximately 3.5% to 4% of revenue; before stabilizing in 2015, as Western Union fully develops and installs the software needed to comply with the new industry regulations.

Western Union's strategic pricing strategy began in 2012 and was completed in 2013. The pricing strategy consisted of lowering prices by up to 5% in strategic locations to stabilize its market share, as top competitor, MoneyGram had previously lowered its prices. Also during 2012 and 2013, Western Union spent a total of \$87.8 million on productivity and cost saving initiatives.

The transition years have had an adverse impact on Western Union's financials. For instance, its revenue decreased by 2% in 2013, although a 5% increase in Consumer-to-Consumer transactions partially offset the negative impact of its pricing strategy. After its operating margin was consistently around 25% from 2008 through 2011, it decreased to 23.5% in 2012 and 20% in 2013. As previously discussed, the primary causes of the decreases in its operating margin, were a drop in revenue in 2013, increasing regulatory costs in 2012 and 2013, along with increased costs from productivity and cost saving initiatives. With a decline in revenue and operating margin, Western Union's net income decreased over the past two years, which led to its return on assets and earnings per share to decrease accordingly.

Although regulatory costs are expected to rise, Western Union's financials are expected to marginally improve in 2014. Revenues are expected to increase because the pricing action has been completed and Western Union's market share was solidified as a result of its pricing strategy. Also, with an estimated \$45 million in cost savings during 2014, Western Union will start to see the long-term benefits of its improved cost structure. Consequently, in 2015 Western Union's revenues and margins should increase as a result of the continued benefits of stabilized prices, improved cost structure and the expected stabilization of its regulatory costs.

Long-Term:

Western Union's revenues have grown on average by 5.2% a year since 2006, which is less than its core competitors, as Western Union is a more mature company. For example, top competitor

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MoneyGram has increased its revenues on average by 7% a year since 2006; however, Western Union's annual revenues are approximately four times the annual revenues of MoneyGram.

Despite an EPS decrease in both 2012 and 2013, Western Union's EPS increased by 20% from 2006 to 2013; compared to top competitor MoneyGram, which saw its EPS decrease by 94% from 2006 to 2013. In addition, Western Union's annual net income growth rate has been noticeably steadier than its counterparts. For example, during the last eight years Western Union's peak to trough annual net income growth rate was 28% to -22%. For a long-term value investor, this compares favorably to MoneyGram's annual net income growth rate peak to trough of 206% to -965% and Euronet's peak to trough of 319% to -461%.

Although Western Union's operating margin and return on assets have decreased due to its transition, both are still meaningfully higher than its leading competitors. Western Union's five-year average operating margin of 23.79% is more than double of MoneyGram's five-year average of 9.65%. Equally impressive, even with a higher level of intangibles as a percentage of assets, Western Union is able to produce a remarkably greater five-year average return on assets than its competitors.

As of December 31, 2013 Western Union had \$3.713 billion in long-term debt. Taking advantage of the current interest rate environment, Western Union has been rolling over maturing debt at lower interest rates. With a current ratio of 1.12 and an interest coverage ratio of 5.74, Western Union has the ability to meet its current obligations and its interest payment requirements. I do not believe Western Union's debt is a concern given Western Union's cash balance as of December 31, 2013 of \$2.073 billion and its ability to generate consistent cash flow.

All items in millions	2013	2012	2011	2010	2009	2008	2007	2006
Operating Cash Flow	\$1,089	\$1,185	\$1,175	\$994	\$1,218	\$1,254	\$1,104	\$1,109
Free Cash Flow	\$847	\$917	\$1,012	\$881	\$1,119	\$1,183	\$911	\$907

Source: Western Union 2013 10 K

Since 2006, when First Data spun off Western Union, Western Union has produced an operating cash flow of over \$1 billion annually for all but one year and its average operating cash flow during that time was \$1.141 billion annually. For the same time period, Western Union has generated an average free cash flow of \$972 million and in 2013 generated free cash flow per share of \$1.51 (three times its 50 cents a share dividend). The decline in free cash flow during 2012 and 2013 was attributable to Western Union's transition, as discussed in the previous section. To reward shareholders, Western Union has used its strong cash flow to fund its dividends and numerous share repurchase programs.

Valuation:

Margin of Safety:

Western Union has been in existence for over 150 years and is a global leader in money transfers and generates annual revenue that is greater than each of its core competitors' market capitalization.

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All items in millions	2013	2012	2011	2010	2009
Shares Repurchased	\$393.60	\$771.90	\$800.00	\$584.50	\$400.00
Dividends Paid	\$277.20	\$254.20	\$194.20	\$165.30	\$41.20
Total Returned to Shareholders	\$670.80	\$1,026.10	\$994.20	\$749.80	\$441.20

Note: A new \$500 million share repurchase program was approved in February, 2014.

Source: Western Union 2013 10 K

As the chart above shows, Western Union offers a substantial margin of safety through dividends and share repurchases. Over the last five years, Western Union has returned \$3.882 billion to shareholders (\$2.950 billion in share repurchases and \$932.1 million in dividends). From 2007 through 2013, Western Union bought back 223.16 million shares reducing its outstanding share amount by approximately 29%.

Western Union's current dividend yield is 3.30%, which is higher than both the Information Technology Sector and the S&P 500, which have a 1.89% and 1.98% dividend yield, respectively. Western Union has increased its dividend by 700% since 2009 and its payout ratio has room to grow, as it currently stands at 35%. Currently, none of Western Union's main competitors pay a dividend. Due to Western Union's cash flow, its ability to continue to offer investors a margin of safety through dividends and share repurchases appears to be stable.

Based on its trough P/E of 8.06, the potential downside for Western Union's share price is \$11.77. The downside would represent a 24% decline in share price and including its current yield, a total return of -20.70%. However, I believe it is unlikely that Western Union's P/E would fall to its trough level given its consistently growing dividend, new \$500 million share repurchase program and promising future after spending the previous two years in transition.

Catalysts:



Source: Yahoo Finance

On October 30, 2013 following Western Union's 3rd quarter earnings report, Western Union's share price decreased by 12.4% to \$16.85 a share. Investors were disappointed with a 1% decline in revenue and a 4.7% decline in operating margin compared to 3rd quarter 2012, along with management's expectations

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that regulatory costs would increase in 2014. As previously mentioned, the decline in revenue and operating margin were attributable to its 2012 and 2013 financial statements having been affected by its strategic pricing strategy, increase in regulatory costs and its investment in cost and productivity initiatives.

What investors overlooked was Western Union's core business, Consumer-to-Consumer transactions, which realized its biggest increase in transaction volume since 2010. Additionally, investors discounted Western Union's strong 3rd quarter cash flow and growth in its online channels.

On April 16, 2014 Western Union's competitor, Euronet announced a partnership with Wal-Mart to provide domestic only transfers in the United States. The day after the announcement, Western Union's share price decreased by 5.7% and closed the day at \$15.135 a share. Investors feared that this new partnership would significantly hurt Western Union's revenues.

However, the Euronet/Wal-Mart partnership should not have a considerable impact on Western Union's revenues, as the new partnership transfers are domestic only and domestic transfers are a small part of Western Union's revenues.⁸ Also, unlike MoneyGram, Western Union did not have a relationship with Wal-Mart prior to its partnership with Euronet.⁹

Once the picture on Western Union clears, I believe investors will see how undervalued it is.

Current Valuations:

Valuation Metrics	WU	MGI	EEFT	XOOM	IT Sector	S&P 500
Trailing P/E	10.83	17.53	25.37	112.12	20.88	18.00
Forward P/E	10.75	9.08	18.16	211.78	14.90	16.60
PEG	1.01	0.64	1.28	N/A	N/A	N/A
Dividend Yield	3.30	N/A	N/A	N/A	1.89	1.98

Source- Yahoo Finance and Morningstar

The above exhibit shows that Western Union is undervalued compared to its competitors, the Information Technology Sector and the market as a whole. With a current P/E of 10.83, Western Union is also trading below its normalized P/E of 13.95.

⁸ Horn, B. (2014, April 17). Western Union Faces a Difficult Year, but we Still Like the Long-Term Picture. *Morningstar.com*. <http://analysisreport.morningstar.com/stock/research?t=WU&culture=en-US&cur=USD&productcode=MLE>

⁹ IBID. Horn, B. (2014, April 17).

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Earnings Projection Model:

	Historical			Projected				
	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	\$5,491.00	\$5,665.00	\$5,542.00	\$5,708.00	\$5,908.00	\$6,145.00	\$6,390.00	\$6,645.00
Growth		3.20%	-2.20%	3.00%	3.50%	4.00%	4.00%	4.00%
EBIT	\$1,385.00	\$1,330.00	\$1,107.00	\$1,136.00	\$1,217.00	\$1,309.00	\$1,406.00	\$1,462.00
Margin	25.20%	23.50%	20.00%	20.00%	20.60%	21.30%	22.00%	22.00%
Growth		-4.00%	-16.75%	2.60%	7.10%	7.55%	7.40%	4.00%
Net Income	\$1,166.00	\$1,025.00	\$797.00	\$802.00	\$870.00	\$947.00	\$1,029.00	\$1,076.00
EPS	\$1.84	\$1.69	\$1.43	\$1.43	\$1.55	\$1.69	\$1.84	\$1.92

The EPS projection model was constructed using a combination of investment analysis, management guidance and consensus information from Wall Street analysts. My projections for 2014 and 2015 are in-line with both Wall Street's consensus and management expectations. In 2014, I expect EPS to remain at \$1.43 due to an increase in regulatory costs offsetting an increase in revenues. From 2015 through 2018, I expect Western Union's revenues to increase due to expected growth in the cross-border remittance market and growth in its online money transfer platform. I anticipate margins will increase in 2015 through 2017 because of stabilizing regulatory costs.

To be conservative, I kept the amount of outstanding shares constant from 2014 through 2018 despite Western Union's recent announcement of a new \$500 million share repurchase program. Also, my projected revenue growth is below Western Union's normalized growth rate of 5.2% and my projected margins are below Western Union's 5-year average of 23.79%.

Recommendation and Price Target:

I have a buy recommendation, with a 1-year price target of \$19.04.

Valuation	Multiple	Forecasted Price	Weighting	Factor
P/E (a)	12.40	\$17.73	0.50	\$8.87
DCF		\$20.34	0.50	\$10.17
1-Year Price Target				\$19.04
a- Projected 2014 EPS of \$1.43.				

The blended 1-year price target implies a 2014 P/E of 13.31 and a share price appreciation of 22.90%. The implied P/E also adds a margin of safety because it is less than Western Union's normalized P/E and the current P/E's of Western Union's core competitors, the Information Technology Sector and the S&P 500.

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DCF assumptions:

- Growth in revenue is shown in the earnings projection table on the previous page
- Capital expenditures are held constant
- Tax rate is 16%
- WACC is 8.63% (see appendix for calculations)
- Terminal growth rate is 3%

Risks to Buy Recommendation:

- Narrowing of Western Union's moat
- A global economic downturn
- Increased competition
- Western Union is unable to adopt to new technologies in the money transfer business
- A cyber-attack, leading to consumers' personal information being breached
- Regulatory cost increases
- Current and potential litigation
- Foreign exchange risk
- Emerging market risk

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Appendix:

Appendix # 1:

WACC: Cost of Debt					
Bonds	Market Value (in millions)	YTM	Cost		
WU 5.93% 10/1/2016	1106	1.51%	16.70		
WU 2.875% 12/10/17	519	1.84%	9.55		
WU 5.2% 11/17/2036	510	6.04%	30.80		
WU 3.65% 08/22/2018	415	2.76%	11.45		
WU 5.253% 04/01/2020	361	3.20%	11.55		
WU 1%+3M Libor 08/21/2015	252	1.23%	3.10		
WU 2.375% 12/10/2015	256	0.91%	2.33		
WU 6.2% 06/21/2040	257	5.99%	15.39		
WU 3.35% 05/22/2019	250	3.37%	8.43		
	3926				
		$109.31/3926 =$ 2.78%		109.31	
		Tax Rate = 16%			
		$2.78% * (1 - 0.16) =$			
		2.34%			
		After-tax cost of debt			

Appendix # 2:

WACC: Cost of Equity

Capital Asset Pricing Model:

Risk Free Rate + Beta (Expected Market Return - Risk Free Rate)

Beta = 1.36

Risk Free Rate = 2.71% (10-Year Treasury)

Expected Market Return = 9.22% (Most recent 10-year average return of S&P 500)

$2.71% + 1.36 (9.22% - 2.71%) =$ **11.56%**

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Appendix # 3:

Western Union's WACC				
WACC: $W_e * R_e + W_d * R_d$ (After-tax)				
	Market Value (in millions)	Weight	Cost	Factor
Debt	3925	0.32	2.34%	0.75%
Equity	8400	0.68	11.56%	7.88%
Total	12325	1		8.63%

Appendix # 4:

Normalized P/E									
Year	2006	2007	2008	2009	2010	2011	2012	2013	
P/E	18.87	21.88	11.52	15.58	13.64	9.94	8.06	12.09	
Normalized P/E = 13.95									

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Resources:

1. “The Intelligent Investor, The Definitive Book on Value Investing”; Benjamin Graham, Harper; First Collins Business Essentials Edition, 2006
2. Western Union. (2013). Form 10-K 2013. Retrieved from Mergent Online database.
3. MoneyGram. (2013). Form 10-K 2013. Retrieved from Mergent Online database.
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