

## Western Union

## Underlying 4Q results in-line, but structural headwinds persist

Maintain Rating: UNDERPERFORM | PO: 12.00 USD | Price: 12.54 USD

## Shares flat following in-line underlying results

Shares are trading flat after hours following decent 4Q results, with revs and adj. EPS ex-Iraq in-line with BofAe/Street/guide. Initial F24 guide is in-line with consensus, however this is largely driven by incremental Iraq revs which are expected to slow through 2024. While branded digital revs growth has shown signs of encouragement, WU continues to face structural headwinds, and we remain cautious on the long-run normalized growth of the company, maintain Underperform.

## '24 revs guide propped up by Iraq again

F24 revs guide of \$4,075M-\$4,175M is in-line with BofAe/Street at \$4,161M/\$4,163M. However, this guide includes \$50M-\$100M attributable to favorable Iraqi monetary policy vs. management's prior view, closer to 2022 levels of ~\$15M. WU's local settlement provider in Iraq plans to end its relationship with WU in 1Q, and WU plans to search for a new partner. Adj. operating margin guidance of 19%-21% for '24 is in-line with 2022 Analyst Day commentary. Initial F24 adj. EPS guidance of \$1.65-\$1.75 is in-line with BofAe/Street at \$1.70/\$1.69.

## Branded digital metrics showed incremental improvement

Branded digital transaction and revenue growth both accelerated ~100bps to 13%/4% y/y, respectively. Management believes branded digital revenue can return to double digit growth over time. We anticipate the gap between transactions and revs growth will narrow, with management's long-term goal of maintaining a transaction vs. revs growth spread of roughly 200-300bps.

## CMT transaction growth continues to outpace revs growth

CMT revs growth (formerly C2C) decelerated ~500bps to (1)% y/y in 4Q, driven by less Iraq tailwind. CMT transactions increased 5% y/y, with retail transactions showing signs of stabilization ex-Iraq. Ex-domestic money transfer, CMT revs growth was flat y/y with transactions increasing 6% y/y. See inside for more on CMT trends.

## Continued focus on ancillary consumer services

Management commentary suggested an increased focus on consumer services revenue, including digital wallet, money order, bill payments, prepaid cards, lending products, and FX. While these solutions represent less than 8% of revs, WU anticipates double digit annual revenue growth, and believes these services will drive continued engagement and improve retention as the company shifts towards an account-based relationship.

## 4Q results buoyed again by Iraq

Adj. const-curr revs grew 3% y/y to \$1,094M, in-line with BofAe at \$1,090M and ahead of Street at \$1,041M. This includes a 300bps/400bps tailwind from Iraq/Argentinean inflation, respectively. Adj. EBIT margins of 16.1% was 180bps/240bps below BofAe/Street, partially due to timing of marketing spend. 4Q adj. EPS of \$0.37 is in-line with BofAe/Street at \$0.35/\$0.37, respectively, and implied guide of \$0.31-\$0.38.

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## Stock Data

|                                |                       |
|--------------------------------|-----------------------|
| Price                          | 12.54 USD             |
| Price Objective                | 12.00 USD             |
| Date Established               | 27-Oct-2023           |
| Investment Opinion             | B-3-7                 |
| 52-Week Range                  | 10.07 USD - 14.51 USD |
| Mkt Val (mn) / Shares Out (mn) | 5,421 USD / 432.3     |
| Free Float                     | 99.4%                 |
| Average Daily Value (mn)       | 58.30 USD             |
| BofA Ticker / Exchange         | WU / NYS              |
| Bloomberg / Reuters            | WU US / WU.N          |
| ROE (2023E)                    | 147.6%                |
| Net Dbt to Eqty (Dec-2022A)    | 278.5%                |
| ESGMeter™                      | High                  |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

CMT: Consumer Money Transfer

C2C: Consumer to Consumer

Const-curr: Constant Currency

MEASA: Middle East, Africa, and South Asia

LACA: Latin America &amp; the Caribbean

## CMT trends by region

In 4Q, CMT const-curr revs growth was driven by MEASA, which increased 12% y/y to 18% of total CMT revenue, predominately due to a continuation of favorable Iraqi monetary policy. By transactions, the region grew 7% y/y vs. 9% y/y in 3Q.

Europe & CIS accounted for 25% of total CMT revenue, with const-curr revs growth improving 100bps q/q to (9)% y/y. Transaction growth remained positive, and increased 4% y/y vs. flat in 3Q.

N. America remained the largest CMT segment at 39% of total while declining 1% y/y in const-curr. This is a sequential improvement of 200bps. By transaction, the region decelerated 100bps to 6% y/y growth.

LACA continued to experience double digit const-curr revs growth, increasing 3% y/y (vs. 8% y/y in 3Q) to 12% of total CMT revs. Transaction growth also increased 4% y/y but slowed vs. 9% y/y growth in 3Q.

APAC remains the smallest region at 6% of CMT revs (vs. 5% in 3Q), and reported const-curr growth of (5)% y/y, accelerating 200bps q/q. Transactions increased 6% y/y.

## Price objective basis & risk

### Western Union (WU)

We use 7x our '24E adjusted EPS to calculate our 12-month price objective of \$12. This multiple is a 50% discount to the S&P 500 and in-line with WU's historical multiple, due to WU's lower growth and earnings quality, as well as competitive threats.

Upside risks to our price objective are: 1) C2C pricing proves healthier than anticipated, 2) WU accelerates its progress in penetrating digital/on-line channels, while achieving stable/better performance in retail channels, thereby delivering meaningful and sustainable improvements in top-line growth.

Downside risks to our price objective are: 1) C2C pricing pressure intensifies, as the competitive environment thickens, 2) disruptive technologies cause competitive losses for WU.

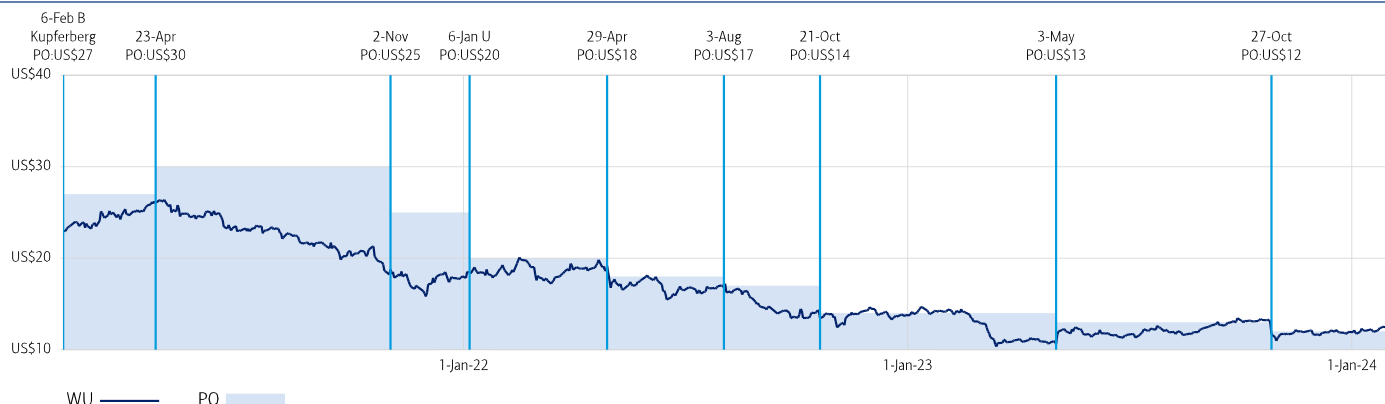
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### Western Union (WU) Price Chart



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| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 215   | 53.09%  | Buy                                      | 111   | 51.63%  |
| Hold              | 97    | 23.95%  | Hold                                     | 45    | 46.39%  |
| Sell              | 93    | 22.96%  | Sell                                     | 24    | 25.81%  |

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| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 1895  | 53.62%  | Buy                                      | 1083  | 57.15%  |
| Hold              | 832   | 23.54%  | Hold                                     | 454   | 54.57%  |
| Sell              | 807   | 22.84%  | Sell                                     | 383   | 47.46%  |

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster <sup>R2</sup> |
|-------------------|---|--|
| Buy               | ≥ 10%   | ≤ 70%  |
| Neutral           | ≥ 0%  | ≤ 30%  |
| Underperform      | N/A   | ≥ 20%  |

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