

Western Union

Takeaways from management meetings at Financial Services Conference

Maintain Rating: UNDERPERFORM | PO: 12.00 USD | Price: 12.91 USD

The journey towards positive revenue growth continues

On Wednesday, we hosted WU's Head of Investor Relations for investor meetings at our Global Financial Services Conference in Miami. WU is pleased with the improved underlying trajectory of transaction growth since the October 2022 Analyst Day. Management remains committed to achieving its stated 2025 target for revenue growth to approach 2% (which likely requires Digital to get to double-digits), while running the business at 19-21% operating margins. While there have been positive developments (i.e., digital wallet/ecosystem strategy) under new management, we continue to see structural headwinds, especially in retail (75% of revenues). We maintain our Underperform rating.

Expect spread between txn & revenues growth to narrow

As WU continues to lap pricing investments (especially in Digital), the spread between transaction (txn) and revenue growth is expected to ultimately narrow to 200-300bps from 900bps in 4Q23. These pricing investments have helped to stimulate Digital transaction growth, as have increased marketing efforts. In retail, WU's improved transaction growth is attributable to enhanced consumer experiences at the point of sale, such as "Remember Me" and "Quick Resend," features that will be brought to Europe this year.

Pricing and competition are stable

WU's pricing/competitive environment is largely unchanged. Need for smaller, unprofitable players to become profitable has relieved some pressure. Overall competition from global players and digital/corridor specialists remains intense but stable. WU believes that it has recaptured modest share in the large US-Mexico corridor.

Open to M&A while returning cash to shareholders

WU enjoys low net leverage of 1.2x and remains open to M&A, especially deals that help advance the digital wallet/ecosystem strategy. Meanwhile, dividend and share buybacks are likely to remain top capital deployment priorities.

2024 outcomes in Iraq may be somewhat binary

WU has guided 2024 Iraq revenues to \$50M-\$100M. If WU does not replace its correspondent bank by the end of 1Q, the low end of that range could still be attainable. If WU does replace the correspondent bank, WU would likely achieve the high end of the range.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.76	1.74	1.69	1.75	1.88
GAAP EPS	2.34	1.68	1.62	1.75	1.88
EPS Change (YoY)	-19.6%	-1.1%	-2.9%	3.6%	7.4%
Consensus EPS (Bloomberg)			1.70	1.77	1.86
DPS	0.94	0.94	1.00	1.06	1.12
Valuation (Dec)					
P/E	7.3x	7.4x	7.6x	7.4x	6.8x
GAAP P/E	5.5x	7.7x	7.9x	7.4x	6.8x
Dividend Yield	7.3%	7.3%	7.7%	8.2%	8.7%
EV / EBITDA*	7.6x	8.5x	8.6x	8.4x	8.1x
Free Cash Flow Yield*	6.7%	11.4%	9.3%	9.9%	11.8%

* For full definitions of *IQmethod*SM measures, see page 4.

22 February 2024

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Stock Data

Price	12.91 USD
Price Objective	12.00 USD
Date Established	27-Oct-2023
Investment Opinion	B-3-7
52-Week Range	10.07 USD - 13.75 USD
Mkt Val (mn) / Shares Out (mn)	5,564 USD / 432.3
Free Float	99.3%
Average Daily Value (mn)	68.08 USD
BofA Ticker / Exchange	WU / NYS
Bloomberg / Reuters	WU US / WU.N
ROE (2024E)	129.5%
Net Dbt to Eqty (Dec-2023A)	258.0%
ESGMeter™	High

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iQprofileSM Western Union

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	16.1%	15.4%	15.9%	16.2%	16.4%
Return on Equity	164.5%	135.5%	129.5%	115.9%	90.4%
Operating Margin	19.8%	18.8%	18.8%	19.0%	19.2%
Free Cash Flow	373	635	517	552	657

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	1.2x	1.2x	1.2x	1.4x
Asset Replacement Ratio	1.1x	0.8x	0.9x	0.9x	0.9x
Tax Rate	9.7%	16.1%	17.0%	17.0%	17.0%
Net Debt-to-Equity Ratio	278.5%	258.0%	355.4%	278.3%	200.7%
Interest Cover	8.8x	7.4x	7.8x	8.0x	8.2x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,476	4,357	4,127	4,210	4,296
% Change	-11.7%	-2.6%	-5.3%	2.0%	2.0%
Gross Profit	1,849	NA	NA	NA	NA
% Change	-15.0%	NA	NA	NA	NA
EBITDA	1,075	960	953	980	1,009
% Change	-19.2%	-10.8%	-0.7%	2.9%	2.9%
Net Interest & Other Income	124	(30)	(90)	(90)	(92)
Net Income (Adjusted)	685	648	593	589	608
% Change	-23.5%	-5.4%	-8.5%	-0.7%	3.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	911	626	569	589	608
Depreciation & Amortization	184	184	177	180	184
Change in Working Capital	(347)	(111)	(214)	(199)	(113)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	(166)	85	153	153	153
Capital Expenditure	(208)	(148)	(168)	(171)	(175)
Free Cash Flow	373	635	517	552	657
% Change	-57.5%	70.1%	-18.6%	6.8%	19.0%
Share / Issue Repurchase	(370)	(308)	(240)	(200)	(200)
Cost of Dividends Paid	(364)	(349)	(350)	(356)	(362)
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,286	1,269	950	893	967
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	3,487	3,687	2,565	2,410	2,610
Property, Plant & Equipment	110	91	82	73	64
Other Non-Current Assets	3,614	3,152	3,527	3,592	3,624
Total Assets	8,496	8,199	7,124	6,968	7,264
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	3,951	4,140	2,961	2,814	2,963
Long-Term Debt	2,617	2,505	2,505	2,505	2,505
Other Non-Current Liabilities	1,451	1,075	1,222	1,070	1,030
Total Liabilities	8,019	7,720	6,687	6,389	6,498
Total Equity	478	479	437	579	766
Total Equity & Liabilities	8,496	8,199	7,124	6,968	7,264

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Payments, Processors & IT Services

Company Description

The Western Union Company (WU) is a leading provider of global money transfer services, with a network of more than 600,000 agent locations in over 200 countries and territories. Western Union primarily caters to unbanked and underbanked consumers around the globe. Western Union has expanded its presence in the B2B global payments business with the acquisitions of Travelex Global Business Payments and Custom House.

Investment Rationale

We think WU will be a "show me" story under its new CEO, who may have limited strategic options. Structural concerns continue to swirl around WU, related to competition from pure-play digital remittance providers as well as possible disruptive threats from newer technologies such as blockchain and digital currencies. Weak growth in the retail channel is a concern.

Stock Data

Average Daily Volume 5,290,143

Quarterly Earnings Estimates

	2023	2024
Q1	0.43A	0.39E
Q2	0.51A	0.45E
Q3	0.43A	0.43E
Q4	0.37A	0.42E

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.

Analyst Certification

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US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Marqeta	MQ	MQ US	Cassie Chan
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
NEUTRAL				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg



US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan

UNDERPERFORM

	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

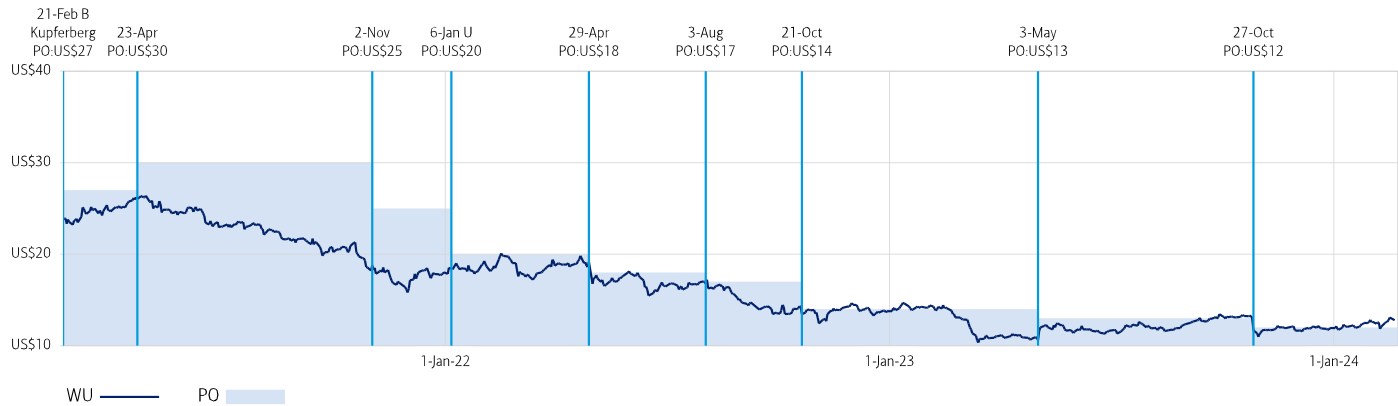
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Western Union (WU) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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