

# Mossberg's Investor Digest

## Best Idea Profile:

## MoneyGram International Inc. (NYSE:MGI)

### DESCRIPTION:

MoneyGram International is a leading global payments company offering convenient money transfer and bill payment services to people around the world. Its customers often do not have access to traditional banks, and are frequently people that are migrating for work and need to send money home, or that have an emergency need. MoneyGram services are offered in more than 197 countries through a network of 293,000 agent locations, as well as financial institutions. The company, founded in 1926, is headquartered in Dallas and employs 2,350 people.

### KEY INVESTMENT CONSIDERATIONS:

**Outgrowing a Growth Market** – The World Bank estimates that more than \$500 billion moves every year across borders. Despite the global recession, the payment market continues to grow. The number of people in the world who don't use traditional banks is rapidly increasing and MoneyGram is outpacing the market.

**New Markets** – MoneyGram has invested substantially to increase its brand awareness. But it has also entered new markets and delivery channels. It signed a new agreement with PayPal that enables consumers to easily access money in their digital wallets, which is a technology they did not previously have. Additionally, in its last reported quarter, MoneyGram announced an agreement with Gemalto to use technology to send and receive money using mobile phones. MoneyGram is expanding geographically as well: it entered the emerging Russian market through an agreement with the Payment Center.

**Solid Second Place with Barriers to Entry** – Of this sizable market, MoneyGram has about 5% of the market share and Western Union has about 17%. MoneyGram has shrunk the difference in global brand awareness between it and Western Union through new products and more aggressive advertising. These two competitors account for less than a quarter of a market that is growing about 7% a year. MoneyGram's number of agent locations, which is a tell-tale predictor of growth, was up 15% over last year. Transaction volume was up 13%. And tightened security from governments concerned about money laundering and fraud has created a natural barrier to entry for players without sophisticated fraud protection technologies.

**Legacy Issues Resolved** – The Company has divorced itself from its legacy issues. It recently settled a fraud and scam claim that was based on activities prior to the arrival of current management. The \$100 million forfeiture will be paid in the first calendar quarter, and has been fully accrued.

**Improved Capital/Financial Structure** – Cash flow trend has been consistently positive throughout the recession as MoneyGram has redefined and rebuilt the franchise. Following a near-death experience in 2008, the Company was recapitalized in order to rid itself of significant portfolios of its high-risk investments. Operating results and EBITDA were negatively impacted in ensuing years because the Company "de-risked" the investment portfolio, subsequently reducing its investment income. EBITDA now exceeds the levels reached in 2008 without the recognition of investment income. Growth now comes from transaction volume and the continual expansion of its agent network and is not dependent on investment income.

### VALUATION:

MGI trades at less than 12 times forward earnings, which considering its growth, is an attractive valuation. American investors may be overlooking the importance of a business that is more highly visible to immigrant workers.

#### MoneyGram International Inc. (NYSE:MGI) Investment Data (as of 1/30/13)

<b>Recent Price</b>	<b>\$13.99</b>
52-Week Range	\$11.00 - \$19.50
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	57.9 M
Average Trading Volume (3 mos)	80k
Market Capitalization	\$810 M
Cash (substantially restricted)	N/A
Long-term Debt	\$810 M
Enterprise Value (EV)	\$1.6 B
Book Value	\$(7.70)
TTM Revenue	\$1.3 B
P/ Revenue	0.6x
TTM EPS	\$(0.93)
P/ EPS	NA
TTM EBITDA	\$272 M
EV/ EBITDA	6.9

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