



Mossberg's Investor Digest Idea Profile

Western Union (NYSE: WU)

DESCRIPTION:

Since it began offering telegraph services in 1871, Western Union has become the largest and most recognized money transfer service provider in the world. The company operates a network of more than 365,000 agent locations in over 200 countries and territories. Approx. 85% of revenue is generated from fees associated with consumer-to-consumer money transfers...the remainder is from consumer-to-business, mostly for bill payments. WU became an independent, publicly traded company when it was spun out of First Data Corporation in Jan 2006.

KEY INVESTMENT CONSIDERATION:

Stable business in a weak economy – Looking back over the last 30-40 years, the remittance industry has grown every year but two and those were not even recession years. WU's customers are people who need to send money, this is not a discretionary spend, it is an important thing for families.

Competitively differentiated with high barriers to entry - WU is 5x larger than its nearest competitor MoneyGram (NYSE: MGI). Its economies of scale and scope gives it many sustainable competitive advantages. **1) Brand** – The Western Union brand is 150 years old and is recognized for trust, speed and reliability. These are important when consumers entrust WU with their hard-earned cash. The company continues to invest in its brand to the tune of 6% of sales, or \$300 million+ per year. WU has reached critical mass to where it benefits from the **2) network effect**, which means the larger the number of people who use the service the more valuable the service becomes (think eBay). It also creates a larger moat around the business and the more difficult it is for competitors to enter. **3) Natural monopoly** – WU's business model is a direct marketing model similar to Avon. WU signs up master agents who, in turn, sign up smaller sub-agents and receive a portion of the revenue generated by the sub-agents. Competitors find it impossible to replicate the WU network since it has already tied up many of the most desirable partners as master agents, such as post office networks, in exclusive long term contracts (top 40 agents have been with WU for more than 12 years on average).

Strong international growth opportunity - While the U.S. market is mature and its growth rate has slowed, WU is much less dependent on the U.S. for growth (33% of revenue is from North America) and delivered 28% growth outside of the U.S. this past quarter. The company already has a significant 17%

share of the remittance market worldwide. With its strong brand and the network effect, WU is well positioned to grow its market share for many years to come.

Solid Balance sheet and Cash Flows – Western Union is a cash flow generating machine with relatively small requirement for capital to grow its business. The company is on track to generate \$1.2 billion in cash flow during 2008, and will spend less than \$175 million on capex. The remaining cash is used to payoff debt and/or buy back stock. At the time of its spin-off, WU took on \$3.5 billion in debt from First Data. Because it generates more than \$1 billion in cash flow per year, it can pay back this debt in 3.5 years. It has already paid back \$400 million of this debt and has over \$1 billion in cash on its balance sheet. Since going public WU has repurchased about 86 million shares, or 11% of the original shares outstanding at time of spin off for \$2 billion at an average price of \$22.69. At quarter end, the company had about \$1 billion remaining under its authorization for stock buyback through 2009.

VALUATION:

Shares currently trade at 12X and 11X 2008 and 2009 EPS estimates, respectively. This is an attractive multiple for one of the few companies that is expected to deliver double digit growth next year.

(NYSE: WU) Investment Data (as of 11/8/08)	
Recent Price	\$15.49
52-Week Range	13.38 - 28.62
Fiscal Year End	Dec
Dividend	\$0.04
Yield	0.3%
Shares Outstanding	716 MM
Average Trading Volume (3 mos)	7.9 MM
Market Capitalization	11 B
Cash	1.1 B
Long Term Debt	3.1 B
Enterprise Value (EV)	13 B
LT Debt/ Equity	N/A
Tangible BV/ Share	N/A
TTM Revenue	5.3 B
P/ Revenue	2.1x
TTM EPS	1.23
P/ EPS	13x
TTM EBITDA	1.6 MM
EV/ TTM EBITDA	8x

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