



WESTERN UNION (WU-US): \$12.18

Market Cap: \$4.56 B

Enterprise Value: \$5.8 B

EV/EBITDA: 5.5x

P/E: 6.2x

Rating: Neutral

Short Interest: 4.8%

12-month perf (%): -28%

30-Day Average Daily Volume: 5mm

Date: 8/1/2023

Company Background

Founded in 1851 as a provider of telegraph services Western Union is now the world's largest cross-border remittance provider (Remittances are typically migrants sending money from a developed country to friends and family in developing countries). They transferred over 93 billion in principle across 290 million transactions in 2022. They generate revenue primarily from transaction fees and currency exchange spreads. Digital transfers represent ~20% of revenues and the rest is from cash-to-cash transfers.

Western Union's new management is adopting a customer-centric strategy, focusing on consumer remittances and shedding non-core operations. The shift from transactional to relational approaches, competitive pricing, and addressing past shortcomings are positive changes—at least a welcomed change from previous management's practices.

While some cost advantages remain, digitally native competitors have successfully replicated Western Union's legacy core advantage – its retail distribution footprint. Though the company remains a major player in cash-to-cash transfers, this market is gradually declining.

Challenges/Risks

- In the past decade, intense digital competition has emerged, with companies like Paypal, Wise, Remitly, and Ria challenging Western Union's dominance. Defensive pricing strategies by Western Union allowed rivals to gain ground in crucial markets, eroding its advantage of an extensive retail network.
- Despite cash-to-cash transfers contributing significantly to Western Union's revenue, the decline of cash as a funding and payment source is evident due to the rise of electronic methods, accelerated by the pandemic.
- Western Union's attempt to reposition as a relational brand faces uncertainties. Though well recognized, it's often viewed as a costly transactional provider.
- The company's agent network presents dual aspects. Offering convenience beyond traditional outlets, it's susceptible to fraud. Western Union's \$586 million settlement in 2017 for involvement in wire fraud prompted compliance changes, causing process complications and customer dissatisfaction.

Valuation

Despite worries about Western Union's future, it does maintain a competitive digital solution. While cash-to-cash transfers may dim, they'll persist. Yet, growth prospects are limited. With digital rivals and shifting revenue mix, we project margins will fall from 20% to 15% by 2032. The company's valuation is predicted at roughly \$4.3 billion, in line with the current market price.

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