

Western Union Co WU (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
16.35 USD	22.00 USD	13.20 USD	34.10 USD	High	Wide	Negative	Standard	A-	Credit Services

Western Union Investigated by SEC

See Page 2 for the full Analyst Note from 19 Sep 2014

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The primary analyst covering this company does not own its stock.

Research as of 19 Sep 2014
Estimates as of 28 May 2014
Pricing data through 26 Sep 2014
Rating updated as of 26 Sep 2014

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

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Investment Thesis 09 Apr 2014

Western Union was not immune to the global recession, and its primary macroeconomic exposure is to employment markets in the developed world. Fewer jobs means less money to send home, and limited job opportunities abroad could keep potential immigrants at home. While conditions have improved in the United States, unemployment levels are still high in Europe, a region that is about equally important for Western Union. Better growth will be hard to come by until employment markets return to healthier levels, but the World Bank projects money transfer growth to accelerate to the high single-digits over the next few years, which could provide for a better industry environment.

A bigger near-term issue has been company-specific problems in certain corridors. The U.S.-to-Mexico corridor is the company's largest, and Western Union's position here has permanently been weakened. The company was forced to drop 7,000 agents because of compliance issues and had one superagent move to nonexclusive status (meaning that it will offer competitor services as well). As a result, the network advantage Western Union traditionally enjoyed in this corridor, which allowed it to enjoy relatively high premiums on pricing, has eroded. Outside Mexico, the company was aggressive on price reductions in 2013 to recover share in other key corridors, as a few years of minimal price increases appears to have resulted in weak volume and some loss of share. So far, these actions appear to be on track in terms of improving transaction growth, but the company won't fully lap the pricing hit until the back half of 2014. Another near-term headwind is an increase in industry compliance costs, as the regulatory environment has grown more strict.

Western Union is also building out its presence in bank account and debit and credit card funded transfers. These areas are still small at about 5% of revenue and heavy investment is limiting margins, but transaction growth of 65% in 2013 suggests Western Union can fully participate in these new methods. We believe the company is positioning itself to adapt to a changing industry and can maintain its scale advantage despite the shift.

Vital Statistics

Market Cap (USD Mil)	8,662
52-Week High (USD)	19.50
52-Week Low (USD)	14.60
52-Week Total Return %	-9.4
YTD Total Return %	-3.0
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	3.9
5-Yr Forward EPS CAGR %	3.5
Price/Fair Value	0.74

Valuation Summary and Forecasts

	Fiscal Year:	2012	2013	2014(E)	2015(E)
Price/Earnings		7.9	11.4	11.4	10.3
EV/EBITDA		6.2	8.1	5.3	5.0
EV/EBIT		7.4	9.9	6.6	6.2
Free Cash Flow Yield %		11.8	9.0	8.9	10.3
Dividend Yield %		3.3	2.9	3.2	3.2

Financial Summary and Forecasts (USD Mil)

	Fiscal Year:	2012	2013	2014(E)	2015(E)
Revenue		5,665	5,542	5,604	5,876
Revenue YoY %		3.2	-2.2	1.1	4.9
EBIT		1,361	1,164	1,094	1,171
EBIT YoY %		-5.0	-14.5	-6.0	7.0
Net Income, Adjusted		1,053	847	769	817
Net Income YoY %		-12.8	-19.5	-9.3	6.2
Diluted EPS		1.73	1.51	1.44	1.59
Diluted EPS YoY %		-9.0	-12.7	-4.9	10.5
Free Cash Flow		1,072	906	956	1,073
Free Cash Flow YoY %		-1,434.5	-15.5	5.6	12.2

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Western Union provides domestic and international money transfers through its global network of more than 500,000 outside agents. It is the largest money transfer company in the world and one of only two companies with a truly global agent network, with MoneyGram being the other.

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Morningstar Analysis

Western Union Investigated by SEC 19 Sep 2014

Reports have surfaced that the Securities and Exchange Commission is investigating claims by former employees of Western Union that the company has misrepresented the performance of its digital unit. The exact nature of the claims is unclear. Western Union did recently retract its previous guidance of \$500 million in digital revenue by 2015. At that time, we viewed this announcement as a non-event, because while Western Union's performance in digital channels has been strong, it was clear to us for some time that this goal was overly aggressive. We don't know whether the claims relate to communication around this guidance or some area of the company's disclosure on digital channels. The company issued a statement saying it believes it has the appropriate controls in place regarding its financial reporting and reasserting its previous disclosures on the level of its digital revenue. We believe the SEC is still gathering information to assess whether these claims have any validity and Western Union is cooperating with the investigation. At this point, given that we have no actual evidence of any wrongdoing by Western Union, we will maintain our fair value estimate and wide moat rating.

Valuation, Growth and Profitability 09 Apr 2014

Our fair value estimate is \$22 per share, which equates to a 2015 price/earnings multiple of 13.8 times and a 2015 enterprise value/EBITDA multiple of 9.3 times. We expect fairly weak results in 2014 as the company won't lap its recent pricing reductions until the back half of the year, incurs higher compliance costs, and faces negative currency effects. Thereafter, we expect the drivers of the company's historical growth to reassert themselves and lead to a mid-single-digit growth rate in the back half of our projection period as industry volume improves. The net result is a 4% revenue compound annual growth rate over the next five years. We expect revenue in electronic channels to grow at an 18% CAGR over our projection period as the industry

shifts in this direction, but since electronic methods carry a lower price point, this shift is a slight headwind to overall top-line growth. Western Union's margins have declined considerably over the past couple of years due to the company's issues in Mexico, its pricing reductions in 2013, and an uptick in compliance costs. We project margins to improve modestly over time as electronic channels scale and the business releverages a bit as industry growth picks up. We project operating margins to improve to 22% by the end of our projection period, compared with 21% in 2013 (excluding one-time charges). We use a cost of equity of 10%.

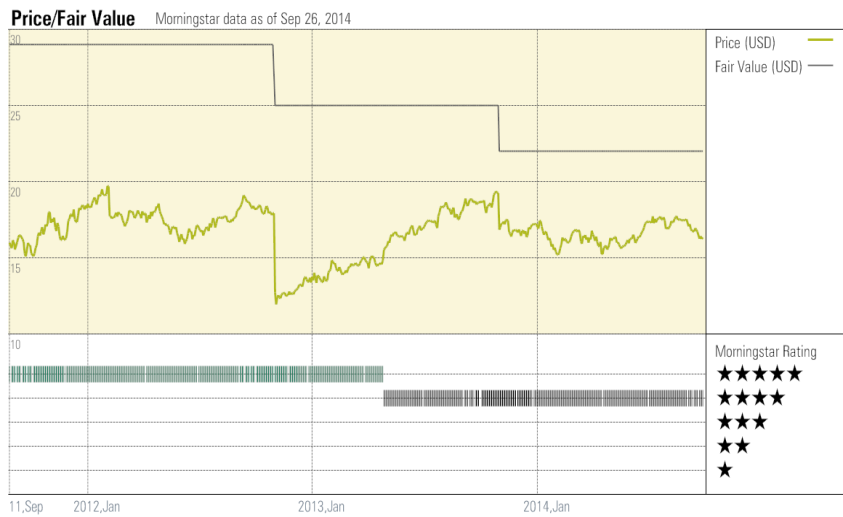
Scenario Analysis

Our downside case results in a \$14 fair value estimate and equates to a 2015 price/earnings multiple of 8.8 times. This scenario assumes that Western Union's growth in electronic channels stalls in the back half of our projection period, and this leads to a loss of market share and a stagnant top line. Revenue growth from electronic channels is weak, as strong price compression offsets transaction growth. As a result, margins in electronic channels never materially improve, and Western Union's margins erode as it loses market share and its scale advantage weakens. In this scenario, revenue grows at a 1% CAGR over the next five years, and operating margins decline to 17%.

Our upside scenario results in a fair value estimate of \$34 and equates to a 2015 price/earnings multiple of 21.4 times. This scenario assumes that Western fully participates in the shift toward electronic methods, and these methods increase the addressable market for money transfer operators by pulling in more affluent customers. In this scenario, growth in electronic channels is somewhat additive to still fairly strong growth in cash-based transfers. Margins in electronic channels prove to be slightly higher than cash-based methods over time, and Western Union's money transfer segment margins fully return to the levels achieved before recent compliance and pricing issues. In

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this scenario, revenue grows at a 7% CAGR over the next five years, and operating margins improve to 27%.

Economic Moat

Western Union is the clear leader in an industry where size confers significant advantages. The money transfer business is scalable because the incremental costs of processing additional transactions are minimal. This gives Western Union a marked cost advantage over its rivals, and its operating margins are about twice that of its closest competitor. The Western Union brand is the most recognized in the industry and its network is unparalleled, which allows the company to maintain premium pricing. The company's size allows it to invest more heavily to maintain this advantage.

The company's network of more than 500,000 agents creates a mild network effect. Each additional agent makes the Western Union network more attractive to other agents, as a wider network potentially draws more customers into their stores. Western Union has shown that it can maintain strong and durable relationships with its agents, as its top 40 agents have been with the company for 16 years, on

average.

Western Union is the type of company we like best: a strong generator of free cash flow. The long-term reinvestment needs of its business model are minimal. The company uses outside agents, and therefore doesn't need to invest in a retail footprint. As a result, adding new agents results in only a modest investment on Western Union's part. Additionally, customers pay cash up front and the business model creates a modest amount of float income.

The biggest potential threat to Western Union's moat is a shift to alternative methods of transferring money, such as mobile phones. If these methods were to transform the industry, we would be forced to revisit our wide moat rating. In our opinion, these methods could grow over time to represent a meaningful niche in the industry, but are unlikely to have a material impact on Western Union's competitive position for the foreseeable future. A nearer-term issue is a shift toward bank account and credit or debit card funded transactions, but Western Union has been investing heavily in these areas, and we believe it has positioned itself to maintain its overall share as these methods grow in importance.

We think it is important to note that, to be effective for money transfers, payment options need to be available on both sides of the transaction, both send and receive. As a result, conditions in the less developed recipient countries typically limit the potential reach of any money transfer method. With most developing countries still predominantly cash-based, we expect Western Union's customers to be very late adopters of any new payment methods. In our opinion, a wide-scale industry switch to alternative methods would require a dramatic improvement in electronic payment infrastructures on a global basis, a change that is likely to take a very long time.

Even in the event of that shift, we believe the hurdles in

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developing a global mobile-to-mobile solution would mainly revolve around developing a global network of mobile carriers and addressing regulatory issues across multiple countries, challenges for which Western Union is uniquely experienced. As a result, Western Union looks like the company most likely to be the long-term leader in mobile phone transfers, in our opinion. Further, the ability to fund the growth and scale mobile methods with the existing cash-to-cash business would be a meaningful advantage for Western Union if the shift is gradual, as we expect it to be.

Moat Trend

Our moat trend rating is negative. We believe that any shift to noncash methods of transferring money are unlikely to have a large impact on Western Union's competitive position for the foreseeable future, but we grant that the company will face some new competitors over time. Further, we acknowledge that the company has been allocating capital to areas outside its traditional consumer-to-consumer business, most notably its burgeoning business-to-business global payment operations. While we believe there is a reasonable strategic motive for expanding into this line of business, Western Union's competitive position is not nearly as strong in this area, and moving away from the legacy consumer business can only dilute the company's moat, in our opinion. Further, the company's issues in certain key corridors suggest its network advantage has weakened in a few areas. Finally, the regulatory environment is growing more difficult, which could lower industry profitability.

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Bulls Say/Bears Say

Bulls Say

- ▶ The demographic factor that has driven industry growth--namely, the differential between population growth in developing and developed countries--remains in place for the foreseeable future.
- ▶ Western Union didn't see a major drop-off during the recession, highlighting the stability of the business.
- ▶ While the motives for immigrants to relocate to wealthier countries are well understood, developed countries also have incentive to open their borders, as negligible native population growth makes immigration a necessity for GDP growth.

Bears Say

- ▶ A weak global economy could limit immigrants' employment opportunities and damp money transfer volume, and conditions in Europe are a headwind.
- ▶ Alternative channels for sending money, such as cell phones, could cut out money transfer companies like Western Union.
- ▶ Higher compliance costs will be a headwind in 2014, and it's possible the situation could worsen as the regulatory environment shifts.

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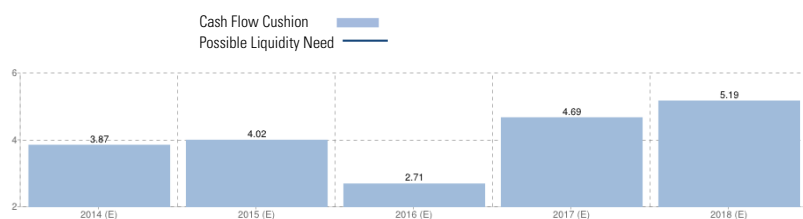
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Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2014(E)	2015(E)	2016(E)	2017(E)	2018(E)
Cash and Equivalents (beginning of period)	2,073	2,065	2,426	2,400	2,453
Adjusted Available Cash Flow	675	790	854	932	716
Total Cash Available before Debt Service	2,748	2,855	3,279	3,332	3,169
Principal Payments	-500	-500	-1,000	-500	-400
Interest Payments	-211	-211	-211	-211	-211
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-711	-711	-1,211	-711	-611

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	2,073	52.4
Sum of 5-Year Adjusted Free Cash Flow	3,966	100.3
Sum of Cash and 5-Year Cash Generation	6,039	152.8
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	6,039	152.8
Sum of 5-Year Cash Commitments	-3,953	—

Credit Rating Pillars—Peer Group Comparison

	WU	Sector	Universe
Business Risk	4	5.2	5.1
Cash Flow Cushion	6	4.9	6.0
Solvency Score	4	2.5	4.7
Distance to Default	1	1.7	3.8
Credit Rating	A-	A-	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health & Capital Structure

Western Union's capital structure is fairly conservative, as management sees a strong credit profile as an advantage in attracting agents. The company carried a little more than \$4.2 billion in debt at the end of 2013, resulting in debt/EBITDA of 3.1 times, a reasonable level, in our view, given the stability of the business. But Western Union also typically holds a substantial amount of cash. Net debt at the end of 2013 was only about \$2.1 billion. Management historically has returned the bulk of its free cash flow to shareholders through stock repurchases and dividends, but has used its free cash flow sporadically to fund acquisitions. We would expect the company to hold a net debt position of about \$2 billion over time.

Enterprise Risk

Regulators closely monitor money transfer businesses. Any violations at Western Union or its agents could have serious consequences, and the company is currently involved in an investigation. Additionally, any changes in immigration laws, making it more difficult for foreigners to enter the U.S. or other countries, could hurt money transfer volume. Alternative remittance channels such as cell phones could cut into the company's market share. A weak global employment market could prompt potential money transfer customers to stay in their home countries or reduce the amount of money they can send home. Western Union generates a large portion of its revenue outside the U.S., creating meaningful currency risk that could act as a headwind if the dollar strengthens.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. HIKMET ERSEK	CEO/Director/President,Director	341,676	24 Feb 2014	—
JACK M. GREENBERG	Director	107,178	21 Feb 2014	—
MICHAEL A. MILES,JR	Director	85,244	21 Feb 2014	—
J. DAVID THOMPSON	Chief Information Officer/Executive VP, Divisional	83,609	15 Sep 2014	24,342
MR. RAJESH K. AGRAWAL	CFO/Executive VP	79,651	15 Jul 2014	—
JEAN CLAUDE FARAH	Executive VP/President, Geographical	67,581	09 Jul 2014	3,975
ODILON ALMEIDA	Executive VP/President, Geographical	59,766	28 Mar 2014	—
BETSY D HOLDEN	Director	57,650	21 Feb 2014	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
VA CollegeAmerica Invmt Co of America	6.73	0.92	—	30 Jun 2014
Fidelity® Low-Priced Stock Fund	3.93	0.72	-500	30 Apr 2014
Artisan Mid Cap Value Fund	2.49	1.90	-225	30 Jun 2014
Fidelity® Ser Intrinsic Opportunities Fd	2.63	3.85	200	30 Apr 2014
VA CollegeAmerica Cap World Gr and Inc	2.13	0.23	—	30 Jun 2014
Concentrated Holders				
Cognios Market Neutral Large Cap Fund	0.01	13.80	2	30 Jun 2014
Clough Global Opportunities	0.25	5.86	—	31 Jul 2014
Clough Global Allocation	0.06	5.83	—	31 Jul 2014
Clough Global Equity	0.10	5.66	—	31 Jul 2014
Kennox Strategic Value Fund	0.33	5.46	94	31 Jul 2014

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Discovery Capital Management LLC	1.32	1.16	6,996	30 Jun 2014
T. Rowe Price Associates, Inc.	3.97	0.08	6,426	30 Jun 2014
Winton Capital Group Ltd	0.77	0.48	4,076	30 Jun 2014
Pamet Capital Management, LP	4.04	26.24	4,065	30 Jun 2014
Winton Capital Management Limited	0.78	0.47	2,323	31 Mar 2014
Top 5 Sellers				
Enhanced Investment Technologies Inc	0.10	0.02	-3,829	30 Jun 2014
River Road Asset Management, LLC	1.10	1.34	-2,225	30 Jun 2014
J. P. Morgan Chase Bank, N.A.	0.33	0.04	-1,899	30 Jun 2014
Fidelity Management and Research Company	8.16	0.11	-1,854	30 Jun 2014
BlackRock Advisors LLC	0.72	0.05	-1,600	30 Jun 2014

Management 09 Apr 2014

Christina Gold headed the company from 2002 until 2010, when she was replaced by Hikmet Ersek, previously the COO. Given that Ersek has been with Western Union since 1999, we foresaw no major strategic shifts at the time of his ascension, and that notion has so far played itself out. We like that the company has returned the lion's share of its free cash flow to shareholders through stock repurchases and has increased its dividend significantly. However, management's consistency on this score could be criticized, as the company dramatically reduced its stock-repurchase activity during the depths of the market crash, despite the fact that it still held a large amount of cash on the balance sheet. In addition, while we like that the company is looking for ways to further monetize its global network, recent acquisitions to build out the business-to-business segment have been at steep prices, and the performance of these businesses post-acquisition has not been good. On the other hand, we believe management's strategy of ongoing price decreases in order to take market share is the correct one, as it widens the company's scale advantage and economic moat.

Recent results do not reflect well on management, however. The company's issues in certain corridors seem, in hindsight, to have been somewhat avoidable if management had reacted more quickly, and a reshuffling of the management structure implies an admission that the situation was mishandled.

All in all, though, while management is far from perfect, we think it has done enough to earn a Standard Stewardship Rating. Operational issues aside, we think management's historical strategy of proactive price decreases, wringing out cost efficiencies, and returning cash to shareholders has been the correct one, and its recent issues are largely a result of temporarily veering from that path. To that end, we take encouragement from management's recent comments that it is refocusing on that strategy.

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Analyst Notes

Western Union's Performance in Electronic Channels Has Been Strong 18 Aug 2014

We think some investors had a negative reaction to Western Union's recent announcement that it would not reach its goal of \$500 million in revenue from electronic channels by 2015. In our view, this announcement was largely a nonevent, since we believed it had been clear for some time that this goal, first issued at the beginning of 2012, was overly optimistic and would not be achieved. We think this shouldn't obscure the fact that Western Union's recent performance in electronic channels has been good. The strong growth in these channels supports our view that the company will fully participate in any shift toward these channels and maintain its overall market share and scale advantage, which is the key pillar of our wide moat rating. It is notable that Western Union's growth in electronic channels continues to exceed the growth of Xoom, a purely electronic competitor. On its call, Western Union noted that U.S. outbound to India, the Philippines, and Mexico were particularly strong. These are Xoom's three largest corridors, accounting for almost 80% of its revenue. Western Union's planned rollout of a bank-account-funded option with same-day availability for the recipient will support ongoing electronic channel growth, in our view. This option is the primary channel for Xoom, suggesting significant customer demand. This development could meaningfully alter the competitive landscape for Xoom, in our opinion.

Western Union's 2Q Shows a Continuation of Recent Trends 31 Jul 2014

Western Union's second-quarter results contained no major surprises and largely showed a continuation of existing trends. Revenue was up 3% year over year, excluding currency effects. The company's money transfer segment grew revenue at the same rate, with a 6% increase in transaction volumes. Western Union continues to see strong growth in electronic channels, which grew revenue 27%

year-over-year. This supports our opinion that Western Union can fully participate in the industry shift toward electronic methods, and the company will be able to maintain its scale advantage and wide moat. Operating margins declined to 19.8% from 20.0% last year due to higher compliance costs, but were toward the top of the range the company expects for the year. We will maintain our fair value estimate.

We view the stabilization in the company's results as a positive, as it could dispel some of the uncertainty that hangs over the stock. Management reiterated that it still expects compliance costs to increase to 3.5%-4.0% of revenue this year. While we continue to view this as an evolving situation, the fact that the company has been able to hold to its guidance on this front provides some comfort that it has its hands around the issue. Further, pricing reductions were only 1% in the first half of the year, and management doesn't expect any major pricing actions in the back half, suggesting its pricing actions have returned to a normal range. Finally, narrowing the 2014 operating margin and EPS guidance into the top half of the previous range suggests improved confidence in results going forward.

At the current market price, we estimate the stock provides about an 8% free cash flow yield using 2014 figures. Through the first half of the year, management returned \$457 million to shareholders through buybacks and dividends, or about 5% of the current market capitalization. We would note that the projections underpinning our \$22 fair value estimate call for only 4-5% growth long-term and a modest improvement in margins. With the company already growing close to this level, it won't take any major improvement in results to meet our long-term expectations.

Western Union Posts Solid Results in 1Q; Maintaining Fair Value Estimate 02 May 2014

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Analyst Notes

We're generally pleased with Western Union's first-quarter results. The company is still battling some headwinds, but we see signs that the business is starting to stabilize. Revenue increased 2% year over year, or 4% excluding currency effects. The pricing reductions the company instituted a year ago in its core money transfer segment are leading to fairly strong growth in transactions, which increased 9% year over year. We're also pleased that the company continues to see strong growth in new channels, with online transfers generating 55% transaction and 45% revenue growth in the quarter. In our view, Western Union's participation in these channels will allow it to maintain its overall share of the market and the scale advantage that is the key pillar of its economic moat.

Operating margins for the quarter were 20.1% compared with 22.4% last year, with the decline being driven in part by higher compliance costs. We expected this decline, and draw some comfort from the fact that the first-quarter margin level is at the top of the range management expects for the year. We will maintain our fair value estimate.

The improvement in revenue and transaction volume was fairly broad-based across all regions, suggesting stabilization in the business as a whole as pricing reductions result in higher volume and the company laps the negative revenue impact of these cuts. While industry estimates are imprecise, Western Union's growth rate was a bit above estimates for 2014 industry growth, suggesting the company is at least maintaining market share, and might be taking some. We are also encouraged by management's comments that it expects pricing actions this year to return to the company's historical range, which has typically been 1%-3% annually. Historically, the company has been able to maintain or improve margins with pricing reductions within this range. While management declined to speak in any detail about its potential response to Wal-Mart's new

domestic transfer program, its comments suggest it doesn't foresee any pricing action that would be material to the company as a whole. With domestic transfer representing only 8% of revenue, we believe any impact is likely to be minor.

We believe some investors have concerns that Wal-Mart's new domestic transfer program could be an initial step toward rolling out a similar cross-border product that could potentially affect the bulk of Western Union's business. We think this is unlikely. The logistical challenges of rolling out a Wal-Mart branded cross-border product would be much more difficult, as Wal-Mart's country managers have discretion in this area, and the company currently works with different money transfer providers in different countries. Even if this did occur, in our view it is highly unlikely to have a material effect on the cross-border industry. The flat fee pricing structure that Wal-Mart unveiled is already largely the standard pricing structure for cross-border transactions, which should effectively eliminate the potential to upset existing pricing schemes. Further, while Wal-Mart has a meaningful market presence in domestic transfers (we estimate Wal-Mart's market share in this channel at roughly 20%), we do not believe it has a meaningful amount of share in the global cross-border transfers.

Wal-Mart to Offer Domestic Money Transfers; MoneyGram Under Review 17 Apr 2014

Wal-Mart and Euronet Worldwide (which operates Ria, a leading money transfer provider) announced that they will be offering a new domestic money transfer product, branded as Walmart-2-Walmart. This is a material negative event for MoneyGram, which derives 27% of its revenue from its agent relationship with Wal-Mart, and we are putting our fair value estimate under review while we assess the magnitude of the impact. While MoneyGram will presumably maintain its relationship with Wal-Mart for

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Analyst Notes

international money transfers for now, this development calls the entire relationship into question, in our view. Even if MoneyGram is able to retain the international business, domestic transactions account for 30% of its transaction volume, and Wal-Mart was its leading agent in this channel.

We don't see this development as having a major impact on Western Union, as it did not have a relationship with Wal-Mart, and the offering is limited to domestic transfers. As such, we will maintain our fair value estimate for that company. The price points listed for the new Wal-Mart service are slightly lower than existing industry price points for low send amounts (for amounts up to \$50, the Wal-Mart service will charge \$4.50 compared to a \$5 fee at Western Union and MoneyGram), but materially lower for higher send amounts. This could pressure pricing in this niche, but domestic transfers within the U.S. account for a fairly small portion of Western Union's revenue, and its competitive position in domestic transfers has always been much weaker than its cross-border business, in our view, given the higher number of payment options available to consumers. Further, declining pricing has been an enduring phenomenon within the industry for many years.

traditional money transfer space in which Western Union operates, given that economies in the developing world, in general, are still cash-based. With purely electronic methods unlikely to be anything more than a niche within this context, we believe Western Union can maintain its scale advantage and wide economic moat, and its heavy investment in electronic channels will help the company maintain its overall market share. Still, we recognize the potential for new entrants and increasing competition for the company over time through our negative moat trend rating.

Facebook Looking to Enter Money Transfer Business 14

Apr 2014

Recent reports indicate that Facebook is looking to enter the international money transfer business as part of a larger push into the payments industry in general. Facebook has over 1.2 billion active users, suggesting it could benefit from a significant global network and could be a viable player in the payment industry. On the other hand, its lack of physical agents would probably limit it to offering purely electronic international money transfers, which would significantly limit its reach among Western Union's core immigrant customer base, in our view. We believe that purely electronic money transfers have limited application in the

Western Union Co WU (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
16.35 USD	22.00 USD	13.20 USD	34.10 USD	High	Wide	Negative	Standard	A-	Credit Services

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

	3-Year Hist. CAGR	Forecast					5-Year Proj. CAGR
		2011	2012	2013	2014	2015	
Growth (% YoY)							
Revenue	2.2	5.8	3.2	-2.2	1.1	4.9	3.9
EBIT	-4.7	6.5	-5.0	-14.5	-6.0	7.0	4.4
EBITDA	-2.1	6.8	-1.1	-11.2	-5.1	6.1	3.9
Net Income	-3.6	27.8	-12.8	-19.5	-9.3	6.2	-1.1
Diluted EPS	2.3	34.8	-9.0	-12.7	-4.9	10.5	3.5
Earnings Before Interest, after Tax	3.0	35.2	-6.7	-13.5	-2.1	3.8	-1.0
Free Cash Flow	-4.9	-107.6	-1,434.5	-15.5	5.6	12.2	2.0

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		2011	2012	2013	2014	2015	
Profitability							
Operating Margin %	23.7	26.1	24.0	21.0	19.5	19.9	20.4
EBITDA Margin %	27.9	29.6	28.4	25.8	24.2	24.4	24.8
Net Margin %	18.6	22.0	18.6	15.3	13.7	13.9	13.8
Free Cash Flow Margin %	11.3	-1.5	18.9	16.4	17.1	18.3	17.5
ROIC %	23.9	28.4	23.9	19.3	18.9	18.7	19.6
Adjusted ROIC %	71.2	99.4	66.3	47.8	47.0	43.1	47.0
Return on Assets %	11.0	13.7	11.1	8.2	7.6	8.0	8.3
Return on Equity %	115.9	157.7	111.8	78.1	69.9	65.9	69.2

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		2011	2012	2013	2014	2015	
Leverage							
Debt/Capital	0.80	0.80	0.81	0.79	0.79	0.75	0.78
Total Debt/EBITDA	2.56	2.21	2.51	2.95	3.11	2.93	2.77
EBITDA/Interest Expense	8.39	8.93	8.95	7.30	6.43	6.82	7.28

Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	0.54	0.78	—	—
Price/Earnings	7.9	11.4	11.4	10.3
EV/EBITDA	6.2	8.1	5.3	5.0
EV/EBIT	7.4	9.9	6.6	6.2
Free Cash Flow Yield %	11.8	9.0	8.9	10.3
Dividend Yield %	3.3	2.9	3.2	3.2

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	6.0
Weighted Average Cost of Capital %	8.5
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	16.0
Perpetuity Year	20

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	4,232	29.4	8.15
Present Value Stage II	5,933	41.2	11.42
Present Value Stage III	4,232	29.4	8.15
Total Firm Value	14,397	100.0	27.72
Cash and Equivalents	2,073	—	3.99
Debt	-4,213	—	-8.11
Preferred Stock	—	—	—
Other Adjustments	-1,073	—	-2.07
Equity Value	11,184	—	21.53

Projected Diluted Shares 519

Fair Value per Share (USD) —

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Western Union Co WU (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
16.35 USD	22.00 USD	13.20 USD	34.10 USD	High	Wide	Negative	Standard	A-	Credit Services

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Revenue	5,491	5,665	5,542	5,604	5,876
Cost of Goods Sold	3,091	3,194	3,235	3,306	3,453
Gross Profit	2,400	2,471	2,307	2,298	2,422
Selling, General & Administrative Expenses	968	1,110	1,143	1,204	1,251
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	—	—	—	—	—
Operating Income (ex charges)	1,432	1,361	1,164	1,094	1,171
Restructuring & Other Cash Charges	47	31	57	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	1,385	1,330	1,107	1,094	1,171
Interest Expense	182	180	196	211	211
Interest Income	72	18	15	—	—
Pre-Tax Income	1,274	1,169	927	884	961
Income Tax Expense	109	143	129	115	144
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	1,165	1,026	798	769	817
Weighted Average Diluted Shares Outstanding	634	607	560	534	513
Diluted Earnings Per Share	1.84	1.69	1.43	1.44	1.59
Adjusted Net Income	1,208	1,053	847	769	817
Diluted Earnings Per Share (Adjusted)	1.91	1.73	1.51	1.44	1.59
Dividends Per Common Share	0.31	0.42	0.50	0.52	0.55
EBITDA	1,577	1,576	1,370	1,354	1,436
Adjusted EBITDA	1,624	1,607	1,427	1,354	1,436

Western Union Co WU (NYSE) | ★★★★★

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16.35 USD	22.00 USD	13.20 USD	34.10 USD	High	Wide	Negative	Standard	A-	Credit Services

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Cash and Equivalents	1,371	1,777	2,073	2,065	2,426
Investments	—	—	—	—	—
Accounts Receivable	—	—	—	—	—
Inventory	—	—	—	—	—
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	3,091	3,115	3,270	3,270	3,270
Current Assets	4,462	4,891	5,344	5,335	5,696
Net Property Plant, and Equipment	198	196	210	220	217
Goodwill	3,199	3,180	3,172	3,172	3,172
Other Intangibles	847	879	834	784	740
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	363	320	562	562	562
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	9,070	9,466	10,121	10,074	10,387
Accounts Payable	535	556	639	600	627
Short-Term Debt	—	—	—	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	3,091	3,115	3,270	3,270	3,270
Current Liabilities	3,626	3,671	3,909	3,871	3,897
Long-Term Debt	3,583	4,029	4,213	4,213	4,213
Deferred Tax Liabilities (Long-Term)	692	570	536	536	536
Other Long-Term Operating Liabilities	274	255	358	358	358
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	8,175	8,525	9,017	8,978	9,005
Preferred Stock	—	—	—	—	—
Common Stock	6	6	6	6	6
Additional Paid-in Capital	247	333	391	391	391
Retained Earnings (Deficit)	760	755	877	1,368	1,905
(Treasury Stock)	—	—	—	-500	-750
Other Equity	-119	-153	-169	-169	-169
Shareholder's Equity	895	941	1,105	1,096	1,382
Minority Interest	—	—	—	—	—
Total Equity	895	941	1,105	1,096	1,382

Western Union Co WU (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Net Income	1,165	1,026	798	769	817
Depreciation	193	193	208	210	220
Amortization	—	53	55	50	45
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	21	-115	-39	—	—
Other Non-Cash Adjustments	-20	77	53	—	—
(Increase) Decrease in Accounts Receivable	-28	—	—	—	—
(Increase) Decrease in Inventory	—	—	—	—	—
Change in Other Short-Term Assets	—	-28	-55	—	—
Increase (Decrease) in Accounts Payable	-43	9	81	-39	27
Change in Other Short-Term Liabilities	-114	-30	-12	—	—
Cash From Operations	1,175	1,185	1,089	990	1,108
(Capital Expenditures)	-163	-268	-241	-220	-218
Net (Acquisitions), Asset Sales, and Disposals	-1,219	10	—	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	21	—	-100	—	—
Cash From Investing	-1,360	-258	-341	-220	-218
Common Stock Issuance (or Repurchase)	-704	-713	-371	-500	-250
Common Stock (Dividends)	-194	-254	-277	-278	-280
Short-Term Debt Issuance (or Retirement)	—	—	—	—	—
Long-Term Debt Issuance (or Retirement)	297	446	197	—	—
Other Financing Cash Flows	—	—	—	—	—
Cash From Financing	-601	-522	-451	-778	-530
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	—	—
Net Change in Cash	-787	406	297	-8	361

Western Union Co WU (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
16.35 USD	22.00 USD	13.20 USD	34.10 USD	High	Wide	Negative	Standard	A-	Credit Services

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
MoneyGram International Inc MGI USA	0.88	28.5	9.9	9.2	8.1	6.6	6.4	10.4	8.3	8.1	NM	NM	NM	0.8	0.5	0.5
Average		28.5	9.9	9.2	8.1	6.6	6.4	10.4	8.3	8.1	—	—	—	0.8	0.5	0.5
Western Union Co WU US	0.74	11.4	11.4	10.3	8.1	5.3	5.0	11.2	11.3	9.7	8.6	7.9	6.3	1.7	1.5	1.5

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
MoneyGram International Inc MGI USA	1,050 USD	21.5	11.5	11.0	43.4	21.2	20.6	-13.1	-16.3	-14.4	5.2	5.9	5.5	—	—	—
Average		21.5	11.5	11.0	43.4	21.2	20.6	-13.1	-16.3	-14.4	5.2	5.9	5.5	—	—	—
Western Union Co WU US	10,121 USD	19.3	18.9	18.7	47.8	47.0	43.1	78.1	69.9	65.9	8.2	7.6	8.0	2.9	3.2	3.2

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
MoneyGram International Inc MGI USA	1,474 USD	9.9	1.6	1.7	16.7	-21.3	3.8	231.9	82.8	7.8	-208.1	-127.0	-1.9	—	—	—
Average		9.9	1.6	1.7	16.7	-21.3	3.8	231.9	82.8	7.8	-208.1	-127.0	-1.9	—	—	—
Western Union Co WU US	5,542 USD	-2.2	1.1	4.9	-14.5	-6.0	7.0	-12.7	-4.9	10.5	-15.5	5.6	12.2	18.3	5.0	5.0

Western Union Co WU (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
16.35 USD	22.00 USD	13.20 USD	34.10 USD	High	Wide	Negative	Standard	A-	Credit Services

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
MoneyGram International Inc MGI USA	52 USD	54.0	54.5	54.3	19.6	19.0	19.3	12.1	9.3	9.5	3.6	6.0	5.8	7.9	5.8	5.8
Average		54.0	54.5	54.3	19.6	19.0	19.3	12.1	9.3	9.5	3.6	6.0	5.8	7.9	5.8	5.8
Western Union Co WU US	847 USD	41.6	41.0	41.2	25.8	24.2	24.4	21.0	19.5	19.9	15.3	13.7	13.9	15.3	13.7	15.2

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
MoneyGram International Inc MGI USA	843 USD	-1,094.7	-685.7	-630.7	110.1	117.1	118.8	6.1	6.4	6.6	2.9	3.5	3.4	-13.6	-7.8	-7.2
Average		-1,094.7	-685.7	-630.7	110.1	117.1	118.8	6.1	6.4	6.6	2.9	3.5	3.4	-13.6	-7.8	-7.2
Western Union Co WU US	4,213 USD	381.4	384.5	304.8	79.2	79.4	75.3	7.3	6.4	6.8	3.0	3.1	2.9	9.2	9.2	7.5

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
MoneyGram International Inc MGI USA	720 USD	4.43	5.93	6.38	1.72	2.13	2.04	1.72	2.13	2.04	—	—	—	—	—	—
Average		4.43	5.93	6.38	1.72	2.13	2.04	1.72	2.13	2.04	—	—	—	—	—	—
Western Union Co WU US	8,662 USD	3.70	3.87	4.73	1.37	1.38	1.46	1.37	1.38	1.46	—	—	—	34.7	36.1	34.3

Research Methodology for Valuing Companies

Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

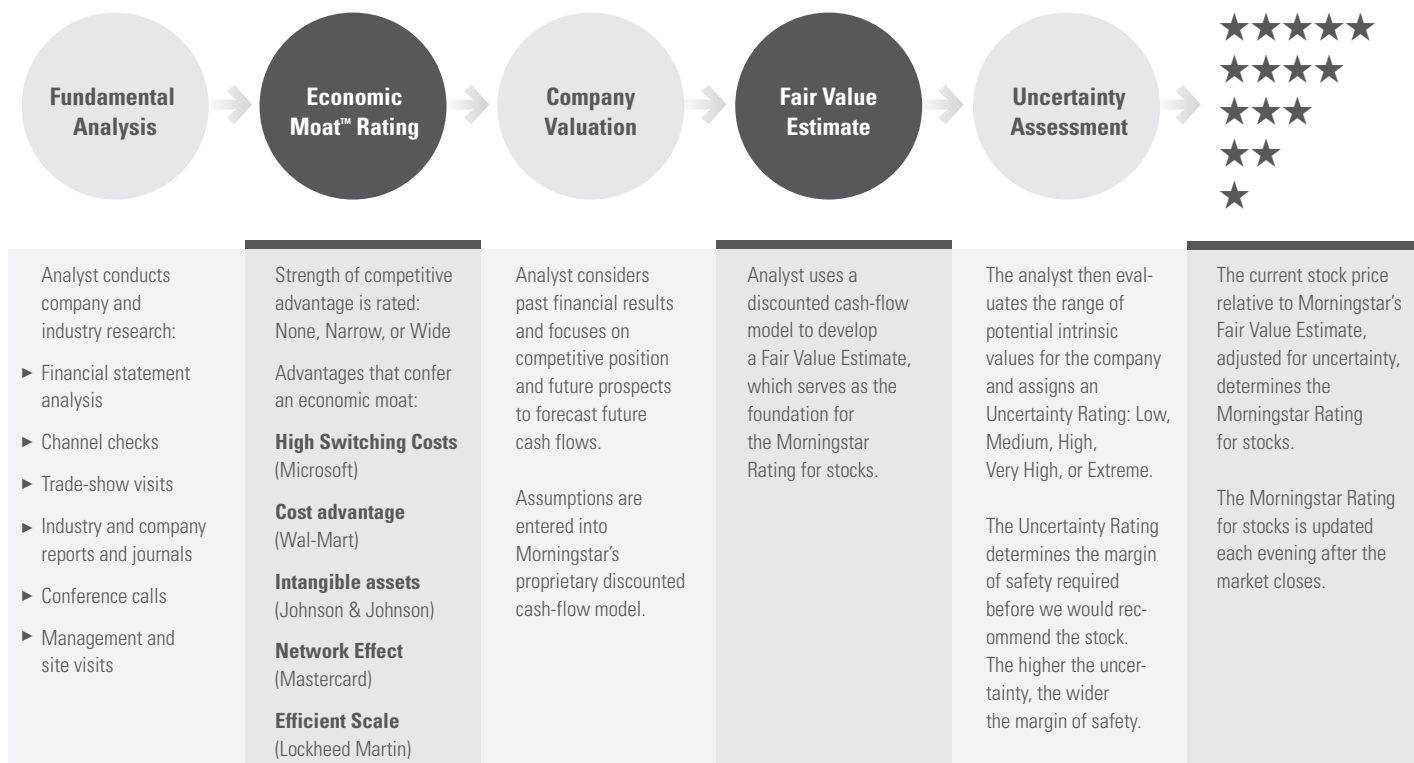
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts’ assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm’s economic moat, (2) our estimate of the stock’s intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm’s investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm’s moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm’s moat, which represents the difference between a firm’s enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm’s competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company’s future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm’s return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm’s RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- ▶ Comprehensive Equity Research Methodology
- ▶ Uncertainty Methodology
- ▶ Cost of Equity Methodology
- ▶ Morningstar DCF Valuation Model
- ▶ Stewardship Rating Methodology

* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

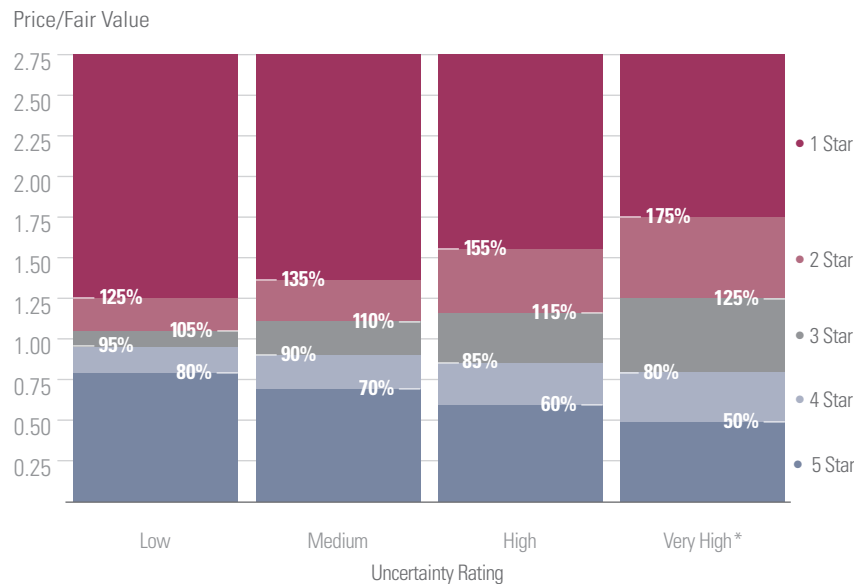
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Morningstar's Approach to Rating Corporate Credit

- ▶ Offers a proprietary measure of the credit quality of companies on our coverage list.
- ▶ Encapsulates our in-depth modeling and quantitative work in one letter grade.
- ▶ Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- ▶ Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- ▶ Five years of detailed pro-forma financial statements
- ▶ Annual estimates of free cash flow
- ▶ Annual forecasts of return on invested capital
- ▶ Scenario analyses, including upside and downside cases
- ▶ Forecasts of leverage, coverage, and liquidity ratios for five years
- ▶ Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

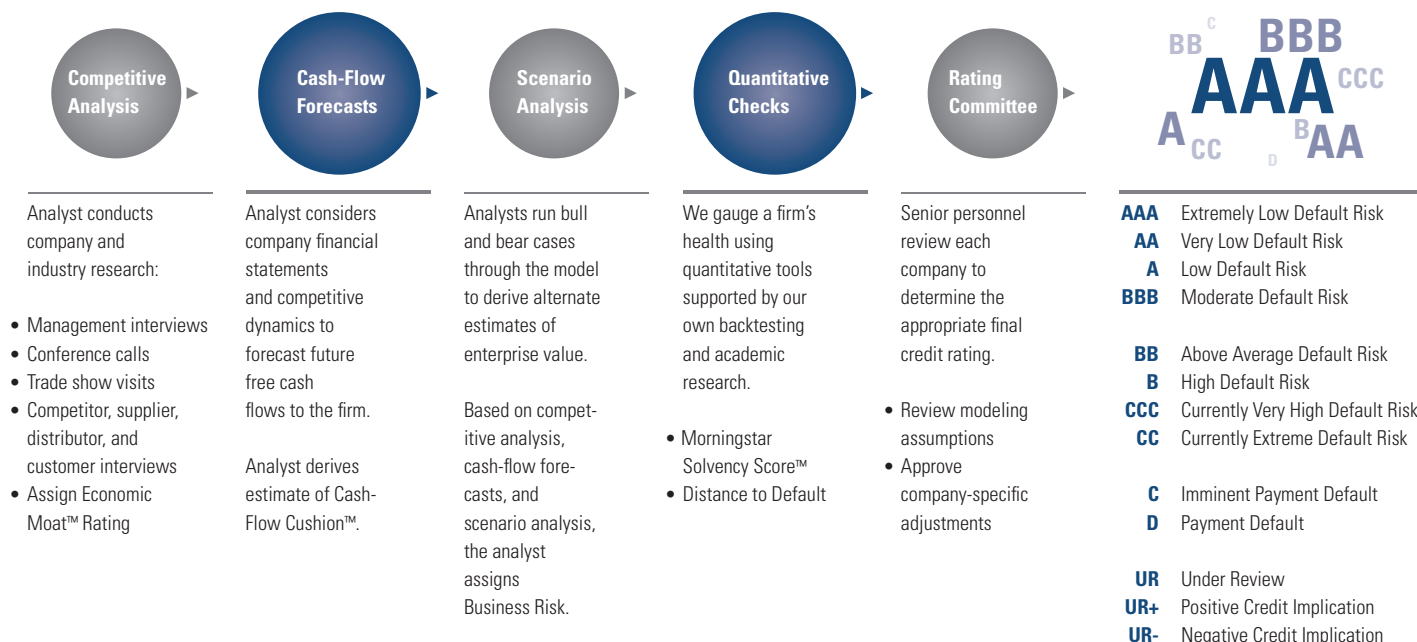
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

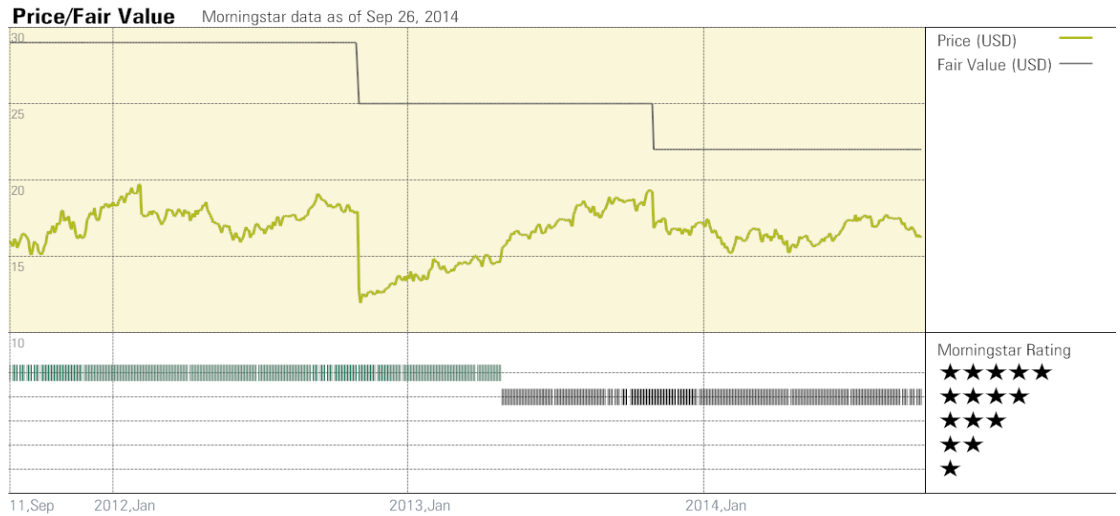
We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Western Union Co WU (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
16.35 USD	22.00 USD	13.20 USD	34.10 USD	High	Wide	Negative	Standard	A-	Credit Services



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