

April 06, 2009

**United States of America**
**Western Union Co. (WU - US\$ 13.82) 1-Overweight**
**Technology  
IT Consulting & Computer Services**

Initiation of Coverage

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**Network Scale & Mkt Share Opty Right Mix**
**Investment Conclusion**

□ We believe Western Union is a best-in-class money-transfer company with a valuable brand that is based on a long history of consistently reliable service and availability in far more locations than any competitor. With considerable upside potential to market share, developing markets supporting strong secular growth, and a scalable model that should allow for long-term margin expansion, we think WU should be capable of generating long-term growth in earnings in the mid-teens range. While we recognize that there is near-term uncertainty around transaction trends, we think WU's business model should enable investors relative stability compared to the market, and recommend owning shares for the potential growth, margin, and multiple expansion which we expect will come at the first sign of stability or pick-up in transactions (which has been fast and dramatic in past cycles).

**EPS (US\$) (FY Dec)**

	2008		2009		2010		% Change		
	Actual	Old	New	St. Est.	Old	New	St. Est.	2009	2010
1Q	0.29A	N/A	0.29E	N/A	N/A	0.29E	N/A	0%	0%
2Q	0.33A	N/A	0.30E	N/A	N/A	0.32E	N/A	-9%	7%
3Q	0.33A	N/A	0.32E	N/A	N/A	0.36E	N/A	-3%	13%
4Q	0.37A	N/A	0.33E	N/A	N/A	0.38E	N/A	-11%	15%
Year	1.31A	N/A	1.24E	N/A	N/A	1.36E	N/A	-5%	10%
P/E			11.1			10.2			

**Market Data**

Market Cap (Mil.)	9441
Dividend Yield	0.30
52 Week Range	28.62 - 10.05

**Financial Summary**

Revenue TTM (Mil.)	5282.0
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**Summary**

□ In a more stable economy, we suspect that WU would trade near its historical median P/E of 16x - 17x. However, given the market's near-term focus, we use its one-year median fwd P/E of 14x on our 2010 EPS estimate of \$1.36 to reach a 12-Month PT of \$19.00. Initiating with a 1-OW rating.

**Stock Rating**

New: 1-Overweight  
Old: 0-Not Rated

**Target Price**

New: US\$ 19.00  
Old: N/A

**Sector View: 2-Neutral**
**Stock Overview**

**Company Overview**

Western Union has a network of more than 375,000 agent locations in more than 200 countries and territories. During 2008, roughly 75% of WU's agent locations had seen money transfer activity throughout the year. The company's consumer to consumer (C2C) money transfer

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**PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 23 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 24**

business enables money to be sent globally in very short periods of time, and its consumer to business (C2B) service provides consumers with bill-pay options. More than 85% of WU's agent locations are based outside the U.S., many of which operate via Western Union's relationships with 700 superagents. During 2008, the company's C2C money transfer volume reached \$74 billion, which accounts for approximately 18% of the global money transfer market based on the World Bank's estimates. Revenue increased 8% year-over-year to \$5.28 billion, and operating income increased 2% year-over-year to \$1.35 billion, representing an operating margin of 26%. Roughly 85% of revenue was generated by C2C, including 34% in the Americas, 44% in the Europe, Middle East, Africa, South Asia (EMEASA), and 7% in Asia Pacific (APAC). The C2B Business contributed to 14% of consolidated revenue, and the remainder was generated by other businesses. The company generated \$1.25 billion in cash-flow from operations during 2008, and expects \$1.1 billion of cash-flow generation during 2009.

Western Union is headquartered in Englewood, Colorado, and traces its history back to 1851. Its stock was first traded on the NYSE in 1865. In 1884, the original Western Union was one of 11 companies included on the first Dow Jones average. Western Union was spun-off from First Data on September 29, 2006. The company now offers money transfer services under the Western Union, Orlandi Valuta, and Vigo brands in over 200 countries and territories, as well as bill payment services, primarily in the U.S., under brands such as Speedpay, Equity Accelerator, Just in Time EFT, Western Union Quick Collect, and Western Union Convenience Pay.

### Investment Thesis

We believe Western Union is a best-in-class money-transfer company with a valuable brand that is based on a long history of consistently reliable service and availability in far more locations than any competitor. With considerable upside potential to market share, developing markets supporting strong secular growth, and a scalable model that should allow for long-term margin expansion, we think WU should be capable of generating long-term growth in earnings in the mid-teens range. While we recognize that there is near-term uncertainty around transaction trends, we think WU's business model should enable investors relative stability compared to the market, and recommend owning shares for the potential growth, margin, and multiple expansion which we expect will come at the first sign of stability or pick-up in transactions (which has been fast and dramatic in past cycles).

**In a more stable economy, we suspect that WU would trade near its historical median P/E of 17x. However, given the market's near-term focus, we use WU's one-year median fwd P/E of 14x on our 2010 EPS estimate of \$1.36 to reach a 12-Month PT of \$19.00. We are initiating coverage with a 1-Overweight rating.**

### Long-Term Trends Favorable

#### ➤ Market Share Upside Potential:

With WU accounting for only 18% of a highly fragmented \$400 billion global money transfer market, and additional money transfer opportunities from informal channels not included in the market size discussed above, we believe Western Union should have room to take share over time.

#### ➤ Opportunities in Developing Markets:

While transaction growth trends in domestic channels such as the US and Canada have slowed, and remittance to Mexico is dropping, we believe that developing markets such as India, China, the Philippines, and Brazil should allow for considerable long-term growth opportunities. For reference, India, China, and the Philippines collectively accounted for a \$98 billion money transfer market opportunity (according to the World Bank and based on 2008 estimates), or almost 25% of the global remittance market. However, these markets contributed to less than 10% of WU's revenue. From 2002 through 2007, WU's revenue from these markets grew by an average annual rate of 47%, and margins expanded from only 2% to 24% given the scale of the model.

#### ➤ Remittance Activity Picks Up Rapidly Following Economic Slowdowns:

In addition, as seen following prior periods of slowdowns, growth in money transfer transactions typically picks up very rapidly and dramatically upon sight of a turnaround in economic activity.

#### ➤ Operating Leverage Should Lead to Margin Expansion:

With roughly 35% of costs fixed, we believe there is enough scale within the company's business model to provide for meaningful upside on the other side of this economic cycle, even with only mid-single-digit revenue growth.

### However, Near-Term Uncertainties May Lead to Volatility:

#### ➤ Transaction Growth Slowing Globally:

*Consumer to Consumer (C2C)* – Transaction growth was 9% during 4Q08, down from 14% at the end of 2007 (and 12% to 14% during most of 2008). The deceleration in transaction growth is attributed to:

- Domestic: US to Canada / Canada to US transaction growth of -4% consistent with 2007.

- International: (US/Canada to outside, outside to US/Canada, Transactions not touching US/Canada) transaction growth dropped from 19% to 12%.
    - India transaction growth dropped from 70%+ range in 2007 to 50% during 4Q08.
    - China transaction growth dropped from the 20%+ range in 2007 to 3% during 4Q08.
    - Total transaction originating outside the U.S., which contributes to almost 60% of C2C revenue decelerated from 25% growth to 18% growth.
  - Mexico: Deceleration of transaction growth from 3% during 4Q07 to -3% during 4Q08.
- Consumer to Business (C2B)* – Transaction growth was 0% during 4Q08, which is relatively in-line with last year’s quarter (excluding the acquisition of Pago Fasil).

➤ **Gap b/w Revenue Growth and Transaction Growth Widening:**

*Consumer to Consumer:* Revenue growth was -1% during 4Q08, which equated to a 10-percentage-point gap between transaction growth and revenues (from 2 to 3 points of difference in growth last year). The majority of the gap widening between revenue and transaction growth was related to international transactions (discussed below), and to a lesser extent transaction to and from Mexico.

- International: Revenue growth was 1% year-over-year during 4Q08 versus 12% transaction growth. The gap between transaction growth and revenue growth also widened from 4 percentage points (19% transaction growth and 15% revenue growth) during 3Q08. This was related to FX adjustment, pricing pressures, product mix of more intra-country transaction with lower revenue yield, and geographic mix of domestic originated transactions, which have higher revenue yield and account for a lower percentage of total transactions each quarter given international growth is faster.
- Mexico: The spread between revenue growth and transaction growth also widened from 3 points to 7 points, partly due to the cost of acquiring Pesos during 4Q08 being higher for WU given the volatility in the relative currency pricing.

*Consumer to Business:* 4Q08 revenue growth was -5% year-over-year versus transaction growth of 0%. The number of transactions slowed primarily due to reduced bill pay during a slower economy. Smaller transaction sizes and pricing pressure and lower revenue yield from the Pago Facil business attributed to the gap between revenue growth and transaction growth.

➤ **Currency Conversion Uncertainty:**

Given that more than 50% of WU’s revenue is generated internationally, the company is subject to impacts from currency conversion. The recent strength in the U.S. dollar adversely affected 4Q08 revenue growth by roughly one percentage point, and the company expects 2009 revenue growth to be adversely impacted by roughly three percentage points. However, given that expenses are also paid in foreign currencies, bottom line impacts are typically less material.

Figure 1: **Strengths, Weaknesses, Opportunities, Threats (SWOT) Analysis**

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• WU’s has very high global brand awareness, which we believe may allow the company to take share over time.</li> <li>• The company’s network of more than 375,000 agents globally is a competitive advantage and allows for a strong base from which to accelerate growth in various markets. Management expects the number of agent locations to reach 400,000 by the end of 2009.</li> <li>• The company’s network and infrastructure is largely in place, and should allow for operating leverage and scale to add to operating margins in key geographies over time.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Secular trends in the North American channel have slowed due to more stringent immigration standards and higher unemployment.</li> <li>• As consumer to business payments shift from walk-in cash model to recurring payments, competition increases and pricing pressure may continue to pressure margins.</li> <li>• International growth may also pressure margins as evidenced by the Pago Facil business.</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• WU handles roughly 18% of a highly fragmented \$400 billion global money transfer market that is growing in emerging markets. WU’s volume is growing at pace of roughly 20%.</li> <li>• Economists estimate that there is a similar amount of money transfer occurring through informal channels, which should also allow for growth opportunities over time.</li> <li>• As evidenced by growth in Argentina, the company’s international brands should see considerable growth. Recent geographies of focus include Peru and Panama, and the company is looking to move into Brazil.</li> <li>• While the remittance trend in the U.S. market has slowed, WU may be able to utilize its brand and products for other ventures. For example, its Gold cards, of which there are eleven million outstanding, may at some point be used for other services such as prepaid payment cards.</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Competitive threats regularly emerge in different forms. Competition includes services by institutions from a variety of verticals, including card networks, associations (V,MA), financial institutions and bank-wire services, informal networks, electronic commerce, and other channels.</li> <li>• Pricing pressure may continue to pressure margins over time.</li> <li>• Regulatory changes across geographies related to immigration standards and/or money transfer restrictions may reduce growth potential.</li> </ul>

Source: Barclays Capital

**Valuation**

We estimate 2009 cash-flow generation close to management's guidance of \$1.1 billion (before ~\$150 million of cap-ex), which implies a cash-flow yield of almost 12% based on yesterday's close, and see similar cash-flow generation during 2010. Using a conservative assumption by most standards of relative stabilization in the economy at some point during late 2010, we estimate Western Union's cash flow stream should see steady growth in the 10%+ range in the years that follow. These estimates, along with a discount rate of 11% and a terminal growth assumption of 3%, resulted in an intrinsic valuation of \$22 per share. That said, given the uncertainty in the economy, and based on where comparables are trading on earnings and revenue growth, the market is clearly not paying for longer-term prospects of many of the names in the sector.

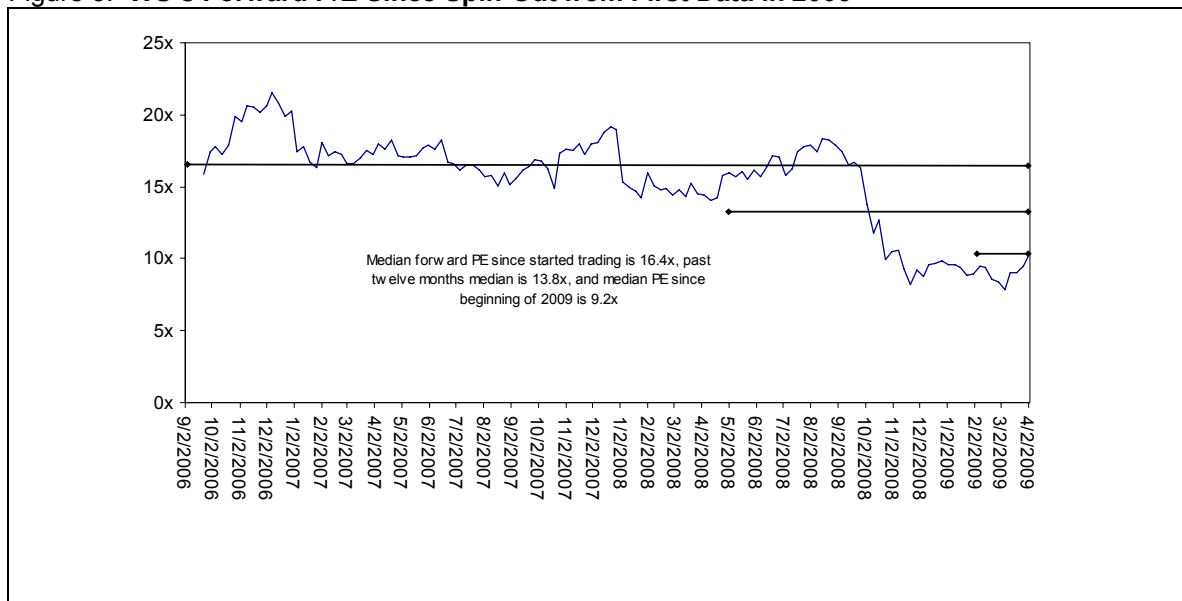
**While, in a more stable economy, we suspect that WU would trade near its historical median P/E of 17x, given the market's near-term focus, we use its one-year median forward P/E of 14x on our 2010 EPS estimate of \$1.36 to reach a 12-Month PT of \$19.00.**

Figure 2: Computer Services Comparables: (Transaction Processing / Financial Outsourcing)

April 3, 2009	Ticker	Rating	Price	YTD Price Perf.	Mkt Cap (M)	FY Ends	Earnings Per Share			P/E		P/E/G		Revenues (M)			P/Revenue 2009E	EV/EBITDA
							2008	2009E	2010E	2009E	2010E	2009E	2010E	2009E	09E/08	10E/09E		
<b>Transaction Processing / Financial Outsourcing</b>																		
Alliance Data System	ADS	1-OW	\$38.40	-17%	\$2,521	12/31	\$4.45	\$5.10	\$6.07	7.5x	6.3x	0.5	0.33	\$2,076	3%	9%	1.2	6.5x
DST Systems	DST	N.R.	\$37.07	-2%	\$1,831	12/31	\$3.77	\$3.88	\$4.15	9.6x	8.9x	3.4	1.27	\$1,569	-6%	0%	1.2	6.5x
Euronet Worldwide	EEFT	N.R.	\$14.06	21%	\$699	5/30	\$1.27	\$1.20	\$1.39	11.8x	10.1x	-2.0	0.61	\$1,071	2%	NA	0.7	5.9x
Fidelity National Info Svcs	FIS	N.R.	\$17.84	10%	\$3,409	12/31	\$1.49	\$1.62	\$1.82	11.0x	9.8x	1.2	0.81	\$3,466	1%	5%	1.0	6.5x
Fiserv	FISV	2-EW	\$37.01	2%	\$5,862	12/31	\$3.29	\$3.61	\$4.10	10.3x	9.0x	1.1	0.66	\$4,346	-8%	5%	1.3	7.4x
Global Payments	GNP	1-OW	\$32.00	-2%	\$2,596	5/30	\$2.27	\$2.15	\$2.68	14.9x	11.9x	-2.9	0.49	\$1,655	13%	10%	1.6x	6.4x
Heartland Payment Systems	HPY	N.R.	\$7.64	-56%	\$295	5/30	\$1.08	\$1.14	\$1.28	6.7x	6.0x	1.3	0.47	\$1,655	7%	9%	0.2x	3.2x
Jack Henry	JKHY	N.R.	\$17.69	-9%	\$1,503	6/30	\$1.19	\$1.25	\$1.33	14.2x	13.3x	2.7	2.06	\$786	4%	7%	1.9x	6.7x
Lender Processing Solutions	LPS	N.R.	\$31.94	8%	\$3,038	6/30	\$2.41	\$2.71	\$3.03	11.8x	10.5x	1.0	0.87	\$2,061	11%	6%	1.5x	7.6x
MasterCard	MA	1-OW	\$174.05	22%	\$22,697	12/31	\$9.45	\$10.35	\$12.23	16.8x	14.2x	1.8	0.79	\$5,182	4%	9%	4.4x	9.1x
Metavante	MV	N.R.	\$23.43	45%	\$2,802	12/31	\$1.23	\$1.39	\$1.55	16.9x	15.1x	1.3	1.31	\$1,766	3%	5%	1.6x	7.5x
MoneyGram	MGI	N.R.	\$1.17	15%	\$96	12/31	\$0.16	\$0.08	\$0.09	14.0x	12.5x	-0.3	1.04	\$1,276	38%	8%	0.1x	-12.0x
Total System	TSS	3-UW	\$14.58	4%	\$2,859	12/31	\$1.27	\$1.21	\$1.33	12.0x	10.9x	-2.6	1.13	\$1,951	1%	3%	1.5x	5.3x
Visa	V	2-EW	\$60.08	15%	\$50,679	9/30	\$2.36	\$2.81	\$3.33	21.4x	18.1x	1.1	0.98	\$6,901	8%	10%	7.3x	12.3x
Western Union	WU	1-OW	\$13.82	-4%	\$9,865	12/31	\$1.31	\$1.24	\$1.36	11.1x	10.2x	-2.1	1.12	\$4,873	-8%	3%	2.0x	8.0x
Wright Express	WXS	N.R.	\$19.19	52%	\$756	9/30	\$1.86	\$1.39	\$1.67	13.8x	11.5x	-0.5	0.57	\$269	-32%	7%	2.8x	9.1x
Mean				6%						12.7x	11.2x	0.3	0.9		3%	7%	1.9x	6.0x
Median				6%						11.9x	10.7x	1.0	0.8		3%	7%	1.5x	6.6x

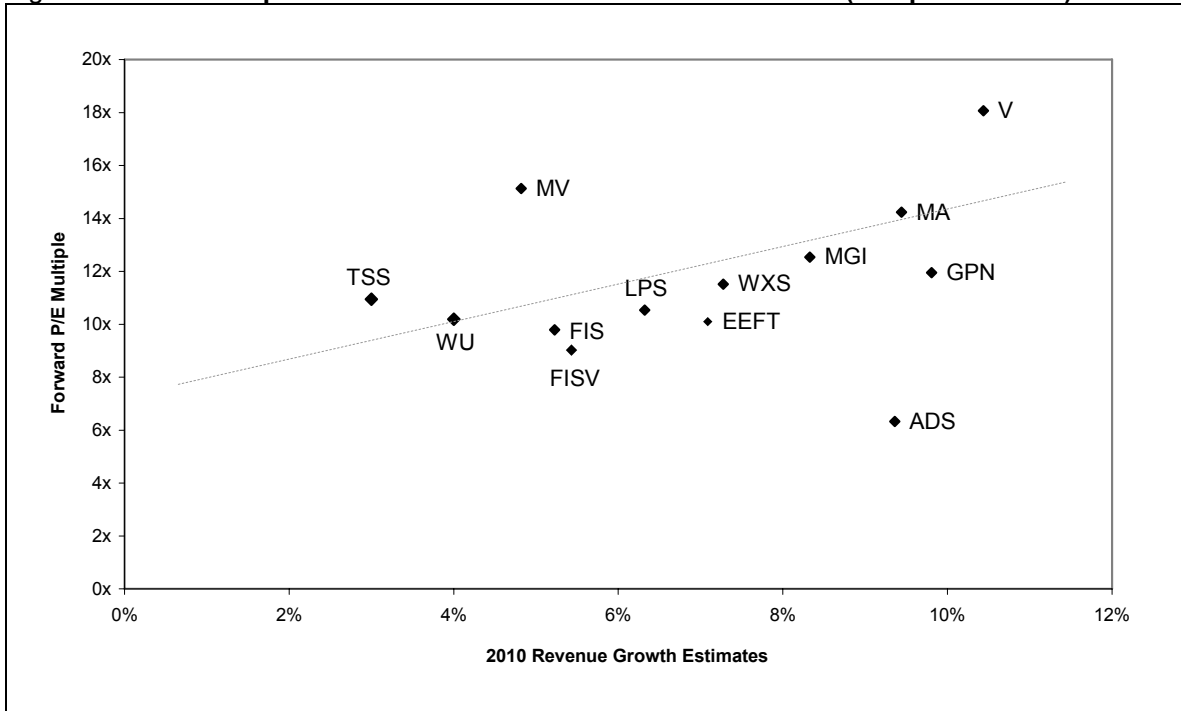
Source: Factset, Barclays Capital estimates

Figure 3: WU's Forward P/E Since Spin-Out from First Data in 2006



Source: Factset, Barclays Capital

Figure 4: Relationship B/w 2010 Revenue Growth and Forward P/E (R-Square of 0.40)

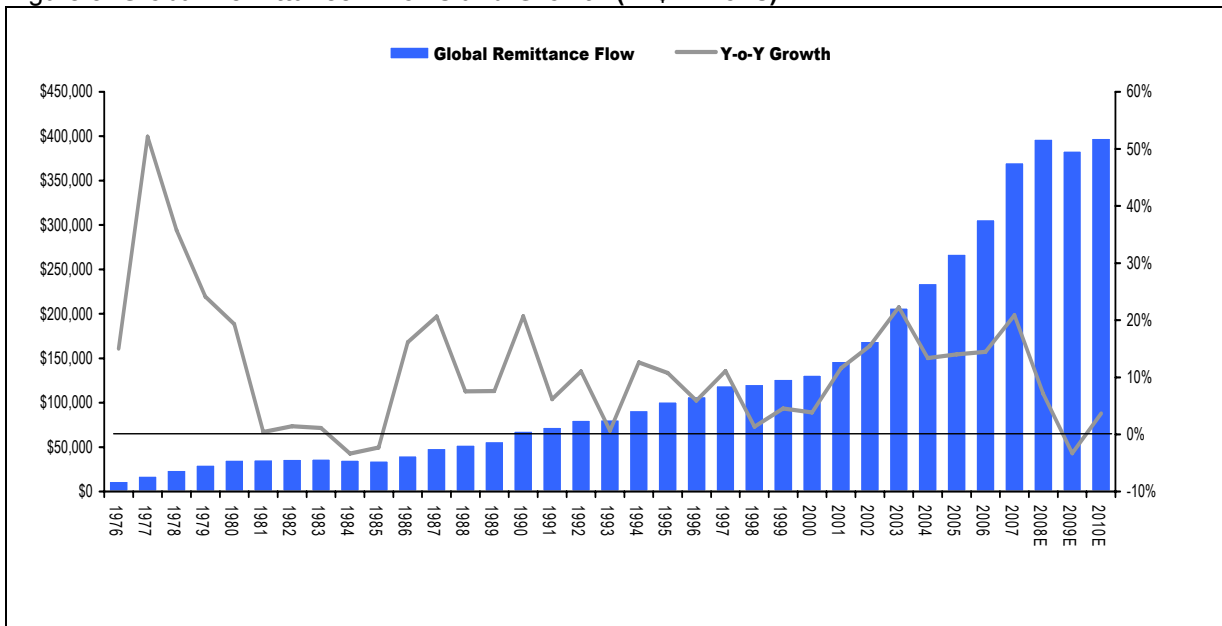


Source: Factset, First Call, Barclays Capital estimates

**Industry Trends**

Trends in money transfer tend to relate to immigration trends, economic growth and opportunities in various markets, and employment rates worldwide. Due to the weakening global economy including unemployment and consumer confidence trends, the demand for money transfers has weakened. During 2008, global remittance flows reached \$397 billion, up 7% year-over-year, and remittance in developing countries accounted for roughly 76% of global flow (and increased 9% year-over-year). This is a considerable slow-down from the 21% growth seen in 2007 (and 23% growth for remittance to developing countries). *The World Bank expects a decline in global remittance flow of 0.9% to 5.7% during 2009, but 1.2% to 6.1% remittance growth in 2010, although these data are subject to revision within the next few months.*

Figure 5: Global Remittance Inflows and Growth (in \$Millions)

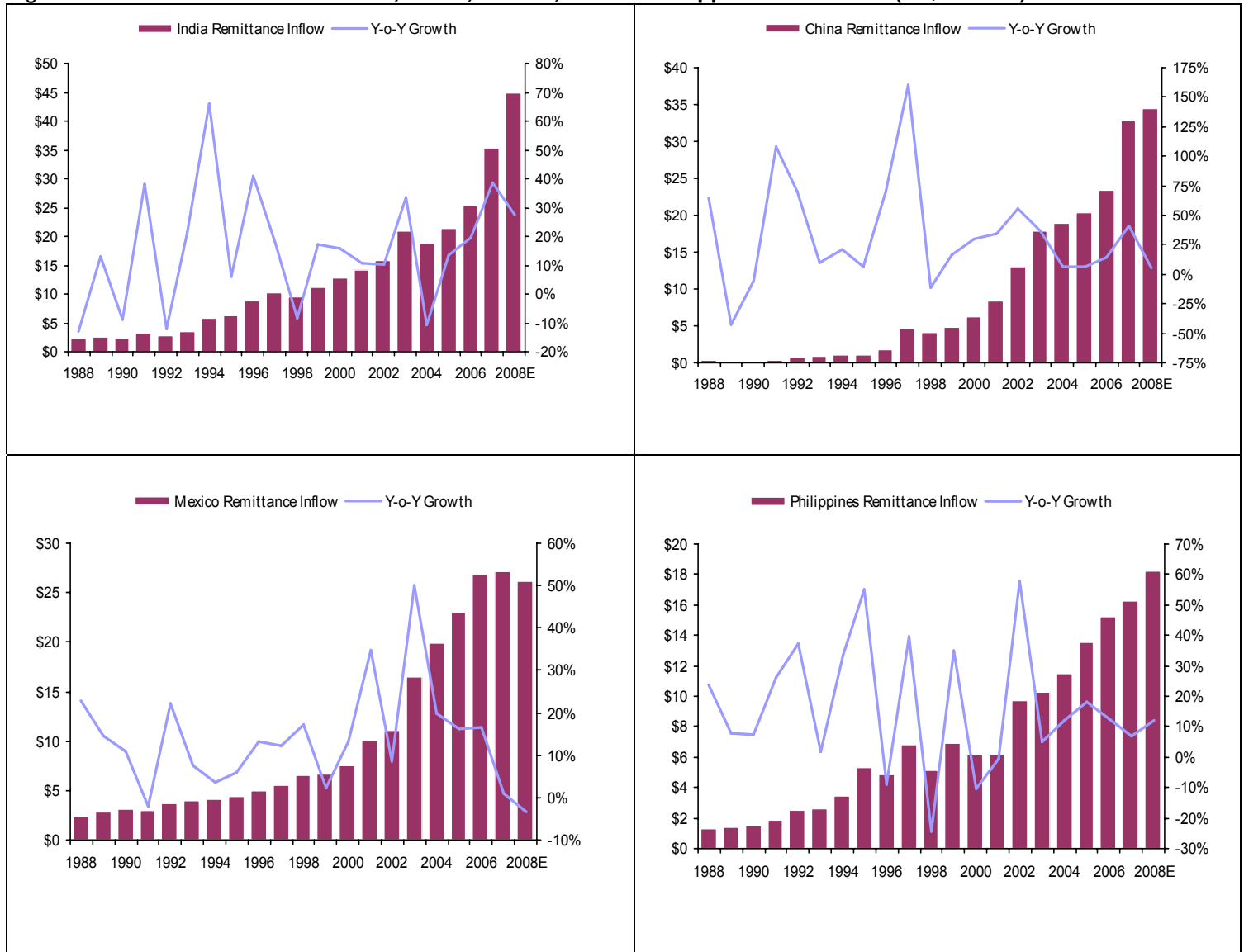


Source: The World Bank (People Move; February 2009), Barclays Capital

The top four inbound remittance markets in the world were India, China, Mexico, and the Philippines, which in aggregate, equated to more than \$120 billion of annual remittance according to the World Bank.

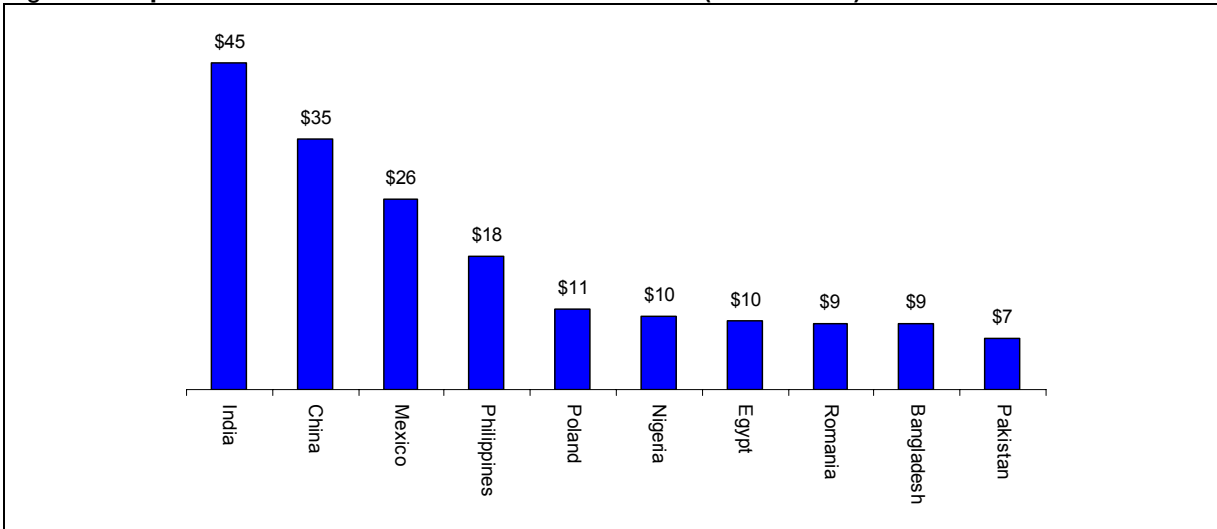
During 2008, growth across the top four countries (as measured by remittance inflows) has slowed for all but the Philippines due primarily to higher global unemployment and an overall slowdown in the global economy. Sharp slowdowns showed in China (from more than 40% growth in 2007 to 5% during 2008), and India (from 39% in 2007 to 28% in 2007). Mexico growth turned to negative 3% from 1% in 2007 in mid-teens growth in prior years. While these trends are likely to persist through much of the economic downturn, as evidenced by prior years that followed economic slow-downs, these markets will likely show a very rapid return to fast growth as migration again picks up and employment moves higher. The following Figures show remittance inflows and year-over-year growth for India, China, Mexico, and the Philippines, since 1988, as measured by the World Bank.

**Figure 6: Remittance Inflows for India, China, Mexico, and the Philippines Since 1988 (in \$Billions)**



Source: The World Bank (Migration and Development Brief), Barclays Capital

Figure 7: Top 10 Countries for 2008 Remittance Inflows (in \$Billions)

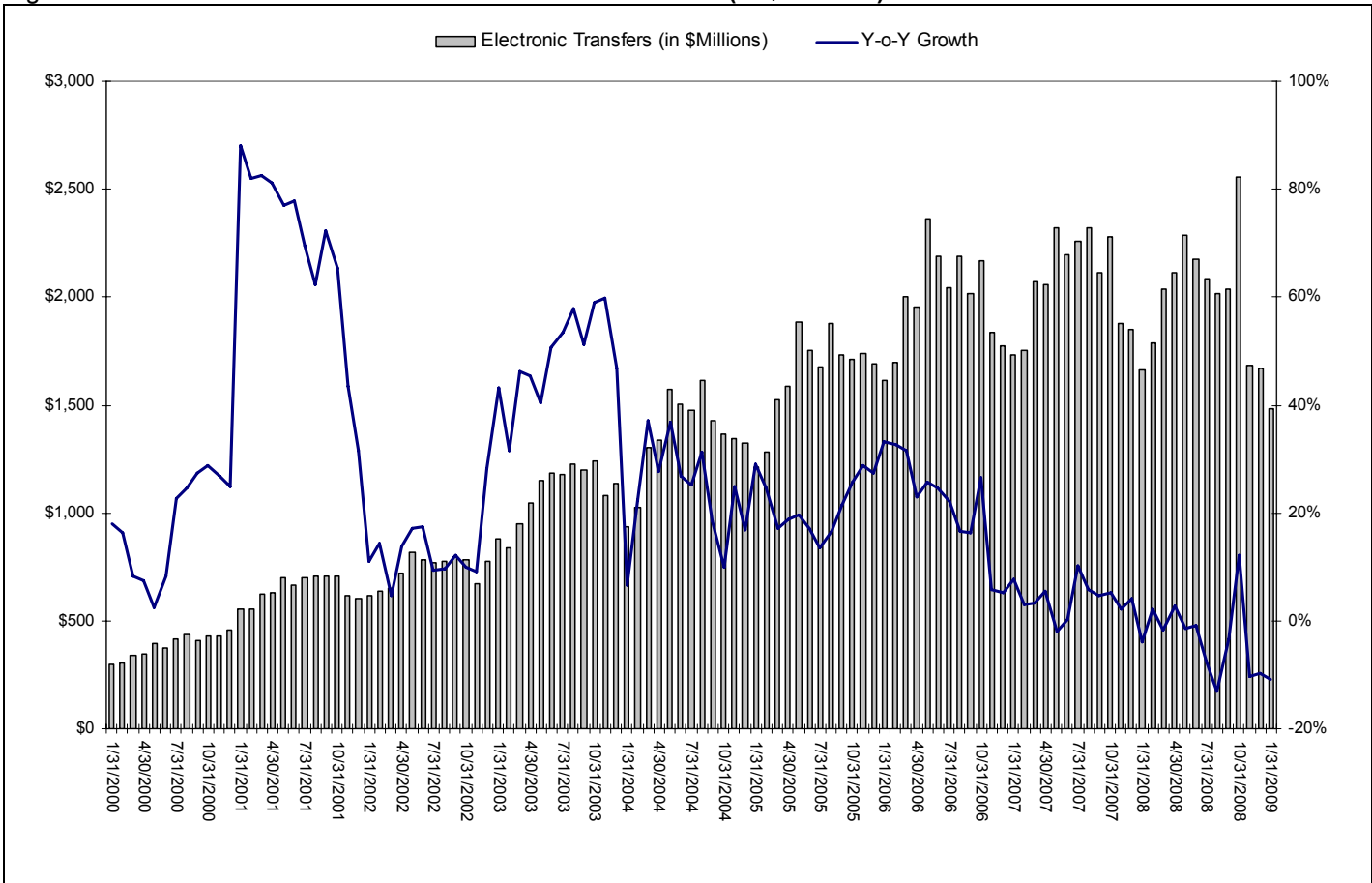


Source: The World Bank (People Move; February 2009), Barclays Capital

**Banco de Mexico Data**

Mexico business accounts for roughly 7% of Western Union’s total consolidated revenue. Banco de Mexico (The Central Bank of Mexico) publishes monthly data on workers remittance activity within its Balance of Payments report. These data are published on a one-month lag, however it often provides intra-quarter updates into money transfer trends to and from Mexico. Data points include electronic money transfers as well as number of transfers, and we calculate the average amount per transaction. The following data reflects the Banco de Mexico data since January 2000. Further data is available upon request.

Figure 8: Electronic Transfers to Mexico and Y-o-Y Growth (in \$Millions)



Source: Banco de Mexico, Barclays Capital

Figure 9: Recent Data from Banco de Mexico

	Electronic Transfers (in \$Millions)	Y-o-Y	Number of Transactions (in Thousands)	Y-o-Y	Amount Per Transaction	Y-o-Y
Jan-08	\$1,665.6	-4%	5,068	-5%	\$328.6	1%
Feb-08	\$1,787.8	2%	5,306	1%	\$336.9	1%
Mar-08	\$2,039.5	-2%	5,953	-1%	\$342.6	0%
Apr-08	\$2,112.7	3%	6,031	0%	\$350.3	3%
May-08	\$2,286.4	-1%	6,866	-2%	\$333.0	0%
Jun-08	\$2,173.7	-1%	6,288	-2%	\$345.7	1%
Jul-08	\$2,085.8	-8%	5,994	-8%	\$348.0	0%
Aug-08	\$2,014.1	-13%	5,930	-9%	\$339.7	-5%
Sep-08	\$2,039.7	-3%	5,984	-1%	\$340.9	-2%
Oct-08	\$2,558.8	12%	6,521	-4%	\$392.4	17%
Nov-08	\$1,681.6	-10%	5,107	-9%	\$329.3	-2%
Dec-08	\$1,667.3	-10%	5,440	-7%	\$306.5	-3%
Jan-09	\$1,485.6	-11%	4,644	-8%	\$319.9	-3%

Source: Banco de Mexico, Barclays Capital

In 2008, WU's consumers transferred \$74 billion in C2C transactions (16% increase year-over-year), of which \$67 billion related to cross-border (an increase of 17% year-over-year in cross-border). This is out of a market of remittance estimated at roughly \$400 billion by the World Bank. In addition, economists estimate that there is almost an equal amount of money transferred through more informal channels that is not registered or captured in the \$400 billion discussed above.

## Business Overview: Products and Services

### History of WU's Business Model:

In the mid-1990s, First Data bought Western Union, which at the time was a money-transfer company serving primarily the US, Canada, Mexico markets. WU had roughly 15,000 agents dedicated to these channels. First Data leveraged WU's expertise in these markets and expanded internationally, primarily through a super-agent model since these superagents already had key relationships and distribution capabilities in their respective local markets. The company spread throughout Europe and Asia to sign and manage other agents, and while these agents came with a higher commission structure, they also provided strong growth potential. The difference between the commission structures has led to higher margins in domestic operations versus international, but the scale of WU's business mostly offset this pricing change. Since the network is globally scalable, the only real investment associated with international expansion is brand awareness and building up staff. For example, the company has 85,000 locations in India today, up from only 2,000 five years ago. Growth within this market between 2002 and 2007 has moved at an annualized rate of 46%, and margins went from 11% to 20%+ over the same time period. Overall, Asia is 7% of WU's revenue today and 16% of global remittances. Overall, that has been the formula on the company's C2C business to tap the global \$400 billion remittance market of which WU has 17% market share. On the consumer to business side, the company generates about 90% of its revenue in the U.S. Five years ago it was a walk-in bill pay service, while it has become more of a recurring bill-pay model. The company recently acquired Vigo Pacil in Argentina, which will expand its C2B platform internationally, and management looks to bring international revenue within C2B to 50% of the segment.

### Business Overview:

#### Consumer to Consumer:

WU's revenue is primarily generated by money transfer and payment transactions. The company earns revenue from two main sources, including fees that consumers pay when sending money and a spread between the currency exchange rate charged to WU customers and the wholesale rate by which WU is able to acquire a currency. WU provides its money transfer processing system to its third-party agents to originate and pay money transfers. The company's agents provide the physical infrastructure and staff required to handle the transactions. Agents are typically paid a commission based on a percentage of revenue, and the commission is split between the 'send agent' and the 'receive agent'. Most agents operate in other businesses as well as acting as an agent for WU, and thus, the overhead associated with the money transfer services are typically covered by an agent's primary business (i.e., postal services, banking, travel, retail, etc).

#### Money Transfer Illustration:

Typically, a consumer would walk into an agent to send money to a friend, family member, business acquaintance, or other party. Assuming the consumer sends \$300 from the US to Europe, the agent may request a \$15 fee plus \$6 for currency conversion, and then the



agent will tell the consumer what amount will be paid to the consumer's counterpart in Europe in Euros. The counterpart will give a security code to a local agent in Europe and receive the funds. The fee for the transaction was \$21, and the agent may receive a 10% commission. In that case, the sending agent may transmit \$319 through the Western Union network (the \$321 minus the 10% commission of the \$21 fee), WU would keep the \$19 spread, and then settle-up with the European agent later. Most of WU's cost of services (which is about 57% of revenue) is this commission paid to agents.

*Agent Acquisitions* – (i.e., FEXCO acquisition): The majority of agents run multiple businesses, and in some cases WU has an equity relationship. Taking an equity stake allows WU to lock up the business for time, and have control over the marketing and allocation of resources. With FEXCO, WU had already owned a portion of the company and recently acquired majority to have more influence. While it will take on FEXCO's costs, it hopes to improve the operating leverage given overlap with its own staff and cut out the superagent commission. Near-term margins may be pressured slightly by this deal, however longer term, we believe the deal should add to growth and margin upside.

### **Customer to Business**

In WU's C2B segment, the company processes electronic bill pay to a number of industries, including utility bills, auto bills, mortgage, financial service providers, and government agencies (billers). WU processes a transaction using a debit, credit, or bank account. WU believes its billers benefit from their relationships with WU since it provides them with real-time or near real-time payment from their customers and lower payment acceptance costs versus checks and cash.

### **Geographic**

More than 85% of WU's agent locations are based outside the U.S., and within this amount is roughly 700 superagents. C2C services are available in almost every country or territory. (WU has offices in more than 50 countries). WU's Englewood, CO, office is its corporate headquarters, and its Dublin, Ireland, office acts as its international headquarters.

WU has relationships with large established business or government networks such as post offices, banks and retailers. The company has agreements with postal agencies in Argentina, Australia, China, France, Germany, India, New Zealand, Russia, Spain, and other countries. Banks such as the Agricultural Bank of China and the State Bank of India offer WU's services. Retailers such as Kroger and Publix in the U.S., and Elektra and Travelex internationally offer WU's services as well, and have many locations. Many agents consider the WU business as a main business line, and invest in the marketing and branding to sell the product. The C2B segment is primarily operated in the U.S., however WU is focused on expanding this business internationally through acquisitions and/or organic moves into additional international markets.

### **Western Union Believes Its Strengths Include:**

- *Relationships with Agents and Businesses:* Millions of consumers around the world use WU's services primarily through its global agent network. Agents tend to be established organizations that offer consumer products and services. The top forty agents have been with WU for an average of thirteen years. In 2008, these top 40 agents represented 60% of WU's C2C revenue. WU often acquires interests in its main agents (either majority or minority) to help align interests. WU has relationships with more than 6,300 businesses and other billers, and roughly 2,100 relate to WU's bill payment business in Argentina, Pago Facil. In 2008, the company's top 20 C2B clients (billers) accounted for 40% of its C2B revenue. These customers have on average been billers with WU for 13 years.
- *Global Reach:* WU has more than 375,000 agent locations worldwide, in more than 200 countries and territories. Other channels (in addition to physical agent locations), including WU's website, telephone money transfer services, a direct to bank service, and its new mobile telephone money transfer service, which also allows consumers to transfer money, and accounted for 3% of consolidated revenues.
- *WU Brand:* The WU brand is key for the company's capability to generate revenue. WU invested \$285 million in marketing and advertising during 2008. The company's brands include:
  - *C2C:* Western Union, Orlandi, Valuta, and Vigo. There are people using WU that won't go down market. Then there is a smaller subset of market for more commoditized (longer lines and pricing), Vigo is a non-exclusive brand where an agent can have more than one brand like DolEx in its store, and WU doesn't have that. Orlandi Valuta sits aside in that it is a brand that serves the less frequent customer that needs customer service and phone connection. If 85% of revenue is C2C (\$4 billion) – Vigo was \$150 million of revenue, and Orlandi is smaller than Vigo.
  - *C2B:* Western Union and Pago Facil (cobranding) Quick Collect, Western Union Convenience Pay, Pago Facil, Speedpay, Just in Time EFT, Equity Accelerator, and other brands. Pago Facil grew over 30% for 2008.
- *Consumer Relationships:* WU offers rewards/loyalty programs, including its Western Union Gold Card, which offers faster services at point-of-sale, and may also offer reduced service fee, discounts at retailers, or a rechargeable prepaid phone card within the Gold Card. There were 11 million Gold Cards active at the end of 2008, up 16% year-over-year. These cards contributed to roughly 50% of the Western Union-branded C2C transactions in the U.S. Europe and Asia have also shown increased usage of this card since its introduction in those markets in 2004.

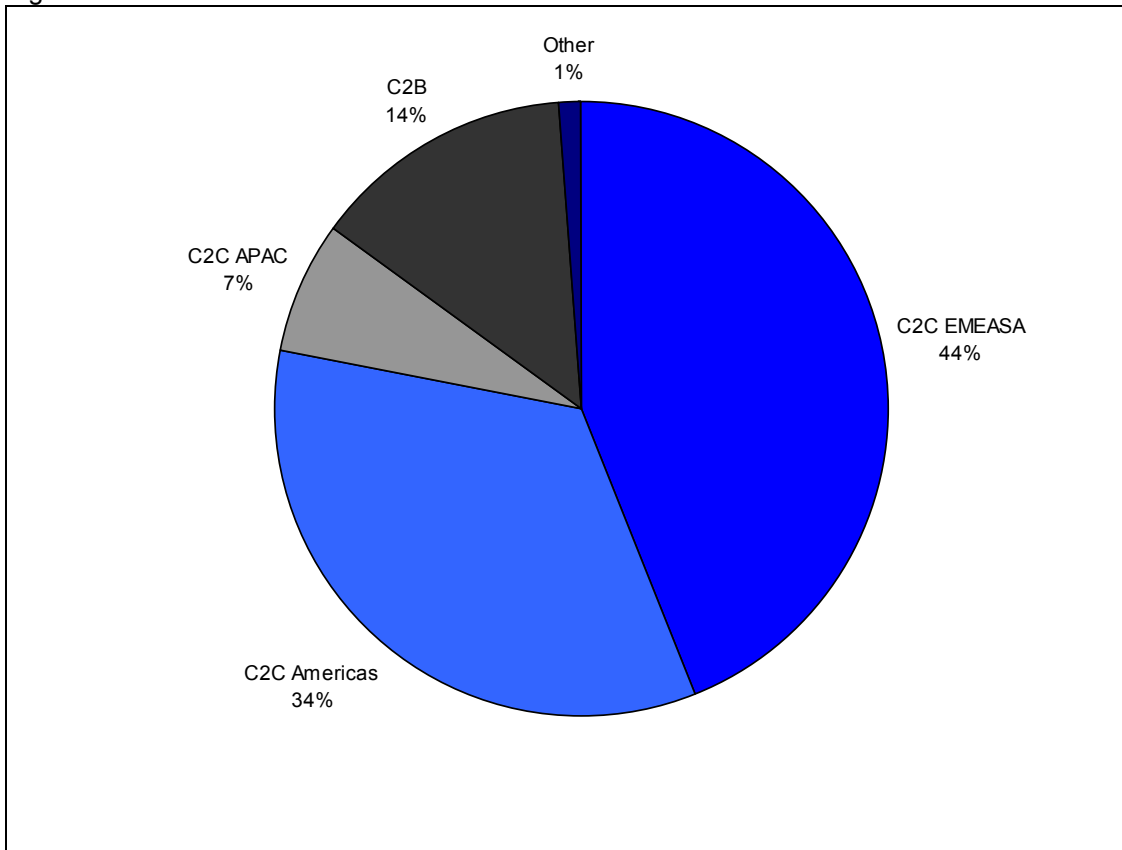
## Western Union's Stated Strategy

- Accelerate profitable growth in C2C business.
  - The company has been building out its receive networks in markets with considerable remittance, including Latin America, Africa, Eastern Europe, China, Philippines, and India. Also add agents in locations such as the United States and Western Europe to attract consumers.
  - Acquiring equity interests and forming alliances with certain agents to align long-term interests. In August 2008, WU acquired the money-transfer assets from its money-transfer agent in Panama; and in December 2008, it acquired 80% of its agent in Peru.
  - Adding services to allow consumers to transfer money within the same domestic location. Non-US domestic (intra-country) transactions grew by more than 20% during 2008, adding \$100 million of incremental revenue.
  - Enhancing products for consumers such as account to cash (debit bank accounts and transfer to cash to an agent).
  - Launching Internet service internationally – as of December 2008, it was available in 12 countries outside of the US.
- Expand and grow C2B business and increase bill payment options. This business is primarily offered in the United States, and expanding through existing network and acquisitions or alliances.
  - Argentina is a core international market for WU bill pay through Pago Facil, and WU is now offering a walk-in, cash bill payment service that will let consumers in Peru and Panama pay for utilities, phone, and other household payments.
  - Using Vigo (C2C brand) for bill pay in the U.S.
  - Working with bank's Web sites to allow bill payment through WU network.
- New products and services to consumers: Examples include mobile money transfer service.
- Using scale / operating Leverage to enhance profit:
  - During 2008, the company closed certain offices in the US and moved operations to more cost-efficient locations, and also eliminated certain positions. Management expects these initiatives to lead to roughly \$40 million in annual operating expense savings.
  - Renegotiating agreements with some agents to reduce commission expense.
  - Focusing investments on global projects.
  - Global reorganization towards two segments: Europe/ME/Africa/Asia and the Americas.

## Business Segments

The company operates under two main segments including C2C and C2B. The geographic segments within C2C include Europe, Middle East, Africa, South Asia (EMEASA), the Americas, and Asia Pacific (APAC). The regional division of revenue is determined by the geography where the money transfer is initiated and the region where the transfer is received. WU splits the revenue between the regions, with each region credited with 50% of the income. In the case of intra-country transfers, all revenue is allocated to the one region where the transaction is originated and paid. Figure 10 illustrates WU's 2008 revenue by segment.

Figure 10: WU 2008 Revenue Breakdown



Source: Company documents, Barclays Capital

### Consumer to Consumer Segment

C2C transfers accounted for 85% of WU’s revenues during 2008. Most remittances are sent through one of the company’s 375,000 agent locations, while some are also sent via the Internet or phone using a credit or debit card. Money transfers are typically received in cash, but may also be received in the form of a prepaid card or deposited to a bank account.

Transaction fees are charged to consumers that transfer money. The company also generates revenue from a spread between the exchange rate set by WU and the rate that agents are able to acquire money.

In a typical transaction, a consumer goes to an agent location, fills out a form with information including the name and address of the recipient, and gives the form together with the principal amount of money transfer and fee to the agent. The agent (the sending agent) enters the transaction information in WU’s processing system, and the funds are made available for payment within minutes. The recipient enters an agent location in his/her locale and presents identification, and is paid by the local agent. WU calculates the fee paid by the sender based on principal amount and the locations from which funds are being sent and paid.

Roughly 85% of C2C transactions involve at least one non-US. location. No individual country outside of the U.S. represented more than 10% of the segment’s revenue, and no individual agent accounted for more than 10% of the segment’s revenue.

**Seasonality:** C2C segment revenue typically increases sequentially in each quarter throughout the year, and is lower sequentially from the fourth to the first quarter. The summer months generally pick up due to travel and holiday spend and the fourth quarter picks up due to holiday season spending.

### Forms of C2C Transactions

**Walk in money-transfer service:** More than 90% of 2008 C2C transactions were cash transfers originated by a consumer walking into an agent location. In some locations, recipients may take payment on a stored value card, or have it deposited to their bank accounts. Next day delivery options are a lower priced version of money transfers. Money transfer by phone is available in select markets, where a consumer will speak with a company operator on the phone and is given a transaction number that is brought to an agent.

**Online money transfer** allows use of a credit or debit card for payment and is operational (send service) in 12 countries outside of the U.S.

*Telephone money transfer* allows consumer to call a toll-free number in the US, Canada, Ireland, or the U.K., and use a debit or credit card to initiate a transaction.

*Account to cash* – allows consumers to debit checking account and send money through the Western Union platform to an agent.

### **Distribution and Marketing Channels**

WU offers C2C service through third-party agents and other means described previously. WU handles the central operations such as processing of transactions, settlement, marketing support and customer relationship management to agents. Some agents manage subagents (WU calls these agents superagents), and as of December 2008, WU has 700 of these relationships globally. Subagents contract with Superagents. The Gold Card is a loyalty program offered by WU that was available in 72 countries and had 11 million active cards at the end of 2008.

Western Union International Bank started in Feb 2005, and was initiated to meet requirements presented by the growing trend among the member states of the EU to regulate money transfer business and give WU a new platform for products and services. It offers financial services through 36 locations in five EU countries (but has license to operate in 27 EU member states).

### **Consumer to Business Segment**

C2B transactions contributed to 14% of WU's revenue during 2008. Transaction fees are paid by the consumer of the biller. The fees are typically less than those charged in C2C. The telephone or Internet is the typical channel for electronic payment in bill-pay, and WU processes a transaction using a debit or credit card or ACH. Otherwise, cash payments may be completed at an agent location, where the payment is made to the agent. WU also generates revenue from enrollment fees received by Equity Accelerator, as well as investment income on funds received in advance of settlement with payment recipients. This is primarily a U.S.-based revenue stream, and no individual biller accounted for more than 10% of segment revenues.

**Electronic Payments:** payments are made using Speedpay over the Internet or phone to a number of billers in the United States. Equity Accelerator is a service for consumers to make ACH payments to mortgage servicing companies.

**Cash Payments:** Using WU's Quick Collect brand, consumers pay bills and government agencies in the United States and Canada using cash or debit cards. International locations have a similar service through Quick Pay. Quick Cash allows a cash disbursement service for businesses and government agencies to send money to employees or other individuals with whom they have accounts or business relationships. Convenience Pay service allows consumers to send payments by cash or check from smaller Convenience Pay agents to utilities and telecommunications companies.

Pago Facil offers a walk-in bill payment service in Argentina under the Pago Facil brand. WU offers walk-in cash bill pay services in Peru and Panama for mobile phone, utilities, and other bills.

**Industry Trends:** Economic trends have led to reduced bill payment in the United States, and this trend is expected to continue through 2009.

**Competition** includes financial institutions, which may offer bill payment options in their own name, billers offering their own or third-party services to their own customers, and other third-party providers.

### **Other Segment**

WU markets money orders, issued by a third party (Integrated Payment Systems or IPS), to consumers from retail locations in the United State and Canada. On July 18, 2008, WU agreed to assume the issuing of money orders from IPS, effective October 1, 2009. IPS now pays WU a commission and per item fees. After October 1, 2009, WU will generate revenue primarily from investment income on the float (about \$800 million will be carried on balance sheet) of unpaid money order obligations. IPS will continue to provide clearing services in exchange for fees from WU. WU also offers prepaid including a WU branded prepaid MasterCard and Visa card.

### **Risk Management**

Bad debt expenses associated with receivable balances from agents in the money transfer, walk-in bill payment and money order settlement process. Online consumer transactions and electronic consumer to business channels, particularly using plastic payments may also lead to credit risk, including charge-backs, insufficient funds, fraud, or other collection issues. The company reviews each agent before signing, and bad debts have been less than 1% of revenue for the past few years. However, the current economic conditions may lead to an increase in bad-debt expenses.

The company settles a majority of its agents in United States dollars and Euros. WU uses forward currency contracts to reduce FX exposure. Since most transactions are paid within 24 hours of origination, and agent settlement occurs within a few days, there is relatively low risk associated with agent settlement process.

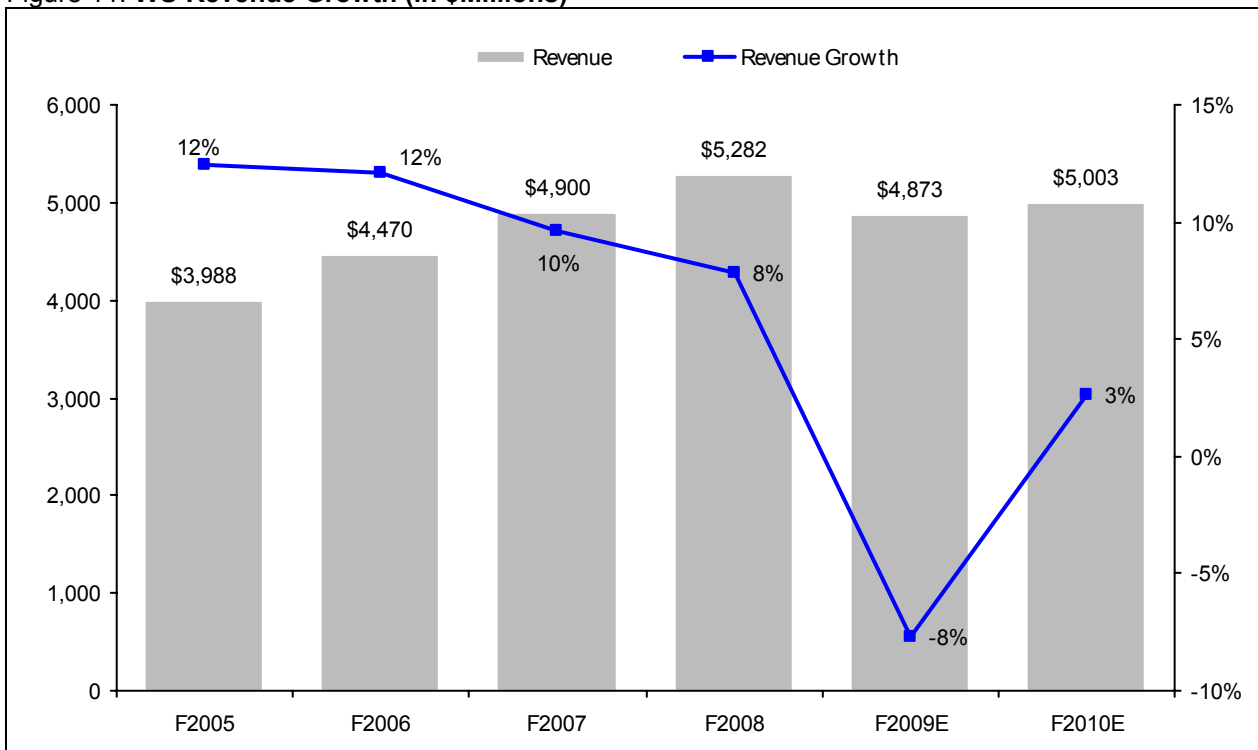
## Review of 2008: Consolidated

### 2008 Operating Metrics:

- 2008 Revenue was \$5,282 million, up 8% year-over-year.
- 2008 Operating Income was \$1,355 million, up 2% year-over-year.
- There were \$82.9 million of restructuring and related expenses in operating expenses during 2008, and \$22.3 million of accelerated stock-based compensation during 2007.
- Operating margin during 2008 was 26%, lower by 1% due mostly to restructuring expenses.
- Net income was \$919 million, up 7% year-over-year.
- C2C transactions increased 12% year-over-year to 188.1 during 2008.
- C2C transaction volume was \$74 billion, up 16% year-over-year. Of the \$74 billion, \$64 billion in transactions were cross-border, and increased 17% year-over-year.
- C2B transactions totaled 412.1 million, up 2% year-over-Year.
- Cash-flow from operations was \$1,254 million, up 14% year-over-year.
- Principal per transaction (size of each transaction) was higher by 3% during 2008, and was lower during 4Q08 by 4% year-over-year.
- Transaction Fees accounted for 80% of revenues during 2008
- Foreign exchange accounted for 17% of revenue during 2008
- Other revenue accounted for 3% of revenue during 2008

### Consolidated Revenue Discussion

Figure 11: WU Revenue Growth (in \$Millions)



Source: Company documents, Barclays Capital

### Explanation of Recent Annual Revenue Growth:

Revenue increased 8% and 10% during 2008 and 2007, respectively, and growth was predominantly associated with international strength, including transaction growth in the EMEASA region. International consumer-to-consumer transactions that were originated outside of the United States also contributed to growth. Money transfers to India and the Gulf States were strong, which offset slower trends in Europe. During 4Q08, transaction growth slowed versus the first nine months of 2008, and the amount of money transferred per transaction was also lower year-over-year. Both slower transaction growth and a lower amount per transaction contributed to reduced revenue during 4Q08. FX volatility resulted in a benefit to transaction fee and foreign exchange revenue of \$96 million over 2007 revenue. However, this impact was offset by an adverse impact to foreign currency derivatives (not designated as hedges).

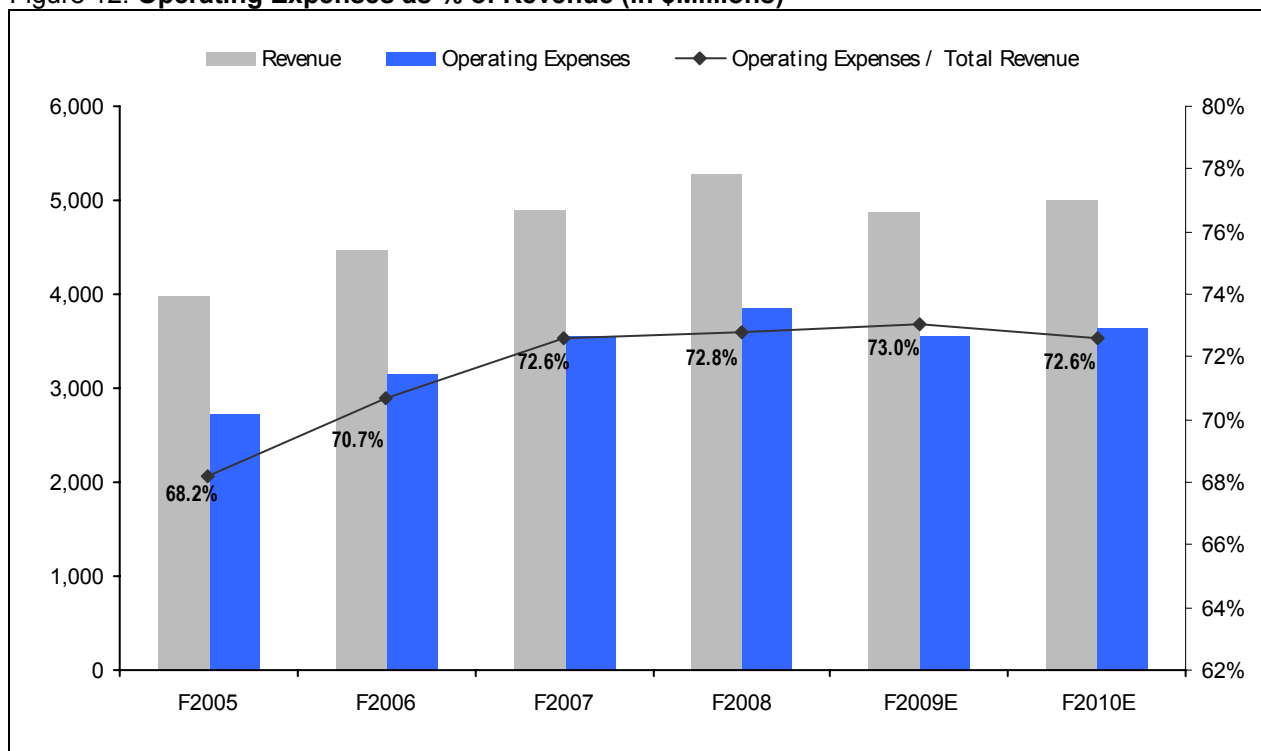
Asia Pacific saw healthy transaction growth, including inbound remittance growth in the Philippines. During 4Q08, APAC growth slowed (on a year-over-year basis), related to a slower economy and reduced transactions (typically higher revenue transactions) from small businesses in China.

The Americas growth was slower due to outbound and domestic (US to Canada) transactions being lower related to the United States economy. Reduced construction activity together with changes to immigration patterns has affected growth in the United States since 2006. Growth during the first nine months of 2008 was slightly better than 2007 levels, but during 4Q08, revenue growth in this region decelerated further on a year-over-year basis.

Foreign exchange revenue increased in 2008 due to increased cross-border C2C transactions as well as a weaker United States dollar versus the euro. Pricing changes, including fee reductions and narrowing foreign exchange spreads related to 1% of revenue growth compression during 2008 (and 3% in 2007). Pago Facil was acquired in December 2006, and added \$67.7 million to revenue during 2007.

### Operating Expense Discussion

Figure 12: Operating Expenses as % of Revenue (in \$Millions)



Source: Company documents, Barclays Capital estimates

### Explanation of Recent Operating Expense Levels:

During 2008, WU incurred non-operating expenses of \$82.9 million associated with the closing of facilities in Missouri and Texas, and the related reduction of roughly 650 employees. The company expects annualized savings of approximately \$40 million related to these changes.

Cost of services expenses as a percentage of revenue increased from 57% during 2007 to 59% during 2008 related to the restructuring expense discussed above (\$62.8 million of the \$82.9 million) as well as a higher percentage of business associated with international C2C transactions, which typically comes with higher commissions versus United States commissions. In addition, electronic payments growth (has interchange and other components of discount rate for card payments) contributed to a higher cost of services during the year 2008.

SG&A increased during 2008 related to higher employee compensation expenses and restructuring expenses discussed above (\$20.1 million of the \$82.9 million). Marketing expense, which is included within SG&A, accounted for 5% of revenue, and was down from 6% and 6.5% during 2007 and 2006, respectively. Marketing expenses for WU includes advertising, loyalty programs, and the cost of marketing personnel.

### Other 2008 - 2009 Data Points:

WU had roughly \$1.6 billion of foreign earnings at the end of 2008 for which it has not provisioned for U.S. taxes since it expects to reinvest these earnings outside the U.S.

Employees: At the end of January, 2009, WU had 5,900 employees.

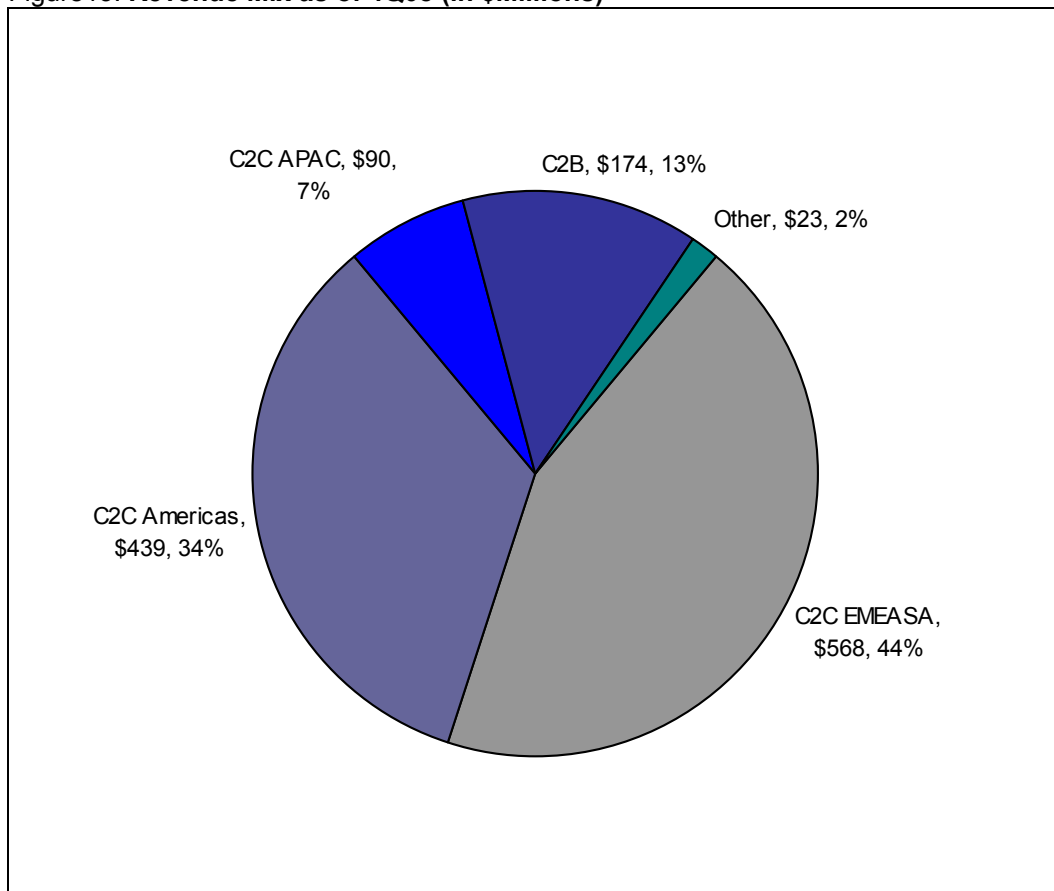
**FEXCO:** In February 2009, WU acquired European based FEXCO, which is one of its largest agents. Prior to the acquisition, WU owned 25% of FEXCO. The company paid 123.1 million Euros for the overall money transfer business. This brings roughly 10,000 locations (direct to consumer agent locations) in seven European countries, including the UK, Spain, Ireland, Sweden, Norway, Denmark, and Finland into WU's direct management. Roughly 300 employees will be joining WU under this deal.

**4Q08 Review and Estimates for 2009:**

**Revenue Growth:**

During 4Q08, revenue decreased 1% year over year to \$1.3 billion, and was flat year over year on a Euro adjusted basis. For the full year 2008, revenue increased 8% year over year to \$5,282 million. FX adjustments (primarily the Euro to US Dollar) contributed to \$82 million of 2008 revenue (and operating profit was boosted by \$19 million). Total transaction fee revenue (both C2C and C2B) declined 2% year over year due to slowing transaction growth and reduced amount of money transferred per transaction. During 4Q08, provincial per transaction was lower by 4% year over year.

Figure13: Revenue Mix as of 4Q08 (in \$Millions)

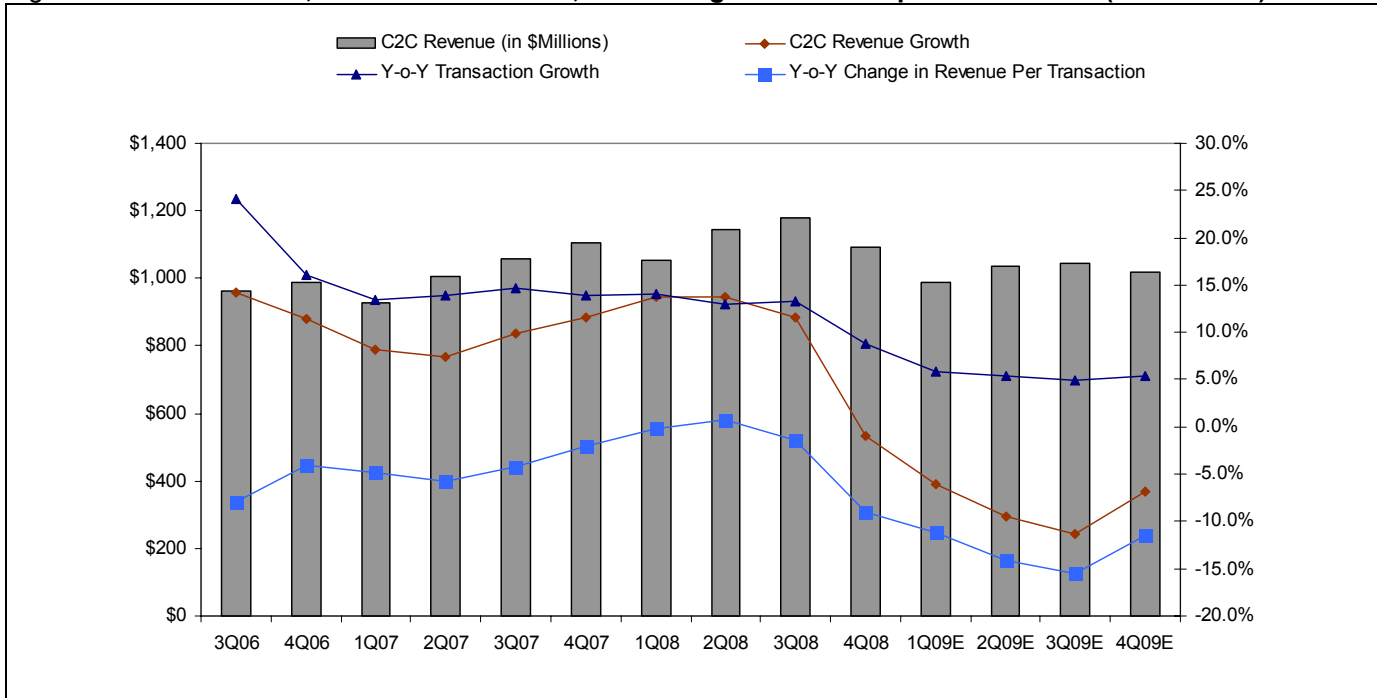


Source: Company documents, Barclays Capital

**Consumer to Consumer Segment**

**Total C2C:** Transaction growth was 9% year over year during 4Q08. However, transaction fees per C2C transaction decreased 9% year over year and 7% linked-quarter to \$17.70, and foreign exchange fees decreased 8% year-over-year and 10% sequentially to \$4.37. These changes led to a 1% decrease in revenue year-over-year (flat on a Euro adjusted basis). The difference between revenue and transaction growth rates for C2C widened during the quarter (particularly for international transactions originated outside the US) due to the following four factors: 1) currency translation related to 4 percentage points of revenue growth, 2) geographic mix given that transactions generally have a higher revenue yield when originated domestically, 3) product mix between intra and cross-border transactions, as intra-country transfers are typically lower revenue yielding than cross-border, and 4) pricing, which reduced revenue growth by 100 basis points.

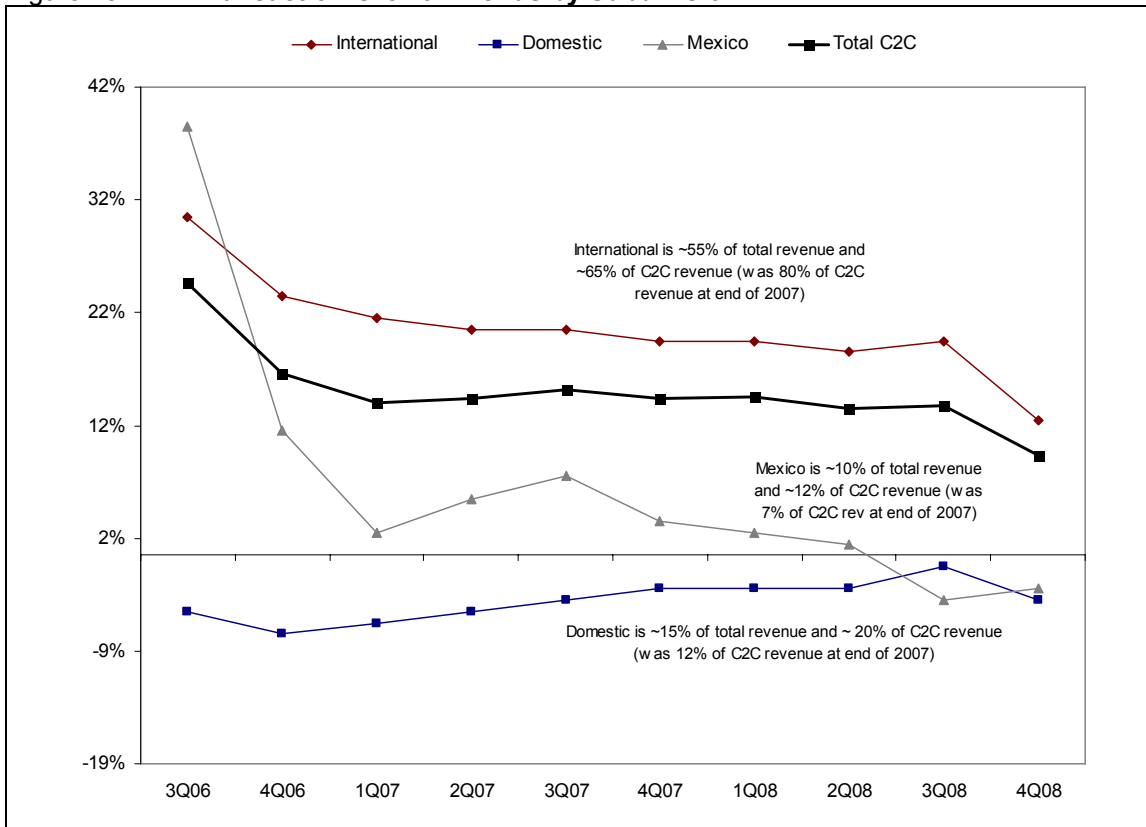
Figure 14: C2C Revenue, Transaction Growth, and Change in Revenue per Transaction (in \$Millions)



Source: Company documents, Barclays Capital

**International C2C:** Within C2C, International revenue increased 1% compared to a 12% increase in transactions. The subset of international that is originated outside the U.S. showed revenue growth and transaction growth of 2% and 18%, respectively. This subset contributed to 55% of full year revenue.

Figure 15: C2C Transaction Growth Trends by Subdivision



Source: Company documents, Barclays Capital

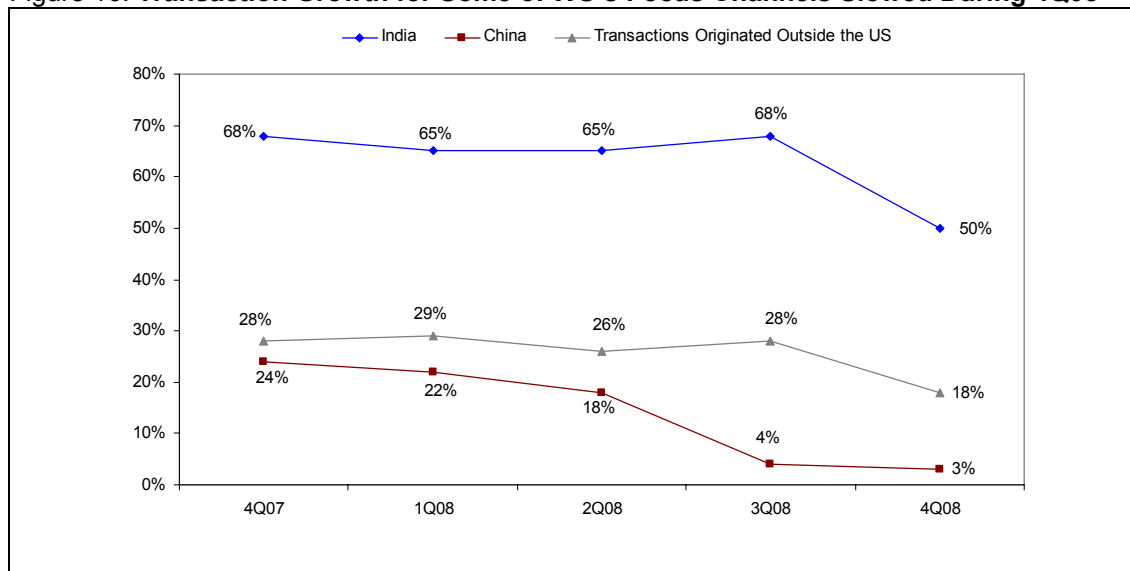


EMEASA C2C (44% of WU revenue) showed revenue growth of 1% and 16% transaction growth. India's performance contributed to the regions results with 29% revenue growth and 50% transaction growth. This was more than offset by a slower Europe.

Americas C2C (33% of WU revenue) showed a revenue decline of 5% and flat transactions. Domestic money transfer revenue declined 5% during the quarter and transactions declined 4% year over year. Mexico showed revenue and transaction declines of 10% and 3%, respectively. The fast move in the Peso versus the U.S. dollar led to WU purchasing acquire Pesos quickly at unfavorable rates, which pressure revenue growth by 5 percentage points.

APAC C2C (7% of WU revenue) had revenue growth of 7% on transaction growth of 30%. Operating margin improved from 21% to 25% during the year. China revenue declined 8% on transaction growth of 3% due to a slow-down in entrepreneurs that typically make high revenue transactions. WU's Philippines business also remained strong, and is outpacing the 15% growth that the Bank of the Philippines reported.

Figure 16: Transaction Growth for Some of WU's Focus Channels Slowed During 4Q08

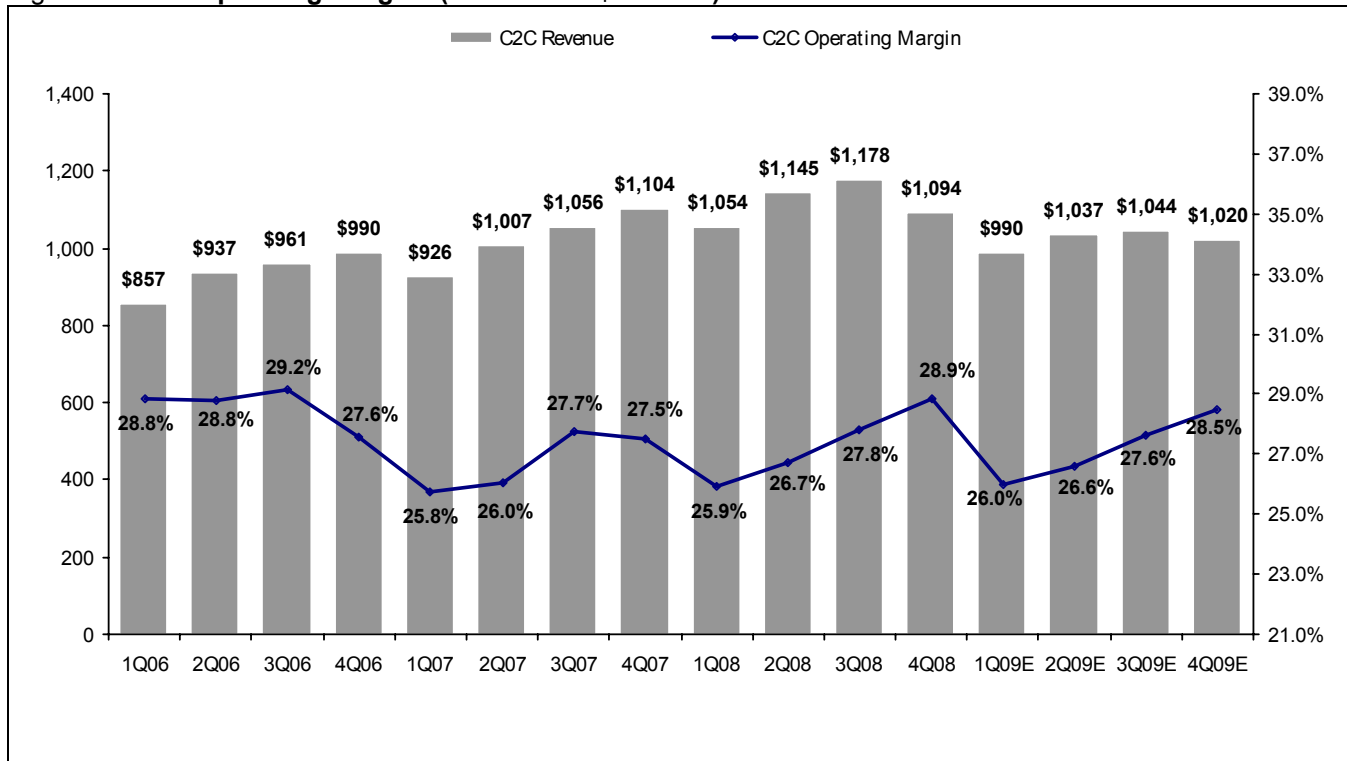


Source: Company documents, Barclays Capital

**While Revenue Growth Has Decelerated, C2C Operating Margins Relatively Stable**

Throughout 2008, WU incurred roughly \$83 million of restructuring charges associated with closing certain US operations and centers as well as reducing staff by 650. Management expects \$40 million in annualized savings related to these steps. The company also reduced marketing spend, which equated to 5% of revenue during 2008. For reference, marketing expense, which is included within SG&A, equated to 6% and 6.5% of revenue during 2007 and 2006, respectively.

Figure 17: C2C Operating Margins (Revenue in \$Millions)

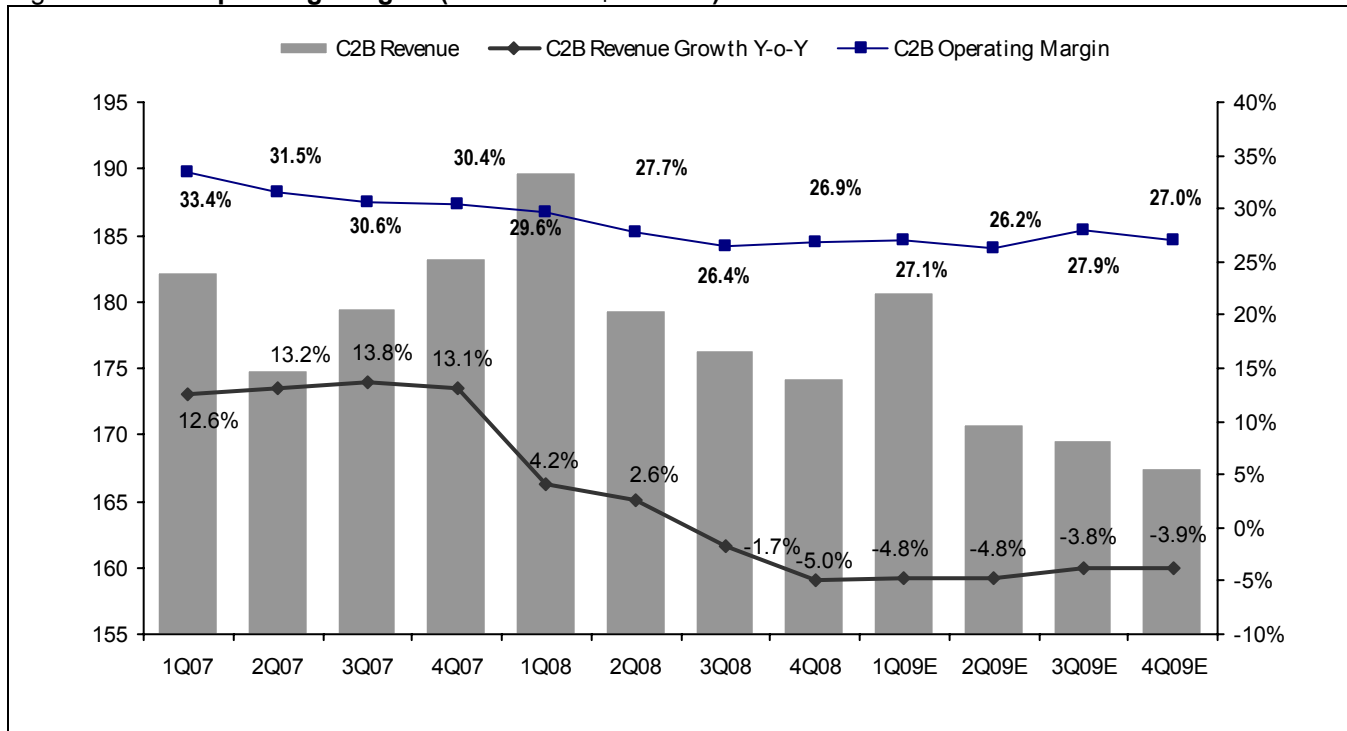


Source: Company documents, Barclays Capital

**Consumer to Business Segment**

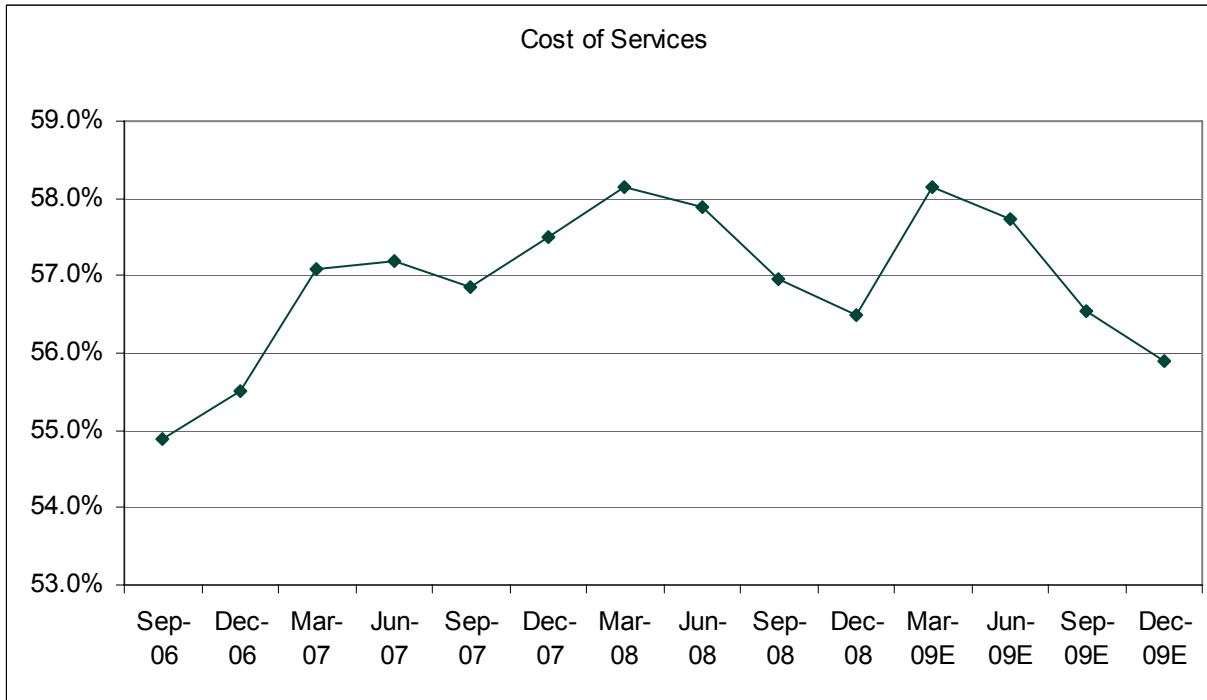
The C2B segment, which represents 13% of WU revenue, generated 4Q08 revenue of \$174 million, down 5% year over year, and operating income down 16% with a margin of 26.9% versus 30.4% during 4Q07. Reduced bill payment transactions in the US and faster growth in lower margin South America channel contributed to reduced margin.

Figure 18: C2B Operating Margins (Revenue in \$Millions)



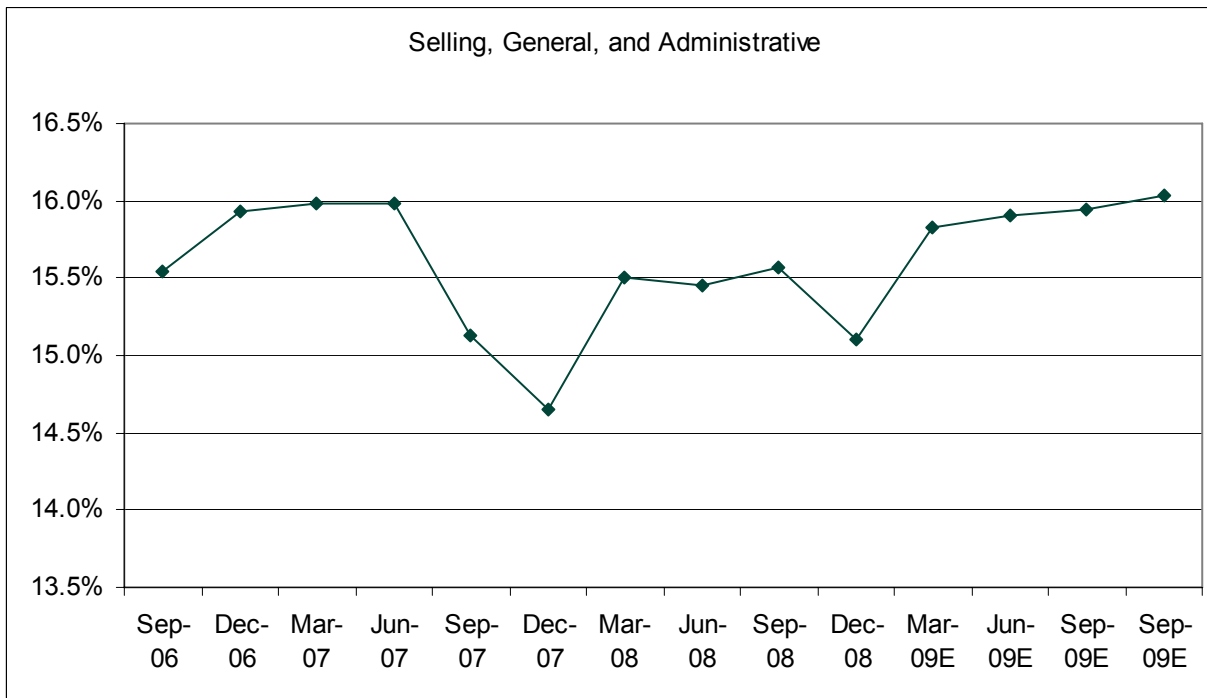
Source: Company documents, Barclays Capital

Figure 19: **Cost of Services Expense as a Percentage of Revenue**



Source: Company documents, Barclays Capital

Figure 20: **Selling, General, and Administrative Expense as a Percentage of Revenue**



Source: Company documents, Barclays Capital

**Restructuring Expenses:**

The company had \$33 million of restructuring expenses during the quarter, including \$20 million of Cost of Services and \$13 million in SG&A.

Restructuring expenses were \$33 million during the quarter. Including these expenses, operating income was down 8% year over year to \$334 million. Excluding these restructuring expenses, operating income was up 1%. 4Q08 operating margin was 26% (or 28% excluding restructuring charges), compared to 28% during 4Q07. The euro translation reduced revenue by \$13 million and contributed to \$6 million of operating income. Tax rate was 22.8% excluding restructuring charges.

**Cash and Liquidity:**

WU had \$1.3 billion in cash at the end of 2008. Outstanding debt at the end of 2008 was \$3.1 billion, of which \$500 million matures in December 2009, \$1 billion is due in 2011, and \$1 billion is due in 2016, and \$500 million is due in 2036. The company's CP program is backed by a \$1.5 billion revolving facility that expires in 2012. \$100 million of the above referenced outstanding debt was CP. The company expects to generate more than \$1.1 billion of cash-flow during 2009 and repurchase roughly \$400 million of stock. CapEx during 2008 was \$154 million.

**Figure 20: Share Repurchase History**

	WU Share Repurchases					
	Quarterly/Annual			Total to Date		
	# shares	total \$\$	Avg. Price	# shares	total \$\$	Avg. Price
4Q'06	0.9	\$20.5	\$22.79	0.9	\$20.5	22.79
<b>2006</b>	<b>0.9</b>	<b>\$20.5</b>	<b>\$22.79</b>	<b>0.9</b>	<b>\$20.5</b>	<b>\$22.79</b>
1Q'07	5.2	\$112.6	\$21.70	6.1	\$133.1	\$21.86
2Q'07	7.8	\$167.9	\$21.61	13.9	\$301.1	\$21.72
3Q'07	15.5	\$304.6	\$19.59	29.4	\$605.6	\$20.59
4Q'07	6.4	\$146.0	\$22.73	35.8	\$751.6	\$20.99
<b>2007</b>	<b>34.9</b>	<b>\$731.1</b>	<b>\$20.94</b>	<b>35.8</b>	<b>\$751.6</b>	<b>\$20.99</b>
1Q'08	14.0	\$297.0	\$21.41	49.8	\$1,048.6	\$21.05
2Q'08	16.4	\$385.3	\$22.45	66.2	\$1,433.9	\$21.66
3Q'08	20.0	\$522.5	\$26.13	86.2	\$1,956.4	\$22.69
4Q'08	7.7	\$109.0	\$14.07	94.0	\$2,065.4	\$21.98
<b>2008</b>	<b>58.1</b>	<b>\$1,313.8</b>	<b>\$22.59</b>	<b>94.0</b>	<b>\$2,065.4</b>	<b>\$21.98</b>

Source: Company documents, Barclays Capital estimates

**Risks**

*Financial market* difficulties may impact Western Union. Financial institution billers are seeing reduced volume of payments and numerous agents have reduced services. In addition, WU utilizes the CP market for daily liquidity, which has slowed, and also uses a revolving bank-line as a back-stop for its CP funding, which could also be impacted by the market.

*Immigration trend variability* particularly related to economic conditions and unemployment as well as immigration law changes, may lead to reduced transaction volume.

*Currency conversion:* While WU attempts to reduce its FX exposure through derivatives, there is still some sensitivity to currency exchange.

## Management

**Christina A. Gold, President, Chief Executive Officer and Director:** Prior to joining First Data Corporation, the former parent company of Western Union in May 2002, Gold was president and chief executive officer of telecommunications and e-commerce services provider Excel Communications. She also had a distinguished career with Avon where she served as president, Avon North America.

**Liz Alicea-Velez, EVP, Latin America/Caribbean:** In her role, Alicea-Velez has executive management oversight for all Western Union sales, service, marketing, systems/operations, financial and support functions throughout Mexico, Central and South America and the Caribbean - the largest remittance receiving region in the world.

**Guy A. Battista, EVP and President of Western Union Financial Services, Inc:** Battista is responsible for ensuring both consumers and Agents experience flawless service in support of the money transfer business. His focus includes customer service, along with risk and settlement operations.

**Royal Cole, EVP and General Manager, Payment Services:** In his role, Cole has overall profit and loss responsibility for the company's consumer and commercial bill payment services and retail money orders.

**Scott T. Scheirman, EVP and CFO:** Scheirman is responsible for the leadership and direction of the Finance organization of The Western Union Company including the Investor Relations, Treasury, Tax and Internal Audit functions. Prior to his current appointment, Scheirman held a variety of positions with First Data Corporation, Western Union's former parent company, most recently serving as the senior vice president and chief financial officer for Western Union from 1999 to 2006.

**Figure 21: WU Financial Model (in \$Millions)**

	<u>Mar-08</u>	<u>Jun-08</u>	<u>Sep-08</u>	<u>Dec-08</u>	<u>Mar-09E</u>	<u>Jun-09E</u>	<u>Sep-09E</u>	<u>Dec-09E</u>	<u>F2008</u>	<u>F2009E</u>	<u>F2010E</u>
<b>Revenues:</b>											
Transaction Fees	834.6	905.0	925.2	868.1	790.6	834.1	834.3	817.7	3,532.9	3,276.8	3,382.8
Foreign Exchange	209.3	231.5	237.8	214.5	189.5	193.9	194.0	190.1	893.1	767.5	786.5
<u>Other</u>	<u>9.9</u>	<u>8.9</u>	<u>15.1</u>	<u>11.7</u>	<u>10.1</u>	<u>9.1</u>	<u>15.5</u>	<u>12.0</u>	<u>45.6</u>	<u>46.8</u>	<u>48.2</u>
<b>Consumer-to-Consumer</b>	<b>1,053.8</b>	<b>1,145.4</b>	<b>1,178.1</b>	<b>1,094.3</b>	<b>990.2</b>	<b>1,037.2</b>	<b>1,043.8</b>	<b>1,019.9</b>	<b>4,471.6</b>	<b>4,091.1</b>	<b>4,217.5</b>
Transaction Fees	176.6	166.4	163.1	162.0	167.8	158.1	156.6	155.5	668.1	637.9	638.5
<u>Other</u>	<u>13.2</u>	<u>13.0</u>	<u>13.3</u>	<u>12.2</u>	<u>12.9</u>	<u>12.7</u>	<u>13.0</u>	<u>12.0</u>	<u>51.7</u>	<u>50.7</u>	<u>50.7</u>
<b>Consumer-to-Business</b>	<b>189.8</b>	<b>179.4</b>	<b>176.4</b>	<b>174.2</b>	<b>180.7</b>	<b>170.8</b>	<b>169.6</b>	<b>167.5</b>	<b>719.8</b>	<b>688.6</b>	<b>689.1</b>
<u>Other Revenue</u>	<u>22.3</u>	<u>22.3</u>	<u>22.9</u>	<u>23.1</u>	<u>23.1</u>	<u>23.0</u>	<u>23.6</u>	<u>23.9</u>	<u>90.6</u>	<u>93.5</u>	<u>96.6</u>
<b>Total Revenue</b>	<b>1,265.9</b>	<b>1,347.1</b>	<b>1,377.4</b>	<b>1,291.6</b>	<b>1,194.0</b>	<b>1,231.0</b>	<b>1,237.0</b>	<b>1,211.2</b>	<b>5,282.0</b>	<b>4,873.2</b>	<b>5,003.2</b>
<b>Operating Expenses</b>											
Cost of Services	736.2	779.9	784.5	729.6	694.4	710.8	699.6	676.9	3,030.2	2,781.8	2,837.5
<b>Gross Profit</b>	<b>529.7</b>	<b>567.2</b>	<b>592.9</b>	<b>562.0</b>	<b>499.6</b>	<b>520.1</b>	<b>537.4</b>	<b>534.3</b>	<b>2,251.8</b>	<b>2,091.5</b>	<b>2,165.6</b>
Selling, General, and Administrative	196.2	208.1	214.5	195.1	188.9	195.8	197.4	194.3	813.9	776.4	793.3
Total Operating Expenses	932.4	988.0	999.0	924.7	883.3	906.6	897.0	871.2	3,844.1	3,558.1	3,630.8
<b>Operating Income</b>	<b>333.5</b>	<b>359.1</b>	<b>378.4</b>	<b>366.9</b>	<b>310.7</b>	<b>324.4</b>	<b>340.0</b>	<b>340.0</b>	<b>1,437.9</b>	<b>1,315.1</b>	<b>1,372.4</b>
<b>Other Income Statement Drivers:</b>											
Interest Income	17.7	12.7	8.7	6.1	6.2	6.3	5.3	5.4	45.2	23.1	21.3
Interest (Expense)	-45.0	-43.3	-40.4	-42.5	-43.6	-43.5	-41.6	-42.0	-171.2	-170.7	-171.2
Derivative Gains/(Losses)	6.8	-2.4	-14.4	3.1	-1.7	-3.9	-4.2	-1.7	-6.9	-11.5	-11.7
Foreign Exchange	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Income	3.7	4.8	3.9	4.2	3.9	4.0	4.0	3.9	16.6	15.8	16.3
<b>Pre-Tax Income</b>	<b>316.7</b>	<b>330.9</b>	<b>336.2</b>	<b>337.8</b>	<b>275.4</b>	<b>287.3</b>	<b>303.5</b>	<b>305.6</b>	<b>1,321.6</b>	<b>1,171.8</b>	<b>1,227.0</b>
Income Taxes	94.5	86.7	93.1	76.9	71.6	74.7	78.9	79.5	351.2	304.7	319.0
<i>Tax Rate</i>	29.8%	26.2%	27.7%	22.8%	26.0%	26.0%	26.0%	26.0%	26.6%	26.0%	26.0%
<b>Net Income</b>	<b>222.2</b>	<b>244.2</b>	<b>243.1</b>	<b>260.9</b>	<b>203.8</b>	<b>212.6</b>	<b>224.6</b>	<b>226.2</b>	<b>970.4</b>	<b>867.2</b>	<b>908.0</b>
<b>Earnings per Share, Diluted</b>	<b>\$0.29</b>	<b>\$0.33</b>	<b>\$0.33</b>	<b>\$0.37</b>	<b>\$0.29</b>	<b>\$0.30</b>	<b>\$0.32</b>	<b>\$0.33</b>	<b>\$1.31</b>	<b>\$1.24</b>	<b>\$1.36</b>
Yr./Yr. Growth	19.0%	24.4%	9.2%	14.4%	(2.1%)	(7.4%)	(1.7%)	(9.7%)	16.3%	(5.3%)	9.1%
Avg. Shares Outstanding, Diluted	756.8	747.5	737.2	713.8	709.2	702.7	693.0	685.2	738.8	697.5	669.6
Yr./Yr. Growth	(3.4%)	(4.0%)	(3.9%)	(6.3%)	(6.3%)	(6.0%)	(6.0%)	(4.0%)	(4.4%)	(5.6%)	(4.0%)
Dividend per Share	-	-	-	\$0.04	-	-	-	\$0.04	\$0.04	\$0.04	\$0.05
Dividend Payout Ratio (as % of EPS)	-	-	-	3.0%	-	-	-	3.5%	3.0%	3.5%	3.5%

Source: Company documents, Barclays Capital estimates

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**Western Union Co. (WU)**

**US\$ 13.82 (03-Apr-2009)**

**1-Overweight / 2-Neutral**

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Company Name	Ticker	Price	Price Date	Stock / Sector Rating
Western Union Co.	WU	US\$ 13.82	03-Apr-2009	1-Overweight / 2-Neutral

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