

## MoneyGram International, Inc.

Financial Technology October 2, 2009

Company Description: MoneyGram is a global payment services company with an emphasis on money transfer. Through its predecessors, the money transfer business has been in operation for 70 years. In addition, the company provides bill payment services, money orders and official checks. MGI is headquartered in Minneapolis, Minnesota.

### Banco De Mexico data for August suggests the Mexican corridor remains weak (MGI - \$2.93) Strong Buy

#### Key Points

- Banco De Mexico released its worker remittance data for the month of August. Electronic transfers were 5.61 million, down 5.4% Y/Y. However, we point out that this is the 5th consecutive monthly reduction in Y/Y decline suggesting that at a minimum, things are getting "less worse". Please see the charts on the following page for an illustration.
- The dollar amount transferred into Mexico was \$1.731 Billion in August, down 14.1% Y/Y. This is the 5th consecutive monthly improvement on a Y/Y basis; however, the trend does remain negative.
- The average amount transferred continued to be under pressure at \$308.41 in August, down 9% Y/Y, similar to the past few months.
- While this data is not perfectly correlated to any of the money transfer operators, it does provide us with a general idea of trends in the corridor.
- We view this data as a slight negative to MoneyGram (MGI) as approximately 7-10% of its revenue is generated in this corridor. No change to our estimates at this time

#### Investment Recommendation

Our target price of \$3 is based on an EV/EBITDA multiple of 6.5x applied to our 2010 estimate. Clearly this is a significant multiple discount to the peer group due to recent management changes, recent missteps, and high leverage. Ultimately, the valuation of this company will likely be based on some multiple of EBITDA. If the Company is successful in driving top line growth north of 10% and improving margins, we believe the enterprise valuation will likely be significantly higher than what is in our model today. In addition, we continue to believe MGI is an attractive acquisition target. To the extent margin improvement and revenue growth can be demonstrated, a higher valuation could occur sooner rather than later.

#### Company Overview

MoneyGram is a global payment services company with an emphasis on money transfer. Through its predecessors, the money transfer business has been in operation for 70 years. In addition, the company provides bill payment services, money orders and official checks. Headquartered in Minneapolis, Minnesota, MGI has recently been through several significant changes including a restructuring of its official check business and investment strategy as well as the introduction of a new management team. The company is currently led by Tony Ryan, President and CEO, and Pam Patsley, executive chairman.

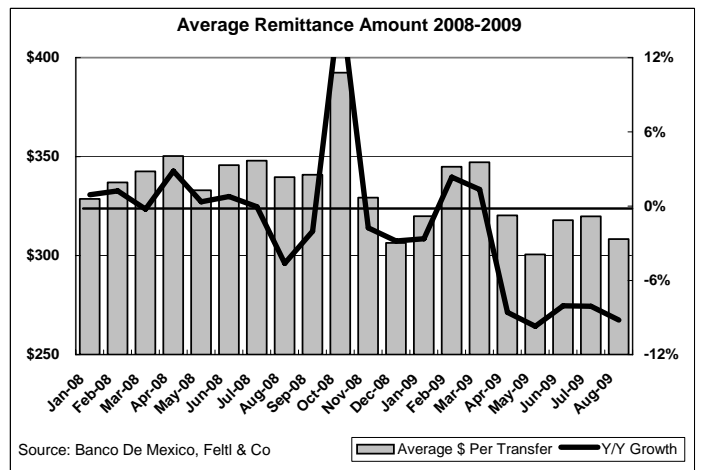
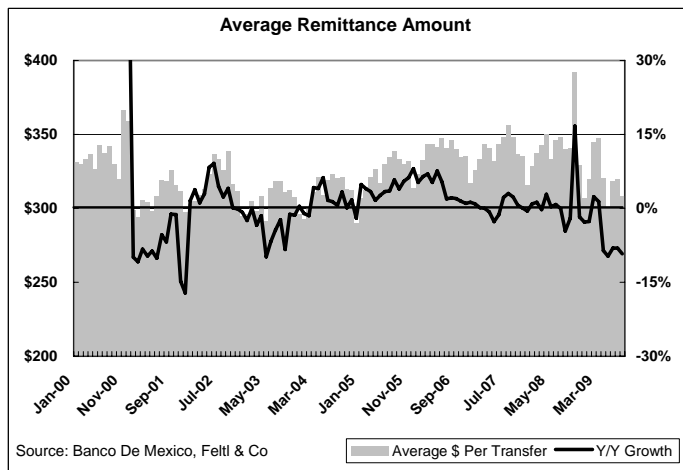
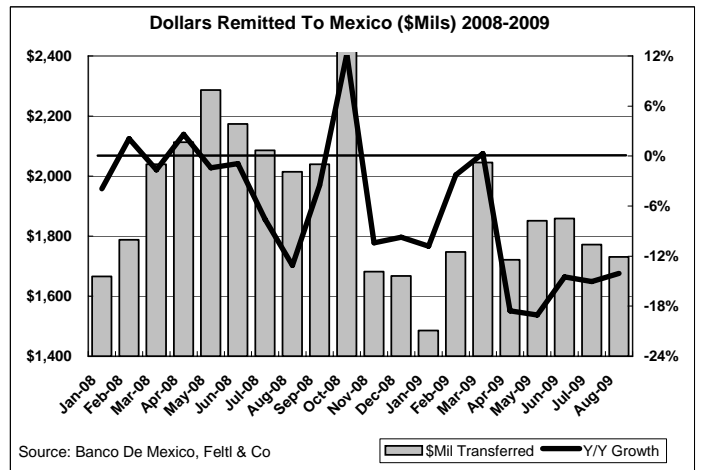
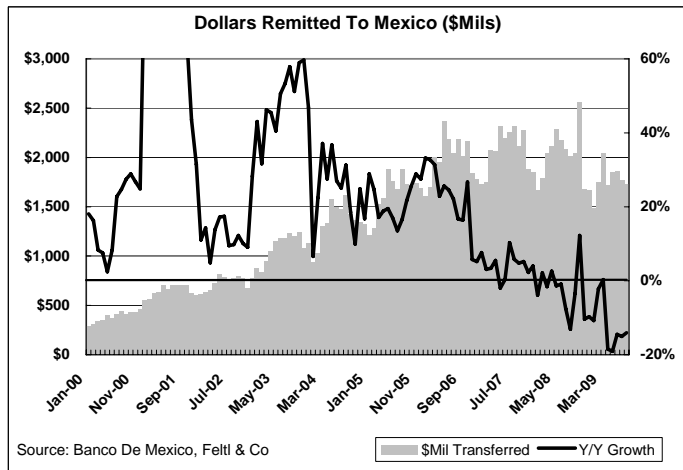
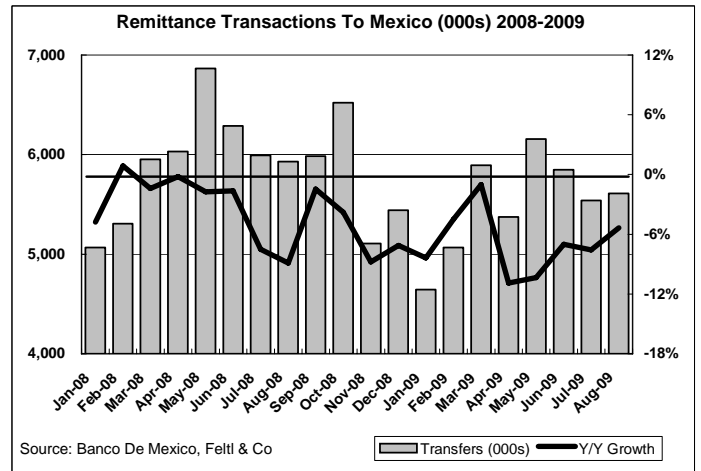
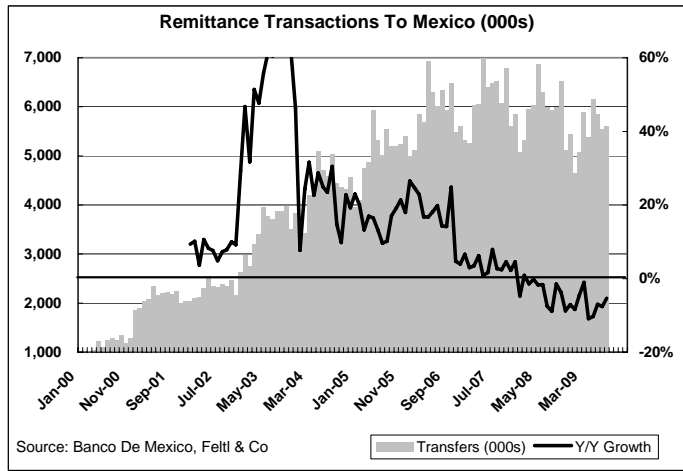
#### Financial Summary

Rev(mil)	2009E	2010E	2011E
Mar	\$279.9A	\$293.1E	
Jun	\$291.2A	\$307.7E	
Sep	\$290.8E	\$320.1E	
Dec	\$284.2E	\$312.7E	
FY	\$1,146E	\$1,234E	\$1,338E
P/Sales	N/A	N/A	N/A

EPS	2009E	2010E	2011E
Mar	\$0.14A	\$0.17E	
Jun	(\$0.04)A	\$0.18E	
Sep	\$0.21E	\$0.23E	
Dec	\$0.20E	\$0.22E	
FY	\$0.52E	\$0.80E	\$1.01E
P/E	N/A	N/A	N/A

Price:	\$2.93
52-Week Range:	\$3.43 - \$0.80
Target:	\$3.00
Rating:	STRONG BUY

Shares Outstanding:	82.5 mil
Mkt. Capitalization:	\$241.7 mil
Ave. Volume:	747,775
Instit. Ownership:	80%
BV / Share:	\$0.05
Debt / Tot. Cap.:	99%
Est. LT EPS Growth:	15%



## Analyst Certification

I, **Joshua J. Elving**, certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation related to the specific recommendations expressed in this report.

## Important Disclosures:

The analyst or a member of his/her household **does not** hold a long or short position, options, warrants, rights or futures of this security in their personal account(s).

As of the end of the month preceding the date of publication of this report, Feltl and Company **did not** beneficially own 1% or more of any class of common equity securities of the subject company.

There is **not** any actual material conflict of interest that either the analyst or Feltl and Company is aware of.

The analyst **has not** received any compensation for any investment banking business with this company in the past twelve months and **does not** expect to receive any in the next three months.

Feltl and Company **has not** been engaged for investment banking services with the subject company during the past twelve months and **does not** anticipate receiving compensation for such services in the next three months.

Feltl and Company **has not** served as a broker, either as agent or principal, buying back stock for the subject company's account as part of the company's authorized stock buy-back program in the last twelve months.

**No** director, officer or employee of Feltl and Company serves as a director, officer or advisory board member to the subject company.

**Feltl and Company Rating System:** Feltl and Company utilizes a four tier rating system for potential total returns over the next 12 months.

**Strong Buy:** The stock is expected to have total return potential of at least 30%. Catalysts exist to generate higher valuations, and positions should be initiated at current levels.

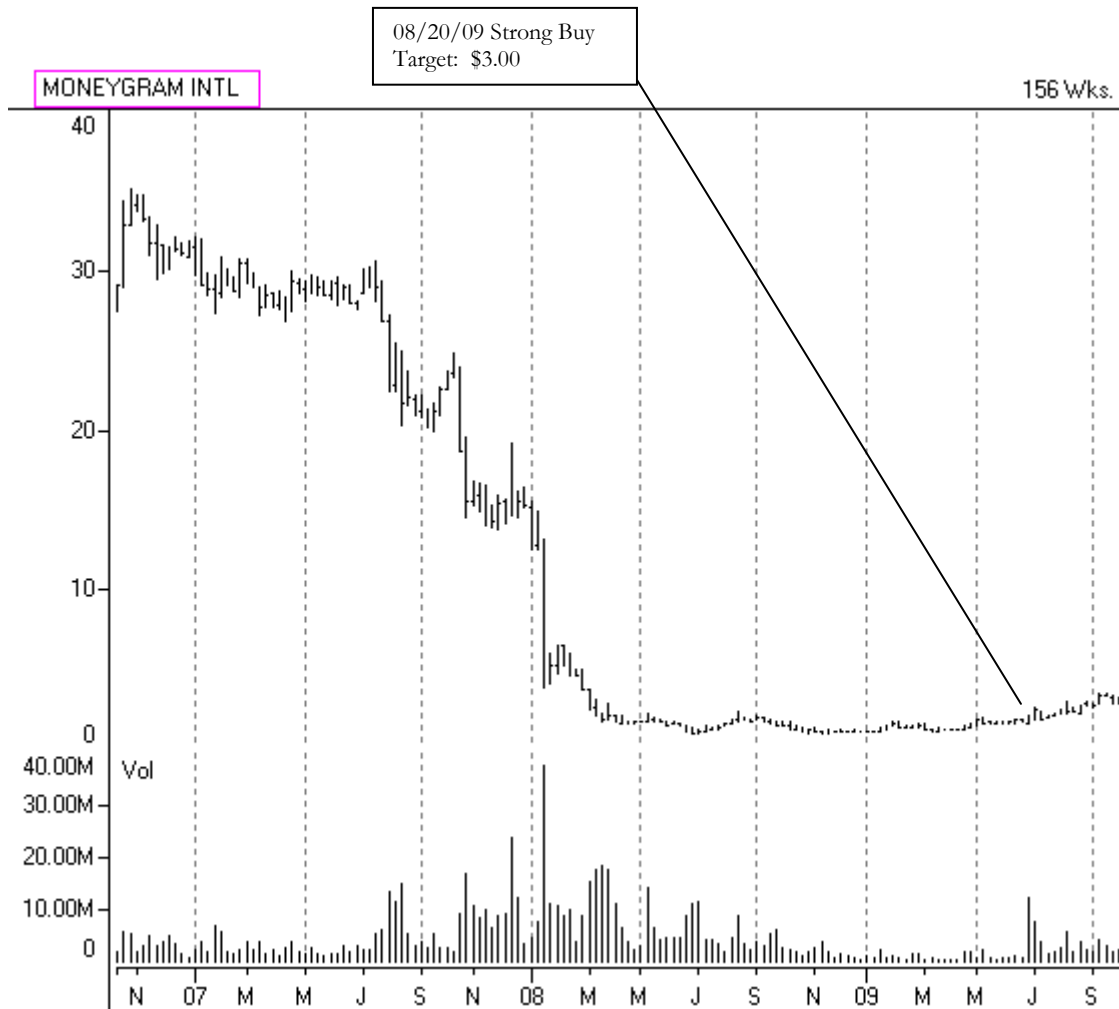
**Buy:** The stock is expected to have total return potential of at least 15%. Near term catalysts may not exist and the common stock needs further time to develop. Investors requiring time to build positions may consider current levels attractive.

**Hold:** The stock is expected to have total return potential of less than 15%. Fundamental events are not present to make it either a Buy or a Sell. The stock is an acceptable longer-term holding.

**Sell:** Expect a negative total return. Current positions may be used as a source of funds.

Ratings Distribution for Feltl and Company					10/2/2009
Rating	Number of Stocks	Percent of Total	----- Investment Banking -----		
			Number of Stocks	Percent of Rating category	
SB/Buy	24	60%	2	8%	
Hold	14	35%	0	0%	
Sell	2	5%	0	0%	
	<u>40</u>	<u>100%</u>	<u>2</u>	<u>5%</u>	

The above represents our ratings distribution on the stocks in the Feltl and Company research universe, together with the number in (and percentage of) each category for which Feltl and Company provided investment-banking services in the previous twelve months.



Date	Nature of Report	Rating	Price Target
08/20/09	Initiation@\$2.27	StrongBuy	\$3.00
10/02/09	Company Note@\$2.93	StrongBuy	\$3.00

Feltl and Company does make a market in the subject security at the date of publication of this report. As a market maker, Feltl and Company could act as principal or agent with respect to the purchase or sale of those securities.

**Valuation and Price Target Methodology:**

Our \$3.00 target is based on a 6.5x EV/EBITDA multiple applied to our 2010 estimates. This multiple is a discount from the peer group of approximately 9.0x currently. We believe the discounted multiple reflects the high level of debt, recent challenges in the portfolio business, and a new management team.

**Risks to Achievement of Estimates and Price Target:**

- MGI has significant debt expenses and dividend obligations that make the Company more vulnerable to a worsening global economy. In addition, the high level of debt may make it more difficult to obtain additional capital fund its operations and growth.
- The Series B stock issued to the investors in conjunction with the recapitalization of the Company could significantly dilute current common shareholders if the company does not grow its operations. The convertible preferred shares are currently "PIK"ing, and we estimate that EBITDA growth will outpace the in-kind dividend until a further recapitalization can be effected. To the extent that MGI does not grow, the preferred shares could continue to accrue indefinitely.
- A deterioration in the global economy or reductions in the level of emigration could negatively affect MGI's operations.
- Technological innovation could replace or pressure the traditional means of money transfer and negatively impact MGI.
- Competition for Agents globally in the biggest corridors is intense. To the extent that MGI is not able to renew agent relationships, its operations could be negatively affected.
- MGI's relationship with Walmart accounts for close to 30% of revenue. A material disruption in Walmart's business or challenges within the relationship could negatively affect MGI.

**Other Disclosures:**

The information contained in this report is based on sources considered to be reliable, but not guaranteed, to be accurate or complete. Any opinions or estimates expressed herein reflect a judgment made as of this date, and are subject to change without notice. This report has been prepared solely for informative purposes and is not a solicitation or an offer to buy or sell any security. The securities described may not be qualified for purchase in all jurisdictions. Because of individual requirements, advice regarding securities mentioned in this report should not be construed as suitable for all accounts. This report does not take into account the investment objectives, financial situation and needs of any particular client of Feltl and Company. Some securities mentioned herein relate to small speculative companies that may not be suitable for some accounts. Feltl and Company suggests that prior to acting on any of the recommendations herein, the recipient should consider whether such a recommendation is appropriate given their investment objectives and current financial circumstances. Past performance does not guarantee future results. Additional information is available upon request.

**RESEARCH DEPARTMENT**

Brent R. Rystrom  
Director of Equity Research  
612-492-8810

Ernest W. Andberg, CFA  
(612) 492-8836

Jay M. Meier  
(612) 492-8847

Mark E. Smith  
(612) 492-8806

Joshua J. Elving  
(612) 492-8872

Shawn P. Bitzan  
(612) 492-8816

**INSTITUTIONAL SALES: (866) 338-3522**

Thomas Pierce  
Senior Vice President – Institutional Sales  
(612) 492-8817

Mark Hagen  
(612) 492-8846

Ryan Quade  
(612) 492-8807

Brandt Wendland  
(612) 492-8855

John Stratton  
(612) 492-8826

**TRADING: (866) 777-9862**

William W. Koop  
Director of Equity Trading  
(612) 492-8830

Thomas Walters  
(612) 492-8829

Elliott Randolph  
Institutional Sales Trading  
(612) 492-8867

Cory Carlson  
Institutional Sales Trading  
(612) 492-8858

Luke J. Weimerskirch  
Institutional Sales Trading  
(612)492-8832