

11/16/2018

Fleetcor (FLT)

Michael Grasso

Sector: Financial Transactions

Industry: Financials

Company Description: FleetCor Technologies, Inc. provides commercial payment solutions in North America, Latin America, Europe, and Australasia. Its primary corporate payments products include virtual cards, purchasing cards, travel and entertainment cards, payroll cards, and cross-border payment facilitation.

Limit Buy @ \$165

Current Price:	\$198
Target Price:	\$222.61
Market Cap:	17.5B
NOPAT Margin (Yr)	732M
Adj. NI Margin	30.13
ROE	20.2%
ROIC	11.13%
WACC	9.7%
Debt/E.V.	21%
Short Interest Ratio	1.61



Thesis: Fleetcor has strong sources of cash with recurring revenue and high margins. This combined with their bullish acquisition to diversify business and spread their commerce should provide great growth in upcoming years. Under the condition that no legal issues occur in the upcoming months, a limit buy order on Fleetcor could provide a very strong return if they continue to grow at the current rate.

Catalysts:

- Short Term: Settle accusations and restructure penalties and fees system
- Long Term: Continue to acquire and grow revenue/margins; pay off debt

Product Lines & Business:

Fleetcor payment solutions function much like a prepaid or charge card. However, they tend to have a specific category of expenses. The five major categories of expenses are fuel, lodging, tolls, corporate payments and gifts. Besides these major and popular categories, Fleetcor also provides payment solutions for fleet maintenance, employee benefits and long haul transportation services when needed. Both proprietary and third-parties are used to deliver these payment products. Since Fleetcor has products used in 56 plus

countries on top of having well established brands throughout the world, it brings in revenue for not only other companies that Fleetcor owns, but brings in sales along with loyalty to affiliated merchants. For example, for the fuel payments product line, a few proprietary networks of Fleetcor would be Fuelman, Comdata, or Keyfuels networks. A few third party networks are Mastercard, Visa, and major oil and fuel marketer networks. An important fact to mention is that these products are mainly commercially used. The fuel payment products represented 49% of revenue in 2017. It's also important to note that no single partner has contributed for more than 10% of consolidated revenue in order to diversify the source of revenue, since there is not an incredibly high percentage coming from one specific customer. For the lodging payment network, it includes close to 17,000 hotels across the U.S. and Canada. The corporate payments product line has approximately 700,000 merchants that accept the virtual card payments and has been growing at a rate of 12,500 merchants per month. Overall, Fleetcor capitalizes on product specialization with sales and marketing efforts by deploying product dedicated sales forces to target specific customer segments. They market the products directly through multiple sales channels, including field sales, telesales and digital marketing, and indirectly through their partners, which include major oil companies, leasing companies, petroleum marketers, value added resellers and referral partners. Their two reportable segments are North America and International sales.

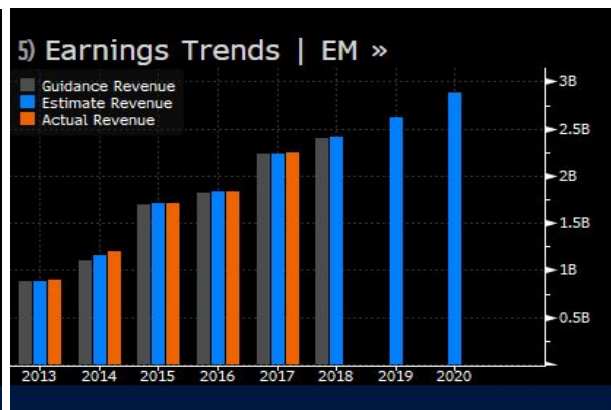
Earnings Performance & Growth:

Two very large factors on the valuation of Fleetcor are revenue and the discount rate. Revenue is very hard to predict on such a cyclical yet volatile business such as Fleetcor since there are so many factors affecting the share price. Since the price of their stock is heavily tied to the trend of the market and the S&P500, the general direction of the market is a great way to

11) Adj Highlights		12) GAAP Highlights		13) Earnings		14) Enterprise Value		15) Multiples		16) Per Share		17) Stock Value	
In Millions of USD		2010 Y	2011 Y	2012 Y	2013 Y	2014 Y	2015 Y	2016 Y	2017 Y	Current/LTM	2018 Y Est	2019 Y Est	2020 Y Est
12 Months Ending		12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	09/30/2018	12/31/2018	12/31/2019	12/31/2020
	Market Capitalization	2,462.9	2,445.2	4,347.7	9,663.2	13,631.1	13,203.3	12,996.8	17,281.0	17,574.6			
	- Cash & Equivalents	114.8	285.2	283.6	338.1	477.1	447.2	475.0	913.6	924.4			
	+ Preferred & Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
	+ Total Debt	469.4	698.8	945.4	1,486.4	3,593.7	2,935.0	3,858.2	4,518.6	4,472.9			
	Enterprise Value	2,817.5	2,858.8	5,009.4	10,811.5	16,747.7	15,691.2	16,380.0	20,886.0	21,123.1			
	Revenue, Adj	433.8	519.6	707.5	895.2	1,199.4	1,702.9	1,831.5	2,249.5	2,400.1	2,412.0	2,626.3	2,881.5
	Growth %, YoY	22.5	19.8	36.2	26.5	34.0	42.0	7.6	22.8	11.4	7.2	8.9	9.7
	Gross Profit, Adj	-	-	-	-	-	-	-	-	-	2,412.0	2,626.3	2,881.5
	Margin %	-	-	-	-	-	-	-	-	-	100.0	100.0	100.0
	EBITDA, Adj	209.1	255.8	373.9	492.8	644.6	937.5	952.2	1,047.1	1,337.0	1,362.3	1,508.2	1,684.0
	Margin %	48.2	49.2	52.8	55.1	53.7	55.1	52.0	46.5	55.7	56.5	57.4	58.4
	Net Income, Adj	113.0	148.0	217.8	288.4	360.9	417.1	471.4	551.7	705.3	969.2	1,097.9	1,254.3
	Margin %	26.0	28.5	30.8	32.2	30.1	24.5	25.7	24.5	29.4	40.2	41.8	43.5
	EPS, Adj	1.42	1.77	2.54	3.41	4.15	4.43	4.95	5.90	7.61	10.47	11.96	13.69
	Growth %, YoY	-51.7	24.4	43.6	34.2	21.9	6.8	11.7	19.1	39.8	77.5	14.3	14.4
	Cash from Operations	139.8	279.6	135.5	375.7	608.3	754.6	705.9	675.7	811.6			
	Capital Expenditures	-11.2	-13.5	-19.1	-20.8	-27.1	-41.9	-59.0	-70.1	-76.9	-76.1	-80.5	-87.6
	Free Cash Flow	128.6	266.2	116.3	354.9	581.3	712.7	646.9	605.6	734.7	967.4	1,092.6	1,238.6

Financials wise, Fleetcor has a very strong source of cash which helps fund their bullish acquisitions. Revenue has seen strong growth since the IPO in 2010. During years with extreme growth like 2014 - 2015, the company saw a skyrocket in their revenue as well as price per share of stock. Year over year growth going into 2014 and 2015 was above 30% for both years. During this period, the stock price went from just over \$100

per share to \$163 per share during the middle of 2015. The largest growth in price per share that Fleetcor has seen so far was from the second quarter of 2017 to the beginning of 2018. The price rose from just under \$140 per share to \$212. This goes to show how strong of a driver revenue is on the valuation of their stock. On average, Fleetcor has doubled targets' EBITDA within two years of ownership, making M&A a major part of the company's growth. As a result, Fleetcor's own revenue has increased 6x and its market cap has grown 800% to approximately \$18 billion. Fleetcor is in the industry of recurring revenue, low capex, high margins, and a market driving by selling. The company saw 11% organic growth this past quarter, which is the highest seen in a couple of years. This being driven forward combined with the aggressive acquisition strategy that the company possesses will drive overall growth. Specifically for product lines of business, the toll segment went up 17% and lodging went up 21%. The fuel portion went up 5% and the and gift line went up 4%.



Since 2013, Fleetcor has met or exceeded earnings estimates for revenue and net income on a yearly basis every year. The company states that comparing revenue and other measures of earnings after taxes is not the most comparable basis due to the different tax rates and risk premiums that Fleetcor has. This statement is directed at comparing earnings, not overall financials. Not to mention, when the company exceeds earnings estimates, the share price almost always rises significantly.

Ownership:

Insider - Based on Last 6 Months				Top Ownership Type (%)			
51) Insider	11/11/18	Curr	Change	52) Ownership Type	11/11/18	Curr	Change
11) % of Shares Held	0.82	1.14	+0.32	21) Investment Advisor	85.82	87.61	+1.79
12) % Chg Insider Positions	+35.71	+35.71	0.00	22) Hedge Fund Manager	7.19	5.36	-1.83
13) # of Insiders	20	20	0.00%	23) Pension Fund	1.58	1.69	+0.11
14) # of Buyers Opn Mkt	0	0		24) Bank	1.38	1.31	-0.07
15) # of Sellers Opn Mkt	0	0		25) Insurance Company	1.24	1.29	+0.05
16) # of Shrs Bought Opn Mkt	0	0		26) Government	1.21	1.23	+0.02
17) # of Shrs Sold Opn Mkt	0	0		27) Individual	0.88	0.9	+0.02
18) Avg Opn Mkt Buy Price	0	0	0.00	28) Sovereign Wealth Fund	0.45	0.41	-0.04
19) Avg Opn Mkt Sell Price	0	0	0.00	29) Brokerage	0.17	0.13	-0.04

Within the past year, the insider positioning in the stock has dramatically increased. Some of this may to combat the drop in price that the company has seen towards the end of this current year as well as having equity in their own company. However, the company is confident of the growth that they will continue to see, so this goes to show that employees are confident in their stock for the upcoming years. It has increased 36%

as a percent change in their position in the company. It is also important to mention that hedge funds owned over 7% of the stock in the beginning of November this year. Matching instead of exceeding all earnings estimates and the estimates for revenue growth not seeing the ridiculously high numbers as previous years would most likely account for this small decrease for the current holdings of hedge funds. It is important to mention that the company has a large market cap of 17.5 billion, so the 5% of hedge fund ownership is still very significant. Also, the short interest ratio of Fleetcor is very low, being close to 1.9%. If companies like these hedge funds and investment advisors saw a great risk in the short term of this company, it is very likely the short interest would see a change in the short term. However, this is not the case.

Competition:

Name (BI Peers)	Mkt Cap (USD)	Rev - 1 Yr Gr:Y	EPS LF	ROIC:Y↓	ROE	Total Debt to EV
Median	17.57B	15.97%	0.55	9.29%	17.97%	0.20
100) FLEETCOR TECHNOLOGI...	17.57B	22.82%	1.78	6.58%	20.17%	0.21
101) MASTERCARD INC - A	205.57B	15.97%	1.83	45.55%	104.59%	0.03
102) WESTERN UNION CO	8.36B	1.87%	0.47	22.34%	--	0.30
103) VISA INC-CLASS A SHA...	282.75B	12.26%	1.40	20.20%	38.67%	0.06
104) EURONET WORLDWIDE INC	5.86B	15.00%	1.89	14.68%	18.63%	0.16
105) FISERV INC	31.99B	3.47%	0.55	13.92%	44.60%	0.14
106) PAYPAL HOLDINGS INC	100.20B	20.77%	0.37	12.29%	17.32%	0.02
107) GREEN DOT CORP-CLAS...	4.47B	23.84%	0.09	9.96%	15.59%	0.02
108) TOTAL SYSTEM SERVIC...	16.23B	18.17%	0.85	9.29%	22.52%	0.20
109) FIRST DATA CORP- CL...	16.64B	4.04%	0.43	7.70%	35.72%	0.48

The first aspect of competition that is important to point out is the debt to enterprise value across the board for competitors. At first glance, the debt may be a turn off for some investors. However, if you look at the competition, many of Fleetcor's competitors have a significant debt to enterprise value. Western Union, Euronet, First Data Corp and Total System Services all have a significant amount of debt in relation to their enterprise value. The median is .2, which is right where Fleetcor sits. A significant portion of the companies that are not holding nearly as much debt compared to their enterprise or market cap are large cap funds, like Mastercard and Visa who have a market cap of over \$200 billion, or Paypal who has a market cap of over \$100 billion. Earnings per share and revenue growth for recent periods show strength compared to competitors with an EPS of 1.78. This is only beaten by the two of the largest market cap funds on the comparison chart above. The median sits much lower at .55. ROIC and ROE show solidity in the fact that these ratios sit with the lower cap funds on the list, but still show competitive strength since they are not lacking far behind with respect to most businesses of similar size.

Acquisitions & Debt:

Fleetcor has a very aggressive acquisition strategy which it has held since the inception of the company in 2000. The company has acquired over 76 businesses accounting for over \$8.2 billion in total. Two very large deals that took place were the purchase of Comdata which is a fuel card provider for \$3.45 billion and

STP/Sem Parar which is an electronic toll payment company for \$1.1 billion dollars. When capturing other businesses, their strategy is the sole reason that they are able to defy the industry with the sheer numbers of acquisitions. The head of the merger and acquisitions team of Fleetcor answered questions which provide crucial information on this topic. The returns in the business are determined more by the asset class being purchased than the specific company being bought. Most importantly, they will never buy a company unless they have a clear plan on how the profits can be doubled within a short amount of time, usually three to four years. Their plan for this aggressive inorganic growth is that Fleetcor wants to get business into the top 20 countries that make up for the majority of global GDP, which would push growth through the roof. They average four to five acquisitions per year, funded by close to one billion in capital which is the annual cash flow. During the earnings call for the third quarter of this year, Ronald Clarke of Fleetcor mentioned a few important points which are crucial in forecasting the future business of the company. He responded to a question about how the revenue mix would be looking for the company over the next few years by explaining that three-quarters of the companies that the company has their eye on to acquire are in the nonfuel category. Therefore, the company will most likely acquire nonfuel businesses. Since the fuel line of business accounted for almost half of their revenue in 2017, this diversification will have a substantial effect. Since the fuel payment line of business is directly impacted by the fuel industry, this will successfully diversify the business against any possible recessions or issues with the fuel industry including issues with fuel prices as well as a loss of customers. As stated in the 10K, "Since 2002, we have completed over 75 acquisitions of companies and commercial account portfolios, including the acquisition of Cambridge Global Payments in August 2017. Acquisitions have been an important part of our growth strategy, and it is our intention to continue to seek opportunities to increase our customer base and diversify our service offering through further strategic acquisitions". As mentioned above when comparing Fleetcor to some of the industry competitors, debt is a common financing method for this industry. At first glance, it can deter investors. However, Fleetcor has strong cash flows and recurring revenue, so the repayment of debt upon maturity should not be a concern. For the amount of acquisitions that Fleetcor has made, the debt would be much higher with a comparable amount of acquisition deals.

In Millions of the reported currency, except ratios and % of Total values.

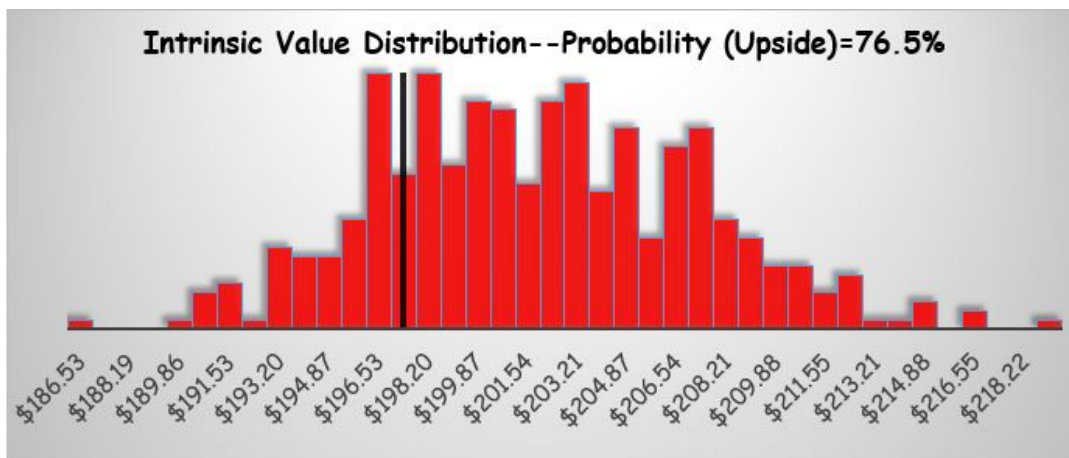
Capital Structure Data View As Reported Details View Key Documents							
For the Fiscal Period Ending		12 months Dec-31-2016		12 months Dec-31-2017		3 months Sep-30-2018	
Currency		USD		USD		USD	
Units		Millions	% of Total	Millions	% of Total	Millions	% of Total
Total Debt	↓	3,858.2	55.6%	4,518.6	55.1%	4,472.9	55.7%
Total Common Equity	↓	3,084.0	44.4%	3,676.5	44.9%	3,562.2	44.3%
Total Capital	↓	6,942.3	100.0%	8,195.1	100.0%	8,035.2	100.0%

Questionable Ethics:

The one questionable aspect of Fleetcor is some of their deceptive predatory pricing on customers. The main customer complaint has to do with unknown fees and double billing. The company has outstanding lawsuits which have been filed over a year and a half ago. The largest of these have been filed in 2017 and reopened in the spring of this past year. Chevron terminated its 10 year contract relationship with Fleetcor. It was stated that allegations against Fleetcor revolved around a pattern of fraudulent billings, misleading marketing and predatory sales tactics. The claim of predatory pricing cannot be easily proven due to the fact that the fine

print in their contracts do mention the sheer amount of fees that customers can be charged. Some possible fees are a service fee for using their card, an administration of account fee, a pay by account fee, debits to accounts fee, client initiated funds transfer fee, a pay by phone fee and an inactive card fee. Late fees are also a consistent issue for customers of fleetcor. Although these fees are stated in the contract for customers, they have consistently accounted for 6% of total revenue of the company over many periods. The industry average for late fees account for around 2% of total revenue of many other companies. Fleetcor most likely limits late fee charges to remain at or below 6% due to the fact that if it exceeds this amount, it will be scrutinized by many lawful organizations looking to investigate this predatory pricing. As stated in the 10K, “Our card programs include a variety of fees and charges associated with transactions, cards, reports, optional services and late payments. Revenues for late fees and finance charges represent 6% of our consolidated revenue for the year ended December 31, 2017”. Also, the company has an issue with management issuing double billings as if management is as organized as this sounds. It is most likely not a coincidence that this occurs, but it would be very hard to prove that is occurs with a malicious intent. It is often said that a “good company” does not mean a stock is a “good stock”. Therefore, under the condition that outstanding lawsuits and further investigation does not make any further progress, this stock would most likely still provide a good return.

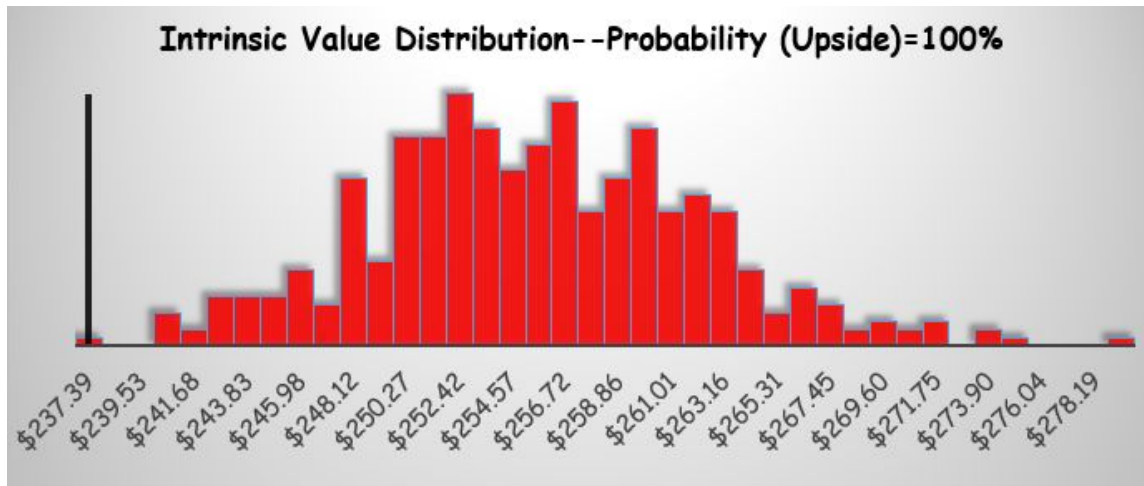
Base Case:



Since the company has now matured to a more sustainable and predictable level of growth since they have been in business for going on 19 years now, growth of revenue was more of a linear progression to where it converges with the continuing period level of 2.5% growth. In 2020, it is predicted that the company will hit 10% revenue growth. From there, the growth decreases until it hits the continuing period. The intrinsic value under this condition was the closest it could get to the current price per share for Fleetcor, which sits around \$198 per share.. The target value for the stock hit just above \$220 per share.

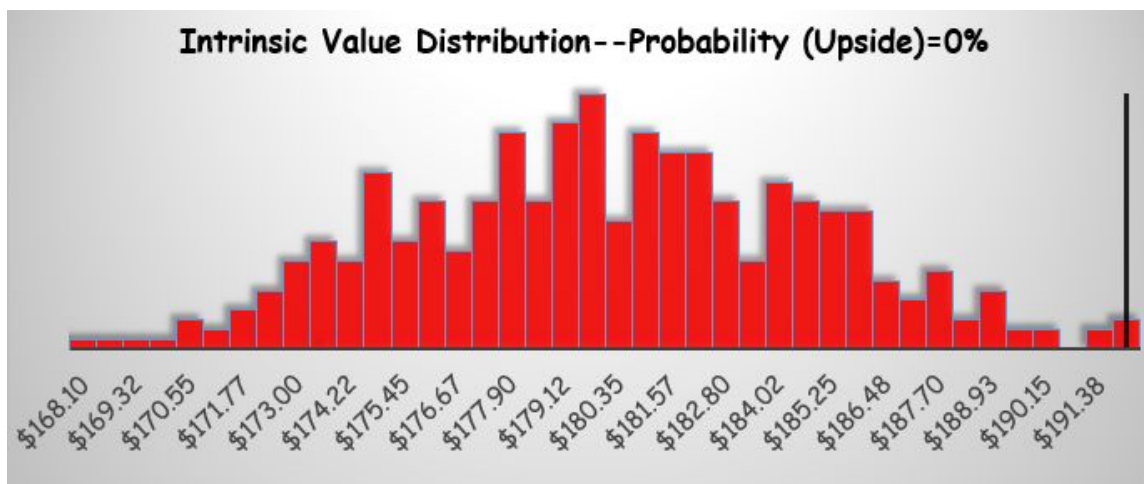
Bullish Case:

In order to value this company with even higher revenue growth, the intrinsic value shot through the roof hitting just about \$255 per share. The target price under this condition was just below \$285 per share. In order to obtain this, revenue growth was increased by 1-2% over the next 14 years until it converges with the continuing period at year 15. This goes to show how volatile the stock price is against a change in revenue.



Bear Case:

In the event of reduced revenue growth, a reduction of 1% of revenue growth had a substantial effect on the target value, pushing it below the current trading price to around \$185 - \$190 per share. Considering that Fleetcor plans on continuing growth at such a strong rate in order to spread their business influence across many more countries, this is on the less plausible side. If a lawsuit occurred, this condition would be more possible. However, since they have an aggressive acquisition strategy combined with margins predicted to increase in the future, there is a fine possibility of avoiding this.



Conclusion:

Fleetcor has very strong cash flows and margins, and predictions continue to grow both of these. Also, the company is comparable in debt to many other competitors in the industry of similar size, which is just the nature of the business. The company has a very strong merger and acquisition strategy, acquiring over 76 companies since their creation in year 2000. The company plans on spreading their business influence across many more countries on top of this. Since their IPO in 2010, their share price has gone up close to 8x up to the current price per share. The downside to the company is their sketchy and deceptive pricing practices on consumers. However, the lawsuits that exist have not made progress since their inception over the past 3 years. Therefore, under the condition that no further progress is made, this company provides a buy in opportunity. Since the company is heavily affected and follows the market, the recent decline in the market has affect Fleetcor similarly. If the stock price reaches \$165 without any legal issues, this provides a great opportunity for a significant return, considering the base case target price was close to \$220 per share.

FleetCor Technologies, Inc. (FLT)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Michael Grasso
11/17/2018

Current Price:
Dividend Yield:

\$199.19
0.0%

Intrinsic Value
Target Price:

\$200.03
\$222.61

Target 1 year Return: 12.32%
Probability of Price Increase: 74%



Description	
FleetCor Technologies, Inc. provides commercial payment solutions in North America, Latin America, Europe, and Australasia.	
General Information	
Sector	Information Technology
Industry	IT Services
Last Guidance	May 8, 2018
Next earnings date	February 1, 2019
Market Assumptions	
Estimated Equity Risk Premium	6.81%
Effective Tax rate	22%

Market Data	
Market Capitalization	\$17,569.24
Daily volume (mil)	0.65
Shares outstanding (mil)	88.65
Diluted shares outstanding (mil)	92.64
% shares held by institutions	97%
% shares held by hedge funds	7%
% shares held by insiders	1.19%
Short interest	1.61%
Days to cover short interest	2.31
52-week high	\$230.24
52-week low	\$176.96
Volatility	26.09%

Quarter ending	
9/30/2017	-0.26%
12/31/2017	0.77%
3/31/2018	-2.87%
6/30/2018	-1.87%
9/30/2018	2.01%
Mean	-0.45%
Standard error	1.0%

Past Earnings Surprise	
Revenue	-0.26%
EBITDA	-1.07%
Operating Margin	-19.0%
Revenue/Capital	10.34%
Operating Margin	2.87%
Revenue/Bank Value	0.73%
Operating Margin	-1.11%

Market and Credit Scores	
Recommendation (STARS) Value	-0
Recommendation (STARS) Description	-0
Quality Ranking Value	-0
Quality Ranking Description	-0
Short Score	-0
Market Signal Probability of Default (Non-Rating)	-0.97%
Credit Model Score (Non-Rating)	-bb

Management	
Clark, Clara Ronald	Chairman, President & CEO
Dey, Eric	COO & Corporate Secretary
Gavrilov, Alexey	Executive Vice President of Global Corporate
Egredor, James	Former President of Continental Europe
Baun, Sean	Head of Investor Relations
	Senior Vice President and General Counsel

Total Compensation Growth	
Chairman, President & CEO	37.99% per annum over 5y
COO & Corporate Secretary	56.58% per annum over 5y
Executive Vice President of Global Corporate	60.83% per annum over 5y
Former President of Continental Europe	60.83% per annum over 5y
Head of Investor Relations	0% per annum over 5y
Senior Vice President and General Counsel	0% per annum over 5y

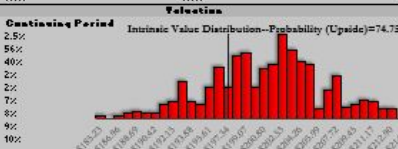
Industry and Segment Information	
Global Payments Inc.	Paycom Software, Inc.
Worldpay, Inc.	Verint Systems, Inc.
WEX Inc.	Paycom, Inc.
Total System Services, Inc.	Firstmon, Inc.
Square, Inc.	MoneyGram International, Inc.

Profitability	
Return on Capital (GAAP)	10.5%
Operating Margin	41%
Revenue/Capital (GAAP)	0.26
ROE (GAAP)	22.7%
Net margin	35.4%
Revenue/Bank Value (GAAP)	0.644275916
Invested Funds	
Operating Assets/Capital	10.9%
Operating Assets/Capital	3.8%
Operating Assets/Capital	31.8%
Goodwill/Capital	53.4%
Capital Structure	
Total Debt/Market Capitalization	0.54
Cost of Debt	2.9%
OSFS Rating (Frcore, Zscore, and default Probability): BB	8.8%
WACC	8.8%

FLT (LTM)	
Return on Capital	10.74%
Operating Margin	43.22%
Revenue/Capital	0.29
ROE	15.4%
Net margin	29.1%
Revenue/Bank Value	0.63
FLT Historical	
Operating Assets/Capital	8.5%
Operating Assets/Capital	-0.1%
Operating Assets/Capital	33.7%
Goodwill/Capital	57.6%
FLT Historical	
Total Debt/Market Capitalization	0.52
Cost of Debt	1.9%
OSFS Rating (Frcore, Zscore, and default Probability): BB	7.6%
WACC	7.6%



Forecast Assumptions	
Revenue Growth CAGR	6%
Average Operating Margin	54%
Average Net Margin	40%
Growth in Capital CAGR	10%
Growth in Claims CAGR	0%
Average Return on Capital	9%
Average Return on Equity	14%
Average Cost of Capital	9%
Average Cost of Equity	10%



Sensitivity Attribution Analysis	
Revenue	38.2%
Operating costs	37.4%
Capital expenditures	3.7%
Discount Rate	42.4%