

FLEETCOR Technologies(FLT)

\$212.33 (As of 03/25/20)

Price Target (6-12 Months): **\$225.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: D

Summary

FLEETCOR's top line continues to grow organically driven by increase in volume and revenues per transaction from certain of its payment programs. Acquisitions contribute to FLEETCOR's top line growth. A strong balance sheet enables FLEETCOR pursue growth initiatives in the form of acquisitions and investments and continue rewarding shareholders. Consistent share repurchases boost investors' confidence and positively impact earnings per share. However, higher interest expense due to increase in LIBOR rate and additional borrowings for share repurchases is likely to weigh on the company's bottom line. Global presence exposes FLEETCOR to risks associated with foreign exchange rate fluctuations. Seasonality is another concern. Partly due to these headwinds, the company's shares have underperformed the industry in the past year.

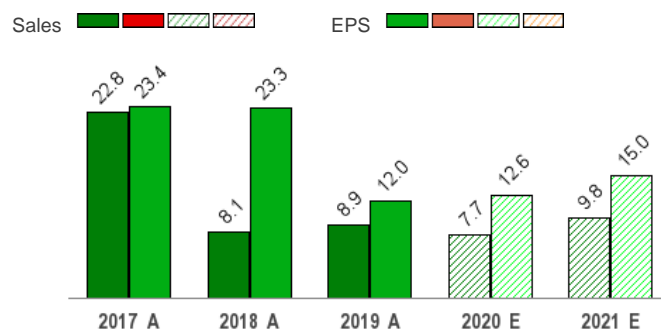
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$329.85 - \$168.51
20 Day Average Volume (sh)	1,768,354
Market Cap	\$18.1 B
YTD Price Change	-26.2%
Beta	1.13
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Financial Transaction Services
Zacks Industry Rank	Bottom 29% (180 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.0%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	-2.3%
Expected Report Date	05/05/2020
Earnings ESP	-3.0%
P/E TTM	18.0
P/E F1	16.0
PEG F1	1.0
P/S TTM	6.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	729 E	753 E	805 E	824 E	3,135 E
2020	673 E	690 E	735 E	751 E	2,854 E
2019	622 A	647 A	681 A	699 A	2,649 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.35 E	\$3.68 E	\$3.97 E	\$4.06 E	\$15.26 E
2020	\$2.95 E	\$3.20 E	\$3.48 E	\$3.55 E	\$13.27 E
2019	\$2.67 A	\$2.85 A	\$3.10 A	\$3.17 A	\$11.79 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/25/2020. The reports text is as of 03/26/2020.

Overview

Peachtree Corners, GA based FLEETCOR Technologies, Inc. is a global commercial payments solution provider. Through its portfolio of brands, FLEETCOR helps companies automate, secure, digitize and control payments to, or on behalf of, their employees and suppliers. FLEETCOR serves businesses, partners and merchants in North America, Latin America, Europe, and Asia Pacific.

FLEETCOR's predecessor company was organized in the United States in 1986, and FLEETCOR had its initial public offering in 2010.

FLEETCOR uses both proprietary and third-party networks to deliver its payment solutions. The company owns and operates proprietary networks with well-established brands throughout the world, bringing incremental sales and loyalty to affiliated merchants. Third-party networks are used to broaden payment product acceptance and use. In 2018, the company processed approximately 2.9 billion transactions within these networks, of which approximately 1.4 billion were related to its gift product line.

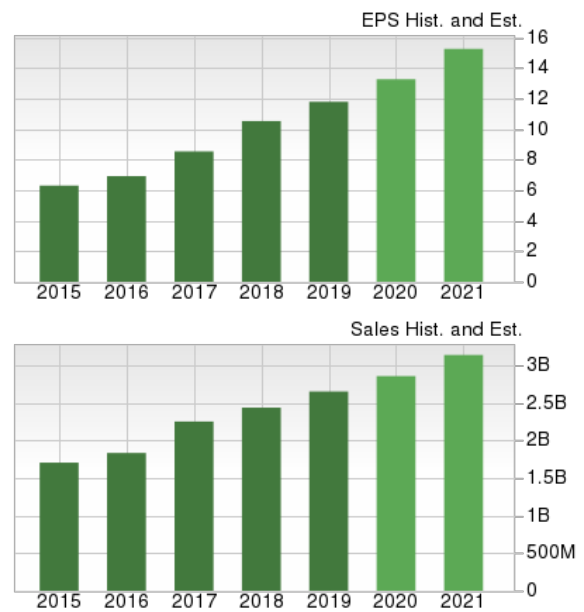
The company capitalizes on its products' specialization with sales and marketing efforts by deploying product-dedicated sales forces to target specific customer segments. The company promotes its products directly through multiple sales channels which includes field sales, telesales and digital marketing, and indirectly through its partners which include major oil companies, leasing companies, petroleum marketers, value-added resellers (VARs) and referral partners

The company has presence in 100 countries, with the United States, Brazil and the United Kingdom being its primary operating regions. These countries contributed nearly 87% of revenues in 2018.

FLEETCOR operates in five categories — fuel, lodging, tolls, corporate payments and gift. It also provides payment products including fleet maintenance, employee benefits and long-haul transportation-related services.

In 2019, FLEETCOR generated \$2.65 billion in revenues, up 8.9% year over year. The company has two reportable segments — **North America (65% of revenues in 2018)** and **International (35%)**.

As of Dec 31, 2019, the company had approximately 8,700 employees worldwide.



Reasons To Buy:

▲ FLEETCOR's **top line continues to grow organically** driven by increase in both volume and revenues per transaction in certain of its payment programs. In fourth-quarter 2019, organic revenue growth was 10%, driven by solid double-digit growth across the company's product categories – fuel, corporate payments, tolls and lodging. Its fuel card business was up 9%, corporate payments increased 14%, toll business grew 17% and lodging business increased 14% organically. Organic revenue growth was 11%, 10% and 9% respectively in 2019, 2018 and 2017. For 2020, the company continues to expect 9-11% organic growth.

FLEETCOR looks strong on the back of organic growth and strategic acquisitions.

▲ **Acquisitions** are contributing significantly to FLEETCOR's top line. The company has been continuously acquiring and investing in companies both in the United States as well as internationally to expand customer base, headcount and operations and diversify its service offerings across industries. In 2019, FLEETCOR acquired Nvoicepay, SOLE Financial, Travelliance and a tuck-in acquisition in its lodging business. While Nvoicepay should expand FLEETCOR's corporate payments business with full disbursement accounts payable cloud platform, SOLE Financial is expected to extend FLEETCOR's payroll and card portfolios and expand its addressable market, thus enabling it better serve small and medium-sized as well as larger businesses. Travelliance is expected to expand its lodging business across new international markets and the tuck-in acquisition will expand its presence into the airline segment and add international hotel coverage and capabilities. In 2018, the company made a \$21.2 million worth acquisition. In 2017, FLEETCOR completed three acquisitions - Creative Lodging Solutions ("CLS") to strengthen its hotel network through increased room nights; Cambridge Global Payments ("Cambridge") to expand its corporate payments footprint; and a fuel card provider in Russia. Since 2002, the company has acquired more than 75 companies and commercial account portfolios. In 2018, the company witnessed \$97 million of additional revenues from the acquisitions completed in 2017. In 2017, additional revenues of \$212 million were generated from acquisitions completed in 2016 and 2017.

▲ FLEETCOR is a **cash rich company with a strong balance sheet**. As of Dec 31, 2019, the company had cash, cash equivalents and restricted cash of \$1.68 billion, with no long-term debt to clear-off. This significant amount of cash provides FLEETCOR the flexibility to pursue strategic acquisitions and other related investments. Cash rich companies not only guarantee protection but are also likely to reward shareholders from their deep cash balances.

▲ We are impressed with FLEETCOR Technologies' endeavors in **rewarding its shareholders** through share repurchases. In 2019, 2018 and 2017, the company had repurchased shares worth \$694.9 million, \$958.7 million and \$402.4 million, respectively. Such moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. These shareholder-friendly initiatives not only instill investors' confidence but also positively impact earnings per share.

Reasons To Sell:

- ▼ FLEETCOR is seeing **higher interest expense** due to increase in LIBOR rate and additional borrowings for shares repurchase and to fund Cambridge acquisition (completed in 2017). During 2019, interest expense of \$150.05 million increased 8.3% year over year. The same rose 29.3% year over year in 2018. For 2020, the company expects interest expense to be between \$130-\$140 million. Hence, the bottom line is likely to remain under pressure going forward. This may weigh on its share price which has underperformed the industry in the past year, losing 21% compared with the industry's decline of 3.9%.

Higher interest expense, seasonality, foreign currency exchange rate risks and integration risks act as headwinds.
 - ▼ FLEETCOR's fuel card, workforce payment solutions and gift card **businesses are affected by seasonality**. The company's fuel card and workforce payment solutions businesses are hampered during the first and fourth quarters as a result of the prevailing weather conditions, U.S. holidays, Christmas celebration in Russia in January, lower business activities in Brazil due to summer break and the Carnival celebration. The gift card business witnesses higher revenues during the third and fourth quarters, primarily due to the holiday season, and lower revenues in the first and second quarters due to fluctuating consumer spending patterns.
 - ▼ FLEETCOR's global presence makes it vulnerable to the risks associated with **foreign currency exchange rate fluctuations**. Outside the United States, the company transacts in currencies like British pound, Brazilian real, Canadian dollar, Russian ruble, Mexican peso, Czech koruna, Euro, Australian dollar and New Zealand dollar. Notably, foreign exchange rates unfavorably impacted the company's revenues by \$12.2 million during the fourth quarter of 2019. In 2018, foreign exchange rates had unfavorably impacted the company's revenues by \$49 million.
 - ▼ FLEETCOR's policy of acquiring a large number of companies results in some **integration risk**. Acquisitions can negatively impact its balance sheet in the form of a high level of goodwill and intangible assets, which totaled \$6.9 billion or 62.2% of total assets at the end of 2018. Moreover, frequent acquisitions are a distraction for management, which could impact organic growth.
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Last Earnings Report

FLEETCOR Beats Q4 Earnings Estimates, Lags on Revenues

FLEETCOR Technologies reported mixed fourth-quarter 2019 results wherein earnings surpassed the Zacks Consensus Estimate but revenues missed the same.

Adjusted earnings of \$3.17 per share outpaced the consensus estimate by 0.9% and increased 14% year over year. Revenues of \$681.05 million missed the consensus mark by 0.7% but increased 9% year over year on a reported basis and 10% on a pro-forma and macro-adjusted basis.

Organic revenues rose 10% in the reported quarter, driven by solid double-digit growth across the company's product categories namely fuel, corporate payments, tolls and lodging. Its fuel card business was up 9%, corporate payments increased 14%, toll business grew 17% and lodging business increased 14% organically.

In the reported quarter, new sales or new bookings increased 13%, client revenue retention remained steady at over 91% and the company's same-store sales were impacted mainly by the weak trucking vertical.

Revenues in Detail

Segment-wise, revenues from North America came in at \$451 million, up 6.5% year over year. Internationally, revenues of \$247.88 million increased 12.7% year over year.

Product category-wise, fuel revenues of \$299.3 million were almost flat year over year on a reported basis and improved 9% on a pro-forma and macro-adjusted basis.

Corporate Payments revenues of \$140.3 million increased 21% year over year on a reported basis and 14% on a pro-forma and macro-adjusted basis.

Tolls revenues of \$93.3 million improved 8% year over year on a reported basis and 17% on a pro-forma and macro-adjusted basis.

Lodging revenues of \$64.2 million increased 48% year over year on a reported basis and 14% on a pro-forma and macro-adjusted basis.

Gift revenues of \$47.7 million decreased 1% year over year on a reported basis and 6% on a pro-forma and macro-adjusted basis.

Other revenues of \$54.1 million increased 7% year over year on a reported basis and 12% on a pro-forma and macro-adjusted basis.

Operating Results

Operating income increased 12.7% from the prior-year quarter to \$320.80 million. Operating income margin rose to 45.9% from 44.3% in the prior-year quarter.

Balance Sheet & Cash Flow

FLEETCOR exited fourth-quarter 2019 with cash, cash equivalents and restricted cash of approximately \$1.68 billion compared with \$1.47 billion at the end of the prior quarter.

The company generated \$370.94 million of net cash from operating activities. Capital expenditures totaled \$26.49 million. In the reported quarter, FLEETCOR repurchased approximately 2.2 million shares for \$632.5 million.

Guidance

For 2020, FLEETCOR unveiled its revenue and adjusted earnings guidance. Total revenues are anticipated in the range of \$2.90-\$2.96 billion. Adjusted earnings are expected in the range of \$13.35-\$13.75 per share. Organic revenues are expected to register 9-11% growth.

For first-quarter 2020, adjusted EPS is expected in the range of \$2.90-\$3.00.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	-0.71%
EPS Surprise	0.96%
Quarterly EPS	3.17
Annual EPS (TTM)	11.79

Recent News

On **Mar 2, 2020**, FLEETCOR's Cambridge Global Payments company announced its sponsorship of Exclusive Autosport (EA). Also, Cambridge has become EA's exclusive provider of cross-border payments and foreign exchange solutions.

On **Feb 7, 2020**, FLEETCOR announced that it will attend the Goldman Sachs Technology and Internet Conference, scheduled to be held on Feb 12, 2020 in San Francisco.

Valuation

FLEETCOR shares are down 21% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are down 3.9%, 15% and 19.3%, respectively in the same time frame.

The stock is currently trading at 15.29X forward 12-month price-to-earnings, which compares to 22.17X for the Zacks sub-industry, 19.37X for the Zacks sector and 14.93X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.58X and as low as 14.53X, with a 5-year median of 21.34X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$225.00 price target reflects 16.2X price-to-earnings.

The table below shows summary valuation data for FLT

Valuation Multiples - FLT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	15.29	22.17	19.37	14.93
	5-Year High	26.58	28.03	25.12	19.34
	5-Year Low	14.53	20.78	18.67	14.93
	5-Year Median	21.34	23	20.47	17.42
P/S F12M	Current	6.11	8.52	3.06	2.68
	5-Year High	10.91	10.7	3.94	3.43
	5-Year Low	5.38	7.19	3.05	2.54
	5-Year Median	7.6	8.65	3.57	3
P/B TTM	Current	4.96	6.21	3.48	3.33
	5-Year High	7.8	12.79	6.68	4.56
	5-Year Low	3.61	5.12	3	2.85
	5-Year Median	4.93	8	5.19	3.63

As of 03/25/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 253)



Top Peers

Cardtronics PLC (CATM)	Outperform
EVO Payments, Inc. (EVOP)	Neutral
Fiserv, Inc. (FISV)	Neutral
Global Payments Inc. (GPN)	Neutral
WEX Inc. (WEX)	Neutral
Envestnet, Inc (ENV)	Underperform
Evertec, Inc. (EVTC)	Underperform
Green Dot Corporation (GDOT)	Underperform

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	FLT Neutral	X Industry	S&P 500	FISV Neutral	GPN Neutral	WEX Neutral
VGM Score	C	-	-	C	F	B
Market Cap	18.14 B	1.45 B	17.53 B	61.93 B	44.03 B	4.97 B
# of Analysts	11	7	13	16	15	11
Dividend Yield	0.00%	0.00%	2.47%	0.00%	0.53%	0.00%
Value Score	D	-	-	D	D	C
Cash/Price	0.10	0.13	0.07	0.02	0.05	0.27
EV/EBITDA	13.11	11.11	10.68	24.79	29.11	11.34
PEG Ratio	1.03	1.18	1.64	1.31	1.05	0.81
Price/Book (P/B)	4.96	2.46	2.32	1.79	1.57	2.56
Price/Cash Flow (P/CF)	14.25	10.03	9.40	13.62	20.87	8.24
P/E (F1)	15.96	16.16	14.14	18.57	19.74	11.54
Price/Sales (P/S)	6.85	3.09	1.82	6.08	8.96	2.88
Earnings Yield	6.25%	6.19%	7.02%	5.38%	5.06%	8.67%
Debt/Equity	0.89	0.35	0.70	0.62	0.32	1.39
Cash Flow (\$/share)	14.90	2.63	7.01	6.70	7.03	13.91
Growth Score	B	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	19.65%	17.05%	10.85%	17.05%	21.70%	16.06%
Proj. EPS Growth (F1/F0)	12.54%	12.92%	3.53%	22.75%	19.50%	8.00%
Curr. Cash Flow Growth	8.28%	8.34%	5.93%	147.85%	50.80%	13.00%
Hist. Cash Flow Growth (3-5 yrs)	19.24%	10.92%	8.55%	29.38%	39.74%	18.68%
Current Ratio	1.03	1.11	1.23	1.08	1.22	1.26
Debt/Capital	46.99%	38.74%	42.57%	38.74%	24.47%	59.49%
Net Margin	33.79%	8.29%	11.64%	8.77%	8.77%	5.74%
Return on Equity	27.07%	19.57%	16.74%	11.78%	7.25%	19.61%
Sales/Assets	0.22	0.45	0.54	0.22	0.17	0.21
Proj. Sales Growth (F1/F0)	7.74%	7.11%	2.51%	50.36%	46.22%	5.85%
Momentum Score	D	-	-	D	C	D
Daily Price Chg	11.50%	4.29%	2.41%	5.25%	3.87%	18.28%
1 Week Price Chg	-20.57%	-20.89%	-16.96%	-20.93%	-31.21%	-37.27%
4 Week Price Chg	-25.29%	-28.11%	-23.98%	-19.20%	-22.65%	-42.63%
12 Week Price Chg	-26.20%	-27.84%	-27.80%	-21.13%	-19.64%	-45.26%
52 Week Price Chg	-12.32%	-22.22%	-18.55%	4.05%	9.49%	-39.10%
20 Day Average Volume	1,768,354	881,012	4,285,848	7,710,339	3,795,335	1,081,438
(F1) EPS Est 1 week change	-1.60%	0.00%	0.00%	-0.95%	0.00%	-1.74%
(F1) EPS Est 4 week change	-2.32%	-2.32%	-1.83%	-1.08%	-0.15%	-5.05%
(F1) EPS Est 12 week change	-2.20%	-2.20%	-2.90%	-0.77%	-0.67%	-8.11%
(Q1) EPS Est Mthly Chg	-1.23%	-1.02%	-1.37%	-0.88%	0.00%	-4.47%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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