

WEX Inc. (WEX)

\$120.50 (As of 05/15/20)

Price Target (6-12 Months): **\$128.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: F

Summary

WEX continues to grow organically driven by extensive network of fuel and service providers, transaction volume growth, product excellence, marketing capabilities, sales force productivity and other strategies. Its U.S. healthcare business is in good shape. The company has been actively acquiring and investing in companies to expand its product and service offerings. Extensive partner network provides WEX with ample opportunities in the market. However, the company's businesses continue to suffer from seasonal changes which causes considerable fluctuations in revenues and makes profit forecasting difficult. Foreign currency exchange rate fluctuations remains a concern. High debt may limit the company's future expansion and worsen its risk profile. Due to these negatives, shares of WEX have underperformed the industry over the past year.

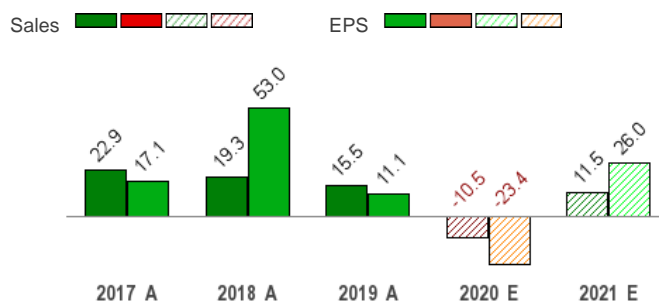
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$236.52 - \$71.12 |
| 20 Day Average Volume (sh) | 514,358 |
| Market Cap | \$5.2 B |
| YTD Price Change | -42.5% |
| Beta | 1.89 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Financial Transaction Services |
| Zacks Industry Rank | Bottom 25% (190 out of 254) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|--------|
| Last EPS Surprise | -11.7% |
| Last Sales Surprise | 1.3% |
| EPS F1 Est- 4 week change | -12.3% |
| Expected Report Date | NA |
| Earnings ESP | 0.0% |
| P/E TTM | 13.0 |
| P/E F1 | 17.1 |
| PEG F1 | 1.2 |
| P/S TTM | 3.0 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 400 E | 414 E | 437 E | 440 E | 1,720 E |
| 2020 | 432 A | 345 E | 376 E | 388 E | 1,543 E |
| 2019 | 382 A | 442 A | 460 A | 440 A | 1,724 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.90 E | \$2.03 E | \$2.37 E | \$2.44 E | \$8.88 E |
| 2020 | \$1.81 A | \$1.37 E | \$1.86 E | \$2.11 E | \$7.05 E |
| 2019 | \$1.72 A | \$2.28 A | \$2.59 A | \$2.61 A | \$9.20 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 05/15/2020. The reports text is as of 05/18/2020.

Overview

Headquartered in South Portland, ME, WEX Inc. is a leading provider of payment processing and business solutions across a wide spectrum of sectors, including fleet, travel and healthcare.

Founded in 1983, the company has expanded its scope of business from a fleet payment provider into a multi-channel provider of corporate payment solutions. Currently, WEX operates through three business segments: Fleet Solutions, Travel and Corporate Solutions, and Health and Employee Benefit Solutions.

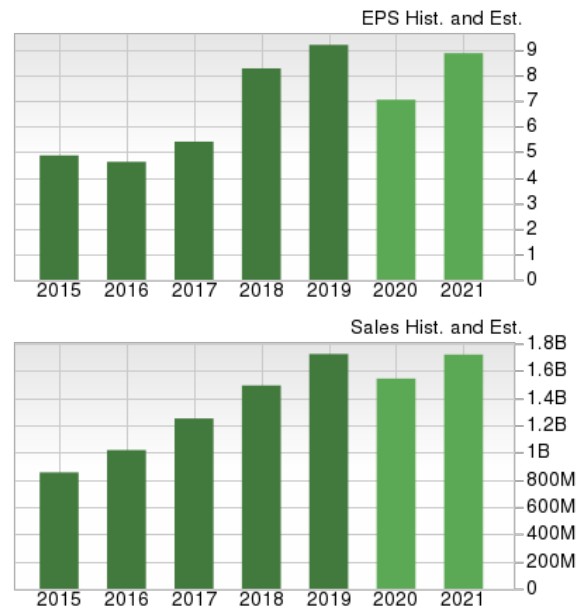
Fleet Solutions (60% of total revenues in 2018) offers customers with fleet vehicle payment processing services, particularly designed for commercial and government fleets. The segment generates revenues from payment processing, account servicing and financing fees. Management believes that WEX fleet cards are accepted in more than 90% of fuel locations in the United States and Australia. Following the acquisition of European Fleet business in December 2014, WEX fleet cards are accepted at all ExxonMobil stations throughout Europe.

Travel and Corporate Solutions (21%) targets the complex payment environment of business-to-business payments, providing customers with payment processing solutions for their corporate payment and transaction monitoring needs. The segment also offers payment solutions for payables and travel expenses. It mainly generates revenues from the online travel market and operates in North America, South America, Europe and Asia-Pacific.

Health and Employee Benefit Solutions (19%) offers healthcare payment products and software-as-a-service (SaaS) consumer directed platforms for healthcare market, as well as payroll related and employee benefits to customers in Brazil.

The company's U.S. operations include WEX Inc. and its wholly-owned subsidiaries WEX Bank, WEX FleetOne, EFS and WEX Health. International operations include its wholly-owned operations, WEX Fuel Cards Australia, WEX Prepaid Cards Australia, WEX Canada, WEX New Zealand, WEX Asia, WEX Europe Limited, UNIK S.A. (referred as "WEX Latin America") and a controlling interest in WEX Europe Services Limited and its subsidiaries.

As of Dec 31, 2019, WEX and its subsidiaries had more than 50000 employees across the globe.



Reasons To Buy:

- ▲ WEX's top line continues to **grow organically** driven by its extensive network of fuel and service providers, transaction volume growth, product excellence, marketing capabilities, sales force productivity and other strategic revenue generation efforts. Robust demand for its payment processing, account servicing and transaction processing services along with operational efficiency has helped WEX achieve solid revenue and earnings growth. Further, the company's strategic acquisitions should complement its organic growth by contributing to revenues, adding differentiation to its products and service offerings and enhancing scalability. The company is highly optimistic about organic growth opportunities across each of its segments.
- ▲ **Acquisitions** have acted as a key growth catalyst for WEX. The company has been actively acquiring and investing in companies, both in the United States as well as internationally, to expand its product and service offerings, thereby contributing to revenue growth and enhancing scalability. In 2019 WEX completed several acquisitions. These include Go Fuel Card to expand its Fleet business throughout EG locations in the United States, Europe and Australia; Discovery Benefits to boost its position as a technology platform in the healthcare space and enhance its employee benefits platform; Pavestone Capital to complement its existing Fleet factoring business and Noventis to expand its corporate payments business.
- ▲ WEX has been **active on the partnership front**. In 2019 the company partnered with supply chain technology provider and financier Octet to enhance its position in the commercial payments space and Juniper and Al.io to strengthen its Travel and Corporate Solutions segment, which is highly dependent on the online travel market. In October 2018, WEX collaborated with JCB to expand its virtual payments technology into Japan and with FinTech Payment Logic for automation of its car registration renewal process in order to aid Australian businesses. In September 2018, the company partnered with Moneris Solutions to enable petroleum-based businesses accept WEX fleet cards using Moneris' PetroTrak point-of-sale (POS) and fleet management solution across Canada and with Troovo Technologies to help unlock travel and business-to-business (B2B) spend using Troovo Payments and WEX virtual cards in the Asia Pacific region. In August 2018, WEX renewed and expanded its deal with Marathon Petroleum Corporation to operate its commercial fuel card program. In July 2018, WEX renewed its deal with Kum & Go to operate the latter's commercial fuel card program and teamed up with Visa through which WEX and its corporate payment customers will gain access to use a Visa virtual credit card for global B2B payments. In June 2018, WEX celebrated its 25 years of partnership with ARI on fuel spend solutions. In 2017, ARI inked a five-year global contract extension, extending its WEX co-branded fuel card. Extensive partner network provides WEX with ample opportunities in the market.
- ▲ WEX's **Health and Employee Benefit Solutions has been performing well** on the back of increasing number of customer signings, solid sales pipeline and addition and/or renewal of numerous partners (such as Alaris, Consolidated Admin Services, 24HourFlex, Admin America, Alerus Retirement and Benefits and San Bernardino County, associated bank Nova, Stanley Benefits, Boyu Financial). WEX Health (a wholly-owned subsidiary of WEX in the United States) emerged as one of the leading providers of cloud-based healthcare payments technology through the acquisition of Evolution1 in 2014 and Benaissance in 2015. It benefits from higher revenues earned on health savings account assets and SaaS business model and high retention rates. The company has more than 28 million consumers on the WEX Health cloud platform. The latest acquisition of Discovery Benefits has strengthened WEX's position as a leading provider of innovative healthcare technology solution. The company's U.S. healthcare business is expanding and increased revenues by 48% in 2019.

WEX looks strong on the back of organic growth, strategic acquisitions and partnerships.

Reasons To Sell:

- ▼ **Business conditions in Brazil have not been favorable** for quite some time due to several headwinds such as devaluation of the Brazilian real, accounting impacts from a new securitization facility, uncertainty related to the presidential elections and trucking strike affecting the business environment. This declining business has been weighing on WEX's Health and Employee Benefit Solutions segment to some extent. The segment offers employee benefit products in Brazil.
 - ▼ WEX's businesses are affected by **seasonal changes**. While fuel prices are usually higher during the summer benefiting the Fleet Solutions segment, higher online travel sales during the third quarter boost the Travel and Corporate Solutions. Additionally, the company's Health and Employee Benefits Solutions segment experiences seasonality, as consumer spending, correlated with insurance deductibles, is higher in the early of a year.
 - ▼ WEX's geographical presence (North America, Europe, South America and Asia-Pacific) makes it vulnerable to the risks associated with **foreign currency exchange rate fluctuations**. As of Dec 31, 2019, the company transacted in 20 different currencies other than the U.S. dollar including Australian dollar, Canadian dollar, Euro, British pound sterling, New Zealand dollar and Brazilian real. Any appreciation or depreciation of the dollar versus these foreign currencies could impact the company's financials. The company incurred net foreign currency loss of \$0.9 million in 2019.
 - ▼ WEX's total debt to total capital ratio of 0.67 at the end of first-quarter 2020 was higher than the industry's 0.38 and the previous quarter's 0.58. The increasing debt to capitalization ratio indicates that the **proportion of debt to finance the company's assets is on the rise**. Higher debt as a percentage of total capital indicates that a company has a higher risk of insolvency. Further, cash and cash equivalent balance of \$1.03 billion at the end of the first quarter was below the short-term debt level of \$1.28 billion, implying that the company doesn't have enough cash to meet even its short-term debt burden.
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Seasonality, foreign currency exchange risks and high debt continue to hurt WEX's businesses.

Last Earnings Report

WEX's Q1 Earnings Miss Estimates

WEX reported mixed first-quarter 2020 results, with earnings missing the Zacks Consensus Estimate but revenues beating the same.

Adjusted earnings of \$1.81 per share missed the Zacks Consensus estimate by 11.7% and increased 5.2% year over year. The reported figure came in below the company's guidance of \$2.15-\$2.25. Total revenues of \$431.7 million surpassed the consensus mark by 1.3% and increased 13% year over year. Revenues, however, fell short of management's guidance of \$445-\$455 million.

All the segments of the company registered year-over-year revenue growth on market-share expansion and recent acquisitions. In response to the coronavirus crisis, WEX's counter actions included pay cuts for the board and executive officers, re-scaling headcount worldwide and implementation of a company-wide work-from-home policy.

Revenues by Segment

Fleet Solutions revenues (58% of total revenues) increased 7.3% year over year to \$249.8 million. This upside was driven by solid finance fee revenues and payment processing revenues related to two major North America portfolios.

Average number of vehicles serviced was 15.1 million, up 15% from the year-ago quarter's figure. Total fuel transactions processed increased 7% from the year-ago quarter's tally to 150.7 million. Payment processing transactions rose 5% to 121.6 million. U.S. retail fuel price declined 3.7% to \$2.57 per gallon.

Travel and Corporate Solutions revenues (20%) of \$84.4 million were up 3.3% year over year. The uptick can be attributed to strength in the corporate payments business owing to the ongoing transition to virtual payments and increasing usage of accounts payable products. The coronavirus pandemic's adverse impact on travel volumes strained the segment's revenues. Purchase volume decreased 4% to \$8.0 billion.

Health and Employee Benefit Solutions revenues (22%) of \$97.5 million jumped 44.5%, year over year, on 48% growth in U.S. healthcare business and contributions from the acquisition of Discovery Benefits. The average number of Software-as-a-Service (SaaS) accounts in the United States climbed 14% year over year to 14.5 million.

Operating Results

Adjusted operating income increased 7.1% from the prior-year quarter's figure to \$139.4 million. Adjusted operating income margin decreased to 32.3% from the year-ago quarter's 34.1%.

Balance Sheet

WEX exited the first quarter with cash and cash equivalents of \$861.2 million compared with the \$810.9 million witnessed at the end of the prior quarter. Long-term debt was \$2.7 billion, nearly flat year over year.

Quarter Ending **03/2020**

| Report Date | May 07, 2020 |
|------------------|--------------|
| Sales Surprise | 1.32% |
| EPS Surprise | -11.71% |
| Quarterly EPS | 1.81 |
| Annual EPS (TTM) | 9.29 |

Recent News

On **May 15, 2020**, WEX announced that it has elected Jim Groch, Chief Investment Officer and Global Group President of CBRE Group, to board of directors.

On **Feb 20, 2020**, WEX and Sinclair Oil announced that they have expanded their 15-year partnership.

On **Jan 24, 2020**, WEX announced that it has inked a deal to acquire eNett, a provider of B2B payments solutions to the travel industry and Optal, for a total consideration of approximately \$1.7 billion.

Valuation

WEX shares are down 42.5% in the year-to-date period and 40.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 7.1% and 11.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 5.9% but the sector is down 6.6%.

The S&P 500 index is down 11% in the year-to-date period but up 0.8% in the past year.

The stock is currently trading at 15.57X price to forward 12 months' earnings, which compares to 29.73X for the Zacks sub-industry, 29.67X for the Zacks sector and 20.84X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.47X and as low as 8.73X, with a 5-year median of 21.27X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$128.00 price target reflects 16.54X forward 12 months' earnings.

The table below shows summary valuation data for WEX

| Valuation Multiples - WEX | | | | | |
|---------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F 12M | Current | 15.57 | 29.73 | 29.67 | 20.84 |
| | 5-Year High | 29.47 | 29.73 | 29.67 | 20.87 |
| | 5-Year Low | 8.73 | 20.78 | 18.68 | 15.23 |
| | 5-Year Median | 21.27 | 23.16 | 20.69 | 17.49 |
| P/S F12M | Current | 3.26 | 10.53 | 3.69 | 3.24 |
| | 5-Year High | 5.55 | 10.7 | 3.94 | 3.44 |
| | 5-Year Low | 1.92 | 7.19 | 3.05 | 2.53 |
| | 5-Year Median | 4.04 | 8.71 | 3.57 | 3.01 |
| P/B TTM | Current | 2.78 | 6.76 | 3.81 | 3.91 |
| | 5-Year High | 5.26 | 12.79 | 6.69 | 4.56 |
| | 5-Year Low | 1.86 | 5.23 | 3.19 | 2.83 |
| | 5-Year Median | 3.47 | 8.08 | 5.18 | 3.65 |

As of 05/15/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (190 out of 254)



Top Peers

| Company (Ticker) | Rec | Rank |
|-----------------------------------|--------------|------|
| Envestnet, Inc. (ENV) | Neutral | 3 |
| EVO Payments, Inc. (EVOP) | Neutral | 3 |
| Evertec, Inc. (EVTCT) | Neutral | 3 |
| FleetCor Technologies, Inc. (FLT) | Neutral | 3 |
| Green Dot Corporation (GDOT) | Neutral | 3 |
| Global Payments Inc. (GPN) | Neutral | 3 |
| PagSeguro Digital Ltd. (PAGS) | Neutral | 4 |
| Cardtronics PLC (CATM) | Underperform | 5 |

| Industry Comparison Industry: Financial Transaction Services | | | | Industry Peers | | |
|--|---------|------------|-----------|----------------|---------|-----------|
| | WEX | X Industry | S&P 500 | CATM | GDOT | PAGS |
| Zacks Recommendation (Long Term) | Neutral | - | - | Underperform | Neutral | Neutral |
| Zacks Rank (Short Term) | 4 | - | - | 5 | 3 | 4 |
| VGM Score | C | - | - | C | C | F |
| Market Cap | 5.24 B | 1.83 B | 18.98 B | 847.46 M | 1.77 B | 8.08 B |
| # of Analysts | 11 | 6 | 14 | 5 | 7 | 5 |
| Dividend Yield | 0.00% | 0.00% | 2.21% | 0.00% | 0.00% | 0.00% |
| Value Score | D | - | - | B | A | F |
| Cash/Price | 0.18 | 0.08 | 0.06 | 0.68 | 0.65 | 0.07 |
| EV/EBITDA | 11.71 | 11.30 | 11.60 | 4.55 | 3.98 | 14.01 |
| PEG Ratio | 1.33 | 1.81 | 2.58 | NA | NA | 4.64 |
| Price/Book (P/B) | 2.79 | 3.38 | 2.59 | 2.75 | 1.80 | 3.98 |
| Price/Cash Flow (P/CF) | 8.66 | 9.73 | 10.28 | 2.91 | 8.38 | 20.73 |
| P/E (F1) | 19.12 | 24.32 | 19.01 | 17.45 | 21.73 | 25.73 |
| Price/Sales (P/S) | 2.96 | 3.45 | 1.92 | 0.63 | 1.57 | 5.59 |
| Earnings Yield | 5.85% | 3.89% | 5.06% | 5.72% | 4.60% | 3.89% |
| Debt/Equity | 1.42 | 0.39 | 0.75 | 3.60 | 0.12 | 0.00 |
| Cash Flow (\$/share) | 13.91 | 2.63 | 7.01 | 6.56 | 4.00 | 1.19 |
| Growth Score | B | - | - | C | C | D |
| Hist. EPS Growth (3-5 yrs) | 18.08% | 18.08% | 10.82% | -6.98% | 24.97% | NA |
| Proj. EPS Growth (F1/F0) | -23.34% | -11.14% | -10.48% | -56.67% | -44.75% | -11.30% |
| Curr. Cash Flow Growth | 13.00% | 13.97% | 5.68% | 4.09% | -2.08% | 27.17% |
| Hist. Cash Flow Growth (3-5 yrs) | 18.68% | 14.60% | 8.52% | 5.70% | 19.89% | NA |
| Current Ratio | 1.33 | 1.18 | 1.27 | 1.30 | 1.04 | 2.30 |
| Debt/Capital | 60.14% | 37.24% | 44.25% | 78.24% | 11.08% | 0.00% |
| Net Margin | 3.76% | 7.54% | 10.54% | 3.72% | 7.32% | 23.93% |
| Return on Equity | 19.68% | 19.53% | 16.29% | 29.18% | 11.35% | 19.53% |
| Sales/Assets | 0.21 | 0.48 | 0.54 | 0.71 | 0.45 | 0.43 |
| Proj. Sales Growth (F1/F0) | -10.47% | -4.09% | -2.55% | -13.07% | -4.09% | -3.64% |
| Momentum Score | F | - | - | F | F | C |
| Daily Price Chg | -2.04% | 0.52% | 0.20% | 1.87% | -1.38% | 7.17% |
| 1 Week Price Chg | 5.04% | 5.07% | 3.23% | 5.78% | 9.95% | 12.01% |
| 4 Week Price Chg | 12.91% | 12.56% | 0.88% | 9.23% | 31.58% | 17.05% |
| 12 Week Price Chg | -48.75% | -26.09% | -23.26% | -54.59% | -9.68% | -33.61% |
| 52 Week Price Chg | -40.56% | -16.86% | -12.56% | -43.32% | -30.24% | -18.73% |
| 20 Day Average Volume | 514,358 | 582,707 | 2,553,422 | 749,167 | 735,190 | 2,396,218 |
| (F1) EPS Est 1 week change | -3.26% | 0.00% | 0.00% | -45.21% | -3.78% | 0.00% |
| (F1) EPS Est 4 week change | -12.35% | -10.90% | -5.57% | -50.29% | -3.78% | -19.29% |
| (F1) EPS Est 12 week change | -34.42% | -24.13% | -16.22% | -63.04% | -30.74% | -29.73% |
| (Q1) EPS Est Mthly Chg | -20.92% | -20.37% | -11.63% | -98.04% | -38.46% | -18.10% |

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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 | F |
| 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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