

WEX Inc. (WEX)

\$235.13 (As of 02/20/20)

Price Target (6-12 Months): **\$249.00**

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: A

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.

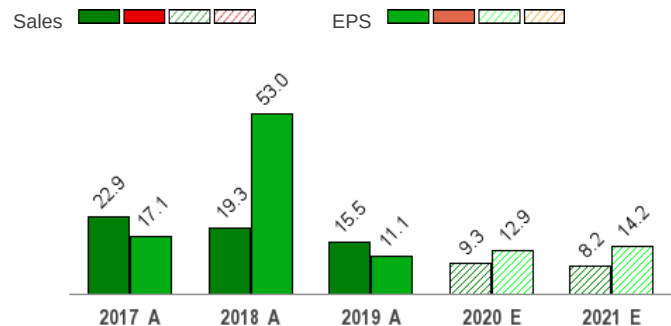
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$236.52 - \$170.00
20 Day Average Volume (sh)	447,600
Market Cap	\$10.2 B
YTD Price Change	12.3%
Beta	1.51
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 31% (78 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.0%
Last Sales Surprise	-3.6%
EPS F1 Est- 4 week change	-3.2%
Expected Report Date	05/07/2020
Earnings ESP	0.1%
P/E TTM	25.6
P/E F1	22.6
PEG F1	1.6
P/S TTM	5.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	484 E	514 E	528 E	513 E	2,040 E
2020	451 E	475 E	488 E	473 E	1,885 E
2019	382 A	442 A	460 A	440 A	1,724 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.53 E	\$2.99 E	\$3.21 E	\$3.09 E	\$11.87 E
2020	\$2.20 E	\$2.63 E	\$2.83 E	\$2.71 E	\$10.39 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 02/20/2020. The reports text is as of 02/21/2020.

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.

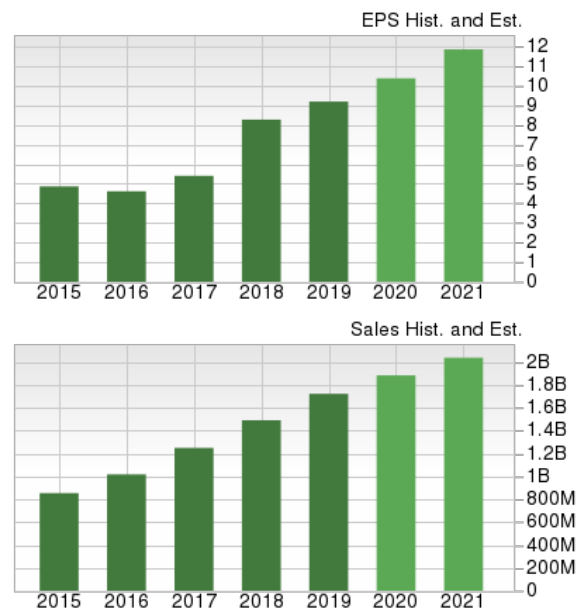
Fleet Solutions (65% of total revenues in 2018) offers customers with fleet vehicle payment processing services, particularly designed for commercial and government fleets. The segment generates revenues from payment processing, account servicing and financing fees. Management believes that WEX fleet 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 (20%) 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 (14%) 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, 2018, WEX and its subsidiaries had more than 3,700 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 so far, WEX has completed four 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 Novartis to expand its corporate payments business. In 2017, WEX purchased certain assets and assumed certain liabilities of AOC to strengthen its technological capabilities. In 2016, the company acquired EFS to enhance its fleet solutions suite. In 2015, the company purchased Benaissance (through its wholly-owned subsidiary, Evolution1) to complement its healthcare payments products and services and the remaining 49% ownership in UNIK. In 2014, the company acquired the assets of ExxonMobil's European commercial fuel card program (through its majority owned subsidiary, WEX Europe Services Limited) and Evolution1.
- ▲ WEX has been **active on the partnership front**. In 2019 so far, the company has partnered with supply chain technology provider and financier Octet to enhance its position in the commercial payments space and Juniper and AI.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). The company had more than 65 new or renewed partners in 2018. 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 is expected to strengthen WEX's position as a leading provider of innovative healthcare technology solution and contribute around \$75 million in revenues in 2019. The company's U.S. healthcare business is expanding and increased revenues by 14% in 2018. For 2019, the company expects its U.S. healthcare business to register revenue growth in the high teens. Additionally, the company unveiled its first mobile application for COBRA and Direct Bill, which is expected to help consumers in online registration, election and payment options along with communication and viewing payment history. The company also provides flexible plan types such as Health Reimbursement Arrangements (commonly referred to as HSAs, FSAs and HRAs, respectively) and COBRA products along with additional offerings such as transit and wellness benefit accounts. WEX's efforts to strengthen its healthcare business through investments in technology and products are paying off with new businesses and customer retention.

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. Further, WEX expects 2019 to be another tough year for the Brazilian benefits business.
- ▼ 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, 2018, 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 \$13.75 million during the first nine months of 2019.
- ▼ WEX has a **highly leveraged balance sheet**. As of Dec 31, 2019, long-term debt was \$2.7 billion while cash and cash equivalents were \$810.9 million. Such a cash position implies that WEX needs to generate adequate amount of operating cash flow to service its debt. Also, high debt may limit the company's future expansion and worsen its risk profile.

Seasonality, foreign currency exchange risks and high debt continue to hurt WEX's businesses.

Last Earnings Report

WEX Beats Q4 Earnings Estimates, Misses Revenues

WEX reported mixed fourth-quarter 2019 results, with earnings beating the Zacks Consensus Estimate but revenues missing the same.

Adjusted earnings of \$2.61 per share beat the Zacks Consensus estimate by 2% and increased 24% year over year. The reported figure exceeded the midpoint (\$2.56) of the company's guidance of \$2.51-\$2.61.

Total revenues of \$440 million missed the consensus mark by 3.6%. Nevertheless, the figure improved year over year on the back of growth in all segments. Revenues fell short of the midpoint of the guidance of \$452-\$462 million.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	-3.55%
EPS Surprise	1.95%
Quarterly EPS	2.61
Annual EPS (TTM)	9.20

Revenues by Segment

Fleet Solutions revenues (59% of total revenues) increased 2.7% year over year to \$260.8 million. The upside was driven by robust transaction volume growth and higher late fee and incremental revenues from EG fuel, partially offset by lower fuel prices, unfavorable FX headwinds and a softer market environment.

Average number of vehicles serviced was around 14.9 million, up 19% from the year-ago quarter's figure. Total fuel transactions processed increased 12% from the year-ago quarter's tally to 156 million. Payment processing transactions rose 9% to 126.7 million. U.S. retail fuel price declined 4.8% to \$2.80 per gallon.

Travel and Corporate Solutions revenues (22%) of \$95.7 million were up 22.7% year over year. The uptick can be attributed to a 17% year-over-year increase in purchase volume. The company witnessed strength in accounts payable products and contributions from the Noventis acquisition.

Health and Employee Benefit Solutions revenues (19%) of \$83.5 million increased 69.1% year over year, driven by growth in U.S. healthcare business, with 18% organic growth and better-than-expected contributions from Discovery Benefits. The average number of Software-as-a-Service (SaaS) accounts in the United States rose 17% year over year to 13.4 million.

Operating Results

Adjusted operating income increased 24.6% from the prior-year quarter's figure to \$184.9 million. Adjusted operating income margin increased to 42% from 38.9% in the prior-year quarter.

Balance Sheet

WEX exited the quarter with cash and cash equivalents of \$810.9 million compared with \$531.4 million at the end of the prior quarter. Long-term debt was \$2.7 billion, flat year over year.

Q1 Guidance

WEX expects revenues in the range of \$445-\$455 million. Adjusted earnings are expected in the range of \$2.15-\$2.25 per share. The company's first-quarter guidance is based on an assumed average U.S. retail fuel price of \$2.69 per gallon and fleet credit loss between 15 basis points (bps) and 20 bps.

2020 Outlook

The company expects revenues in the range of \$1.86-\$1.9 billion. Adjusted earnings are expected in the range of \$10.15-\$10.55 per share. The company's full-year guidance is based on an assumed average U.S. retail fuel price of \$2.7 per gallon and fleet credit loss ranging between 13 bps and 18 bps. The company also assumes around 44 million shares outstanding for the full year.

Recent News

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.

On **Dec 10, 2019**, WEX announced that it has extended its partnership with Leasing Associates Inc. through August 2029.

Valuation

WEX shares are up 33.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 43.1% and 23.6%, respectively, over the past year. The S&P 500 index is up 20% in the past year.

The stock is currently trading at 22.11X price to forward 12 months' earnings, which compares to 29.81X for the Zacks sub-industry, 26.91X for the Zacks sector and 19.39X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.47X and as low as 12.53X, with a 5-year median of 21.42X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$249.00 price target reflects 23.47X 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	22.11	29.81	26.91	19.39
	5-Year High	29.47	29.81	26.91	19.39
	5-Year Low	12.53	20.78	18.78	15.18
	5-Year Median	21.42	23	20.59	17.47
P/S F12M	Current	5.28	11.34	4.31	3.59
	5-Year High	5.55	11.65	5.14	3.59
	5-Year Low	2.47	7.19	3.1	2.54
	5-Year Median	4.14	8.69	3.64	3
P/B TTM	Current	5.26	8.79	5.28	4.68
	5-Year High	5.26	12.79	6.72	4.68
	5-Year Low	2.05	5.34	4.13	2.85
	5-Year Median	3.62	8.09	5.27	3.62

As of 02/20/2020

Industry Analysis Zacks Industry Rank: Top 31% (78 out of 255)



Top Peers

Cardtronics PLC (CATM)	Neutral
Envestnet, Inc (ENV)	Neutral
EVO Payments, Inc. (EVOP)	Neutral
Evertec, Inc. (EVTC)	Neutral
FleetCor Technologies, Inc. (FLT)	Neutral
Green Dot Corporation (GDOT)	Neutral
Global Payments Inc. (GPN)	Neutral
PagSeguro Digital Ltd. (PAGS)	Underperform

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	WEX Neutral	X Industry	S&P 500	CATM Neutral	GDOT Neutral	PAGS Underperform
VGM Score	C	-	-	A	B	F
Market Cap	10.18 B	2.51 B	24.34 B	1.87 B	1.91 B	12.17 B
# of Analysts	10	5	13	5	7	6
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	0.00%
Value Score	D	-	-	B	B	D
Cash/Price	0.10	0.07	0.04	0.11	0.50	0.05
EV/EBITDA	21.87	19.35	14.18	10.24	5.16	31.66
PEG Ratio	1.55	1.73	2.09	3.98	NA	1.08
Price/Book (P/B)	5.26	5.24	3.30	5.38	2.06	6.34
Price/Cash Flow (P/CF)	20.06	19.28	13.49	6.88	9.22	39.71
P/E (F1)	22.25	23.37	19.28	15.91	21.60	26.68
Price/Sales (P/S)	5.91	5.12	2.68	1.39	1.72	8.77
Earnings Yield	4.42%	4.17%	5.17%	6.29%	4.64%	3.74%
Debt/Equity	1.39	0.35	0.70	2.37	0.03	0.00
Cash Flow (\$/share)	11.72	2.73	7.03	6.10	4.02	0.94
Growth Score	A	-	-	A	C	F
Hist. EPS Growth (3-5 yrs)	16.06%	17.05%	10.84%	-4.91%	25.94%	NA
Proj. EPS Growth (F1/F0)	12.89%	16.25%	7.09%	4.68%	-38.46%	27.10%
Curr. Cash Flow Growth	-4.77%	8.28%	6.72%	-45.41%	-2.08%	84.52%
Hist. Cash Flow Growth (3-5 yrs)	14.68%	10.92%	8.25%	9.83%	26.98%	NA
Current Ratio	1.26	1.15	1.22	0.75	0.97	2.49
Debt/Capital	59.49%	36.09%	42.37%	70.37%	2.57%	0.00%
Net Margin	5.74%	8.29%	11.56%	3.58%	9.01%	23.77%
Return on Equity	19.61%	19.47%	16.80%	27.49%	13.49%	19.33%
Sales/Assets	0.21	0.45	0.55	0.75	0.44	0.43
Proj. Sales Growth (F1/F0)	9.39%	10.06%	3.90%	4.33%	0.32%	25.43%
Momentum Score	F	-	-	A	C	C
Daily Price Chg	0.08%	-0.13%	0.01%	-1.69%	5.46%	0.68%
1 Week Price Chg	9.08%	1.36%	1.65%	-4.35%	-1.74%	9.18%
4 Week Price Chg	5.73%	2.73%	0.36%	-9.00%	27.90%	6.18%
12 Week Price Chg	14.57%	7.58%	4.39%	-1.85%	54.41%	10.41%
52 Week Price Chg	38.13%	39.36%	15.29%	61.49%	-44.81%	62.49%
20 Day Average Volume	447,600	444,018	1,992,841	385,363	1,695,572	1,335,516
(F1) EPS Est 1 week change	0.10%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.22%	0.00%	-0.02%	0.00%	0.00%	0.24%
(F1) EPS Est 12 week change	-3.64%	0.00%	-0.17%	0.00%	0.00%	-5.97%
(Q1) EPS Est Mthly Chg	-4.51%	0.00%	-0.48%	0.00%	0.00%	0.00%

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	A
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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