

WEX Inc. (WEX)
\$154.05 (As of 08/20/20)

Price Target (6-12 Months): **\$163.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

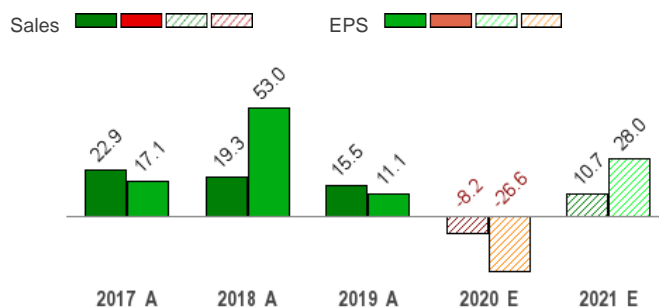
Summary

WEX continues to grow organically driven by an 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 remains in great 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 market expansion opportunities. On the flip side, 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 the company has a higher risk of insolvency. Further, WEX remains vulnerable to foreign exchange rate risk. Due to these negatives, shares of the company have declined in the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	\$236.52 - \$71.12
20 Day Average Volume (sh)	357,783
Market Cap	\$6.8 B
YTD Price Change	-26.5%
Beta	1.88
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 40% (102 out of 252)

Sales and EPS Growth Rates (Y/Y %)


Last EPS Surprise	-16.0%
Last Sales Surprise	-1.7%
EPS F1 Est- 4 week change	-8.4%
Expected Report Date	10/29/2020
Earnings ESP	0.0%
P/E TTM	18.7
P/E F1	22.8
PEG F1	1.6
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	417 E	421 E	453 E	460 E	1,752 E
2020	432 A	347 A	396 E	403 E	1,582 E
2019	382 A	442 A	460 A	440 A	1,724 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.94 E	\$1.94 E	\$2.29 E	\$2.47 E	\$8.64 E
2020	\$1.81 A	\$1.21 A	\$1.77 E	\$1.94 E	\$6.75 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 08/20/2020. The reports text is as of 08/21/2020.

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.

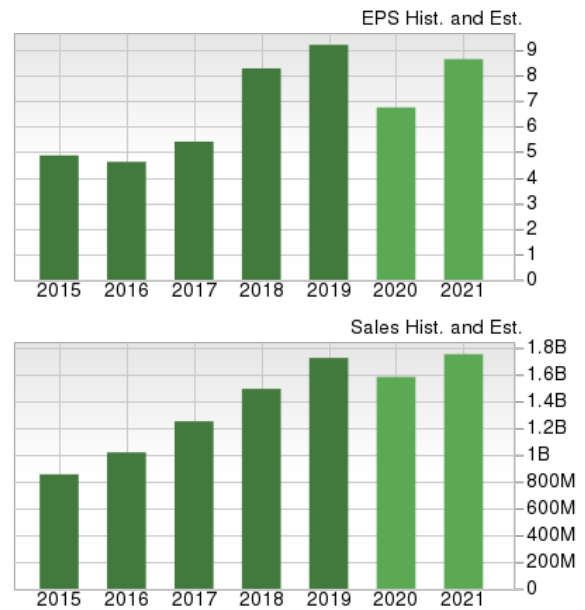
Fleet Solutions (60% of total revenues in 2018) offers customers with fleet vehicle payment processing services, particularly designed for commercial and government fleets. The segment generates revenues from payment processing, account servicing and financing fees. Management believes that WEX fleet 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 Novartis to expand its corporate payments business.
- ▲ WEX's **Health and Employee Benefit Solutions** has been performing extremely 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:

- ▼ WEX's debt-to-capital ratio of 0.57 was higher than the industry's 0.38 at the end of second-quarter 2020. Higher debt to capitalization ratio indicates that the proportion of debt to finance the company's assets is on the rise and so is the risk of insolvency. Further, cash and cash equivalent balance of \$1.45 billion at the end of the quarter was well below the long-term debt level of \$2.65 billion underscoring that the company **doesn't have enough cash to meet this debt burden**. This may weigh on the company's share price which has declined 26% over the past year. However, the cash level can meet the short-term debt of \$119 million.
- ▼ 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.

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

Last Earnings Report

WEX Misses on Q2 Earnings & Revenue Estimates

WEX reported lower-than-expected second-quarter 2020 results.

Adjusted earnings of \$1.21 per share (excluding 45 cents from non-recurring items) missed the Zacks Consensus Estimate by 16% and decreased 46.9% year over year. Total revenues of \$347.1 million fell short of the consensus mark by 1.7% and decreased 21.4% year over year.

In response to the WEX's implementation of several cost cut initiatives due to the COVID-19 crisis, the company expects its total saving to be approximately \$60-\$65 million for the year.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	-1.69%
EPS Surprise	-15.97%
Quarterly EPS	1.21
Annual EPS (TTM)	8.22

Revenues by Segment

Fleet Solutions revenues (59% of total revenues) decreased 24% year over year to \$204.4 million. The downside was due to weak finance fee revenues and payment processing revenues related to two major North America portfolios.

Average number of vehicles serviced was 15.1 million, up 8% from the year-ago quarter's figure. Total fuel transactions processed fell 17% from the year-ago quarter's tally to 127.9 million. Payment processing transactions fell 19% to 103.1 million. U.S. retail fuel price declined 28.9% from the year ago quarter to \$2.07 per gallon.

Travel and Corporate Solutions revenues (15.7%) of \$54.5 million were down 40% year over year. The downtick can be attributed to weakness in the finance fee revenues and payment processing revenues. The coronavirus pandemic's adverse impact on travel volumes strained the segment's revenues. Purchase volume decreased 68% to \$3.2 billion.

Health and Employee Benefit Solutions revenues (25.4%) of \$88.2 million jumped 6%, year over year, on 15% growth in the average number of Software-as-a-Service (SaaS) accounts in the United States to 14.5 million.

Operating Results

Adjusted operating income decreased 40.2% from the prior-year quarter's figure to \$99.4 million. Adjusted operating income margin declined to 28.7% from the year-ago quarter's 37.7%.

Balance Sheet

WEX exited the second quarter with cash and cash equivalents of \$1.3 billion compared with the \$861.2 million witnessed at the end of the prior quarter. Long-term debt was \$2.7 billion, nearly flat with the previous quarter's reported figure.

Recent News

On **Aug 13, 2020**, WEX announced the launch of its new ClearView Snap voice skill for Amazon Alexa.

On **Jul 30, 2020**, WEX announced that it has inked a multi-year contract extension with Enterprise Fleet Management. The deal further strengthens the persistent alliance between the two organizations, since 1993.

On **Jul 1, 2020**, WEX announced that it recently gave its trucking customers access to its fuel discount network. This network which forms a part of WEX's new WEX EDGE business savings network, allows WEX merchants to offer savings on truck fuel purchases. Customers can access such discounts at thousands of participating locations across the United States, thereby reducing cost and maintaining uninterrupted deliveries amid the coronavirus pandemic.

Valuation

WEX shares are down 26.5% in the year-to-date period and 26% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 4.1% and 2.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector up 5.9% and 3%, respectively.

The S&P 500 index is up 4.7% in the year-to-date period and 15.7% in the past year.

The stock is currently trading at 19.29X price to forward 12 months' earnings, which compares to 31.38X for the Zacks sub-industry, 30.08X for the Zacks sector and 22.77X 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 21.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$163.00 price target reflects 20.41X 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	19.29	31.38	30.08	22.77
	5-Year High	29.47	31.68	30.08	22.77
	5-Year Low	8.73	20.78	18.68	15.25
	5-Year Median	21.32	23.31	20.95	17.58
P/S F12M	Current	4.02	11.41	4.22	3.7
	5-Year High	5.55	11.41	4.22	3.7
	5-Year Low	1.92	7.18	3.06	2.53
	5-Year Median	4.02	8.78	3.6	3.05
P/B TTM	Current	3.42	7.28	4.48	4.53
	5-Year High	5.26	12.78	6.71	4.56
	5-Year Low	1.86	5.22	3.28	2.83
	5-Year Median	3.42	8.08	5.22	3.75

As of 08/20/2020

Industry Analysis Zacks Industry Rank: Top 40% (102 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Envestnet, Inc. (ENV)	Outperform	1
Cardtronics PLC (CATM)	Neutral	3
EVO Payments, Inc. (EVOP)	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	3
Evertec, Inc. (EVTCT)	Underperform	3

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	WEX	X Industry	S&P 500	CATM	GDOT	PAGS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	A	C	D
Market Cap	6.79 B	2.78 B	23.46 B	971.82 M	2.78 B	13.77 B
# of Analysts	11	6.5	14	6	7	4
Dividend Yield	0.00%	0.00%	1.65%	0.00%	0.00%	0.00%
Value Score	C	-	-	A	B	F
Cash/Price	0.20	0.08	0.07	0.29	0.69	0.06
EV/EBITDA	13.59	15.87	13.34	5.30	4.21	24.62
PEG Ratio	1.57	1.52	3.00	NA	NA	NA
Price/Book (P/B)	3.42	5.01	3.12	3.15	2.77	7.30
Price/Cash Flow (P/CF)	11.07	15.62	12.60	3.33	13.05	35.33
P/E (F1)	22.57	26.24	21.61	22.80	27.38	49.13
Price/Sales (P/S)	4.05	4.85	2.44	0.79	2.38	9.36
Earnings Yield	4.38%	3.71%	4.43%	4.39%	3.66%	2.05%
Debt/Equity	1.34	0.45	0.76	2.70	0.02	0.00
Cash Flow (\$/share)	13.91	2.39	6.93	6.56	4.00	1.19
Growth Score	B	-	-	B	F	B
Hist. EPS Growth (3-5 yrs)	18.54%	17.88%	10.44%	-9.10%	22.14%	NA
Proj. EPS Growth (F1/F0)	-26.64%	-6.86%	-5.53%	-61.97%	-31.70%	-20.83%
Curr. Cash Flow Growth	13.00%	13.06%	5.20%	4.09%	-2.08%	27.17%
Hist. Cash Flow Growth (3-5 yrs)	18.68%	14.80%	8.52%	5.70%	19.89%	NA
Current Ratio	1.38	1.29	1.33	0.90	1.02	2.48
Debt/Capital	58.08%	36.58%	44.50%	73.00%	2.04%	0.00%
Net Margin	7.47%	6.22%	10.13%	3.03%	4.39%	23.40%
Return on Equity	16.87%	16.87%	14.67%	22.33%	7.96%	19.20%
Sales/Assets	0.21	0.47	0.51	0.65	0.43	0.44
Proj. Sales Growth (F1/F0)	-8.20%	-3.07%	-1.54%	-18.32%	7.68%	-14.55%
Momentum Score	F	-	-	C	B	F
Daily Price Chg	-2.40%	-0.81%	-0.59%	-1.00%	0.10%	0.33%
1 Week Price Chg	-0.87%	-0.87%	1.09%	5.98%	-0.82%	-1.67%
4 Week Price Chg	-6.61%	1.06%	1.91%	-6.58%	-0.44%	12.75%
12 Week Price Chg	3.74%	14.13%	6.82%	-14.48%	45.77%	40.93%
52 Week Price Chg	-25.44%	-0.93%	1.47%	-24.84%	65.99%	-19.74%
20 Day Average Volume	357,783	517,226	1,873,576	512,535	429,269	1,360,482
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-8.40%	2.19%	1.79%	13.33%	42.13%	0.00%
(F1) EPS Est 12 week change	-6.53%	6.31%	3.35%	22.40%	42.13%	8.23%
(Q1) EPS Est Mthly Chg	-9.47%	6.50%	0.42%	-30.61%	115.40%	0.00%

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	C
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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