

FleetCor Technologies Inc.

Restatement not ideal, but fundamentals unchanged; Maintain Buy

Maintain Rating: BUY | PO: 326.00 USD | Price: 279.27 USD

Accounting nuance, not a fundamental issue

After the close, FleetCor (FLT) filed an 8-K noting it would need to restate 2023 quarterly financials due to incorrect accounting of customer deposits. FLT also reported a material weakness in its annual 10-K filing related to internal controls in the application of U.S. GAAP guidance. In addition, FleetCor provided a remediation plan within the 10-K to improve the financial reporting prospectively. In our view, the news is more of an accounting issue, than a fundamental or operational business issue. We remain constructive on FLT's core business and view risk/reward as favorable. Maintain Buy.

Customer deposits are restricted cash

FLT has restated its balance sheet and cashflow statement for the first three quarters of 2023 to account for customer deposits more accurately. We understand the issue is related to funds FLT holds in custodial accounts for the benefit of customers. We believe this is primarily related to the accounts payable business where FLT receives funds from the customer before it pays bills. FLT now accounts for these deposits as customer deposits and restricted cash (vs. not accounting for it previously). The changes to restricted cash and deposits range from \$260-\$550M. FLT also restated some accounts receivables and accounts payable balances related to incorrect classification of unbilled accounts receivable balances as part of the restatement. Importantly, all the changes were on the balance sheet and cash-flow statement with **no changes** to the income statement in the restatement. We have updated our model to account for the restatement.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	16.10	16.92	19.30	22.49	24.88
GAAP EPS	12.43	13.20	15.53	19.00	21.32
EPS Change (YoY)	22.0%	5.1%	14.1%	16.5%	10.6%
Consensus EPS (Bloomberg)			19.39	22.58	26.39
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	17.3x	16.5x	14.5x	12.4x	11.2x
GAAP P/E	22.5x	21.2x	18.0x	14.7x	13.1x
EV / EBITDA*	13.0x	11.6x	10.7x	9.9x	9.2x
Free Cash Flow Yield*	3.0%	8.1%	5.6%	6.4%	7.0%

* For full definitions of *iQmethod*SM measures, see page 4.

29 February 2024

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Stock Data

Price	279.27 USD
Price Objective	326.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-1-9
52-Week Range	185.04 USD - 298.48 USD
Mrkt Val (mn) / Shares Out (mn)	20,067 USD / 71.9
Free Float	93.8%
Average Daily Value (mn)	128.67 USD
BofA Ticker / Exchange	FLT / NYS
Bloomberg / Reuters	FLT US / FLT.N
ROE (2024E)	42.4%
Net Dbt to Eqty (Dec-2023A)	122.7%
ESGMeter TM	Medium

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Refer to important disclosures on page 5 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Timestamp: 29 February 2024 08:10PM EST

iQprofileSM FleetCor Technologies Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	15.6%	16.3%	17.2%	17.6%	17.1%
Return on Equity	45.7%	43.2%	42.4%	42.1%	36.0%
Operating Margin	53.7%	54.4%	54.6%	54.5%	54.7%
Free Cash Flow	603	1,626	1,124	1,282	1,405

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.6x	1.4x	0.9x	1.0x	1.0x
Asset Replacement Ratio	1.6x	1.4x	1.4x	1.4x	1.4x
Tax Rate	25.2%	25.9%	26.8%	27.0%	27.0%
Net Debt-to-Equity Ratio	169.8%	122.7%	128.2%	78.0%	42.6%
Interest Cover	11.2x	5.9x	6.1x	7.5x	8.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,427	3,758	4,078	4,402	4,709
% Change	20.9%	9.6%	8.5%	8.0%	7.0%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	1,932	2,154	2,348	2,530	2,718
% Change	16.1%	11.5%	9.0%	7.8%	7.4%
Net Interest & Other Income	(163)	(349)	(365)	(320)	(320)
Net Income (Adjusted)	1,237	1,259	1,372	1,532	1,663
% Change	11.4%	1.8%	9.0%	11.7%	8.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	954	982	1,101	1,294	1,424
Depreciation & Amortization	92	110	123	132	141
Change in Working Capital	(752)	259	(172)	(172)	(176)
Deferred Taxation Charge	(33)	(47)	(111)	(111)	(111)
Other Adjustments, Net	494	476	349	319	319
Capital Expenditure	(151)	(154)	(167)	(180)	(193)
Free Cash Flow	603	1,626	1,124	1,282	1,405
% Change	-44.3%	169.6%	-30.9%	14.1%	9.6%
Share / Issue Repurchase	(1,356)	(573)	(1,175)	(400)	(400)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	710	(248)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,435	1,390	1,339	2,221	3,226
Trade Receivables	3,352	3,431	4,040	4,388	4,693
Other Current Assets	1,323	1,905	1,966	2,008	2,048
Property, Plant & Equipment	295	343	387	435	487
Other Non-Current Assets	7,688	8,080	8,080	8,080	8,080
Total Assets	14,093	15,150	15,812	17,132	18,534
Short-Term Debt	1,027	820	820	820	820
Other Current Liabilities	5,016	5,648	6,327	6,686	7,001
Long-Term Debt	4,723	4,596	4,596	4,596	4,596
Other Non-Current Liabilities	785	804	888	936	980
Total Liabilities	11,552	11,867	12,630	13,038	13,397
Total Equity	2,541	3,282	3,182	4,094	5,137
Total Equity & Liabilities	14,093	15,150	15,812	17,132	18,534

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Computer Services

Company Description

FleetCor is a commercial payment provider, with offerings able to control, simplify and secure payment of various domestic and cross-border payables using specialized payment products. FleetCor operates in five categories: Fuel, Lodging, Tolls, Corporate Payments and Gift, with Fuel the largest. FleetCor's fuel payment solutions provide customers with tools and information to control their fuel and other fleet-related operating costs.

Investment Rationale

We rate FLT at Buy. We view FLT's fundamentals favorably and believe its competitive positioning and large addressable markets position it for robust organic growth over the long term. We also see the company making progress on its idiosyncratic risks. Capital allocation (M&A, buybacks) offer additional upside optionality. We view the risk/reward setup as favorable.

Stock Data

Average Daily Volume 460,742

Quarterly Earnings Estimates

	2023	2024
Q1	3.80A	4.10E
Q2	4.19A	4.65E
Q3	4.49A	5.20E
Q4	4.44A	5.39E

Price objective basis & risk

FleetCor Technologies Inc. (FLT)

We calculate our price objective of \$326 based on a 14.5x multiple to our 2025 non-GAAP EPS estimate. Our PE multiple is approximately a 20% discount to the S&P, which we view as warranted given fuel exposure and potential for idiosyncratic risks, slightly offset by FleetCor's strong fundamentals and upside potential from capital deployment.

Downside risks to our price objective are 1) weakening macro environment reduces demand for trucking/fuel, 2) increased competition, and 3) large fluctuations in fuel prices/foreign exchanges rates.

Analyst Certification

I, Mihir Bhatia, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Marqeta	MQ	MQ US	Cassie Chan
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
NEUTRAL				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan



US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt} - \text{Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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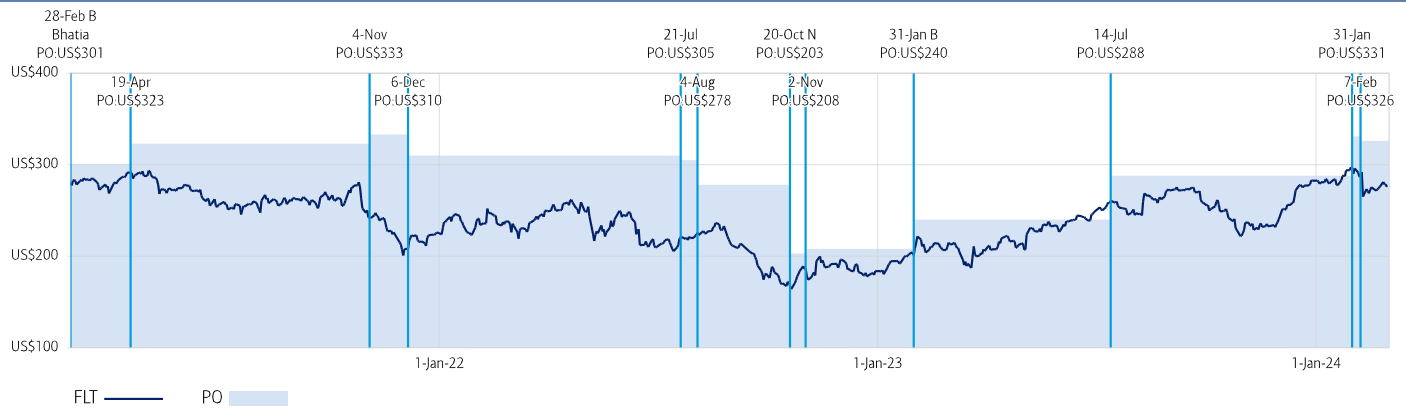
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FleetCor (FLT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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