

FleetCor Technologies Inc.

Soft rev outlook could pressure shares

Reiterate Rating: BUY | PO: 326.00 USD | Price: 291.99 USD

Vehicle and Lodging Payments softness drive revs miss

FleetCor (FLT) reported 4Q revs/adj. EPS of \$937M/\$4.44 below BofAe/cons at \$967M/\$4.51 and \$970M/\$4.48, respectively. Revenue was also below the low end of guide at \$953M, but margins were solid which kept EPS in the guidance range. The company noted that weakness was primarily driven by Vehicle and Lodging payments. We view guidance as mixed – while top-line growth is below expectations, consensus EPS forecasts are near the midpoint of the range. While results were uninspiring, FLT is encouraged by sales momentum and the cross-sell opportunity prospectively. We view the capital return outlook and mid-teens EPS growth as attractive. Reiterate Buy.

'24 EPS frames cons. expectations, but rev guide is weak

FLT's 2024 revenue guidance of \$4,040-\$4,120M is below consensus at \$4,140M, but positively the adj. EPS guide of \$16.20-\$16.60 frames consensus at \$19.46. The solid EPS guide is driven by positive operating leverage and a \$800M buyback plan (\$687M in '23). Vehicle Payments is expected to grow in the mid-single digits, Corporate Payments at ~20%, and Lodging Payments in the high-single digits. For 1Q, FLT expects revs/adj. EPS of \$925-\$945M/\$4.02-\$4.12 well below consensus at \$982M/\$4.42 due to continued softness in Vehicle and Lodging Payments and fuel price headwinds. While 1Q faces headwinds, revenue growth is expected to accelerate throughout the year.

Next stage of FleetCor = Corpay

The company has decided to keep the Vehicle Payments business (formerly Fleet) and Corporate Payments businesses together and focus on repositioning the Vehicle business to offer a broader product set. It expects to accelerate cross-sell initiatives which could reaccelerate revenue growth in 2H24. Additionally, FleetCor plans to rebrand to Corpay in March – positioning the business more in-line with its new segmentation. The company will prioritize M&A in its three core segments.

Adjusting estimates and PO

We adjust our 2024/2025 adj. EPS estimates to \$19.30/\$22.49 from \$19.60/\$22.85 previously as we account for updated guidance. We lower our PO from \$331 to \$326 based on an unchanged 14.5x multiple to 2025E EPS.

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)			19.25	22.45	25.46
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	18.1x	17.3x	15.1x	13.0x	11.7x
GAAP P/E	23.5x	22.1x	18.8x	15.4x	13.7x
EV / EBITDA*	13.6x	12.2x	11.2x	10.4x	9.7x
Free Cash Flow Yield*	2.9%	7.7%	4.2%	5.8%	6.5%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 07 February 2024 08:50PM EST

07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	331.00	326.00
2024E Rev (m)	4,133.1	4,077.7
2025E Rev (m)	4,531.6	4,401.9
2026E Rev (m)	4,953.5	4,708.8
2024E EPS	19.60	19.30
2025E EPS	22.85	22.49
2026E EPS	26.06	24.88

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Stock Data

Price	291.99 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
Mkt Val (mn) / Shares Out (mn)	21,083 USD / 72.2
Free Float	93.9%
Average Daily Value (mn)	101.67 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™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

4Q23 detail on page 3

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	884	1,225	1,379

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.6x	1.4x	0.8x	0.9x	0.9x
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%	135.7%	85.3%	48.9%
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	(412)	(229)	(202)
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	884	1,225	1,379
% Change	-44.3%	169.6%	-45.6%	38.6%	12.6%
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	1,099	1,924	2,903
Trade Receivables	3,352	3,431	4,062	4,416	4,725
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	15,594	16,864	18,243
Short-Term Debt	1,027	820	820	820	820
Other Current Liabilities	5,016	5,648	6,109	6,417	6,710
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	12,412	12,769	13,106
Total Equity	2,541	3,282	3,182	4,094	5,137
Total Equity & Liabilities	14,093	15,150	15,594	16,864	18,243

* For full definitions of iQmethodSM measures, see page 5.

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 348,200

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

More on 4Q23

FleetCor resegmented and now operates under three main businesses: Vehicle Payments, Corporate Payments, and Lodging Payments. The previous Brazil segment is now encapsulated in Vehicle Payments and Corpay One is now embedded in Vehicle Payments instead of Corporate Payments previously. In the quarter, the company called out revenue weakness on a few specific factors: (1) Gift card shipments delayed into 1Q; (2) Lower airline cancellations which drove weakness in Lodging for distressed passengers; (3) Lower late fees from North American fleets; (4) Weakness in the Channel Partner business within Corporate Payments.

That said, the company is encouraged given its solid retention which was up 50bps q/q and an expectation that partner channel volumes have bottomed out, given data observed through January. Additionally, lower late fee revenue emphasizes the progress FLT has made on underwriting to micro fleets, which has been a net benefit to earnings given lower losses on bad debt. They believe bad debt is somewhat normalized now and will fluctuate due to the growth of the business.

2024 guide assumes steady macro and margin expansion

In 2024, FLT is assuming a relatively stable macro in its core markets (US, UK, Brazil) and noted a potential for slight economic improvement given rate cuts. The company does not assume a recession, but also has tempered expectations for GDP growth. It assumes consistent fuel spread with 2023 and expects typical seasonal fluctuations in fuel prices. FleetCor is also guiding to EBITDA of \$2,185-\$2,225M and at the midpoint of guidance, represents 54.0% up from 53.1% in 2023.



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
	Discover Financial	DFS	DFS 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
	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
	Marqeta	MQ	MQ US	Cassie Chan
	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
UNDERPERFORM				
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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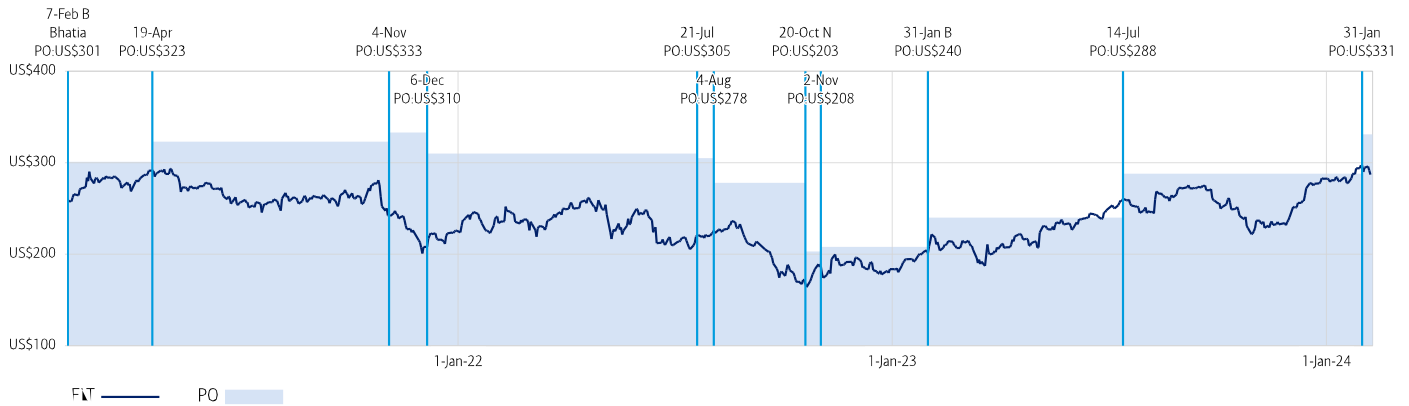
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FleetCor (FLT) Price Chart



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}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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