

## **FLEETCOR (NYSE) - FLT**

### **Company Description:**

FleetCor Technologies, Inc. is a leading independent provider of fuel cards, and payment products and services throughout North America, Latin America, and Europe. Its corporate charge cards cater to commercial fleets, major oil companies, petroleum marketers, and government entities. It owns and operates proprietary closed-loop networks electronically connected to merchants, through which it captures, analyzes, and reports customized information. Has 7,100 employees. Off./dir. own 4.3%; Lone Pine Capital LLC, 7.0%. Chairman & CEO: Ronald F. Clarke. Norcross, GA [www.fleetcor.com](http://www.fleetcor.com).

### **Basic Description:**

The predecessor company to FleetCor Technologies, Inc. was organized in the United States in 1986. It completed an initial public offering of its common stock on December 20, 2010. Since that time, FLT has experienced rapid growth in net profits and EPS. Part of this growth has been acquisitions through borrowing and issuing shares. As a result of high acquisition costs, VL excludes some charges in the past. The market has reflected this above average growth with above average P/Es. FLT has experienced superior ROEs which have trended downward due to acquisitions. FLT has superior operating margins, but significant depreciation rates indicating capital intensity. VL's expected drop in dep costs has proved wrong.

### **Profitability Description:**

FLT uses adjusted revenues, a non-GAAP number, that excludes merchant commissions. VL and our presentation are GAAP revenues. This affects margin calculations. While VL does use GAAP numbers with a few charges excluded, FLT uses "adjusted net income". ACM uses a number which is between VL's and FLT's as ACM includes stock compensation expenses. FLT has been a rapidly growing company with most of its growth coming from acquisitions as is evidenced by the preponderance of goodwill and intangibles on the balance sheet. The profit margin is high on all lines of the business. The returns on capital have reduced, but this has been primarily the result of acquisition capital showing up as intangibles on the balance sheet. Profitability appears sustainable, although technology is rapidly changing. However, acquisitions are critical for continued growth.

### **Core Advantage Description:**

No credit exposure. Gathers fleet buying power and delivers to fuel outlets. This drives more direct and indirect business to the fuel outlets and in return can drive a % of the savings delivered (e.g. 15%). On other side, creates better management of fleet costs and accounting. In addition, creates savings and is able to charge a subscription as well as transaction fees. Network effect. Has only 3% of market. Fragmented business. Acquire underperforming companies in space. Acquired 60 companies since 2002. Increases effectiveness. 1 mln commercial accounts 24 countries.

### **Investment Thesis:**

### **Purchase Description:**

ACM considers FLT a buy at 127 (20X 2016 earnings) and a sell at 200 as a Tier III high ROE "equity bond" purchase. However, FLT barely exceeds our debt restriction and, given its high P/E, high EV/Sales and requirement to make more acquisitions, it is probably good to trim or sell above 160 (historical high P/E).

		FY End			Stock Price			Mkt. Value (in mlns)																
		December			\$145.00			\$13,311.00																
		1995	1996	1997	1998	1999	2000	2001	2002	2003			2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Earnings (mln)																		147.3	216.2	284.5	368.7	362.4	452.0	510.0
EPS (GAAP)																		\$1.80	\$2.67	\$3.45	\$4.02	\$3.92	\$4.92	\$5.59
NonGAAP EPS																		\$2.21	\$3.14	\$4.12	\$4.94	\$5.64	\$6.38	\$7.24
Ave. P/E Ratios																		17.1	16.2	22.4	25.3	23.9	21.5	
Yrly Price Low																	24.5	24.3	29.8	54.1	101.5	134.5	107.0	141.0
Yrly Price High																	31.4	38.0	53.7	124.0	160.4	165.7	176.0	170.0
Dividends Paid																		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends PS																		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Ave. Div. Yld.																		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Shares Outstdg.																		81.9	81.0	82.5	91.7	92.4	91.8	91.2
Buyback \$ (mln)																		1.2	34.2	(127.3)	(1,203.4)	(108.1)	82.1	93.3
Shr. Equity (mln)																		811	914	1,244	2,753	2,850	3,084	3,600
Book Value PS																		\$9.91	\$11.28	\$15.08	\$30.04	\$30.85	\$33.59	\$39.47
LT Debt																		278	485	475	2,169	2,061	2,500	2,800
Return On Eq.																		18.15%	23.66%	22.87%	13.39%	12.72%	14.66%	14.17%
Return On Cap.																		13.52%	15.45%	16.55%	7.49%	7.38%	8.09%	7.97%

Description:

Instructions:

Analysis:

Observations:

Three parts: merchant processing (20% of fee), network processing (5% of fee) and banking vertically (75% of fee).

## Investment Characteristics

### Earnings Analysis:

Growth Rate %: 23.62%

Quality %: 78.65%

### Use Of Earnings Analysis:

Avg Div Payout Ratio: 0.00%

Avg Stk Buyback Ratio: -211%

	1995	1996	1997	1998	1999	2000	2001	2002	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues															520	708	895	1,199	1,703	1,832	2,220
RPS															\$6.35	\$8.73	\$10.85	\$13.09	\$18.43	\$19.96	\$24.34

### Rev. Analysis:

### Rev Analysis (last 5 yrs.):

Growth Rate %: 28.66%

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Growth % PS: 25.75%

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	1995	1996	1997	1998	1999	2000	2001	2002	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Oper. Margin															48.70%	51.70%	55.10%	54.10%	50.60%	52.00%	52.00%
Tax Rate															30.10%	30.40%	29.50%	28.10%	32.00%	32.00%	32.00%
Depreciation															27	41	73	112	194	203	210
Dep. Rate															18.26%	18.87%	25.55%	30.49%	53.39%	44.91%	41.18%

### Description:

### Instructions:

### Analysis:

### Observations:

# Description & Analysis of Profitability (in mlns):

	2012		2013		2014		2015		2016		
Net Revenues:	26.8%	708		895		1,199		1,703		1,832	
North America		400		461		668		1,232		1,279	
International		307		435		531		471		552	
Internal Costs:	27.4%	332		403		522		842		874	
Merchant commissions		59	8.3%	68	7.6%	96	8.0%	108	6.3%	104	5.7%
Processing		116	16.3%	134	15.0%	173	14.4%	331	19.4%	355	19.4%
Selling		46	6.6%	57	6.4%	76	6.3%	109	6.4%	131	7.2%
General, administrative and othe		110	15.6%	142	15.9%	206	17.2%	298	17.5%	284	15.5%
Other operating		1	0.2%	1	0.1%	-30	-2.5%	-4	-0.2%	-1	0.0%
EBITDA:	26.3%	376	53.1%	493	55.0%	678	56.5%	861	50.6%	958	52.3%
Depreciation and other amortizat		52		73		112		194		203	
"Free" Cash Flow	26.0%	357		472		651		819		899	
Capital Expenditures		19		21		27		42		59	
Operating Margin:	23.5%	324	45.8%	420	46.9%	565	47.1%	668	39.2%	754	41.2%
North America		197		221		287		442		506	
International		128		200		278		226		248	
External Costs:	29.4%	108		136		181		305		302	
Taxes:		95		119		144		174		191	
Interest expense		13		16		29		71		72	
Other:		0		0		8		60		39	
Earnings:	20.3%	216		285		384		363		452	
Diff btw dep and capex		21		34		55		99		94	
One time adjments		0		0		8		60		39	
ACM "Adj"Earnings:	25.3%	238		318		448		521		586	
Dividend Paid/% of FCF:		0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Common Stock/% of FCF:		34	9.6%	-127	-27.0%	-1,203	-184.9%	-108	-13.2%	82	9.1%
Stmnt of CF:										166	
Businesses Bought/Sold		190		728		2,567		58		1,331	

## Balance Sheet (in thsds):

	2013	2014	2015	2016
<b>Assets:</b>	<b>3,932,235</b>	<b>8,524,701</b>	<b>7,891,868</b>	<b>9,626,732</b>
Cash and Cash Equivalents	338,105	477,069	447,152	475,018
Restricted cash	48,244	135,144	167,492	168,752
Accounts receivable	573,351	673,797	638,954	1,202,009
Securitized AR	349,000	675,000	614,000	591,000
Prepaid expenses	40,062	74,889	68,661	90,914
Deferred income taxes	4,750	101,451	8,913	0
Property, plant and equipment, net	53,956	73,563	80,760	142,504
Goodwill and other intangible	1,552,725	3,713,182	3,546,034	4,195,150
Other intangibles	871,263	2,386,242	2,183,595	2,653,233
Equity Method Inv	0	141,933	76,568	36,200
Other assets	100,779	72,431	59,739	71,952
<b>Liabilities:</b>	<b>2,688,342</b>	<b>5,906,339</b>	<b>5,061,821</b>	<b>6,542,694</b>
Accounts Payable	467,202	716,676	669,528	1,151,432
Accrued expenses	114,870	178,375	150,677	238,812
Customer deposits	182,541	492,257	507,233	530,787
Securitization facility	349,000	675,000	614,000	591,000
Current portion of debt	662,439	749,964	261,647	745,506
Other current liabilities	132,846	84,546	44,936	38,781
Long-term Debt	474,939	2,168,953	2,061,415	2,521,727
Deferred income taxes	249,504	799,939	713,428	668,580
Other Liabilities	55,001	40,629	38,957	56,069
<b>Shareholder's Equity:</b>	<b>1,243,893</b>	<b>2,618,562</b>	<b>2,830,047</b>	<b>3,084,038</b>
Common Stock	117	120	121	121
Capital Surplus	631,667	1,852,442	1,988,917	2,074,094
Treasury Stock	-375,663	-346,397	-354,516	-542,495
Retained Earnings	1,035,198	1,403,905	1,766,336	2,218,721
Comprehensive Income	-47,426	-291,508	-570,811	-666,403

**Description:**

**Instructions/Questions:**

**Analysis:**

**Observations:** The decline in short term debt and increase in long term lending seems to adhere to Buffett's motto: "neither a short term borrower nor a long term lender be."

Description & Analysis of Debt Levels (in mlns):

Summary:	Debt is a four-letter word. Debt causes the years of repayment of capital to equity shareholders to stretch out into the more distant future. Even worse, debt can cause the best business model to become the property of bondholders in a rough economic environment.
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Total Debt-Capital:	The measure of total debt to total capital is useful when book value is a good measure of a firm's worth. This is particularly true of traditional businesses where property, plant and equipment are important. Further, it helps to have this ratio in capital intensive businesses with cyclical earnings.
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Total Debt:	3,246,376	Here, deferred income taxes have been excluded.
Total Capital:	6,330,414	Here, deferred income taxes have been excluded.
Ratio:	51.28%	

Long Term Debt-Cap.:	The measure of long term debt to total capital is useful when total debt is distorted by the high presence of current assets being financed by current liabilities. Again, the measure works best within a traditional industry setting. The ratio helps position the equity shareholders.
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L. T. Debt:	3,267,233	Here, the current liabilities have been excluded.
L. T. Capital:	6,351,271	Here, the current liabilities have been excluded.
Ratio:	51.44%	

Net Income Payback:	The measure of how quickly total debt is repaid by net income is a conservative measure, as it includes debt such as current liabilities, that are financed by current assets and excludes some sources of cash, such as noncash amortization numbers.
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Total Debt:	3,246,376
Net Income:	585,595
Years Payback:	5.5

L.T. Debt:	3,267,233
Net Income:	585,595
Years Payback:	5.6

Addback Net Inc. Payback:	The measure of how quickly debt is repaid by addback net income is a good measure, as it starts with GAAP net income and adds back expenses on an after-tax basis that are clearly discretionary, such as business acquisitions to better analyze the strength of the repayment stream.
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L.T. Debt:	2,792,215	adds back cash
Net Income:	585,595	
Addback:	0	Merger charges, writedowns above the line, dep. Amort below the line less capex
Years Payback:	4.8	

Interpretations:	
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Description & Analysis of Pension Issues(in mlns):

Summary:	Corporate defined benefit or "pension" plans are a major obligation of companies. Because of the actuarial changes involved, obligations can move significantly. As a result, corporations have steadily moved toward defined contribution plans as they froze or terminated pension plans. These obligations are measured in two ways: accumulated and projected. As the name implies, projected is what is likely and a greater number than accumulated. This obligation is typical in three categories: US, non-US and post-retirement. There are assets which are set up to fund these plans. The difference is the funded status. This number provides an indication of the additional potential obligation of the company and is included in the balance sheet - typical in "other assets" and "other liabilities." That may not be the accurate value of the obligation in the event that assumptions are unreasonable. Because pensions are funded over time, it is less likely to have an immediate funding need that cripples the company or its earnings. Rather than focus on these assumptions, we estimate the size of plan's underfunding relative to the market value of the company. The greatest financial risk involves companies which are small relative to these funding requirements. For our purposes, we set this limit at 25% for the total underfunded as a percentage of market capitalization.
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Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Pension Plan Frozen:	No	No	No							
Taft-Hartley Underfunded:										
Amount:										
Market Cap:										
Ratio:										

Description & Analysis of Stock Options (in mlns):

Summary:	Stock options are a difficult form of compensation to assess. Heavy use of stock options creates stock issuance and a demand for stock repurchasing in some industries. This can be dilutive to shareholders if no repurchasing occurs or can absorb cash flows in the event that repurchasing occurs to offset issuance. Uses "share-based incentive" language
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FASB ASC 718	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
After tax Expense	37.64	90.12	63.94							
Net profits:	447.75	521.34	585.60							
%	8.41%	17.29%	10.92%							
Cash net of tax benefit & inflows			166.00							
Net share repurchase			82.07							
Difference			83.93							
% of Net profits:			14.33%							

## Industry Overview

The credit card industry has enjoyed a powerful secular transition from cash and checks to "plastic." Increasingly, payment systems will be mobile and digital. Concerns continue to grow around issues of fraud and safety. At the same time, merchants are pushing back on their costs to offer these payment systems with margins narrowing due to debit cards as well as co-branded cards. The result should be a continued rapid growth but a decline in margins.

## Industry Comparisons

### Operating Statistics:

Company	Yrs.Pybk.	Sales	ROE	Oper.Margin
FLT	4.8	1,832	14.66%	52.00%
WEX	10.9	1,018	15.00%	44.00%

### Market Statistics:

Company	P/B	P/E	Div. Yld.	EV/Sales
FLT	4.32	22.7	0.00%	7.62
WEX	3.43	22.9	0.00%	6.50

## Investment Opinion

### Positives:

### Negatives:

#### Product/Service:

**Pricing Power:**

**Durability:**

**Brand Appeal:**

**Unique Importance:**

**Role Of Media:**

**Toll Bridge:**

**Global Opportunity**

**Competition**

**Economic Risk:**

**Government Role**

**Role Of Technology:**

**Supply/Demand:**

#### Financial:

**Business Model:**

**High Capital Reinv.:**

**Effective As Public:**

**Ownership:**

**Growth:**

**Concentration:**

#### Management:

**Characteristics:**

**Proxy Information:**

used continuously  
recognized in trucking industry  
has several networks  
  
a buying cooperative; has scale  
  
yes  
  
helps limit entrants by controls over payments  
yes, helps those with scale  
increasing need to outsource complexity

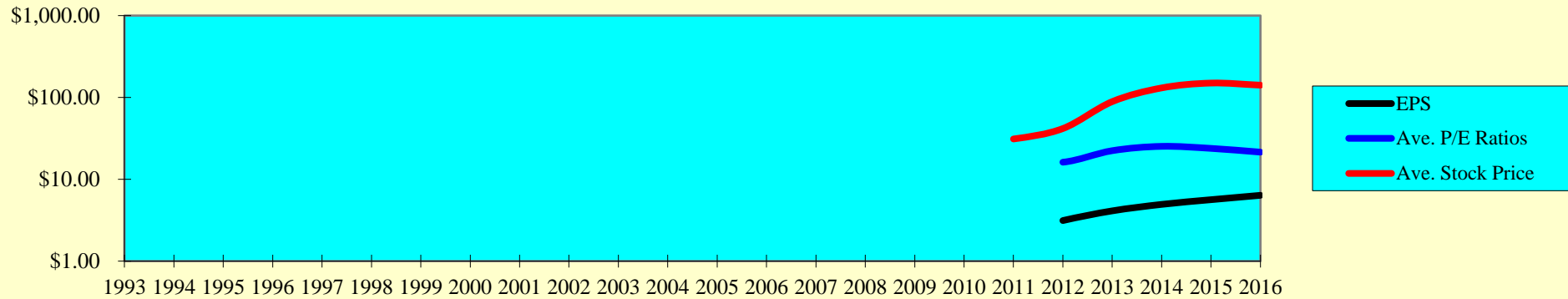
"creamer"  
limited  
  
yes

competitive;  
  
  
  
limited  
  
global may have limited "synergies"  
  
several companies in different verticals  
  
cyclical

high acquisition requirement for P/Es



# Average Stock Price vs. Average P/E vs. EPS



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EPS	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2.21	\$3.14	\$4.12	\$4.94	\$5.64	\$6.38
Ave. P/E Ratios	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17.10	16.20	22.40	25.30	23.90	21.50
Ave. Stock Price	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	27.95	31.15	41.75	89.05	#####	#####	141.50

Price/Earnings Ratio: used	\$6.38
Six year average low P/E	15.8
Six year average high P/E	25.6

If we set the purchase at the ave. Six year low P/E, the price implied is: **\$100.77**

If we set the sell at the ave. Six year high P/E, the price implied is: **\$163.55**

Price/Sales Ratio: used -	\$19.96
Six year average low P/S	5.44
Six year average high P/S	8.94

If we set the purchase at the ave. Six year low P/S, the price implied is: **\$108.56**

If we set the sell at the ave. Six year high P/S, the price implied is: **\$178.37**

Price/Book Ratio: used	\$33.59
Six year average low P/B	3.3
Six year average high P/B	5.5

If we set the purchase at the ave. Six year low P/B, the price implied is: **\$109.77**

If we set the sell at the ave. Six year high P/B, the price implied is: **\$183.47**

Price/Cash Flow Ratio: used	n/m
Six year average low P/CF	n/m
Six year average high P/CF	n/m

If we set the purchase at the ave. Six year low P/CF, the price implied is: **#VALUE!**

If we set the sell at the ave. Six year high P/CF, the price implied is: **#VALUE!**

Initial Rate of Investment		
	Current Price	\$145.00
	Current EPS	\$6.38
	Initial ROI	4.40%

Valuation as an Equity Bond:		
	Current BV	\$33.59
	Current ROE	14.66%
	Retained %	100.00%
	Net BV Growth	14.66%
	BV in Year 10	\$131.90
	EPS in Year 10	\$19.33
	Valueat20.P/E	\$386.64
	Total Dividends	\$0.00
	Total F.Value	\$386.64
	Purchaseat14%	\$104.29

History of Buys/Sells

Discussion of Buys/Sells

What:

So what:

Now what:

Relative Value to Investment In T-Bonds		
	Current EPS	\$6.38
	T-Bond Rate	4.00%
	Relative Value	\$159.48

Valuation on Earnings Growth:		
	Current EPS	\$6.38
	EPS in Year 10	\$19.81
	Ave. P/E Ratio	20.98
	Valueat20.P/E	\$396.25
	Price Return	10.58%
	Dividend Return	0.00%
	Total Return	10.58%
	Purchaseat14%	\$106.88
	Sellat7.5%	\$192.26

Capital "charge" approach

958	ebitda
0.12	required return
0.15	growth rate (not on EPS basis)
0	% not required
0.12	denominator
7,979	ev
2,500	debt
5,479	equity value
92	shares
59.69	share value
35.81	buy at 60%
71.62	sell at 120%

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