Fleetcor (NYSE: FLT/CPAY) **Tanay Dixit**
Industry: Corporate Payments *tdixit24@gsb.columbia.edu*
Date: 22 April 2023 **BUY**: $ 521 PT (70% upside / 19% IRR to Dec '26)

- Recommend a **BUY** on FLT with a 3yr (Dec '26) price target of $521 (+70% upside, IRR of ~19%): based on 2026 valuation of 12x EV/EBITDA multiple (~10% discount to current 1YF P/E), driven by overblown concerns around EV transition among commercial vehicle fleets weighing down the Fuel business, under-valued Payments Business with near-term catalysts to unlock value, and a strong capital allocator at the helm running a business with high margins and cash flow generation

Company Overview

Trading Metrics	
Price ($)	305
Mkt Cap ($ Mn)	22,089
Net Debt ($ Mn)	5,479
EV ($ Mn)	27,569
52 Week High	320
Avg Daily Trading Volume (#)	465,803
Float Shares %	96.5%

Financial Metrics	2023
Revenue	3,758
EBITDA	1,993
EBITDA %	*53.0%*
FCFF	1,720
FCFF Yield	7.8%
Net Debt / EBITDA	2.7x
P/E (Fwd)	16.0x

- Fleetcor was founded in 2000 by current CEO Ron Clarke; The company initially focused on providing fuel cards to businesses, but quickly expanded its product offerings to include other payment solutions including B2B payments, lodging, tolling etc.
- Today the business is essentially a payments company focusing on multiple B2B use-cases across fuel cards, corporate payments, tolling, lodging and a few other niche cases
- FLT helps businesses spend less by enabling them to better manage their expense-related purchasing and vendor payments processes; Primary revenue model is flows/ interchange based - FLT effectively takes a % of all transactions on its networks
- Inorganic expansion a key part of the strategy; FLT has made 80+ acquisitions since inception and generated ~20% RoIC on the combined acquisition spend over ~10 years
- The business today is split into 4 parts: Fuel Payments , Corporate Payments , Tolling, Others
- FLT is the 12th largest payments provider by total purchase volume processed today
- The stock outperformed the S&P500 by ~11% since IPO in 2011, delivering ~10x return across the period

Understanding the business model

- Before we dive deeper into the thesis, it is important to spend a minute just to understand what Fleetcor does
- The business started by building a 2-sided network in the fleet fueling business, where they went and acquired several fleet operators on the customer side, along with a number of large fuel companies on the supply side which allowed them to aggregated fuel stations by extension and provide volume discounts on fuel prices to the fleet operators
- They also built out their own proprietary payment processing network with accompanying rails, essentially creating a closed loop network; Today, they have expanded that expertise into multiple other use cases such as corporate payments, lodging etc
- FLT's competitive advantage is based on building out these 2-sided networks with genuine network effects and finding niche use cases for these networks; They follow an aggressively inorganic strategy where they are the advantaged acquirer and can pay more than others to acquire plug-n-play assets.

The Setup: Why does the opportunity exist? :

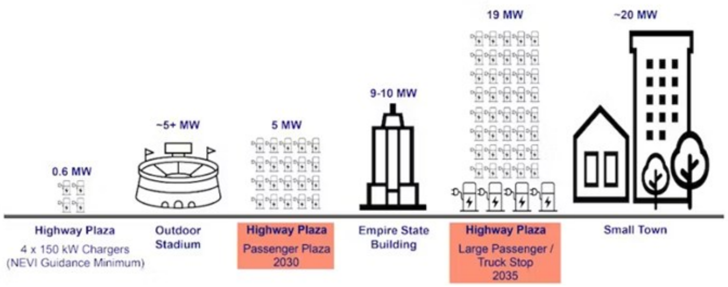
- The biggest bear thesis on the company is that (i) the Electric Vehicle (EV) risk amongst commercial fleets which could render the fuel business obsolete, (ii) the business is exposed to payment processing which is going to be badly hit by the upcoming recession and take rate compression, and (iii) capital allocation will be a problem given their inorganic strategy, rising interest rates, and their ability to redeploy capital into any of their core businesses at scale while earning attractive returns
- To those my response is the following
  - EV risk for commercial fleets is over blown and the transition will take a lot longer than the market anticipates
  - The Payments business is a lot more niche and specialized than the market gives it credit for and will remain resilient in terms of demand and take rates compared to other payment players
  - Ron Clarke is the founder CEO of the business and has 2 decades plus of exceptional track record of creating wealth for shareholders through prudent capital allocation

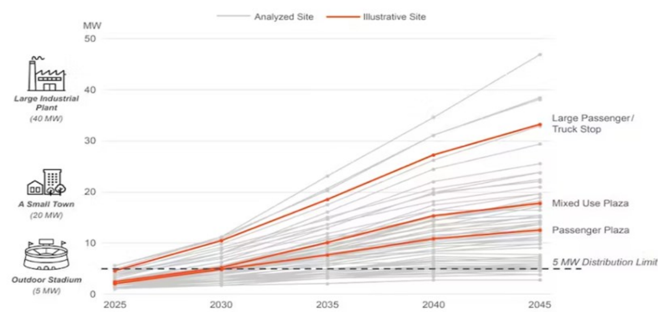
Key Thesis Points:

i) Overblown concerns around EV transition across commercial fleets weighing down Fuel business; The market is being overly punitive while pricing in terminal value risk for the business

- FLT's fuel business has a resilient business model relatively insulated from short-term pressures; FLT has managed to maintain steady margins and pricing across different macro environments for its fuel business, indicating a high degree of pricing power

- Pricing has remained resilient across the last 7-8 years highlighting FLT's ability to pass on long-term pricing pressures to its customers
- FLT's Fuel Revenue / Txn has historically been less sensitive to volatility in fuel prices further highlighting pricing stability
- Runway for transition to EV is longer than the market anticipates; Many studies suggest that the adoption of commercial trucking EV fleets will take longer than expected (~25-30 years longer than most recent estimates)
- **Challenges to the transition to EVs among commercial vehicles:**
    - Costs to fleets - Purchase price is much higher than diesel, and charging station installation can exceed $100,000; specialty workforce; Many car manufacturers are even talking about shifting focus hack to hybrids over pure electric vehicles due to the environmental as well as commercial viability of hybrids given challenges around the energy grid and raw materials (lithium)
    - Logistics and operations- Generally <200 miles range vs 1,000+ for diesel; Recharge times are longer and lack infrastructure.
    - Manufacturing challenges - As battery technology improves, each change necessitates new equipment and vehicle configurations; pace of mining exploration and development for critical minerals may be restrictive.
    - Infrastructure requirements - Investments in the grid, transmission system, and generation capacity are required, a process which takes 4-8 years at the very minimum and which would require significant capex / fiscal spends from the government





- FLT investing actively to position itself as a beneficiary; Fleetcor is the most prepared business in the fleet payments space to adopt an EV transition and fill out the white spaces that the new infrastructure would need from a payments perspective, given their mkt leadership
- Assuming a range beyond 30-35 years for the EV transition, FLT's core business seems undervalued
- Based on the current economics of the fuel business and the number of vehicles currently on FLT's network, I have projected out the intrinsic value of the core fuel business over range of different period to understand what the market is currently pricing in

		Years required to achieve transition --->							
	9,016.2	30.0	35.0	40.0	45.0	50.0	55.0	60.0	65.0
% of ICE EVs reamining within Fleets	0.0%	7,050	7,587	8,035	8,410	8,728	8,995	9,216	9,403
	5.0%	7,225	7,757	8,197	8,564	8,872	9,126	9,336	9,514
	10.0%	7,408	7,933	8,364	8,722	9,016	9,256	9,456	9,624
	15.0%	7,599	8,115	8,536	8,882	9,160	9,387	9,575	9,734
	20.0%	7,799	8,305	8,714	9,042	9,304	9,518	9,695	9,844
	25.0%	8,008	8,500	8,894	9,203	9,448	9,648	9,814	9,955

- My estimates indicate that current valuations imply a sunset period of ~30 years for the business with minimal residual steady state penetration for ICE vehicles (which seems unlikely given the upfront expense required to replace an entire fleet plus operators will be hesitant to fully convert the fleet to EVs and rely on a relatively untested infrastructure)
- A more realistic scenario would be that ICE vehicles will retain anywhere from 10-25% residual penetration with steady state taking closer to ~45-50 years to complete, which would assume ~20% upside from current valuations (Assuming FLT does nothing to retain customers or expand services into the EV space)
- Indicative Unit Economics for EV Charging also show that there are multiple parts of the infrastructure value chain where FLT can develop proprietary solutions; FLT is the naturally positioned as the most suitable player to build solutions for these applications
- Revenue per vehicle could potentially be higher for EV's compared to ICE in some of the above use cases within the value chain where there are either currently few or no incumbent players, or the category itself does not exist today
- New Consumer Finance business seeded by the company in Brazil is effectively a free call option; Success in

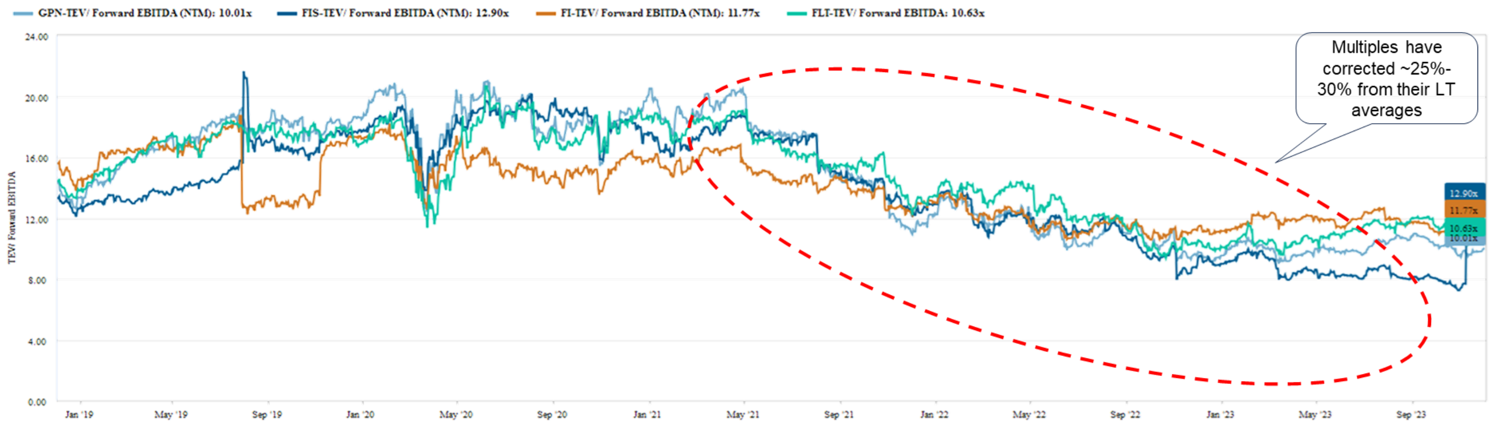
	Rev/ Vehicle ICE Fleet	Rev/ Vehicle EV Fleet	Delta vs ICE
Depot Charging		$25-32	
Ubiquitous Charging		$19-22	
Data		$6-30	
Optimizing Electricity Costs		$10-25	
Vehicle Maintenance		$3-8	
Vehicle Purchase		$3-9	
Revenue Per Vehicle New and Existing Products	**$74**	**$66-126**	**-11% to +70%**

Brazil could be indicative of a new cross sell strategy; Company has already acquired an asset to build on

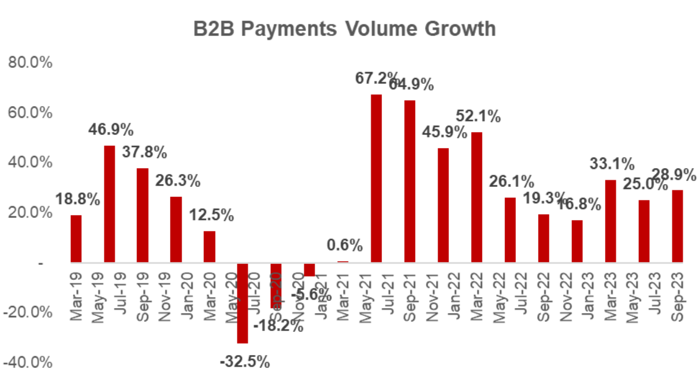
- The B2C Plan: (i) Base - Start with a large consumer base and an “Anchor” service such as digital parking, (ii) One Account - Layer on applications such as insurance, (iii) Networks - Leverage large payment/ merchant networks with attractive commercial terms, (iv) Expand - Already happening in Brazil; plans for Europe and US

ii) Under valued Payments Business that has scaled rapidly and profitably in the B2B space, with near-term catalysts to unlock value

The B2B Corporate Payments business has been subject to a little bit of the “throwing the baby out with the bathwater” phenomenon. While the legacy payment processors have de-rated significantly, Fleetcor has also been disproportionately impact despite having a more niche business that should be more resilient to competitive pressures.



- The business itself can be split into 2 parts: AP Automation and Cross Border Payments; On the AP side, FLT essentially helps midsized businesses automate their vendor management services by offering payment modalities outside of check, and selling related softwares to manage those bills; On the cross border side, they do largely FX across a range of currencies that can only be matched by bank treasuries
    - The AP Automation industry has a large addressable TAM as >60% of transactions in the SMB space take place via checks; Increased penetration of virtual cards to drive incremental growth for FLT’s offering
    - Attractive potential organic cross sell opportunity to existing fleet customers that FLT can leverage to reduce customer acquisition costs; Large pool of existing customers also allows FLT to negotiate favorable spreads with MA; They are one of MA’s largest issuers today
    - Legacy Payment Processors have de-rated significantly over the past 24 months driven by sustained fears of an impending recession & competitive pressures
    - FLT is also the largest non-bank provider of FX solutions in the world today
    - Scale of their solution allows them to aggregate huge demand and supply across currency pairs and set off demand against each other / net them off before the exchange, allowing FLT to pocket the FX fees for itself, resulting in significant profit
- Recent commentary by Adyen around elevated competitive pressures especially in the US market has spooked the market around all things Payments – irrespective of end-mkt exposure; The market has unfairly punished FLT as a result, even though its business is differentiated compared to its listed payment peers
- Firstly, FLT’s business is almost exclusively B2B and operates a closed loop (away from V or MA rails) allowing to achieve full independence and customer captivity; It’s also one of the few closed loop networks that shares level 3 card data which makes reconciliation especially for SMBs easier, further enhancing the value prop of the business
- Customers are largely beholden to the network as switching costs are high, few alternatives exist, and there are genuine network effects for both suppliers and fleets; A business with such competitive advantages should not see the kind multiple compression it’s more commoditized payment peers have witnessed



- Performance as well as feedback on the Corporate Payments business has been consistently strong; Volume growth has been strong (apart from COVID) driven by rapid uptake across both AP Solutions and Cross-Border payments
- Pricing has remained resilient even in the face of multiple challenges such as COVID, rate hikes etc. highlighting FLT's pricing power
- The business has a large TAM that remains largely unaddressed; We are only in the 2nd or 3rd inning in terms of penetrating FLT's existing customer set for cross-sell
- Key driver of revenue growth in the payments business going forward is the large cross-sell opportunity that exists within the current fleet business; Management mentioned in the Q3 FY23 call about the potential for enrolling fleet businesses into the AP automation and virtual cards businesses
- The Fleet business currently as ~800,000 businesses on its platform largely in the construction, transportation and logistics industry; Below numbers indicate that, basis certain estimates, the company could have an addressable market of ~$1.5—2Tn of spends

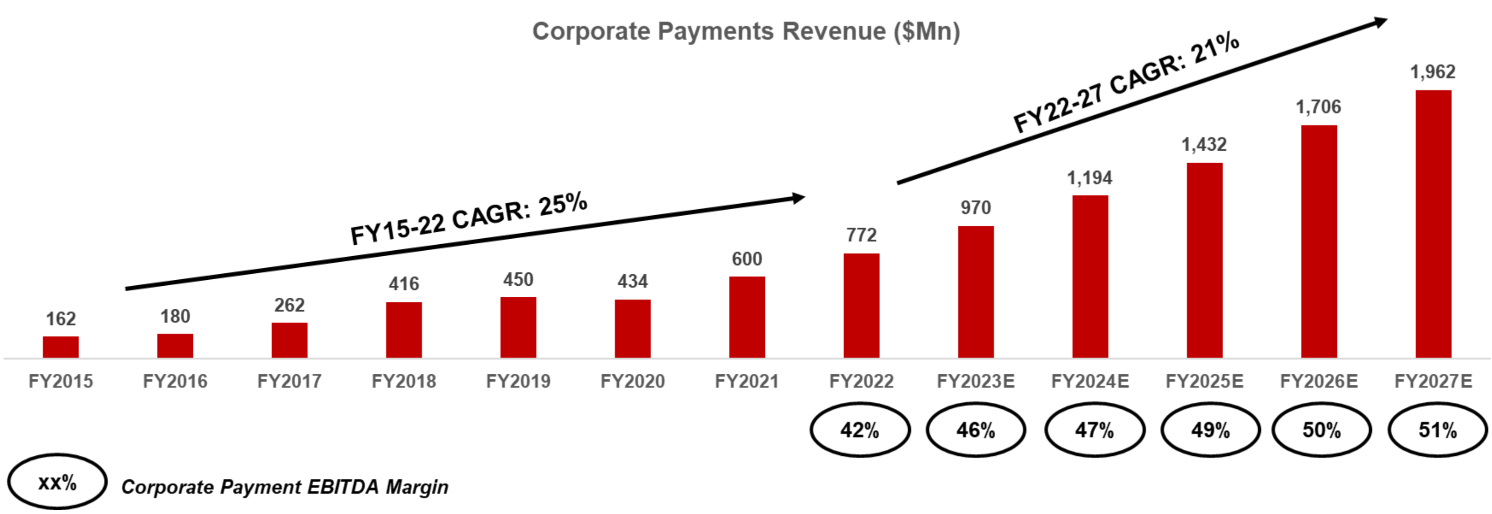
Estimating potential TAM opportunity based exclusively on cross-sell to existing FLT portfolio

Total spend processed today ($ Mn)	**116,866**
Total businesses on FLT's platform	800,000
Average Revenue per year ($ Mn)	**15.0**
Cost base as a % of revenue	70%
% spent on external vendors	25%
Total spend on Vendors ($ Mn)	2.6
FLT's share of wallet	80%
Spend processed by FLT ($ Mn)	**2.1**
Total TAM for FLT ($ Mn)	**1,680,000**
Penetration %	*7.0%*

Assessing sensitivity of total TAM (in $Tn) subject to changing assumtipons for average revenue per business in FLT;s portfolio and total cost case as a % of rev

		Cost base as a % of Revenue >>>				
		50.0%	*60.0%*	*70.0%*	*80.0%*	*90.0%*
Average revenue per year	**5.0**	0.40	0.48	0.56	0.64	0.72
	10.0	0.80	0.96	1.12	1.28	1.44
	15.0	1.20	1.44	**1.68**	1.92	2.16
	20.0	1.60	1.92	**2.24**	2.56	2.88
	25.0	2.00	2.40	2.80	3.20	3.60
	30.0	2.40	2.88	3.36	3.84	4.32

- Going forward, Corporate Payments is expected to drive a majority of FLT's outperformance on growth and margin expansion; Given Large TAM + Cross sell potential + unique value proposition, the corporate payments business is poised to continue strong growth



- Management had indicated that the platform buildout is largely complete and don't envisage making any large inorganic acquisitions to further supplement the capabilities of the product suite
- Management has also indicated that bulk of the fixed cost build is also complete and that we should see incremental margins come in at

> *"The one thing Ron is different, and you can look at it through public company comps.* ***Ron is very financially rigid and disciplined on deals****. He will not overpay for a deal where you've seen WEX has because in the #2 position, they've had to overpay for deals. Ron doesn't overpay for his deals,"*
>
> - Former SVP, Business Development for North America Partner Programs at Fleetcor, 2021.

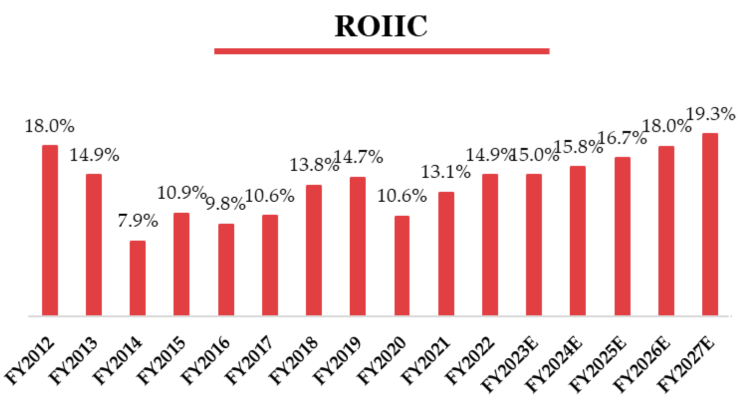
> *"And Pete, really, the incremental margins, it's not going to be just a stairstep, continue to march up. Because we will* ***continue to buy businesses that, by definition, underperform from a margin perspective, which is why we buy them,"***
>
> - Ron Clarke, CEO & Founder

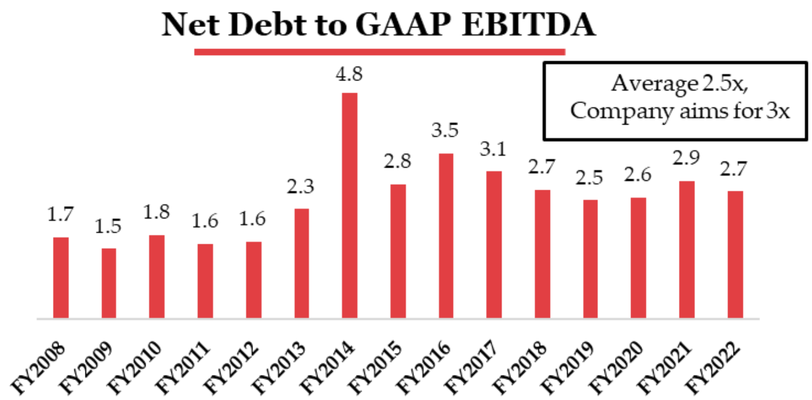
75-80%; Operating leverage is the biggest driver of margin expansion in the segment

- For a business growing at ~20% yoy with ~50% operating margins and limited incremental capital deployment and high FCF generation, the ideal target multiple should be ~15-20x EBITDA; If one were to apply a 20x EBITDA multiple on this segment in 2026 and discount it to today, it would account for ~90% of total current FLT EV

iii) Strong capital allocator at the helm combined with high margin / FCF generating business model

- Strong Founder and CEO with exceptional track record of shareholder value creation; Very good at strategically pivoting between M&A and buybacks to take advantage of dislocations in valuations
- LT Returns on incremental invested capital are inflecting upwards as corporate payments buildout is largely complete Followed a disciplined M&A playbook resulting in consistent returns; Repeatedly executed well on 80+ acquisitions with clear strategic rationale while expanding margins





- Leverage has remained low + Organic growth has remained strong; Most pieces for the other businesses are now in place; This business should inflect towards 25% ROIIC in the exit year of our base case
- Another positive development has been FLT's decision to re-organize the business into 3 key segments to simplify the equity story, make it easier to track the performance of the individual businesses and streamline strategic focus for management

Simplification Plans		Key Points
✓ Sold Russia	→	✓ sold their Russia business assets in '22 following Russia's invasion of Ukraine. <1% revenues
✓ Selling non-core assets	→	✓ "Working a couple of other non-core asset sales" Nov 2023
✓ Changing reporting to 3 Primary Segments	→	✓ Simplifying the business creates a cleaner investment thesis
✓ FTC Investigation Headwind is gone	→	✓ Completed in June 2023 with no impact to financial performance of the company going forward.
✓ Changing name to CorPay	→	✓ Telegraphs Fleetcor's ambitions to grow into a much larger cross-industry B2B payments cloud platform.

<u>Financials and Base Case Projections:</u>

- My base case includes ~10% Rev growth, ~15% Net Income growth and ~26% growth in FCF; My exit case assumes no multiple expansion (exit multiple of ~12x EV/EBITDA) and is predicated purely on the organic compounding of cash flows from the business
- FLT displays all the characteristics of a typical Tom Russo investment –
    - (1) an indispensable product (mission critical, sticky fuel card business that is very hard to replace, reflected by its pricing power, duopoly position and 10+-year customer contracts)
    - (2) a capacity to suffer (willingness to spend ~$1.3Bn in S&M over ~5 years to build out alternate lines of business within B2B payments)
    - (3) a capacity to reinvest (significant investments into M&A of ~$1.8Bn over ~5 years which is a form of capex for FLT's business model, repurchased ~20% of total market cap since 2019)
    - (4) vast TAM ($1.6Tn+ spends on B2B Corporate payments growing at LDD annually, ~$12-15Bn addressable through FLT's ~800,000 captive customers transitioning to FLT's virtual card, FX transfer and AP automation solutions)
    - (5) and a top management that has been together for ~15 years

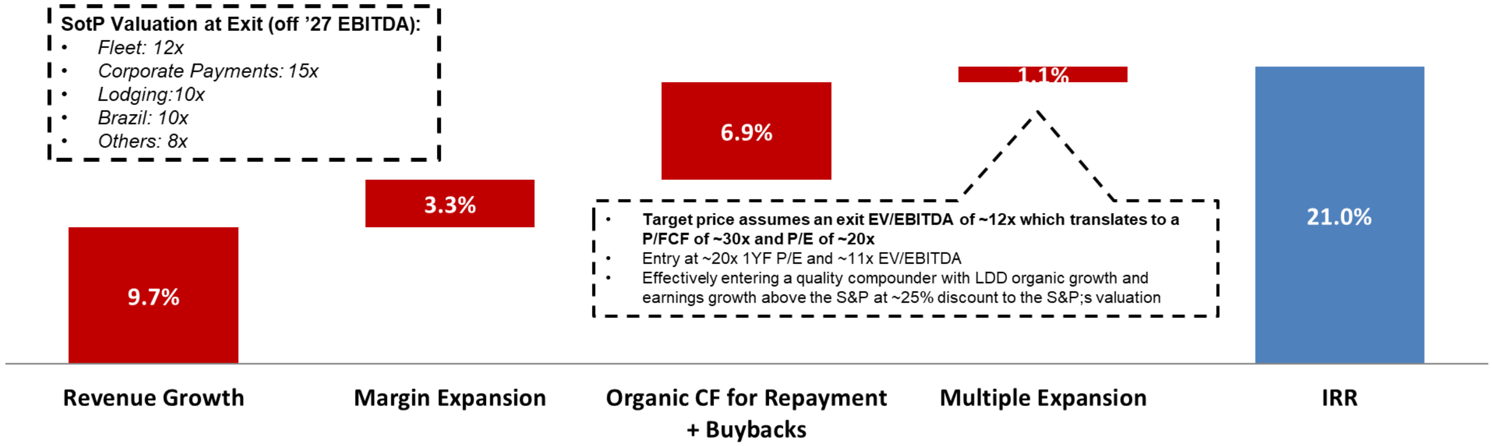
$ Mn	FY2019	FY2020	FY2021	FY2022	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY19-22	FY22-25	FY22-27
Fuel	1,173	1,057	1,180	1,378	1,482	1,521	1,560	1,606	1,654	*5.5%*	*4.2%*	*3.7%*
Corporate Payments	450	434	600	772	970	1,194	1,432	1,706	1,962	*19.7%*	*22.8%*	*20.5%*
Tolls (Brazil)	357	292	306	362	500	549	576	596	617	*0.5%*	*16.7%*	*11.2%*
Lodging	213	207	310	457	535	607	688	781	885	*29.0%*	*14.7%*	*14.2%*
Gifting	180	154	180	195	142	145	150	155	160	*2.6%*	*(8.4%)*	*(3.8%)*
Others	276	244	259	263	151	153	160	159	159	*(1.6%)*	*(15.3%)*	*(9.6%)*
Revenue	**2,649**	**2,389**	**2,834**	**3,427**	**3,781**	**4,170**	**4,565**	**5,003**	**5,438**	***9.0%***	***10.0%***	***9.7%***
YoY Growth %	*8.8%*	*(9.8%)*	*18.6%*	*20.9%*	*10.3%*	*10.3%*	*9.5%*	*9.6%*	*8.7%*			
Gross Profit	2,118	1,792	2,274	2,662	2,987	3,305	3,629	3,990	4,350	*7.9%*	*10.9%*	*10.3%*
% Margin	*80.0%*	*75.0%*	*80.2%*	*77.7%*	*79.0%*	*79.3%*	*79.5%*	*79.8%*	*80.0%*			
EBITDA	1,506	1,225	1,526	1,769	1,890	2,189	2,511	2,877	3,263	*5.5%*	*12.4%*	*13.0%*
% Margin	*56.9%*	*51.3%*	*53.8%*	*51.6%*	*50.0%*	*52.5%*	*55.0%*	*57.5%*	*60.0%*			
EBIT	1,232	970	1,242	1,447	1,570	1,830	2,118	2,455	2,812	*5.5%*	*13.5%*	*14.2%*
% Margin	*46.5%*	*40.6%*	*43.8%*	*42.2%*	*41.5%*	*43.9%*	*46.4%*	*49.1%*	*51.7%*			
Net Income	895	704	839	954	971	1,098	1,345	1,609	1,892	*2.2%*	*12.1%*	*14.7%*
% Margin	*33.8%*	*29.5%*	*29.6%*	*27.8%*	*25.7%*	*26.3%*	*29.5%*	*32.2%*	*34.8%*			
EPS	*10.4*	*8.4*	*10.2*	*12.6*	*13.0*	*14.9*	*18.4*	*22.3*	*26.6*	*6.8%*	*13.4%*	*16.1%*
FCF	639	1,361	483	386	579	647	838	1,045	1,252	*(15.4%)*	*29.4%*	*26.5%*
FCF / share	***7.4***	***16.2***	***5.9***	***5.1***	***7.7***	***8.7***	***11.5***	***14.5***	***17.6***	*(11.6%)*	*30.9%*	*28.1%*
% Margin	*24.1%*	*57.0%*	*17.1%*	*11.3%*	*15.3%*	*15.5%*	*18.4%*	*20.9%*	*23.0%*			

- Detailed breakdown of assumptions are provided in the table below:

Driver	Assumption
Fleet	• *Assuming growth driven largely by pricing (~3-4% pricing growth across the forecast period in the base case)* • *Volumes expected to be largely flat in line with historicals as market has matured though share gain for EVs will take longer*
Corporate Payments	• *Assuming a growth of ~21% over FY22-27, driven by volume growth of ~18%* • *Stable take rate across the forecast period driven by large addressable TAM and cross-selling opportunity*
Others biz lines	• *Traction in the tolling business has been rapidly picking up resulting in strong volume growth combined with cross-sell opportunities that the company has been testing out in Brazil* • *Lodging business shares high degree of synergies with the fuel business and shares a similar growth profile but may be impacted longer term by lesser travel encouraged by corporates post COVID*
Revenue	• *Overall revenue growth of ~10% over FY22-27 driven by the above*
EBITDA Margin	• *Assuming a growth of ~13% over FY22-27, driven by high incremental margins in the corporate business flowing through to the rest of the business + Positive mix effects from Corporate Payments becoming a larger % of the overall business*
Capex / Acquisitions	• *Building in ~15% of sales as acquisition spend (similar to historical levels); Acquisitions has effectively been a form of capex business and target RoIIC for these investments is assumed to be ~25%*
Capital Allocation	• *Assumed ~$1.5Bn of debt paydown as well as additional $1.5Bn of share buybacks in the base case across FY22-27*
RoIIC	• *LT Target for the business to deliver ~20-25% return on incremental invested capital*

Returns:

- I am underwriting to a Dec '26 exit with exit multiple of ~12x EBITDA
- Multiple levers for generating value in the base case; Biggest driver of value expected to be organic growth and multiple expansion
- In the upside case, growth could potentially inflect higher as Corporate Payments continues to gain transaction, translating in higher margin expansion due to higher share of corporate payments in overall revenue
- Strong payments performance combined with a well-executed spin-out could drive significant re-rating for the combined entity beyond 12x as well; Scope for downside seems limited from current levels



Path to Target Price / What do we need to believe to make money here?:

- EV Risk is overblown with legacy fleets expected to be largely ICE for the next decade
- Margin expansion driven by high incremental margins in Corp Payments + maintaining margin levels in other businesses
- Business continues to be a FCF machine, with negative working capital and low incremental capex/acquisition needed for growth
- Free embedded optionality on upside from cross-selling consumer finance and capturing EV profit pools
- Using incremental cash for buybacks and de-leveraging balance sheet to mitigate floating debt risk

Overall, our underwriting case is not built on a 'heroic' set of assumptions; We are essentially banking on: i) a higher multiple based on fair SotP value, ii) positive mix shift driving margin expansion, iii) unlocking value from corporate payments, and iv) Deleverage + stock buyback

There are multiple ways of winning in the stock from the current price driven by the following:

- ✓ Founder led with skin in the game and long tenure
- ✓ Insider Buying
- ✓ Strong Organic Growth
- ✓ Extensive track record of successful "Bolt on Acquisitions"
- ✓ Low Capex Requirements
- ✓ Low leverage and high FCF charecteristics
- ✓ Fragmented Market
- ✓ Pricing Power

Key Risks & Mitigants:

- **EV Transition Risk:** A significant risk to monitor on a continuous basis is the pace of transition to EV especially within commercial fleets; One of the street's biggest concerns around the stock is that EV's will upend the current fuel business as it would require renewed investments to rebuild a new 2-sided network with EV charging stations/infrastructure and the new profit pools could be captured by new players / disruptors vs. incumbents such as FLT or WEX
  - **Assessment**: Our view continues to be that FLT or WEX are best positioned to pivot into the EV charging space and capitalize on the transition within commercial fleets as they hold all the legacy relationships on the customer side and EV service offerings should not look radically different compared to ICE
- **Fuel Price Spread Volatility**: ~13% of total FLT revenues in FY22 were directly influenced by the absolute price of fuel
  - **Assessment**: FLT works to partially offset the impact of changes in the price of fuel through agreements with certain merchants where the price paid to the merchant is equal to the lower of i) merchant cost plus markup or ii) percentage of transaction purchase price. Additionally, the company generates ~6% of revenues from fuel spreads (primarily in Europe), which also acts as a

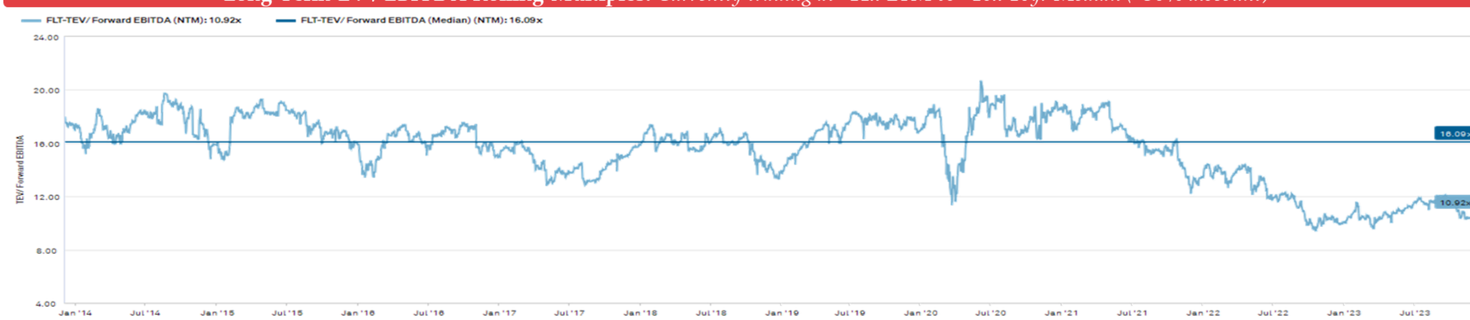
- **Foreign Currency Exchange**: ~40% of FY22 revenues were from international companies. International revenues could be negatively impacted by the further strengthening of the US dollar
  - **Assessment**: In-country expenses provide some hedging on the bottom line; FLT is exposed primarily to the Euro, British pound, Brazilian real, Canadian dollar, Russian ruble, Mexican peso, Czech koruna, Australian dollar, and New Zealand dollar
- **Spin Off Risk**: Another risk that will impact the stock in the near term is the uncertainty on the final strategic decimos the company decides on for spinning out the corporate payments business; There is a chance that the assets FLT chooses to merge with may not be synergistic with the core business and this could lead to potential de-rating of the New Co; this continues to be a known unknown and an overhang on the current price
  - **Assessment**: Ron Clarke has a proven 20+ year track record of doing what's right for shareholders and would trust him to do what's right for long term shareholders here as well

Valuation:

- FLT is trading at a ~20-30% discount to its 10Y historical median EV/EBITDA and FCF multiples

Long-Term Market Cap / Free Cash Flow Rolling Multiples: *Currently trading at ~21x LTM vs ~25x 10yr Median (~18% discount)*

Long-Term EV / EBITDA Rolling Multiples: *Currently trading at ~11x LTM vs ~16x 10yr Median (~30% discount)*



- Using the Earnings Power Value framework to assess competitive advantages of the business, we can see that this business has minimal capex and fixed asset requirements; Bulk of the value resides in the networks the company has built up over the past ~20 years through a combination of Sales & Marketing spends and customer acquisition across various channels
- The largest source of intangible value is its captive customer base of ~800,000 fleet operators and small businesses; The business model also requires minimal R&D spend as the innovation is largely on adding additional use cases to its existing networks which the company is able to achieve largely through targeted M&A or acquisitions
- Based on the calculations below, we can see that EPV > AV by a significant margin indicating that this business enjoys sizable barriers to entry; RoIC for the business is also significantly higher than its cost of capital which is also indicative of its competitive advantage

EPV Calculations	
$ Mn	
Quarterly Revenue (Q4 2023)	900
Annualized Revenue	3,599
Sustainable Operating Margin	*45.0%*
Operating Earnings	1,620
(-) Maintainance Capex	(252)
(+) Growth Capex + M&A Spend	592
(+) Growth Spend on S&M	248
Sustainable Operating Earnings	**2,207**
WACC	*11.0%*
EPV of Operating Business	20,067
Cash	2,509
Debt	5,530
EPV Equity	**17,047**

Asset Value Calculations	
$ Mn	
Customer Portfolio	
Total # of customers	800,000
Total S&M spend since inception	1,962
Customer Acquisiiton Spend ($'000)	2.5
(-) Goodwill	5,793
Book Value of Equity	3,471
Asset Value	**(361)**

Capex / M&A ($ mn)	
Total Capex	(316)
% of Capex for Growth	*20.0%*
Maintainance Capex	(252)
Growth Capex	(63)
M&A Spend	(592)

S&M Spend ($ mn)	
Total S&M Spend	355
% Spend on Growth	*70.0%*
Spend on Growth	248

Appendix:

Flywheel effect of FLT's business model: