

Summit partners
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Private Equity and Investment Banking SPRING 2010 Summit Partners

FleetCor A 1. Summarize the proposed transaction: Summit Partners proposes to FleetCor Technologies (later preferred as “ FleetCor” or the “ Company”) an investment into FleetCor for the total amount of \$44. 9 million in return for a post transaction ownership of 54. 2% in the “ Company” and coming down to 46% ownership in the company after newly created stock options for management equivalent to 15% ownership in the company has been completely executed and fully diluted.

This investment is in the form of convertible preferred stock with an 8% accrued interest, compounding annually. As the transaction come through, Summit’s prefer stock will be treated equal-footing in liquidity with the other \$37. 5 million of existing preferred stock. The proceeds from Summit’s investment will be used as followings: • \$9. 0 million will be used to redeem part of a \$15 million subordinated debt held by current investors.

The remaining \$6 million of this debt will be converted by the current investors into the same strip of prefer stock which Summit proposes. • About \$16. 6 million will be used as an upfront cash to buy back FleetCor’s seven “ Super Licensees” • The remaining \$19. 3 million will be used as a general working capital for FleetCor to fund its growing business and to buy back any other potential licensees. 2. Discuss five key investment strengths:

FleetCor’s management team: very well-performed management team consisting of: • Very high quality profile and experienced CEO, Ron Clarke, who has brought FleetCor back on track after just 18 months of working in the company. • Other executives who have many experiences and a lot of knowledge in the industry including H. Steve Smith, Senior VP of Sales and

Marketing; Tommy Andrews, Senior VP of Operation; and Scott Ruoff, Senior VP of Business Development. FleetCor has a highly differential business strategy leading a very competitive business as followings:

- Middle Market Focus: big market for growing with very little potential competitors and high barriers to entry
- Local Market Distribution: FleetCor has created a network of local branches with a complete staff employees including a general manager
- “Semi-Exclusive” Merchant Acceptance Network: FleetCor limits the size of merchant network to provide greater traffic volume to participating retailers. Highly established market shares in the highly potential and continued growth market: FleetCor has 90, 000 fleet customers across its entire system comprised especially of four large national accounts such as Sears, UPS, Aramark and National Line Service; and over 500, 000 active cardholders. ? FleetCor provided its customers the cost-saving and customized information report to really please the customers and make them high reluctance to switch to new card network providers, leading to low customer churn. High gross profit margin (in case of gross revenue report): averagely 5%, double compared to other regular credit card issuing companies or its big competitors in high-end market, however, it has still gained highly growing market share because of its unique and differential business strategy.

3. Discuss five investment concerns: FleetCor is still missing a financial expert who not only has experiences and knowledge in the industry but also has ability to draw fully effective projection for a long-term growth by implementing a stable financial system (Suggest: Hiring a highly effective and experienced CFO. ? High projected improvements after the acquisition. The company should be a little more conservative due to the fact that there are always some unexpected risks associating with the

implication of a new centralized system. Suggest: the company should project in the more conservative way and should establish some preventive control procedures to eliminate these risks before really testing the centralized system to avoid any unexpected damages and losses. ? FleetCor has not yet settle the final agreements with the seven “ Super Licensees” for acquiring them, creating some sources of unstable and going concern business (Suggest: the company should be more specific and aggressive while dealing with the licenses to make the final agreements. Higher gas prices result in a larger A/R financing cost and also lead to a higher bad debt expense, even though the net revenue might still be the same (Suggest: implement some forms of hedging strategies against the increases in gas prices such as going long on a call option at a specific gas price which might materially increase the A/R financing cost and bad debt expenses. ? FleetCor currently has weak managerial reporting system (Suggest: bringing in some more IT consultants and programmers to create a more effective managerial and financial system while working along with a CFO who is a financial expert. . Using Exhibit 4B evaluate the proposed acquisitions. Would you recommend purchasing all of the licenses? Why or why not? Explain Briefly Overall, the proposed acquisitions yield the company a combined entity with much better performance in term of profitability such as: • New combined gross margin is 5% higher than the base only. • EBIT margin is almost 3. 75 times higher than the base only. • EBITDA margin is over 1. 5 times higher than the base only.

I recommend FleetCor only acquire 5 effectively operated Licensees out of the seven ones including the ones in the areas of Houston, Carolina,

Mississippi, Baton Rouge, and Atlanta because the other two which are locating in Chicago and Tampa are inefficient in term of profitability.

Licensee in Chicago will yield a loss of EBITDA and the one in Tampa yield only \$83, 000 of EBITDA which is very small compare to the cost of acquiring this licensee. 5. Look at the Transaction Multiples Analysis in Exhibit 5d and 6. Analyze the comparables (Exhibit 6): a.

Would you recommend using all the comparables listed? Would you exclude any of the comparables? Explain your answers. I would not recommend using all the comparables listed. I would exclude all of the comparables from group of credit card issuers because FleetCor has been operating its business as a merchant card processor which is different from the credit card industry. Basic principle for valuation using industry comparables is that we have to use comparables for the group of companies in the same industry with the valued company.

I might want to keep the comparables for the group of other transaction processors. Through my observation, I find that Ceridian which is in the same industry with FleetCor has the most similar Enterprise Value/Revenue Ratio and Enterprise Value/EBITDA with the company (leading to that Ceridian would be a good indicator for valuation of FleetCor b. Based on the comparables how would you value the proposed acquisitions of the licensees? What do you think of the multiples proposed in exhibit 5d?

Basing on comparables data of Ceridian, I would value the proposed acquisitions of the licensees at 13. 1xEBITDA. I think the multiples proposed 3. 9x in 2001 and 3. 3x in 2002 in exhibit 5d are way below the multiple of

Ceridian, and even much lower when compare to the industry average 16. 9x and 15x accordingly. In general, if the final transaction is completed as proposed, the company will be much better off, and even better if the company exclude the acquisition of the two licensees in Chicago and Tampa.

In addition, if all of the big seven licensees do not accept the acquisitions at this proposed multiples, Summit might suggest the FleetCor's management to raise these multiples and deal specific case to case with each of the licensee. 6. Assume the acquisitions take place on December, 31, 2001.

Value Fleet or using the DCF methodology. Use Exhibit 5a, 5b and 5c to complete the valuation. Make assumptions as needed. Assume a market premium of 4. 5%. Make sure you state and explain your assumptions. I will use the equity beta of Ceridian ($\beta = 0.9$) to calculate cost of equity for FleetCor because the two companies are considered comparables. Assume the market has been operating efficiency, and according to CAPM: $RE = RF + \beta * MRP$ (whereas MRP: market risk premium= 4. 5%, and $RF = 4.27\%$, 5-year Treasury interest rate). So, $RE = 4.27\% + 0.79 * 4.5\% = 7.825\%$.

Another point of view, the company has projected to have very high growth 15%, 18%, 19%, 19%, 16% in consecutive five years so that Summit Partners may have to require more return on equity compensating for more risks if this projection failed. I assume that discount rate to be reasonably 18%. The

below is my valuation:

	Fiscal Year Ending December 31,	2001 CY	2002P	2003P	2004P	2005P	EBITDA in 2006	Exit Multiple	Terminal Value (Firm Value at Exit)	Discounted Terminal Value	Total Present Value to
							52,349	8	418,792	183,058	

