

April 4, 2017

Citron gives FleetCor the Sunlight it Deserves: For Investors, sure ... but most importantly, for Customers.



FleetCor (NYSE:FLT) presents itself as a fuel-card company that targets small mom and pop businesses as well as government contracts. It has acquired numerous brands in the space, including ComData, Fuelman, FleetCards USA, Universal Fleet MasterCard, and various brands overseas. Seems innocuous enough. But ...

Based on Citron's extensive research (from numerous customer, competitor and former employee interviews, online review of customer and former employee complaints, gathering of customer invoices, lawsuits, FOIA requests, and financial modeling), we believe FleetCor is actually a **predatory** company **by design**, whose core strategy is to methodically rip off its customers, using business practices and fees that are designed to deceive.

NOTE: Before you read further. Citron Research once again gives full credit to [The Capitol Forum](#) for its fine investigative work, in exposing FleetCor's misdeeds. Their political angle on the stock market is a must read for all investors.

In a disturbing pattern we see with companies that have found ways to exploit customers, FleetCor has completed 72 acquisitions since 2002, claiming to be a "platform" company, when in reality it is just expanding a portfolio of abusive business practices over a wider and wider swath of its market niche.

This report introduces readers to an assortment of fees that will appear on your bill if you are a customer of FleetCor. This pattern has become so blatant that many of its own employees sarcastically call their employer:

"Feecor"

<https://www.glassdoor.com/Reviews/Employee-Review-FleetCor-RVW7804716.htm>

To simplify and clarify for readers new to the FleetCor story, we have kept all our reference information current and concise. If FleetCor believes we are at all misrepresenting what is really happening under the hood, we have no problem defending our statements in a court of law.

FleetCor has a direct competitor named Wex---think Visa vs Mastercard. But what looks different here?

While Wex has a broader distribution of gas station networks, its customer fees are only **12%** of revenue, compared to FleetCor at a **staggering 56%** of revenue.

Just look at the SunTrust initiation, and consider the discrepancies between the two companies.

	FleetCor	WEX
Merchant Network - Major US Gas Stations (1)	<ul style="list-style-type: none"> • Euro Shell - the world's largest commercial oil portfolio in 38 countries • Shell 50% ownership of the Euro relationship buying Shell 500 portfolio in 10 countries in EU • Highly and utilized in Canada • Credit Card - leading Shellstar fuel card network • Renewed of our relationship with BP in the U.S. • Operating partnership in the U.S. 	<p>160,000 ACCEPTING LOCATIONS</p>
Customer Fees as a % of Revenue	56%	12%
5-year Revenue CAGR (CY11 - CY16)	29%	13%
Adj. EBITDA Margins (2)	60%	39%
FCF Margins (2)	40%	18%
FCF / EBITDA Conversion (3)	67%	46%
Notes		
Sources: LTM metrics per Bloomberg and Company filings		
(1) Sources: FLT 3/17 IR presentation; WEX 2/14/17 IR presentation		
(2) SunTrust FLT Initiation 6/22/16		
(3) SunTrust FCF Margin / SunTrust EBITDA Margin		

To show just how outsized FleetCor's fees are, compared to any other credit card, consider this chart. Note that Synchrony Financial serves a lower credit quality customer buying discretionary items; it should rightfully be charging the highest fees in the industry.

Ticker	Name	CY16 Customer Fees (excl. merchant and interchange fees)	Net Revenue	Fees % of Net Revenue
FLT	FleetCor (1)	\$1,017	\$1,832	56%
WEX	WEX (2)	\$124	\$1,018	12%
V	Visa (3)	\$400	\$15,082	3%
MA	Mastercard (4)	NM	\$10,776	NM
COF	Capital One Financial (5)	\$1,646	\$25,501	6%
SYF	Synchrony Financial (6)	\$2,458	\$13,874	18%
Median - ex FLT				9%
% FLT Premium to Peers				495%
Average - ex FLT				10%
% FLT Premium to Peers				469%
Notes				
(1) Processing and program fees + late fees and finance charges				
(2) Late fee revenue + Factoring fee revenue + Other finance fee revenue				
(3) FYE 9/30; Assumes 50% of "other revenue" is "fees for account holder services"				
(4) Customer fees are not disclosed in the 10K				
(5) Service charges and other customer-related fees				
(6) Fees on loans				

Last week the Capitol Forum published a piece that presents results of a FOIA request to the FTC. FTC documents show that over the past 6 years Wex has received only 16 billing complaints ... compared to **438 billing complaints for FleetCor.**

FleetCor Abusive Business Practices are Starting To Catch Up with Them!

These billing practices have become so aggressive and egregious that we believe they were a key factor in gas giant Chevron dropping FleetCor in favor of Wex late last year. Despite the high cost of switching, Chevron could not afford to associate its corporate name with such a pernicious institutional “rip off” of their long-time customers.

<http://www.wexinc.com/wex-fleet/wex-signs-agreement-with-chevron/>

OK, Citron -- are you feeding us old news? **NO!** **The story is current and worse than ever!** Below is a link to recent statements, which have been submitted, in just the past two weeks.

“Customer service is basically nonexistent. Wait times to speak with an agent always exceed 90 minutes at a minimum. Emails to customer service take 1+ weeks to be replied to.” (3/21/2017, BBB comment)

“This company is a scam! They kept on charging us with \$3000+ worth of interest and all that crap for interests and other bs, stopped our cards and won't show me written statements on how the heck we reached that amount. And when I call to get this straightened out, they tried to brush me off the phone by just saying "Yea, we'll take care of that for you." and then come to find out that they didn't even take notes of the last conversation. I would like to dispute that \$3000+ charge we supposedly owe this crappy company. There is no way that we would pay this without proof.” (2/27/2017, BBB comment)

“ My 2/16/2017-2/28/2017 statement has us spending only \$347.64 in fuel with admin fees of \$176.76, Interest of \$67.80, and late fees of \$1328.05. After calling numerous times, every time when I hung up I am thinking these issues were addressed. Only to get he statement to find out NOTHING had been adjusted for and the cards cut off.”

“Upon receiving my monthly statement I noticed a "High Risk Credit Fee" of \$20, I called customer service number to ask why. The first call was little help but she stated that my credit dropped so they hit me with the fee. I proceeded to pull a credit report the very next day and saw 795 Fico to 809 Equifax.”

“Beginning with our bill dated 1/9/17, each of our fuel transactions charged were higher than that of the receipt we received at the pump....Unbelievably horrible way to run a business!”

Let’s not forget that, for every complaint the author has gone to the trouble to write and publish, there are hundreds of customers receiving fleet fuel bills that may run dozens or hundreds of pages, who do not notice a few “Extra fees” tacked on ... until they do.

After reading hundreds of complaints from customers and former employees, there is one other common recurring theme among FleetCor customers: the obstacles the company places in the way of paying a bill on time to avoid late fees. Instead of Citron editorializing, here is a complaint common among FleetCor customers.

<http://www.automotive-fleet.com/channel/fuel-management/article/story/2011/05/pros-and-cons-of-using-a-fuel-card-vs-a-corporate-card-for-fleet-fuel-expenses.aspx>

“We have been using the Universal Fleet Card from Fleet Core for almost a year and we are billed bi-weekly. Their website is dated a day ahead so if you try to pay the bill on the last day you are already "late" on your payment. On top of that, we cannot get a clear answer from them as far as how long it takes before they process payment. Someone says 2 days another says 5 days. So if I pay them "on time", 2 days before payment is due, it'll be considered late because they haven't processed my payment yet. (So when is the actual due date?) On top of that, at some point we were placed on some list based off of our credit and are now being charged \$3.00 for every time we even get gas. We were never informed and would never have signed up for the cards if we knew we'd be charged \$3.00 just to swipe the card. We have been charged more money in late fees than we even spend on gas. It's outrageous.”

And lastly in the most concise review that tells it all:

“This company is not a fuel charge card, but rather, a FEES charge card. They will eat you ALIVE in fees. My experience has been that it is impossible to pay the bill to them (on time) without getting a \$75.00 late fee. After doing some research I have found many, many, many, many people with the exact same complaint(s): late billing, no-billing, bi-weekly billing, overcharging, hidden fees, no customer support, non-working billing / payment portal, check-holding to create late fees!!!! This is border-line criminal.”

<http://www.ripoffreport.com/reports/universal-premium-fleet-card-fleet-cor/internet/universal-premium-fleet-card-fleet-cor-universal-premium-fleet-cardFleetCorFleetCorfuelma-1351147>

And no...the Government is not immune to these aggressive billing practices. Here is Fuelman marketing brochure targeting government contracts. Note the clearly worded claim:

“Pay no fees — no set-up fees, transaction fees, card fees or annual fees”

<http://www.fuelman.com/government-agencies.aspx>

So we obviously executed a FOIA for government fuel bills, and of course we found hidden fees. How much are the fees to all government agencies? No easy way to know, but if they are proportionate to government agencies as a percentage of FleetCor's customer base, then the number easily stretches into the hundreds of millions.

Here is an example that ended in a lawsuit where FleetCor charged Appalachian Labor School Foundation **\$1,000 a month in fees on a \$7,000 bill.**

<http://www.judgmentrelease.com/news.htm>


While the customers are becoming aware of what FleetCor is about, the former employees are all well aware.

Who cares about former employees? Just ask Pilot Flying J. The last major fleet fuel scandal that just recently got resolved with indictments and a hefty fine was all initiated by former employees and whistleblowers.

<https://cdllife.com/2017/top-trucking-news/whistleblower-claims-pilot-flying-j-also-cheated-u-s-government-with-fuel-rebate-scam/>

FleetCor has some of the worst Glassdoor reviews we have ever seen -- a company where most former employees know the scam:

Apr 12, 2015 Helpful (9)

 **"Completely unethical company"**

★☆☆☆☆ Former Employee - Customer Service Representative in Norcross, GA






Doesn't Recommend Neutral Outlook Disapproves of CEO

I worked at Fleetcor full-time (More than 3 years)

Pros
It's a paycheck... You will feel slimy when you click out but it is a check. Expect no development discussions, reviews or annual raises.

Cons
Boiler room environment. Company changes customer terms with little or no notice. Loves the customer who doesn't bother to check their bill as they screw them over with crazy levels of fees that more than wipe out all promised savings.

Advice to Management
Get a good attorney... At some point some state or attorney general is going to hammer you for your late fees. This has to be illegal.

Helpful (9)     



Some things are just too close for comfort -- the good ole computer glitch.

In the Pilot Flying J lawsuit, the FBI recorded Pilot's actions to conceal its illegal activities from customers. If a customer caught a discrepancy, the company would blame it on a **"computer glitch"**.

According to Giesick, Mosher taught that if a customer caught that she was deceptively cutting rebate, Giesick should blame the error on a **computer glitch**.

The conversations recorded by the FBI also reveal that Pilot took active steps to conceal their activities from customers and law enforcement officials. For example, Pilot Flying J employees withheld relevant pricing information from customers who inquired about their rebate amounts. If a customer caught a discrepancy, Pilot would blame the discrepancy on a **"computer glitch."**

Defendants falsely attributed the diesel fuel rebate scheme to **"computer glitches"** with the intention of concealing the true nature of their wrongful conduct.

<https://assets.documentcloud.org/documents/724449/randrlawsuit.pdf>

Pilot Flying J was busted in court for this phony excuse. Yet, here's a typical current (last week, in fact) complaint about FleetCor, apparently using the same "hide the ball" tactic...

03/30/2017 Billing / Collection Issues

Complaint

I'm the owner of INTERNATIONAL MARKETING GROUP INC. WE USED A FLEET CARD TO FULL GAS FOR MY FLEET AND UNIVERSAL PREMIUM CHANGED THE WEBSITE SERVICES AND They CHARGE ME \$93.40 high risk credit fee ,interest charge \$61.64 and Late fee \$604.27 Total \$749.32 and I paid all the invoices in time as the attachment

Product_Or_Service: gas
 Account_Number: *****
[\(Show Less of Complaint\)](#)

Desired Settlement

I call the universal premium fleet card to refund this amount and they did not make any refund.

Consumer Business Dialog

Business Response

Dear ****, I do apologize that your issue was not resolved previously. I reviewed your account and apparently the representative that you spoke with concerning these fees wasn't able to view the fees. I am not sure if this was a glitch in the system or not. I was able to view these fees and I have issued a refund for the 3 fees that you were charged. You will see this credit in 1-2 billing cycles. If you have any other questions or concerns, feel free to contact our customer service department.

Thank You,

Consumer Response
 (The consumer indicated he/she ACCEPTED the response from the business.)

[\(Show Less of Consumer Business Dialog\)](#)

<https://www.bbb.org/atlanta/business-reviews/credit-cards-and-plans/fleetcor-technologies-in-norcross-ga-7005062/reviews-and-complaints>

Citron has read enough complaints about FleetCor to recognize the pattern: they frequently tell customers they have the same type of “computer problems”. Here is a response from FleetCor from **just last month** to a cheated customer:

Dear*****,
 We apologize for the inconvenience. We have experienced **unforeseen systems issues** with your account that impacted many of customers. To offset call wait times, we have attempted to communicate by email with updates.”

... <https://www.bbb.org/atlanta/pages/business-reviews/credit-cards-and-plans/FleetCor-technologies-in-norcross-ga-7005062/complaints-and-reviews?noskin%2cclean§ion=reviews>

Has FleetCor had these “system issues” for the last 8 years?

What Does Wall Street Have To Say About This????



THEY LOVE IT, OF COURSE!

As William Blair boasted:

“Fleet Operator Business Solutions. FleetCor has been capable of servicing fleets of all sizes, but until the acquisition of Comdata in November 2014, its strength and major focus, in our view, **was in the small fleet market, where it could more readily charge higher-than-industry-average fees.**”

Citibank actually calls out “aggressive pricing actions” as an identified advantage – the rationale why an investor should buy FLT over WEX.

Figure 4. Business comparisons of FLT and WEX

Business comparisons	FleetCor (FLT)	WEX, Inc. (WEX)	Commentary
Pricing strategy	Aggressive pricing actions	Selectively implementing pricing modernization strategy towards non-processing fees	FLT has had better success in raising pricing, though WEX is becoming more aggressive

Source: Citi Research, company reports

More importantly, there are a certain group of investors who find this business model formulaically. With an overly aggressive CEO and the ability to manipulate pricing/fees through questionable business practices, **the company seems like it will never miss a quarter.** If you think there is a pattern here ... there is. Valeant, Transdigm, FleetCor. They all have larger than life management who compensate themselves in grand style for their exaggeratedly aggressive management strategies.

Amazing that Ron Clark has become one of the highest paid CEO’s in the United States by devising a business model that rips off small businesses, charities, and government agencies as a core business strategy. Pressing on ever more and higher fees has become the go-to strategy for filling in every potential quarter's shortfalls.

<https://www.fool.com/investing/general/2014/06/10/3-high-paid-ceos-youve-never-heard-of.aspx>

The point is that with fees generating 56% of total revenues, the company has become so dependent on abusive fee revenue that the stock will collapse when it proves unsustainable.

John Huber at Saber Capital said it best in his most recent investor letter:



"A business with good economics that is coupled with a business model that extracts value from its customers (rather than adds value to its customers) is not a good business. The financial metrics might appear attractive, but a parasitic relationship with customers usually ends up destroying shareholder value at some point."

We witness the truth of that quote come to life in the past six months. FleetCor has lost Chevron, and they are engaged in a lawsuit over unfair practices with Travel America, another major customer.

<https://www.law360.com/articles/867875/truck-stop-co-says-fuel-card-firm-is-holding-them-up>

FleetCor "Technologies"???? Really??? **Where are the "Technologies"??**

By having the word "technologies" in its name, many investors are misled, believing that FleetCor is an advanced payment system. FLT stock is also swept up in many stock "technology" indexes (MS and GS), yet ...

According to its most recent 10-K, the company has spent exactly zero on Research and Development ... Not much technology there. Maybe they should fix their billing computers first.

https://www.sec.gov/Archives/edgar/data/1175454/000117545417000005/flt_10-kx12312016.htm

So What is FleetCor Really Worth?????

If FleetCor's fees revenues are just reduced by just 1/3 (realistically, they should get reduced by half), and it keeps the same multiple (which would go lower), the stock would trade at a 45% discount to current price. Here is the quick model:

FLT Share Price if Customer Fees Reduced	
\$M	
FLT CY16 Net Revenue	\$1,832
FLT CY16 Customer Fees	\$1,017
<i>FLT - % CY16 Customer Fees / Net Revenues</i>	56%
<i>FLT - % CY16 Customer Fees / Net Revenues Hypothetically Reduced</i>	-33%
<i>FLT - New % CY16 Customer Fees / Net Revenues</i>	37%
FLT CY16 Customer Fee Revenues @ New Fee %	\$681
FLT CY16 Net Revenues @ New Fee %	\$1,496
<i>% Decrease to Current - Net Revenue</i>	-18%
<i>% Estimated Incremental EBITDA Margin of FLT Customer Fees</i>	100%
\$ EBITDA Lost if FLT Customers Fees = WEX Customer Fees	(\$336)
FLT CY16 Adj EBITDA per Bloomberg	\$952
FLT CY16 Adj EBITDA if FLT Customer Fees % = Wex Customer Fees %	\$617
% Decrease to Current - EBITDA	-35%
FLT CY16 Adj EBITDA if FLT Customer Fees % = Wex Customer Fees %	\$617
LTM FLT Adj EBITDA Multiple per Bloomberg	18.8x
Enterprise Value	\$11,561
Net Debt per Bloomberg	\$3,383
Equity Value	\$8,178
Diluted Shares Outstanding per Bloomberg	95.2
Share Price	\$85.90
Current Share Price	\$157.50
Discount to Current Share Price	-45%

Note we are not "betting on zero". Citron understands the need for fleet fuel cards. Yet, this is a highly competitive industry that is dealing with one very bad actor, which is clearly an outlier.

A Note to Analysts about “Only”

Only is a dangerous word ... if you’re an analyst. Citron recalls well how The Street reassured investors that Philidor was “only” 7% of Valeant’s revenue...

In FleetCor’s case we hear today that “Late Fees” are “only” 6% of FleetCor’s revenues.

So what about all these fee types we’ve found in FleetCor’s billings:

- Account Administration Fee
- Clean Advantage Program Fee
- Convenience Network Surcharge
- Credit Risk Assessment Fee
- Default Interest Charge
- Emergency Credit Services
- Finance Charge
- Fleetdash subscription
- Handling fee
- High Risk Transaction Fees
- High Risk Credit Fee
- Late Fee on Previous Invoice
- Member Fee
- Memo Transaction Fee
- Minimum Usage Fee
- Minimum Program Admin Fee
- Report Delivery Fee
- Service Fee
- Transaction Fees
- Weekend Account Admin Fee

Citron’s comment: Dear Wall Street: You can’t have it both ways. You can’t tout FleetCor as a buy because it’s so aggressive about imposing fees, and then defend because “late fees” are **only** 6% of revenues. You owe it to your investors to demand from the company a full **breakdown of all fees**, so that the “hide the ball” game about how 56% of Fleetcor’s gross revenues comes from fees is understood, and transparency is restored to this game of deception.

The Reflexivity of FleetCor has just started.

As long as Citron has fingertips and computers, we will stay on this company until it treat it's customers fairly. We have great respect for the Capitol Form and look forward to any political attention and pressure they can generate on FleetCor.

The bulls might feel comfortable that fuel cards do not fall under the CFPB or the FTC, but this is much bigger.

It is the opinion of Citron that FleetCor has business policies and systems in place that are designed to cheat their customers. Please sue us, so we can take discovery on your management and prove our thesis.

This is an issue that **WILL** go to States' Attorney General offices and the FBI, if it isn't there already.

This Story Has Just Started ... and we have a feeling we know how it will end.

Cautious Investing to All