Company Name: FleetCor
Company Ticker: FLT US
Date: 2018-05-03
Event Description: Q1 2018 Earnings Call

Market Cap: 18,040.48
Current PX: 201.26
YTD Change($): +8.83
YTD Change(%): +4.589

Bloomberg Estimates - EPS
Current Quarter: 2.532
Current Year: 10.355
Bloomberg Estimates - Sales
Current Quarter: 610.333
Current Year: 2543.750

Q1 2018 Earnings Call

Company Participants

- James P. Eglseder
- Ronald F. Clarke
- Eric Richard Dey

Other Participants

- David Mark Togut
- Ramsey El-Assal
- Tien-Tsin Huang
- Oscar Turner
- James Schneider
- Sanjay Sakhrani
- Robert Paul Napoli
- Peter Christiansen
- Ashish Sabadra
- Vasundhara Govil
- Matthew O'Neill

MANAGEMENT DISCUSSION SECTION

Operator

Thank you for standing by. This is the conference operator. Welcome to FLEETCOR First Quarter Earnings Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. In the interest of time, we ask that you ask – limit yourself to one question and one follow up. [Operator Instructions]

I would now like to turn the conference over to, Jim Eglseder. Please go ahead.

James P. Eglseder

Good afternoon, everyone, and thank you for joining us today. By now you should have access to our first quarter press release and supplemental presentation, which can be found on our website at www.fleetcor.com, under the Investor Relations section.

Throughout this conference call, we will be presenting non-GAAP financial information, including adjusted revenues, adjusted net income, and adjusted net income per diluted share. This information is not calculated in accordance with GAAP and may be calculated differently than other companies' non-GAAP information.

Quantitative reconciliations of historical non-GAAP financial information to the most directly comparable GAAP information appears in today's press release and on our website as previously described. Also, we are providing updated 2018 guidance on both a GAAP and non-GAAP basis, along with reconciliations.

Finally, before we begin our formal remarks, I need to remind everyone that part of our discussion today will include forward-looking statements. This includes forward-looking statements about our 2018 guidance, new products and fee initiatives, expectations regarding business development and acquisitions, and statements regarding the unauthorized access to the company's systems, including the assumptions with respect to the investigation of the incident to-date. They are not guarantees of future performance, and therefore, you should not put undue reliance upon them.

These results are subject to numerous risks and uncertainties which could cause actual results to differ materially from what we expect. Some of those risks are mentioned in today's press release on Form 8-K and on our Annual Report on Form 10-K filed with the Securities and Exchange Commission. These documents are available on our website as previously discussed and at www.sec.gov.

With that out of the way, I would like to turn the call over to Ron Clarke, our Chairman and CEO. Ron?

Ronald F. Clarke

Okay, Jim. Thanks. And as always thanks to everyone for joining the call this afternoon. So upfront here, I'll plan to cover on just two subjects. First, I'll provide my view of our Q1 results along with our guidance for 2018. And second, I'll share a bit of an update on our growth initiatives and business development initiatives.

Okay. So onto the quarter, which was quite good. We reported Q1 revenue of $610 million, up 17% and that's reported under the previous accounting standard ASC 605, so it can be apples-to-apples. We reported Q1 cash EPS of $2.50. That's up 28%. So 17% top-line, 28% bottom-line. The macro in Q1 basically as expected, so no real impact on our numbers relative to guidance.

Revenue, really, across the board finished better than we expected. Our organic revenue growth finished at 10% overall for the quarter. Our fuel card line of business reported 1% organic growth. That was significantly impacted by the GFN portfolio and Chevron portfolio. And if you exclude those two components, the remainder of the Fuel Card business grew 7% organically. And we do expect a bit more acceleration probably in the 8% to 10% range.

Our three non-fuel lines of business grew in excess of 20% in the quarter for the second consecutive quarter. Corporate Pay up 25%, primarily as the healthcare portion of that business shrinks, is now about 11% of the Corporate Pay business. Also, we enjoyed massive sales flow-through into revenue in our construction vertical. Construction spend, up 34% in the quarter, so very healthy. And our payroll card business up pretty significantly.

Lodging, up 38% in Q1. About a third of that driven by the FEMA continuing room nights, but 24% volume growth in our core small business segment. So we continue to make new sales there, and we've introduced a new digital booking tool that's lifting room volume. We did also capture some synergies in the quarter from the hotel tuck-in that we did last fall.

And then finally, in our Brazil Tolls business up by 22% in the quarter. We enjoyed the flow-through of some of the new pricing actions, a bit stronger Brazil economy, and some incremental sales from our new third-party and digital channels. Fuel card revenue represented about 44% of our overall revenue in Q1.

In terms of business trends in the quarter, quite strong. Our same-store sales improved to 3%, driven by strength in Lodging, Corporate Pay and our Brazil and Russia businesses. Customer retention, 91% overall. That's 12 consecutive quarters of 90%-plus retention. And new sales or new bookings grew 18% versus the prior period.

So look, the story of Q1 – revenue pretty strong, better than expected and our expenses, a bit lighter than planned because we under-spent the Tax Act investment. So good numbers and good fundamentals.

Okay. Let me transition over to rest-of-year guidance. So today we're raising full-year 2018 cash EPS guidance from $10.20 to $10.35 at the midpoint. That reflects a $0.15 Q1 beat to our initial expectations. We do outlook rest-of-year macro in aggregate to be in line with our initial expectations, although the individual components will move around. So fuel price will be a bit better. FX will be a bit worse. Interest rates will be a bit more unfavorable. But again, in aggregate, really a push against our expectations.

Even though Q1 revenue and profit exceeded our expectations, our rest-of-year plan or guidance had already assumed a pretty significant sequential revenue increase in Q2 and Q3. And we do now expect to start expensing the Tax Act investments in incremental sales and IT, starting really kind of now in Q2 and continuing through the balance of 2018.

In terms of thinking about rest-of-year revenue growth expectations, we expect the fuel card revenue to accelerate again into the 8% to 10% range, if you exclude the impact of GFN and Chevron. The couple of drivers there are some new programs, some we call zero emissions and fraud protection, they were introduced as free trial that will roll over to pay programs.

We're going to go live with some third-party card acceptance, which will boost volume in our proprietary networks. And we're seeing an acceleration in our Russia business to the tune of 40% volume and revenue growth. So those things should add to a bit of acceleration in fuel cards.

We do expect the non-fuel lines of business to pencil out in the high-teens the rest of year mostly because they'll lap some of the pricing initiatives we implemented in the second half.

Okay. Let me transition over to some of our growth and business development initiatives and start on the product side. So first, beyond fuel initiative. We launched a new universal trucking card to some of our largest over-the-road fleet clients. So this new product allows drivers to use their personal monies, think per diem or payroll, at virtually any class of merchant. So they don't have to withdraw their monies as cash.

So we're seeing the drivers now use this card at a variety of merchants, generates interchange for us, and is resulting in almost the doubling of our monthly card revenue among the clients that have adopted it. And as importantly, the drivers do love it.

Second, our Brazil fuel first, our cardless refueling program, we announced today the signing of Petrobras or BR stations, an acceptance agreement to that program. So that now allows us to expand beyond Shell, we'll have Shell and BR brands in locations. And so as those locations get rolled, we think it'll provide a great lift to that program.

In the Lodging segments, I did mention digital booking. We finally offered digital booking to our small account segments starting last year. And in the first quarter one-third of all small business lodging rooms were booked digitally, up from really zero the prior year. And that usage has resulted in about a 10% lift in room nights – incremental room nights from that group of users, and obviously the users are more satisfied with the service.

Then, lastly, we began implementing a new simple user interface, think smartphone kind of interface, into our U.S. and U.K. fuel card clients. So we put about 70,000 clients on so far. Expect that to get to about 180,000 clients by end of year. So really a terrific reaction to a new simpler way to interact with us and obviously allows administrators of the program to do more self-service. So the point here, we are continuing to deliver some new product advances, new product enhancements that increase utility to our clients.

Okay. Lastly, let me briefly update you on some of our partner and acquisition progress. So on the partner front; we did sign an amendment with Shell to extend the term of our 11-market European program with them, which is good news. And we've begun a new program with Uber, a new Freight program that's being piloted where Uber is trying to connect truck drivers to shipper loads. So a really interesting kind of partner opportunity. We are also working a couple of small new partner deals that, I'd say, are getting relatively close.

On the acquisition front, we announced a bit earlier, a small minority investment in a company called P97. Their charter is to bring mobile payments to the petroleum industry. So the P97 solution enables gas station retailers to accept mobile payments, both at the pump and in-store, working through the existing equipment – point-of-sale equipment and cash register systems with really little to no retrofit, which is a big deal.

So in addition to an investment in P97, we also signed a commercial agreement to use their technology for our own U.S. fuel card programs. So we hope to accelerate mobile usage among our own commercial client base.

Also on the acquisition front, we took a look at our newest acquisitions, those from 2016 and 2017, of which there are four: So STP, Cambridge, CLS and the Russia Gazprom deal. Those four businesses had a combined Q1 2000 (sic) [2018] EBITDA that's up 39% versus Q1 2017. So the point, we continue to be pretty good at designing and implementing profit improvement initiatives within our acquired assets. We are also working on a couple of small acquisition, tuck-ins I'd say, also getting into the late stages.

So look, in summary, we're off to a very good start. Our revenues and profits are ahead of expectations. We had an outlook of cooperating macro environment. We've got solid same-store retention and new sales trends. We're making some advances in our products. We're enjoying strong profit growth in our four most recent acquisitions and we're raising 2018 guidance to $10.35, which would reflect a 20%-plus cash EPS growth for the year.

So with that, let me turn the call over to Eric to provide some additional detail on the quarter. Eric?

Eric Richard Dey

Thank you, Ron. Before I get started on the numbers, I want to remind everyone that the company has adopted the new revenue recognition standard ASC Topic 606 via the modified retrospective method of adoption effective January 1, 2018. Under this method, 2017 results are not restated.

In my revenue discussion to follow, I will talk about revenue in two ways. First, using the new GAAP convention, which compares 2018, using the new ASC 606 standard to 2017 using the prior standard. Secondly, I will discuss revenue for 2018 and 2017 as if ASC 606 was never adopted in 2018, so you can see revenue the way we have historically presented it. I plan to discuss revenue using both conventions for the rest of 2018.

Now onto the quarter. For the first quarter of 2018 on a GAAP basis using the new ASC 606 standard, we reported revenue of $585.5 million, up 12.5% compared to $520.4 million in the first quarter of 2017. Using the new ASC 606 standard, merchant commissions and certain third-party processing expenses are netted against revenue. This new standard resulted in a reduction in revenue of approximately $24 million in the first quarter of 2018 versus the prior ASC 605 revenue recognition standard, and will have no material impact on net income.

The revenue from our North American segment increased 10.4% to $364.3 million from $329.9 million in the first quarter of 2017. Revenue from our international segment increased 16.1% to $221.2 million from $190.5 million in the first quarter of 2017.

For the first quarter of 2018, GAAP net income increased 41.4% to $174.9 million or $1.88 per diluted share from $123.7 million or $1.31 per diluted share in the first quarter of 2017.

Non-GAAP financial metrics that we will be discussing are revenues excluding the impact of the new ASC 606 standard to provide comparable revenue amounts between periods and adjusted net income, which we sometimes also refer to as cash net income or cash EPS.

A reconciliation of GAAP revenue using the new ASC 606 standard to the prior revenue convention is provided in Exhibit 7 of our press release and adjusted net income to GAAP numbers is provided in Exhibit 1 of our press release.

Revenues in the first quarter of 2018, excluding the impact of ASC 606, were $609.7 million, up 17.2%, compared to $520.4 million in the first quarter of 2017. Adjusted net income for the first quarter of 2018 increased 26.2% to $233.5 million compared to $185 million in the first quarter of 2017. And adjusted net income per diluted share increased 28% to $2.50 compared to $1.96 in adjusted net income per diluted share in the first quarter of 2017.

First quarter results reflect the impact of a positive macroeconomic environment compared with the first quarter of 2017. Changes in foreign exchange rates were primarily positive and we believe impacted revenue during the quarter by approximately $9 million.

Fuel prices were also mostly favorable during the quarter. And although, we cannot precisely calculate the impact of these changes, we believe positively impacted revenues by approximately $9 million. And finally, fuel spreads had about $1 million favorable impact in the quarter.

So in total, those changes impacted our first quarter revenues by approximately $19 million and adjusted net income per diluted share by approximately $0.14 versus the first quarter of 2017. Also, the macro was mostly in line with our prior guidance. Fuel prices were a little favorable and spreads and foreign exchange rates were a little unfavorable, so no meaningful impact from our prior guidance.

Organic revenue growth, even after adjusting out the positive impact of the macro environment, was approximately 10% for the first quarter of 2018. Organic revenue growth has been calculated assuming that ASC 606 was implemented in January of 2017 in order to calculate organic growth using a consistent revenue standard in both periods.

Most of our major product categories performed well during the quarter. Our fuel card business was negatively impacted by the MasterCard portfolio conversion in the first quarter of 2017 and lower sales investment in the Chevron portfolio, which has impacted volumes, resulting in organic growth in this category of 1%.

Excluding the impact of the MasterCard portfolio conversion from prior year and Chevron, we believe fuel card organic growth would have been approximately 7%. We expect that organic growth in the category will be impacted until we lap the MasterCard conversion issue at the end of the second quarter of 2018 and until we transition to Chevron portfolio. Excluding these items, we believe growth rates will trend toward the mid to upper-single digits.

The Corporate Payments category continues to grow well and was up 25% organically during the quarter. The growth in Corporate Payments was driven by both our Comdata and Cambridge businesses, which, both grew over 20% in the quarter.

Our Toll business was up 22% organically, due primarily to a number of growth initiatives implemented throughout 2017 at STP.

Our Lodging business was up 38%, driven primarily by an increase in room nights and continued FEMA rooms due to the impact from hurricanes. The FEMA impact contributed about 14% of the growth. So all in all, another very good quarter for our non-fuel businesses.

Now moving down the income statement. Total operating expenses for the first quarter were $325.4 million compared to the same $325.4 million in the first quarter of 2017. Included in the first quarter of 2018 was the impact of ASC 606, which netted approximately $24 million of merchant commission and certain processing expenses against revenue.

Excluding the impact of ASC 606, operating expenses would have been up approximately 8.3%. The increase was primarily due to acquisitions completed in 2017. As a percentage of total revenues, operating expenses were approximately 55.6%, compared to 62.5% in the first quarter of 2017.

Excluding ASC 606, operating expense as a percentage of total revenue would have been 57.8% in the first quarter of 2018. The decrease in operating expense as a percentage of revenue was primarily due to a decrease in stock-based compensation of approximately $10 million.

Credit losses were $12 million for the first quarter or 5 basis points, compared to $13 million or 8 basis points in the first quarter of 2017. The decrease in bad debt was primarily due to new credit controls implemented in our Toll business in Brazil.

Depreciation and amortization expense increased 10.2% to $71.5 million in the first quarter of 2018 from $64.9 million in the first quarter of 2017. The increase was primarily due to acquisitions completed in 2017.

Interest expense increased 34.3% to $31.1 million compared to $23.1 million in the first quarter of 2017. The increase in interest expense was due primarily to the impact of additional borrowing for the Cambridge acquisition, share buybacks and increases in LIBOR.

There was no equity investment gain or loss in the first quarter of 2018 compared with a $2.4 million loss in the first quarter of 2017. At the end of the third quarter of 2017, we changed our investment agreement in Masternaut, resulting in an accounting change from the equity-to-cost method as we executed on our plan to exit the telematics space. As a result, we no longer record gains or losses on this minority investment in our P&L.

Our effective tax rate for the first quarter of 2018 was 23.7%, compared to 26.1% for the first quarter of 2017. The reduction in the tax rate was primarily due to the impact of U.S. Tax Reform, which went into effect on January 1, 2018.

As a result of U.S. Tax Reform, the federal statutory income tax rate was reduced from 35% to 21%. The reduction in our effective tax rate, due primarily to the federal statutory rate being reduced, was partially offset by a higher U.S. federal taxes related to the new GILTI tax and higher state income taxes, both resulting from U.S. Tax Reform. Our tax rate was also impacted by lower excess tax benefits on share-based compensation in the first quarter of 2018 as compared to the first quarter of 2017.

Now, turning to the balance sheet. We ended the quarter with $1.223 billion in total cash. Approximately $243 million is restricted and consists primarily of customer deposits. As of March 31, 2018 we had $3.620 billion outstanding on our term loans and revolver, and approximately $630 million of undrawn availability. We also had $829 million borrowed in our securitization facility at the end of the quarter.

We purchased approximately 443,000 shares of common stock in the first quarter and have approximately $420 million in repurchase capacity remaining under our current authorization. As of March 31, 2017 our leverage ratio was 2.31 times EBITDA, which is well below our covenant level of 4 times EBITDA as calculated under our credit agreement.

We intend to use our future excess cash flow to temporarily pay down the balance on our revolving credit facility and securitization facility, and maintain liquidity for acquisitions and other corporate purposes. Finally, we are not a capital intensive business, spending approximately $15 million on CapEx during the first quarter of 2018.

Now onto our outlook for 2018. First, I want to update you on our latest thinking about the macroeconomic environment for the balance of the year. The good news is that in total the macro came in mostly where we thought it would be in the first quarter. The current trend is for fuel prices to be slightly ahead and market spreads to be at our prior guidance level for the balance of the year.

We also expect foreign exchange rates to continue to trend unfavorably compared to our prior guidance and interest rates to be a little worse. So in total, we are expecting the macro over the balance of the year to be mostly in line with assumptions used in our prior guidance. As a result, we have increased our full-year guidance by our first quarter beat versus our prior guidance. Please refer to our first quarter earnings call supplement for additional information.

So with that out of the way, our full-year guidance is as follows: Total revenues including the adoption of ASC 606 to be between $2.390 billion and $2.450 billion; net income to be between $705 million and $735 million; net income per diluted share to be between $7.55 and $7.85; revenues excluding the impact of ASC 606 to be between $2.500 billion and $2.560 billion; adjusted net income to be between $950 million and $980 million; and adjusted net income per diluted share to be between $10.20 and $10.50.

Some of the assumptions we have made in preparing the guidance include the following. Weighted fuel prices equal to $2.69 per gallon average in the U.S. for those businesses sensitive to the movement in the retail price of fuel for the balance of the year; market spread equal to the 2017 average; foreign exchange rate equal to the 7-day average as of April 2, 2018; interest expense of $125 million; fully diluted shares outstanding of approximately 93.6 million shares; a tax rate of between 22% to 24%; no impact related to acquisitions or material new partnership agreement not already disclosed; and no impact related to the unauthorized access to a portion of the company systems.

For the second quarter of 2018, the company is expecting adjusted net income per diluted share to be approximately the same as the first quarter. The second quarter assumes improving revenue and operating performance versus the first quarter offset by sales and IT initiative to be funded from savings on the new Tax Act. Additionally, our volumes should build throughout the year and our new asset initiatives should gain momentum throughout the year resulting in higher revenue and earnings per share primarily in the third and fourth quarters.

And finally, as we reported in today's press release, on April 26, 2018 company personnel identified suspicious activity, primarily on systems involving the company's Stored Value Solutions business. The company took immediate action to stop the activity and limit the improper use of accessed information.

The company through counsel properly engaged external experts in information technology forensics to assist in the investigation. The company also contacted federal law enforcement and merchants known to be affected. The investigation is in its early stages, but indicates that a significant number of primarily six months or older card and PIN numbers were accessed. The affected data does not include personally identifiable information, such as consumer names, Social Security numbers, driver's license numbers, and other sensitive personal data.

Following discovery, the company froze certain card information as it's working with merchant customers to limit the impact of the unauthorized access. The company did not see any evidence of access to its systems involving fleet cards and other payment products, or to the proprietary and third-party payment networks used to deliver the company's payment solutions.

The company continues to investigate its other systems to determine whether any other information or systems have been accessed and whether other customers have been impacted. This investigation is ongoing and will continue until the full nature and scope of the systems and information accessed has been determined. The company will provide an update on the incident in its upcoming 10-Q, which it expects to file by May 10, 2018.

With that said, operator, we'll open it up for questions.

Q&A

Operator

[Operator Instructions] Our first question comes from David Togut with Evercore ISI. Please go ahead.

<Q - David Mark Togut>: Thank you. Good afternoon.

<A - Ronald F. Clarke>: Hey, David.

<A - Eric Richard Dey>: Hey, David.

<Q - David Mark Togut>: Could you walk us through sort of the timing and recovery of fuel card organic revenue growth kind of parsing out the impacts of GPN (sic) [GFN] and the Chevron portfolio over the next few quarters?

<A - Ronald F. Clarke>: Sure, David. It's Ron. Let me try this. So I think we said before and repeat today that we're outlooking in the 8% to 10% range for fuel cards for full-year 2018, excluding GFN and Chevron. So in Q1, those numbers were 7% and 1%, respectively. And so the full year, let me just use the midpoint to keep it simple, it's probably something like 9% and 6%. So kind of – let me just use the midpoint of 9% so kind of full year. If you ask today, what do we think including the 7% from Q1, so it'll accelerate some, we'd say we expect to finish the year kind of at 9% organic in fuel cards without GFN and Chevron.

And obviously that split varies by quarter. There is obviously a ton of GFN impact in Q1 because that was whole for us, if you will, last year. And then, obviously, there'd be a much bigger impact in Chevron in Q4 as we basically have that exiting out of our forecast.

<Q - David Mark Togut>: Got it. And then just as a quick follow-up. The acceleration in Corporate Payments growth to 25% from 16% in 4Q, could you walk us through the sustainability of that higher growth rate? In other words, is the disruption-related payments growth with you for the balance of the year?

<A - Ronald F. Clarke>: Yeah. Again, I think in my comments, we said think about that thing penciling out in the high-teens. So I'd say that we took some actions in our payroll card business, which sits in Corporate Pay that added some incremental pricing and incremental growth, both in Q4 and Q1. But as I mentioned, obviously, in the direct business, in the construction business, it's fundamentally all volume growth that's finally been implemented. So I think our numbers have that thing again high-teens Q2 through Q4 this year.

<Q - David Mark Togut>: Understood. Thank you very much.

Operator

Our next question comes from Ramsey El Assal from Jefferies. Please go ahead.

<Q - Ramsey El-Assal>: Hi, guys. Thanks for taking my question. Can you also sort of run through the same thing in the Brazil business just in terms of talking about what growth will look like there once some of the pricing actions you took sort of cycle through? And also just what is the addressable market for some of these revenue synergies that you're finding there? Is there a lot of room to scale the types of fuel tag – paying for the fuel with the RFID tag and I think you mentioned private garages before. Is there a lot of runway there in terms of scaling that business?

<A - Ronald F. Clarke>: Yeah. Ramsey, hey, it's Ron. So I guess a two-part answer to that. So yeah, 22% was the Q1. I think, again, we said think about that thing kind of high-teens. We think it will decelerate some as we get later into the year and it lapse the pricing that we put in place kind of in the fall last year.

But on the second part question, I think we said repeatedly the big idea there is to reposition STP from being a toll dominant kind of toll company to being an RFID payment company. So today, it's call it 80%-ish toll revenue and then some parking and then some fuel. So the goal would be to obviously have parking. We've got a plan to double this year the number of parking installations from 500 to 1,000.

We've also announced today a plan to dramatically increase the fueling, the fuel first footprint through the new Petrobras BR agreement, who is the largest retailer in Brazil and we're interestingly in conversations with a couple of the fast food people in Brazil in pilot to put the same technology in the drive-throughs. So the goal as you think kind of into next year and forward is to get a lot of incremental growth from that company in those parking fuel and fast food segments.

<Q - Ramsey El-Assal>: Okay. Thanks. That's very helpful. A follow up for me is on M&A. And I wanted to ask about your appetite here or the market conditions and whether that's sort of dictating a steady stream of kind of smaller deals, or are you still potentially contemplating anything more transformative? And maybe I can just bolt on to that, how much more do you intend to kind of delever here?

<A - Ronald F. Clarke>: Yeah, I'd say that certainly on the larger ones, it's opportunistic. We've got a set of large targets that we're in contact with to see whether they're sellers or obviously whether we're buyers. And I'd say the activity we're reporting today is we've got a couple of smaller kind of tuck-in things that are late innings to report today. But, look, I mean, our leverage ratio is – what was it, Eric?

<A - Eric Richard Dey>: 2.38 times.

<A - Ronald F. Clarke>: 2.4 times. And obviously our liquidity for the refinancing last summer is up. So I'd say that balance sheet-wise, Ramsey, we feel obviously in a good place and also management-wise. I reported earlier that the four newest deals grew profits at 39% in Q1. So it's obviously working what we've recently done. So I'd say look for both. Nothing immediate to say on the big front, but we're positioned in a place that if the opportunity comes we'll take it.

<Q - Ramsey El-Assal>: Great. Thanks for taking my questions. Appreciate it.

Operator

Our next question comes from Tien-Tsin Huang from JPMorgan. Please go ahead.

<Q - Tien-Tsin Huang>: Hi. Good afternoon. I think you, Ron, mentioned you were close to potentially a couple of partner deals. I'm curious how much impact that might have to your fuel, your fleet organic growth if you were to book those.

<A - Ronald F. Clarke>: Yeah, hey, Tien-Tsin. Yeah, they're not – I'd call them kind of smallish both of the things we're working on. So not – I wouldn't say a material, maybe a point or two kind of range if we were to close them.

<Q - Tien-Tsin Huang>: Okay. That's good to know. And then on your 18% bookings or new sales, how much of that was fuel versus non-fuel?

<A - Ronald F. Clarke>: I don't have it. You have that Eric in front of you?

<A - Eric Richard Dey>: Hold on one second.

<Q - Tien-Tsin Huang>: Just trying to get an idea because you had a lot of activity on the non-fuel side, just curious how the fuel activity is going on.

<A - Ronald F. Clarke>: Yeah. The reports sitting in front of us is not sorted by product, but I can just eyeball a few of them just to give you an idea. The U.K. was up 47%; Russia was 191%; Western Europe 166%; Australia 155%; Brazil 149%. So a bunch of our international fuel was great. Our U.S. is still kind of mostly flat. Our trucking business was 123, up 23%. And so the softness is still from the GFN thing last year. It's taken time to kind of get our U.S. sales to recover fundamentally. So I'd say, I don't know the average of all those, but the U.S. direct business and partner business, not a lot of growth. All the international ones and the trucking one really super first quarter.

<Q - Tien-Tsin Huang>: Okay. That's good to hear. Thank you.

Operator

Our next question comes from Oscar Turner with SunTrust. Please go ahead.

<Q - Oscar Turner>: Hi, guys. Good afternoon. Thanks for taking my questions. First question is just another on fuel, seems like that segment has decelerated the past few quarters even if you exclude the MasterCard portfolio conversion impact and Chevron. And it seems like trucking demand is growing. So what do you think is driving that trend? Is there anything outside of those two drivers that's affecting kind of your constant macro growth?

<A - Ronald F. Clarke>: Yeah, Oscar. It's Ron. So let me just say a couple of things. So one, again, our reported number for the quarter for fuel was 7% if you carve out those two headwinds and our forecast is 9% again for full-year 2018. I'll remind you that I think for the last however many years we reported, these three years, it's been about 9%. So maybe decelerated in Q1, but for the year we're kind of thinking 9%, 9%, 9%. That would be the first point.

The second one would be, the reason, hey, why are we sitting here then at 7%, Ron, why are we waiting for the thing to accelerate? Why is it 9% in the first quarter? I'd say when we built the forecast the two things that have it running below the 9% are: One, the sales recovery again from that GFN thing. [indiscernible] (43:44) people into service roles. We moved people around into other products that were working and so there's been a longer tail fundamentally in recovering the sales in those segments, we kind of reallocated resources to other areas. And then second, I'd say the GFN attrition rate has stayed a bit elevated. We expected that curve to come down more steeply towards normalized levels. And so I'd say that those would be the couple of things kind of holding the thing back a bit.

<Q - Oscar Turner>: Okay. Thanks for that color. It's helpful. And then follow-up just on some of the growth initiatives you talked about recently beyond fuel in the U.S. and fuel first in Brazil, how do we think about the time to ramp? And when do we or when do you expect to see material revenue contribution from those initiatives?

<A - Ronald F. Clarke>: That's also the million dollar question for us too. I'd say we don't know. It's hard to forecast the magnitude. What I would say and try to tease out a bit on my comments is, it's working kind of what we're doing is working. So the example of the trucking card which is probably 90 or 120 days in clients' hands and the fact that the behavior of the cardholders has changed that dramatically and that it's turned into fundamentally a doubling of monthly card revenue would be, something I'd say to you, wow, as I roll that forward what's the phase that we can get those clients adopted? And will the behaviors of the future cardholders look the same?

So I'd say that, we'll probably have a much better handle on answering that thing as we get later into the year and start to build plans for the following year. But I'd say the reception both in our construction segment, here the thing we've called out before BuilderPro is still growing like a weed and now there's trucking one. So what we can report is that we're getting evidence that this beyond fuel idea can work and hopefully we can size it better for you as we work through the year.

<Q - Oscar Turner>: Okay. Great. Thank you.

Operator

Our next question comes from James Schneider with Goldman Sachs. Please go ahead.

<Q - James Schneider>: Good afternoon. Thanks for taking my question. I was wondering if you can maybe touch a little bit on the same-store sales trends you saw in the quarter. Which verticals were a little bit better? Which ones were a little bit weaker? And any kind of directionality you can provide in terms of where the same-store sales trends might go in the next quarter or so would be helpful.

<A - Ronald F. Clarke>: Hey James, it's Ron. I again kind of mentioned in the opening that the four kind of positive pockets were Lodging so that was quite healthy. I think we'd mentioned that the WALE had recovered from a year plus ago and the small account business there is quite healthy. So that was quite positive.

Corporate Pay is getting healthier because the healthcare portion is shrinking. No pun intended there. So the balance of the thing is healthier and so it's got a higher number. And then the two markets Brazil and Russia that were quite soft a year or two ago, those economies have gotten dramatically better. And particularly in the case of Russia, we've introduced a product a year ago that works almost everywhere, so we're grabbing just way more share of wallet of customer. So it's growing.

So those would be the four that I think caused the rise from call it 1% or 2% to 3%. And I'd say going forward, who knows? It's a macro call. I'd say if you made us guess, we would hope the thing would stay in the kind of plus one to two range.

<Q - James Schneider>: Very helpful. Thanks. And then maybe you could talk a little bit about Corporate Pay and some of the sales initiatives that you're undertaking there and talk about how Comdata is tethering with Cambridge, and what specific activity that Cambridge, you're kind of undertaking. I know you've kind of talked about moving them more upmarket to larger merchants. But maybe talk about the complexion of what's going on in terms of the sales initiatives there please.

<A - Ronald F. Clarke>: Yes. So in the core Comdata Corporates Payments (sic) [Corporate Payments] business, I'd say the primary work there is scale. So we've got them all that works. We're selling a ton. I think we reported we grew sales I think close to 50% Eric in the prior year.

So the key James in that business for us has really just been scale, more of the same, more coverage, more territory people. And our plan is to again to grow that thing, grow sales again another I think 15% to 20% this year.

In terms of the cross-sell it's still early. We've signed some number of deals. I think we targeted 300-ish accounts from Cambridge. And I think I've had appointments with about a quarter of them, so call it I don't know 70, 75. And we've got some number of deals and probably half or more of those in the pipeline.

So I think it's still early but the reaction is positive. We're obviously getting the Cambridge clients to agree to meet and hear the pitch. And then on the Cambridge side, we're taking a step to create what we call an enterprise group. We've analyzed what percent of their whole business is of some kind of significant size, call it an enterprise size account.

And we've got, I don't know a 12% to 15% position of that whole business. And so we're going to pour more senior people, particularly here in the U.S. into this enterprise segment and move away again from that smaller, old-fashioned dealer kind of model that the company had. So I'd say that you'd continue to see not only growing sales. Their sales were up significantly Eric in Q1, up 37% James in Q1 that you continue seeing us onboarding larger accounts.

<Q - James Schneider>: That's helpful color. Thanks very much.

Operator

Our next question comes from Sanjay Sakhrani with KBW. Please go ahead.

<Q - Sanjay Sakhrani>: Thank you. I guess, I had a question on the unauthorized access. When we think about what a potential liability would be given the cards that were compromised were six months or greater, is there any way to determine like the scope of what you're talking about it? Is it the minority or majority? And then I guess I was wondering, maybe just get more specifics on where and why this happened?

<A - Eric Richard Dey>: Hey, Sanjay, this is Eric. Let me give you a little more color around what's going on. We found out about this issue about a week ago. We obviously have very defined practices in place to detect these kind of things and we did discover that there was some unauthorized access. And again it was about a week ago. And again, our investigation to date indicates that the theft appears to be limited to SVS and a few of its clients. And we also – our investigation indicates that the card data was obtained consists primarily of private label gift card numbers and PINs, so no bankcards were involved and no personal identifiable information was released at all.

We've also found that there's been no evidence of any intrusion into any of FLEETCOR's processing or financial systems. And our investigation is ongoing. And hopefully, over the next week or so, we'll learn a lot more, as again we've employed some IT forensic people to kind of pore through our systems to identify where the weakness was.

<A - Ronald F. Clarke>: Hey, Sanjay, it's Ron. Let me just add on that what we would say is it's super early days. We wanted to disclose that I got a call on Sunday that we became aware of the thing. So the first headline is it's really early. But the magnitude question I'd say the good news is five days in studying, it was half the technical people on the planet there, it's only a few clients that we've seen that there's any data that's actually been compromised, taken if you will.

And on your question to why and how, the short answer appears to be customer portals. As we open up all our systems on the planet, there is more opportunity to get into UIs. And so that's why the monitoring is able to detect it if clients start to do things with the servers that don't look normal, our people get on it. So that's how it was able to get shut down. So early days, more to say as we get smarter.

<Q - Sanjay Sakhrani>: Okay. And my follow-up is just so I'm clear on what would happen. I mean it would be unauthorized or it would be fraudulent transactions that would occur with those few partners and that would be the extent of where the damages would be? I'm just trying to understand sort of how that would manifest itself into a liability for you.

And then one other question on beyond fuel. Ron, you mentioned that there's some of your customers that are on pilot. How did you guys determine who goes on pilot? And when we think about how broad that could be applied against your customer base how significant? Is it the majority of your customers that might be able to use that product? Thanks.

<A - Ronald F. Clarke>: Yeah. Let me try to just finish on the cyber thing so the liability. So, yes, is the short answer if some cyber criminal takes digital card information, the liability would be that obviously that would be used fraudulently to make redemptions. And so the good news if there is such a thing and someone's stealing something is it's an old fashioned kind of business and large percentages kind of circa 80% of gift card redemptions at least the SVS ones are made with plastic at physical stores.

And so because the compromise didn't involve mag stripe, there's no way to counterfeit the cards. So effectively, most of the client info that was compromised it can be business as usual. Legitimate people like us with the cards going to the stores goes on as normal. And we've obviously shut down the digital card prints for the balance that would – we try to redeem electronically. So it's – again, it's early days, but it appears that the thing is limited in scope. And we're going to try to provide an update with our Q what in a week...

<A - Eric Richard Dey>: Week from today.

<A - Ronald F. Clarke>: We'll obviously know more in a week, so we'll provide a bit more.

<Q - Sanjay Sakhrani>: Thank you.

Operator

Our next question comes from Bob Napoli with William Blair. Please go ahead.

<Q - Robert Paul Napoli>: Thank you. Just following up on that a little bit. The gift card business – I mean, I know it's only a week in, but in your guidance are you expect – are you doing anything different in that business? Are you – or do you expect business as usual like 7% of your revenue and it's obviously a business you've been considering divesting for a while?

<A - Eric Richard Dey>: Yeah. Hey, Bob, this is Eric. It's pretty much business as usual from a guidance perspective. We don't anticipate any material impact to the business itself at this point.

<Q - Robert Paul Napoli>: Okay. And I think the beyond fuel, I think Sanjay had asked what percentage of your customer base could possibly use that product, can you talk -?

<A - Ronald F. Clarke>: Yeah, Bob. Hey, it's Ron. So the answer is it depends on the application. So let me give a couple of examples. So in the case of construction, which is about a quarter of our U.S. and UK fuel card client base, this concept of adding a construction supplies card would be applicable to the entire 25%, assuming they were sufficiently creditworthy. And then on the balance, we've looked at all kinds of concepts from things like an admin or owner cards as most of our clients are small, they could buy or pay other kinds of general AP to opening the cards up a bit more for things like traditional T&E. So we're working through two or three different kinds of applications of beyond fuel and seeing which ones resonate. But the two that we know for sure work are the construction supplies thing for the construction segment and this using personal money in the trucking business like we would use a debit card instead of converting into cash. So for sure those two applications are working.

<Q - Robert Paul Napoli>: Great. Thanks. And just -

<A - Ronald F. Clarke>: [indiscernible] (58:06) when we talked the last time that we don't have a ton of revenue reports. I want to reiterate. We think it's still a very big idea not only in terms of added revenue but that the stickiness of adding this kind of capability on the client base is a pretty important thing long-term.

<Q - Robert Paul Napoli>: On the M&A front, which segments of your business are there more opportunities to add and grow the Corporate Payments there or should we expect to see more activity in Corporate Payments? I mean, Lodging is kind of a niche business I think, but your Corporate Payments and maybe Tolls?

<A - Ronald F. Clarke>: Yeah. We have – I've got the page in front of me. We've obviously got targets in every one of the four primary spend categories. And then obviously we have some targets that are in a couple of categories that we're not in but that we've studied. And so I think people would be fools to not think that we will make ongoing acquisitions in each of the categories that we're in.

<Q - Robert Paul Napoli>: Are there large like game-changing opportunities so we would...?

<A - Ronald F. Clarke>: As I said that's a mix. The couple things in front of me that are closest are kind of tuck-in are smallish. But obviously per the earlier call, there are some larger targets. I'd say none of those are super close in, but who knows? We're in a place finally leveraging liquidity wise that, if we like it, we'll pull the trigger.

<Q - Robert Paul Napoli>: Thank you.

Operator

Our next question comes from Pete Christiansen with Citi. Please go ahead.

<Q - Peter Christiansen>: Good afternoon. Thanks for the question. I guess interest rate volatility has kind of perked up quite a bit here I guess as recent market developments. Does that change your thoughts on potentially hedging your current debt and your floating exposure?

<A - Eric Richard Dey>: Yeah, hey, Pete. This is Eric. Yeah, we're looking at that. I think ideally we would hedge in conjunction with a large acquisition. That would make it easier for us to effectively do that. But we are looking at it.

<Q - Peter Christiansen>: Okay. And then I'm interested in the P97 business there. Can you just run us through what's the monetization model there or the business model?

<A - Ronald F. Clarke>: For them or for us?

<Q - Peter Christiansen>: No, for them. I'm sorry.

<A - Ronald F. Clarke>: Yeah. For them, the model is basically to get paid by the merchants. So in this case the oil brands the gas station brands, and to get paid per transaction. So in our role as a user, a client for P97, take one of our proprietary fuel card products, for example, we would go out to our merchants and say, hey we can enable you guys to take mobile. We might fund some of that. They might fund some of the merchant. And then we would pay in that example as the issuer something per tran to enable the mobile transaction. So those are the two ways P97 gets money. They get it from the merchant kind of enabling and then they get it as transactions click through the app.

<Q - Peter Christiansen>: And this would enable like a FLEETCOR app to be a payment mechanism almost like a wallet for your specific products?

<A - Ronald F. Clarke>: Yeah. I mean, the simple layman's way at least, Pete, for me to think about it is the P97 has come up with a way sitting in the cloud or sitting in a host to basically talk through the systems that sit in the gas stations, not to physically go there and do a retrofitting. They literally go talk to the point-of-sale or the cash register systems and then they connect it with an app. So the driver comes in. The app, obviously, connects to the host and the host tells the gas station, station number 12 to turn on pump eight. And so fundamentally it's like a loop between the app on the phone, the P97 host, and then talking to the gas station's existing equipment to turn the pumps on.

So it's pretty cool. It can be used as a private label app. Someone like – take BP. BP could contract directly with them and create a BP app for anyone that's got a BP card when they come into BP. We could do it with the merchant networks that we have and make it a Fuelman app or a Comdata app or a credit card company, Citibank if you had their card, could make it a Citibank app if enough stations were signed up.

We bought into it because it's the – we thought the easiest way to enable mobile because you've seen what's happened with EMV and the pain of all these legacy gadgets that sit in these 160,000 places. We thought the timeline would be really long, making those mobile enabled. And so we like the approach here a lot. And so we got a bit of an exclusive deal with them in the fuel card space and we're going to kind to chase after this.

<Q - Peter Christiansen>: Great. Interesting stuff. Thank you.

<A - Ronald F. Clarke>: Thanks.

Operator

Our next question comes from Ashish Sabadra with Deutsche Bank. Please go ahead.

<Q - Ashish Sabadra>: Thanks for taking my question. I just wanted to hone in further on the GFN. So you mentioned that the bookings were flat, but you've worked on some sales reorganization effort. I was just wondering, how do you think about the bookings – how do you think about the sales effort there now? Do you think that the sales team is set and expectations for bookings for that MasterCard platform going forward? Just wondering if you could provide any color? Thanks.

<A - Ronald F. Clarke>: Yeah, Ashish. It's Ron. So a couple of things. So one, again, the product is working well; it's green. Two, about 30% of our fuel card sales in the quarter went on that GFN platform. Three, we still are making some MasterCard sales on our old mainframe platform, because we had to move people off of it last year.

So there's a bit of a mix. I'd say that performance is improving. If we look at the last six months, we started to re-staff the thing. Sales are increasing. We're getting more distance from the problem that we had. And so the expectation is, as we roll through the next set of quarters that we'll get that thing stepped back up again. We're kind of at historical levels, but, obviously, we're trying to sell 15% to 20% more right to fuel the growth. So when you sell the same amount as the prior year, you don't generate much growth. So it's a high priority to get that thing staffed and productive over the next few quarters.

<Q - Ashish Sabadra>: Thanks for that color. And then maybe on the Lodging side, you talked about the digital product there, the mobile booking product and it looks like that's driving some pretty good uplift. Has that been rolled out to all the customers, or can that drive incremental customers as well in addition to having a lift in bookings in your existing customer base, any color that you can provide on that front?

<A - Ronald F. Clarke>: Yeah. That's another great question. So first of all, I mean, for us, most of us, the idea of hitting a button on a phone to order some is pretty common. But, again, a year ago we had zero. Every CLC traveler called the hotel himself or showed up because they're kind of boots people driving around. And so this idea of when we launched it last year, hey, let's give him a digital and normal way to book. The fact that one-third of all the room nights that were reserved were on the app and that those customers, those same accounts that used it grew 10% for us was great. That's the first point.

Second point is, we've rolled it out to all of the small accounts and the adoption is growing month over month. So I don't know what it'll be, but if you roll through Q2 and Q3 we could approach 40% 50% maybe of all the rooms, as we run through this year being booked digitally, and then, obviously, maybe still getting that 10% corresponding lift. And then, third, I'd say, yes, our new sales were up again pretty significantly in Q1 and the report in the sales review is it's an easier thing to explain to people now. So when they call up new companies and pitch the thing, hey, we have this network; it's a control network; your guys can call themselves or you can just book on your phone. I think it's a more understandable product to present to the marketplace. So yes, it should help us on the new account side as well.

<Q - Ashish Sabadra>: Thanks. Thanks for that color. Thanks, Ron.

Operator

Our next question comes from Vasu Govil with Morgan Stanley. Please go ahead.

<Q - Vasundhara Govil>: Hi. Thanks for taking my question. Just quickly on the Tolls business, as you guys took to reposition that part of the business from a toll company to an RFID payments company, is there also a plan to move the revenue model to more of a transaction driven revenue model? Or is the thought that as people use it for more and more users the attrition will kind of go down?

<A - Ronald F. Clarke>: Yeah. It's Ron again. That's a great question. This is in some ways a little bit strange that because in Brazil the toll concessionaires, the toll operators, owned STP, they set the thing up as a zero MDR product, a free payment systems. So users could go to the merchants, the tolls, and the merchants could get 100% of the face value and the payment company wouldn't get anything. That's a pretty unusual model because of who owned it. So

FYI, we may be working to try to change that over time.

But the good news is, is that the other categories and the repositioning fuel, parking, which we're already in, we do get MDR like on a normal car. So we obviously get MDR at the fueling stations at the parking. And obviously, in this fast food pilot I mentioned, the same thing. And so you're right on. As we grow volume in those three non-toll areas, way more the revenue will come from the merchant versus from the customer.

<Q - Vasundhara Govil>: Understood. That's very helpful. And I think previously you had mentioned about three to four new toll roads coming on in Brazil this year. Have those already kicked in? Or do we know what the timing would be for those?

<A - Ronald F. Clarke>: They haven't. I think there were two that was supposed to come online in Q2 and they're supposedly still. They've all been approved but they've – I think gotten stalled a bit with the election. They're redoing or whatever you call they've got another election.

<A - Eric Richard Dey>: Presidential Election.

<A - Ronald F. Clarke>: I think it's in the fall.

<A - Eric Richard Dey>: It's in October.

<A - Eric Richard Dey>: And so I think that has slowed. If you think about it it's a bit of a tax, right effectively. They're taking roads that were free privatizing them and using toll proceeds to pay the developers if you will of those roads. And so I don't think it's politically super popular.

So I don't know this but my guess is they're just kind of slow walking it a bit as they head into the election. So it may be a little bit later, but again, the things have all been signed off. The people have already built the roads. They're just waiting effectively to turn them on and start collecting tolls.

<Q - Vasundhara Govil>: Thanks. And if I can just squeeze one last quick one. Any change in the timing of the Chevron deconversion? Or is that still stated for the beginning of the third quarter?

<A - Eric Richard Dey>: Yeah. It looks like it's been delayed a little bit. But we are anticipating it's a transition off by the – I guess by the fourth quarter. But we'll wait and see. It's just going a little bit slower than we originally projected.

<Q - Vasundhara Govil>: Got it. Thank you very much.

Operator

Our next question comes from Matt O'Neill with Autonomous Research. Please go ahead.

<Q - Matthew O'Neill>: Yeah, hi, thanks for taking my question. I was just going to follow up quickly on the M&A discussion. I think last quarter you talked about a handful of deals in the roughly $100 million to $500 million range. Is that in line with the "smaller deals" you're referring to at various points today?

<A - Ronald F. Clarke>: Yes.

<Q - Matthew O'Neill>: Great. And then just as a quick follow up, I know spread revenues were down materially, which I think is typically corresponds when we see a pretty significant increase in fuel prices. Does that phenomenon that should presumably abate kind of going forward through the rest of this year?

<A - Ronald F. Clarke>: Yes, you got it exactly right. Those things are counterbalance. And so assuming that the current fuel price levels stabilize, the wholesale will catch the retail in call it a week, a week to 10 days.

<Q - Matthew O'Neill>: Great. Thank you very much.

Operator

This concludes the question-and-answer session as well as the conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.