WEX
June 2019

MANOLE CAPITAL MANAGEMENT

Data / Information:

WEX (ticker WEX):

Date	6/14/2019
Stock Price	$202.67
Shares Outstanding	43.572 million
Market Capitalization	$8.8 billion
- Cash	$0.4 billion
+ Debt	$3.0 billion
Enterprise Value	$11.4 billion
1-yr Fwd Price Target	$252
Upside / Downside	+26%

	Rev ($m)	YoY	EBITDA	YoY	EPS	YoY	P/E
2018 Actual	$1,490	19%	$647	20%	$7.64	41%	26.3x
2019 Est *	$1,738	16%	$740	15%	$8.62	13%	23.3x
2020 Est *	$1,929	11%	$875	18%	$10.10	17%	19.9x

** Estimates come from Zacks Research* *+21% premium valuation to '20 S&P 500*

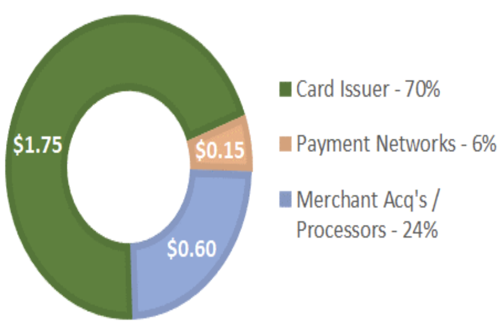
FINTECH:

Our definition of FINTECH is "anything utilizing technology to improve an established process". With broad acceptance, excellent technology, proprietary datasets, directly integrated into its customers operations, WEX (ticker WEX) perfectly classifies as a FINTECH business. However, unlike other more well-known payment franchises (like Visa, MasterCard, PayPal, etc), WEX is definitely not a household name. Within the FINTECH community, especially in fleet management and B2B payments, WEX is broadly recognized as a dominant a leader. We love the fact that you probably have never heard of WEX and the S&P 500 has not yet added this great mid-cap company to it index. Let's just keep it our little secret, OK?

In our opinion, the payment sector is the quintessential FINTECH business. More and more individuals are migrating from cash and check to card and mobile payments. More companies are shifting their accounting and payment systems from paper checks to automated software tools. WEX perfectly sits at the intersection between the migration from cash to card, as well as on the complex B2B (business-to-business) payment channel. WEX is powered by the belief that complex payment systems can be made simple. We will layout our case for WEX as a dominant FINTECH company, highlight its potential for continued growth and do a deep analysis of its key attributes and strengths.

CARD ECONOMICS:

To the average person, the world of payment processing is very complicated. In the US, on a typical $100 credit card transaction, there is $2.50 in fees taken from the merchant. This fee is often called the MDR (merchant discount rate) and is the cost for a merchant for accepting a credit card transaction.



For taking the vast majority of the credit risk and essentially providing a one-month line of credit, the card issuer earns the bulk of the MDR fees. On this typical $100 credit card transaction, the card issuer earns 70% or $1.75.

For handling the authorization, clearing and settlement (as well as the bulk of the work), the merchant acquirer and payment processors earn 24% of the MDR or $0.60.

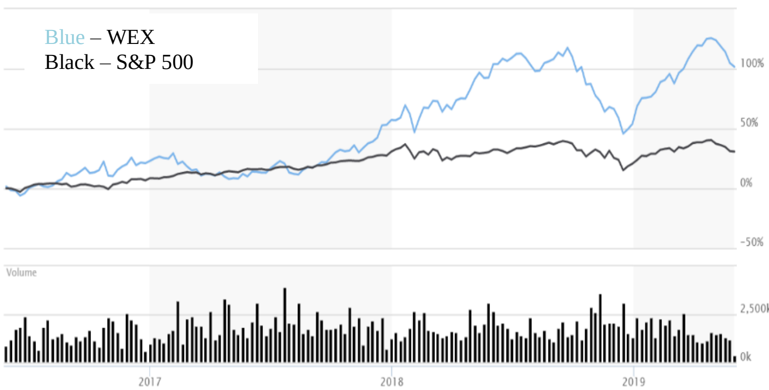
Lastly, for owning the network that these trillions of transaction occur on, the payment networks earn a steady, predictable, recurring revenue stream of 6% of the MDR or $0.15.

In WEX's card business (inside of its Fleet division, as well as its Corporate Payments business), we like to keep the above economic model in mind. Like a card issuer, WEX is providing credit (with significant information to minimize risk). Like a payment network, WEX is connecting various disparate players. Like a processor, WEX handles the heavy lifting of authorization, clearing and settlement of payments.

HISTORY:

WEX is located in Portland Maine and was started in 1983. Its IPO occurred on February 16, 2005 at $18/share, implying a $720 million valuation. As the chart shows, WEX has grown tremendously and is roughly 10x its valuation from 14 years ago.

WEX's 5-year revenue CAGR is an impressive 17.5%, with an EPS CAGR of nearly 18%. During the most recent quarter, WEX was able to generate operating income margins over 34%, which is more than 2x the typical S&P 500 company average.



In 7 of the last 10 years, WEX has outperformed the S&P 500 and it is materially exceeding the market in 2019 (up 43% versus 16%).

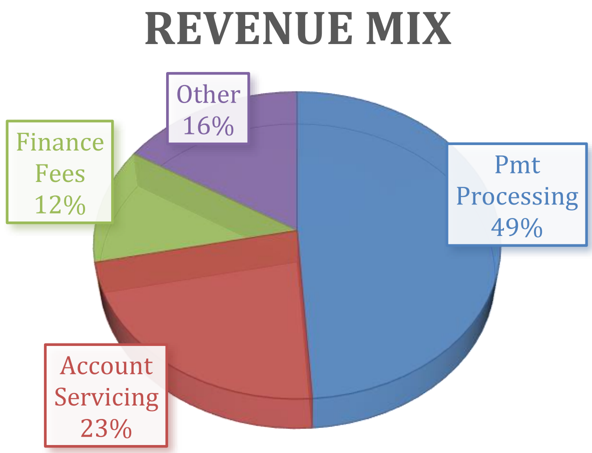
While WEX's execution and track record is impressive, we always strive to look forward and anticipate, as opposed to pay for prior performance. Each company and stock specific analysis must make the case for owning a stock looking forward. We believe the outlook for WEX is bullish.

OVERVIEW:

Quite simply, WEX's mission is "to put control into the hands of their customers". As customers transact, WEX looks to connect the payment with data and technology. By understanding the needs of its customers, WEX is able to provide significant information and value add. WEX operates in over 10 countries, in more than 20 currencies through 4,800+ global employees. WEX helped process over $74 billion of transactions and generated over $1.4 billion in annual revenue in 2018. WEX has a number of unique competitive advantages (technology, brand, innovation), which we will address in detail.

Revenue Mix:
WEX reports four revenue lines on its Income Statement:

1) Payment Processing
2) Account Servicing
3) Finance Fees
4) Other

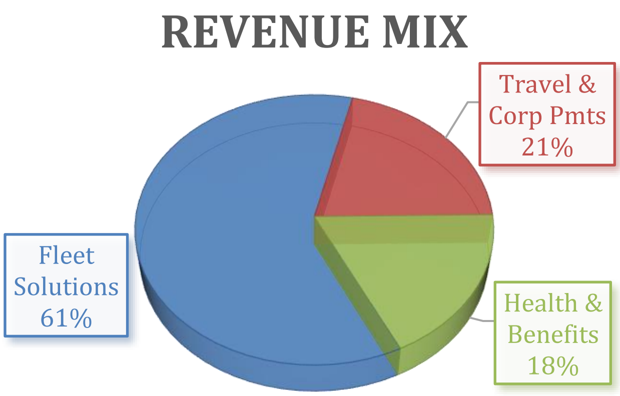


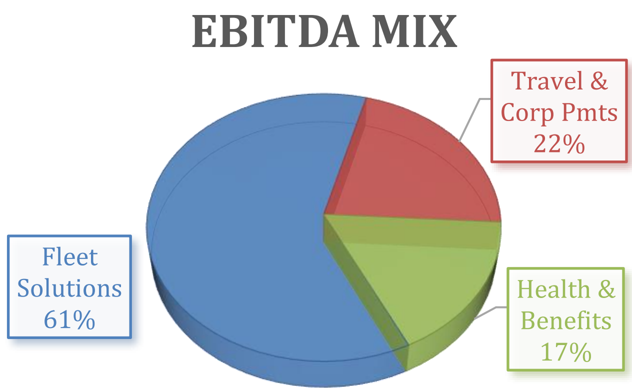
MANOLE CAPITAL MANAGEMENT

DIVISIONS:

Revenue by Segment:
WEX operates three distinct divisions:

Division (1q'19):	**% of WEX Total: Revenue**	**EBITDA**	**Margins**
1) Fleet Solutions	61%	61%	52.4%
2) Travel & Corp Pmts	21%	22%	52.7%
3) Health & Benefits	18%	17%	49.5%





FLEET SOLUTIONS:

Fleet Solutions provides payment and transaction processing services for the needs of commercial and government fleets. Fleets can be small, medium and large customers or over-the-road, long haul businesses. At the end of the 1st quarter of 2019, WEX fleet cards covered more than 13.1 million vehicles, but this represented less than 10% of the addressable fleet market. During 2018, one of the nice fleet additions was the US Post Office, adding 220,000 vehicles. Other examples of client wins are NFI, Knight Transportation, Schneider, Bennett, Daseke, KllM, Verizon, US Department of Homeland Security, Werner Enterprises, Fed Ex, Roadrunner, Transport America, Crete Carrier and Duke Energy.

In our opinion, the key metrics to monitor are:

- # of Purchase Transactions
- Fuel gallons pumped and avg transaction equaling per gallon
- Net payment processing rate
- Average US fuel price per gallon of $2.67
- Net late fee rate

The power of WEX's Fleet business is its seamless, data driven technology. It allows businesses to take back control of their growing fleets, and provides critical portfolio risk and operational capabilities. Its technology delivers flexible, scalable and reliable information. By leveraging WEX's core platform, businesses can adequately manage their fleet and all of their expenditures.

WEX owns its own proprietary payment network that is accepted at over 160,000 locations in North America. Examples include BP, Citgo, Chevron, Shell, Conoco, Exxon and Mobil. WEX creates direct payment terms with these merchants and provides discounts for its fleet customers. WEX's robust data capabilities allow its customers to get comfort that transactions are secure and error free.

Example of a typical WEX Fleet transaction:

1) Driver inserts his/her corporate card
2) The WEX network captures the purchase transaction amount and additional data
3) WEX then approves the transaction and pays the merchant over the next 10 days (timing varies)
4) WEX receives payment from its customers over the next 25 days (credit mgmt., bank funding)
5) The fleet gains significant information about their transactions and generates material cost savings

Within this segment, WEX generates its revenue by processing payment transactions for its clients. While we do not want to get too technical in how fuel payment transactions occur, we thought it might be helpful to discuss a few different customer options. We will try to simplify the complicated. While WEX states that the majority of its revenue is based on a percentage of the aggregate dollar amount of the customer's purchase, there are sometimes fixed amounts added to transactions.

Clients could also choose "*Cost Plus"* pricing model*,* which is directly tied to fuel price spreads. If we assume a fuel price of $2.86 per gallon, WEX would add a $0.05 markup to arrive at $2.91 per gallon. Also, a client can choose to have a "*Percentage Discount"* methodology. Wholesale prices tend to decline faster than retail prices, but this model is directly influenced by the price of fuel. In this example, $3.00 is charged, with the client getting a $0.09 discount to come to that same $2.91 per gallon. Some clients might prefer *"Fixed Fee"* pricing, which is not influenced by fuel price changes and simply adds a fixed fee to each transaction. This would look like $2.91 getting charged, with the client paying a $0.09 fixed fee. So, customers can choose whichever pricing model they desire. From WEX's perspective, each transaction is incrementally more and more profitable, regardless of which methodology is used. For WEX, the name of the game is to drive transactions and volumes over their scalable platform. In addition to payment processing revenue, WEX can also earn account servicing and finance fees too.

The total addressable market, in terms of revenue opportunity, is roughly $10 billion. It is estimated that 35% of the total US commercial vehicle market does not have a fleet card. Over the next several years, the fleet market should continue to grow in the low-to-mid single digits, with especially strong growth in certain international markets. To deliver this growth, WEX plans on increasing wallet share of non-fuel spend, stealing additional market share and scaling its international presence.

Positive Catalysts:

The biggest opportunity and positive catalyst for WEX is the conversions of the Shell and Chevron portfolios. These are two of the largest oil company portfolios in North America and WEX now has 9 of the Top 10 big oil portfolios on its platform. Their transition to WEX will have a meaningful impact on revenues, margins and profits, in both 2019 and 2020. In our opinion, these two conversions have been the primary focus on WEX management, especially their ***Fleet Solutions*** team.

During the 1st quarter of 2019, the Shell portfolio was converted and completed. Shell volumes are currently "in line" with WEX projections and they should ramp throughout the year. By the end of the 2nd quarter of 2019, Chevron is slated to be finished. We believe this can become a positive catalyst for WEX. To quote CEO Smith, on WEX's 1st quarter conference call, "the successful and timely conversion of both Shell and Chevron remain our primary short-term focus. I'm happy to report that both conversions are progressing on schedule."

The Street understands that successfully implementing both Shell and Chevron are the single most important items for WEX to accomplish. Besides kickstarting growth, there is an imbedded margin lift associated with these program integrations. WEX takes on significant costs to convert the portfolios and integrate these brands onto their platform. These costs are upfront, before WEX has an opportunity to get all of the revenues and profits associated with the new business. As WEX progresses through 2019, we anticipate it will surprise to the upside, on both the revenue and margin side of the equation. Management has framed the impact of these two portfolios equating to a full-year revenue lift of between $60 and $70 million. On a full run-rate basis, these two portfolios should translate into roughly $800 million in payment processing gallons. As these clients and volumes ramp, WEX should see positive growth, and especially rising operating margins.

Also, this division highlights WEX's "BIG data" play. There is no doubt that the Street is attracted to the growing influence of big data. Those companies that can help customers harness vast amounts of information are reward with healthy multiples. Data collecting and collating will continue to be a crucial element across all of WEX's divisions. WEX can break through this massive amount of information with its ***ClearView*** analytics and reporting software. This software helps fleet managers by providing digestible, actionable insights that help them successfully maintain budgets, improve performance, find cost savings and spot red flags.

TRAVEL & CORPORATE SOLUTIONS:

Travel & Corporate Solutions segment essentially focuses on business-to-business payments (B2B), but we view this sector as two distinct entities. In fact, over the next several years, we would not be surprised to see WEX management split these two businesses into separate divisions.

The ***Travel business*** works with OTA's (online travel agencies), Corporate Travel Managers and Travel Wholesalers. This business is in 210 countries and handles payments in 21 different currencies. While offline travel bookings are fairly flat, the vast majority of growth is being generated online. Global travel booking volume is expected to continue to grow and eclipse $1.5 trillion by 2021. The total addressable market size of the ***Travel*** business is in the high $20 billion range, while WEX is currently under $2 billion (less than 10%).

Example of a typical WEX ***Travel*** transaction:

1) A travel company makes a reservation (for its consumer) and receives payment
2) The travel company requests a VCN (virtual card number)
3) This is a 1x, single use card number that provides security and global acceptance
4) WEX provides credit and the supplier charges the VCN
5) The transaction reconciles automatically
6) The travel company and WEX settle the transaction

WEX's virtual card solution has several key benefits. Not only is it deeply integrated with online platforms, but it has automated reconciliation, significant fraud protections and the capability to globally issue and fund. The VCN might be getting a little too technical for this research note, but WEX has found that moving to virtual payments allows its customers and suppliers several distinct advantages. With VCNs, clients get faster payments, easier reconciliation (across borders) and detailed and improved analytics. We like how WEX handles virtual cards, but also that it has a strong background in all types of cards, from purchasing cards to T&E cards to payroll cards.

The ***Corporate Payments*** business is quite different from *Travel* and we believe it is more akin to a B2B platform. WEX provides its customers (corporations, financial institutions, etc) with processing solutions that simplify their payments process. By providing transaction-level information on accounts payable, clients have significantly more insight into their cash flows.

WEX's core offering is to optimize payment workflows, for both buyers and suppliers. Regardless of business vertical or size, WEX's goal is to eliminate the pain point of payments. By utilizing WEX's services, businesses can minimize the operational burden associated with payment reconciliation and processing. Businesses appreciate WEX's security features and love getting off of their dated in-house legacy systems. This segment allows businesses to centralize purchasing, simplify complex supply chain processes and eliminate the paper check writing associated with traditional purchase order programs. As a component of WEX's product suite, it offers electronic payments and corporate cards. The benefits of WEX's electronic payments solution is that it is fully integrated into a company's payables / processing platforms.

WEX markets to commercial and government organizations, and it uses existing open-loop (i.e. Visa and MasterCard) networks. WEX sells directly to large corporate business and it works with various financial institutions (FI) and AP/vendor management partners to reach SMBs. On the FI front, WEX has spend volume in excess of $25 billion with clients like American Express, PNC, Key Bank, Regions and Commerce Bank. On the partnership front, WEX has spend volume over $5 billion, with clients like Bill Go, MDSL, DIY and Pay Clearly.

Looking back to our diagram on page 1, WEX acts and looks like all three components of a card transaction. It manages the card issuing, transaction authorization, clearing, settlement and statementing. It essentially combines the heavy lifting of the merchant acquiror and processor, with the credit of a card issuer and bank. Plus, WEX operates its own closed-loop payment network, so it even has similarities to a Visa or Mastercard.

The key metrics to monitor are:

- Purchase Volume
- Interchange Rate

Positive Catalysts:
There is no questioning that B2B is "hot"! At recent conferences, both Visa and Mastercard have made huge announcements focusing on the B2B market. In addition, both networks have made acquisitions to increase their exposure to the growing B2B opportunity. We expect these two large franchises to attack this large, untapped market, but expect WEX to compete in its specialty.

Within its June upgrade note, Goldman Sachs highlighted how the B2B sector is a massive $130 trillion market, with an annual revenue opportunity of $1 trillion. We would caution using this whole B2B market as WEX's opportunity. Goldman is factoring in all payment processing, cross border transactions, working capital solutions, accounts payable / receivable and supply chain automation. There is plenty of opportunity, inside of this smaller niche, for WEX to succeed. For example, we would prefer to see WEX focus on accounts payable and not waste its resources and time on accounts receivable or merchant financing. We would prefer to stay out of those segments.

From a macro perspective, there is no denying that the US B2B market is accelerating away from checks and towards electronic commercial payments. We believe the total addressable market, in terms of US electronic commercial payments, is roughly $9 billion. Estimates are looking for this B2B payment market to essentially double, to $18 billion, by 2021.

HEALTHCARE & EMPLOYEE BENEFITS:

Health & Employee Benefit Solutions segment involves healthcare payment products, as well as a SaaS (Software as a Service) platform. In the complex healthcare marketplace, WEX provides consumer-directed payments. It has relationships with approximately 343,000 employers with a reach of 28 million consumers. Over 500 companies in the Fortune 1000 are WEX Health Cloud platform customers. WEX's platform sits in between customers, employers, and government programs and on the other side are healthcare providers, carriers and payees. This segment's revenue is generated primarily from monthly SaaS fees, as well as interchange fees from customer spending on health savings accounts, debit cards and reimbursement accounts. WEX has an impressive 97% revenue retention rate.

The key metrics to monitor are:

- Purchase Volume
- Average number of SaaS accounts

The total annual cost of healthcare, for an American family, has dramatically increased over the last decade (in 2018 it is roughly $28k). With 10,000 Baby Boomers retiring every day, the healthcare dilemma continues to present an interesting challenge. The total addressable market, in terms of revenue opportunity, is roughly $2.5 billion. Over the next several years, the Health & Employee Benefits market should grow in the low-to-mid-teens.

Positive Catalysts:
Unlike the catalysts we listed above, sometimes time can heal a wound. The US has displayed solid mid-teens growth, and is the clearly the star of the ***Healthcare*** business. However, inside of ***Employee Benefits***, Brazil has been a headwind (and headache). In Brazil, WEX offers a pay day advance benefits product through employers. While it is less than 2% of WEX's total revenue, Brazil has been volatile. Management is hoping a price cut could spur growth, but time will tell if this fixes the problem.

The positive catalyst is that Brazil is beginning to anniversary (12-months of being a nuisance). Starting in the 2nd half of 2019, year-over-year growth in ***Employee Benefits*** won't feel the pain of this troublesome business. Quite simply, time passing will allow this Brazilian business to go from a drag or headwind, to an issue in the rearview mirror.

RECENT RESULTS:

- On the 1st quarter 2019 conference call, CEO Smith said 2019 "is shaping up to be a milestone year"
- Total revenue increased 8% YoY (year-over-year) to $381.9 million, exceeding Street estimates
- Quarterly earnings also exceeded Street expectations
- Management raised its 2019 guidance for both revenue and earnings growth
- ***Fleet Solutions*** grew revenue by only 1% YoY, but it was negatively impacted by fuel prices
- The average number of vehicles serviced increased by 14% to 13.1 million vehicles
- Total fuel transactions processed increased by 5% to 115 million
- Total # of gallons pumped were over 3 billion, up 5% YoY, at an average price of $2.67/gallon
- ***Travel & Corporate Solutions*** grew revenue by 22% YoY
- Purchase volumes grew by 6% to $8.4 billion
- The interchange rate grew by +15 basis points to 0.71%
- ***Health & Employee Benefits Solutions*** grew revenue by 19% YoY
- Software-as-a-Service (SaaS) grew to 12.7 million accounts, up by 18% YoY
- The US healthcare business generated revenue growth of 31% YoY

WEX understands how to "play the game", in the sense of providing achievable financial targets and guidance. The ultimate goal is to consistently "beat and raise" results, which will boost a stock higher and higher. Looking at 2019, WEX expects revenue to grow by in the range of $1.705 billion to $1.745 billion, representing 14% to 17% annual growth. One the earnings front, management expects results in the $9.10 to $9.50, representing 19% to 24% annual growth.

ORGANIC INVESTING:

We believe free cash flow (FCF) is the most important financial metric to calculate and monitor for any business. Our WEX calculation of FCF takes operating cash flow, then adjusts for changes in deposits and then factors in depreciation, amortization (excluding purchase intangibles) and capex (capital expenditures). After some quick math, our version of FCF equals $274 million in 2017 and $362 million last year (over 30% year-over-year growth). Looking forward, we believe FCF at WEX could soon approach $500 million.

There are numerous *uses* of FCF, which we think differs by industry, opportunity and management opinion. Priority #1, at least for WEX, is to invest back into its own business. Their goal is to generate long-term organic growth. To improve performance and increase product development, WEX adopted a cloud first development process and began integrating its operations and platforms with cloud-based technology. This is just one R&D initiatives that WEX has deployed. It also has a Blockchain plan, to utilize the distributed ledger solution to transform its payment workflow, and increase both transparency and security. WEX also has plans to develop machine learning and important AI programs. On the mobile front, WEX is beginning to replace traditional payment methodologies and bring real-time transfers to mobile and connected devices. Lastly, WEX is experiencing an explosion of Big Data, cloud computing and storage benefits. It has an enormous amount of transaction level data and WEX is striving to take this information and re-package it for the benefit of their customers. For example, one WEX client recently said, "I don't need 10,000 rows of data. I just want WEX to tell me what I need to know."

Internally developing a software stack is costly and does not have an immediate ROI (return on investment). These technology investments (our version of R&D) should help automate payment flow. Investors must have a long-term perspective and give management teams enough time to let their game plan unfold. These investments are costly in the short-run, but will pay huge dividends for shareholders in 2020 and beyond.

In August of 2017, we wrote a research note titled "How Global Payments Changed the Merchant Acquiring Business". We wanted to highlight how GPN transformed the merchant processing business, with a small acquisition made five years earlier (in August of 2012). Just like GPN focused on acquiring ISVs (integrated software vendors) to permanently changed the payment landscape, we believe WEX's investments will payoff down-the-road.

Next, management can use its excess FCF to make acquisitions (discussed on the next page), paydown debt, buyback stock and/or pay a dividend. Historically, WEX has not been an aggressive buyer of their own stock. The Board and management must believe its organic investments (and acquisitions) are a better use of cash. As of now, WEX does not pay a dividend. We believe a modest ~ 1.0% dividend yield could easily be enacted, especially with the impressive free cash flow of this business. While nobody will get rich off a modest 1% dividend yield, there are certain investors that require some yield, in order to invest. Lastly, WEX can paydown debt. Historically, WEX de-levers by roughly 0.50 to 0.75 turns a year. Management targets a leverage ratio of 2.5x to 3.5x EBITDA, but it currently stands at 4.0x. Over the next several quarters, we anticipate WEX using a modest amount of FCF to paydown less advantaged debt. By getting into their desired leverage range, management will have the capacity to bring on additional accretive deals. Speaking of acquisitions….

ACQUISITIONS:

In the FINTECH space, there has been numerous very large transactions this year. In January, Fiserv (ticker FISV) acquired First Data (FDC). Then in March, Fidelity National (ticker FIS) acquired Worldpay (ticker WP), formerly Vantiv (ticker VNTV). Then in May, Global Payments (ticker GPN) merged with Total System Solutions (ticker TSS). These three massive deals have made 2019 one of the busiest years ever for FINTECH transactions. We were involved and owned all six of these companies, so 2019 has been quite good. However, we actually prefer the "tuck in" strategy versus these mammoth acquisitions. This is something that Les Muma, former CEO of Fiserv, essentially coined in the 1990s. Instead of making huge, costly deals, with tons of integration headaches, FISV was legendary at doing smaller "bite sized" deals. We believe it is smarter to make smaller deals (of companies nobody has ever heard of) that more importantly, can easily get "tucked into" your organization. We prefer WEX follows Les Muma's transcript, rather than making a massive splash in the M&A market.

In addition to organic growth, WEX is executing a steady and solid M&A strategy. While WEX consistently seeks to grow its organic growth opportunities, it does have a solid acquisition track record. Throughout WEX's history, the company has made several acquisitions to enhance its scale and differentiate its offerings. We just discussed the important integration of the Shell and Chevron portfolios. The Shell win was just for new accounts and WEX chose not to purchase their legacy portfolio. However, WEX brought Chevron onboard and did acquire their legacy portfolio for $223 million. We believe that WEX performed a detailed analysis of each firm's existing book of business. WEX was flexible and successfully brought both portfolios on-board, with only 1 of the 2 needing to be "acquired".

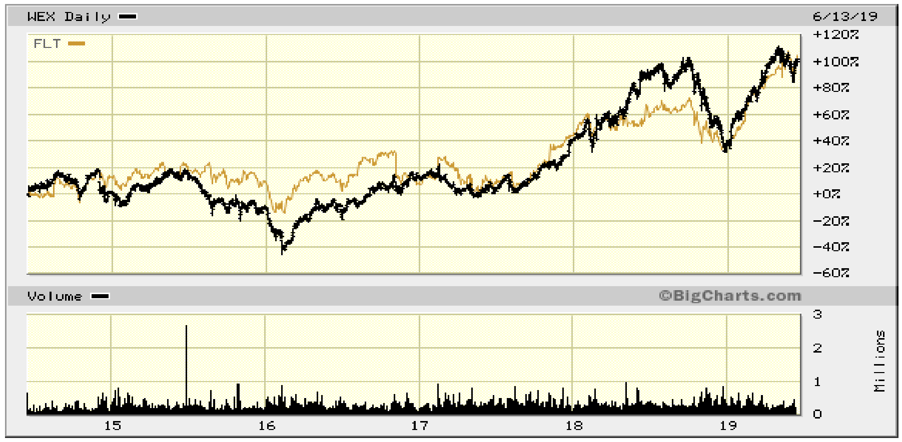
WEX recently acquired Noventis, an electronic payments network and bill payments provider. Specifically, this deal should expand WEX's reach as a corporate payment supplier and provide more channels into financial institutions. Back in March, WEX spent $425 million to acquire Discovery Benefits (DBI), an employee benefits administrator to over one million consumers across all 50 states. WEX knows DBI well and has been a partner of theirs for over 10 years. DBI offers account administration and healthcare services through its unique and proprietary technology platform and it should nicely fit into WEX's ***Healthcare*** division.

Also, in March, WEX announced its plans to purchase the European fuel card business from EG Fleet. EG Fleet's "G Fuel Card" brand has over 200,000 cars in the Netherlands, France, Belgium and Luxembourg. This transaction should strengthen WEX's presence and capabilities in a few European markets. These transactions, and the on-boarding of the Shell and Chevron portfolios, has kept management busy. However, we expect WEX to continue to add smaller businesses during the year and they claim that their deal pipeline is "very full".

COMPETITION:

Looking at the typical US credit card transaction (on page 1), WEX's business has similarities to card issuers, payment networks as well as processors. On the Fleet business, WEX's most logical and closest competitor is FleetCor (ticker FLT). Both stocks, as of this writing (mid-June 2019) are up roughly 45% this year. Owning both companies (which we have), has been a great decision.

As the chart shows, over the last 5 years, WEX and FLT have essentially traded in lock-step with each other. ***Fleet Solutions*** is WEX's largest division and it represents 61% of revenue and EBITDA (as of the 1st quarter of 2019). EBITDA margins in this division are an impressive 52.4% versus FleetCor's 54.7%.



We appreciate that FLT provides the Street with significantly more information and insights into their fleet. For example, FLT reports operating margins by region (North America versus Intl') and breaks down its metrics by fuel cards, corporate payments, tolls, lodging, as well as gift cards. FLT differentiates its revenue mix into *Customer* versus *Merchant* fees. Inside of *Customer Fees*, FLT lays out processing revenue, program dues, late fees, and finance charges. Within *Merchant Fees,* FLT shows discount / fuel fees, fuel spread revenue and program charges. By providing statistics into transactions, revenue per transaction, organic growth rates, and margins, analysts and investors can properly estimate future results. Selfishly, from a modeling perspective, we would like to see WEX "open up the kimono" a little bit more. That being said, there can be no doubt that these two businesses dominate the fleet management industry. In our opinion, they are clearly the #1A and #1B in the fleet sector.

Over a three year period, WEX has slightly exceeded FLT's performance. We would attribute this to several factors. One, FLT is much more of a pure play on the Fleet business, while WEX has more diversification and exposure to other areas (primarily travel and healthcare). Also, we would be remiss if we did not highlight the Street's different perspective of their CEOs. We do not want to place much credence to a recent negative article written by Citron Research, as we believe it is materially flawed on some of its accusations and conclusions. However, the author did highlight a widely recognized Street-wide viewpoint. Certain investors have a less-than-positive opinion of FLT's CEO Ron Clarke, while WEX's CEO Melissa Smith gets nothing but rave reviews from the buy and sell side community. In our opinion, the perception (whether it is true or not) of Smith versus Clarke has had some impact on their respective stock prices. Speaking of management….

MANAGEMENT:

We recently did a quick Google search for the number of women that lead large, US companies. Using the S&P 500 as our benchmark, there are unfortunately only 26 women that hold the CEO title. Click here to see the Catalysts article listing women CEOs' in the S&P 500. At only 5% of the S&P 500, women CEO's are still not equally represented at the top of US businesses.

We have met WEX's CEO Melissa Smith several times and believe she is an excellent leader. She continues to get the best out of her team, and she articulates WEX's differentiated business model quite well. CEO Smith joined WEX in 1997, as a senior financial analyst in their global corporate payments group. She worked her way up the corporate ladder, including roles as CFO and President of the Americas. She spearheaded WEX's successful IPO in 2005 and shows no signs of slowing down. She has received numerous awards: Mainebiz's "Women to Watch", PYMNTS.com's "Most Innovative Woman in Payments" and PaymentSource's "Most Influential Woman in Payments".

We believe Melissa Smith is a major asset for WEX and her skills stand on their own merit, regardless of her gender. We believe that more companies would be better equipped to handle and manage complex business environments, if they had more females in senior leadership positions (whether as CEO or on their Board of Directors).

VALUATION:

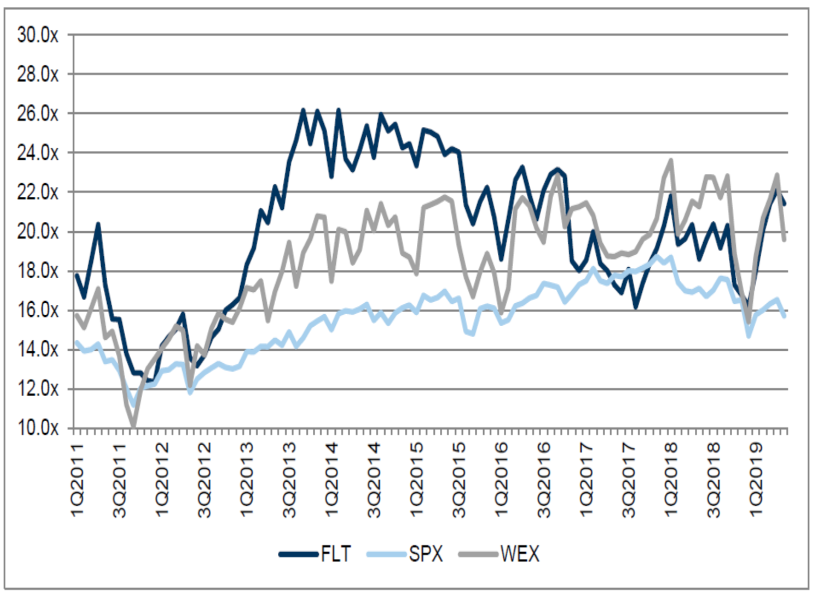
We utilize multiple valuation techniques to build out our 1-year price target. We will blend our P/E and EV (enterprise value) to EBITDA valuation analysis to create a price target a year out. We focus on FCF, but often have issues with straight DCFs (discounted cash flow) models. Why? Because changing a quarter a point in a discount rate or the terminal growth rate can swing a valuation by a huge amount. We try not to let the model or numbers dictate our analysis, and prefer to interpret the metrics to build a proper framework.

Another valuation we like to utilize is a SoTP (sum-of-the-parts) analysis. This can often be useful, if a company has several divisions that could possibly be spun-out or divested. One could argue that WEX could breakup its business and let ***Travel*** or ***Healthcare*** or ***Employee Benefits*** stand on its own. At this point, we do not believe these segments are large enough to be independent. WEX is still building its three segments, both organically and through acquisitions. Since we do not envision management and the Board decided to split it up at this point in time, we will bypass doing a SoTP valuation. To keep things simple, our 1-year forward price target will be using a standard P/E and EV to EBITDA valuation methodology.

Historical valuations:

Using FactSet data and history as our guide, WEX has an average 3-year and 5-year forward P/E multiple of 19.8x and 19.5x respectively. On an EV to EBITDA basis, the forward multiple, over the 3-year and 5-year periods is 13.5x and 13.0x respectively. As we highlighted on page one, WEX is currently trading at 19.9x 2020 earnings, which is right at its 3-to-5 year average. Again, comparing WEX's current forward EV to EBITDA multiple of 13.0x, we see that it is trading right on its recent history average.

Exhibit 9: FLT's valuation premium relative to the S&P has widened significantly over the last 2 quarters, but remains below 2014 and 2015 levels ...
NTM P/E, 2011-2019



Source: FactSet, Goldman Sachs Global Investment Research

As this chart shows, both WEX and FLT have traded at a premium to the overall market (using the S&P 500 as the benchmark). We hope that many of the details we have laid out in this note, to some extent, help prove why WEX deserves to trade at a premium valuation. If you want additional evidence, we look to WEX's peers to provide some confirmation on what fair value might be.

As we just discussed on the last page, we believe FLT is the best peer for WEX. FLT trades at 21.8x earnings and 15.9x EBITDA. On the B2B front, one could argue that WEX competes with Bottomline Technologies (EPAY), which trades at a forward P/E of 61x. In the travel business, Sabre and Amadeus trade at forward P/E's of 20.2x and 24.9x respectively.

Visa and Mastercard both operate payment platforms and these dominant networks trade at forward P/E's of 27.3x and 28.9x respectively. Global Payments is a Top 10, soon to be Top 5 payment processor, with its deal to merge with Total Systems. Vantiv combined with Worldpay in 2018 and recently was acquired by Fidelity National. While not a perfect comparison, there is a decent argument that GPN, WP and WEX are peers, since all handle payment processing, as well authorize, clear and then settle transactions. Worldpay trades at a forward P/E multiple of 23.4x and GPN trades at 24.3x forward estimates. In comparison to various payment processing peers, WEX is trading at a roughly 10% to 20% discount.

P/E:

Starting with a traditional P/E calculation, we believe a low-20's forward multiple is fair, especially for a business of WEX's quality. As of today, WEX is trading at 23.7x this year and 20.2x next year's estimates. In comparison to the S&P 500, on 2020 estimates, WEX is trading at a roughly 20% premium.

Let's now spend a little time comparing how WEX compares to the overall market, in terms of revenue and earnings growth. WEX should be able to grow revenue next year in the low-to-mid teens. As of today, analysts expect the S&P 500 to grow sales by 4%. We have more confidence in WEX's ability to generate revenue growth over 11%, than we do of the overall market to deliver 4%. On the earnings front, expect WEX should be able to meet and beat growth expectations of 17%. The S&P 500 is modeling in only 5% earnings growth next year. In our opinion, WEX deserves to trade at a 20% to 25% premium to the S&P 500, based on its excellent fundamentals, but we could argue it is justified considering it is growing revenue and earnings at 3x the level of the overall market.

In our financial model, we see earnings potentially equaling $10.50 share in 2020. This would represent only 4% higher than current sell-side analysts' estimates. We like that we do not need to inflate WEX's current forward valuation multiple to arrive at our upside target. Taking that $10.50 in 2020 earnings and rolling forward WEX's current P/E of 23.7x, would get to a price of $252/share or 26% upside.

EV to EBITDA
For the next couple of years, EBITDA estimates are looking for mid-to-high teens growth. Right now, WEX's EV to EBITDA is 15.4x. Once again, this valuation isn't cheap. EBITDA and FCF growth are accelerating, providing management with ample resources to make necessary investments. In a positive environment, we model EBITDA reaching $900 million in 2020. This would only be 3% higher than current Street estimates. Rolling that 15.4x EV to EBITDA multiple forward and using $900 million in EBITDA, equates to a price target of $260/share or 26% of upside.

Blending both the P/E and EV to EBITDA targets yields a 1-year forward target of $256/share or 25% higher than today's price. As of today, there are 12 sell-side analysts covering WEX. 2/3rd's are positive and have a "buy" or "outperform" rating, while 1/3rd of this group are at a "hold". We like that we are conservative with our model and are not expecting herculean results. We believe that management can exceed expectations and maintain its multiple. As we laid out in this note, we see upside in results (especially from the Shell and Chevron portfolios) and believe the stock is poised to deliver over the next 12 to 18 months.

RISKS:

All businesses have risks and issues for investors to be concerned with. WEX is no different….

Valuation:
As page one shows and our "Valuation" section discusses in detail, WEX trades a premium to the overall market. As long-term investors, we would love to own shares of WEX at a lower price point. However, companies that possess these type of characteristics, rarely are at "cigar butt" valuations. WEX deserves to trade at a premium to the overall market because it is a growth company, with excellent prospects in an intriguing and emerging category – FINTECH. With any investment, we look for companies that meet certain characteristics. We have listed these desirable traits below, and rest assured that WEX "checks the box" for us as long-term investors.

Ideal Manole Capital Characteristics:
- High barriers to entry and a "moat" around the franchise
- Market share leaders with durable competitive advantages
- Pricing power and flexibility to withstand market volatility
- Recurring revenues and sustainable business models
- Strong balance sheets with predictable free cash flow
- Excellent management teams properly allocating capital

Fuel:
As WEX investors, our biggest risk is something that WEX has absolutely no control over. Besides analyzing and covering the space for nearly 25 years, one of the reasons we love the FINTECH sector is that the payments industry has years and years of secular growth opportunities ahead of it. Unfortunately, the energy sector is volatile and cyclical in nature. The price of fuel has numerous inputs (supply/demand, Middle East tensions, rig counts, global growth, etc), which move price up and down. We simply prefer consistent secular growth versus unpredictable cyclical businesses.

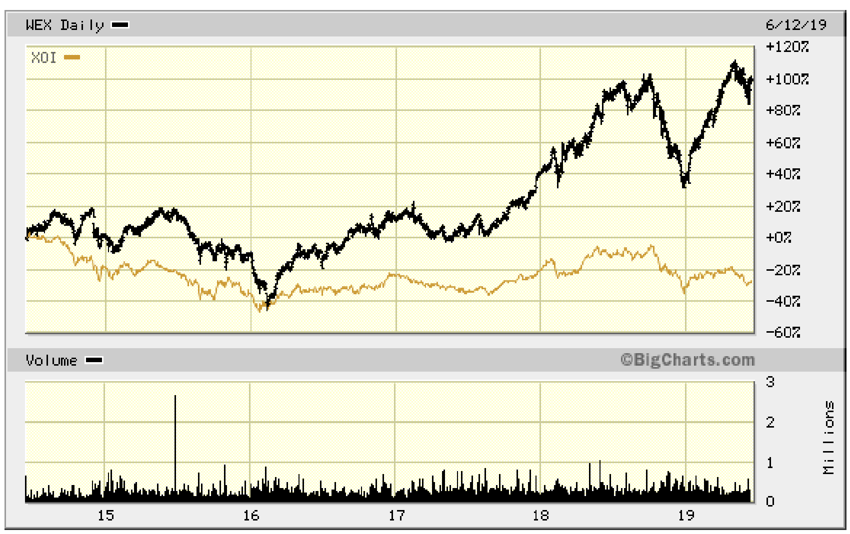
At its most basic level, in its largest business segment *(Fleet Solutions*), WEX helps customers purchase fuel. 20% of WEX's revenue is related to the dollar amount of fuel purchased by these customers. As a result, volatility in fuel prices (especially lower prices) has an adverse effect on the WEX's revenues and profits.

Using NYMEX fuel futures, prices are trending upwards, to roughly $2.95. WEX management assumed and guided for average fuel prices in the $2.85 range, so this just happens to be a positive or slight benefit this quarter. Fuel prices are historically volatile, and they just as easily could have been $0.10 to $0.20 lower (a negative for WEX). To frame the fuel impact, management believes that a $0.10 change in the average US fuel price equates $14 to $15 million in revenue and roughly $0.20 to earnings. We like that we can quantitatively measure and frame the upside and downside with fuel price swings. Before WEX reports, we have ample information, time and insight into what the blended (60% gasoline, 40% diesel) fuel prices are.

With excellent growth in its non-Fleet businesses, the mix of revenue and profits generated and tied to fuel was declining. Back in 2016, the impact of a modest $0.10 fuel price change impacted earnings by 4.5%. Just two years later, the earnings impact declined to only 2.1%. However, in 2019, fuel sensitivity is now rising at WEX. Why? The sizeable Shell and Chevron portfolio acquisitions (mentioned above) will lift the percentage of the business coming from ***Fleet Solutions***.

We try not to let the underlying fuel price swings impact our long-term philosophy. Some quarters fuel will help. Some quarters fuel will hurt. We do not let this input sway our investment philosophy. Our bigger picture thinking is…Does WEX provide a service that customers need, want and find valuable? We believe it does and we would personally rather focus on the fundamentals of the underlying business, than worry about the macro, or in this case, the price of fuel. We have found that panicking or trading due to daily swings in fuel price curve is unhealthy and unprofitable. We understand that fuel price changes get adjusted in the daily stock price of WEX. In addition, sell-side analysts look at the fuel futures curve, and update their models and estimates. In our opinion, there are more pressing issues to focus on (like the fundamentals) than concerning ourselves with the fuel futures curve. We cannot control the infatuation WEX's stock price correlation with fuel prices, but we can focus on the items we deem truly important.

This chart shows this decision as wise. Over the last 5 years, WEX has significantly outperformed the oil and gas index (XOI). That index is obviously much more aligned and tied to the price of oil and gas. There absolutely is a correlation between WEX's stock price and the price of fuel. We would suggest any WEX investor attempt to take a bigger picture perspective.



Credit:

WEX owns its own bank and this provides it with a key funding advantage, of roughly 200 basis points. In addition, by owning a bank, WEX has the control to issue its own cards. While most banks have massive securitization funding needs, WEX seems to have this process on auto-pilot.

It is not the banking that is a concern for us, rather it is credit and potential portfolio losses. Quite simply, WEX is providing credit to its customers, by incurring charges and managing those payments. WEX does not get reimbursed until several days later. In the event of fraud or a client default, WEX is left "holding the bag", or in this case, the loss. Elevated levels of credit losses and/or card fraud have a negative impact on earnings, dollar for dollar.

Over the last several years, when credit losses occur, WEX's stock is negatively impacted. If you want to see this credit impact, just look at any chart for WEX. The downward wiggles are either due to large swings in fuel prices or a surprising credit hiccup. Inside of our FINTECH portfolio, we understand and acknowledge that WEX has more credit risk, than we typically take with our payment positions (acquirers, processors or networks). We are comfortable that WEX management has the tools and capabilities to manage client transactions and monitor these credit risks.

Acquisitions:
As bottoms up, fundamental analysts, we always need our companies to generate sustainable organic growth. Growing organically always is better than growing simply through acquisitions. WEX checks the box with its impressive organic growth, but it is too dependent on deals?

Another risk is that acquisitive companies can eventually stumble or "hit the wall". Whenever a company, especially one that makes as many transactions and deals as WEX, there are risks. How will this acquired company get integrated? Will the acquiring company be able to absorb new employees? Is the current culture of this organization flexible and welcoming? On the infrastructure side of the equation, there are additional worries. Will new systems, platforms, technology and business models easily come on-board? Lastly, there are valuation and questions on rational capital allocation. Was management disciplined in their acquisition? Why was this acquired company so eager to sell? Was the price paid too aggressive or was their future outlook potentially overstated? Clearly, any business that relies on deals and acquisitions, creates a level of uncertainty and risk for investors.

We feel like WEX has a solid infrastructure in place to vet potential deals and to pay a fair, and not too exorbitant a price. Any acquisition-focused strategy exposes a company to the twin risk of overpaying for a business and then potentially struggling to integrate such businesses. From our conversations with management, we believe they have a disciplined approach to deals. WEX considers accretion, five year return on investment, cash flow projections, price paid, valuation and insures the new business fits with WEX's overall strategy. While no team is perfect, we are comfortable that WEX has the necessary processes in place to continue to make solid, accretive acquisitions.

Client Concentration / Renewals:
Additional risks are normal business risks, like the failure to renew key agreements or clients. For example, inside of the Healthcare division, WEX has some channel conflict following its acquisition of Discovery Benefits. In addition, with its recent large wins of Shell and Chevron, WEX has somewhat more customer concentration risk. Once again, these can be good problems to have. With client retention in the high-90's, we do not believe this is an item that would prevent us from owning WEX.

GRADUATION:

Many colleges and universities recently held graduation ceremonies. This got us thinking about how WEX will be graduating soon too. What do we mean? WEX should shortly graduate from a mid-cap company to a large-cap company. On page one, we mentioned how WEX is not in the S&P 500. A year ago, WEX's primary competitor (FleetCor) wasn't in the S&P 500 either. Getting added to the index can be a nice boost, normally in the 5% to 10%. In June of 2018, FLT got added to the S&P 500 index and popped higher.

It is estimated that there is over $4.3 trillion in index products. The 500 or so companies in the S&P 500 represent roughly 80% of the total available US market capitalization. Each and every day, there are numerous articles and reports highlight how indexing continues to steal market share from traditional, active managers. As fundamental managers, we would prefer it you didn't rub it in! Over the next one to two years, we will not be surprised if WEX gets added to the S&P 500. There is no guarantee that this will occur, so do not hold your breathe. It is just something that *should* occur, when the index finally wakes up to WEX's double-digit growth and superior market positioning. In the meantime, WEX can continue to be our stealthy mid-cap play.

CONCLUSION:

Even after an impressive 3-to-5 year run, we believe WEX has significant upside. WEX's business model generates predictable and sustainable revenue growth. It maintains extremely high retention rates and its clients willingly sign long-term contracts. Each year, WEX flexes its pricing power by taking annual price increases of 1% to 2%. Like many payment networks, WEX operates a leverageable platform, that should enable it to generate very high incremental, transaction-based margins. By focusing on operating margin expansion, management can turn above average sales growth into faster earnings and FCF growth. In 9 of the last 10 quarters, we applaud management for delivering year-over-year operating margin improvement.

WEX is a uniquely diversified company, versus traditional FINTECH businesses. While the ***Fleet Solutions*** business is impacted by the cyclical nature of fuel prices, we appreciate the secular nature and growing importance of WEX's ***Corporate Payments*** and its ***Health*** business. These non-Fleet businesses, at roughly 40% of WEX's revenue, are less cyclical, not impacted by volatile fuel prices, and are growing in the mid-teens.

WEX has a durable competitive advantages and has established very high barriers to entry with its closed-loop network. Its competitive position is defensible, and it continues to widen its moat with selective and targeted acquisitions. WEX's technology is sophisticated, scalable, but easy-to-understand as well as implement. We love that WEX operates in large and expanding markets, so the future has numerous evergreen opportunities. Finally, WEX has an excellent management team, that has done a solid job of allocating capital.

There are not many companies that can comfortably provide long-term growth targets of 10% to 15% for revenue and 15% to 20% for net income. In our opinion, WEX has over 25% of upside, over the next year or so. Plus, we want to own a company based in Maine, so we can visit management (during the warmer summer months) and get a great lobster roll

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