Corpay's Third Quarter 2024 Earnings Conference Call - Prepared Remarks

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Today's documents, including our earnings release and supplement can be found under the Investor Relations section of our website at corpay.com. Throughout this call, we will be covering several non-GAAP financial metrics, including revenues, net income and net income per diluted share, all on an adjusted basis. We will also be covering organic revenue growth. This metric neutralizes the impact of year-over-year changes in FX rates, fuel prices and fuel spreads. It also includes pro forma results for acquisitions and divestitures or scope changes closed during the two years being compared. None of these measures are calculated in It's important to understand that part of our discussion today may include forward-looking statements. These statements reflect the best information we have as of today. All statements about our outlook, new products and expectations regarding business development and future acquisitions are based on that information. They are not guarantees of future performance, and you should not put undue reliance upon them. We undertake no obligation to update any of these statements. These expected results are subject to numerous uncertainties and risks, 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 in our Annual Report on Form 10-K. These documents are available on our website and at sec.gov.

Ron Clarke, Chief Executive Officer

Upfront here. I'll plan to cover 3 subjects.

- First, I'll provide my take on Q3 results; share our Q4 guidance and a 2025 preview.
- Second, I'll discuss, our USA opportunity and our recent sales re-organization.
- And lastly, I'll provide an update on our M+A activities.

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Q3 Results

Let me begin with our Q3 results…starting with…we surpassed $1B in quarterly revenue for the very first time. So a pretty exciting milestone. We reported revenue of $1,029, up 7% excluding Russia, and cash eps of $5.00, up 14% excluding Russia. These results were “in line” with our expectations, with both revenue and earnings finishing on the high side of our guidance range. EBITDA margins in Q3 were 54.2%...that’s up 100bps sequentially.

Our trends in Q3 were quite good:

- SSS remained essentially flat, consistent with Q2
- Retention improved slightly to a bit above 92% for the quarter, returning to record levels
- Sales or new bookings growth was 14%, with Corporate Payment sales growth leading the way with 28% growth
- And Payables “spend monetization levels” remained steady sequentially

Organic revenue growth finished at 6% overall…with again strong growth in Corporate Payments, Brazil, and International Fleet…and a continued drag from NA Fleet and Lodging…although lodging did show signs of improvement in the quarter.

So the wrap on Q3…no real surprises… Lodging a bit better, NA Fleet a bit worse. Trends SSS, retention, sales, and spend monetization all stable or improving. So a good result.

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Q4 and Full Year 2024 Guidance

Let me make the turn to Q4 and Full Year 2024 guidance.

We're outlooking a very strong Q4 finish, with…

- Organic revenue growth accelerating to 13%. An early view of our October revenue flash supports this acceleration.
- EBITDA margins of 55.6%, up another 140 bps sequentially
- Cash eps of $5.35 at midpoint, up 21%,
- Expecting Q4 sales growth above 20%

A couple of additional positives…

- We expect Lodging revenue growth to turn positive in Q4
- And the infamous channel segment to finally grow again in Q4
    - Both supporting our overall revenue growth acceleration

And as I said in August, our expected arrival to a "better place" is now…Q4. For full year 2024, we're staying put with $19.00 of full year Cash eps at the midpoint, which implies 16% y/y eps growth, excluding Russia. That's consistent with our 15-20% mid-term earnings growth target.

2025 Preview

Ok, let me transition to a 2025 Preview, and although early days, is setting up quite well .

- We're expecting 9-11% organic revenue growth…that's driven by…
    - NA Fleet and Lodging recovering into positive territory

    - Corporate Payments and Brazil maintaining mid to high teens growth rates
    - And our Gift business outlooking double digit growth
- We're expecting an incremental 3% of print growth, above organic, from the 2 Corporate Payments acquisitions
- Planning 2025 sales growth around 20%...driven by the demand for our new products, and incremental investment in sales coverage
- We're targeting 2025 Cash eps at a $22 per share ballpark, but still lots to work through. The 2 big assumptions of 2025 Cash eps are…
    - fx assumptions, mainly the BRL
    - and the net impact of lower interest rates vs. higher 2025 tax rates

So, net, net we're outlooking a pretty good 2025 set up.

USA Sales Opportunity

Let me make the turn to our USA sales opportunity, along with the decision to re-organize USA sales, and appoint a new CRO.

Recently, our USA sales have not grown as fast as our International sales, and particularly our NA Fleet and Lodging solutions.

The US opportunity for our Vehicle, Payables, and Lodging solutions is enormous.

- Take for example our Payables business, where we have a 2-3% share of the mid market, generating $500M in annual revenue…and yet a couple of hundred thousand prospects available to convert
- That's a big opportunity

So to get at this opportunity more urgently, we've taken the following actions…

1. We've established a consolidated US Sales Organization, with the associated marketing and sales support functions reporting to one new CRO executive, Mike Jeffrey.
2. We've rebranded the Payables, Lodging, and Vehicle solutions to Corpay…to leverage the brand.
3. And we've established a dedicated cross sell team to take our solutions back to our "existing client base"

So lots of energy, focus and urgency against selling more here in the US.

M&A Update

Finally let me move to my last subject, an M+A update.

We've been quite busy in 2024 on the M+A front…with 4 deals finalized, and a couple still in the pipeline.

- First, Paymerang…the AP automation company we closed July 1st. It is tracking closely to our 2H plan, and we are beginning to capture significant synergies here in Q4
- GPS…A cross border business that we signed in July…that's still on track to close at the end of the year. Through Q3, the business is performing at forecast. We're excited to bring the business across and begin the integration.

Taken together, we expect these 2 Corporate Payment deals to contribute approximately 50¢ of Cash eps accretion in 2025.

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- ZaPay Brazil – a vehicle car debts company that we acquired in the spring which gave us entry to a new payments TAM 5X the size of tolls. ZaPay revenue growth YTD is 45%, and 90,000 Sem Parar toll users have already purchased ZaPay's solutions in the first 6 months.
- Comdata Merchant Solutions, a POS solution for truck stop merchants is being sold to a PE backed company. We expect the sale to close by YE. This divestiture is part of our strategic review to simplify the company.

Lastly, we have a couple of active deals still in our pipeline, and although relatively small, would likely close early next year.

Conclusion

So then, in conclusion today…

- Q3 results finished on the high side of our guidance range, with stable or improving SSS, retention, and spend monetization trends
- We're expecting meaningful "revenue growth acceleration" in Q4, along with record earnings
- Our "early take" on 2025 is good…we're outlooking revenue and earnings to be in line with our stated mid-term objectives
- Lastly, we're very pleased with our 2024 M+A activity, our 2 Corporate Payments acquisitions are tracking to expectation, and we continue to better position our overall portfolio for faster growth

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

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Tom Panther, Chief Financial Officer

Here are some additional details related to the quarter …

As we announced last week, Q3 revenue was $1.029 billion, which I was pleased to see at the higher end of our guide despite lower fuel prices. Organic revenue grew 6% vs Q3 last year, led by 18% growth in Corporate Payments. Strong expense discipline and another quarter of lower bad debt resulted in EBITDA margin of 54.2%. We generated $355 million of free cash flow which translates into $5.00 per share in Cash EPS, 5 cents above the midpoint of our guidance, up 11% vs. last year, and up 14%, excluding the impact from the sale of our Russia business. Overall, our first billion-dollar revenue quarter reflects the quality and diversification of our business.

Now turning to our segment performance and the underlying drivers of our organic revenue growth…

Corporate Payments

Corporate payments' revenue was up 18%, driven by 7% growth in spend volume and stable card penetration rates. Strength in our Direct business, which grew 21%, was again led by strong growth in full AP. We closed the Paymerang deal in July, which contributed $14 million of revenue in the quarter, and we continue to migrate the business to our platform. Everything is progressing according to plan, and we expect meaningful synergy contributions beginning in the 4th quarter. From an adjusted EPS perspective, we still expect Paymerang to be EPS neutral in Q4.

Cross-Border revenue was also up 21%, led by 40% sales growth. Both new client acquisition and recurring client transaction activity was robust, as our scale, technology, and talent advantages continue to power share gains from legacy financial players. Our previously announced acquisition of GPS Capital Markets continues to progress through the approval process, and we expect it to close in early 2025.

Vehicle Payments

Turning to Vehicle Payments, organic revenue increased 4% during the quarter. Growth was driven by a 7% increase in transactions and higher revenue per transaction, which were both broad based across all businesses and geographies. Organic revenue growth was again driven by Brazil and International Fleet, which both grew double digits. We're beginning to see some progress related to our sales and marketing investment in our local U.S. fleet business. As a reminder, this customer segment services middle market and SMB field services businesses that use vehicles to deliver their goods and services every day. During the quarter, transactions and spend volume (on constant fuel price basis) showed signs of accelerating growth. In addition, we're seeing a quarterly trend of improving performance across same store sales, new sales, and retention. There's more work to do to increase sales, but it's encouraging to see some initial progress.

In the U.K., we continue to expand the pay-by-phone parking app into a multi-point consumer vehicle payments app by leveraging our proprietary networks and partnerships to add relevant products and services. In Q2, we launched the ability to acquire car content insurance when parking and added a search function for nearby fuel stations and EV chargers. We've just gone live with two additional services: (1) our first vehicle maintenance and repair product for the UK's mandatory annual vehicle inspection service; and (2) EV charging payments, where app users can pay directly for EV charging from within the Pay-by-Phone app. We continue to be quite excited about the future prospects from repurposing our B2B networks and payment solutions to the large consumer segment.

In Brazil, business performance was again quite strong with revenue growing 18% and sales increasing 22%. Tag growth was 8%, and toll-related revenue grew 20%. We continue to see success not just in selling tags, but also selling additional payment solutions. Both insurance policies sold and car debt payment transactions were up over 100% in the quarter. Additionally, car debt app users and revenue were up over 30% compared to last year. These additional products are quite popular and continue to support our cross sell success.

Lodging Payments

Lodging revenue decreased 5%, but improved 5 points sequentially from Q2. Room nights increased 10%, in part due to an improvement in same store sales, as well as storm-related emergency services. The softness in the business appears to have bottomed, and we're expecting the segment to grow slightly in the 4th quarter.

Income Statement

Now looking further down the income statement…

Operating expenses of $561 million represent a 7% increase vs. Q3 of last year, driven primarily by acquisitions. Excluding acquisition and divestitures, operating expenses were flat. Bad debt expense declined 3% from last year to $28 million, or 5 basis points of spend, so credit remains controlled.

EBITDA margin in the quarter was 54.2%. The slight year over year decline was impacted by acquisitions and divestitures over the last 12 months. Normalizing for these transactions, EBITDA margin increased 77 basis points. Our positive operating leverage is driven by solid revenue growth and disciplined expense management, both of which we're quite good at.

Interest expense increased $21 million vs Q3 '23, due to higher debt balances from acquisitions and share buybacks.

Our effective tax rate for the quarter was 22.9% vs. 26.6% last year, quite a bit lower as a result of option exercises during the quarter.

Balance Sheet

Now turning to the Balance Sheet…

We ended the quarter with $1.3 billion in unrestricted cash, and we had $800 million available on our revolver. We have $6.2 billion outstanding on our credit facilities, which includes an additional $500 million of Term Loan B we issued in September at substantially similar terms to the existing credit facility. We used the proceeds to pay down the revolver after our purchase of Paymerang on July 1st. As of September 30th, our leverage ratio was 2.81 times trailing twelve-month EBITDA. We also took actions in September to reduce our interest expense by entering into an additional $500 million, 3.19% fixed rate swap and re-struck our CAD/USD cross currency swap at a more favorable rate. The combination of these transactions is expected to reduce interest expense next year by approximately $7 million.

We repurchased 300,000 shares in the quarter for $90 million, entirely related to employee stock option exercises. We have over $500 million authorized for share repurchases, and the Board recently authorized an additional $1 billion of share repurchases, so we now have over $1.5 billion we can buy back. We will continue to pursue near-term M&A opportunities and will also buy back shares when it makes sense, while maintaining our leverage within our target range.

Guidance

Now let me provide more details related to our outlook…

For the full year, we are maintaining our cash EPS guide of $19.00 per share and slightly lowering our revenue guide to $3.995 billion at the mid-point as a result of unfavorable fuel prices and fx rates. We are not flowing through the 3rd quarter beat as most of that $4 million of revenue was driven by the timing of customers transacting near quarter end. For the fourth quarter, we are outlooking 13% revenue growth and 21% earnings growth at the mid-point. We expect revenue growth acceleration across each of our segments in the fourth quarter driven by new sales, strong retention, and the realization of synergies from the Paymerang acquisition. So all in all, quite similar to what we expected in August. For more details regarding our 4th quarter and full year outlook please refer to our earnings release.

About Corpay

Corpay (NYSE: CPAY) is a global S&P 500 corporate payments company that helps businesses and consumers manage and pay expenses in a simple, controlled manner. Corpay's suite of modern payment solutions help its customers better manage vehicle-related expenses (e.g. fueling and parking), travel expenses (e.g. hotel bookings) and accounts payable (e.g. paying vendors). This results in our customers saving time and ultimately spending less. Corpay – Payments made easy. For more information, please visit www.corpay.com.