

WEX Inc.
Form 10-Q
May 01, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-32426

WEX INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

01-0526993
(I.R.S. Employer Identification No.)

97 Darling Avenue, South Portland, Maine
(Address of principal executive offices)
(207) 773-8171
(Registrant's telephone number, including area code)

04106
(Zip Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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Class	Outstanding at April 29, 2015
Common Stock, \$0.01 par value per share	38,649,122 shares

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SIGNATURE

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for statements that are forward-looking and are not statements of historical facts. This Quarterly Report includes forward-looking statements including, but not limited to, statements about management’s plan and goals. Any statements in this Quarterly Report that are not statements of historical facts are forward-looking statements. When used in this Quarterly Report, the words “may,” “could,” “anticipate,” “plan,” “continue,” “project,” “intend,” “estimate,” “believe,” “expect” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words.

Forward-looking statements relate to our future plans, objectives, expectations and intentions and are not historical facts and accordingly involve known and unknown risks and uncertainties and other factors that may cause the actual results or performance to be materially different from future results or performance expressed or implied by these forward-looking statements. The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Quarterly Report, in press releases and in oral statements made by our authorized officers: the effects of general economic conditions on fueling patterns, payments, transaction processing activity and the commercial activity of fleets; the effects of the Company’s business expansion and acquisition efforts; the Company’s failure to successfully integrate the businesses it has acquired; the failure of corporate investments to result in anticipated strategic value; the impact and size of credit losses; the impact of changes to the Company’s credit standard; breaches of the Company’s technology systems and any resulting negative impact on our reputation, or liabilities, or loss of relationships with customers or merchants; fuel price volatility; the Company’s failure to maintain or renew key agreements; failure to expand the Company’s technological capabilities and service offerings as rapidly as the Company’s competitors; the actions of regulatory bodies, including banking and securities regulators, or possible changes in banking regulations impacting the Company’s industrial bank and the Company as the corporate parent; the impact of foreign currency exchange rates on the Company’s operations, revenue and income; changes in interest rates; the impact of the Company’s outstanding notes on its operations; financial loss if the Company determines it necessary to unwind its derivative instrument position prior to the expiration of a contract;

the incurrence of impairment charges if our assessment of the fair value of certain of our reporting units changes; the uncertainties of litigation; as well as other risks and uncertainties identified in Item 1A of our Annual Report for the year ended December 31, 2014, filed on Form 10-K with the Securities and Exchange Commission on February 26, 2015. Our forward-looking statements and these factors do not reflect the potential future impact of any, alliance, merger, acquisition, disposition or stock repurchases. The forward-looking statements speak only as of the date of the initial filing of this Quarterly Report and undue reliance should not be placed on these statements. We disclaim any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

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PART I

Item 1. Financial Statements.

WEX INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	March 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$511,017	\$284,763
Accounts receivable (less reserve for credit losses of \$11,513 in 2015 and \$13,919 in 2014)	1,804,688	1,865,538
Income taxes receivable	9,506	6,859
Available-for-sale securities	19,011	18,940
Fuel price derivatives, at fair value	31,624	40,969
Property, equipment and capitalized software (net of accumulated depreciation of \$168,224 in 2015 and \$169,382 in 2014)	108,166	105,596
Deferred income taxes, net	10,270	5,764
Goodwill	1,085,513	1,116,914
Other intangible assets, net	472,062	498,045
Other assets	201,120	175,506
Total assets	\$4,252,977	\$4,118,894
Liabilities and Stockholders' Equity		
Accounts payable	\$525,263	\$425,956
Accrued expenses	119,853	137,227
Deposits	1,133,569	979,553
Revolving line-of-credit facilities and term loan	815,872	901,564
Deferred income taxes, net	61,235	43,752
Notes outstanding	400,000	400,000
Other debt	51,160	52,975
Amounts due under tax receivable agreement	69,637	69,637
Other liabilities	12,516	13,919
Total liabilities	3,189,105	3,024,583
Commitments and contingencies (Note 14)		
Redeemable non-controlling interest	13,647	16,590
Stockholders' Equity		
Common stock \$0.01 par value; 175,000 shares authorized; 43,063 shares issued in 2015 and 43,021 in 2014; 38,733 shares outstanding in 2015 and 38,897 in 2014	431	430
Additional paid-in capital	179,590	179,077
Non-controlling interest	13,644	17,396
Retained earnings	1,104,075	1,081,730
Accumulated other comprehensive income	(75,173)	(50,581)
Less treasury stock at cost; 4,428 shares in 2015 and 4,218 shares in 2014	(172,342)	(150,331)
Total stockholders' equity	1,050,225	1,077,721
Total liabilities and stockholders' equity	\$4,252,977	\$4,118,894

See notes to unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF
INCOME

(in thousands, except per share data)

(unaudited)

	Three months ended March 31,	
	2015	2014
Revenues		
Fleet payment solutions	\$ 128,490	\$ 135,435
Other payment solutions	73,795	46,633
Total revenues	202,285	182,068
Expenses		
Salary and other personnel	58,417	43,902
Restructuring	8,559	—
Service fees	30,070	26,305
Provision for credit losses	3,914	9,090
Technology leasing and support	9,434	7,027
Occupancy and equipment	4,997	4,366
Depreciation, amortization and impairment	21,387	15,018
Operating interest expense	1,579	1,288
Cost of hardware and equipment sold	1,109	948
Other	15,794	12,587
Gain on divestiture	(1,215)) —
Total operating expenses	154,045	120,531
Operating income	48,240	61,537
Financing interest expense	(12,088)) (7,356)
Net foreign currency (loss) gain	(4,376)) 1,033
Net realized and unrealized gain on fuel price derivative instruments	2,749	1,845
Income before income taxes	34,525	57,059
Income taxes	14,492	20,979
Net income	20,033	36,080
Less: Net loss attributable to non-controlling interests	(2,312)) (462)
Net earnings attributable to WEX Inc.	\$ 22,345	\$ 36,542
Net earnings attributable to WEX Inc. per share:		
Basic	\$ 0.58	\$ 0.94
Diluted	\$ 0.57	\$ 0.93
Weighted average common shares outstanding:		
Basic	38,859	38,966
Diluted	38,952	39,145

See notes to unaudited condensed consolidated financial statements.

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WEX INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three months ended March 31,	
	2015	2014
Net income	\$20,033	\$36,080
Changes in available-for-sale securities, net of tax effect of \$53 and \$43 for the three months ended March 31, 2015 and 2014	91	74
Foreign currency translation	(29,066) 14,779
Comprehensive (loss) income	(8,942) 50,933
Less: comprehensive (loss) income attributable to non-controlling interests	(6,695) 318
Comprehensive (loss) income attributable to WEX Inc.	\$(2,247) \$50,615
See notes to unaudited condensed consolidated financial statements.		

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WEX INC.
 CONDENSED CONSOLIDATED
 STATEMENTS OF STOCKHOLDERS' EQUITY
 (in thousands)
 (unaudited)

	Common Stock			Accumulated			Non-control	Total
	Shares	Amount at par	Additional Paid-in Capital	Other Comprehensive Income (Loss)	Treasury Stock	Retained Earnings	interest in subsidiaries	Stockholders' Equity
Balance at December 31, 2013	38,987	\$ 429	\$ 168,891	\$ (15,495)	\$(130,566)	\$879,519	\$ 519	\$903,297
Stock issued upon exercise of stock options	8	—	105	—	—	—	—	105
Tax benefit from stock option and restricted stock units	—	—	1,010	—	—	—	—	1,010
Stock issued upon vesting of restricted and deferred stock units	63	1	(1)	—	—	—	—	—
Stock-based compensation, net of share repurchases for tax withholdings	—	—	(883)	—	—	—	—	(883)
Purchase of shares of treasury stock	(181)	—	—	—	(16,948)	—	—	(16,948)
Changes in available-for-sale securities, net of tax effect of \$43	—	—	—	74	—	—	—	74
Foreign currency translation	—	—	—	13,999	—	—	4	14,003
Net income	—	—	—	—	—	36,542	(295)	36,247
Balance at March 31, 2014	38,877	\$ 430	\$ 169,122	\$ (1,422)	\$(147,514)	\$916,061	\$ 228	\$936,905
Balance at December 31, 2014	38,897	\$ 430	\$ 179,077	\$ (50,581)	\$(150,331)	\$1,081,730	\$ 17,396	\$1,077,721
Stock issued upon exercise of stock options	1	—	14	—	—	—	—	14
Tax expense from stock option and restricted stock units	—	—	(364)	—	—	—	—	(364)
Stock issued upon vesting of restricted and deferred stock units	45	1	—	—	—	—	—	1

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Stock-based compensation, net of share repurchases for tax withholdings	—	863	—	—	—	—	863
Purchase of shares of treasury stock	(210)	—	—	(22,011)	—	—	(22,011)
Changes in available-for-sale securities, net of tax effect of \$53	—	—	91	—	—	—	91
Foreign currency translation	—	—	—				