

WEX Inc.
Form 10-K
March 18, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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 01-0526993
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1 Hancock Street 04101
Portland, Maine
(Address of principal executive offices) (Zip Code)
(207) 773-8171

(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:
Title of each class Name of each exchange on which registered
Common Stock, \$0.01 par value New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
 Yes No

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

..

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant (assuming for the purpose of this calculation, but without conceding, that all directors, officers and any 10 percent or greater stockholders are affiliates of the registrant) as of June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was \$8,124,602,298 (based on the closing price of the registrant's common stock on that date as reported on the New York Stock Exchange).

There were 43,135,385 shares of the registrant's common stock outstanding as of March 12, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2019 Annual Meeting of Stockholders are incorporated by reference in Part III. With the exception of the sections of the 2019 Proxy Statement specifically incorporated herein by reference, the 2019 Proxy Statement is not deemed to be filed as part of the 10-K.

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Unless otherwise indicated or required by the context, the terms “we,” “us,” “our,” “WEX,” or the “Company,” in this Annual Report on Form 10-K mean WEX Inc. and all of its subsidiaries that are consolidated under Generally Accepted Accounting Principles in the United States.

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 Annual Report includes forward-looking statements including, but not limited to, statements about management’s plan and goals, and the “Strategy” section of this Annual Report in Item 1. Any statements in this Annual Report that are not statements of historical facts are forward-looking statements. When used in this Annual Report, the words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan” 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 Annual Report and in oral statements made by our authorized officers:

- the effects of general economic conditions on fueling patterns as well as payment and transaction processing activity;
- the impact of foreign currency exchange rates on the Company’s operations, revenue and income;
- changes in interest rates;
- the impact of fluctuations in fuel prices;
- the effects of the Company’s business expansion and acquisition efforts;
- potential adverse changes to business or employee relationships, including those resulting from the completion of an acquisition;
- competitive responses to any acquisitions;
- uncertainty of the expected financial performance of the combined operations following completion of an acquisition;
- the ability to successfully integrate the Company’s acquisitions;
- the ability to realize anticipated synergies and cost savings;
- unexpected costs, charges or expenses resulting from an acquisition;
- the Company’s failure to successfully acquire, integrate, operate and expand commercial fuel card programs;
- 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 standards;
- breaches of the Company’s technology systems or those of our third-party service providers and any resulting negative impact on our reputation, liabilities or relationships with customers or merchants;
- the Company’s failure to maintain or renew key commercial agreements;
- failure to expand the Company’s technological capabilities and service offerings as rapidly as the Company’s competitors;
- failure to successfully implement the Company’s information technology strategies and capabilities in connection with its technology outsourcing and insourcing arrangements and any resulting cost associated with that failure;
- the actions of regulatory bodies, including banking and securities regulators, or possible changes in banking or financial regulations impacting the Company’s industrial bank, the Company as the corporate parent or other subsidiaries or affiliates;
- the impact of the material weaknesses disclosed in Item 9A of the Company’s annual report on Form 10-K for the year ended December 31, 2018 and the effects of the Company’s investigation and remediation efforts in connection with certain immaterial errors in the financial statements of our Brazilian subsidiary;
- the impact of the Company’s outstanding notes on its operations;
- the impact of increased leverage on the Company’s operations, results or borrowing capacity generally, and as a result of acquisitions specifically;
- 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 this Annual Report and in connection with such forward-looking statements.

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 Annual 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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ACRONYMS AND ABBREVIATIONS

The acronyms and abbreviations identified below are used in this Annual Report including the accompanying consolidated financial statements and the notes thereto. The following is provided to aid the reader and provide a reference point when reviewing the Annual Report:

2013 Credit Agreement	Amended and restated credit agreement entered into on January 18, 2013 by and among the Company and certain of our subsidiaries, as borrowers, and WEX Card Holdings Australia Pty Ltd., as specified designated borrower, with a lending syndicate.
2014 Credit Agreement	Second amended and restated credit agreement entered into on August 22, 2014, by and among the Company and certain of its subsidiaries, as borrowers, WEX Card Holding Australia Pty Ltd., as designated borrower, and Bank of America, N.A., as administrative agent on behalf of consenting lenders.
2016 Credit Agreement	Credit agreement entered into on July 1, 2016 by and among the Company and certain of its subsidiaries, as borrowers, WEX Card Holding Australia Pty Ltd., as designated borrower, and Bank of America, N.A., as administrative agent on behalf of the lenders.
2017 Tax Act	2017 Tax Cuts and Jobs Act
Adjusted Net Income or ANI	A non-GAAP measure that adjusts net income attributable to shareholders to exclude unrealized gains and losses on financial instruments, net foreign currency remeasurement gains and losses, acquisition-related ticking fees, acquisition-related intangible amortization, other acquisition and divestiture related items, stock-based compensation, restructuring and other costs, impairment charges and asset write-offs, gain on divestiture, a one-time vendor settlement, debt restructuring and debt issuance cost amortization, non-cash adjustments related to tax receivable agreement, adjustments attributed to our non-controlling interest and certain tax related items.
AOC	AOC Solutions and one of its affiliate companies, 3Delta Systems, Inc.
ASC	Accounting Standards Codification
ASU 2014-09	Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers (Topic 606)
ASU 2016-01	Accounting Standards Update No. 2016-01 Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities
ASU 2016-02	Accounting Standards Update No. 2016-02 Leases (Topic 842)
ASU 2016-09	Accounting Standards Update No. 2016-09 Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting
ASU 2016-13	Accounting Standards Update No. 2016-13 Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments
ASU 2016-18	Accounting Standards Update No. 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash
ASU 2017-04	Accounting Standards Update 2017-04-Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment
ASU 2017-07	Accounting Standards Update 2017-07 Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost
ASU 2018-15	Accounting Standards Update No. 2018-15 Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract
Australian Securitization Subsidiary	Southern Cross WEX 2015-1 Trust, a special purpose entity consolidated by the Company
Average expenditure per payment processing transaction	Average total dollars of spend in a funded fuel transaction
Benaissance	

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	Benaissance, a provider of integrated SaaS technologies and services for healthcare premium billing, payment and workflow management, acquired by the Company on November 18, 2015.
CDH	Consumer-directed healthcare
Company	WEX Inc. and all entities included in the consolidated financial statements
CFPB	Consumer Financial Protection Bureau
Discovery Benefits	Discovery Benefits, Inc.
EBITDA	A non-GAAP measure that adjusts income before income taxes to exclude interest, depreciation and amortization
	Electronic Funds Source, LLC, a provider of customized corporate payment solutions for fleet and corporate customers with a focus on the large and mid-sized over-the-road fleets. On July 1, 2016, the Company acquired WP Mustang Topco LLC, the indirect parent of Electronic Funds Source, LLC and Warburg Pincus Private Equity XI (Lexington), LLC, an affiliated entity, from investment funds affiliated with Warburg Pincus LLC.
EFS	
European Fleet business	European commercial fleet card portfolio acquired from ExxonMobil
European Securitization Subsidiary	Gorham Trade Finance B.V., a special purpose entity consolidated by the Company
Evolution1	EB Holdings Corp. and its subsidiaries which includes Evolution1, Inc., acquired by the Company on July 16, 2014
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FRA	Federal Reserve Act
FSA	Flexible Spending Accounts
GAAP	Generally Accepted Accounting Principles in the United States

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GILTI	Global Intangible Low Taxed Income
HRA	Health Reimbursement Arrangements
HSA	Health Savings Accounts
ICS	Insured Cash Sweep
Indenture	The Notes were issued pursuant to an indenture dated as of January 30, 2013 among the Company, the guarantors listed therein, and The Bank of New York Mellon Trust Company, N.A., as trustee
NCI	Non-controlling interest
NOL	Net operating loss
Notes	\$400 million senior notes with a 4.75% fixed rate, issued on January 30, 2013
NYSE	New York Stock Exchange
OFAC	The United States Treasury's Office of Foreign Assets Control
Over-the-road	Typically heavy trucks traveling long distances
Payment solutions	Total amount paid by customers for transactions
purchase volume	
Payment processing transactions	Funded payment transactions where the Company maintains the receivable for total purchase
SaaS	Software-as-a-service
SEC	Securities and Exchange Commission
Segment adjusted operating income	A non-GAAP measure that adjusts operating income to exclude specified items that the Company's management excludes in evaluating segment performance, including acquisition and divestiture related expenses and adjustments including the acquisition related intangible amortization, impairment charges and asset write-offs, the expense associated with stock-based compensation, restructuring and other costs, debt restructuring costs, gain on divestitures, a vendor settlement and unallocated corporate expenses.
Ticking fees	A fee incurred by a borrower to compensate the lender for maintaining a commitment of funds for the prospective borrower for a period of time
Total fuel transactions	Total of transaction processing and payment processing transactions of our Fleet Solutions segment
Transaction processing transactions	Unfunded payment transactions where the Company is the processor and only has receivables for the processing fee
UNIK	UNIK S.A., the Company's Brazilian subsidiary, which has been subsequently branded WEX Latin America
Utah DFI	Utah Department of Financial Institutions
VCN	Virtual card number
VPN	Virtual private network
WEX	WEX Inc.
WEX Europe Services	Consists primarily of our European Fleet business acquired by the Company from ExxonMobil on December 1, 2014
WEX Health	Evolution1 and Benaissance, collectively

PART I

ITEM 1. BUSINESS

Our Company

WEX Inc. is a global leader in payment solutions, which began operations in 1983 as a Maine corporation where we continue to be headquartered. Over the past 35 years, we have simplified the complexities of payment systems across continents and industries. We incorporated in Delaware on February 16, 2005 (NYSE:WEX).

We currently operate in three business segments: Fleet Solutions, Travel and Corporate Solutions, and Health and Employee Benefit Solutions, which are described in more detail below. The Company's U.S. operations include WEX Inc. and our wholly-owned subsidiaries WEX Bank, WEX FleetOne, EFS and WEX Health. Our international operations include our wholly-owned operations, WEX Fuel Cards Australia, WEX Prepaid Cards Australia, WEX Canada, WEX New Zealand, WEX Asia, WEX Europe Limited, UNIK and a controlling interest in WEX Europe Services Limited and its subsidiaries.

WEX Bank, a Utah industrial bank incorporated in 1998, is a FDIC insured depository institution. The functions performed at WEX Bank contribute to the U.S. and Canadian operations of Fleet Solutions and the majority of operations of Travel and Corporate Solutions by providing a funding mechanism, among other services. With our ownership of WEX Bank, we have access to low-cost sources of capital. WEX Bank raises capital primarily through the issuance of brokered deposit accounts and provides the financing and makes credit decisions that enable the Fleet Solutions and Travel and Corporate Solutions segments to extend credit to customers. WEX Bank approves customer applications, maintains appropriate credit lines for each customer, is the account issuer, and is the counterparty for the customer relationships for most of our programs in the U.S. Operations such as sales, marketing, merchant relations, customer service, software development and IT are performed as a service within our organization

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but outside of WEX Bank. WEX Bank's primary regulators are Utah DFI and the FDIC. The activities performed by WEX Bank are integrated into the operations of our Fleet Solutions and Travel and Corporate Solutions segments.
Developments