

WEX Inc.
Form 10-Q
August 09, 2016
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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 June 30, 2016

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 incorporation or organization)	(I.R.S. Employer Identification No.)

97 Darling Avenue, South Portland, Maine	04106
(Address of principal executive offices)	(Zip Code)

(207) 773-8171

(Registrant's telephone number, including area 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

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 August 4, 2016
Common Stock, \$0.01 par value per share	42,720,344 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 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, including Electronic Funds Source LLC’s operations and employees; the ability to realize anticipated synergies and cost savings; unexpected costs, charges or expenses resulting from an acquisition; the Company’s failure to successfully operate and expand ExxonMobil’s European commercial fuel card program, or Esso Card; 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 and any resulting negative impact on our reputation, liabilities or relationships with customers or merchants; 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 or financial regulations impacting the Company's industrial bank, the Company as the corporate parent or other subsidiaries or affiliates; 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 including as a result of acquisitions; financial loss if the Company determines it necessary to unwind any derivative instrument positions 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, 2015, filed on Form 10-K with the Securities and

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Exchange Commission on February 26, 2016, and our subsequent filings with the SEC, including Item 1A of Part II of our Quarterly Report for the quarterly period ended March 31, 2016. 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)

	June 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$317,847	\$ 279,989
Accounts receivable (less reserve for credit losses of \$13,064 in 2016 and \$13,832 in 2015)	1,886,744	1,508,605
Securitized accounts receivable, restricted	87,241	87,724
Income taxes receivable	11,006	—
Available-for-sale securities	24,405	18,562
Fuel price derivatives, at fair value	—	5,007
Property, equipment and capitalized software (net of accumulated depreciation of \$212,060 in 2016 and \$192,140 in 2015)	150,276	138,585
Deferred income taxes, net	7,518	10,303
Goodwill	1,119,048	1,112,878
Other intangible assets, net	448,685	470,712
Other assets	209,651	215,544
Total assets	\$4,262,421	\$ 3,847,909
Liabilities and Stockholders' Equity		
Accounts payable	\$553,522	\$ 378,811
Accrued expenses	215,480	156,180
Income taxes payable	—	2,732
Deposits	937,707	870,518
Securitized debt	73,327	82,018
Revolving line-of-credit facilities and term loan, net	727,639	664,918
Deferred income taxes, net	95,360	83,912
Notes outstanding, net	395,167	394,800
Other debt	62,149	50,046
Amounts due under tax receivable agreement	52,173	57,537
Other liabilities	13,146	10,756
Total liabilities	3,125,670	2,752,228
Commitments and contingencies (Note 14)		
Stockholders' Equity		
Common stock \$0.01 par value; 175,000 shares authorized; 43,146 shares issued in 2016 and 43,079 in 2015; 38,814 shares outstanding in 2016 and 38,746 in 2015	431	431
Additional paid-in capital	181,343	174,972
Non-controlling interest	12,052	12,437
Retained earnings	1,219,287	1,183,634
Accumulated other comprehensive income	(104,020)	(103,451)
Less treasury stock at cost; 4,428 shares in 2016 and 2015	(172,342)	(172,342)
Total stockholders' equity	1,136,751	1,095,681
Total liabilities and stockholders' equity	\$4,262,421	\$ 3,847,909
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		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues				
Payment processing revenue	\$126,080	\$128,081	\$237,136	\$245,516
Account servicing revenue	47,433	38,474	91,955	75,422
Finance fee revenue	32,704	20,401	56,210	40,592
Other revenue	27,719	26,697	54,563	54,408
Total revenues	233,936	213,653	439,864	415,938
Expenses				
Salary and other personnel	66,662	59,091	130,072	117,508
Restructuring	3,506	—	5,095	8,559
Service fees	45,924	33,941	82,683	64,011
Provision for credit losses	6,443	3,983	10,360	7,897
Technology leasing and support	10,932	10,021	22,008	19,455
Occupancy and equipment	6,113	5,034	11,825	10,031
Depreciation and amortization	23,109	20,759	45,373	42,146
Operating interest expense	1,505	1,357	2,891	2,936
Cost of hardware and equipment sold	665	684	1,570	1,793
Other	17,442	15,865	35,225	31,659
Gain on divestiture	—	—	—	(1,215)
Total operating expenses	182,301	150,735	347,102	304,780
Operating income	51,635	62,918	92,762	111,158
Financing interest expense	(30,418)	(11,916)	(51,976)	(24,004)
Net foreign currency (loss) gain	(4,823)	(2,161)	11,301	(6,537)
Net realized and unrealized (loss) gain on fuel price derivative instruments	—	(6,000)	711	(3,251)
Income before income taxes	16,394	42,841	52,798	77,366
Income taxes	4,482	16,441	17,665	30,933
Net income	11,912	26,400	35,133	46,433
Less: Net loss attributable to non-controlling interests	(655)	(92)	(520)	(2,404)
Net earnings attributable to WEX Inc.	\$12,567	\$26,492	\$35,653	\$48,837
Net earnings attributable to WEX Inc. per share:				
Basic	\$0.32	\$0.68	\$0.92	\$1.26
Diluted	\$0.32	\$0.68	\$0.92	\$1.26
Weighted average common shares outstanding:				
Basic	38,806	38,739	38,781	38,798
Diluted	38,857	38,799	38,850	38,880

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income	\$11,912	\$26,400	\$35,133	\$46,433
Changes in available-for-sale securities, net of tax effect of \$63 and \$(82) for the three months ended June 30, 2016 and 2015 and \$160 and \$(29) for the six months ended June 30, 2016 and 2015	107	(140)	271	(49)
Foreign currency translation	(11,479)	8,749	(705)	(20,317)
Comprehensive income	540	35,009	34,699	26,067
Less: comprehensive (loss) income attributable to non-controlling interests	(976)	866	(385)	(5,829)
Comprehensive income attributable to WEX Inc.	\$1,516	\$34,143	\$35,084	\$31,896

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 Other Comprehensive Income (Loss)	Treasury Stock	Retained Earnings	Non-controlling interest in subsidiaries	Total Stockholders' Equity
	Shares	Amount at par	Additional Paid-in Capital					
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	2	—	24	—	—	—	—	24
Tax expense from stock option and restricted stock units	—	—	(234)	—	—	—	—	(234)
Stock issued upon vesting of restricted and deferred stock units	56	1	(1)	—	—	—	—	—
Stock-based compensation, net of share repurchases for tax withholdings	—	—	4,789	—	—	—	—	4,789
Purchase of shares of treasury stock	(210)	—	—	—	—	—	—	—