

WEX Inc.
Form 8-K
April 09, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of Report (Date of earliest event reported) April 9, 2018 (April 9, 2018)

WEX Inc.

(Exact name of registrant as specified in its charter)

Delaware 001-32426 01-0526993

(State or other jurisdiction of (Commission File Number) (IRS Employer Identification No.)
incorporation)

97 Darling Avenue, South Portland, ME 04106
Address of principal executive offices Zip Code
Registrant's telephone number, including area code (207) 773-8171

Not Applicable

(Former name or former address if changes since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ..

ITEM 7.01 Regulation FD Disclosure.

Change in Financial Statement Presentation

Beginning with its Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, WEX Inc. (the “Company”) is modifying the presentation of certain line items in its consolidated statements of income. Under the new presentation, the Company will segregate costs of services from other operating expenses and has reclassified its operating expenses into functional categories in order to provide additional detail into the underlying drivers of changes in operating expenses and align its presentation with industry practice. There are no changes to the presentation of revenues, non-operating expenses or other statement of income captions. Additionally, the revised presentation will not result in a change to previously reported revenues, operating income, income before income taxes or net income. The 2017 results that will be included in the Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 will be recast to conform to the new presentation. In addition, in order to illustrate the effect of this upcoming change, management has included below unaudited quarterly consolidated statements of income for years 2017 and 2016, which have also been recast to conform to the new presentation.

Sources of Operating Expense

Effective with the change in financial statement presentation noted above, the Company now reports expenses in the categories noted below. No changes have been made to non-operating expenses.

Cost of Services

• Processing costs - The Company’s processing costs consist of expenses related to processing transactions, servicing customers and merchants, cost of goods sold related to hardware and other product sales.

• Service fees - The Company incurs costs from third-party networks utilized to deliver payment solutions.

• Additionally, other third-parties are utilized in performing services directly related to generating revenue.

• Provision for credit losses - Changes in the reserve for credit loss are the result of changes in management’s estimate of the losses in the Company’s outstanding portfolio of receivables, including losses from fraud and waived finance fees.

• Operating interest - The Company incurs interest expense on the operating debt obtained to provide liquidity for its short-term receivables.

• Depreciation and amortization - The Company has identified those tangible and intangible assets directly associated with providing a service that generates revenue and records the depreciation and amortization associated with those assets under this category. Such assets include processing platforms and the related infrastructure, acquired developed technology intangible assets, and other similar asset types.

Other Operating Expenses

• General and administrative - General and administrative includes compensation and related expenses for the executive, finance and accounting, other information technology, human resources, legal and other corporate functions. Also included are corporate facilities expenses, certain third-party professional service fees and other corporate expenses.

• Sales and marketing - The Company’s sales and marketing expenses relate primarily to compensation, benefits, sales commissions and related expenses for sales, marketing and other related activities.

• Depreciation and amortization - The depreciation and amortization associated with tangible and intangible assets that are not considered to be directly associated with providing a service that generates revenue are recorded as other operating expenses. Such assets include corporate facilities and information technology assets, and acquired intangible assets other than those included in cost of services.

Included below, the Company's historical consolidated statements of income for each of the quarters in the years ended December 31, 2017 and 2016 have been recast to conform to the changes in presentation described above.

WEX INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands)

(unaudited)

| | Three Months Ended, | | | | Year |
|--|---------------------|------------------|-----------------------|----------------------|-------------------------------|
| | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 | Ended December 31, 2017 |
| Revenues | | | | | |
| Payment processing revenue | \$ 136,378 | \$ 141,354 | \$ 145,702 | \$ 145,732 | \$ 569,166 |
| Account servicing revenue | 61,539 | 65,677 | 71,322 | 78,032 | 276,570 |
| Finance fee revenue | 43,372 | 42,085 | 50,879 | 51,246 | 187,582 |
| Other revenue | 50,068 | 54,768 | 56,099 | 56,295 | 217,230 |
| Total revenues | 291,357 | 303,884 | 324,002 | 331,305 | 1,250,548 |
| Cost of services | | | | | |
| Processing costs | 64,067 | 68,279 | 68,214 | 76,275 | 276,835 |
| Service fees | 17,600 | 20,352 | 19,894 | 15,642 | 73,488 |
| Provision for credit losses | 12,231 | 16,082 | 19,614 | 13,221 | 61,148 |
| Operating interest | 4,848 | 4,464 | 7,382 | 7,788 | 24,482 |
| Depreciation and amortization | 17,384 | 18,376 | 18,879 | 19,467 | 74,106 |
| Total cost of services | 116,130 | 127,553 | 133,983 | 132,393 | 510,059 |
| General and administrative | 42,423 | 41,047 | 52,361 | 48,903 | 184,734 |
| Sales and marketing | 40,198 | 39,943 | 41,585 | 41,928 | 163,654 |
| Depreciation and amortization | 31,854 | 31,585 | 32,350 | 33,829 | 129,618 |
| Impairment charges and asset write-offs | — | 16,175 | — | 27,996 | 44,171 |
| Gain on divestiture | — | — | — | (20,958) | (20,958) |
| Operating income | 60,752 | 47,581 | 63,723 | 67,214 | 239,270 |
| Financing interest expense | (27,148) | (28,547) | (25,754) | (25,618) | (107,067) |
| Net foreign currency gain (loss) | 8,442 | 10,525 | 14,611 | (3,659) | 29,919 |
| Net unrealized gains (losses) on interest rate swap agreements | 1,565 | (2,264) | (150) | 2,163 | 1,314 |
| Non-cash adjustments related to tax receivable agreement | — | — | — | 15,259 | 15,259 |
| Income before income taxes | 43,611 | 27,295 | 52,430 | 55,359 | 178,695 |
| Income taxes | 14,535 | 10,655 | 18,570 | (24,235) | 19,525 |
| Net income | 29,076 | 16,640 | 33,860 | 79,594 | 159,170 |
| Less: Net loss from non-controlling interest | (325) | (450) | (111) | (210) | (1,096) |
| Net income attributable to shareholders | \$ 29,401 | \$ 17,090 | \$ 33,971 | \$ 79,804 | \$ 160,266 |

WEX INC.
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (in thousands)
 (unaudited)

| | Three Months Ended, | | | | Year |
|---|---------------------|------------------|-----------------------|----------------------|-------------------------------|
| | March 31, 2016 | June 30, 2016 | September 30, 2016 | December 31, 2016 | Ended December 31, 2016 |
| Revenues | | | | | |
| Payment processing revenue | \$ 111,057 | \$ 126,080 | \$ 146,182 | \$ 137,300 | \$ 520,619 |
| Account servicing revenue | 44,522 | 47,433 | 58,815 | 60,242 | 211,012 |
| Finance fee revenue | 23,506 | 32,704 | 36,138 | 46,592 | 138,940 |
| Other revenue | 26,843 | 27,719 | 46,621 | 46,706 | 147,889 |
| Total revenues | 205,928 | 233,936 | 287,756 | 290,840 | 1,018,460 |
| Cost of services | | | | | |
| Processing costs | 50,395 | 58,691 | 65,214 | 65,896 | 240,196 |
| Service fees | 20,042 | 21,608 | 21,773 | 15,944 | 79,367 |
| Provision for credit losses | 3,917 | 6,443 | 9,489 | 13,499 | 33,348 |
| Operating interest | 1,386 | 1,505 | 2,599 | 6,896 | 12,386 |
| Depreciation and amortization | 11,142 | 11,381 | 19,218 | 21,138 | 62,879 |
| Total cost of services | 86,882 | 99,628 | 118,293 | 123,373 | 428,176 |
| General and administrative | 36,840 | 38,928 | 53,147 | 56,642 | 185,557 |
| Sales and marketing | 29,957 | 32,017 | 34,958 | 33,895 | 130,827 |
| Depreciation and amortization | 11,122 | 11,728 | 26,790 | 29,132 | 78,772 |
| Operating income | 41,127 | 51,635 | 54,568 | 47,798 | 195,128 |
| Financing interest expense | (21,558) | (30,418) | (35,064) | (26,378) | (113,418) |
| Net foreign currency gain (loss) | 16,124 | (4,823) | 5,932 | (24,898) | (7,665) |
| Net unrealized gains on interest rate swap agreements | — | — | — | 12,908 | 12,908 |
| Net realized and unrealized gains on fuel price derivatives | 711 | — | — | — | 711 |
| Non-cash adjustments related to tax receivable agreement | — | — | (168) | (395) | (563) |
| Income before income taxes | 36,404 | 16,394 | 25,268 | 9,035 | 87,101 |
| Income taxes | 13,183 | 4,482 | 6,065 | 5,895 | 29,625 |
| Net income | 23,221 | 11,912 | 19,203 | 3,140 | 57,476 |
| Less: Net gain (loss) from non-controlling interest | 135 | (655) | (493) | (2,148) | (3,161) |
| Net income attributable to shareholders | \$ 23,086 | \$ 12,567 | \$ 19,696 | \$ 5,288 | \$ 60,637 |

Changes to Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available and is evaluated regularly by the Company's Chief Operating Decision Maker ("CODM") in deciding how to allocate resources and assess performance. The Company's CODM is its Chief Executive Officer. The operating segments are aggregated into the reportable segments described below:

Fleet Solutions provides customers with payment and transaction processing services specifically designed for the needs of commercial and governmental fleets. This segment also provides information management services to fleet customers.

Travel and Corporate Solutions focuses on the complex payment environment of business-to-business payments, providing customers with payment processing solutions for their corporate payment and transaction monitoring needs. Health and Employee Benefit Solutions is comprised of our healthcare payment products and SaaS platforms with which we provide simplified payment capabilities in a complex healthcare market as well as employee benefit products in Brazil.

In evaluating the financial performance of each segment, the CODM reviews segment adjusted operating income.

Effective January 1, 2018, the Company revised how it allocates certain costs in its measure of segment adjusted operating income. The primary change is how the Company allocates information technology and corporate related costs to its segments. Certain information technology and corporate related costs that support multiple segments, which were previously included in Fleet Solutions, are now being allocated to the segment that they support. Certain residual unallocated corporate costs represent the portion of expenses relating to general corporate functions including acquisition expenses, certain finance, legal, information technology, human resources, administrative and executive expenses and other expenses. These expenses are recorded in unallocated corporate expenses, as these items are centrally and directly controlled and are not included in internal measures of segment operating performance.

Additionally, segment adjusted operating income excludes: (i) acquisition and divestiture related items (including acquisition-related intangible amortization); (ii) stock-based compensation; (iii) restructuring and other costs; (iv) gains on divestitures; (v) debt restructuring costs; (vi) reserves for regulatory penalties; and (vii) impairment charges and asset write-offs. For the year ended December 31, 2016, segment adjusted operating income further excluded a vendor settlement.

The following tables present the Company's reportable segment results on an adjusted operating income basis for each of the quarters in the years ended December 31, 2017 and 2016 and reconciles the segment adjusted operating income to income before income taxes.

| | (Unaudited) | | | | |
|--|---------------------|-----------|-----------|-----------|-----------|
| | Three Months Ended, | | | | Year |
| | March 31, | June 30, | September | December | Ended |
| | 2017 | 2017 | 30, 2017 | 31, 2017 | December |
| | | | | | 31, 2017 |
| Segment adjusted operating income | | | | | |
| Fleet Solutions | \$83,983 | \$91,037 | \$92,696 | \$104,132 | \$371,848 |
| Travel and Corporate Solutions | 19,186 | 21,516 | 28,992 | 26,966 | 96,660 |
| Health and Employee Benefit Solutions | 18,199 | 12,191 | 11,509 | 8,819 | 50,718 |
| Total segment adjusted operating income | \$121,368 | \$124,744 | \$133,197 | \$139,917 | \$519,226 |
| Reconciliation: | | | | | |
| Total segment adjusted operating income | \$121,368 | \$124,744 | \$133,197 | \$139,917 | \$519,226 |
| Less: | | | | | |
| Unallocated corporate expenses | 12,298 | 12,823 | 12,935 | 15,698 | 53,754 |
| Acquisition-related intangible amortization | 37,979 | 38,114 | 38,510 | 39,207 | 153,810 |
| Other acquisition and divestiture related items | 2,135 | 239 | 1,006 | 1,620 | 5,000 |
| Stock-based compensation | 6,457 | 7,414 | 8,483 | 8,133 | 30,487 |
| Restructuring and other costs | 1,747 | 2,398 | 6,024 | 960 | 11,129 |
| Impairment charges and asset write-offs | — | 16,175 | — | 27,996 | 44,171 |
| Debt restructuring | — | — | 2,516 | 47 | 2,563 |
| Gain on divestiture | — | — | — | (20,958) | (20,958) |
| Operating income | 60,752 | 47,581 | 63,723 | 67,214 | 239,270 |
| Financing interest expense | (27,148) | (28,547) | (25,754) | (25,618) | (107,067) |
| Net foreign currency gain (loss) | 8,442 | 10,525 | 14,611 | (3,659) | 29,919 |
| Net unrealized gains (losses) on interest rate swap agreements | 1,565 | (2,264) | (150) | 2,163 | 1,314 |
| Non-cash adjustments related to tax receivable agreement | — | — | — | 15,259 | 15,259 |
| Income before income taxes | \$43,611 | \$27,295 | \$52,430 | \$55,359 | \$178,695 |

Edgar Filing: WEX Inc. - Form 8-K

(Unaudited)

Three Months Ended,

Year
Ended

March
31,
2016

June 30,
2016

September
30, 2016

December
31, 2016

December
31, 2016

| | | | | | |
|---|-----------|-----------|-----------|-----------|------------|
| Segment adjusted operating income | | | | | |
| Fleet Solutions | \$48,065 | \$61,594 | \$86,778 | \$89,020 | \$285,457 |
| Travel and Corporate Solutions | 15,320 | 16,535 | 25,488 | 23,356 | 80,699 |
| Health and Employee Benefit Solutions | 11,885 | 10,507 | 10,053 | 10,673 | 43,118 |
| Total segment adjusted operating income | \$75,270 | \$88,636 | \$122,319 | \$123,049 | \$409,274 |
| Reconciliation: | | | | | |
| Total segment adjusted operating income | \$75,270 | \$88,636 | \$122,319 | \$123,049 | \$409,274 |
| Less: | | | | | |
| Unallocated corporate expenses | 10,900 | 11,402 | 11,830 | 12,069 | 46,201 |
| Acquisition-related intangible amortization | 12,646 | 12,565 | 33,855 | 38,763 | 97,829 |
| Other acquisition and divestiture related items | 4,765 | 2,179 | 13,100 | 835 | 20,879 |
| Stock-based compensation | 4,243 | 4,870 | 5,199 | 5,430 | 19,742 |
| Restructuring and other costs | 1,589 | 5,985 | 3,767 | 2,654 | 13,995 |
| Vendor settlement | — | — | — | 15,500 | 15,500 |
| Operating income | 41,127 | 51,635 | 54,568 | 47,798 | 195,128 |
| Financing interest expense | (21,558) | (30,418) | (35,064) | (26,378) | (113,418) |
| Net foreign currency gain (loss) | 16,124 | (4,823) | 5,932 | (24,898) | (7,665) |
| Net unrealized gains on interest rate swap agreements | — | — | — | 12,908 | 12,908 |
| Net realized and unrealized gains on fuel price derivatives | 711 | — | — | — | 711 |
| Non-cash adjustments related to tax receivable agreement | — | — | (168) | (395) | (563) |
| Income before income taxes | \$36,404 | \$16,394 | \$25,268 | \$9,035 | \$87,101 |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: April 9, 2018

WEX Inc.

By: /s/ Roberto Simon

Name: Roberto Simon

Title: Chief Financial Officer