

24-Feb-2021

WEX, Inc. (WEX)

Q4 2020 Earnings Call

CORPORATE PARTICIPANTS

Steven Alan Elder

Senior Vice President-Global Investor Relations, WEX, Inc.

Roberto Simon

Chief Financial Officer, WEX, Inc.

Melissa D. Smith

Chairman & Chief Executive Officer, WEX, Inc.

OTHER PARTICIPANTS

Darrin Peller

Analyst, Wolfe Research LLC

Robert Napoli

Analyst, William Blair & Co. LLC

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Ashish Sabadra

Analyst, Deutsche Bank Securities, Inc.

Ramsey El-Assal

Analyst, Barclays Capital, Inc.

David John Koning

Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the WEX Q4 2020 earnings conference call. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to turn the call over to Steve Elder, Vice President of Investor Relations. Thank you, please go ahead, sir.

Steven Alan Elder

Senior Vice President-Global Investor Relations, WEX, Inc.

Thank you, operator, and good morning, everyone. With me today is Melissa Smith, our Chair and CEO, and our CFO, Roberto Simon. The press release we issued earlier today and a slide deck to walk through our prepared remarks have been posted to the Investor Relations section of our website at wexinc.com. A copy of the release and the slide deck have also been included in 8-Ks we submitted to the SEC.

As a reminder, we will be discussing a non-GAAP metric, specifically adjusted net income attributable to shareholders, which we refer to as adjusted net income or ANI. Adjustments for this year's fourth quarter and full-year GAAP results to arrive at this metric include: unrealized gains and losses on financial instruments; net foreign currency remeasurement gains and losses; acquisition-related intangible amortization; other acquisition and divestiture-related items; loss on sale of a subsidiary; stock-based compensation; a legal settlement; restructuring and other costs; an impairment charge; debt restructuring and debt issuance cost amortization; non-cash adjustments related to our tax receivable agreement; similar adjustments attributable to non-controlling interests, and certain tax-related items as applicable. Please see Exhibit 1 of the press release for an explanation

and reconciliation of adjusted net income attributable to shareholders to GAAP net income attributed to shareholders.

I would also like to remind you that we will discuss forward-looking statements under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those forward-looking statements as a result of various factors, including those discussed in our press release, the risk factors identified in our 2019 Annual Report on Form 10-K filed with the SEC on February 28, 2020, our quarterly reports on Form 10-Q, and subsequent SEC filings. While we may update forward-looking statements in the future, we disclaim any obligations to do so. You should not place undue reliance on these forward-looking statements, all of which speak only as of today.

With that, I'll turn the call over to Melissa Smith.

Melissa D. Smith

Chairman & Chief Executive Officer, WEX, Inc.

Good morning and thank you for joining us today. I hope everyone is well and staying healthy.

As we all know, 2020 proved to be a year like no other. WEX remained resilient and nimble, which allowed us to stack up a series of competitive wins and renewals, target our spending in areas that will drive benefit for years to come, and build upon our robust technology capabilities.

We ended 2020 with the purchase of eNett and Optal with a very favorable result and successfully navigated an extraordinarily complex set of circumstances in the process. I remain excited about strengthening our travel position, and adding these two assets will enhance our global payments capability, creating value for our customers and our investors over the long term.

Our focus on the health and safety of our people, customers and partners, and the communities in which we operate was paramount in 2020 and remains the same today. We're focused on WEX's next chapter of growth, enhancing our culture, extending our diversity and inclusion programs, and implementing new programs to broader support ESG efforts.

Before I dive into our results for the quarter, I want to express my gratitude and deep appreciation for the hard work and dedication of the entire WEX team. Under unprecedented circumstances, they executed extraordinarily well this past year, and once again have proven why they are the cornerstone of our organization.

Turning to our results for the quarter and the year, the fourth quarter played out better than we had expected, given the expectations we had laid out on the last call. We generated \$399 million of revenue, and adjusted net income was \$1.45 per diluted share.

We've received a number of questions around the eNett and Optal acquisitions, so I'd like to hit this right off. We're very sensitive to the challenges our travel customers are facing in this pandemic. We're partnering with these customers and are learning from the marketplace how best to support them during these extraordinary times. In the short term, additional travel exposure will introduce some additional uncertainty into our performance.

We have a highly talented team of individuals coming together with the Optal and eNett teams, building upon our existing bench of talent. Together, we will create even greater value in the marketplace by leveraging the combination of our collective assets and global reach as the foundation for our future innovation. Over the long

term, we see great growth potential, and I remain very excited about the future potential we will create for our customers and shareholders.

As a reminder, our end customers are in the consumer travel category, which we believe will rebound much quicker than business travel. We started the integration, are in the process of updating our assumptions around potential synergies that come from combining the three organizations together.

Turning to our strategic outlook, we refreshed our strategic pillars to better reflect the opportunities we see in front of us as well as the operating environment we expect to see going forward. As a technology-focused company, we're focused on increasing speed and reliability through the use of modern tools. New development at WEX continues to be cloud-first. And during 2020, we reached a major milestone, where now approximately two-thirds of our volume is running within the cloud. We'll continue to build upon our technology and risk management skills and carry forward our diversification.

We also remain focused on winning in the marketplace by anticipating customer needs and bringing innovative offerings to the market first, using modular integrated solutions and fostering our value-based culture to attract and retain the best talent in the industry.

Successfully executing against these pillars, coupled with our strategic investments in growth, which allowed us to continue to win in the marketplace, growing our market share. Our increased speed and continued advancement of our products is reflected in the large number of customer signings and renewals we announced during 2020. We created a great deal of sales momentum in the course of the year. Customers can have confidence that we will continue to advance our capability and innovate with them in the marketplace.

I'd like to take a moment to reflect upon some of the most significant wins and contract renewals in 2020, which demonstrate our ability to grow business in even the most challenging of market conditions. While the majority of our new business wins represent smaller customers, outsized wins and renewals notably include; OMV, J.B. Hunt, Enterprise Truck Rental, Heartland Express, Diligent Delivery Systems, Charles Schwab, Transamerica, Hormel Foods, CITGO Petroleum, HRC Total Solutions, the states of Michigan and Georgia, and many others across our business. Importantly, this provides us with another leg of growth as new wins get implemented.

Similarly, we expect to reap the benefits of the investments we made in technology in 2020 to not only meet the dynamic needs of our customers but to also better position WEX for growth and scalability in the future. We've completed a large shift to the cloud with successful migrations of the majority of our Fleet business in 2020, following our move to a cloud-first development methodology of all new technology in 2019. We'll continue to build upon these existing capabilities.

Areas of focus going forward include: advancing our data lake; building on machine learning and artificial intelligence capabilities; as well as further development of microservices and cloud-native capabilities to provide differentiation, speed, and value in our products; and new ways in which we can support our customers. Again, the aim of all this is to be able to offer unique products and services at an increasing speed. Our development cycle now across WEX is on average two weeks.

I would now like to turn to what we're seeing in volume trends so far in 2021. In the Fleet segment, gallon volumes are up approximately 0.8% quarter to date versus the same period last year. Similar to the past few quarters, over-the-road trucking volumes continued to be strong, up 18% quarter to date, while the North American fleet and international volumes continued to be down.

In our Travel and Corporate Payments segment, purchase volumes are down 52% quarter to date compared to the prior-year period. Global travel-related spend volumes continued to be the hardest hit by the pandemic, with Q1 quarter-to-date volumes down 76% year over year, excluding eNett and Optal volumes. Corporate payment volumes, on the other hand, remained strong with growth of 20% quarter to date.

Lastly, turning to our US Health business, the account growth rate is consistent with the end of the year while spend volume remains healthy.

Finally, I'd like to provide some additional perspective on how we're thinking about 2021. Building off the weekly trend data I just shared with you, we expect the same slow and steady volume recovery across our business will continue through the first half of 2021, with acceleration in the second half of the year. However, the pace and breadth of the vaccine rollout as well as the potential for government stimulus will be critical factors in determining how quickly our existing customer activity will rebound. Given the current pace of vaccine distribution as well as our own customer mix, we believe customer activity will increase in the second half of the year, but likely more fully in the fourth quarter.

In Fleet, we've seen a significant rebound in over-the-road volumes, as contract signings continue to be reflected in our volume trends. Based on the size of an average transaction, we believe there's a lag in automotive transactions versus larger vehicles. This would likely represent sales professionals who have had a local territory, senior executive, or more administrative types of roles. We expect that these will be among the last types of transactions to return based on the success in rolling out vaccines.

We're winning new direct business in this market because of our technology, the level of customer integration from our products that offer our customers a unique set of financial controls and data capabilities. Carrying that same technology over to the partner side, we have a demonstrated ability of growing partner portfolios using a proprietary marketing and sales engine.

In Travel, we continue to expect a longer recovery time. We expect to recover volumes as leisure travel slowly improves, but we also believe COVID has structurally changed the travel market. In speaking with our customers, they are eager for us to support them through this difficult period and to innovate together for the future. The increased scale resulting from the eNett and Optal acquisitions will help margins once we have implemented expected synergies, which we expect to do over the next three years. With all that said, we will pursue volume and opportunities where we believe we will earn a return in line with the rest of the business.

Importantly, our pipeline of new corporate payments customers remains strong, with a number of large opportunities. This is another area where we have seen most existing customers spend less than in the prior year, but we've been able to offset that by signing up new business, primarily through our partner channel, to fill the gap and maintain growth.

As this industry continues to mature, we're confident we will emerge as one of the long-term winners. We believe our unique group of assets, including compliance, issuing technology, and transaction processing, combined with leading-edge products in integrated payables and dynamic payments, position us well for future growth.

Across Travel and Corporate Payments, we win in the marketplace because of our enterprise-grade cloud-based solutions, our global currency capabilities, our level of seamless integration, and our broad spectrum of payment expertise bridging many different marketplaces.

Moving to the Health and Employee Benefits segment, we completed open enrollment season with a strong showing relative to our competitors, recognizing that current unemployment rates provide a headwind to normal growth rates. That said, this is an exciting growth opportunity for WEX. We continue to invest in our capabilities here and have an exciting pipeline of new customer opportunities ahead of us. We win new business in this marketplace with our customizable multi-account offerings, innovative benefit solutions, ability to integrate, proven data and analytics, and our mobile capabilities.

Finally, we recently announced the purchase of certain HSA assets from HealthcareBank, the custodian bank of WEX Health's division. This expands WEX's role in the attractive consumer-directed healthcare ecosystem and aligns with our growth strategy. We're excited to provide a more streamlined customer experience, one that positions us to better leverage our investment to provide leading HSA solutions. We expect that this purchase to have a positive impact on adjusted net income in 2021.

In summary, I'm extremely proud of the way WEX responded to this year's challenging environment. As disruptive as the pandemic has been, we continued down the path we entered in 2020 and delivered on our strategic imperatives. We entered 2021 having laid the groundwork for success when market conditions recover, accelerated initiatives that will enhance the value we deliver our customers, and are continuing to make significant investments in our market-leading technology.

At the same time, we're executing extremely well, retaining our customers and signing new ones, all part of the building blocks for accelerating future growth and gaining market share. To put our future outlook in perspective, WEX is a diversified business that operates in large, growing, and relatively underpenetrated markets and where we have leading positions.

While the pace of recovery remains variable, we believe that volumes with existing customers will come back and, coupled with new customer additions, will position us well to succeed post-pandemic. These factors bolstered by the strategic investments we made in 2020 give me confidence that our next chapter of growth will be our best yet and that we'll get back to our long-term targeted revenue growth rates of 10% to 15%. We've established a strong platform for growth that is more resilient and more diversified than ever before, and we remain committed to driving long-term growth and value for our shareholders.

I'd now like to turn the call over to our CFO, Roberto Simon. Roberto?

Roberto Simon

Chief Financial Officer, WEX, Inc.

Thank you and good morning, everyone.

As Melissa just mentioned, WEX demonstrated remarkable resilience in 2020. We continued to execute on the strategic pillars, invest in high-growth areas, and maintain high customer retention rates. I am proud of the way the company has adapted to the new environment, and we remain confident in the strength of the long-term strategy.

I will start with a review of the full year, then moving to the details of Q4, and finally provide some commentary for 2021.

Starting with the results for the full year on slide number 10, WEX delivered total revenue of \$1.56 billion, down 10% versus 2019. GAAP net loss attributable to shareholders was \$5.56 per share. Adjusted net income per

diluted share was \$6.06 compared to \$9.20 in 2019. Fuel prices and FX rates had a \$63.2 million negative impact on revenue as well as \$0.74 on EPS.

We were challenged in each of the segments. However, we saw positive trends. First, the US Health business grew revenue 18%. Second, the Corporate Payments revenue grew 13%. And finally, the US OTR business increased gallon volumes by 6%.

Now, let's move on to Q4 results, starting on slide 11. The quarter was better than we expected. Revenue was up approximately 4% sequentially, primarily due to the strong growth in the US Health and Corporate Payment businesses as well as improvements in fuel prices.

From an earnings perspective, we also performed better than anticipated. Adjusted net income declined sequentially. However, as we discussed last quarter, we intentionally placed larger investments in Q4, which were targeted in North American Fleet, US Health, and technology, to position the company to capture additional revenue in 2021 and beyond.

Total revenue in the quarter was \$399 million, a 9% decrease compared to prior year. GAAP net loss attributable to shareholders was \$5.30 per diluted share. Non-GAAP adjusted net income was \$64.8 million or \$1.45 per diluted share compared to \$2.61 in Q4 2019.

Turning to slide 12, you can see the overall revenue performance by segment. Breaking down revenue, there were no surprises. As expected, Fleet Solutions segment revenue declined 10%. Travel and Corporate Solutions declined 22%. And finally, Health and Employee Benefit Solutions grew 6%.

Moving to segment results, beginning with Fleet on slide 13, Fleet Solutions achieved \$235.4 million in revenue, down 10% from Q4 2019. Revenue was impacted by lower fuel prices, partially offset by continued strength in the over-the-road business. As a reminder, in the fourth quarter of 2019, we had a negative \$14 million revenue recognition adjustment that also reduced sales and marketing expenses by the same amount.

Payment processing transactions declined 7% when compared to last year. On a positive note, over-the-road transactions went up 14%, reflecting the strength of this industry and new customer wins. This was offset by the North American and international Fleet businesses, which were down 9% and 8% respectively. This is an improvement versus the last two quarters, where payment processing transactions declined 20% in Q2 and 11% in Q3 of 2020.

The net payment processing rate in Q4 was 127 basis points, which was up 17 basis points over last year and down 7 basis points sequentially. Versus prior year, the increase was primarily due to lower fuel prices and the accounting adjustment to revenue. Versus Q3, the decrease was due to an increase in OTR volume mix and a reduction in positive spreads in Europe.

The net late fee rate was 54 basis points in comparison to 65 in Q4 2019 and 48 in Q3 2020. The year-over-year decrease was primarily driven by volume mix and improved customer payment behaviors. Similar to Q3 results, customers continued to pay their bills on time. The number of late fee incidents were down 10% versus last year. Although finance fee revenue was down 25%, it is a positive sign as fleet credit losses improved both sequentially and year over year. I will go over this shortly.

To finish in Fleet, the average domestic fuel price in Q4 was \$2.26 versus \$2.80 in 2019. This lowered revenue by approximately \$20 million. Additionally, positive spreads in Europe increased revenue by \$1.1 million.

Turning to the Travel and Corporate Solutions segment on slide 14, as expected, this segment remained the most challenged area of the business, with total revenue down 22% to \$74.7 million. Breaking the segment down, Corporate Payments customer revenue was up 23%. This was offset by continued softness in Travel customer revenue that was down 60%. This includes a small contribution from eNett and Optal. Additionally, total purchase volume issued by WEX was \$5 billion.

To conclude this segment, the net interchange rate was 126 basis points, which was up 42 from Q4 last year. The increase was mainly due to higher corporate payment-related volumes and the new scheme fee arrangement that was signed in Q2 2020.

Finally, let's take a look at Health and Employee Benefit Solutions on slide 15. I am pleased to report that the segment posted another quarter of growth, with revenue growing 6% versus Q4 2019 to \$88.9 million. In the US Health business, revenue grew 12%, driven again by sales accounts which were up 8%. Roughly two-thirds of the segment revenue was SaaS fee-related, which was up 13%. This is reflected in the account servicing revenue line. To close the segment, in Q4 2019 we had \$3.9 million of revenue from the divested Brazilian business, primarily reported in other revenue.

Now, let's move to expenses on slide 16. For the quarter, total cost of service expense was \$168.6 million, down from \$180.1 million in Q4 last year. Total SG&A, depreciation and amortization expenses were \$427.5 million, which is up \$271.4 million versus 2019.

Breaking down the line items within these categories, both processing costs and service fees were essentially flat. Credit loss on a consolidated basis was \$11.6 million, down from \$18.2 million a year ago. Fleet credit losses were \$9.2 million, significantly down year over year and sequentially. This equates to 6.9 basis points of spend volume versus 18.5 basis points in Q4 2019 and 10.8 basis points in Q3 2020.

Consistent with last quarter, the reduction in credit losses was driven by the change in customer payment behavior, the operational improvements, and internal controls that were implemented in the credit and collections area. While we are pleased with the overall credit loss performance of the past couple of quarters, we are closely watching for any signs of weakening.

Operating interest expense was \$3.7 million, down \$6.5 million from the prior-year quarter. This is due to lower interest rates on WEX bank deposits and lower deposits overall. G&A expenses increased \$24.9 million versus Q4 of last year, mostly due to expenses related to the eNett and Optal transaction and stock compensation.

Sales and marketing expenses were up \$29.3 million. The increase was largely due to a \$14 million revenue recognition adjustment that I mentioned earlier, higher partner rebates associated with corporate payment volumes, and the expected investments in the Fleet and Health businesses.

Next on the income statement, there is a charge of \$162.5 million of the total \$577.5 million that we paid for eNett and Optal. This reflects the estimated apportionment for settling the litigation. The remaining amount was allocated to the purchase price of the companies.

Finally, the last item in operating expenses is a charge of \$53.4 million related to a goodwill impairment for the European fuel business as a result of the pandemic volume decline.

Changing gears to taxes on slide 17, on a GAAP basis, the effective tax rate this quarter was 7% compared to 26.9% for the fourth quarter of 2019. On an ANI basis, the tax rate was 22.4%, down 230 basis points from a year ago.

Turning now to slide 18, I would like to provide an update on the strength of our balance sheet. Despite a very volatile 2020, we maintain financial flexibility with robust levels of liquidity. We ended the quarter with \$852 million in cash, up from \$811 million at the end of 2019. The corporate cash balance as defined in the credit agreement was \$642 million at quarter end, down from \$1 billion at the end of Q3 2020. This reduction was due to the closing of the eNett and Optal acquisition, partially offset by very strong cash flow generation.

Additionally, there is over \$818 million of available borrowing capacity under the company's credit agreement. At year end, the total balance on the revolving line of credit, term loans, and notes outstanding was \$3 billion. The leverage ratio stands at approximately 3.7 times at the end of 2020, which is up from 3.5 times at the end of last year. As expected, the increase reflects the acquisition of eNett and Optal.

Finally in this section, we announced the redemption of the outstanding \$400 million senior secured notes. It is expected to be funded from cash on hand and completed on March 15.

To close out the call and as you probably anticipated, we will not be providing revenue and earnings guidance at this time. The present environment does not allow us to accurately make projections. However, we do want to share some observations and give input where we can.

Fleet volumes have been improving sequentially for the past three quarters, and we expect this positive trend to continue. Corporate Payments customer volumes are expected to continue to see strong momentum. Travel customer volumes are still depressed, and this market remains uncertain in the short term. However, in the long term, we feel positive about this part of the business. In the meantime, we are focused on the integration of eNett and Optal. Finally, looking at the US Health business, we expect revenue to grow in the range of 8% to 12%.

On the operating expense side and assuming the prevailing economic environment does not change, we do not plan to make meaningful adjustments. Both operating and financing interest will benefit from lower interest rates.

Translating this into a view for Q1, we are expecting revenue to increase between zero and 2% compared to Q4 2020 revenue, which includes the full quarter contribution from eNett and Optal.

From an earnings point of view, we expect ANI EPS to improve sequentially, driven by higher revenue and higher fuel prices, offset by the eNett and Optal integration. To give you more color on the eNett and Optal timing, we are planning on improvements each quarter, leading to no material impact on earnings on a full-year basis.

To conclude, we are proud of WEX's resilience in 2020 and are confident and well positioned to capture future growth as the economy continues to improve.

And with that, operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Darrin Peller with Wolfe Research. Your line is open.

Darrin Peller

Analyst, Wolfe Research LLC

Q

Hey. Thanks, guys. Can we just start off? Now that eNett and Optal is behind you on the Travel side, is there any change to the way that you're going to be managing that business, meaning more like if eNett and Optal were resolved earlier, would there be anything you would have done differently by now?

And then just thinking of the fundamental changes in your T&E payment space from a competitive standpoint, any developing opportunities post-pandemic beyond rebounding volumes you can talk to? Just we get a lot of questions on the overall Corporate and Travel segment as being a key highlight for you guys long term. So strategically, I'd love to hear your thoughts there. And then obviously, if you could, just touch on the B2B side, the corporate payments side as well. Thanks, guys.

Melissa D. Smith

Chairman & Chief Executive Officer, WEX, Inc.

A

Sure, good morning. On your first question around Travel, when we had originally intended to do the transaction, we had planned to split out the Travel group in terms of having a separate management team focusing on the integration of the business and really focused on those customers. And so we really just carried forward with that after we settled the transaction.

So we now have Anthony Hynes and his team that is in charge of that part of the business, working very closely with Jay Dearborn, who runs our Corporate Payments business and all the integration around the technology and the product set. But beyond that, we felt like we wanted to create a lot of focus because of the opportunity set and because of the amount of work we need to do on the integration. We think both parts of the business have really great long-term growth.

So you were talking about the B2B space. In the B2B space, the place that we really have been having the most amount of success is this kind of concept of embedded payments, which we're doing it through partners. Some of those partners are financial institutions and some of those are FinTech companies. They have different needs, but the fact that we have the underlying technology, our processing system that we developed was cloud-based. It's highly reliable. It's a nice selling point that we have within that marketplace. We also have a merchant portal and a number of different payment capabilities beyond our virtual payment capabilities.

So the wins that we are having, the combination of the expertise that we have in the marketplace, the technology that we have, and again, we've been really primarily focused in the partner channel of that marketplace. It's a place we see continued growth opportunity, and we're excited about the growth prospects there. And I'd say equally, we're excited about the prospects we have in Travel, albeit that we expect to have more volatility in the short term there. It's a little bit less predictable what's going to happen with that customer set right now in terms of volume.

Darrin Peller

Analyst, Wolfe Research LLC

Q

Okay. And then I guess when we look at the overall corporate side, just to think about the strategy of what you can do there, obviously that's held up very well. Was any of that a bit of a pull-forward just given the pandemic, or do you think that's really the sustainable run rate now plus some? And strategically, Melissa, if you can, give us a sense of what you may or may not want to do on that. Thanks again, guys.

Melissa D. Smith

Chairman & Chief Executive Officer, WEX, Inc.

A

I think that as part of the business, we are getting a benefit in new contract signings in terms of our partners bringing on new business because of the digital needs in the marketplace right now, so there's a benefit of that. There's also been a headwind in this last year where some of the existing customers just aren't spending as much. We've been able to overcome that through new contract signings. So we feel particularly bullish I guess about it right now because we're working against a headwind, we're still able to show some pretty significant growth there.

So going forward into the marketplace is the place we're going to continue to put emphasis, continue to spend internal investment dollars, and we do see a long runway. It's also a huge market. And so we like – we just said it's a great market. It's huge. We have an ability to differentiate within the marketplace. And as a result, we think that that can create some great growth potential for us long term.

Roberto Simon

Chief Financial Officer, WEX, Inc.

A

And I will add to Melissa's point. If you think about the second quarter, we were flat in volume. Q3 we were over 10%, then Q4 over 20%. And as Melissa said, we expect a good 2021 when we are projecting out with the things that are happening now.

Darrin Peller

Analyst, Wolfe Research LLC

Q

All right, that's great to hear. Thanks, guys.

Operator: Your next question comes from Tien-Tsin Huang with JPMorgan. Your line is open.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Hey, good morning. Thanks for the presentation. I wanted to ask, Melissa, just curious, obviously good sales results. How did new sales land versus your original a 2020 target, and what are you thinking about this year, sales targets for 2021?

Melissa D. Smith

Chairman & Chief Executive Officer, WEX, Inc.

A

We had particularly strong sales in our over-the-road business. We have a tremendous amount of momentum coming into that business. And you can hear it in the contract wins that we've had throughout the course of this year.

I'd also say, when we set up our targets as we go into each year, we are pretty aggressive about that. So we over-delivered across a number of the different parts of the business. And as we go into 2021, it's the same thing. As we establish our targets, we established some pretty strong targets. We expect to continue to have momentum in the marketplace.

Again, we've got a lot of momentum specifically in the over-the-road marketplace. We have a really good pipeline in Corporate Payments, and we have a really good pipeline in Health, and said one caveat with Health ahead is that talked about the fact that we are seeing some headwinds in that business because of unemployment rates. And so we think you're going to see that business be skewed towards the second half of the year, where enrollment season was strong for us competitively.

But the growth rates going into the first part of the year are more than what we would normally see, again, because of the headwinds in unemployment. We have a really good pipeline in that part of the business. So we think you're going to see the benefit of that really coming through the second half of the year as we implement some of the customers that we've already closed and we continue to close some of the ones that are in our pipeline.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Okay, good to know. Just as my second quick follow-up, and I'll jump off, just on the cloud update, which is – I know you all went through that pretty thoroughly in your Investor Day. You're at two-thirds now. So do you see the potential for improvement in competitiveness, or is this more of a benefit from a cost standpoint now as we think about getting to that last third of the migration that that's where you're going on the cloud side? I'm just trying to understand what the impact would be for the P&L. Thanks.

Melissa D. Smith

Chairman & Chief Executive Officer, WEX, Inc.

A

I think the impact actually in three different ways. One has been around speed for us is something we care a lot about in the market now that the ability to move really rapidly. And as we have moved things into the cloud, it's a combination of moving into the cloud and then architectural work, some of which we're well underway, some of which we're kind of in the middle part of doing.

But as we finish that, just making sure that we can continue to move with speed, bringing products into the marketplace, and being able to share across the different parts of our business as we bring forward features and product sets. That's really important to us competitively if you kind of think long term about the competitive set. We also believe that you're going to see benefit from a cost perspective as we continue to reduce the number of data centers that we're operating in. And so that will over time create some benefit for us.

And then the final thing from a customer perspective, it just increases the overall reliability performance from a customer perspective, and that's something that's ultimately very important to us. So it really hits across all three categories for us.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Thanks for that, I appreciate it.

Operator: Your next question comes from Ramsey El-Assal with Barclays. Your line is open.

Ramsey El-Assal

Analyst, Barclays Capital, Inc.

Q

Hi, good morning and thanks for taking my question today. I wanted to first ask about the impact of fuel prices and how we should think about incorporating fuel into our models for 2021. It seems like the futures curve is up pretty dramatically quarter over quarter. In a typical cycle where you guys would guide, you'd give us that average fuel price, and it would flow into EPS. I'm just kind of curious if we should be thinking about this in a consistent way as the past, where we just basically see what the RBOB curve has done and kind of take your last average fuel price and kind of mark it up basically in our models. If you can give any color on how fuel prices will impact 2021 in terms of your internal thinking, it would be super-helpful for us.

Roberto Simon

Chief Financial Officer, WEX, Inc.

A

Of course, good morning. So obviously, as fuel prices increase, we are going to see the benefit, and we are very happy to see fuel oil prices going up. So I will start, you saw in the presentation, the quarter to date, it's around \$2.55. Obviously, the number has improved significantly from the average of those six weeks. So it's going to go up for the second half of February and also for March.

If you recall from the past experience, so in 2019, for every \$0.10 of a fuel price movement on a full year, we had approximately \$0.20 of ANI EPS and \$14 million in revenue. So as we go into 2021, you should see it's going to be very similar, maybe slightly lower than that, \$0.18 or \$0.19 of ANI EPS, because of the mix between OTR and North American Fleet. But that's the number that you should be expecting when you compare 2020 actuals, where the average of fuel prices were around \$2.30 overall compared to where we are now in the month of February and where the curve is turning going into 2021.

Ramsey El-Assal

Analyst, Barclays Capital, Inc.

Q

Okay, that's actually really helpful. Thank you. And the other question I wanted to ask was about your Travel business. And putting aside the timing of a potential travel recovery because who knows, is there any reason to not think that your Travel business and the eNett/Optal business as well will not get back to 2019 levels? Are there any customer bankruptcies or any other kind of deteriorations in these businesses that would keep us from basically saying look, when we look out to 2022 or even beyond, these businesses should get back really largely on track with where they left off?

Melissa D. Smith

Chairman & Chief Executive Officer, WEX, Inc.

A

So when I talked about structural change in the travel marketplace, it's because I think of people, particularly businesses, as they travel, I just think that it's going to be different going forward as a result of the pandemic. Most of the customer base, the end customers we deal with there are consumers, which is a benefit. So we do think that you're going to see that migrating back – that volume pattern migrating back. We also think that you're going to see hotels coming back sooner than you see airline travel. And so from just a timing perspective, we think you're going to see some variability in what's going to happen with the travel business, probably more than what you're seeing in other customer end markets. But it's really a question of when it returns.

I talked about supporting our travel customers in this period of time. We know that they've been particularly hard hit. And so our focus has largely been working with them around how we can continue to innovate together. We have more assets now than we have ever had with the combination of eNett and Optal and WEX and really

looking across the portfolio of what we've got to look at ways that we can help create even more product for them, which can be a benefit to them as well.

And so I look at that marketplace, I think that there's great long-term opportunity for us, and again, a lot of work that we need to do with that customer set to make sure that we're putting together products the way that we have across the rest of WEX to bring into the marketplace even more unique and innovative offerings for the future.

Ramsey El-Assal

Analyst, Barclays Capital, Inc.

Okay, all right. Thanks so much.

Operator: Your next question comes from Bob Napoli with William Blair. Your line is open.

Robert Napoli

Analyst, William Blair & Co. LLC

Thank you, good morning. Question on maybe first, same-store sales, obviously up 18% for the OTR, very strong. And I know you've won a lot of customers. But maybe could you give a little color on same-store sales between OTR and non-OTR?

Melissa D. Smith

Chairman & Chief Executive Officer, WEX, Inc.

Sure, good morning. So on the OTR side, same-store sales are up about 5%, so we're getting a benefit in that part of the business. On the North American Fleet side, down significantly, in the order of around 15%, so still down. And I don't really have a lot of insights to add because it's really kind of across the board.

Robert Napoli

Analyst, William Blair & Co. LLC

Thank you, Melissa. And then on eNett, what was the – what are you assuming as far as to get to material? How dilutive is eNett in the first quarter on an EPS basis? And then what does it take to get it back to normal? What are you assuming on travel getting back to – I mean, American Express threw out the consumer travel would be 70% of pre-pandemic by the fourth quarter. Are you assuming something like that, or – so how dilutive? And then what was eNett's revenue prior to the pandemic?

Melissa D. Smith

Chairman & Chief Executive Officer, WEX, Inc.

I'm going to start and I can see Roberto is eager to jump in here. On eNett and Optal, part of what we're looking at right now, and I've said this before in our prepared remarks, so that we're refreshing the model around our synergies. And when we originally announced the transaction, it was in a different environment. And so as we've brought the assets in and have spent time with Anthony and his team, that's really we're pretty deep into that process right now. We know the \$25 million that we've laid out before, I think of that as a baseline, where we are targeting a number bigger than that.

We historically have taken three years to go through an integration process, and some of this will take some time for us. There's a lot of complexity around that. But we're eager to be pulling some of those forward, and that's part of why we talk about it being dilutive now and then being breakeven for the year has a lot to do with the synergy work that we have ahead of us right now. And with that, I'll let Roberto talk to you about the specifics.

Roberto Simon

Chief Financial Officer, WEX, Inc.

A

Great. Yes, Bob. So just to give you some color in the 15 days of the fourth quarter, we had less than \$2 million in revenues, so very immaterial. And then the impact to ANI EPS was \$0.02 to \$0.03. So as you get into Q1, obviously we are going to see dilution because obviously, revenues are still – or volumes are still down.

But as Melissa said, so as we get from Q1 into Q2, we should see improvement. And then on the second half of the year, we should be accretive. And when you think about on a full-year basis and based on the projections that we are seeing on volume, we should be on a, call it, no material impact on a full-year basis from an ANI EPS point of view. But the cadence of the recovery is what Melissa also said, so we are going to start having synergies late in Q1, Q2, and then probably more run rate in the second half of the year. So it's going to be dilutive on the first half and accretive on the second half.

Robert Napoli

Analyst, William Blair & Co. LLC

Q

Anything on the revenue pre-pandemic from – what do you see?

Roberto Simon

Chief Financial Officer, WEX, Inc.

A

So the revenue in 2019 was almost \$160 million. That's what we had in revenue, and the volumes were around \$20 billion of spend. And obviously, as Melissa said before, we don't know when we are going to get to the 2019 levels. What we know is what you have seen today on these six weeks where we are on the 60% – 65% down from last year. And we keep monitoring daily how things are improving. But it's hard to tell when we're going to get back to the 2019 levels.

Robert Napoli

Analyst, William Blair & Co. LLC

Q

Then real quick on the Healthcare acquisition, the HSA assets, is that going to enable you to earn the interest income? How accretive is that? And is that really, over the long term assuming the Fed raises interest rates, is that something that's really going to move the needle? It's obviously, HealthEquity makes a lot of money off of the float, off of the deposits.

Melissa D. Smith

Chairman & Chief Executive Officer, WEX, Inc.

A

What we like about it is it gives us the control over that part of the economics. It also creates a better customer experience because we're streamlining the whole process. And so from both a customer perspective and an economic perspective, we think there's a benefit of this. It's going to be accretive this year, but it's not going to have a material impact, particularly if you compare it to the prior year. But what it does allow us to do in the future is have a lot more control, which will give us a benefit financially going forward.

Robert Napoli

Analyst, William Blair & Co. LLC

Q

Thank you.

Operator: Your next question comes from Ashish Sabadra with Deutsche Bank. Your line is open.

Ashish Sabadra

Analyst, Deutsche Bank Securities, Inc.

Q

Thanks for taking my question, maybe just a quick question on Fleet. How do we think about any benefit from a potential infrastructure spending bill? Can you talk about some of your end markets that could potentially benefit from infrastructure spending? And maybe just a quick question on Fleet also is the recent weather in Texas. Could we see any impact on the Fleet business near term? Thanks.

Melissa D. Smith

Chairman & Chief Executive Officer, WEX, Inc.

A

Sure, so I'm going to answer your second question first, so it's top of mind. Where we did see weakness during the weather within the southern part of the States, and so that was reflected in Roberto's commentary there when he was giving a framework for what was going to happen in the first quarter. I was anticipating that, so we both expect that to have an impact in Fleet, but also in Health. We saw a little bit of an impact on consumers going out and spending money on their routine medical costs as a result of what was happening with the weather.

On the infrastructure spending question, we do think that there's a benefit to us. If you look across our customer categories, a big part of our North American Fleet business are in the construction trades, and that includes infrastructure type of trades. And so we do think that we would get a benefit of that.

Ashish Sabadra

Analyst, Deutsche Bank Securities, Inc.

Q

That's very helpful color. And maybe if I can just ask a quick question on the Corporate Payments side, obviously very strong momentum there. A lot of it is partner-driven. I was wondering if you could provide more color on your direct business, the Noventis acquisition. And how do we think about your ability to sell into your existing small business customer base? Thanks.

Melissa D. Smith

Chairman & Chief Executive Officer, WEX, Inc.

A

Sure. On the direct side, that actually really has where our primary focus has been, to cross-sell within our existing customer base. We have a relatively small sales force that has been executing against that. They've been doing well.

We have a primary customer. Their ability to cross-sell has been actually quite strong. So it's a place that we look at as an area that we may want to expand. But right now, it's the smaller part of where the corporate payments revenue is coming from. The larger part is coming from the partner channel.

Ashish Sabadra

Analyst, Deutsche Bank Securities, Inc.

Q

Thanks, Melissa, and congrats on the good results.

Operator: Your next question comes from Dave Koning with Baird. Your line is open.

David John Koning

Analyst, Robert W. Baird & Co., Inc.

Q

Hey, guys. Thank you. I just wanted to dig in a little more. I think you said revenue up zero to 2% sequentially. Is that right, first of all?

Roberto Simon

Chief Financial Officer, WEX, Inc.

That's correct, compared to the fourth quarter results, yes.

A

David John Koning

Analyst, Robert W. Baird & Co., Inc.

And so I guess my question is, I would have thought normally Health is seasonally strong in Q1 from what I remember. And then you have the full quarter of eNett/Optal coming on as well. So it seems like those two are going to provide just alone much better than zero to 2% growth to the total company. And then Fleet, you have fuel prices getting better too, so I'm wondering. Is something in core in Fleet going down, or is there something else in the core business that's coming down sequentially that I'm just missing when I think through that?

Q

Roberto Simon

Chief Financial Officer, WEX, Inc.

I will start with Fleet. So the Fleet fuel prices last year in the first quarter were \$2.57. And what we gave you today is year to date is \$2.55. So from a fuel price point of view, when we get to the end of the quarter, it's going to be probably breakeven. Obviously, as Melissa has shared and we have shared in the presentation, the volumes are still down in Fleet. So when you put the Fleet, everything together, you are not going to see an improvement sequentially.

A

And obviously on the Travel and Corporate Payments side, so you also have seen the progress in the volumes. We have very strong Corporate Payment volume growth on the first six weeks. But the Travel is still being impacted from the first quarter of last year, and we are still down on the 60%. So when you put all the pieces together and what we are seeing, the zero to 2% improvement sequentially, we believe it's the right guidance if we want to call, but we feel good with that. And obviously, that continues to improve now from where we were in Q3, Q4, and getting into the first quarter of 2021.

David John Koning

Analyst, Robert W. Baird & Co., Inc.

Okay, good enough. Thank you. And then just my follow-up on Healthcare, I think you said up 8% to 12% for the year. How much of that is from the acquisition? And does the acquisition just hit the yield on accounts? And maybe how much does that yield go up? How much should we think for that?

Q

Roberto Simon

Chief Financial Officer, WEX, Inc.

So the acquisition, as Melissa said, is not going to have a material impact, neither in revenue nor in ANI. Yes, it's going to be accretive, but it's going to be small. And it's not going to change the number of accounts that we have because we were managing. We were reporting already all the accounts.

A

What it's giving us is what Melissa said. It's going to give us a much greater opportunity as we think in the future from an economic point of view. And for the customers and our customers, it's going to be better because we are going to be managing everything with them.

David John Koning

Analyst, Robert W. Baird & Co., Inc.

Got you, great. Thanks, guys, nice job.

Q

Operator: I would now like to turn the call back over to Steve Elder for closing remarks.

Steven Alan Elder

Senior Vice President-Global Investor Relations, WEX, Inc.

I just wanted to thank everyone once again for listening to the call this morning, and we'll look forward to updating you again in a couple months after our first quarter results.

Operator: This concludes today's conference call. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.