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Earnings Call

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	9

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Presentation

Operator

Thank you for standing by, and welcome to the WEX First Quarter 2026 Earnings Conference Call.

[Operator Instructions]

I'd now like to turn the call over to Steve Elder, Senior Vice President of Investor Relations. You may begin.

Steven Alan Elder

Senior Vice President of Global Investor Relations

Thank you, operator, and good morning, everyone. With me today are Melissa Smith, our Chair and CEO; and Jagtar Narula, our CFO. The press release and supplemental materials issued yesterday and a slide deck to walk through prepared remarks have been posted to the Investor Relations section of the website at wexinc.com. A copy of the press release and supplemental materials have been included in an 8-K filed with the SEC yesterday afternoon.

As a reminder, we will be discussing non-GAAP metrics, specifically adjusted net income, which we sometimes refer to as ANI, adjusted net income per diluted share, adjusted operating income and related margin as well as adjusted free cash flow during our call. Please see Exhibit 1 of the press release for an explanation and reconciliation of these non-GAAP measures. The company provides revenue guidance on a GAAP basis and earnings guidance on a non-GAAP basis due to the uncertainty and the indeterminate amount of certain elements that are included in reported GAAP earnings.

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 the press release, the supplemental materials and the risk factors identified in the most recently filed annual report on Form 10-K and subsequent quarterly reports on Form 10-Q and other 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.

Melissa D. Smith

Chairman of the Board, President & CEO

Thank you, Steve, and good morning, everyone. We appreciate you joining us. The first quarter marked a strong start to the year for WEX. We exceeded the high end of our guidance range for both revenue and adjusted net income per diluted share, and we did that with strong execution across the organization. After record revenue and adjusted net income per diluted share in 2025, we continue to build on our momentum in the first quarter of 2026.

Revenue for the quarter was \$673.8 million, an increase of 5.8% year-over-year. Excluding fuel prices and foreign exchange, revenue grew 5.4%, which was above the midpoint of our prior guidance. Adjusted net income per diluted share was \$4.15, up 18.2% year-over-year. Excluding fuel prices and foreign exchange, adjusted EPS grew 19.4%. Importantly, these results were not driven by just one segment.

Benefits and Corporate Payments continued to perform well, and we delivered better-than-expected results in mobility amid a still challenging market. We're seeing the benefits of our scale, our increasing productivity and the strength of WEX's operating model. At WEX, we simplify the business of running a business. Every day, our customers manage payments and workflows that are complex, regulated and mission-critical. Too often, they still have to stitch together disconnected systems across spending, payments, reimbursement, reporting and controls. That makes decisions slower, oversight harder and risk

more difficult to manage. That complexity is only increasing, and that's exactly why we believe WEX is well positioned to thrive.

What makes our model powerful is that across mobility, benefits and corporate payments, our businesses share common technology, data, compliance and financial infrastructure, including WEX Bank. That allows us to uniquely solve customer problems in vertically specialized ways while also scaling capabilities across the enterprise. It is why our strategy is focused on the customer and driven by 3 priorities: amplify our core, expanding our reach and accelerating innovation. The work we've done over several years to strengthen that shared operating foundation is translating into tangible business results.

In 2025, we increased product innovation velocity by more than 50%. And in 2026, we are focused on converting that velocity into better experiences and outcomes for our customers and stronger productivity growth and operating leverage for WEX. A large part of our accelerated product innovation is being driven by AI, which is helping us in 2 ways. First, it enables us to deliver better products and make smarter and faster decisions. We're able to use our data, workflows and domain expertise to improve things like claims, spend visibility, service, credit and payment outcomes. Second is helping us redesign how things get done inside WEX by both automating routine work and improving speed and accuracy, allowing our teams to focus on higher value decisions for customers.

AI is not a separate initiative, but something that is being integrated into our operations to improve customer outcomes and increase efficiency. In 2026, we plan to deliver \$50 million in cost-saving actions, including savings from automation and modernization with a portion of the proceeds to be reinvested in the business and the remainder to flow through to margins.

Let me spend a few minutes on the momentum we're seeing across the business and how that momentum reflects the strategy we are executing, starting with mobility. Within mobility, which represents roughly half of our revenue, we are executing well and delivering improved results even as the market and macroeconomic environment remains challenging. While our outlook does not anticipate a macro recovery, we are making progress in the areas we can control: pricing, sales productivity, product expansion and customer execution. That strong execution is reflected in our financial results in the first quarter.

Mobility revenue increased 3.2% year-over-year. Higher U.S. fuel prices were a tailwind, but that benefit was offset by international fuel spreads. Payment processing transactions were down 3%, so this is not a story of the market suddenly snapping back. Rather, it's a story of improving execution. We are closely monitoring energy price volatility related to the Middle East conflict. At this point, we have not seen a meaningful impact on customer demand or volumes in mobility.

We are seeing a small impact to travel volume trends leading into the second quarter that we are reflecting in our guidance. We are confident in the progress of our growth levers. We're encouraged by the early traction in 10-4 by WEX, where we are growing active users and have earned very high ratings in both the Apple and Google App Stores. This product expands our reach into a large and underpenetrated part of the market while creating a path to deepen relationships over time.

Lastly, on mobility, I'm proud of our team for completing the complex BP conversion, which will create a small benefit in the second quarter. Most importantly, it solidifies the BP contribution we expect in the second half of 2026 and into 2027.

As a reminder, we won this important contract from the strength of our enhanced acceptance product. Let me now shift to Benefits, which represents approximately 30% of our revenue. In Benefits, our momentum continued during the first quarter. We came through a strong open enrollment season, and that positioned us well for the remainder of the year. Benefits revenue increased 8.5% in the quarter.

HSA accounts on our platform were up 8% year-over-year to 9.4 million HSA accounts in Q1. Here, WEX Bank continues to be an important differentiator, allowing us to earn attractive yields on HSA assets. Benefits is one of the clearest examples of how our technology investments are creating value for customers. We've talked before about our early results in reducing claims reimbursement times by more than 98%, and we continue to increase integration and automation across the platform. We are leveraging technology to create better customer and partner experiences and drive durable growth.

Finally, let me turn to Corporate Payments, which represents approximately 20% of our revenue. Corporate Payments revenue increased 9.3% in the quarter. In Corporate Payments, we are strengthening the core while continuing to expand the reach of the business across industries, geographies and workflows. We continue to bring in new customers onto our platform, and our pipeline is building momentum.

We're excited to announce today that we entered into a long-term renewal with a large and strategically important travel customer. This renewal reinforces the value proposition of our platform, reliability, compliance, workflow integration and the ability to handle complex payment flows at scale. Consistent with what we said on our fourth quarter call, the economics of the renewal are already contemplated in our guidance and are fully reflected in our Q1 results.

At the same time, we continue to see progress outside of travel. Our direct accounts payable solution leverages our corporate payments platform and has focused on the underserved mid-market, enabling it to deliver outsized growth. Direct accounts payable purchase volume increased in line with last quarter, and this book of business represents approximately 20% of annual segment sales.

Broadening our opportunity set outside of travel represents attractive long-term growth opportunities for the segment. We entered 2026 with momentum, and our first quarter results reinforce that our strategy is working. In the third quarter of last year, I mentioned we had reached an inflection point. Since then, we have seen both revenue and adjusted EPS grow as we illustrate on Slide 5 of our earnings presentation. This momentum is driven by the strength of our pipeline, improving productivity and from the pace of product innovation.

Our investments over the last several years are producing results, and we are now moving to a phase of scaling those investments to deliver increasing operating leverage and drive meaningful margin expansion over time. We are combining our increased efficiency and scale with a disciplined capital allocation framework.

As we illustrate on Slide 14 of our earnings presentation today, our returns on invested capital have been increasing on a NOPAT basis as a result of our strong execution and thoughtful capital deployment. As the environment has changed, we have shifted our capital allocation priorities accordingly, pivoting from accretive M&A to share repurchases. Today, we are prioritizing debt reduction until our leverage ratio is below 3x while continuing to invest in the business.

I know some of you may have questions regarding the proxy contest. I will be discussing this in more detail with our Lead Independent Director designee, Dave Foss, during a webcast fireside chat on Monday, April 27. I hope you will be able to join us for that discussion. In the meantime, you can read more about our strategy and progress and our thoughts on the proxy contest in the comprehensive investor presentation that we have published on our Investor Relations website last week.

With that, I'll turn it over to Jagtar to walk through our financial performance and updated outlook in more detail. Jagtar?

Jagtar Narula
Chief Financial Officer

Thank you, Melissa, and good morning, everyone. Before I begin, I want to remind you that unless otherwise noted, all comparisons are year-over-year. We delivered solid revenue growth and strong earnings performance in the first quarter while continuing to build momentum and strengthen the operational foundation that positions us for accelerating growth and profitability in 2026.

Total revenue in the quarter was \$673.8 million, up 5.8% and above the top end of the guidance range we provided last quarter. The impact of foreign exchange rates and fuel prices increased revenue growth by 0.4%. Excluding these macro impacts, revenue was slightly above the midpoint of the guidance range we provided last quarter. Adjusted earnings per share was \$4.15, an increase of 18.2%, partially offset by a decrease of 1.2% related to the net negative impact from fuel prices and foreign exchange rates. Excluding these macro impacts, adjusted EPS was above the high end of the guidance range we provided in February.

Let me walk you through the macro impacts in the quarter in more detail and how they may have deviated from your expectations given the sensitivities we provide. There are 3 key things to remember when we talk about sensitivities and fuel price guidance, especially in periods of high price volatility like we saw in Q1.

First, the European market we operate in tends to move opposite of our U.S. fuel price exposure. Extreme price volatility in Q1 led to an unfavorable \$7.6 million revenue impact from these spread movements that offset the favorable \$5.5 million revenue impact from U.S. fuel prices. Second, the sensitivity we provide assumes that gasoline and diesel prices move in tandem.

In Q1, diesel prices moved much higher than unleaded gasoline prices, so the sensitivity was not as accurate. Our OTR customers primarily buy diesel fuel, where our revenue stream is more tied to fixed fees per transaction. Our local customers are primarily buying unleaded gasoline, which is predominantly tied to percentage-based fees and is therefore more sensitive to changes in fuel prices. When there is a large disconnect in the price between diesel and unleaded gasoline, as we saw in Q1, the sensitivity is less accurate.

Finally, there is a timing factor with late fees in our sensitivities. As we recognize late fee revenue, it is based on balances in prior months at prior fuel prices. This means when prices rise rapidly, the benefit to late fees will trail by about a month. Overall, we did not see the fuel price impact that we would have normally expected in Q1 because of the very sudden increase in the timing at the end of the quarter.

However, we are confident that we will see this normalize as we anticipate fuel price volatility levels out for the remainder of the year. One last point on the macro is regarding FX. We also had a favorable \$5.1 million revenue impact from FX gains in the quarter. Overall, this was a very noisy quarter in the macro. But the real story is a solid performance across the business that is positioning us well for the remainder of 2026.

Before I move on to the segments, I want to update you on our sales and marketing efforts broadly, where we are seeing encouraging results. In the first quarter, new business added about 1% to our revenue growth rates versus last year. Our returns are coming in as planned, and we continue to expect new business growth to outpace this year.

Turning now to the segments. Mobility revenue increased 3.2%, driven by our strategic initiatives taking hold and a small benefit of 0.2% related to fuel prices and changes in foreign exchange rates. This exceeded our expectations and demonstrates the momentum we're building through both new sales and pricing increases that you can see [Technical Difficulty] processing rate was 1.23%, a decrease of 10 basis points sequentially. The sequential decrease in the net interchange rate is due primarily to the impact of European market movements, which I mentioned earlier and the higher fuel price in the U.S.

As a reminder, last year gallons in OTR were pulled forward into Q1 due to tariff worries, which created a tougher comp for Q1 this year that we were able to overcome. I would add that on local fleet side of the business, we also saw a quarter-over-quarter improvement in same-store sales, which is another encouraging sign.

In our Benefits segment, total revenue of \$216.2 million rose 8.5%, reflecting the strong open enrollment season Melissa mentioned earlier. Overall, SaaS account growth was 3.8% in the quarter. While this was slightly lower than what we guided, it was due to shutting down a noncore product that was not delivering the returns we expected that added a 2% drag to account growth in the quarter. The impact is immaterial to both revenue and income.

Importantly, this deliberate action aligns with our strategic focus to amplify our core by investing in products that deliver appropriate returns for the business. The Benefits segment continues to capitalize on both the scale we have built and the value derived from our investment portfolio at WEX Bank, which allows us to deliver industry-leading returns on our HSA assets. Average HSA custodial cash assets grew 11.8% in the quarter and custodial investment revenue grew 14.2%. HSA accounts also grew 8%, as Melissa noted earlier. Overall, we are very pleased with the performance of the segment.

Finally, in Corporate Payments, revenue of \$113 million increased 9.3% at the high end of our expectations with our net interchange rate expanding 3 basis points year-over-year. Purchase volume also increased 3.6%, reflecting continued strength in our travel customers. Travel-related revenue grew approximately 12% in the quarter, supported by the strength of our partnerships. Revenue from non-travel customers grew in the mid-single digits.

Within that, our direct AP business grew in line with Q4. We are still in early innings here. And while there is higher volatility in growth rates given the size of the portfolio, seasonal trends from customers and impacts of legacy businesses included in the mix, we remain excited by the long-term opportunity.

Moving to margins. Year-over-year, Q1 adjusted operating income margin declined 50 basis points, driven primarily by an increase in credit losses from 12 basis points to 19 basis points within the range we guided you to last quarter. Normalizing for the unfavorable 200 basis point impact of higher credit loss and fuel price differences, our adjusted operating margin would have expanded 130 basis points as a result of efficiency gains through technology and AI, pricing actions and the operating leverage we are seeing from higher organic growth via the investments we have made in innovation in 2025.

For 2026, we are expecting margin expansion of approximately 75 basis points on a macro-neutral basis, and that is embedded in the midpoint of our guide. With that, let me transition to the balance sheet. WEX is a business that generates strong recurring revenue, which in turn produces reliable free cash flow. On a trailing 12-month basis, we have generated \$671 million of adjusted free cash flow, a 14% increase over the same period last year. This is a strength in all periods, but especially in times of economic uncertainty, it gives us significant capital deployment optionality.

We also benefit significantly from WEX Bank, which provides low-cost funding through deposits and Federal Home Loan bank lines. It's important to note that the bank gives us lower cost of funding versus alternatives such as securitizing our receivables. In addition, as we've mentioned before, WEX Bank also helps us drive higher yields in our HSA assets through its investment portfolio. Touching on leverage. We ended Q1 with a leverage ratio of 3.1x, flat from the end of Q4 as expected and within our long-term range of 2.5x to 3.5x. We remain on trajectory to reach the midpoint of our leverage range in the second half of the year.

Let me shift to capital allocation, a focus of every investment decision we make at WEX. Each step of our disciplined capital allocation process is grounded by a clear objective to maximize long-term shareholder value and every investment decision we make is weighted against returning capital to our shareholders, including internal investments in our segments. As we think about deploying capital externally through M&A or share repurchases, we start by prioritizing a safe and strong balance sheet as measured by maintaining leverage ratio below the midpoint of our target range at 3x. Because of that, we expect to continue to reduce leverage through Q2.

While M&A is not at the forefront today, we will assess opportunities that strengthen our strategic position. I also want to point you to our new disclosure on return on invested capital that Melissa mentioned earlier. We calculate this by looking at our equity and corporate debt, excluding working capital funding at WEX Bank that includes deposits and borrowings from the Federal Home Loan Bank against our net operating income after tax.

We exclude WEX Bank for ROIC because its funding sources aren't comparable to operating capital. As Melissa mentioned, we are very pleased to see this important metric continue to improve. You can find more detail on the calculation in the earnings presentation we posted today.

One final point on capital allocation. Our strategy remains consistent, and you should expect any excess cash from higher fuel prices to drop through to reduce leverage near term.

Now let's move to earnings guidance for the second quarter and the full year. In Q2, we expect to generate revenue in the range of \$727 million to \$747 million. We expect adjusted net income EPS to be between \$4.93 and \$5.13 per diluted share. For the full year, we now expect to report revenue in the range of \$2.82 billion to \$2.88 billion. We expect adjusted net income EPS to be between \$18.95 and \$19.55 per diluted share. Compared to the midpoints of the previous ranges, these represent increases

of \$120 million in revenue and \$1.70 in EPS. You should think of these increases as largely driven by updating our fuel price assumption to \$4.30 per gallon in Q2 and \$3.70 per gallon for the full year.

Lastly, on the interest rate side, we are no longer assuming any rate cuts for the rest of the year in guidance. This change had an immaterial impact to full year guidance. In closing, our first quarter results underscore the strength of our diversified model and the discipline of our execution. We remain focused on executing our strategy to deliver results that drive sustainable long-term shareholder value.

With that, operator, please open the line for questions.

Question and Answer

Operator

[Operator Instructions]

Your first question comes from the line of Dave Koning from Baird.

David John Koning

Robert W. Baird & Co. Incorporated, Research Division

Good job. And when I look at probably the most important metric, right, the mobility acceleration was really good in the quarter. I mean, 3% growth on an organic constant currency, constant macro basis, best in 5 quarters. But you called out tariff impacts were still a headwind and some things are emerging. I guess I'm wondering between tariffs going away, BP coming on, late fees getting a lagged benefit, ISM getting better. Are all those kind of emerging benefits that growth actually accelerates from Q1 after a good Q1?

Melissa D. Smith

Chairman of the Board, President & CEO

Well, first of all, thank you. We're really proud of the execution we had in the quarter. And you're right, you're pointing to a bunch of factors. Last year, we had the pull forward, as you mentioned, that affected some of the growth rate comparisons in the over-the-road business. And we've rolled on BP. We've done a bunch of pricing work. We're feeling good about the trajectory that we're on.

When we actually contemplated the guide, we ran through the benefit we saw in the first quarter. And we've held the rest of the year to what we had previously guided. And I think that's really just more to reflect there's a lot of factors that are happening in the world right now, and we just want to be cautious about it. But you're right to point out, we have a number of really positive things that are going our way right now, and we feel really good about the trajectory we have of the business.

David John Koning

Robert W. Baird & Co. Incorporated, Research Division

And maybe just as a follow-up, Mobility's EBIT was actually down year-over-year. And I guess I'm wondering, is that mostly just sales and marketing? And maybe Jagtar could kind of put some numbers around it a little bit, like how much of that was simply sales and marketing going up and maybe core EBIT actually grew, but maybe talk through that a little bit.

Jagtar Narula

Chief Financial Officer

Yes, Dave. So the 2 pieces year-over-year are sales and marketing and credit losses. Remember, credit losses have gone up year-over-year in this segment. We talked a little bit about that last quarter on the Q4 call. It was related to some kind of new offers we had put in the market and tested, pulled those offers away, but we saw higher credit losses coming through associated with them, which is why we pulled the offers away, but we saw that roll through in the quarter. That actually added about 2 percentage points to, as Melissa, I think, mentioned in the prepared remarks, about 200 basis points to margin impact -- operating margin impact in the quarter.

So if you adjust for that piece, margins would have actually been up quarter-to-quarter for the -- sorry, I'm talking about for the company. For the Mobility segment, it was about 360 basis points in the segment. So if you adjusted for that, you would have been roughly flat year-over-year.

Operator

Your next question comes from the line of Ramsey El-Assal from Cantor Fitzgerald.

Ramsey Clark El-Assal

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Cantor Fitzgerald & Co., Research Division

I have 2 questions I'll ask both at once. Both of them are about fuel prices. I guess the first one is, are you seeing any downstream impact on -- or do you anticipate any downstream impact on credit performance because of higher fuel prices? Are you seeing that pressuring your customers in any notable way?

And then the second part of the question is just what are you seeing in terms of fuel spreads as we enter the second quarter here? I was a little surprised that spreads were as impactful as they were given that's a smaller part of your business. I'm just curious, are spreads settling down? Or is there still a risk that you could see some fuel spread volatility that impacts -- offset some of the benefit of higher retail prices, if that makes sense?

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. Let me start with the first part of your question. In 2022, we actually had fuel prices were just under \$4.50. So we've seen spikes in fuel prices before -- we're not seeing it impact credit quality, but we are paying attention to that. And actually, we're not seeing it affect customer behavior patterns with the exception of the fact we see people more interested in ways to create efficiency, and we think that's drawing them into our tools. We certainly see more demand for our 10-4 product, and so we've seen really strong demand for that.

So on the kind of the fringe, you'd see more behavior patterns where they're looking for efficiency, but not really having much of an impact overall in the portfolio.

And then the spread question. I can start with that. But like spreads -- so you know our business in Europe operates off spreads. It's the predominant model there. When you have rapid changes in prices is when you actually see these kind of meaningful changes in spreads because it was such a rapid movement and it happened so fast in the first quarter, it had a sizable impact in Q1. We expect the rest of the year in the way that the fuel prices were forecasting that we're not going to have a similar type of thing.

And just to kind of note, when we snap fuel prices, as you might guess, they've been moving around quite a bit. And so we took kind of a mid view of the futures curve, knowing that it's been moving up and down, we took kind of the midpoint.

Operator

Your next question comes from the line of Mihir Bhatia from Bank of America.

Mihir Bhatia

BofA Securities, Research Division

Maybe I just want to start with adjusted operating margin and just understand exactly what is embedded in your guide for the year on adjusted operating margin relative to last year?

Jagtar Narula

Chief Financial Officer

So we're expecting for the year, adjusted margins to increase about 130 basis points. A piece of that is the fuel price change that we made in the current quarter for the full year. So if you exclude the fuel price impact, you're getting about a 75 basis point improvement in operating income margin for the full year.

Mihir Bhatia

BofA Securities, Research Division

Got it. That's helpful. And then just sticking with mobility, you had the -- and the organic growth, right? You had 3% organic growth year-over-year. Can you talk about some of the factors that are driving that? Was it -- because transactions are still down. You obviously have the interchange effect this year. So what is driving the organic growth? Is it -- and then just related to that, like as we think about the next few quarters, what should the interchange rate? Should it bounce back up? Like is the fuel price impact -- are

we through that like the European spreads impact? Will that reverse in 2Q? I think that was 6 of the 10 basis points decline. Like what's a good interchange rate to think about for the rest of the year?

Melissa D. Smith

Chairman of the Board, President & CEO

Okay. I'm going to start. When we think about managing the business, we think about new customers we're bringing on, retention rates, as well as pricing. So if you look at the mobility business itself, Jagtar talked about the fact we saw a 1% increase in new sales coming through. So new sales are better and take across the portfolio, but also in mobility, driven by the work we did in our sales and marketing investments, you can actually see that coming through pretty rapidly.

The second thing, retention looks similar than it did last year. Pricing is up. And so pricing has had an impact -- a positive impact in revenue growth and probably the primary driver. And then the last thing, Jagtar mentioned that same-store sales improved slightly. It's still negative, but it is getting a little bit better, which is a positive, we think, for the course of the year.

Jagtar Narula

Chief Financial Officer

And then Mihir, I'll answer your question on the payment processing rate. So you're right, we did see a roughly 10 basis point reduction quarter-over-quarter from the market movement predominantly and then fuel price changes. So as we go into next quarter, you'll see the full quarter impact. So our interchange rate and fuel prices are inversely related because of the fixed fee component of how we charge customers.

So as you go into the second quarter, you'll get the full quarter impact of the higher fuel prices. So you should expect to see interchange rates roughly remain flat to the first quarter. And then as we go through the year, we were assuming that fuel prices decline as we go through the year in the third and fourth quarters, you'll start to see interchange rates start to rise again as fuel prices decline.

Operator

Your next question comes from the line of Rayna Kumar from Oppenheimer.

Rayna Kumar

Oppenheimer & Co. Inc., Research Division

So I just want to go back to Mobility for a second. So it obviously came in better than you were expecting. So I just want to understand exactly what came in better than you were anticipating? And how sustainable is that going forward?

Melissa D. Smith

Chairman of the Board, President & CEO

It was a little bit of everything as you go across, volume came in pretty much actually as we expected. Late fees were a little bit better and pricing was a little bit better. So it's a little bit across the portfolio that were slightly better than we expected.

Rayna Kumar

Oppenheimer & Co. Inc., Research Division

Understood. That's helpful. And then just on the Benefits segment operating margin, like what exactly drove that increase? And how sustainable is that expansion for the remainder of 2026?

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. Let me talk about operating margins just at a macro level, and I'm sure [indiscernible] right now. One of the things that Jagtar mentioned earlier is that if you look at our operating margins in the first quarter, reported they're down, and there was a really big impact on margins for the company because of credit

losses, which is a bit of a timing issue that will play out more favorably as you go through the course of the year.

But underneath that, there's 130 basis points of improvement in operating margin, which is really tied to the work we've been doing over the last few years around using AI to modernize the way that we're operating as a company. And you can see that really coming through benefits is a piece of that. But overall, we actually have 8% less employees at the end of '25 than we did at the end of 2023. And so we're really reimagining how work can get done. AI has been a huge tool that we're using associated with that. But we have a disproportional number of employees dedicated in our benefits business. And so that's part of why you actually see that benefit coming through and looking like it's quite scalable.

Jagtar Narula

Chief Financial Officer

And then Rayna, on your operating margin question as we go through the year, really, the impacts as we go through the year are really going to be related to rates. So while we are no longer assuming any rate reduction, the year-over-year compares will get more difficult as you go through the year, somewhat related to maturities in the portfolio and reinvestment. So you'll start to see some moderation of operating margin as you go through the year related to that. But we still feel pretty good about where we are as a company. I think we've been executing well, as Melissa mentioned.

Operator

Your next question comes from the line of Nate Svensson from Deutsche Bank.

Christopher Nathaniel Svensson

Deutsche Bank AG, Research Division

Hoping you could discuss pricing opportunities within the Mobility business. Clearly, lots of ongoing discussion about this. It sounds like we've seen hundreds of slides on that topic in the last couple of weeks. Melissa, I think you briefly alluded to pricing in your prepared remarks and a couple of the answers here in Q&A. So hoping you could just put a finer point around pricing, maybe both from a philosophical point of view, how you think about pricing generally and then more tactically, if and how you plan to improve pricing in mobility going forward?

Melissa D. Smith

Chairman of the Board, President & CEO

Yes, sure. So pricing is actually one of the levers that we've been using over the last decade, but certainly over the last few years. We had about \$70 million worth of pricing actions that we took in '24 and '25, more that are coming through this year. The way that we think about it is as we're looking at pricing, we're balancing the effect to customer attrition with pricing actions, and we look at both of those things to the extent that we can increase on price because of the value that we're providing to our customers and not create a customer attrition issue, we are doing that.

And we've done it in different ways. We've looked at our merchant contracts and renegotiated those. We've increased late fees and customer fees across the portfolio. And so it's really just an embedded part of how we operate now. But we've had actually some pretty sizable increases over the last 3 years.

Christopher Nathaniel Svensson

Deutsche Bank AG, Research Division

Yes. Helpful. The other thing I wanted to ask on in your prepared remarks, Melissa, you talked about the impact of travel on the guide for the rest of the year. So hoping for some more color on that. I think you have a few million dollars in quarterly revenue in corporate payments for Middle Eastern travel specifically. One, is that correct? Two, anything beyond that direct exposure that you're calling out either with regards to the impact for March numbers or, I guess, for the outlook for the rest of the year in 2Q and beyond?

Melissa D. Smith

Chairman of the Board, President & CEO

Well, you nailed it. So it really is Middle East travel that we're seeing soft. If you look at Q1, volume was very normal. If you look at our overall growth in corporate payments, we feel really good and travel volume growth was really quite strong across the portfolio. And so what we saw starting in April is that the Middle East corridor was starting to look softer. It's in the order of about \$3 million a quarter for us. We reflected that in our Q2 guide. And so we think it's a very narrow sliver of travel volume. But just to be thoughtful, it is a trend that we're seeing in the portfolio. The rest of the portfolio looks like it's operating as normal, and that's what we reflected in our guide.

Operator

Your next question comes from the line of Tien-Tsin Huang from JPMorgan.

Tien-Tsin Huang

JPMorgan Chase & Co, Research Division

Just a follow up on that last point there, Melissa and team. Just on the segment outlook, have that changed at all between Corporate Payments and Mobility given what you saw in April and the comments there?

Jagtar Narula

Chief Financial Officer

No, Tien-Tsin. I would say we're continue to hold to the guidance that we've sort of given earlier this year. We don't adjust sort of segment level guidance quarter-by-quarter. So we continue to maintain where we started the year.

Tien-Tsin Huang

JPMorgan Chase & Co, Research Division

Okay. Perfect. I just want to make sure. And then just I know the prior full year outlook embedded the \$50 million in the cost savings, some of which you said would be reinvested. So I'm curious, a quarter in now, has that investing -- have you started that process now? Has that changed at all in terms of magnitude or timing? I'm just trying to get a sense if that's creating a little bit of flexibility for you on the margin?

Melissa D. Smith

Chairman of the Board, President & CEO

The \$50 million hasn't changed. It's still embedded in our guidance. And actually, we've seen really good progress in that. And I'm going to point back to the fact that we saw 130 basis points of margin expansion in Q1, excluding some of the noise we have in credit losses. So all the work that we've done over the last few years, you're actually seeing that come through in terms of productivity across the organization, and it's reflecting in our numbers already. And we talked about the fact we're reinvesting a portion of that, but we're dropping through 75 basis points at the midpoint of our guide on a macro-neutral basis and to operating margin expansion.

So we talked about last year being this investment year, and we said that comes from this year being a scaling year and you can actually see the scale of the investments are coming through in revenue and the scale is coming through in our operating margin.

Tien-Tsin Huang

JPMorgan Chase & Co, Research Division

I know that was a focus for you Melissa.

Operator

Your next question comes from the line of Sanjay Sakhrani from KBW.

Sanjay Harkishin Sakhrani

Keefe, Bruyette, & Woods, Inc., Research Division

I guess first question is on Mobility. I think, Melissa, you said same-store sales still slightly negative. And I guess through the quarter and year-to-date, we've heard some like cautious optimism on over the road and it coming back. I'm just curious, is that what you guys see or hear? And like is that not just cycling through your numbers? Or is it just still quite volatile there? And then maybe just to tag along on that, David's first question talked about improving trends over the course of the year. Maybe you could just give us a little bit more on what's on the come as we move through the year?

Melissa D. Smith

Chairman of the Board, President & CEO

Sure. On the over-the-road marketplace, what we're hearing from our customers, the smaller customers are certainly getting pinched by fuel prices. On the positive side, they are seeing increases in spot rates. And so they're earning more as they're making deliveries, but that's really getting eaten up in large part by the increase in fuel prices. The mid and large customers are able to actually tack on fuel price surcharges and so are less impacted by the overall fuel price environment.

In general, there's been less operators in the marketplace. There have been more people that have left the market. And so that is creating an overall better environment in terms of just profitability of those who are surviving and thriving in this environment. And so we are seeing changes in the over-the-road market. We're not seeing a big increase in demand yet, which is when we will start to see more of a benefit, but we are seeing dynamics that are hopeful that at least make the marketplace look like it's improving from a financial perspective.

Jagtar Narula

Chief Financial Officer

And then, Sanjay, your question about growth trends. I'm not sure if you're referring specifically to the mobility of the total company. I'm assuming mobility. So I would say we expect kind of within what we've guided to. I'd say in the early part of the year, we expanded our factoring portfolio last year. We've gotten some growth benefit from that. We'll lap that as we go through the year. But other than that, the trends, as Melissa talked about, we're not assuming any change in the macroeconomic environment. So we're expecting the current trends to continue.

Sanjay Harkishin Sakhrani

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Maybe just one follow-up on travel. I think that weakness in April, you mentioned was sort of isolated to the Mid East. American Express talked about how they were seeing it more broadly and refunds were up. I'm just curious like if you guys haven't seen it now, some of that sort of factored into your outlook? And then just secondly, on the renewal of that large partner, I know it's in the guidance number. Is there any like take rate optics that we need to be thinking about? And is there a greater impact next year versus this year? I'm just curious, I just want to make sure we're tied on the optics of it.

Melissa D. Smith

Chairman of the Board, President & CEO

Yes, sure. Let me talk about that renewal. First of all, we're super excited. It's a renewal with a customer that we've been co-innovating with for years on embedded payments. I think it's just validation of the value prop that we have, the ability to do workflow integration have complicated payments at scale and have that industry expertise. It's a multiyear agreement and fully reflected in the first quarter results that should not have an incremental impact to next year. You see it -- it's already baked into the first quarter results.

In terms of like broader travel trends, I can tell you what we're seeing right now is very isolated in terms of the specific customers that we're working with that are seeing weakness are those that have exposure in the Middle East. So we're not seeing something that's broad-based across our portfolio right now. And so what we is some softness in that second quarter related to what we're seeing, but not broad softness because that is not what we're seeing right now.

Jagtar Narula*Chief Financial Officer*

Sanjay, your question -- so your question on take rates, I would kind of refer to what we talked about last quarter. We're expecting take rates for the year to be roughly flat to last year with some slightly down in travel, slightly down in non-travel, more mix of travel. And so all the dynamics of that renewal are baked into the guide we gave previously.

Operator

Your next question comes from the line of Madison Suhr from Raymond James.

Madison David Suhr*Raymond James & Associates, Inc., Research Division*

I wanted to start just on the SMB strategy. Just any color on SMB sales trends for the quarter? And I guess, bigger picture, how do you think about scaling that business over the medium term to become a bigger part of mobility?

Melissa D. Smith*Chairman of the Board, President & CEO*

So SMB is interesting because it's a relatively unpenetrated part of the marketplace. And so we've been on this multiyear journey to focus on it, first starting with our risk tools. We talked a couple of years ago about all the work we did adjusting the tools using AI and then went into marketing and really made changes in the way that we're marketing and adjusted the tools as well.

So we've had to do a lot of foundational work before we started going after this space, and we've seen really good results. The customers are coming in our LTV to CAC calculations are holding to what we expected them to, and we're monitoring the 2 key assumptions that come into this portfolio. It's what happens with credit and what happens with lifetime value of the accounts, and we continue to monitor those.

But so far, everything is actually coming in pretty much on the models. And so where we continue to focus is how we can refine the motions that we're making, learn about how we're bringing those customers in to become more efficient at that. And I would say we are having success of that each quarter. We get a little bit better and then continuing to scale the business. And that's in the North American mobility portfolio.

So we feel like we've got a good pipeline. That pipeline will continue to build. We're learning from it, and we're getting better.

And then the second part for us, when we thought about the small business arena, the 10-4 app that we rolled out last year, we rolled out really with that same idea as it's an underpenetrated part of the marketplace. These are owner operators that we're not going to extend credit to.

So they're not going to be capable of really buying into our core products, but we're exposing to them our discount network of fuel. So they're downloading an app, they're using that application to buy fuel at a discount, which is really important to them, particularly right now. They're saving money, having a good user experience. We're seeing those users come back month after month. And we think of that as a community that we can continue to build and then sell more into over time. And so we think a small business is an area that we can continue to build and mature and are seeing success so far.

Madison David Suhr*Raymond James & Associates, Inc., Research Division*

Okay. Awesome. And then I want to switch gears to the direct AP business. You mentioned volumes in line with 4Q at about 15%. So obviously, good to see some steady trends there. But hoping you could maybe just put a finer point on your expectations for volume growth there for the year and if double digits is still kind of the right way to think about it.

Melissa D. Smith

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Chairman of the Board, President & CEO

Yes. The AP Direct side, which is about 20% of the business, as you know, we're going after the mid-market. We've continued to build out the sales team there. It has operated really pretty much according to plan. And so those salespeople are bringing new customers, they implement actually quite rapidly. We're expecting through the course of the year to stay in that 15% range on the AP Direct spend volume. It's about 20% of the segment.

And then the other part of note, Jagtar mentioned the fact that there are some parts of the business in that -- in corporate payments that aren't growing as fast. Our FI business and our bill pay business are slower growers. And then we've been focused also on embedded payments outside of travel. We have had a number of customer signings. Those are longer implementations. So we expect that volume to be coming through more weighted to the second half of the year. So the net of all of that is you should expect outside of travel volume growing throughout the course of the year and more back-end weighted as the embedded payments customers kick in.

Operator

Your next question comes from the line of Daniel Krebs from Wolfe Research.

Daniel Krebs

Wolfe Research, LLC

This is Daniel on for Darrin. Just wanted to ask a quick one on the full year EPS guide. It seems like you chose not to pass through the 1Q beat and are only raising based on fuel prices. Could you maybe walk through that decision and any potential sources of conservatism you've embedded there?

Jagtar Narula

Chief Financial Officer

Daniel, that's actually incorrect. We passed through the 1Q beat. So I know what you're looking at. We passed through the first quarter beat as well as changes in fuel prices, FX, interest rates.

Daniel Krebs

Wolfe Research, LLC

Okay. Got it. I just saw raised by \$1.70 at the midpoint, and that was the fuel price adjustment as well. But I'll look into it...

Operator

Your next question comes from the line of Michael Infante from Morgan Stanley.

Michael Nicholas Infante

Morgan Stanley, Research Division

Just on the mobility same-store sales front, can you just provide a little bit more color on why local fleet same-store sales have been structurally weaker than OTR? And then given what I assume is an improving exit rate within mobility, what's your expectation on gallons and volumes from here? And does that spot rate improvement in the freight market sort of give you an opportunity to open up the credit box?

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. Actually, the same-store sales has both for OTR and North American mobility over the last quarter. So you're right, historically, the last probably a year [indiscernible] same-store sales were a little bit worse than OTR. And that's gotten a little bit better and OTR had gotten a little bit worse. And so those 2 things have kind of come in line.

When we think about -- as we build out to the course of the year, we will have a more positive comp next quarter in terms of volume because of the pull forward activity that's negatively affecting us this quarter.

And so we'd expect you'd see volume naturally get better because of that. And we are continuing to see strong sales. So that should help as well and the BP coming on. So all of those things should help build our transaction and gallon growth going from negative in the first quarter to moving to positive as you go through the year.

Michael Nicholas Infante

Morgan Stanley, Research Division

That's helpful. And then just a quick follow-up on benefits and some of the deposit economics. You obviously called out the deposit migration from the third-party banks. Can you just remind us on the differential in unit economics for sort of a dollar held at WEX Bank versus the third party and how much runway there still is for that migration?

Jagtar Narula

Chief Financial Officer

Yes. We will typically get about 50 to 100 basis points better if we move it from third-party banks to WEX Bank. We've got roughly -- I mean, we've moved a lot of the money that we expected to move over from third-party banks to WEX Bank. We still have kind of \$400 million-ish that's at third-party banks, but a lot of that is used for operational purposes. So I wouldn't expect sort of continued movement of that to be a tailwind for us for the rest of the year.

Operator

And that concludes our question-and-answer session. I will now turn the call back over to Steve Elder for closing remarks.

Steven Alan Elder

Senior Vice President of Global Investor Relations

Thank you, Rob. Just appreciate everyone's time today, and the company looks forward to chatting with you again at the end of the second quarter.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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