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Market Intelligence

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Earnings Call

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Presentation

Operator

Thank you for standing by, and welcome to the WEX Second Quarter 2026 Earnings Call. [Operator Instructions] I would now like to turn the call over to Pedro Alvarez, Head of Investor Relations. Sir, please go ahead.

Pedro Alvarez

Senior Vice President of Global Treasurer & Investor Relations

Thank you, operator, and good morning, everyone. With me today are Melissa Smith, our President and CEO; and Jagtar Narula, our CFO. The press release and supplemental materials issued yesterday and a slide deck to walk you 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.

Before we begin, unless otherwise noted, all comparisons discussed during today's call are on a year-over-year basis. 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 the exhibits of the press release and the earnings supplement 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 undetermined amount of certain elements that are included in reported GAAP earnings. I would also like to remind you that we will be discussing 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 our most recently filed annual report on Form 10-K and subsequent quarterly reports filed on Form 10-Q and other subsequent SEC filings.

While we may update forward-looking statements in the future, we disclaim any obligation 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

President, CEO & Director

Thank you, Pedro, and good morning, everyone. We appreciate you joining us. I'm going to start on Slide 4 of our earnings presentation today. The second quarter built on the momentum we established earlier this year. We exceeded the high end of our guidance range for both revenue and adjusted net income per diluted share. Excluding the beneficial impact of fuel prices and FX, we delivered on our expectations with strong execution across the organization. New sales momentum is building, and customers are increasingly focused on controlling expenses by leveraging our industry-leading platforms.

We are progressing across each of our strategic pillars and our organic investments are delivering. Our balance sheet remains strong with leverage back below 3x, and we are prioritizing our strong cash generation towards returning capital to shareholders in the near term. We are repurchasing shares on what we believe are attractive levels, reflecting our confidence in the plan and the value we see in our business and assets. There's a lot to be excited about as we look forward to the second half of the year.

In Corporate Payments, volume growth in our direct AP channel is expected to remain in the mid-teens after reaccelerating to 20% this quarter. In Benefits, our early sales pipeline for 2027 looks healthy, and we have real opportunities in our operations platform to be more efficient with AI. In Mobility, we're seeing a stabilization of transaction trends, near- and long-term pricing opportunities and ongoing opportunities to expand margins. Combined, these factors give us confidence in our investments, strategy and execution as we expect to exit the year within our long-term organic revenue growth range of 5% to 10%.

Let me walk you through the second quarter results and point you to Slide 5. Revenue for the quarter was \$753.5 million, an increase of 14.2%. Excluding fuel prices and foreign exchange, revenue grew 4.2%, which was at the midpoint of our guidance for the quarter. Adjusted net income per diluted share was \$5.35, up 35.4%. Excluding fuel prices and foreign exchange, adjusted EPS grew 10.1% at the high end of our guidance range, reinforcing our ability to leverage top line growth into even stronger earnings growth.

Cash flow remains a continued source of strength, and we generated \$696 million of adjusted free cash flow on a trailing 12-month basis. This allowed us to reduce leverage to 2.9x and resume share repurchases in the quarter ahead of schedule. Turning to Slide 6. Let me remind you of our 3 strategic pillars: amplify our core, expanding our reach and accelerating innovation. These pillars are the foundation that we believe will allow us to deliver sustainable and profitable growth over the long term while remaining laser-focused on our customers.

Each pillar is powered by organic investments, product development and the strength of our sales and marketing efforts. Let me take a moment to highlight how we are progressing against them as we pass the midpoint of the year on Slide 7. Our first pillar, amplifying our core centers on continuing to grow in our core markets by leveraging our strengths, which include proprietary data and technology tools, compliance and regulatory capabilities, including WEX Bank, deep industry expertise, advantaged positioning in the payments ecosystem, scale and deep customer and partner relationships.

Within this pillar, we're focused on executing across the business to delight our customers, accelerate growth and strengthen margins. We measure success by delivering on profitable new growth. In the first half of the year, we saw strong new sales to support this. For example, in Benefits, we're lining up a healthy early pipeline for 2027 after completing an excellent open enrollment season for 2026. In Mobility, we've been executing on fundamental priorities amid challenges in the macro environment. And in Corporate Payments, our pipeline is continuing to build momentum in our direct AP business.

There are 2 important points here. First, we're carefully looking at pricing levers across the portfolio. We plan to continue to thoughtfully execute on opportunities in the back half of the year, including new pricing actions in Mobility that we expect to result in \$15 million of additional revenue in 2026. Second, we're balancing those pricing actions with a focus on improving profitable retention across the business by proactively engaging with our customers to keep our value proposition at the forefront.

In Benefits, the first half of the year included 2 enhancements to our core offering driven by customer feedback. First, we introduced the WEX HRA for GLP-1 medications. This is a defined employer-funded benefit that sits outside the core health plan, giving employers greater flexibility and control over GLP-1 benefit costs while maintaining access to weight management options for employees. Additionally, we partnered with DoorDash to enable FSA and HSA participants to add their WEX Benefits cards directly to their DoorDash wallets, allowing them to use pretax dollars for eligible health essentials with same-day delivery.

This makes it easier for consumers to access eligible health care products when they need them while continuing to embed WEX into everyday use. Our second strategic pillar, expanding our reach empowers us to enter new markets where we have a clear right to win and where our differentiated assets allow us to create tangible value. This pillar is foundational to how we accelerate growth as a company, and we're investing in both product development and our go-to-market approach to move deeper into large and profitable markets with ample greenfield opportunities.

Let me touch on our non-travel business and Corporate Payments as a clear example. Within non-travel, we are focused on diversifying the business through both our direct AP offering and continuing to expand our industry-leading embedded payments virtual card offering outside of travel. These 2 growth vectors are core investment priorities in this segment. As I mentioned earlier, direct AP growth accelerated in the quarter and our embedded payments pipeline remains strong.

Outside of Corporate Payments, let me touch briefly on Mobility, where we continue to see success marketing to smaller fleets in our North American business, many of which do not currently have a fuel card solution. In our over-the-road business, 10-4 by WEX has seen significant user growth as fuel prices increased and operators look for easy-to-access fuel discounts. As a reminder, we have positioned 10-4

to play 2 roles to maximize our customer reach. It acts as an on-ramp for some customers to join the WEX platform in the future, but for fleets that are not interested in or not eligible for a fuel card product, it provides another way to monetize those relationships without taking on additional credit risk.

The last pillar in our strategic framework, accelerating innovation enables us to deliver better products at a faster pace while driving efficiency and operating leverage. Here, we focus on initiatives that transform what we offer our customers and how we run our business. This is a pillar I'm especially excited about because of the tremendous potential. We're leveraging customer feedback and AI to drive targeted new product and service development.

AI is deeply integrated in everything we do and has been for several years. We believe we are well positioned and ahead of the curve with a long history of proprietary data to fuel value-added client offerings. Turning to Slide 8, I'll touch on how we're progressing. A recent example of how we're accelerating innovation through AI is in Mobility, where a new premium offering, AI Insights, is currently in beta with customers. By combining WEX's proprietary transaction fleet and payment data with AI, we're delivering actionable recommendations that help customers proactively identify potential misuse, uncover savings opportunities, understand spending trends, coach driver behavior and improve fleet performance.

Our goal here is to help customers move from reactive reporting after an issue occurs to proactive decision-making powered by AI. Another area where our early investments in AI bore tangible fruit in the first half of the year was in our credit adjudication functions within Mobility. As fuel prices rose, credit demand increased across the business, and our AI-powered credit tools allowed us to make faster and smarter decisions for customers in the time of need. These tools allowed us to act quickly without increasing risk, and we saw those results in Q2.

We talked before about how AI is helping to process claims faster, power development and coding and empower our teams to work more efficiently. All of those trends are continuing. Looking ahead to the second half, we're going to continue to tackle parts of the business that would benefit most from automation. We're committed to delivering more than 100 basis points of macro-neutral margin expansion in the back half of the year as part of our plan to deliver 75 basis points for the full year.

To close on our strategic pillars, I'm proud of the work our teams are doing to position WEX for success now and in the future. Turning now to capital allocation on Slide 9. Our approach has not changed, and our near-term priorities reflect our clear focus on maximizing shareholder value. We're continuing to reinvest organically in our business by evaluating opportunities on a risk-adjusted returns basis to prioritize investments with the highest tangible accretion potential.

This includes continuing to strengthen our core offerings to maintain and grow our competitive advantages while also investing in new products and markets that will accelerate growth. Now that we have achieved our leverage goal of less than 3x and did so quicker than anticipated, we're in a stronger position to return more capital to shareholders. Given WEX's current multiple and our confidence in the long-term growth trajectory of our business, we are currently prioritizing buybacks.

In the near term, you should expect us to direct the vast majority of adjusted free cash flow to share repurchases while using the rest to delever, subject to notable changes in market conditions. Between May and July 20, we repurchased approximately \$93 million of shares, including approximately \$60 million during the second quarter. Finally, I want to briefly touch on our annual meeting in May. I want to take this opportunity to welcome our new Board members and reiterate that the full Board and management team are aligned with a singular focus on maximizing value at WEX.

We're moving forward with that unified purpose. This shared focus is reflected in how we manage the business every day. Our commitment to maximizing shareholder value includes routinely evaluating our portfolio and assessing the near- and long-term potential of each of our businesses and their component parts. This is an important piece of our annual strategic planning process, which is already underway and helps us allocate our resources to opportunities that create the most long-term value.

I'll close by saying that our results would not be possible without our employees. I want to thank our team for their hard work and commitment this quarter. Forbes recently recognized WEX as one of America's

Best Employers for company culture, and I believe that recognition reflects the talented team and strong culture that continue to power our strategy, innovation and customer impact.

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

Jagtar Narula

Chief Financial Officer

Thank you, Melissa, and good morning, everyone. We delivered both solid revenue and earnings growth in the second quarter, with each of our segments performing well. The momentum we've built in the first half of the year is a great start, and we expect it to continue into the second half as we remain focused on accelerating growth and operational efficiency. Total revenue in the quarter was \$753.5 million, up 14.2% 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 10%.

Excluding those macro impacts, revenue was at the midpoint of the guidance range we provided last quarter. Adjusted earnings per share was \$5.35, an increase of 35.4% with 25.4% of that growth driven by the impact of fuel prices and foreign exchange rates. Excluding those factors, adjusted EPS was at the top end of the guidance range we provided last quarter.

I'll add that we restarted repurchasing shares during the quarter and brought back approximately \$60 million in shares that added about \$0.01 to Q2 EPS. Repurchases continued in July and through the 20th, we have repurchased another approximately \$33 million. Moving on to margins. Q2 adjusted operating margin increased approximately 280 basis points, driven primarily by the increase in fuel prices in the quarter.

Credit losses increased from 13.5 basis points to 16 basis points, better than the range we guided you to last quarter. Our expectations from here are that we will see year-over-year margin improvement of more than 100 basis points in the back half of the year on a macro-neutral basis as part of the plan to hit 75 basis points for the full year, and we've embedded that into our guidance. Let me now walk you through the segments.

Starting with Mobility, which delivered a very strong quarter. Revenue increased 22% or 3.1%, excluding FX and PPG. We're pleased to report that the BP portfolio was fully online this quarter following a successful migration. Lower late fee instances reduced growth slightly by approximately 1%, we believe, due in part to changes in customer behavior. We found customers adapting their payment behavior in light of high fuel prices that resulted in larger invoices. Overall, this behavior change was more than offset by the significant fuel price tailwinds in the quarter.

Continuation of this behavior is contemplated in our guidance, and we expect it to be offset by both planned second half pricing changes and continued momentum in the business. We're also encouraged to report that payment processing transactions were flat year-over-year and increased 6.8% sequentially, which is another encouraging indicator of improving activity in the underlying segment.

Touching on credit performance. Credit losses were better than we expected. We planned for loss rates to decline throughout the year, and we're seeing that positive trend slightly faster than we expected. As a reminder, Q2 includes provision increases due to the higher fuel prices driving higher loss dollars per instance. To close Mobility, we are very pleased by the results we delivered this quarter. We are also encouraged to see the supply side recovery taking hold in the trucking sector. This has increased trucking spot rates, which has helped truckers manage the impact of higher fuel prices while also helping revenue in our factoring business and credit overall.

However, as the supply side has improved, the demand side, which impacts our volumes, is still constrained by broader economic conditions. We remain focused on executing on the things we can control and are well positioned to benefit from the future demand side recovery in the trucking sector. In our Benefits segment, total revenue of \$206 million rose 5.6%, reflecting the strong open enrollment season Melissa mentioned earlier. Overall, SaaS account growth was 2.2% in the quarter, in line with expectations and reflecting a difficult comparison as we lap the addition of the large UAW portfolio in the second quarter

of last year, along with the impact of the previously disclosed Q1 account closures, which were immaterial to both revenue and income.

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 11.1% in the quarter and custodial investment revenue grew 11.4%. HSA accounts also grew 7%. Overall, we are very pleased with the performance of the segment.

Moving on to Corporate Payments. Revenue of \$125.1 million increased 5.8% at the high end of our expectations with our net interchange rate expanding 5 basis points. Total travel volume increased 6.4%, and we're seeing continued strength in our travel customers despite the uncertainty associated with higher fuel prices and the Middle East conflict. Segment purchase volume declined 3.6%, primarily due to quarter-to-quarter timing of travel volumes from a large OTA customer.

As a reminder, 2/3 of revenue from our travel business sits outside of our top 5 OTAs. Beyond our travel business, we continue to see healthy pipelines from both our non-travel embedded payments and direct AP businesses. Growing these products is part of our strategy to accelerate growth by expanding our reach into new markets. As Melissa mentioned earlier, volume growth in our direct AP business reaccelerated to 20% this quarter and is expected to continue to grow in the mid-teens for the remainder of the year.

Direct AP today contributes approximately 20% to segment revenue. 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 \$696 million of adjusted free cash flow, a 22% increase. Our ability to generate strong cash flow across market cycles gives us significant capital deployment capacity. 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 closed Q2 with a leverage ratio of 2.9x, placing us inside our target range of 2.5 to 3x. Let me add a few points to what Melissa talked about earlier regarding 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 weighed against returning capital to our shareholders, including internal investments in our segments.

As Melissa noted, we expect to return the vast majority of our adjusted free cash flow to shareholders in the near term through share repurchases. We believe this is currently the best use of free cash flow we are generating after organic investments. To be clear, we remain committed to operating within our 2.5 to 3x leverage range target given the strength and durability of our cash flow, and we'll continue to apply a returns-based rigor to our share repurchase activity.

Should market conditions notably change, we will adapt our strategy accordingly. Now let's move to earnings guidance for the third quarter and the full year. In Q3, we expect to generate revenue in the range of \$733 million to \$753 million. We expect adjusted net income EPS to be between \$5.45 and \$5.65 per diluted share. For the full year, we now expect to report revenue in the range of \$2.86 billion to \$2.9 billion. We expect adjusted net income EPS to be between \$19.68 and \$20.08 per diluted share.

Compared to the midpoints of the previous ranges, these represent increases of \$32 million in revenue and \$0.63 in EPS. These increases are largely driven by the outperformance in Q2, share repurchases in the quarter and higher fuel price assumptions for Q3 and the full year. On the interest rate side, we are not assuming any changes for the rest of the year. On an ex-macro basis, we're expecting to exit the year within our long-term organic revenue growth range of 5% to 10%. Lastly, consistent with our past practice, we are not factoring the impact of share repurchases beyond Q2 into our guidance. As I noted, we expect to return the vast majority of adjusted free cash flow through repurchases in the near term that would provide an additional tailwind to EPS in the back half of the year with the magnitude depending on timing.

In closing, we are pleased with our performance in the second quarter and the momentum we are seeing across the business. As we enter the second half of the year, we remain focused on disciplined execution, thoughtful capital allocation and continuing to drive long-term value for our shareholders. With that, operator, please open the line for questions.

Question and Answer

Operator

[Operator Instructions]

Your first question comes from the line of Sanjay Sakhrani with KBW.

Sanjay Harkishin Sakhrani

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

Melissa, maybe you could talk a little bit about some of the green shoots we see in the trucking indices like the Cass Freight Index. I know, Jagtar, you mentioned you guys saw some improvement there. But maybe you could just talk about how that's progressing and if that's been factored into your expectations for the year.

Melissa D. Smith

President, CEO & Director

Sure. Thanks, Sanjay. If you look across the business, one of the things that I want you to keep in mind is our over-the-road business, we represent the whole segment. So really large over-the-road customers as well as some of those mid-market businesses. And so what we've seen is this really nice recovery on the supply side. We've talked about the fact that there's been an oversupply in the space, and that's really worked its way through.

And so what we're seeing is that the larger customers in our base are benefiting from that because they're picking up volume from some of the people that have left the marketplace. But overall, we're not seeing more miles driven. So the way that's coming through in our business right now is that it's a pickup in rates, particularly in the factoring business, which is a really small part of what we do.

Better credit losses are flowing through, which is a combination of the work we've done on the risk side, but also the fact that we're seeing better quality customers in the marketplace, but we're not seeing that impact volume. And so as we've given our guidance for the year, we've assumed that this kind of macro state that we're in right now that that's going to continue through the end of the year and that we're not going to see a rebound. And so to the extent we do, then that's upside to us.

Sanjay Harkishin Sakhrani

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

Okay. Great. And then that's great news on the buybacks. I'm just curious, maybe, Jagtar, you can help in terms of free cash flow conversion. Like how should we think about if sort of free cash flow is a marker for how much you'd consider buying back, obviously, to delever as well. Maybe you could just give us some sense of what those numbers look like as we progress annually?

Jagtar Narula

Chief Financial Officer

Yes. So we typically generate around \$600 million to \$650 million of free cash flow annually, Sanjay, a little bit more weighted to Q2 through Q4. And it generally closely tracks adjusted net income. So that's the right way to think about it.

Sanjay Harkishin Sakhrani

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

Okay. Wonderful. And then as far as like delevering, like sort of what would your needs be in terms of delevering from here?

Jagtar Narula

Chief Financial Officer

Yes. Like I said in my prepared remarks, the vast majority of our adjusted free cash flow is going to go to share buybacks. We'll use a modest amount for deleveraging. And really there, what we're doing is we know fuel prices are an elevated state right now. We know that they're going to decline. And so we just want to do some slight deleveraging, so we're in a position to continue buybacks as fuel prices come down. But the vast majority will really go towards buybacks.

Operator

Your next question comes from the line of David Koning with Baird.

David John Koning

Robert W. Baird & Co. Incorporated, Research Division

In the Corporate Payments business, the vast majority of revenue is driven by volume and yield. Volume was down 4%, like you mentioned, but yield was up really nicely. And just wondering, I think we're past a lot of the volume headwinds or the client headwinds from the past. So it seems like we're in a normalized environment, I believe. But does the volume get better? And then maybe what happens with the yield in coming quarters, just so we kind of understand the balance.

Melissa D. Smith

President, CEO & Director

Yes. So there's a couple of things that are happening within the quarter. We talked about one in the prepared remarks that we had one of our larger OTA customers that we know and we feel very confident on the volume of the year, but they moved some of the volume from the second quarter into the second half of the year. So some of that's just timing.

The second one, we talked about another contract that's been in place for a while that we're getting paid minimums, associated with that, so that's affecting volume as well. Those 2 things combined had about a 5% impact in volume from what would have been normal for us in the quarter. And what we benefited from -- we don't talk about that a lot, but 2/3 of our travel business in terms of revenue are customers that are outside of the top 5 OTAs.

And so we've gotten a benefit from just rate mix as a result of who's spending in the course of the quarter. And I would encourage you to look at total volume, too, not just look at funded volume because we've had more of the business move into that unfunded model. The way that we're tracking about it, is thinking about it in totality.

Jagtar Narula

Chief Financial Officer

And then just -- just to add a little bit. So from a rate perspective, we would expect -- because as we expect volumes to increase in the back half of the year, purchase volumes we'll see kind of high single-digit to low double-digit rates. And that we would expect the rate to dip slightly as a result of predominantly mix as we move more embedded and more travel customers. We get more travel volume in the third quarter that affects rate and more volume will affect rates. That's really mix related.

David John Koning

Robert W. Baird & Co. Incorporated, Research Division

Got you. Yes. No, that's good to hear on volumes. And then as my follow-up, just in Mobility, growth was stable on a constant macro basis, but BP helped a little. So underlying, it seems like slightly decelerated. So maybe just talk through that. And then in the back half, it seems like you probably get a 2% lift or re-acceleration from pricing just based on the \$15 million you described. Is that all about right?

Melissa D. Smith

President, CEO & Director

Yes. Let me start. I'm sure Jagtar will pile in here, too. But if you look at the business, and you're talking about it sequentially, also look at transaction growth. We went from negative 2% to just slightly positive

in the quarter. About half of that was related to BP, but the other half was related to the pickup that we're seeing from the investments that we've made. So you're seeing that actually translate into incremental volume growth.

The revenue, as Jagtar was talking about, was impacted based on late fee behavior sequentially. So as fuel prices went up, we saw our customers pay more frequently. Those customers who tended to be slightly late paid on time. And that had a couple of point negative impact on the segment for the quarter. Jagtar said this earlier, but overall, if you think about we're a net benefactor of what happened with fuel prices. So yes, we had this negative on customer behavior. But overall, we had a really big positive within the segment, which allowed us to buy back stock sooner.

Jagtar Narula

Chief Financial Officer

Yes, David, just to add in here is the way to think about it. So just what Melissa said, the late fee was about a 1% drag to the total company, 2% to the segment from what we would have expected on a normalized basis and impacted by fuel prices. And the way to think about it is if you look at late fees in the second quarter of last year versus the second quarter of this year, fuel prices increased about 40% to 45%. And our late fees are really pegged off of fuel prices. So you would have expected as a starting point, comparable increases in late fees and the delta between what we saw and actuals is really the instance drag that we saw.

Operator

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

Tien-Tsin Huang

JPMorgan Chase & Co, Research Division

Nice to talk to you. Just on the comment on accelerating organic growth to exit the year at 5% to 10%. Can you just go through the visibility into that? David did mention it, it sounds like pricing is a piece of it. What are the other big factors to that acceleration?

Melissa D. Smith

President, CEO & Director

Sure. I think it's an important question. So thanks, Tien-Tsin. We have done a number of things. And so we're really thinking about all the high-quality actions that we've taken throughout the course of this year that we think are going to continue to pay dividends as we roll through the year. First of all, in Mobility, you talked about one of those things, which is pricing. So we have put in place already notified customers of some pricing actions that we're going to make, which will bring \$15 million in the second half of the year.

In addition to that, we've stabilized the volume trends in part because we're seeing the benefits of the investments we've made coming through in new sales. We've got the BP conversion that's coming through. And so all of those things are leading us to have confidence within what's happening with the Mobility segment as you go through the course of the next 2 quarters. And then within Corporate Payments, the places we've been making investments, which are the embedded payments outside of travel and AP Direct, we are seeing really strong growth in our pipelines and embedded payments, and those are starting to convert into revenue as well as really strong volume and revenue growth in our AP Direct offerings.

Those are going to become a bigger part of the segment and we will continue to build over time. So we feel really good about what we're doing there. And then Benefits so far, still early, but the pipeline for 2027 continues to look really healthy. And we take all of those things give us a lot of confidence around how we're going to exit the year and be in that 5% to 10% range.

And the fact that it's coming from across all 3 segments. And then I think on top of that, you're starting to see the scale that we have. We had talked about this year being a scaling year, and you're starting to see that operating leverage coming through. And that allows us to compound this incremental revenue growth

that we're seeing with earnings leverage. You combine that with the fact that we've got the ability to buy back stock, it's really exiting the year in a pretty good spot.

Tien-Tsin Huang

JPMorgan Chase & Co, Research Division

Perfect. I know you've been focusing on organic growth. You mentioned leverage. So my second question was on just the incremental margins in that Corporate Payments business. It was quite high there. I heard some of the details of the travel, the Direct AP, et cetera. But anything unusual that's driving that step-up in the incremental margin in the second quarter? And how should we consider second half? Because it does seem like it's running on the higher side margin-wise?

Melissa D. Smith

President, CEO & Director

Yes, it's really strong. So 2 things happened in the second quarter. The first was the fact that we've talked about as we see incremental volume coming through that, that actually is a positive, and we saw rate positivity, particularly in this quarter. That's flowing through is really high drop-through. And then on top of that, we had some credit losses a year ago that is giving us a benefit when you're looking year-over-year in the comp. But we do expect to continue to have strong margins through the rest of the year.

Operator

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

Christopher Nathaniel Svensson

Deutsche Bank AG, Research Division

Nice to hear about the pricing in Mobility. I did want to ask on another topic within that segment. I think in the prepared remarks, you were talking about the 120,000 customers that have seen proactive credit limit increases due to higher fuel prices. I was wondering if you could talk more about the credit box maybe beyond the impacts of the fluctuation in fuel prices.

Is there more opportunity to continue expanding the credit box regardless of how fuel prices trend? Is there enough positive momentum in the health of your end customers? Or is there more you need to see before you start to contemplate that?

Melissa D. Smith

President, CEO & Director

There are 2 pieces of how we're thinking about that. The first for us is when I talked about this kind of automated tool that we have, this AI tool. What that's doing is going through it and extending higher credit to the highest credit quality customers that we have. And so it's really connected into our risk models and going through the mechanics of increasing credit lines when you see these big fluctuations in fuel prices.

And the reverse is true, we see a declining in fuel prices. The second part is more of the art where our risk teams are working with our commercial teams to more surgically go through and extend credit. And that's an active engagement that's happening. And it's really tied into ultimately the financial models.

So as we bring a customer in, we're monitoring how each of those portfolios performing. That's feeding back into the marketing tools that are deciding which customers we want to go after, but also in the credit decisions we're making. So that's a long-winded way of saying the immediate easier parts, we did very quickly and the next level of changes we've been working through systematically across the portfolio.

Christopher Nathaniel Svensson

Deutsche Bank AG, Research Division

Understood. The other question I had was just on direct AP volumes. So it was nice to see growth reaccelerate there to 20%. I think you mentioned the expectation for maybe mid-teens for the rest of the year. So maybe 2 questions around direct AP.

So one, just kind of a qualitative update on some of the success you're seeing there, kind of where you're winning accounts maybe outside of travel, like you were talking about where you're going to keep investing, et cetera. And then the second part of that, maybe more for Jagtar, I think some of the slowdown in growth that you had seen in the past couple of quarters was related to lapping some seasonal volumes from larger OTR customers that are within the Direct AP. So I'm wondering if you can kind of disaggregate what is -- what of that reacceleration is coming from better underlying growth versus these lapping dynamics? Any help there would be helpful.

Melissa D. Smith

President, CEO & Director

Sure. Sure. So we had -- when we put our guide out at the beginning of the year, we said we expected to have that mid-teens growth in volume with our AP Direct product. And so we're essentially saying the second half of the year, we're going to continue with that expectation. We -- the places that we're seeing benefit -- first, kudos to our sales team. I think they're doing a great job out there bringing new customers, but we also have been using a tool that helps us -- it's an AI-based tool that helps us with lead generation.

We piloted that in our Corporate Payments business. It's been going really well, and we're starting to roll that out through other parts of the company. That's a piece of the success that we saw in the second quarter as well as we're doing an even better job of identification of leads. I wouldn't say that there's any particular vertical in that product offering because what we're doing is fulfilling an AP file on behalf of our customers kind of -- part of what we're able to do is make that offering to pretty much any type of customer.

And so we have not had a vertical specialist across the places that we're selling. On the embedded payment side, though, that we tend to have more verticals that we're going after. And in particular, we've been looking at other fintechs as well as people who are in need of making a payment as kind of a subsection of their business. It may be part of their business model or it could be something that they want to create financial benefit by adding it into their business model. And so that tends to have a little bit more of a vertical focus and particularly with the fintech community.

Jagtar Narula

Chief Financial Officer

And then, Nate, on the second part of your question. So I would say the split on the growth that we're seeing in the direct AP business was split roughly 1/3 of the growth is coming from OTR and 2/3 is coming from new business. So on the OTR side, you're correct. We saw a little lightness last year we've seen kind of spend acceleration, volume acceleration from a couple of big clients.

So that was a good outcome in the quarter. And then as you recall, we've invested in new business development. We hired more salespeople last year, and they've ramped up over the course of last year and into this year. And we've seen good new business generation coming out of that ramp. And that's really what the other 2/3 of the growth year-over-year is. And so we're quite pleased with that because that's coming in at very good volumes, very good rates. And as you saw from the credit loss results, very good performance metrics that's dropping through well to the bottom line.

Operator

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

Madison David Suhr

Raymond James & Associates, Inc., Research Division

I wanted to start in the Mobility business just at a very high level. I'm curious, are higher fuel prices driving any acceleration in the sales pipeline for fuel cards, particularly for SMB customers who may be looking to try to offset higher fuel costs and historically have not used fuel cards?

Melissa D. Smith

President, CEO & Director

It's an interesting question because we've historically not seen a high correlation between those 2 things. The one place that we are seeing much more demand is -- we talked about our 10-4 product that's in the marketplace. And so 10-4 allows the owner-operator that tends to be smaller fleets access to our discount network, and that has certainly benefited from interest of those type of customers that are looking for fuel discounts.

But in general, I would say the products that we have outside of 10-4 work in pretty much any environment. So there's a slight uptick. But as fuel prices have been lower, we also see demand. So there really isn't as much of a correlation as you might expect.

Madison David Suhr

Raymond James & Associates, Inc., Research Division

Okay. Interesting. And then just a follow-up. I did want to ask on the large OTA customer that went through a business model transition. Obviously, we've lapped those changes for a few quarters, and that customer now sits outside of purchase volume. But I was hoping you could just touch on how that relationship is progressing. And maybe any high-level color you can give in terms of how you're growing with that customer now that the business model transition has occurred.

Melissa D. Smith

President, CEO & Director

Sure, sure. We have a great relationship with that customer. It's one of the places where we've been working with them we had talked about this a year ago, but we've been actively working on other areas of the world where they have same needs that we can establish the compliance requirements to actually issue and settle in those countries.

And so we've been actively working together in Brazil as one of those examples. In addition, we've been looking at other places within their model that we can meet their needs and have found some of those areas. So I'd say, overall, it's been a real partnership in the respect that continue to support their base needs, but in addition, look for places where we can actually provide services that are helpful to them. And we've seen some of the benefit of that come through.

Operator

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

Michael Nicholas Infante

Morgan Stanley, Research Division

I just wanted to ask from a competitive perspective, what are you seeing with respect to your key competitor that has seemingly been targeting some of your middle market customers? And then secondly, as full-service fleet management companies increasingly expand within the middle market, how should we be thinking about any potential impact on unit economics and where you sit relative to the fleet management company and how that might impact take rates?

Melissa D. Smith

President, CEO & Director

Sure, sure. So I would describe this has been a competitive environment for a long time. The places that we really emphasize is around our closed-loop proprietary network. And what that enables us to do is create higher quality tools for our customers and manage misuse, help them optimize the decisions that they're making.

It's part of what we're leaning into with this new AI product that we're putting into the marketplace that we have in a beta form right now. And if you look at where we sit, we have a lot of customers that sit in that very large end of the marketplace. We have quite a few in mid-market. But also if you look across our portfolio, we have a number of small accounts. And like on average, our customer is about a 15-vehicle fleet.

And some of that comes through the relationships that we have with our co-branded partners. And so we see competition kind of across all those categories, including the mid-market. We've been keenly focused on retention in that space, continue to grow in that space. As well as growth in the small end of the marketplace, which we have seen come through. And it's part of why you're seeing a pickup sequentially in our transaction volume is the fact those places we've been paying attention have been yielding positive results.

Michael Nicholas Infante

Morgan Stanley, Research Division

That's helpful, Melissa. And then Jagtar, maybe just a quick follow-up for you on the Benefits business. The average SaaS account growth is around 2%. I think when I sort of back out the UAW drag and sort of how you were previously communicating that segment, I guess, was that sort of in line with your expectations? I know there was a competitor that's obviously investing heavily in the partner channel that was acquired recently. So I'm just curious what might be impacting account growth beyond UAW and if you expect that 2% figure to accelerate throughout the balance of the year?

Jagtar Narula

Chief Financial Officer

Yes. Thanks for the question, Michael. So it was in line with our expectations. So there was a couple of things I think we communicated last quarter. The first one was the UAW point that you mentioned, and that was about 150 basis point quarter-over-quarter drag in account growth. And then we also talked about the closure of some low-value accounts that we closed. I think I said something in my prepared remarks that really didn't impact revenue, but it did impact the account number, and that was about a 200 basis point drag as well.

So once you net those things out, the account growth really did do what we expected. Now we generally expect accounts to increase here modestly over the course of the year. So we will see some increase both on an absolute and a slight percentage basis. And then obviously, we're busy into the selling season, getting ready for the open enrollment period for next year.

Operator

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

Mihir Bhatia

BofA Securities, Research Division

I wanted to start with Mobility. And look, I hear you that trends have improved, and we see that, right, in Mobility, whether it's transactions, local fleets, OTR, trends are certainly improving. Yet Mobility volumes, I think, have generally remained a little below what some of the external trucking metrics or indicators would suggest. You talked a little bit about supply side looking better and demand side improvement still to come.

I guess what I would like to understand is, is there anything beyond that? Are there any specific weaknesses in certain sectors, customer segments where you may be a little over-indexed versus what like some of the bigger freight indices would be reporting. Just trying to understand that disconnect a little bit more. And really, what I think a lot of people are trying to understand is, do current trends reflect only end market weakness? Or is there a share movement story under the hood? Like to put it bluntly, like is WEX gaining share, holding share or losing share in Mobility today?

Melissa D. Smith

President, CEO & Director

Yes. Yes. That's a good question. And let me talk about the over-the-road business because you're kind of -- you're zeroing on that. In the over-the-road business, what we have seen is -- and again, I'll point back to we do business across many different segments in the over-the-road space. It's not just kind of the large accounts. And so what we've seen is that those large accounts are benefiting from the fact that you've had more supply leave the marketplace.

And so again, to held there -- and even with the smaller customers, Spot rates have improved. And so that customer base is healthier than it has been. What we're not seeing is on the demand side across more miles driven, meaning that housing starts and manufacturing numbers and all the things that actually drive total goods getting moved hasn't improved. And so we're not seeing that translate into additional volume.

But what we do is look across that portfolio compared to -- in this case, there are a few people that control the truck stop networks where people fuel. And so we have some pretty good insight in what's happening to our volume trends compared to those, and we feel very confident that we continue to take market share in that spaces.

In the North American Mobility business, we continue to see some same-store sales weakness that I would say is pretty consistent -- sorry, across the portfolio. And so the fact that we are seeing benefit of new customers coming in is largely getting offset by a combination of those same-store sales weakness and just normal attrition that we see across the portfolio. So net of all of that, I would say, across the business, we feel really confident, and we have much more insight in the over-the-road space that we are actually continuing to take market share.

Mihir Bhatia

BofA Securities, Research Division

Got it. That's quite helpful. Maybe switching gears a little bit to margins. I think you called out 100 basis points or more than 100 basis points of macro-neutral margin expansion in the back half. You've also talked about the growing AI-driven efficiencies across the organization. Maybe just take a step back and take a little bit of a big picture view, maybe a couple of years down the line as you look beyond 2026. Do you see a path towards a structurally different margin profile for WEX over the next several years? Like are we going to continue to see continued margin improvements from here?

Melissa D. Smith

President, CEO & Director

It's a great question and one that we talk about a lot. If you look at our headcount actually over the last few years, we're actually down in FTEs from 2023. So we've grown revenue, and we have actually reduced our number of employees. And so we continue to believe that there are ways that we can use AI to create margin expansion across the enterprise.

And we've seen the benefit of that so far in our development and product teams. We have been really proactively working across our operations areas, which are places that we do believe that you can create even better customer experiences at lower cost. And we've got some pretty good evidence of that, although a lot of those are still in early stages. And so we do believe that there's benefit that is already accreting into the margins that we're projecting this year and will continue to accrete into the future. So yes, we do believe that, that will be a big part of the margin expansion story that we're going to have going forward.

Operator

Your next question comes from the line of Darrin Peller with Wolfe Research.

Darrin David Peller

Wolfe Research, LLC

Can we just clarify a little bit more on the Mobility segment for a minute and just to follow up. I'm trying to understand what the puts and takes are versus first quarter specifically. I understand you saw about a 2-point headwind to revenues from lower-than-expected late fees. But just from our math, it looks like year-over-year revenue growth decelerated sequentially, excluding late fees and even with some of the transaction growth accelerating a little bit. So was this just because of less miles -- the less miles driven dynamic? Or any other color would be helpful.

Jagtar Narula

Chief Financial Officer

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Yes. Darrin, really, as I mentioned earlier, I mean, it really was late fee driven. Late fees was a sort of 2-point drag to the segment. So if I look at what we got out of the second quarter, 3 points of growth, about 1 point of it was pricing, point was BP and a point was sort of underlying growth in the business. So the underlying growth was kind of doing what we expected. And really, the drag came out of late fees.

Darrin David Peller

Wolfe Research, LLC

Okay. All right. We'll have to follow up a little more on it. All right. And then just when we look at the Corporate Payment side, I just want to ask you more of an industry dynamic. Virtual card acceptance, obviously, it's become a larger debate, just changes by Meta and Amazon. Any other -- any broader changes in acceptance behavior you're seeing? Is there any potential impact embedded in your outlook for this? Or does it even need to be? Just maybe a little bit more color on the underlying dynamics and drivers of that piece of the business.

Melissa D. Smith

President, CEO & Director

Yes. So this has been -- it's been an industry conversation for a number of years. We do see in very small parts of our business where you have issues with vendor suppression, and that's been true for a long time. It's a minor to us compared to other companies in part because a lot of the applications where we're using virtual card payments are to merchants that are quite accustomed to receiving a credit payment or debit payment depending on the case.

But they're used to paying interchange. And so for us, the places that we will see it, we have a smaller bill pay business, come through there occasionally. We also see it occasionally with our AP Direct business. It is something we've factored into our guidance. It's not for us been a big headwind in any given period of time. But I think that has as much to do with the type of customers that we have and the mix within our portfolio.

Operator

That concludes our question-and-answer session. I will now turn the call back over to Pedro Alvarez for closing remarks.

Pedro Alvarez

Senior Vice President of Global Treasurer & Investor Relations

Thank you. We'd like to thank everyone for your time and participation in today's call. I'm available afterwards for any questions you may have that we didn't get to. Thank you very much, and have a great day.

Operator

Ladies and gentlemen, this concludes today's call. Thank you all for joining. You may now disconnect.

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