WEX Inc.
Form 10-K
March 18, 2019
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10–K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission file number 001–32426

WEX INC.
(Exact name of registrant as specified in its charter)

Delaware	01–0526993
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Hancock Street Portland, Maine	04101
(Address of principal executive offices)	(Zip Code)

(207) 773-8171
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
þ Yes ¨ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
¨ Yes þ No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
þ Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S–T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
þ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S–K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10–K or any amendment to this Form 10–K.
¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b–2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b–2 of the Act).
¨ Yes þ No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant (assuming for the purpose of this calculation, but without conceding, that all directors, officers and any 10 percent or greater stockholders are affiliates of the registrant) as of June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was $8,124,602,298 (based on the closing price of the registrant's common stock on that date as reported on the New York Stock Exchange).

There were 43,135,385 shares of the registrant's common stock outstanding as of March 12, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2019 Annual Meeting of Stockholders are incorporated by reference in Part III. With the exception of the sections of the 2019 Proxy Statement specifically incorporated herein by reference, the 2019 Proxy Statement is not deemed to be filed as part of the 10–K.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Unless otherwise indicated or required by the context, the terms “we,” “us,” “our,” “WEX,” or the “Company,” in this Annual Report on Form 10–K mean WEX Inc. and all of its subsidiaries that are consolidated under Generally Accepted Accounting Principles in the United States.

FORWARD–LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for statements that are forward-looking and are not statements of historical facts. This Annual Report includes forward-looking statements including, but not limited to, statements about management’s plan and goals, and the “Strategy” section of this Annual Report in Item 1. Any statements in this Annual Report that are not statements of historical facts are forward-looking statements. When used in this Annual Report, the words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “pla and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. Forward-looking statements relate to our future plans, objectives, expectations and intentions and are not historical facts and accordingly involve known and unknown risks and uncertainties and other factors that may cause the actual results or performance to be materially different from future results or performance expressed or implied by these forward-looking statements. The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Annual Report and in oral statements made by our authorized officers:

- the effects of general economic conditions on fueling patterns as well as payment and transaction processing activity;
- the impact of foreign currency exchange rates on the Company’s operations, revenue and income;
- changes in interest rates;
- the impact of fluctuations in fuel prices;
- the effects of the Company’s business expansion and acquisition efforts;
- potential adverse changes to business or employee relationships, including those resulting from the completion of an acquisition;
- competitive responses to any acquisitions;
- uncertainty of the expected financial performance of the combined operations following completion of an acquisition;
- the ability to successfully integrate the Company’s acquisitions;
- the ability to realize anticipated synergies and cost savings;
- unexpected costs, charges or expenses resulting from an acquisition;
- the Company’s failure to successfully acquire, integrate, operate and expand commercial fuel card programs;
- the failure of corporate investments to result in anticipated strategic value;
- the impact and size of credit losses;
- the impact of changes to the Company’s credit standards;
- breaches of the Company’s technology systems or those of our third-party service providers and any resulting negative impact on our reputation, liabilities or relationships with customers or merchants;
- the Company’s failure to maintain or renew key commercial agreements;
- failure to expand the Company’s technological capabilities and service offerings as rapidly as the Company’s competitors;
- failure to successfully implement the Company’s information technology strategies and capabilities in connection with its technology outsourcing and insourcing arrangements and any resulting cost associated with that failure;
- the actions of regulatory bodies, including banking and securities regulators, or possible changes in banking or financial regulations impacting the Company’s industrial bank, the Company as the corporate parent or other subsidiaries or affiliates;
- the impact of the material weaknesses disclosed in Item 9A of the Company's annual report on Form 10-K for the year ended December 31, 2018 and the effects of the Company's investigation and remediation efforts in connection with certain immaterial errors in the financial statements of our Brazilian subsidiary;
- the impact of the Company’s outstanding notes on its operations;
- the impact of increased leverage on the Company’s operations, results or borrowing capacity generally, and as a result of acquisitions specifically;
- the incurrence of impairment charges if our assessment of the fair value of certain of our reporting units changes;

- the uncertainties of litigation; as well as
- other risks and uncertainties identified in Item 1A of this Annual Report and in connection with such forward-looking statements.

Our forward-looking statements and these factors do not reflect the potential future impact of any alliance, merger, acquisition, disposition or stock repurchases. The forward-looking statements speak only as of the date of the initial filing of this Annual Report and undue reliance should not be placed on these statements. We disclaim any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

Table of Contents

ACRONYMS AND ABBREVIATIONS

The acronyms and abbreviations identified below are used in this Annual Report including the accompanying consolidated financial statements and the notes thereto. The following is provided to aid the reader and provide a reference point when reviewing the Annual Report:

2013 Credit Agreement	Amended and restated credit agreement entered into on January 18, 2013 by and among the Company and certain of our subsidiaries, as borrowers, and WEX Card Holdings Australia Pty Ltd., as specified designated borrower, with a lending syndicate.
2014 Credit Agreement	Second amended and restated credit agreement entered into on August 22, 2014, by and among the Company and certain of its subsidiaries, as borrowers, WEX Card Holding Australia Pty Ltd., as designated borrower, and Bank of America, N.A., as administrative agent on behalf of consenting lenders.
2016 Credit Agreement	Credit agreement entered into on July 1, 2016 by and among the Company and certain of its subsidiaries, as borrowers, WEX Card Holding Australia Pty Ltd., as designated borrower, and Bank of America, N.A., as administrative agent on behalf of the lenders.
2017 Tax Act	2017 Tax Cuts and Jobs Act
Adjusted Net Income or ANI	A non-GAAP measure that adjusts net income attributable to shareholders to exclude unrealized gains and losses on financial instruments, net foreign currency remeasurement gains and losses, acquisition-related ticking fees, acquisition-related intangible amortization, other acquisition and divestiture related items, stock-based compensation, restructuring and other costs, impairment charges and asset write-offs, gain on divestiture, a one-time vendor settlement, debt restructuring and debt issuance cost amortization, non-cash adjustments related to tax receivable agreement, adjustments attributed to our non-controlling interest and certain tax related items.
AOC	AOC Solutions and one of its affiliate companies, 3Delta Systems, Inc.
ASC	Accounting Standards Codification
ASU 2014–09	Accounting Standards Update No. 2014–09 Revenue from Contracts with Customers (Topic 606)
ASU 2016–01	Accounting Standards Update No. 2016–01 Financial Instruments–Overall (Subtopic 825–10): Recognition and Measurement of Financial Assets and Financial Liabilities
ASU 2016–02	Accounting Standards Update No. 2016–02 Leases (Topic 842)
ASU 2016–09	Accounting Standards Update No. 2016–09 Compensation–Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting
ASU 2016–13	Accounting Standards Update No. 2016–13 Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments
ASU 2016–18	Accounting Standards Update No. 2016–18 Statement of Cash Flows (Topic 230): Restricted Cash
ASU 2017–04	Accounting Standards Update 2017–04–Intangibles–Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment
ASU 2017–07	Accounting Standards Update 2017–07 Compensation–Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost
ASU 2018–15	Accounting Standards Update No. 2018–15 Intangibles–Goodwill and Other–Internal-Use Software (Subtopic 350–40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract
Australian Securitization Subsidiary	Southern Cross WEX 2015-1 Trust, a special purpose entity consolidated by the Company
Average expenditure per payment processing transaction	Average total dollars of spend in a funded fuel transaction
Benaissance	

	Benaissance, a provider of integrated SaaS technologies and services for healthcare premium billing, payment and workflow management, acquired by the Company on November 18, 2015.
CDH	Consumer-directed healthcare
Company	WEX Inc. and all entities included in the consolidated financial statements
CFPB	Consumer Financial Protection Bureau
Discovery Benefits	Discovery Benefits, Inc.
EBITDA	A non-GAAP measure that adjusts income before income taxes to exclude interest, depreciation and amortization
EFS	Electronic Funds Source, LLC, a provider of customized corporate payment solutions for fleet and corporate customers with a focus on the large and mid-sized over-the-road fleets. On July 1, 2016, the Company acquired WP Mustang Topco LLC, the indirect parent of Electronic Funds Source, LLC and Warburg Pincus Private Equity XI (Lexington), LLC, an affiliated entity, from investment funds affiliated with Warburg Pincus LLC.
European Fleet business	European commercial fleet card portfolio acquired from ExxonMobil
European Securitization Subsidiary	Gorham Trade Finance B.V., a special purpose entity consolidated by the Company
Evolution1	EB Holdings Corp. and its subsidiaries which includes Evolution1, Inc., acquired by the Company on July 16, 2014
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FRA	Federal Reserve Act
FSA	Flexible Spending Accounts
GAAP	Generally Accepted Accounting Principles in the United States

Table of Contents

GILTI	Global Intangible Low Taxed Income
HRA	Health Reimbursement Arrangements
HSA	Health Savings Accounts
ICS	Insured Cash Sweep
Indenture	The Notes were issued pursuant to an indenture dated as of January 30, 2013 among the Company, the guarantors listed therein, and The Bank of New York Mellon Trust Company, N.A., as trustee
NCI	Non-controlling interest
NOL	Net operating loss
Notes	$400 million senior notes with a 4.75% fixed rate, issued on January 30, 2013
NYSE	New York Stock Exchange
OFAC	The United States Treasury's Office of Foreign Assets Control
Over-the-road	Typically heavy trucks traveling long distances
Payment solutions purchase volume	Total amount paid by customers for transactions
Payment processing transactions	Funded payment transactions where the Company maintains the receivable for total purchase
SaaS	Software-as-a-service
SEC	Securities and Exchange Commission
Segment adjusted operating income	A non-GAAP measure that adjusts operating income to exclude specified items that the Company's management excludes in evaluating segment performance, including acquisition and divestiture related expenses and adjustments including the acquisition related intangible amortization, impairment charges and asset write-offs, the expense associated with stock-based compensation, restructuring and other costs, debt restructuring costs, gain on divestitures, a vendor settlement and unallocated corporate expenses.
Ticking fees	A fee incurred by a borrower to compensate the lender for maintaining a commitment of funds for the prospective borrower for a period of time
Total fuel transactions	Total of transaction processing and payment processing transactions of our Fleet Solutions segment
Transaction processing transactions	Unfunded payment transactions where the Company is the processor and only has receivables for the processing fee
UNIK	UNIK S.A., the Company's Brazilian subsidiary, which has been subsequently branded WEX Latin America
Utah DFI	Utah Department of Financial Institutions
VCN	Virtual card number
VPN	Virtual private network
WEX	WEX Inc.
WEX Europe Services	Consists primarily of our European Fleet business acquired by the Company from ExxonMobil on December 1, 2014
WEX Health	Evolution1 and Benaissance, collectively

PART I

ITEM 1. BUSINESS

Our Company

WEX Inc. is a global leader in payment solutions, which began operations in 1983 as a Maine corporation where we continue to be headquartered. Over the past 35 years, we have simplified the complexities of payment systems across continents and industries. We incorporated in Delaware on February 16, 2005 (NYSE:WEX).

We currently operate in three business segments: Fleet Solutions, Travel and Corporate Solutions, and Health and Employee Benefit Solutions, which are described in more detail below. The Company's U.S. operations include WEX Inc. and our wholly-owned subsidiaries WEX Bank, WEX FleetOne, EFS and WEX Health. Our international operations include our wholly-owned operations, WEX Fuel Cards Australia, WEX Prepaid Cards Australia, WEX Canada, WEX New Zealand, WEX Asia, WEX Europe Limited, UNIK and a controlling interest in WEX Europe Services Limited and its subsidiaries.

WEX Bank, a Utah industrial bank incorporated in 1998, is a FDIC insured depository institution. The functions performed at WEX Bank contribute to the U.S. and Canadian operations of Fleet Solutions and the majority of operations of Travel and Corporate Solutions by providing a funding mechanism, among other services. With our ownership of WEX Bank, we have access to low-cost sources of capital. WEX Bank raises capital primarily through the issuance of brokered deposit accounts and provides the financing and makes credit decisions that enable the Fleet Solutions and Travel and Corporate Solutions segments to extend credit to customers. WEX Bank approves customer applications, maintains appropriate credit lines for each customer, is the account issuer, and is the counterparty for the customer relationships for most of our programs in the U.S. Operations such as sales, marketing, merchant relations, customer service, software development and IT are performed as a service within our organization

Table of Contents

but outside of WEX Bank. WEX Bank's primary regulators are Utah DFI and the FDIC. The activities performed by WEX Bank are integrated into the operations of our Fleet Solutions and Travel and Corporate Solutions segments.

Developments

Our growth in the past several years has been primarily organic, supplemented by acquisitions in each of our three business segments: Fleet Solutions, Travel and Corporate Solutions and Health and Employee Benefit Solutions. Our acquisitions over the last five years include:

- On January 16, 2019, the Company entered into a definitive agreement to acquire Discovery Benefits, an employee benefits administrator, for total cash consideration of approximately $425 million, including $50 million which will be deferred until January of 2020. State Bankshares, Inc., the seller of Discovery Benefits, will also retain a 4.9% equity interest in the entity resulting from the combination of WEX Health and Discovery Benefits. This acquisition will provide our partners and customers with a more comprehensive suite of products and services and opens go-to-market channels to include consulting firms and brokers. The Company closed this transaction on March 5, 2019.
- On October 26, 2018, the Company entered into a definitive asset purchase agreement to acquire Chevron's existing customer portfolio for $223.4 million, including $54.6 million for the carrying value of trade accounts receivable. Conversion of the acquired portfolio onto the Company's payment processing platform started in the first quarter of 2019.
- On October 22, 2018, the Company entered into a definitive agreement to acquire Noventis, an electronic payments network focused on optimizing payment delivery for bills and invoices to commercial entities, for approximately $310 million. This acquisition will expand our reach as a corporate payments supplier and provide more channels to billing aggregators and financial institutions. The Company closed on this transaction on January 24, 2019.
- On October 18, 2017, we acquired certain assets and assumed certain liabilities of AOC, a provider of commercial payments technology, in order to broaden our capabilities, increase our pool of employees with payments platform experience and allow us to evolve with the needs of our customers and partners through the use of AOC's payments processing technology platforms.
- On July 1, 2016, we acquired EFS, a provider of customized payment solutions for fleet and corporate customers with a focus on the large and mid-sized over-the-road fleets, in order to expand our customer footprint and utilize EFS's technology to better serve the needs of our fleet customers.
- On November 18, 2015, our wholly-owned subsidiary Evolution1 acquired Benaissance, a provider of integrated SaaS technologies and services for COBRA and healthcare premium billing, payment and workflow management, to complement our healthcare payments products and services.
- On August 31, 2015, we acquired the remaining 49 percent ownership in UNIK, a majority-owned subsidiary prior to this transaction.
- On December 1, 2014, our majority owned subsidiary, WEX Europe Services Limited, acquired the assets of ExxonMobil's European commercial fuel card program, which includes operations, funding, pricing, sales and marketing in nine countries in Europe.
- On July 16, 2014, we acquired Evolution1, a provider of financial technology platform solutions within the healthcare industry.

Competition

We have a strong competitive position in each of our segments. Our product features and extensive account management services are key factors behind our position in the fleet industry. We face competition in all of our segments. Our competitors vie with us for prospective direct fleet customers as well as for companies with which to form strategic relationships. We compete with companies that perform payment and transaction processing or similar services. Financial institutions that issue Visa, MasterCard and American Express credit and charge cards currently compete primarily with our Fleet Solutions and Travel and Corporate Solutions segments. We also compete with other healthcare payment service providers.

The most significant competitive factors include the breadth of features offered, functionality, servicing capability and price. For more information regarding risks related to competition, see the information in Item 1A, under the heading "Our industry continues to become increasingly competitive, which makes it more challenging for us to maintain profit margins at historical levels."

Table of Contents

We believe the following strengths distinguish us from our competitors:

- Our proprietary closed-loop fuel networks in the U.S. and Australia are among the largest in each country. We describe our fleet payment processing networks as “closed-loop” because we have a direct contractual relationship with both the merchant and the fleet, and only WEX transactions can be processed on these networks. We have built networks that management estimates to provide coverage to over 90 percent of fuel locations in the U.S. and Australia, as well as wide acceptance in Europe and Brazil. This provides our customers with the convenience of broad acceptance.
- Our proprietary closed-loop fuel networks provide us with access to a higher level of fleet-specific information and control as compared to what is typically available on an open-loop network. This provides high-level purchase controls at the point-of-sale, including the flexibility of allowing fleets to restrict purchases and receive automated alerts. Additionally, we have the ability to refine the information reporting provided to our fleet customers and customers of our strategic relationships.
- We offer a differentiated set of products and services, including security and purchase controls, to allow our customers and the customers of our strategic relationships to better manage their vehicle fleets. We provide customized analysis and reporting on the efficiency of fleet vehicles and the purchasing behavior of fleet vehicle drivers. We make this data available to fleet customers through both traditional reporting services and sophisticated web-based data analytics tools.
- Our long-standing strategic relationships, multi-year contracts and high contract renewal rates have contributed to the stability and recurring nature of our revenue base. We believe that we offer a compelling value to our customers relative to our competitors given the breadth and quality of our products and services and our deep understanding of our customers’ operational needs. We have a large installed customer base, with more than 12.4 million vehicles serviced as of December 31, 2018 and co-branded strategic relationships with five of the largest U.S. fleet management providers and with dozens of oil companies that use our private label solutions. Our wide site acceptance, together with our private-label portfolios and value-added product and service offerings, drive high customer satisfaction levels, with a U.S. fleet retention rate in excess of 97 percent (based on the 2018 rate of voluntary customer attrition).
- Our capabilities in the over-the-road segment of the market enhance our ability to serve fleet customers who operate both heavy duty trucks and cars or light duty vehicles in the U.S. and Canada as well as to blend the small fleet and private label businesses for greater scale. The July 2016 acquisition of EFS expanded our customer footprint within the over-the-road market segment.
- Our purchase of ExxonMobil’s commercial fuel card program, which uses a closed-loop network in Europe, combined with the long term supply agreement to serve the current and future European Fleet business, provides us with a strong foundation in the large European fleet market.
- Our travel and corporate payment products offer corporate customers enhanced security and control for complex payment needs, while the addition of the EFS Corporate Payment Solutions set of products expands our presence into the electronic accounts payable segment of the market. Our strategic relationships include four of the largest online travel agencies in the world. We continue to expand our online travel payment solution capabilities and geographies, which currently include North America, Europe, South America and Asia-Pacific. As of December 31, 2018, we settle transactions in over 20 different currencies.
- The demand for our payment processing, account servicing and transaction processing services combined with significant operating scale has historically driven strong revenue growth and earnings potential. We have an extensive history of organic revenue growth driven by our various marketing channels, our extensive network of fuel and service providers, and our growth in transaction volume. Further, we have completed a number of strategic acquisitions to expand our product and service offerings, which have contributed to our revenue growth and diversification of our products and services.
- WEX Health has become a leading provider of cloud-based healthcare payments technology, through the acquisition of Evolution1 in 2014 and Benaissance in 2015. Our large partner network expands our opportunities in the growing healthcare financial technology platform market. WEX Health benefits from both high retention rates and revenue predictability as a result of its SaaS business model.

- We have an enterprise-wide risk management program that helps us identify and manage inherent risks related to our liquidity, extension of credit and interest rates. Our ownership of WEX Bank provides us with access to low cost sources of capital, which provide liquidity to fund our short-term card receivables. We have maintained a long record of low credit losses due to the short-term, non-revolving credit issued to our customer base. Our credit risk management program is enhanced by our proprietary scoring models, managing credit lines and early suspension policy. Interest rate risk is

5

Table of Contents

managed through diversified funding sources at WEX Bank including interest bearing money market deposits and certificates of deposit with varying maturities. Some of our merchant contracts include some ability to raise rates if interest rates rise.

- We have an experienced and committed management team that has substantial industry knowledge and a proven track record of financial success. The team has been successful in driving strong growth with consistent operating performance. We believe that our management team positions us well to continue successfully implementing our growth strategy and capturing operating efficiencies.

Strategy

The Company's performance during the year ended December 31, 2018, was shaped by the following previously established strategic priorities:

- Drive continued growth. We seek to capture organic growth opportunities across our segments through our product excellence, marketing capabilities, sales force productivity, and revenue management practices. Our acquisition strategy will complement our organic growth by enhancing scale and adding differentiation to our current offerings.

During 2018, we continued to experience strong organic revenue growth. Additionally, during October 2018, the Company entered into a definitive agreement to acquire Noventis, which we expect will expand our reach as a corporate payments supplier and provide more channels to billing aggregators and financial institutions. The Company also entered into a definitive asset purchase agreement to acquire Chevron's existing trade accounts receivable and customer portfolio during October 2018 in connection with a 2016 agreement with Chevron to issue and operate branded commercial fleet cards.

- Lead through superior technology. We have built and differentiate ourselves in the marketplace on a distinctive set of technologies across our segments. As our markets continue to evolve, our ability to quickly and cost effectively innovate and deliver superior technological solutions continue to set us apart from our peers.

During 2018, we adopted a cloud first development process and began migrating our fleet technology platform to a secure private cloud. In addition, we have begun migrating our U.S. travel operations onto an internal cloud-based virtual card platform that we acquired as part of the AOC acquisition.

We expect that these moves to the cloud will allow us to improve performance and stability, increase the pace of product development and eventually deliver cost savings.

- Set standard for operational excellence. We stand apart in our segments by reliably delivering the best solutions to our partners and customers. We are continually optimizing our cost structure and capturing new revenue synergies across our lines of business. Gains in operational efficiency simplify our business, making us more nimble to capture market opportunities as they arise.
- Leveraging our culture to attract and retain the best employees. The Company was certified as a Great Place to Work® in the U.S. in both 2018 and 2017 by Great Place to Work®. During 2018, the Company launched the WEX Compassion Fund, which will support WEX employees with grants designed to alleviate financial stress from qualified, personal disasters. The fund will be administered by the WEX Cares Foundation, Inc., a separate non-profit entity that was established for this purpose.

FLEET SOLUTIONS SEGMENT

Overview

Our Fleet Solutions segment is a leader in fleet vehicle payment processing services specifically designed for the needs of small business, large fleets, government fleets and over-the-road carriers. As of December 31, 2018, over 12.4 million vehicles use our payment solutions for fleet management.

Products and Services

Payment processing transactions are the primary revenue source in Fleet Solutions and are based on a percentage of the aggregate dollar amount of the customer's purchase, a fixed amount per transaction or a combination of both. In a domestic payment processing transaction, we extend short-term credit to the fleet cardholder and pay the merchant on average within ten days for the purchase price, less the fees we retain and record as revenue. Revenue from our WEX Europe Services operations is primarily

Table of Contents

derived from the difference between the negotiated price of the fuel from the supplier and the price charged to the fleet customer. In both types of transactions, we collect the total purchase price from the fleet customer, normally within 30 days from the billing date. In 2018, we processed approximately 459 million payment processing transactions, compared to 430 million payment processing transactions in 2017.

The following illustration depicts our business process for a typical closed-loop domestic fuel payment processing transaction and a breakdown of the related Fleet Solutions revenue streams:

At the point-of-sale, we identify an array of information including the amount of the expenditure, the driver, the vehicle, the odometer reading, the fuel or vehicle maintenance provider and the items purchased. We provide standard and customized information to customers through monthly vehicle analysis reports, custom reports and our websites. We also alert customers of unusual transactions or transactions that fall outside of pre-established parameters. Customers can access their account information through our website including account history and recent transactions and download the related details. In addition, fleet managers can elect to be notified by email when limits are exceeded in specified purchase categories, including limits on transactions within a time range and gallons per day.

In the over-the-road space, we offer customizable payment solutions including real-time interactive interfaces delivering data integrity through a seamless user interface, alternative payment and money transfer options, comprehensive settlement solutions, real-time reports and analytics for compliance and cost-optimization and fuel reconciliation and mobile optimization tools.

In addition to revenue derived from payment processing transactions, we recognize account servicing revenue, finance fee revenue and other revenue through the following products and services:

- Customer service, account activation and account retention: We offer customer service, account activation and account retention services to fleets and fleet management companies and the fuel and vehicle maintenance providers on our network. Our services include promoting the adoption and use of our products and programs and account retention programs on behalf of our customers and partners.
- Authorization and billing inquiries and account maintenance: We handle authorization and billing questions, account changes and other issues for fleets through our dedicated customer contact centers, which are available 24 hours a day, seven days a week. Fleet customers also have self-service options available to them through our websites.
- Premium fleet services: We assign designated account managers to businesses and government agencies with large fleets. These representatives have in-depth knowledge of both our programs and the operations and objectives of the fleets they service.
- Credit and collections services: We have developed proprietary account approval, credit management and fraud detection programs. Our underwriting model produces a proprietary score, which we use to predict the likelihood of an account becoming delinquent within 12 months of activation. We also use a credit maintenance model to manage ongoing accounts, which helps us to predict the likelihood of account delinquency over an ongoing 18-month time horizon. We have developed

Table of Contents

a collections scoring model that we use to rank and prioritize past due accounts for collection activities. We also employ fraud specialists who monitor accounts, alert customers and provide case management expertise to minimize losses and reduce program abuse.

- Merchant services: Our representatives work with fuel and vehicle maintenance providers to enroll these providers in our network, test all network and terminal software and hardware, and to provide training on our sale, transaction authorization and settlement processes.
- ClearView analytics platform: We provide customers with access to a web-based data analytics platform that offers insights to fleet managers, including integrating and analyzing business fleet fuel purchases to uncover fraud, manage product type controls and identify cost saving opportunities.
- SmartHub mobile app: This mobile application gives business managers access to their account information anytime and anywhere, including the ability to view and make bill payments, access transaction details and control the status of driver fuel cards. As a result, this offering helps customers improve efficiencies, reduce late fees, gain valuable insights and control unauthorized driver spending.

Marketing Channels

We market our fleet products and services both directly and indirectly to commercial and government vehicle fleet customers with small, medium and large fleets, and over-the-road, long haul fleets. Our product suite includes payment processing and transaction processing services, WEX branded fleet cards in North America and Motorpass/Motorcharge-branded fleet cards in Australia. As of December 31, 2018, our direct line of business serviced 4.4 million vehicles. As of the same period, our over-the-road line of business serviced 1.1 million vehicles, marketed under the EFS, EFS Transportation Services, T-Chek and Fleet One brands.

We also market our products and services indirectly through co-branded and private label relationships. With a co-branded relationship product, we market our products and services for, and in collaboration with, both fuel providers and fleet management companies using their brand names and our logo on a co-branded fleet card. These companies seek to offer our payment processing and information management services as a component of their total offering to their fleet customers. As of December 31, 2018, our co-branded marketing channel serviced 2.4 million vehicles.

Our private label programs market our products and services for, and in collaboration with, fuel retailers, using only their brand names. The fuel retailers with which we have formed strategic relationships offer our payment processing and information management products and services to their fleet customers in order to establish and enhance customer loyalty. These fleets use these products and services to purchase fuel at locations of the fuel retailer with whom we have the private label relationship. As of December 31, 2018, our private label marketing channel serviced 4.5 million vehicles.

TRAVEL AND CORPORATE SOLUTIONS SEGMENT

Overview

Our Travel and Corporate Solutions segment provides innovative corporate purchasing and payment capabilities that can be integrated with our customers’ internal systems to streamline their corporate payments, accounts payable and reconciliation processes.

Products and Services

The Travel and Corporate Solutions segment allows businesses to centralize purchasing, simplify complex supply chain processes and eliminate the paper check writing associated with traditional purchase order programs. Our product suite includes electronic payments and corporate cards offered across travel, insurance & warranty and other industries.

Our electronic payments product includes virtual payments and integrated payables. Our virtual payments program is used for transactions where no physical card is presented, including transactions conducted over the telephone, by mail, by fax or on the Internet or for transactions that require pre-authorization, such as hotel reservations. Under our virtual payments program, each transaction is assigned a unique account number with a customized credit limit and expiration date. These controls are in place to limit fraud and unauthorized spending. The unique account number limits purchase amounts and tracks, settles and reconciles purchases more easily, creating efficiencies and cost savings for our customers. Our electronic accounts payable solution is a cloud-based web platform that manages and optimizes all accounts payable disbursements, regardless of type. Automated clearing house, virtual cards, electronic funds transfer and check payments are streamlined and automated through our centralized application.

Table of Contents

We offer a variety of corporate cards, designed to combine all of a customer's purchasing needs into a single integrated card, streamline the procure-to-pay process with a single card and control travel and entertainment spending and provide employees with greater flexibility.

Additionally, WEX Prepaid Card Australia offers prepaid and gift card products, which provide secure payment and financial management solutions with single card options, access to open or closed loop redemption, load limits and variable expirations.

The following illustration depicts our business process for a typical travel virtual card product transaction:

1 Guest books a hotel through a travel website owned by an online travel company
2 Online travel company reserves room at hotel through reservation system using a WEX VCN to reserve the room
3 Upon checkout, hotel authorizes payment using the WEX VPN
4 The WEX virtual card restricts charge to predetermined cost of room, incidental expenses are paid for by guest
5 Online travel company pays WEX. WEX earns fee by retaining percentage of the online travel company reimbursement payment

Marketing Channels

We market our Travel and Corporate Solutions segment products and services both directly and indirectly to new and existing customers. Our products are marketed to commercial and government organizations and we use existing open-loop networks.

HEALTH AND EMPLOYEE BENEFIT SOLUTIONS SEGMENT

Overview

Our Health and Employee Benefit Solutions segment is comprised of our healthcare payment products and SaaS platforms with which we provide simplified payment capabilities in a complex healthcare market as well as employee benefit products in Brazil.

Products and Services

With our healthcare payment products, we provide consumer-directed payments in the complex healthcare market. We partner with employers, health plans, third-party administrators, financial institutions, payroll companies and the public sector to provide a SaaS product to support healthcare benefit programs and administer COBRA, flexible spending, health saving and reimbursement accounts, and other healthcare related employee and dependent benefits. We currently have relationships with approximately 343,000 employers, reaching 28 million consumers. Revenue is generated primarily from SaaS based monthly fees to partners and interchange fees from spending on customer debit cards issued under flexible spending, health savings and reimbursement accounts. Cards are branded with either Visa or MasterCard and operate on a restricted open loop network.

Our benefit products are offered through our wholly-owned subsidiary, WEX Latin America. Employees using our benefit products have access to salary advances payable in up to 24 monthly installments which are secured by future salary earnings. These advances are funded primarily through securitization of the corresponding receivables.

Health and Employee Benefit Solutions segment revenues are generated primarily from platform usage subscription fees and interchange fees from spending on the WEX Health payment cards.

The following illustration depicts our business process and parties involved in our health care benefits solution:

Table of Contents

BPO: Business Process Outsourcing

Marketing Channels

We market our Health and Employee Benefit Solutions products and services to consumers through an extensive partner network, which includes health plans, third-party administrators, financial institutions, payroll companies and software providers. Our employee benefit products are marketed to consumers through employers in Brazil.

OTHER ITEMS

Employees

As of December 31, 2018, WEX Inc. and its subsidiaries had more than 3,700 employees, of which approximately 3,000 were located in the United States. None of our U.S.-based employees are subject to a collective bargaining agreement. In Europe, certain employees are members of trade unions or works councils. In Brazil, certain employees are members of unions. The Company believes that its relations with its employees, unions and work councils are generally satisfactory.

Technology

We believe that investment in technology is crucial in maintaining and enhancing our competitive position in the marketplace. Our data center network and infrastructure is supported by secure data centers with redundant locations. We have data centers in various locations in the United States including South Portland, Maine and Aurora, Colorado. We also have data centers and infrastructure located in various locations throughout Europe, Australia, New Zealand and Brazil.

Our fleet fuel-based closed-loop proprietary platforms capture detailed information from the fuel and maintenance locations within our network. Operating a proprietary network not only enhances our value proposition, it also enables us to limit dependence on third-party processors and to respond rapidly to changing customer needs with system upgrades, while maintaining a more secure environment than an open-loop network typically allows. Our virtual card open-loop network uses internally developed software and third-party processors. Our infrastructure has been designed around industry-standard architectures to reduce downtime in the event of outages or catastrophic occurrences. At WEX Health, we maintain an integrated multi-account payment platform, including a mobile application. In Australia, New Zealand, Brazil and the United Kingdom, we use standalone platforms to support operations.

Table of Contents

Our secure networks are designed to isolate our databases from unauthorized access. We use security protocols among all applications, and our employees access critical components on a need-to-know basis. As of December 31, 2018, we have not experienced any material incidents in network, application or data security. We are continually improving our technology to enhance customer relationships and to increase efficiency and security. We also review technologies and services provided by others in order to maintain the high level of service expected by our customers and continue to invest in our infrastructure.

For information regarding technology related risks, see the information in Item 1A under the headings “Our business is regularly subject to cyberattacks and attempted security and privacy breaches and we may not be able to adequately protect our information systems, including the data we collect about our customers, which could subject us to liability and damage our reputation”, “Our failure to effectively implement new technology could jeopardize our position as a leader in our industry,” “We are dependent on technology systems and electronic communications networks managed by third parties, which could result in our inability to prevent service disruptions” and “If the technologies we use in operating our business and interacting with our customers fail, are unavailable, or do not operate to expectations, or we fail to successfully implement technology strategies and capabilities in connection with our outsourcing arrangements, our business and results of operation could be adversely impacted.”

Seasonality

Our businesses are affected by seasonal variations. For example, fuel prices are typically higher during the summer and online travel sales are typically higher during the third quarter. In addition, we experience seasonality in our Health and Employee Benefit Solutions segment as consumer spend is correlated with insurance deductibles, typically resulting in higher spend in the early part of the year and until employees meet their deductibles.

Intellectual Property

We rely on a combination of patent, copyright, trade secret and trademark laws, confidentiality procedures, contractual provisions and other similar measures to protect the proprietary information and technology used in our business. We generally enter into agreements with clients, consultants, service providers and other partners, whether current or prospective, that contain provisions restricting use and disclosure of our proprietary information and technology. Operationally, we have implemented certain safeguards designed to control access to and distribution of our proprietary information and technology. Despite these efforts, unauthorized parties may attempt to access or use our proprietary information and technology, and third parties may develop similar and/or competing technology independently. We pursue registration and protection of certain trademarks in the U.S. and other countries in which we operate or plan to operate. We market our products and services using the WEX brand name globally, as well as other brand names such as Fleet One, EFS and WEX Health Cloud in the U.S., and Motorpass in Australia.

Regulation - United States

The Company and its affiliates are subject to certain state and federal laws and regulations, which govern insured depository institutions and their affiliates as well as our operations in the healthcare market. WEX Bank is subject to supervision and examination by both the Utah DFI and the FDIC. The Company and its affiliates are subject to certain limitations on transactions with affiliates set forth in the FRA. The Company is subject to anti-tying provisions in the Bank Holding Company Act. State and Federal laws and regulations limit the loans WEX Bank may make to one borrower and the types of investments WEX Bank may make.

Below is a description of the material elements of the laws, regulations, policies and other regulatory matters affecting the operations of WEX in the United States.

Exemption from Certain Requirements of the Bank Holding Company Act

As an industrial bank organized under the laws of Utah that does not accept demand deposits that may be withdrawn by check or similar means, WEX Bank meets the criteria for exemption from the definition of “bank” under the Bank Holding Company Act. As a result, the Company is generally, except as stated above, not subject to the Bank Holding Company Act.

Restrictions on Intercompany Borrowings and Transactions

Sections 23A and 23B of the FRA and the implementing regulations limit the extent to which the Company can borrow or otherwise obtain credit from or engage in other “covered transactions” with WEX Bank. “Covered transactions” include loans or extensions of credit, purchases of or investments in securities, purchases of assets, including assets subject to an agreement to repurchase, acceptance of securities as collateral for a loan or extension of credit, or the issuance of a guarantee, acceptance, or letter of credit. Although the applicable rules do not serve as an outright ban on engaging in “covered transactions,” they do limit the amount of covered transactions WEX Bank may have with any one affiliate and with all affiliates in the aggregate. The applicable rules also require that the Company engage in such transactions with WEX Bank only on terms and under circumstances that are substantially the same, or at least as favorable to WEX Bank, as those prevailing at the time for comparable transactions with nonaffiliated companies. Furthermore, with certain exceptions, each loan or extension of credit by WEX Bank to the Company or its other affiliates must be secured by collateral with a market value ranging from 100 percent to 130 percent of the amount of the loan or extension of credit, depending on the type of collateral.

The Consumer Financial Protection Bureau

The Dodd-Frank Act established the CFPB to regulate the offering of consumer financial products or services under the federal consumer financial laws. In addition, the CFPB was granted general authority to prevent covered persons or service providers from committing or engaging in unfair, deceptive or abusive acts or practices under federal law in connection with any transaction with a consumer for a consumer financial product or service. The CFPB has broad rulemaking authority for a wide range of consumer protection laws. The legislation also gives the state attorneys general the ability to enforce applicable federal consumer protection laws.

In addition, the Durbin Amendment to the Dodd-Frank Act provided that interchange fees that a card issuer or payment network receives or charges for debit transactions will now be regulated by the Federal Reserve and must be “reasonable and proportional” to the cost incurred by the card issuer in authorizing, clearing and settling the transaction. Payment network fees may not be used directly or indirectly to compensate card issuers in circumvention of the interchange transaction fee restrictions. In July 2011, the Federal Reserve published the final rules governing debit interchange fees. Effective in October 2011, with certain exemptions, debit interchange rates were capped at $0.21 per transaction with an additional component of five basis points of the transaction’s value to reflect a portion of the issuer’s fraud losses plus, for qualifying issuing financial institutions, an additional $0.01 per transaction in debit interchange for fraud prevention costs.

On January 25, 2018, the CFPB released final amendments to its October 5, 2016 final rule amending Regulations E and Z to create comprehensive consumer protections for prepaid financial products. Among other things, the rule establishes requirements for the treatment of funds on lost or stolen cards, error resolution and investigation, upfront fee disclosures, access to account information, and overdraft features if offered in conjunction with prepaid accounts. The rule becomes effective on April 1, 2019.

Brokered Deposits

Under FDIC regulations, depending upon their capital classification, banks may be restricted in their ability to accept brokered deposits. “Well capitalized” banks are permitted to accept brokered deposits, but banks that are not “well capitalized” are not permitted to accept such deposits. The FDIC may, on a case-by-case basis, permit banks that are “adequately capitalized” to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice.

Other Financial Regulatory Requirements

WEX Bank must monitor and report unusual or suspicious account activity, as well as transactions involving amounts in excess of prescribed limits, as required by the Bank Secrecy Act and Internal Revenue Service regulations. The USA PATRIOT Act of 2001 substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, identifying new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The United States Treasury Department has proposed and, in some cases, issued a number of implementing regulations which impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Certain of those regulations impose specific due diligence requirements on financial institutions that maintain correspondent or private banking relationships with non-U.S. financial institutions or persons. For instance, in August 2018, new due diligence requirements established by the Financial Crimes Enforcement Network became effective, requiring financial institutions to adopt enhanced anti-money laundering procedures for purposes of determining the control and ownership stakes of business customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious legal and reputational consequences for the institution.

The U.S. federal government has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the OFAC, take many different forms but generally include one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on “U.S. persons” engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Under the Financial Services Modernization Act of 1999, also referred to as the “Gramm-Leach-Bliley Act” (or “GLBA”), the Company and WEX Bank are required to maintain a comprehensive written information security program that includes administrative, technical and physical safeguards relating to customer information. However, this requirement does not generally apply to information about companies or about individuals who obtain financial products or services for business, commercial, or agricultural purposes. The GLBA also requires the Company and WEX Bank to provide initial and annual privacy notices to customers that describe in general terms their information sharing practices. If the Company and WEX Bank intend to share nonpublic personal information about customers with affiliates and/or nonaffiliated third parties, they must provide customers with a notice and a reasonable period of time for each consumer to “opt out” of any such disclosure. In addition to U.S. federal privacy laws, states also have adopted statutes, regulations and other measures governing the collection and distribution of nonpublic personal information about customers. In some cases these state measures are preempted by federal law, but if not, the Company and WEX Bank must monitor and comply with such laws in the conduct of its business.

Escheat Laws

We are subject to unclaimed or abandoned property state laws in the United States and in certain foreign countries that require us to transfer to certain government authorities the unclaimed property of others that we hold when that property has been unclaimed for a certain period of time. Moreover, we are subject to audit by state and foreign regulatory authorities with regard to our escheatment practices.

Restrictions on Dividends

WEX Bank is subject to various regulatory requirements relating to the payment of dividends, including requirements to maintain capital above regulatory minimums. A banking regulator may determine that the payment of dividends would be inappropriate and could prohibit payment. Further, WEX Bank may not pay a dividend if it is undercapitalized or would become undercapitalized as a result of paying the dividend. Utah law permits WEX Bank to pay dividends out of the net profits of the industrial bank after providing for all expenses, losses, interest, and taxes accrued or due, but if WEX Bank’s surplus account is less than 100 percent of its capital stock, WEX Bank must transfer up to 10 percent of its net profits to the surplus account prior to the payment of any dividends.

Company Obligations to WEX Bank

Any non-deposit obligation of WEX Bank to the Company is subordinate, in right of payment, to deposits and other indebtedness of WEX Bank. In the event of the Company’s bankruptcy, any commitment by the Company to a federal bank regulatory agency to maintain the capital of WEX Bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Restrictions on Ownership of WEX Inc. Common Stock

WEX Bank, and therefore the Company, is subject to bank regulations that impose requirements on entities that might control WEX Bank through control of the Company. These requirements are discussed in Item 1A under the heading “If any entity controls 10 percent or more of our common stock and such entity has caused a violation of applicable banking laws by its failure to obtain any required approvals prior to acquiring that common stock, we have the power to, and may be required to, restrict such entity’s ability to vote shares held by it.”

Healthcare Regulation

The federal and state governments in the U.S. continue to enact and consider many broad-based legislative and regulatory proposals that could materially impact various aspects of our health-related business. The plans that our partners administer feature consumer accounts that pay for out-of-pocket expenses incurred by employees and qualified dependents. These accounts include CDH accounts such as HSAs, FSAs and HRAs, as well as wellness incentives, commuter benefits, and other account-based arrangements. Most of these accounts are tax-advantaged under the appropriate law.

Employers are continuing to use CDH approaches to manage the rate of increase in healthcare expenditures and to enable employees to make decisions about the use of their healthcare savings. CDH programs provide consumers with visibility of and control over payment for healthcare expenses.

The products that WEX Health’s software and payment solutions support are subject to various state and federal laws, including the Affordable Care Act, and regulations promulgated by the Internal Revenue Service, the Department of Health and Human Services, the Department of Labor, and the Consumer Financial Protection Bureau, and similar state laws. As such, changes in the status of tax-advantaged CDH accounts could affect the attractiveness of these products.

Table of Contents

In addition to tax-related regulation, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively referred to as "Health Care Reform") mandated broad changes affecting insured and self-insured health benefit plans that impact our current business model, including our relationships with current and future customers, producers and health care providers, products, services, processes and technology. Health Care Reform left many details to be established through regulations. While federal agencies have published proposed and final regulations with respect to most provisions, some issues remain uncertain. The 2017 Tax Act repealed certain provisions of Health Care Reform, including reducing to zero the tax penalty for individuals who decline to obtain Health Care Reform-compliant healthcare coverage. The current U.S. Administration has signaled its desire to significantly modify or completely repeal Health Care Reform and the associated implementing regulations. It is unclear what, if any, additional legislative or regulatory actions may be taken in this regard. Accordingly, there may be an extended period of uncertainty and unpredictability in the U.S. health care market, which may materially affect the availability and cost of health coverage, the viability of health care providers and health benefit plans, the proportion of persons in the U.S. who have health insurance; the distribution between privately funded and government funded health insurance; and the future demand for, and profitability of, the offerings of our health-related business under our current business model.

In connection with the processing of data, we frequently undertake or are subject to specific compliance obligations under privacy and data security-related laws, including the Health Insurance Portability and Accountability Act of 1996, or HIPAA, GLBA, and similar state and federal laws governing the collection, use, protection and disclosure of nonpublic personally identifiable information, including individually identifiable health information.

HIPAA and its implementing regulations, as amended by the Health Information Technology for Economic and Clinical Health Act, or the HITECH Act, impose requirements relating to the privacy, security and transmission of individually identifiable health information. Among other things, HIPAA, as amended by the HITECH Act, and its implementing regulations, subjects us to regulations and contractual obligations that impose privacy and security standards and breach notification and reporting requirements.

In addition to tax, federal data privacy, security laws and regulations, we are subject to state laws governing confidentiality and security of personally identifiable information and additional state-imposed breach notification and reporting requirements.

Regulation - Foreign

The conduct of our businesses and the use of our products and services outside the U.S., are subject to various foreign laws and regulations administered by government entities and agencies in the countries and territories where we operate. Below is a summary of material applicable laws and regulations in the jurisdictions around the world in which we do business.

Asia-Pacific

Australia

The Company's Australian operations are subject to laws and regulations of the Commonwealth of Australia governing banking and payment systems, financial services, credit products and money laundering. Because none of WEX Australia, WEX Fuel Cards Australia or WEX Prepaid Cards Australia holds an Australian Financial Services License or credit license or is an authorized deposit-taking institution, they operate within a framework of regulatory relief and exemptions afforded them on the basis that they satisfy the requisite conditions. The Company's Australian operations are also subject to the Privacy Act (1988) and the Australian Privacy Principles.

Asia, including Singapore

The Company's operations in Asia are subject to the operation of the laws and regulation of the countries in which we operate, including laws with regards to banking and payment systems, financial services, money laundering and data protection.

Europe

The Company's European operations are subject to laws and regulations of the European Union and the countries in which we operate including, among others, those governing payment services, data protection, including General Data Protection Regulation (commonly referred to as "GDPR"), and information security, consumer credit and anti-money laundering.

Table of Contents

Brazil

The Company's Brazilian operations are subject to laws and regulations of the Brazilian government, in particular the Central Bank of Brazil. Brazil's labor systems are governed by the Consolidation of Brazilian Labor Laws. Brazil is a signatory of the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights agreement. This agreement establishes a minimum protection standard to property rights and requires signatory countries to review and adapt national laws that meet that standard.

Segments and Geographic Information

For an analysis of financial information about our segments as well as our geographic areas, see Item 8 – Note 23, Segment Information, of our consolidated financial statements included elsewhere in this Annual Report on Form 10–K.

For a description of the risks related to our foreign operations, see the information in Item 1A, Risk Factors under the heading "We are exposed to risks associated with operations outside of the United States, which could harm both our U.S. and international operations."

Available Information

The Company's principal executive offices are located at 1 Hancock St, Portland, ME 04101. Our telephone number is (207) 773-8171, and our Internet address is www.wexinc.com. The Company's annual, quarterly and current reports, proxy statements and certain other information filed with the SEC, as well as amendments thereto, may be obtained free of charge from our website. These documents are posted to our website as soon as reasonably practicable after we have filed or furnished these documents with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The Company's Audit Committee Charter, Compensation Committee Charter, Finance Committee Charter, Corporate Governance Committee Charter, Technology Committee Charter, Corporate Governance Guidelines and Code of Business Conduct and Ethics are available without charge through the "Corporate Governance" portion of the Investor Relations page of the Company's website. Copies will also be provided, free of charge, to any stockholder upon written request to Investor Relations at the address above or by telephone at (866) 230-1633.

The Company's Internet site and the information contained on it are not incorporated into this Form 10–K and should not be considered part of this report.

Table of Contents

ITEM 1A. RISK FACTORS

The risks and uncertainties described below are not the only risks and uncertainties that we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of those risks actually occurs, our business, financial condition, results of operations and cash flows could suffer. The risks and uncertainties discussed below also include forward-looking statements and our actual results may differ materially from those discussed in these forward-looking statements.

Risks Relating to Our Company

A significant portion of our revenues are related to the dollar amount of fuel purchased by our customers, and, as a result, volatility in fuel prices could have an adverse effect on our revenues.

Our customers in our Fleet Solutions segment primarily purchase fuel. Accordingly, a significant part of our revenue is dependent on fuel prices, which are prone to volatility. As of December 31, 2018, management estimates that approximately 25 percent of our total revenues result from fees paid to us by fuel providers based on a negotiated percentage of the purchase price of fuel purchased by our customers. We estimate that during 2019, each one cent decline in average domestic fuel prices below average actual prices would result in approximately a $1.2 million decline in 2019 revenue. Therefore, extended declines in the price of fuel would have a material adverse effect on our total revenues. We are currently exposed to the full impact of fuel price declines and our net income is exposed to fuel price volatility. If fuel prices decline, this will negatively impact our revenue and income.

Fuel prices are dependent on many factors, all of which are beyond our control. These factors include, among others:

- supply and demand for oil and gas, and expectations regarding supply and demand;
- speculative trading;
- actions by major oil exporting nations;
- level of U.S. oil production;
- advances in oil production technologies;
- political conditions in other oil-producing, gas-producing or supply-route countries, including revolution, insurgency, terrorism or war;
- refinery capacity;
- weather;
- the prices of foreign exports and the availability of alternate fuel sources;
- value of the U.S. dollar versus other major currencies;
- actions by members of Organization of Petroleum Exporting Countries and other major oil-producing nations;
- implementation of fuel efficiency standards and the adoption by fleet customers of vehicles with greater fuel efficiency or alternative fuel sources;
- general worldwide economic conditions; and
- governmental regulations, taxes and tariffs.

Another component of our revenue stream is the late fees that our customers pay on past due balances. As a result, a decrease in the price of fuel leads to a decline in the amount of late fees we earn from customers who fail to pay us timely.

A portion of our revenue in Europe is derived from the difference between the negotiated price of the fuel from the supplier and the price charged to the fleet customer. As a result, a contraction in these differences would reduce revenues and could adversely affect our operating results.

Revenue from our European Fleet business is primarily derived from transactions where our revenue is tied to the difference between the negotiated price of the fuel from the supplier and the price charged to the fleet customer. The merchant’s cost of fuel is dependent on several factors including, among others, the factors described above affecting fuel prices. We experience fuel-price related revenue contraction when the merchant’s cost of fuel increases at a faster rate than the fuel price we charge to our fleet customers, or the fuel-price we charge to our fleet customers decreases at a faster rate than the merchant’s cost of fuel. Accordingly, we generate less revenue, which could adversely affect our operating results.

Table of Contents

Changes in interchange fees could decrease our revenue.

A portion of our revenue is generated by network processing fees charged to merchants, known as interchange fees, associated with transactions processed using our cards. Interchange fee amounts associated with cards are affected by a number of factors, including regulatory limits and fee changes. In addition, interchange fees are the subject of intense legal and regulatory scrutiny and competitive pressures in the electronic payments industry. For example, the Durbin Amendment to the Dodd-Frank Act, which serves to limit interchange fees may restrict or otherwise impact the way we do business or limit our ability to charge certain fees to customers. The Consumer Financial Protection Bureau, or the CFPB, is also engaged in rulemaking and regulation of the payments industry, in particular with respect to prepaid cards. On January 25, 2018, the CFPB issued a final rule amending several aspects of its prepaid accounts rule adopted in October 2016 and delayed the overall effective date for such prepaid accounts rule to April 1, 2019. The extensive nature of these regulations and the implementation dates for this additional rulemaking may result in additional compliance obligations and expense for our business and our customers. These factors could result in lower interchange fees generally in the future. Temporary or permanent decreases in the interchange fees associated with our card transactions, could adversely affect our business and operating results.
If we fail to adequately assess and monitor credit risks posed by our customers, we could experience an increase in credit loss.
We are subject to credit risk posed by our customers, many of which are small-to mid-sized businesses. Because we often fund a customer's entire receivable while our revenue is generated from only a small percentage of that amount, our risk of loss is amplified by the customer's failure to pay. We use various formulas and models to screen potential customers and establish appropriate credit limits, but these formulas and models cannot eliminate all potential credit risks and may not prevent us from approving applications that are fraudulently completed. Moreover, businesses that are good credit risks at the time of application may deteriorate over time and we may fail to detect such changes. In addition, changes to our policies on the types and profiles of businesses to which we extend credit could also have an adverse impact on our credit losses. In times of economic slowdown, the number of our customers who default on payments owed to us tends to increase. If we fail to adequately manage our credit risks, our provision for credit losses on the income statement could be significantly higher.

We may incur substantial losses due to fraudulent use of our payment cards, payment systems or vouchers.

Under certain circumstances, we may bear the risk of substantial losses due to fraudulent use of our payment cards or payment systems. We are also subject to risk from fraudulent acts of employees or contractors. Although we maintain insurance for certain types of losses, the coverage may be insufficient or limited and may not fully protect against those losses. Additionally, criminals use sophisticated illegal activities to target us, including "skimming", counterfeit cards and accounts, and identity theft. A single, significant incident or a series of incidents of fraud or theft could lead to, among other things, some or all of the following:

- increased overall level of fraud;
- direct financial losses as a result of fraudulent activity;
- reputational harm;
- decreased desirability of our services;
- greater regulation;
- increased compliance costs;
- imposition of regulatory sanctions; or
- significant monetary fines.

All of the above could have a material adverse effect on our operations, business success, financial condition and results of operations. Our provision for credit losses, inclusive of fraud losses, was $66.5 million in 2018 compared to

$64.2 million in 2017.

Fluctuations in foreign currency exchange rates could affect our financial results.

We earn revenues, pay expenses, own assets and incur liabilities in countries using currencies other than the U.S. dollar. Such currencies include, but are not limited to, the Australian dollar, the Canadian dollar, the Euro, British Pound sterling, New Zealand dollar and Brazilian Real. Because our consolidated financial statements are presented in U.S. dollars, we must translate revenues, income and expenses, as well as assets and liabilities, into U.S. dollars at exchange rates in effect during or at the end of each reporting period. Realized and unrealized gains and losses on foreign currency transactions as well as the re-measurement of our cash, receivable and payable balances that are denominated in foreign

Table of Contents

currencies, are recorded directly in the consolidated statements of income. In addition, gains and losses associated with the Company's foreign currency exchange derivatives are recorded on the consolidated statements of income. Therefore, increases or decreases in the value of the U.S. dollar against other major currencies that we use to conduct our business will affect our revenues, operating income and the value of balance sheet items denominated in those currencies. Fluctuations in foreign currency exchange rates, particularly fluctuations in the U.S. dollar against other currencies, may materially affect our financial results.

Our exposure to counterparty risk could create an adverse effect on our financial condition.

We engage in a number of transactions where counterparty risk is a relevant factor, including transactions with customers, derivatives counterparties and those businesses we work with to provide services, among others. These risks are dependent upon market conditions and also the real and perceived viability of the counterparty. The failure or perceived weakness of any of our counterparties has the potential to expose us to risk of loss in certain situations. Certain contracts and arrangements that we enter into with counterparties may provide us with indemnification clauses to protect us from financial loss. If the counterparty fails to, or is unable to fulfill these indemnification clauses, we may incur losses as well as harm to our reputation.

We have substantial indebtedness, which may materially and adversely affect our financial flexibility and our ability to meet our debt service obligations.

Our 2016 Credit Agreement, as amended through December 31, 2018, provides for a tranche A term loan facility in the original principal amount of $480 million, a tranche B term loan facility in the original principal amount equal to $1,335 million and a $720 million secured revolving credit facility, with a $250 million sublimit for letters of credit and a $20 million sublimit for swingline loans. On January 18, 2019, we entered into a fifth amendment to our 2016 Credit Agreement that increased the principal amount of the tranche A term loan facility by $300 million and provides for delayed draw revolving credit commitments in the amount of $25 million and term A loan commitments in the amount of $275 million to finance in part the Discovery Benefits acquisition, subject to satisfaction of customary funding conditions. The tranche A term loans and tranche B term loans mature, and the revolving credit facility terminates and is repayable, on July 1, 2023, except that the tranche A term loans and the revolving credit facility are subject to earlier maturity if, on or before April 2023 and August 2022, respectively, the tranche B term loan facility and the Notes (defined below) are not repaid, refinanced or the maturity dates thereof extended to October 2023 or later. In addition to the 2016 Credit Agreement, our indebtedness consists of our 4.750 percent senior notes in the principal amount of $400 million due 2023 (the "Notes"), deposits issued by WEX Bank and other liabilities outstanding. Our indebtedness could, among other things:

- require us to dedicate a substantial portion of our cash flow to repaying our indebtedness, thus reducing the amount of funds available for other general corporate purposes;
- limit our ability to borrow additional funds necessary for working capital, capital expenditures or other general corporate purposes;
- increase our vulnerability to adverse general economic or industry conditions; and
- limit our flexibility in planning for, or reacting to changes in, our business.

There can be no assurance that we will be able to meet our indebtedness obligations, including any of our obligations under the Notes. In addition, we may need to incur substantial additional indebtedness in the future to fund our operations or certain strategic objectives. However, we may not be able to obtain the additional financing necessary for these purposes.

In addition, under the 2016 Credit Agreement as amended, unless otherwise agreed by the requisite lenders under the revolving and term A credit facilities, we are required to remain in compliance with a consolidated EBITDA to consolidated interest charge ratio, measured quarterly, of no less than 3.00 to 1.00; and a consolidated funded indebtedness (excluding up to $350 million of consolidated funded indebtedness due to permitted securitization transactions and excluding the amount of consolidated funded indebtedness constituting the non-recourse portion of permitted factoring transactions) to consolidated EBITDA ratio, measured quarterly, of no more than 5.00 to 1.00 at December 31, 2018, decreasing to 4.50 to 1.00 at December 31, 2019, further decreasing to 4.25 to 1.0 at December 31, 2020 and further decreasing to 4.0 to 1.0 at December 31, 2021 and thereafter. In addition, in the event of an acquisition meeting certain specified criteria, the consolidated leverage ratio shall be permanently increased one time, applicable to each measurement date after such election, by 0.50:1.00. In connection with the Noventis acquisition which closed on January 24, 2019, we elected to designate the Noventis acquisition as a specified acquisition and thereby the consolidated leverage ratio has been effectively increased by 0.50:1.00 for all measurement dates after such election. The 2016 Credit Agreement also contains various affirmative and negative covenants that, subject to certain customary exceptions, restrict our ability to, among other things, create liens over our property, incur additional indebtedness, enter into sale and lease-back transactions, make loans, advances or other investments, make non-ordinary course asset sales, declare or pay dividends or make other distributions with respect to equity interests, change the nature of our business, enter into certain agreements which restrict our ability to pay dividends or other distributions or create liens on our property, transact business with affiliates and/or merge or consolidate with any other person. Our ability to comply with these provisions may be affected by events beyond our control. Failure to comply with the financial covenants or any other non-financial or restrictive covenant in our 2016 Credit Agreement could create a default. Upon a default, our lenders could accelerate the indebtedness under the facilities (except only the requisite lenders under the revolving credit facility and the tranche A term loan facility may accelerate the revolving credit facility due to a breach of the financial covenants), foreclose against their collateral or seek other remedies, which could trigger a default under the Notes and would jeopardize our ability to continue our current operations. The Notes also contain customary negative and affirmative covenants and events of default that if breached could allow the requisite noteholders to accelerate the maturity of the Notes and to exercise their rights and remedies under the Notes, and could also trigger a default under the 2016 Credit Agreement.

Despite our substantial indebtedness, we may still be able to incur more debt, intensifying the risks described above.

Subject to restrictions in our 2016 Credit Agreement and the Notes, we may incur additional indebtedness, which could increase the risks associated with our already substantial indebtedness. Subject to certain limitations, including compliance with the covenants in our 2016 Credit Agreement, we have the ability to borrow additional funds under our 2016 Credit Agreement. On January 18, 2019 we entered into a fifth amendment to our 2016 Credit Agreement that increased the principal amount of the tranche A term loan facility by $300 million and provided for delayed draw revolving credit commitments in the amount of $25 million and term loan A loan commitments in the amount of $275 million to finance in part the Discovery Benefits acquisition, subject to satisfaction of customary funding conditions. On March 5, 2019, the Company fully drew down these commitments, consisting of $250.0 million in tranche A term loans and an incremental $50.0 million of revolving credit in order to fund the acquisition of Discovery Benefits. If we pursue additional acquisitions, we could incur further debt or further amend the terms of our existing 2016 Credit Agreement.

This indebtedness could have the effect, among other things, of reducing our flexibility to respond to changing business and economic conditions and increasing interest expense.

Moreover, we may be required to raise substantial additional financing to fund working capital, capital expenditures, acquisitions or other general corporate requirements. Our ability to arrange additional financing or refinancing will depend on, among other factors, our financial position and performance, as well as prevailing market conditions and other factors beyond our control. There can be no assurance that we will be able to obtain additional financing or refinancing on terms acceptable to us or at all.

Volatility in the financial markets may negatively impact our ability to access credit and the terms at which we would access such credit.

Adverse conditions in the credit market may limit our ability to access credit at a time when we would like or need to do so. Our senior secured revolving credit facility under the 2016 Credit Agreement expires in July 2023 (subject to earlier maturity of the revolving and term A credit facilities to August 2022 or April 2023, respectively, if the Notes and tranche B term loans are not repaid or the maturity extended) when the outstanding balance of the revolving credit facility and the tranche A term loan will be due, and the tranche B term loan. The Notes will be due in February 2023, but if not refinanced by August 2022, our revolving credit facility and term A facility will have an earlier maturity as described above. Any limitation on the availability of funds or credit facilities could have an impact on our ability to refinance the maturing debt or react to changing economic and business conditions which could adversely impact us.

Volatility in the financial markets may negatively impact WEX Bank’s ability to attract and retain deposits.

Adverse conditions in the credit market may limit WEX Bank’s ability to attract deposits at a time when it would like or need to do so. A significant credit ratings downgrade, material capital market disruptions, significant withdrawals by depositors at WEX Bank, or adverse changes to its industrial bank charter could impact our ability to maintain adequate liquidity and impact our ability to provide competitive offerings to our customers. Any limitation of availability of deposits could have an impact on our ability to finance our U.S. accounts receivable which would adversely impact us.

Our industrial bank subsidiary is subject to funding risks associated with its reliance on brokered deposits.

Under applicable regulations, if WEX Bank were no longer “well capitalized,” it would not be able to accept brokered deposits without the approval of the FDIC. WEX Bank’s inability to accept brokered deposits, or a loss of a significant amount of its brokered deposits, could adversely affect our liquidity. Additionally, such circumstances could require it to raise deposit rates in an attempt to attract new deposits, or to obtain funds through other sources at higher rates, which would adversely affect our results of operations.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, and to fund capital expenditures, acquisitions and research and development efforts will depend on our ability to generate cash. This, to a certain extent, is subject to economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We have substantial indebtedness, and may incur additional indebtedness, which could lead to increased interest expense and could increase the amount of cash flows required to fund interest expense associated with our indebtedness. In addition, certain obligations under the 2016 Credit Agreement bear interest at variable interest rates. As of December 31, 2018, we maintained four forward-fixed interest rate swap agreements which are intended to fix the future interest payments associated with $950 million of our variable-rate borrowings. On March 12, 2019, we entered into an additional $450 million in forward-fixed rate swaps. These swap agreements expire at various points prior to the maturity of the 2016 Credit Agreement. Despite these derivative contracts, interest rate increases still could result in larger debt service requirements. Such an increase in our debt service obligations would adversely affect our cash flows. We cannot assure you that our business will generate sufficient cash flows from operations, that anticipated cost savings and operating improvements will be realized on schedule or at all, that future borrowings will be available to us under our 2016 Credit Agreement or any subsequent credit agreement, or that we can obtain alternative financing proceeds in an amount sufficient to enable us to pay our indebtedness, including the Notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the Notes, at or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

The debt service obligations under our 2016 Credit Agreement could also reduce funds available for working capital, capital expenditures, acquisitions and other general corporate purposes and may create competitive disadvantages relative to other companies with lower debt levels. As part of our continuing strategy, we also regularly evaluate potential acquisitions that could cause us to incur additional debt. If we do not achieve the expected benefits and cost savings from any such acquisitions, or if the financial performance of the combined companies do not meet expectations, then our ability to service our indebtedness may be adversely impacted.

In an environment of increasing interest rates, interest expense on the variable rate portion of our borrowings would increase and we may not be able to replace our maturing debt with new debt that carries the same interest rates. We may be adversely affected by significant changes in the brokered deposit market.

Our industrial bank subsidiary, WEX Bank, uses collectively brokered deposits, including certificates of deposit and interest-bearing money-market deposits, to finance payments to major oil companies. Certificates of deposit carry fixed interest rates from issuance to maturity, which vary and are relatively short term in duration. The interest-bearing money market deposits carry variable rates. Upon maturity, the deposits will likely be replaced by issuing new deposits to the extent that they are needed. In a rising interest rate environment, WEX Bank would not be able to replace maturing deposits with deposits that carry the same or lower interest rates. Therefore, rising interest rates would result in reduced net income to the extent that certificates of deposit and money market deposits mature and are replaced. At December 31, 2018, WEX Bank had outstanding $505.6 million in certificates of deposit maturing within one year, $345.2 million in certificates of deposit maturing between one and five years, and $283.8 million in interest-bearing money market deposits, for an aggregate exposure of $1,134.6 million in brokered deposits at WEX Bank.

Additionally, under our 2016 Credit Agreement and Notes, we had $2,145.1 million of indebtedness outstanding at December 31, 2018, of which approximately 34% was at variable interest rates. An increase in interest rates would increase the cost of borrowing under our 2016 Credit Agreement.

Our 2016 Credit Agreement uses LIBOR as a reference rate for our term loans and revolving credit facility, such that the interest due pursuant to such loans may be calculated using LIBOR (subject to a stated minimum value). On July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop encouraging or compelling banks to submit rates for the calibration of LIBOR by the end of 2021. In June 2017, the Alternative Reference Rates Committee selected the Secured Overnight Financing Rate (“SOFR”), a new index calculated by reference to short-term repurchase agreements backed by Treasury securities, as its preferred replacement for U.S. dollar LIBOR. Whether or not SOFR attains market acceptance as a LIBOR replacement tool remains in question. As such, the future of LIBOR and the potential alternatives at this time is uncertain. If the method for calculation of LIBOR changes, if LIBOR is no longer available or if lenders have increased costs due to changes in LIBOR or changes in law, we may suffer

Table of Contents

from potential increases in interest rate costs on our floating debt rate and our hedging arrangements may not perform as expected. Further, we may need to renegotiate our 2016 Credit Agreement and the variable rate loans thereunder to replace the interest rate calculated by reference to LIBOR with an interest rate calculated by reference to a new standard that is established.

The Dodd-Frank Act may have a significant impact on our business, results of operation and financial condition.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, was enacted into law. The Dodd-Frank Act, among other things, when fully implemented, will result in substantial changes in the regulation of derivatives and capital market activities. The impact of the Dodd-Frank Act is difficult to assess because many provisions are being phased in over time and because the current Presidential administration has indicated it may make or propose changes to provisions of the Dodd-Frank Act. In particular, the Dodd-Frank Act establishes federal oversight and regulation of the over-the-counter derivatives market and entities that participate in that market. The rules, if enacted in their proposed form, may require us to change any fuel price, currency and interest rate hedging practices we may then use to comply with new regulatory requirements. Potential changes include clearing and execution methodology of our derivatives transactions. Presently, we cannot assess the capital or margin requirements which might apply to our over-the-counter transactions. Once implemented, these changes could result in increased transaction costs. In summary, the Dodd-Frank Act and any new regulations could increase the cost of derivative contracts or modify the way in which we conduct those transactions. Additionally, we are required to pay to the lenders under the 2016 Credit Agreement, any increased costs associated with the Dodd-Frank Act and other changes in laws, rules or regulations, subject to the terms of the 2016 Credit Agreement.

The Dodd-Frank Act also created the CFPB, to regulate the offering of consumer financial products or services under the federal consumer financial laws. The CFPB assumed rulemaking authority under the existing federal consumer financial protection laws, and enforces those laws against and examines certain non-depository institutions and insured depository institutions with total assets greater than $10 billion and their affiliates. In addition, the CFPB was granted general authority to prevent covered persons or service providers from committing or engaging in unfair, deceptive or abusive acts or practices under federal law in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The CFPB also has broad rulemaking authority for a wide range of consumer protection laws. It is unclear what changes will be promulgated by the CFPB and what effect, if any, such changes would have on our business and operations.

As required under the Dodd-Frank Act, the Government Accountability Office issued its study on the implications of any elimination of the exemption to the definition of “bank” for industrial banks under the Bank Holding Company Act. The study did not make a recommendation regarding the elimination of this exemption. However, if this exemption were eliminated without any grandfathering or accommodations for existing institutions, we could be required to become a bank holding company which could require us to either cease certain activities or divest WEX Bank.

The current U.S. Administration and Congress have signaled their intent to significantly or completely repeal the Dodd-Frank Act and the associated implementing regulations, and it is unclear what, if any, measures may be implemented to replace it. Accordingly, there may be an extended period of uncertainty and unpredictability regarding the provisions of federal law and regulations that affect our business and operations.

The Dodd-Frank Act and any related legislation or regulations, or any repeal or replacement of such legislation or regulations, may have a material impact on our business, results of operations and financial condition. The full impact of the Dodd-Frank Act will not be known until all of the regulations implementing the statute are adopted and implemented. However, compliance with these new laws and regulations may require us to make changes to our business, and, there is a significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden and compliance costs. We may be required to invest significant management time and resources to address the various provisions of the Dodd-Frank Act and the numerous regulations that are required to be issued under it, or to address the changed business environment resulting from a repeal of all or part of the Dodd Frank Act and any related legislation or regulation.

Decreased demand for fuel and other vehicle products and services could harm our business and results of operations.

Demand for fuel and other vehicle products and services may be reduced by factors that are beyond our control, such as the implementation of fuel efficiency standards and the development by vehicle manufacturers and adoption by our fleet customers of vehicles with greater fuel efficiency or alternative fuel sources. To the extent that our customers require less fuel, that decline in purchase volume could reduce our revenues, limiting our profitability and preventing us from taking on other initiatives.

Table of Contents

Our business is dependent on several key strategic relationships, the loss of which could adversely affect our results of operations.

Revenue we received from services we provided to our top five customers and strategic relationships accounted for approximately 13 percent of our total revenues in 2018. Accordingly, we are dependent on maintaining our strategic relationships and our results of operations would be lower in the event that any of these relationships ceases to exist. Likewise, we have agreements with the major oil companies, fuel retailers and truck stop merchants whose locations accept our payment processing services. The termination of any of these agreements would reduce the number of locations where our payment processing services are accepted; therefore, we could lose our competitive advantage and our operating results could be adversely affected. While we regularly monitor these relationships, there can be no guarantee that we will be able to maintain them in the future.

We may never realize the anticipated benefits of acquisitions we have completed or may undertake.

We have acquired and may attempt to acquire businesses, technologies, services, products or licenses in technologies that we believe are a strategic fit with our business. The process of integrating and operating any acquired business, technology, service or product may result in unforeseen redundancies, operating difficulties, and expenditures and may divert significant management attention from our ongoing business operations. As a result, we may incur a variety of costs in connection with acquisitions and may never realize the anticipated benefits.

We are exposed to risks associated with operations outside of the United States, which could harm both our U.S. and international operations.

We conduct operations in North America, South America, Asia Pacific and Europe. As part of our business strategy and growth plan, we plan to further expand internationally. Expansion of our international operations could impose substantial burdens on our resources, divert management’s attention from U.S. operations and otherwise harm our business. In addition, there are many barriers to competing successfully in the international market, including:

- fluctuation in foreign currencies;
- changes in the relations between the United States and foreign countries;
- actions of foreign or United States governmental authorities affecting trade and foreign investment;
- increased infrastructure costs including complex legal, tax, accounting and information technology laws and treaties;
- interpretation and application of local laws and regulations including, among others, those impacting anti-money laundering, bribery, financial transaction reporting, privacy and positive balance or prepaid cards;
- enforceability of intellectual property and contract rights;
- potentially adverse tax consequences due to, but not limited to, the repatriation of cash and negative consequences from changes in or interpretations of tax laws
- competitive pressure on products and services from companies based outside the U.S. that can leverage lower costs of operations;
- the United Kingdom’s decision in a June 23, 2016 referendum to leave the European Union (EU) (commonly referred to as “Brexit”); and
- local labor conditions and regulations.

We cannot assure you that our investments outside the United States will produce desired levels of revenue or costs, or that one or more of the factors listed above will not harm our business.

The United Kingdom’s departure from the EU, or Brexit, could adversely affect us.

In connection with Brexit, in March 2017, the U.K. government initiated the exit process which commenced a two-year period expiring on March 29, 2019, after which time the U.K. is expected to leave the EU in the absence of any effective extension of the negotiation period. Although political negotiations are underway, there is a lack of understanding about the terms of the U.K.’s exit from the EU and the terms of the U.K.’s future relationship with the EU. The U.K.’s

Table of Contents

financial service regulators are implementing interim regimes under which companies may continue to conduct business in the U.K. if the U.K. exits the EU without an agreement but their impact on us remains uncertain.

Although the circumstances surrounding Brexit remain unclear, Brexit could adversely affect U.K., regional (including European), and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the British Pound Sterling and Euro, which in turn could adversely affect us or our customers and companies that do business with us. Brexit could also trigger a general deterioration in credit conditions, a downturn in consumer sentiment and overall negative economic growth. Any of these scenarios could have an adverse effect on our business or our customers.

In addition, Brexit could lead to legal uncertainty and increased complexity as national laws and regulations in the U.K. start to diverge from EU laws and regulations. In particular, depending on the terms of Brexit, we may face new regulatory costs and challenges, including the following:

- if we are unable to utilize appropriate authorizations and regulator permissions, our U.K. and EU-based operations could lose their ability to offer services on a cross-border basis into the U.K. market and for our U.K. based operations to offer services on a cross-border basis in the EU market;
- we could be required to obtain additional regulatory permissions to operate in the U.K. and EU market, adding costs and potential inconsistency to our business (and, depending on the capacity of the U.K. authorities, the criteria for obtaining permission, and any possible transitional arrangements, there is a risk that our business in the U.K. could be materially affected or disrupted);
- we could be required to comply with regulatory requirements in the U.K. that are in addition to, or inconsistent with, the regulatory requirements of the EU, leading to increased complexity and costs for our EU and U.K. operations; and
- our ability to attract and retain the necessary human resources in appropriate locations to support the U.K. business and the EU business could be adversely impacted.

These and other factors related to Brexit could, individually or in the aggregate, have a material adverse impact on our business, financial condition, and results of operations.

New laws, regulations and enforcement activities could negatively impact our business and the markets we presently operate in or could limit our expansion opportunities.

Our operations are subject to substantial regulation both domestically and internationally. There are often new regulatory efforts which could result in significant constraints and may impact our operations. These existing and emerging regulations can make the expansion of our business very difficult and negatively impact our revenue. Among the regulations that impact us or could impact us are those governing: interchange rates; interest rate and fee restrictions; credit access and disclosure requirements; collection and pricing requirements; compliance obligations; data security and data breach requirements; identity theft avoidance programs; health care mandates; and anti-money laundering compliance programs. We also often must obtain permission to conduct business in new locations from government regulators. Changes to these regulations, including expansion of consumer-oriented regulation to business-to-business transactions, could negatively impact our operations, financial condition and results of operations and could further increase our compliance costs and limit our ability to expand to new markets.

We also conduct business with other highly regulated businesses such as banks, payment card issuers, and health insurance providers. These industries are subject to significant potential reforms that could negatively affect these businesses, their ability to maintain or expand their products and services, and the costs associated with doing so. These developments could also negatively impact our business.

Laws or regulations developed in one jurisdiction or for one product could result in new laws or regulations in other jurisdictions or for other products.

Regulators often monitor other approaches to the governance of the payment industry. As a result, a law or regulation enacted in one jurisdiction could result in similar developments in another. In addition, law and regulation involving one product could influence the extension of regulations to other product offerings.

The expansion of certain regulations could negatively impact our business in other geographies or for other products. Rules and regulations concerning interchange and business operations regulations, for example, may differ from country to country which adds complexity and expense to our operations.

These varying and increasingly complex regulations could limit our ability to globalize our products and could significantly and adversely affect our business, financial condition and results of operations.

Regulations and industry standards intended to protect or limit access to personal information could adversely affect our ability to effectively provide our services.

Governmental bodies in the United States and abroad have adopted, or are considering the adoption of, laws and regulations restricting the transfer of, and requiring safeguarding of, non-public personal information. For example, in the United States, all financial institutions must undertake certain steps to ensure the privacy and security of consumer financial information. In Europe, the adoption of General Data Protection Regulation (commonly referred to as GDPR) also requires additional privacy protections. In connection with providing services to our clients, we are required by regulations and arrangements with payment networks and certain clients to provide assurances regarding the confidentiality and security of non-public consumer information. These arrangements require periodic audits by independent companies regarding our compliance with industry standards such as payment card industry, or PCI, standards and also allow for similar audits regarding best practices established by regulatory guidelines. The compliance standards relate to our infrastructure and operational procedures designed to safeguard the confidentiality and security of non-public consumer personal information received from our customers. Our ability to maintain compliance with these standards and satisfy these audits will affect our ability to attract and maintain business in the future. If we fail to comply with these regulations, we could be exposed to suits for breach of contract or to governmental proceedings. In addition, our client relationships and reputation could be harmed, and we could be inhibited in our ability to obtain new clients. If more restrictive privacy laws or rules are adopted by authorities in the future on the federal or state level, our compliance costs may increase, our opportunities for growth may be curtailed by our compliance capabilities or reputational harm and our potential liability for security breaches may increase, all of which could have a material adverse effect on our business, financial condition and results of operations.

Changes in our tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities could affect our future results.

We are subject to taxes in the U.S. and numerous foreign jurisdictions. Our future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation. Any of these changes could have a material adverse effect on our profitability. For example, the 2017 Tax Act enacted in December 2017 had a significant impact on our tax obligation and effective tax rate for the fourth quarter of 2017. We are also subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for taxes. There can be no assurance that the outcomes from these examinations will not materially adversely affect our financial condition and operating results.

We urge our stockholders to consult with their legal and tax advisors with respect to this legislation and the potential tax consequences of investing in or holding our common stock.

The healthcare industry changes often and technology-enabled services used by consumers are relatively new and unproven.

The market for technology-enabled services for healthcare consumers changes rapidly and new products and services are consistently being introduced. Opportunities to gain market share are challenging due to the significant resources of our existing and potential competitors. It is uncertain whether or how fast this market will continue to grow. In order to remain competitive, we are continually involved in a number of projects to develop new services or compete with these new market entrants, including the development of mobile versions of our proprietary technology platform. These projects carry risks, such as cost overruns, delays in delivery, performance problems and lack of acceptance by our customers.

Based on our experience, consumers are still learning about health savings accounts, which are often referred to as HSAs, and other similar tax-advantaged healthcare savings arrangements. The willingness of consumers to increase their use of technology platforms to manage their healthcare saving and spending tax advantaged benefits will impact our operating results.

We may incur impairment charges on goodwill or other intangible assets.

We account for goodwill in accordance with Financial Accounting Standards Board, which is often referred to as FASB, Accounting Standard Codification Topic 350, Intangibles—Goodwill and Other. Our reporting units and related indefinite-lived intangible assets are tested annually during the fourth fiscal quarter of each year in order to determine whether their carrying value exceeds their fair value. In addition, they are tested on an interim basis if an event occurs or

Table of Contents

circumstances change between annual tests that would more likely than not reduce their fair value below carrying value. If we determine the fair value of the goodwill or other indefinite-lived intangible assets is less than their carrying value as a result of the tests, an impairment loss is recognized. Any such write-down would adversely affect our results of operations.

Our goodwill resides in multiple reporting units. The profitability of individual reporting units may suffer periodically from downturns in customer demand and other factors, the high level of competition existing within our industry, and the level of overall economic activity. Individual reporting units may be relatively more impacted by these factors than the Company as a whole. As a result, demand for the services of one or more of the reporting units could decline which could adversely affect our operations and cash flow, and could result in an impairment of goodwill or intangible assets. As a result of our annual impairment analyses during the fourth quarter of fiscal 2018, it was determined that an impairment had occurred, resulting in a $3.2 million impairment recorded on one of our reporting units. See Note 9, Goodwill and Other Intangible Assets, for more information. For all reporting units, we use a discounted cash flow model of the projected earnings of reporting units to determine the amount of goodwill impairment. While we currently believe that the fair value of all of our intangibles substantially exceeds carrying value and that those intangibles so classified will contribute indefinitely to the cash flows of the Company, materially different assumptions regarding future performance of our reporting units or the weighted-average cost of capital used in the valuations could result in impairment losses and/or additional amortization expense.

If our industrial bank subsidiary fails to meet certain criteria, we may become subject to regulation under the Bank Holding Company Act, which could force us to divest WEX Bank or cease all of our non-banking activities, which could have an adverse effect on our revenue and business or could create a default under our 2016 Credit Agreement.

WEX Bank meets the criteria for exemption of an industrial bank from the definition of “bank” under the Bank Holding Company Act. WEX Bank’s failure to qualify for this exemption would cause us to become subject to regulation under the Bank Holding Company Act. This would require us to divest WEX Bank or become a Bank Holding Company and to possibly cease certain non-banking activities which may be impermissible for a Bank Holding Company, and could create a default under our 2016 Credit Agreement. Failure to qualify for this exemption could thus have an adverse effect on our revenue and business.

The loss or suspension of the charter for our Utah industrial bank or changes in regulatory requirements could be disruptive to operations and increase costs.

The regulatory status of WEX Bank enables it to issue certificates of deposit, accept money market deposits and borrow on federal funds lines of credit from other banks. These funds are used to support our operations. WEX Bank operates under a uniform set of state lending laws, and its operations are subject to extensive state and federal regulation. WEX Bank, a Utah industrial bank incorporated in 1998, is an FDIC-insured depository institution. The bank’s primary regulators are the Utah DFI and the FDIC. Continued licensing and federal deposit insurance are subject to ongoing satisfaction of compliance and safety and soundness requirements. If WEX Bank were to lose its bank charter, we would either outsource our credit support activities or perform these activities ourselves, which would subject us to the credit laws of each individual state in which we conduct business. Furthermore, we could not be a MasterCard and/or Visa issuer and would have to work with another financial institution to issue the product or sell the portfolio. Any such change would be disruptive to our operations and could result in significant incremental costs. In addition, changes in the bank regulatory environment, including the implementation of new or varying measures or interpretations by the State of Utah or the federal government, may significantly affect or restrict the manner in which we conduct business in the future or could create a default under our 2016 Credit Agreement.

We are subject to extensive supervision and regulation that could restrict our activities and impose financial requirements or limitations on the conduct of our business and limit our ability to generate income.

We are subject to extensive federal and state regulation and supervision, including that of the FDIC, the CFPB, and the Utah DFI. Banking regulations are primarily intended to protect depositors’ funds, federal deposit insurance funds and the banking system as a whole, not shareholders or noteholders. These regulations affect our payment operations, capital structure, investment practices, dividend policy and growth, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, damages, civil money penalties or reputational damage, which could have a material adverse effect on our business, financial condition and results of operations.

While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. The U.S. Congress and federal regulatory agencies frequently revise banking and securities laws, regulations and policies. We cannot predict whether or in what form any other proposed regulations or statutes will be adopted or the extent to which our business may be affected by any new regulation or statute. Such changes could subject our business to additional costs, limit the types of financial services and products we may offer and increase the ability of non-banks to offer competing financial services and products, among other things.

Our industrial bank subsidiary is subject to regulatory capital requirements that may require us to make capital contributions to this subsidiary, and that may restrict the ability of the subsidiary to make cash available to us.

WEX Bank must maintain minimum amounts of regulatory capital. If WEX Bank does not meet these capital requirements, its regulators have broad discretion to institute a number of corrective actions that could have a direct material effect on our financial condition. WEX Bank, as an institution insured by the FDIC, must maintain certain capital ratios, paid-in capital minimums and adequate allowances for loan losses. Under the Dodd-Frank Act, we are also required to serve as a source of financial strength for WEX Bank. If WEX Bank were to fail to meet any of the capital requirements to which it is subject, or if required under Dodd-Frank’s source of strength requirements, we may be forced to provide WEX Bank with additional capital, which could impair our ability to service our indebtedness or may not be permitted under the terms of our 2016 Credit Agreement or Notes. To pay any dividend, WEX Bank must maintain adequate capital above regulatory guidelines. Accordingly, WEX Bank may be unable to make any of its cash or other assets available to us, including to service our indebtedness.

We are subject to limitations on transactions with our industrial bank subsidiary, which may limit our ability to engage in transactions with and obtain credit from our industrial bank.

Sections 23A and 23B of the FRA and the implementing regulations limit the extent to which we can borrow or otherwise obtain credit from or engage in other “covered transactions” with WEX Bank. “Covered transactions” include loans or extensions of credit, purchases of or investments in securities, purchases of assets, including assets subject to an agreement to repurchase, acceptance of securities as collateral for a loan or extension of credit, or the issuance of a guarantee, acceptance, or letter of credit. Although the applicable rules do not serve as an outright ban on engaging in “covered transactions,” they do limit the amount of covered transactions WEX Bank may have with any one affiliate and with all affiliates in the aggregate. The applicable rules also require that we engage in such transactions with WEX Bank only on terms and under circumstances that are substantially the same, or at least as favorable to WEX Bank, as those prevailing at the time for comparable transactions with nonaffiliated companies. Furthermore, with certain exceptions, each loan or extension of credit by WEX Bank to the Company or its other affiliates must be secured by collateral with a market value ranging from 100 percent to 130 percent of the amount of the loan or extension of credit, depending on the type of collateral. Accordingly, WEX Bank may be unable to provide credit or engage in transactions with us, including transactions intended to help us service our indebtedness.

If the technologies we use in operating our business and interacting with our customers fail, are unavailable, or do not operate to expectations, or we fail to successfully implement technology strategies and capabilities in connection with our outsourcing arrangements, our business and results of operation could be adversely impacted.

We utilize a combination of proprietary and third-party technologies, including third-party owned and operated "cloud" technologies, to conduct our business and interact with our customers, partners and suppliers, among others. This includes technology that we have developed, have contracted with others to develop, have outsourced to a single provider to operate or have obtained through third-parties by way of service agreements. To the extent that our proprietary technology or a third-party providers’ technology does not work as agreed to or as expected, or if we experience outages or unavailability resulting from their operations and the services they provide to us, our ability to efficiently and effectively deliver services could be adversely impacted and our business and results of operations could be adversely affected. Similarly, any failure by our customers or partners to access the technology that we develop internally could have an adverse effect on our business, results of operations and financial condition. Although we make substantial investments in technology, there is no guarantee that it will function as intended once it is placed into operation. Lastly, given our reliance on technology, we regularly assess our technology plans, including both platforms and technology infrastructure. To the extent that we conclude that certain technologies should be retired, that existing platforms should be consolidated, or that we should change our technology strategies, we may be required to impair or accelerate depreciation on certain assets. Any of these potential changes or failures in our technology strategies may also divert management’s attention and have a material adverse effect on our business and results of operations.

Our business is regularly subject to cyberattacks and attempted security and privacy breaches and we may not be able to adequately protect our information systems, including the data we collect about our customers, which could subject us to liability and damage our reputation.

We collect and store data about our customers and their fleets, including bank account information and spending data. Our customers expect us to keep this information in our confidence. In certain instances, the information we collect includes social security numbers. As a result of applicable laws, we are required to take commercially reasonable measures

Table of Contents

to prevent and mitigate the impact of cyberattacks, as well as the unauthorized access, acquisition, release and use of "personally identifiable information," such as social security numbers. While social security numbers constitute a very small part of the data we keep, in the event of a security breach we would be required to determine the types of information compromised and determine corrective actions and next steps under applicable laws, which would require us to expend capital and other resources to address the security breach and protect against future breaches. An increasing number of organizations, including large on-line and off-line merchants and businesses, large Internet companies, financial institutions, and government institutions, have disclosed breaches of their information security systems, some of which have involved sophisticated and highly targeted attacks, including on portions of their websites or infrastructure. Like those companies, we too, are subject to regular and repeated attempts to breach our information security protections.

As outsourcing, specialization of functions, third-party digital services and technology innovation within the payments industry increase (including with respect to mobile technologies, tokenization, big data and cloud storage solutions), more third parties are involved in processing card transactions and there is a risk the confidentiality, integrity, privacy and/or security of data held by, or accessible to, third parties, including merchants that accept our cards, payment processors and our business partners, may be compromised, which could lead to unauthorized transactions on our cards and costs associated with responding to such an incident. In addition, high profile data breaches could change consumer behaviors, impact our ability to access data to make product offers and credit decisions and result in legislation and additional regulatory requirements.

The techniques used in attempts to obtain unauthorized, improper or illegal access to our systems, our data or our customers' data, to degrade service, or to sabotage our systems are constantly evolving, are difficult to detect quickly, and may not be recognized until after a successful penetration of our information security systems. Unauthorized parties attempt to gain access to our systems or facilities through various means, including, among others, targeting our systems or facilities or our third-party vendors or customers, or attempting to fraudulently induce our employees, partners, customers or others into disclosing user names, passwords, payment card information, or other sensitive information, which may in turn be used to access our information technology systems. Certain efforts may be state-sponsored and supported by significant financial and technological resources, making them even more difficult to detect. Like many companies, we are a target for such breaches and attacks. Although we have developed systems and processes that are designed to protect our data and customer data and to prevent data loss and other security breaches, and will continue to expend significant additional resources to bolster these protections, these security measures cannot provide absolute security. Our information technology and infrastructure may be vulnerable to successful cyberattacks or security breaches, and third parties may be able to access our customers' personal or proprietary information and data that are stored on or accessible through those systems.

Our security measures may also be breached due to employee error, malfeasance, system errors or vulnerabilities, or other irregularities. Any actual or perceived breach of our security could interrupt our operations; result in our systems or services being unavailable; result in improper disclosure of data; materially harm our reputation and brand; result in significant legal and financial exposure; lead to loss of customer confidence in, or decreased use of, our products and services; and, adversely affect our business and results of operations. Any breaches of network or data security at our partners, some of whom maintain information about our customers, or breaches of our customers' systems could have similar effects. In addition, our customers could have vulnerabilities on their own computer systems that are entirely unrelated to our systems, but could mistakenly attribute their own vulnerabilities to us. While we take commercially appropriate steps to safeguard data used by and contained on the systems of our partners, customers and vendors, we cannot control all access to those systems and they are therefore subject to potential cyberattacks and fraud. Furthermore, as we have increased the number of platforms as well as the size of our networks and information systems, our reliance on these technologies have become increasingly important to our operating activities. The potential negative impact that a platform, network or information system shutdown may have on our operating activities has increased. Shutdowns may be caused by cyberattacks and unexpected catastrophic events such as natural

disasters or other unforeseen events, such as software or hardware defects or cyber-attacks by groups or individuals.
Under the Financial Services Modernization Act of 1999, also referred to as the “Gramm-Leach-Bliley Act” or GLBA, and some state laws, we and WEX Bank are required to maintain a comprehensive written information security program that includes administrative, technical and physical safeguards relating to consumer information. This requirement generally does not extend to information about companies or about individuals who obtain financial products or services for business, commercial, or agricultural purposes.

The GLBA also requires us and WEX Bank to provide initial and annual privacy notices to customers that describe in general terms our information sharing practices. If we or WEX Bank intend to share nonpublic personal information about consumers with affiliates and/or nonaffiliated third parties, we and WEX Bank must provide customers with a notice and a reasonable period of time for each customer to “opt out” of any such disclosure. In addition to U.S. federal privacy laws with which we must comply, states also have adopted statutes, regulations and other measures governing the collection and distribution of nonpublic personal information about customers. In some cases these state measures are preempted by federal law, but if not, we and WEX Bank must monitor and seek to comply with individual state privacy laws in the conduct of our businesses.

When we handle individually identifiable health information, regulations issued under Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the Health Information Technology for Economic and Clinical Health Act, or HITECH, our contracts with our customers, and supplemental state laws require us to implement privacy and data security measures and to comply with breach notification requirements. We may be subject to contractual damages and civil or criminal penalties if we are found to violate these privacy, security and breach notification requirements.

Our efforts to comply with existing and future health and financial data laws and regulations, both in the U.S. and abroad, is costly and time-consuming. Incidents involving our handling of this protected and sensitive information may consume significant financial and managerial resources and may damage our reputation, which may discourage customers from using, renewing, or expanding their use of our services.

Any security breach, inadvertent transmission of information about our customers, failure to comply with applicable breach notification and reporting requirements, or any violation of international, federal or state privacy laws could expose us to liability in excess of any applicable insurance policies, litigation, regulatory scrutiny, and/or cause damage to our reputation. We may also be required to expend significant resources to implement additional data protection measures or to modify the features and functionality of our system offerings in a way that is less attractive to customers.

Our failure to effectively implement new technology could jeopardize our position as a leader in our industry.

As a provider of information management and payment processing services, we must constantly adapt and respond to the technological advances offered by our competitors and the informational requirements of our customers, including those related to the Internet, in order to maintain and improve upon our competitive position. We may not be able to expand our technological capabilities and service offerings as rapidly as our competitors, which could jeopardize our position as a leader in our industry.

We are dependent on technology systems and electronic communications networks managed by third parties, which could result in our inability to prevent service disruptions.

Our ability to process and authorize transactions electronically depends on our ability to electronically communicate with our fuel and vehicle maintenance providers through point-of-sale devices and electronic networks that are owned and operated by third parties. The electronic communications networks upon which we depend are often subject to disruptions of various magnitudes and durations. Any severe disruption of one or more of these networks could impair our ability to authorize transactions or collect information about such transactions, which, in turn, could harm our reputation for dependable service and adversely affect our results of operations. In addition, our ability to collect enhanced data relating to our customers’ purchases may be limited by the use of older point-of-sale devices by fuel and vehicle maintenance providers. To the extent that fuel and vehicle maintenance providers within our network are slow to adopt advanced point-of-sale devices, we may not be able to offer the latest services and capabilities that our customers demand.

Our industry continues to become increasingly competitive, which makes it more challenging for us to maintain profit margins at historical levels.

We face and expect to continue to face competition in each category of the overall industry from several companies that seek to offer competing capabilities and services. Historically, we have been able to provide customers with a wide spectrum of services and capabilities and, therefore, we have not considered price to be the exclusive or even the primary basis on which we compete. As our competitors have continued to develop their service offerings, it has become increasingly more challenging for us to compete solely on the basis of superior capabilities, technology, customer integration or service. In some areas of our business we have been forced to respond to competitive pressures by reducing our fees. We have seen erosion of our historical profit margins as we encourage existing strategic relationships to sign long-term contracts. If these trends continue and if competition intensifies, our profitability may be adversely impacted.

While we have traditionally offered our services to several categories of the payments industry, with a focus on fleet, corporate payments and health in recent years, some of our competitors have successfully garnered significant share in particular categories of payments. To the extent that our competitors are regarded as leaders in specific categories, they may have an advantage over us as we attempt to further penetrate these categories.

Table of Contents

We also face increased competition in our efforts to enter into new strategic relationships and renew existing strategic relationships on similar terms.
Compliance with anti-money laundering laws and regulations creates additional compliance costs and reputational risk.
We must monitor and report unusual or suspicious account activity, as well as transactions involving amounts in excess of prescribed limits, as required by the Bank Secrecy Act and Internal Revenue Service regulations and other regulations. The USA PATRIOT Act of 2001 imposes significant anti-money laundering compliance and due diligence obligations on financial institutions, including WEX Bank. Financial regulators have issued various implementing regulations and have made enforcement a top priority. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could result in the imposition of fines or penalties and other serious legal and reputational consequences which may impact our financial results.

Evolution and expansion of our business may subject us to additional regulatory requirements and other risks, for which failure to comply or adapt could harm our operating results.

The evolution and expansion of our business may subject us to additional risks and regulatory requirements, including laws governing money transmission and payment processing services. These requirements vary throughout the markets in which we operate, and have increased over time as the geographic scope and complexity of our payments product services have expanded. While we maintain a compliance program focused on applicable laws and regulations throughout the payments industry, there is no guarantee that we will not be subject to fines, criminal and civil lawsuits or other regulatory enforcement actions in one or more jurisdictions, or be required to adjust business practices to accommodate future regulatory requirements.

In order to maintain flexibility in the growth and expansion of our payments operations, we have obtained money transmitter licenses (or their equivalents) in several states and expect to continue the license application process in additional jurisdictions throughout the United States as needed to accommodate new product development. Our efforts to acquire and maintain these licenses could result in significant management time, effort, and cost, and may still not guarantee compliance given the constant state of change in these regulatory frameworks. Accordingly, costs associated with changes in compliance requirements, regulatory audits, enforcement actions, reputational harm, or other regulatory limits on our ability to grow our payment processing business could adversely affect our financial results.
Our increased presence in foreign jurisdictions increases the possibility of foreign law violations or violation of the U.S. Foreign Corrupt Practices Act (“FCPA”), the United Kingdom Bribery Act of 2010 (“UKBA”) and the Brazilian Anti-Corruption Law (“ACL”).
We are subject to the FCPA, the ACL and the UKBA, as we own subsidiaries organized under UK and Brazilian law, which serve as a holding companies for other subsidiaries. While the FCPA generally prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business, the UKBA is broader in its reach and prohibits bribery in purely commercial contexts. Any violation of the FCPA, the UKBA or similar laws and regulations, including the ACL, could result in significant expenses, divert management attention, and otherwise have a negative impact on us. Any determination that we have violated the FCPA, UKBA, ACL or laws of any other jurisdiction could subject us to, among other things, penalties and legal expenses that could harm our reputation and have a material adverse effect on our financial condition and results of operation. The possibility of violations of the FCPA, UKBA, ACL or similar laws or regulations may increase as we expand globally and into countries with recognized corruption problems.
The failure to maintain effective systems of internal control over financial reporting and disclosure controls and procedures could result in the inability to accurately report our financial results or prevent material misstatement due to fraud, which could cause current and potential shareholders to lose confidence in our financial reporting, adversely affect the trading price of our securities, harm our operating results or trigger a default under the 2016 Credit

Agreement.

Effective internal control over financial reporting and disclosure controls and procedures are necessary for us to provide reliable financial reports and effectively prevent fraud and operate successfully as a public company. The failure to develop or maintain effective internal control over financial reporting and disclosure controls and procedures could harm our reputation or operating results, or cause us to fail to meet our reporting obligations, or trigger a default under the 2016 Credit Agreement.

Table of Contents

Our financial reporting and disclosure controls and procedures are reliant, in part, on information we receive from disparate internal financial reporting systems and third parties that supply information to us regarding transactions that we process. In addition, because our strategy includes pursuing growth through acquisitions of other businesses, which are at different levels of maturity and which may have underdeveloped financial reporting systems and processes, we depend on dispersed financial systems to process, summarize and report financial transactions for our distributed operations. To the extent these systems do not properly transmit information to our financial ledgers, we could fail to properly summarize and report financial results.

As we expand our business operations domestically and internationally, and as we implement new accounting standards promulgated by the Financial Accounting Standards Board, we will need to maintain effective internal control over financial reporting and disclosure controls and procedures. If we are unable to do so, our external auditors could issue a qualified opinion on the effectiveness of our internal control over financial reporting.

Ineffective internal control over financial reporting and disclosure controls and procedures could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our securities or affect our ability to access the capital markets and could result in regulatory proceedings against us by, among others, the SEC. In addition, a material weakness in internal control over financial reporting may lead to deficiencies in the preparation of financial statements, which in turn could lead to litigation claims against us. The defense of any such claims may cause the diversion of management’s attention and resources, and we may be required to pay damages if any such claims or proceedings are not resolved in our favor. Any litigation, even if resolved in our favor, could cause us to incur significant legal and other expenses. Such events could also affect our ability to raise capital to fund future business initiatives.

We have identified material weaknesses in our internal control over financial reporting, and if we are unable to remediate such material weaknesses and to maintain effective internal control over financial reporting in the future, there could be an elevated possibility of a material misstatement, and such a misstatement could cause investors to lose confidence in our financial statements, which could have a material adverse effect on our stock price.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must report on its evaluation of our internal control over financial reporting. As disclosed in Item 9A of this report, we have identified material weaknesses as of December 31, 2018 in our internal control over financial reporting because we did not maintain an effective control environment at our Brazilian subsidiary, we did not have control activities that were designed and operating effectively at our Brazilian subsidiary and we did not have sufficient monitoring activities in place to ensure effective corporate oversight and monitoring of control activities at our individually insignificant subsidiaries. As a result of these material weaknesses, our external auditors have issued a qualified opinion indicating that we have not maintained effective internal control over financial reporting as of December 31, 2018.

Our management team has taken action to begin to remediate these material weaknesses, but we cannot be certain when the remediation will be completed. If we fail to fully remediate the material weaknesses or fail to maintain effective internal controls, it could result in a material misstatement of our financial statements, which could cause investors to lose confidence in our financial statements or cause our stock price to decline. These material weaknesses could also impact our ability to attract and retain new customers. In future periods, we may identify additional deficiencies in our system of internal control over financial reporting during the course of our remediation efforts that may require additional work to address. The generally manual nature of certain of our controls and those of companies we have acquired, as well as the age of our legacy systems increase our risk of control deficiencies. In addition, future acquisitions may present challenges in implementing appropriate and sustainable internal controls. Any future material weaknesses in internal control over financial reporting could result in material misstatements in our financial statements. Moreover, any future disclosures of additional weaknesses, or errors as a result of those weaknesses, could result in a negative reaction in the financial markets if there is a loss of confidence in the reliability of our financial reporting.

30

Table of Contents

Our ability to attract and retain qualified employees is critical to our success and the failure to do so may materially adversely affect our performance.

We believe our employees, including our executive management team, are our most important resource and, in our industry and geographic area, competition for qualified personnel is intense. If we were unable to retain and attract qualified employees, our performance could be materially adversely affected.

Risks Relating to Our Common Stock

If any entity controls 10 percent or more of our common stock and such entity has caused a violation of applicable banking laws by its failure to obtain any required approvals prior to acquiring that common stock, we have the power to, and may be required to, restrict such entity's ability to vote shares held by it.

As owners of a Utah industrial bank, we are subject to Utah banking regulations that require any entity that controls 10 percent or more of our common stock to obtain the prior approval of Utah banking authorities. Federal law also prohibits a person or group of persons from acquiring "control" of us unless the FDIC has been notified and has not objected to the transaction. Under the FDIC's regulations, the acquisition of 10 percent or more of a class of our voting stock would generally create a rebuttable presumption of control. In addition, our certificate of incorporation requires that if any stockholder fails to provide us with satisfactory evidence that any required approvals have been obtained, we may, or will if required by state or federal regulators, restrict such stockholder's ability to vote such shares with respect to any matter subject to a vote of our stockholders.

As a result of these regulatory requirements, certain existing and potential stockholders may choose not to invest or invest more in our stock. This could limit the number of potential investors and impact our ability to attract further funds.

Provisions in our charter documents, Delaware law and applicable banking law may delay or prevent our acquisition by a third party.

Our certificate of incorporation and by-laws contain several provisions that may make it more difficult for a third party to acquire control of us without the approval of our board of directors. These provisions include, among other things, a classified board of directors, the elimination of stockholder action by written consent, advance notice for raising business or making nominations at meetings of stockholders and "blank check" preferred stock. Blank check preferred stock enables our board of directors, without stockholder approval, to designate and issue additional series of preferred stock with such special dividend, liquidation, conversion, voting or other rights, including the right to issue convertible securities with no limitations on conversion, and rights to dividends and proceeds in a liquidation that are senior to the common stock, as our board of directors may determine. These provisions may make it more difficult or expensive for a third party to acquire a majority of our outstanding voting common stock. We also are subject to certain provisions of Delaware law, which could delay, deter or prevent us from entering into an acquisition, including Section 203 of the Delaware General Corporation Law, which prohibits a Delaware corporation from engaging in a business combination with an interested stockholder unless specific conditions are met. These provisions also may delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in our stockholders receiving a premium over the market price for their common stock.

In addition, because we own a Utah industrial bank, any purchaser of our common stock who would own 10 percent or more of our common stock after such purchase would be required to obtain the consent of Utah banking authorities and the federal banking authorities prior to consummating any such acquisition. These regulatory requirements may preclude or delay the purchase of a relatively large ownership stake by potential investors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

All of our facilities are leased. The following table presents the details of our principal leased properties as of December 31, 2018:

Property location	Square footage	Purpose of leased property	Segment
South Portland, Maine	217,200	Corporate headquarters, operations center and warehouse	All
Midvale, Utah	12,400	Bank operations	Fleet Solutions, Travel and Corporate Solutions
Melbourne, Australia	16,100	Australia fuel and prepaid card operations	Fleet Solutions, Travel and Corporate Solutions
São Paulo, Brazil	19,200	Brazil fuel, virtual and paycard operations	All
Crewe, England	14,700	European fuel operations	Fleet Solutions
Fargo, North Dakota	70,400	WEX Health operations	Health and Employee Benefit Solutions
Nashville, Tennessee	42,500	EFS Operations	Fleet Solutions, Travel and Corporate Solutions

As of December 31, 2018, construction was being finalized on a new 90,000 square foot corporate headquarters in Portland, Maine. Certain employees, including certain members of executive management, began occupying this facility in February 2019.

Additional financial information about our leased facilities appears in Item 8 – Note 19, Commitments and Contingencies, of our consolidated financial statements.

ITEM 3. LEGAL PROCEEDINGS

As of the date of this filing, we are not involved in any material legal proceedings. We also were not involved in any material legal proceedings that were terminated during the fourth quarter of 2018. From time to time, we are subject to legal proceedings and claims in the ordinary course of business, including but not limited to: commercial disputes; contract disputes; employment litigation; disputes regarding our intellectual property rights; alleged infringement or misappropriation by us of intellectual property rights of others; and, matters relating to our compliance with applicable laws and regulations. As of the date of this filing, the current estimate of a reasonably possible loss contingency from all legal proceedings is not material to the Company's consolidated financial position, results of operations, cash flows or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The principal market for the Company’s common stock is the NYSE and our ticker symbol is WEX. As of March 12, 2019, the closing price of our common stock was $176.44 per share, there were 43,135,385 shares of our common stock outstanding and there were 8 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners but whose shares are held in street name by brokers or nominees.

Dividends

The Company has not declared any dividends on its common stock since it commenced trading on the NYSE on February 16, 2005. The timing and amount of future dividends, if any, will be (i) dependent upon the Company’s results of operations, financial condition, cash requirements and other relevant factors, (ii) subject to the discretion of the Board of Directors of the Company and (iii) payable only out of the Company’s surplus or current net profits in accordance with the General Corporation Law of the State of Delaware.

The Company has certain restrictions on the dividends it may pay under its revolving credit agreement, including pro forma compliance with a ratio of consolidated funded indebtedness to consolidated EBITDA of 2.50:1.00 for the most recent period of four fiscal quarters.

Share Repurchases

On September 20, 2017, our board of directors approved a share repurchase program authorizing the purchase of up to $150 million of our common stock, expiring in September 2021. Share repurchases are to be made on the open market and can be commenced or suspended at any time.

We did not purchase any shares of our common stock during the year ended December 31, 2018. The approximate dollar value of shares that were available to be purchased under our share repurchase program was $150 million as of December 31, 2018.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our summary historical financial information for the periods ended and as of the dates indicated. The summary historical financial information has been changed to reflect the immaterial revision as more fully described in Item 8 – Note 1, Summary of Significant Accounting Policies of our consolidated financial statements. You should read the following historical financial information along with Item 7 and the consolidated financial statements and related notes thereto contained in this Form 10–K. The financial information included in the table below is derived from audited financial statements:

	December 31,				
(in thousands, except per share data)	2018	2017	2016	2015	2014
Income statement information, for the year ended					
Total revenues	$1,492,639	$1,248,577	$1,012,488	$853,949	$817,905
Total operating expenses	$1,112,001	$1,015,154	$853,963	$650,155	$538,443
Financing interest expense	$105,023	$107,067	$113,418	$46,189	$36,042
Net realized and unrealized gains on fuel price derivatives	$—	$—	$711	$5,848	$46,212
Net income attributable to shareholders	$168,295	$160,062	$23,499	$76,196	$174,921
Weighted average basic shares of common stock outstanding	43,156	42,977	40,809	38,771	38,890
Basic income per share	$3.90	$3.72	$0.58	$1.97	$4.50
Weighted average diluted shares of common stock outstanding	43,574	43,105	40,914	38,843	39,000
Diluted income per share	$3.86	$3.71	$0.57	$1.96	$4.49
Balance sheet information, at end of period					
Total assets	$6,770,595	$6,688,866	$5,937,859	$3,837,171	$4,095,748
Total liabilities	$4,974,671	$5,058,766	$4,522,969	$2,786,653	$3,030,072
Redeemable non-controlling interest	$—	$—	$—	$—	$16,590
Total stockholders’ equity	$1,795,924	$1,630,100	$1,414,890	$1,050,518	$1,049,086

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion below focuses on the factors affecting our consolidated results of operations for the years ended December 31, 2018, 2017 and 2016 and financial condition at December 31, 2018 and 2017 and, where appropriate, factors that may affect our future financial performance, unless stated otherwise. This discussion should be read in conjunction with the consolidated financial statements, notes to the consolidated financial statements and selected consolidated financial data. The 2017 and 2016 amounts have been changed to reflect the immaterial revision as more fully described in Item 8 – Note 1, Summary of Significant Accounting Policies of our consolidated financial statements.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A is presented in the following sections:

- 2018 Highlights and Year in Review
- Segments
- Results of Operations
- Application of Critical Accounting Policies and Estimates
- New Accounting Standards
- Liquidity, Capital Resources and Cash Flows

2018 Highlights and Year in Review

The following events and accomplishments occurred during 2018:

- Contributions from all three of our segments resulted in the Company reaching approximately $1.5 billion in annual revenues in 2018, 20 percent growth relative to the prior year.
- During October 2018, the Company entered into a definitive asset purchase agreement to acquire Chevron's existing customer portfolio for approximately $223.4 million, including of $54.6 million for the carrying value of trade accounts receivable. Concurrently with entering into the asset purchase agreement, we modified a number of contract terms, including extending the term of Chevron's agreement. Conversion of the acquired portfolio onto the Company's payment processing platform started in the first quarter of 2019.
- During October 2018, the Company entered into a definitive agreement to acquire Noventis, an electronic payments network focused on optimizing payment delivery for bills and invoices to commercial entities, for approximately $310 million. This acquisition will expand our reach as a corporate payments supplier and provide more channels to billing aggregators and financial institutions. The Company closed on this transaction January 24, 2019.
- The Company successfully executed two separate repricings of our 2016 Credit Agreement in 2018, which among other things, increased our availability under the revolving credit facility by $150 million, increased the outstanding amounts under our term loans by $178 million and lowered applicable interest rate margins on both our revolver and term loans. In addition, we extended the maturity on revolving credit facility and term A loans to July 2023.

Our Company's management believes the following metrics were important to our overall performance in 2018:

- Average number of vehicles serviced increased 8 percent from 2017 to approximately 11.8 million for 2018, primarily related to growth in our worldwide customer base. As of December 31, 2018, vehicles serviced totaled 12.4 million.
- Total fuel transactions processed increased 7 percent from 2017 to 552.3 million in 2018 due to organic growth. Total payment processing transactions increased 7 percent from 2017 to 459.3 million in 2018, and transaction processing transactions also increased 7 percent from 2017 to 93.0 million in 2018.
- The average U.S. fuel price per gallon during 2018 was $2.95, an 18 percent increase as compared to the same period in the prior year.
- Credit loss expense in the Fleet Solutions segment decreased 8 percent to $54.5 million during 2018, as compared to $59.3 million during 2017. Spend volume increased 22 percent in 2018 as compared to 2017. Our credit losses were 12.5 basis points of fuel expenditures for 2018, as compared to 17.2 basis points of fuel expenditures for

Table of Contents

2017, a decrease of 27 percent primarily due to lower incidences of magnetic stripe card skimming fraud as compared to 2017.

- Our Travel and Corporate Solutions purchase volume grew to $34.7 billion in 2018, a 14 percent increase from 2017, primarily due to strong growth globally driven by strong performance in both our travel and corporate payment products.
- Health and Employee Benefit Solutions average number of SaaS accounts in the U.S. grew 20% to 11.0 million in 2018 from 9.2 million in 2017. Likewise, U.S. purchase volume grew by $497.1 million in 2018, a 12 percent increase as compared to 2017.
- Our effective tax rate was 28.9 percent for 2018 as compared to 8.9 percent for 2017. The lower tax rate in 2017 was primarily due to the reduction of our net deferred tax liabilities resulting from the change in federal corporate income tax rate to 21 percent from 35 percent effective January 1, 2018 as part of the 2017 Tax Act.

Table of Contents

Segments

WEX operates in three reportable segments: Fleet Solutions, Travel and Corporate Solutions, and Health and Employee Benefit Solutions. Our Fleet Solutions segment provides payment, transaction processing and information management services specifically designed for the needs of commercial and government fleets. Our Travel and Corporate Solutions segment focuses on the complex payment environment of business-to-business payments, providing customers with payment processing solutions for their corporate payment and transaction monitoring needs. Our Health and Employee Benefit Solutions segment provides a SaaS platform for consumer directed healthcare payments, as well as payroll related benefits to customers in Brazil.

Results of Operations

The Company does not allocate foreign currency gains and losses, financing interest expense, unrealized and realized gains and losses on financial instruments, income taxes, net gains or losses from non-controlling interests, and non-cash adjustments related to our tax receivable agreement to our operating segments, as management believes these items are unpredictable and can obscure underlying trends. In addition, effective January 1, 2018, the Company does not allocate certain corporate expenses to our operating segments, as these items are centrally controlled and are not directly attributable to any reportable segment.

Certain information technology and corporate related costs that support multiple segments were previously included entirely within the Fleet Solutions segment. Effective January 1, 2018, such amounts are allocated to the operating segment that they support. Prior year amounts have been recast to conform with the changes in segment profitability described above.

Sources of Operating Expense

Cost of Services

- Processing costs - The Company’s processing costs consist of expenses related to processing transactions, servicing customers and merchants and cost of goods sold related to hardware and other product sales.
- Service fees - The Company incurs costs from third-party networks utilized to deliver payment solutions. Additionally, other third-parties are utilized in performing services directly related to generating revenue. With the adoption of Topic 606, effective January 1, 2018 fees paid to third-party networks are no longer recorded as service fees and are now prospectively presented as a reduction of revenues.
- Provision for credit losses - Changes in the reserve for credit loss are the result of changes in management’s estimate of the losses in the Company’s outstanding portfolio of receivables, including losses from fraud.
- Operating interest - The Company incurs interest expense on the operating debt obtained to provide liquidity for its short-term receivables.
- Depreciation and amortization - The Company has identified those tangible and intangible assets directly associated with providing a service that generates revenue and records the depreciation and amortization associated with those assets under this category. Such assets include processing platforms and related infrastructure, acquired developed technology intangible assets and other similar asset types.

Other Operating Expenses

- General and administrative - General and administrative includes compensation and related expenses for executive, finance and accounting, other information technology, human resources, legal and other corporate functions. Also included are corporate facilities expenses, certain third-party professional service fees and other corporate expenses.
- Sales and marketing - The Company’s sales and marketing expenses relate primarily to compensation, benefits, sales commissions and related expenses for sales, marketing and other related activities. With the adoption of Topic 606, effective January 1, 2018 certain payments to partners are now prospectively classified as sales and marketing expenses .
- Depreciation and amortization - The depreciation and amortization associated with tangible and intangible assets that are not considered to be directly associated with providing a service that generates revenue are recorded as other operating expenses. Such assets include corporate facilities and information technology assets and acquired intangible assets other than those included in cost of services.

Table of Contents

Year Ended December 31, 2018, Compared to the Year Ended December 31, 2017
Fleet Solutions
Revenues
The following table reflects comparative revenue and key operating statistics within Fleet Solutions:

	Twelve Months Ended December 31,		Increase (Decrease)	
(In thousands, except per transaction and per gallon data)	2018	2017	Amount	Percent
Revenues[a]				
Payment processing revenue	$464,980	$360,158	$104,822	29 %
Account servicing revenue	162,662	165,083	(2,421)	(1)%
Finance fee revenue	190,528	159,336	31,192	20 %
Other revenue	156,970	138,533	18,437	13 %
Total revenues	$975,140	$823,110	$152,030	18 %
Key operating statistics[b]				
Payment processing revenue:				
Payment processing transactions	459,309	429,716	29,593	7 %
Payment processing fuel spend	$36,991,903	$30,288,539	$6,703,364	22 %
Average price per gallon of fuel – Domestic – ($USD/gal)	$2.95	$2.50	$0.45	18 %
Net payment processing rate	1.26 %	1.19 %	0.07 %	6 %

[a] Foreign currency exchange rate fluctuations did not have a material impact on Fleet Solutions revenue in 2018.
[b] The Company adopted the requirements of ASU 2014–09 ("the new revenue recognition standard") as of January 1, 2018, utilizing the modified retrospective method of transition. Impacted non-financial metrics have been updated prospectively.

Revenues
The net impact of adopting the new revenue recognition standard in 2018, described further below, increased Fleet Solutions revenue by approximately $35 million for 2018, as compared to 2017.
Payment processing revenue increased $104.8 million for 2018, as compared to 2017, due primarily to higher average domestic fuel prices, the impact from the adoption of the new revenue recognition standard and increased payment processing volumes due to organic growth. Upon adoption of the new revenue recognition standard, we reclassified certain amounts paid to partners from a reduction of revenue to sales and marketing expense.
Account servicing revenue decreased $2.4 million for 2018, as compared to 2017, due primarily to the divestiture of our Telapoint business in the fourth quarter of 2017, partly offset by an increase in fees to certain customers as part of domestic price modernization efforts over the course of the prior year.
Other revenue increased $18.4 million in 2018, as compared to 2017, due primarily to organic growth resulting from higher EFS transaction processing revenue and Asia-Pacific revenues. Additionally, we reclassified certain amounts from contra revenue to selling expense in 2018 following adoption of the new revenue recognition standard.
Finance fee revenue is comprised of the following components:

	Twelve Months Ended December 31,		Increase (Decrease)	
(In thousands)	2018	2017	Amount	Percent
Finance income	$152,860	$129,783	$23,077	18 %
Factoring fee revenue	37,082	29,018	8,064	28 %
Cardholder interest income	586	535	51	10 %
Total finance fee revenue	$190,528	$159,336	$31,192	20 %

Table of Contents

Finance income primarily consists of late fees charged for receivables not paid within the terms of the customer agreement based upon the outstanding customer receivable balance. This revenue is earned when a customer's receivable balance becomes delinquent and is calculated using the greater of a minimum charge or a stated late fee rate multiplied by the outstanding balance that is subject to a late fee charge. Changes in the absolute amount of such outstanding balances can be attributed to (i) changes in fuel prices; (ii) customer specific transaction volume; and (iii) customer specific delinquencies. Late fee revenue can also be impacted by (i) changes in late fee rates and (ii) increases or decreases in customer overdue balances. Late fee rates are determined and set based primarily on the risk associated with our customers, coupled with a strategic view of standard rates within our industry. Periodically, we assess the market rates associated within our industry to determine appropriate late fee rates. We consider factors such as the Company's overall financial model and strategic plan, the cost to our business from customers failing to pay timely and the impact such late payments have on our financial results. These assessments are typically conducted at least annually but may occur more often depending on macro-economic factors.

Finance income increased $23.1 million in 2018, as compared to 2017, primarily due to changes in overdue outstanding balances resulting from higher average domestic fuel prices and volumes. For the majority of both 2018 and 2017, monthly late fee rates ranged up to to 7.99%, with a minimum finance charge of up to $75. The weighted average late fee rate, net of related charge-offs was 4.5% and 4.4% for 2018 and 2017, respectively.

Concessions to certain customers experiencing financial difficulties may be granted and are limited to extending the time to pay, placing a customer on a payment plan or granting waivers of late fees. There were no material concessions to customers experiencing financial difficulties during either of the years ended December 31, 2018 and 2017.

The primary source of factoring fee revenue is calculated as a negotiated percentage fee of the receivable balance that we purchase. A secondary source of factoring fee revenue is a flat rate service fee to our customers that request a non-contractual same day funding of the receivable balance. Factoring fee revenue increased $8.1 million in 2018, as compared to 2017, due to higher relative receivable balances purchased resulting from increased customer demand for our services.

Operating Expenses

The following table compares line items within operating income for Fleet Solutions:

	Twelve Months Ended December 31,		Increase (Decrease)	
(In thousands)	2018	2017	Amount	Percent
Cost of services				
Processing costs	$190,109	$178,710	$11,399	6 %
Service fees	$7,212	$5,789	$1,423	25 %
Provision for credit losses	$54,484	$59,251	$(4,767)	(8)%
Operating interest	$16,502	$9,122	$7,380	81 %
Depreciation and amortization	$39,720	$47,574	$(7,854)	(17)%
Other operating expenses				
General and administrative	$72,404	$73,397	$(993)	(1)%
Sales and marketing	$157,240	$118,740	$38,500	32 %
Depreciation and amortization	$81,818	$91,748	$(9,930)	(11)%
Impairment charges	$3,225	$18,181	$(14,956)	(82)%
Operating income	$352,426	$220,598	$131,828	60 %

NM - Not Meaningful

Cost of services

Processing costs increased $11.4 million for 2018, as compared to 2017, due primarily additional processing costs associated with our Brazilian subsidiary and U.S. volume-related increases, including incremental headcount and costs

related to recent significant customer acquisitions.
Service fees increased $1.4 million during 2018, as compared to 2017, due primarily to higher bank fees resulting from increased volumes.

Provision for credit losses decreased $4.8 million for 2018, as compared to 2017 due primarily to a decline in magnetic stripe card skimming fraud losses, partly offset by increases in receivable balances due to higher average domestic fuel prices and volume growth.

We generally measure our credit loss performance by calculating fuel-related credit losses as a percentage of total fuel expenditures on payment processing transactions. This metric for credit losses was 12.5 basis points of fuel expenditures for 2018, as compared to 17.2 basis points of fuel expenditures for 2017. We generally use a roll-rate methodology to calculate the amount necessary for our ending receivable reserve balance. This methodology considers total receivable balances, recent charge-off experience, recoveries on previously charged off accounts, and the dollars that are delinquent to calculate the total reserve. In addition, management undertakes a detailed evaluation of the receivable balances to help further ensure overall reserve adequacy. The expense we recognize in each quarter is the amount necessary to bring the reserve to its required level based on accounts receivable aging and net charge offs.

Operating interest expense increased $7.4 million in 2018, as compared to 2017, primarily due to higher interest rates paid on deposits and the impact of higher fuel prices and volumes.

Depreciation and amortization decreased $7.9 million in 2018, as compared to 2017, as 2017 was impacted by accelerated amortization of our existing over-the-road payment processing technology as a result of the EFS acquisition. This expense decrease relative to the prior year was partly offset by incremental depreciation on recent investments in internal-use software.

Other operating expenses

General and administrative expenses decreased $1.0 million in 2018, as compared to 2017, due to higher professional fees, partly offset by office closure restructuring costs to consolidate operations, which were incurred in 2017.

Sales and marketing expenses increased $38.5 million in 2018, as compared to 2017, due primarily to a reclassification of payments to partners, which are now included in sales and marketing expenses as a result of adopting the new revenue recognition standard. Prior to January 1, 2018, these payments were reflected as a reduction of revenue.

Depreciation and amortization decreased $9.9 million in 2018, as compared to 2017, due primarily to lower relative amortization on certain acquired intangibles.

During our annual goodwill assessment completed in the fourth quarter of 2018, we recorded a non-cash goodwill impairment charge of $3.2 million for our Brazil fleet reporting unit. See Item 8 – Note 9, Goodwill and Other Intangible Assets, of our consolidated financial statements for more information.

During the second quarter of 2017, we incurred a $16.2 million non-cash impairment and asset write-off related to in-sourcing certain technology functions, approximately $12.2 million of which was allocated to Fleet Solutions. Additionally, as part of a technology plan assessment, we streamlined certain payment processing software offerings and incurred an approximately $6.0 million non-cash software impairment charge in the fourth quarter of 2017.

Table of Contents

Travel and Corporate Solutions

Revenues

The following table reflects comparative revenue and key operating statistics within Travel and Corporate Solutions:

	Twelve Months Ended December 31,		Increase (Decrease)	
(In thousands)	2018	2017	Amount	Percent
Revenues[a]				
Payment processing revenue	$203,289	$158,660	$44,629	28 %
Account servicing revenue	37,262	7,531	29,731	395 %
Finance fee revenue	1,391	760	631	83 %
Other revenue	61,402	57,096	4,306	8 %
Total revenues	$303,344	$224,047	$79,297	35 %
Key operating statistics[b]				
Payment processing revenue:				
Payment solutions purchase volume	$34,702,614	$30,344,752	$4,357,862	14 %

[a] Foreign currency exchange rate fluctuations did not have a material impact on Travel and Corporate Solutions revenue in 2018.

[b] The Company adopted the requirements of the new revenue recognition standard as of January 1, 2018, utilizing the modified retrospective method of transition. Impacted non-financial metrics have been updated prospectively.

The net impact of adopting the new revenue recognition standard in 2018, described further below, increased Travel and Corporate Solutions revenue by approximately $8 million in 2018.

Payment processing revenue increased approximately $44.6 million for 2018, as compared to 2017, primarily due to strong performance in both our travel and corporate payment products. During 2018, we benefited from volume increases in all geographies. The impact of the adoption of the new revenue recognition standard also contributed to revenue growth. Upon adoption of the new revenue recognition standard, we reclassified certain amounts paid to partners from a reduction of revenue to sales and marketing expense and fees paid to third-party payment processing networks from service fees to a reduction of revenue.

Account servicing revenue increased approximately $29.7 million for 2018, as compared to 2017, primarily due to the acquisition of AOC during October 2017.

Finance fee revenue was not material to Travel and Corporate Solutions' operations in 2018 or 2017.

Concessions to certain customers experiencing financial difficulties may be granted and are limited to extending the time to pay, placing a customer on a payment plan or granting waivers of late fees. As of and for the year ended December 31, 2018, customer balances with such concessions and waived late fees were immaterial. As of December 31, 2017, customer balances with such concessions totaled $7.9 million and the Company waived $2.1 million in late fees during 2017.

Other revenue increased approximately $4.3 million, as volume related increases were partly offset by an unfavorable adoption impact of the new revenue recognition standard. For the year ended December 31, 2018, network fees are now reflected as a reduction of revenue resulting from the adoption of the new revenue recognition standard. Prior to January 1, 2018, these network fees were classified as service fees.

Table of Contents

Operating Expenses

The following table compares line items within operating income for Travel and Corporate Solutions:

(In thousands)	Twelve Months Ended December 31, 2018	2017	Increase (Decrease) Amount	Percent
Cost of services				
Processing costs	$44,949	$23,821	$21,128	89 %
Service fees	$27,573	$56,094	$(28,521)	(51)%
Provision for credit losses	$7,319	$(68)	$7,387	NM
Operating interest	$14,247	$8,367	$5,880	70 %
Depreciation and amortization	$15,245	$6,519	$8,726	134 %
Other operating expenses				
General and administrative	$26,151	$18,358	$7,793	42 %
Sales and marketing	$47,939	$21,422	$26,517	124 %
Depreciation and amortization	$14,813	$13,760	$1,053	8 %
Impairment charge	$2,424	$25,990	$(23,566)	(91)%
Operating income	$102,684	$49,784	$52,900	106 %

NM - Not Meaningful

Cost of services

Processing costs increased $21.1 million in 2018, as compared to 2017, due primarily to the acquisition of AOC.

Service fees decreased by $28.5 million in 2018, as compared to 2017, due primarily to cost savings as a result of the AOC acquisition and impacts from adoption of the new revenue recognition standard. These favorable impacts were partly offset by incremental expenses resulting from higher relative purchase volumes.

Provision for credit losses increased $7.4 million in 2018, as compared to 2017, due primarily to a discrete customer reserve taken during 2018 and increased volumes. Provision for credit losses in 2017 was unusually low as result of a partial bankruptcy loss recovery relating to one of our significant online travel agency customers recorded in 2016.

Operating interest increased $5.9 million in 2018, as compared to 2017, due to higher interest rates paid on deposits and volume growth.

Depreciation and amortization expenses increased $8.7 million in 2018, as compared to 2017, due primarily to amortization of intangible assets recognized upon the acquisition of AOC.

Other operating expenses

General and administrative expenses increased $7.8 million in 2018, as compared to 2017, due primarily to the acquisition of AOC.

Sales and marketing expenses increased $26.5 million in 2018, as compared to 2017, due primarily to a reclassification of payments to partners upon adoption of the new revenue recognition standard. These payments were previously reflected as a reduction of revenue.

Depreciation and amortization in 2018 were generally consistent with the prior year.

During 2018, we recognized a $2.4 million non-cash impairment charge to write-off certain property and equipment. There were two discrete impairment charges incurred during 2017. During the second quarter of 2017, we incurred a $16.2 million non-cash impairment and an asset write-off related to in-sourcing certain technology functions, approximately $4.0 million of which was allocated to Travel and Corporate Solutions. Additionally, we determined that the developed technology obtained as part of the AOC acquisition more closely aligned with our current technological strategy than did other capitalized software on our balance sheet. As a result, $22.0 million of previously capitalized software development was determined to have no future benefit and was therefore written-off during 2017.

Table of Contents

Health and Employee Benefit Solutions

Revenues

The following table reflects comparative revenue and key operating statistics within Health and Employee Benefit Solutions:

	Twelve Months Ended December 31,		Increase (Decrease)	
(In thousands)	2018	2017	Amount	Percent
Revenues[a]				
Payment processing revenue	$55,722	$50,348	$5,374	11 %
Account servicing revenue	108,172	103,956	4,216	4 %
Finance fee revenue	16,708	28,696	(11,988)	(42)%
Other revenue	33,553	18,420	15,133	82 %
Total revenues	$214,155	$201,420	$12,735	6 %
Key operating statistics[b]				
Payment processing revenue:				
Purchase volume	$4,814,328	$4,317,236	$497,092	12 %
Account servicing revenue:				
Average number of SaaS accounts	11,020	9,213	1,807	20 %

[a]The impact of foreign currency exchange rate fluctuations reduced Health and Employee Benefit Solutions revenue by approximately $3 million in 2018.

[b] The Company adopted the requirements of the new revenue recognition standard as of January 1, 2018, utilizing the modified retrospective method of transition. Impacted non-financial metrics have been updated prospectively.

The net impact of adopting the new revenue recognition standard in 2018, decreased Health and Employee Benefit Solutions revenue by approximately $1 million in 2018.

Payment processing revenue increased approximately $5.4 million for 2018, as compared to 2017, primarily due to an increase in WEX Health purchase volume as a result of increased customer signings.

Account servicing revenue increased $4.2 million for 2018, as compared to 2017. This increase was primarily due to WEX Health customer signings and existing customer growth, which resulted in a higher number of participants using our SaaS healthcare technology platform, and higher revenue earned on HSA assets. These favorable impacts were partly offset by WEX Health customer mix and lower revenues in Brazil due primarily to due to the accounting impact of our WEX Latin America securitization arrangement, as discussed further in the other revenue discussion below.

Finance fee revenue decreased $12.0 million in 2018, as compared to 2017, due primarily to the accounting impact of our WEX Latin America securitization arrangement, as discussed further in the other revenue discussion below.

Concessions to certain customers experiencing financial difficulties may be granted and are limited to extending the time to pay, placing a customer on a payment plan or granting waivers of late fees. There were no material concessions to customers experiencing financial difficulties during either of the years ended December 31, 2018 and 2017.

Other revenue increased $15.1 million in 2018, as compared to 2017, primarily due to an increase in WEX Health professional services revenue and ancillary fees and realized gains on the sale of WEX Latin America customer receivables under our recently amended WEX Latin America securitization arrangement. Prior to amendment of our securitization arrangement in the second half of 2018, the revenue associated with these customer receivables was included in account servicing and finance fee revenue.

Table of Contents

Operating Expenses

The following table compares line items within operating income for Health and Employee Benefit Solutions:

(In thousands)	Twelve Months Ended December 31, 2018	2017	Increase (Decrease) Amount	Percent
Cost of services				
Processing costs	$74,392	$75,525	$(1,133)	(2)%
Service fees	$18,870	$11,074	$7,796	70 %
Provision for credit losses	$4,679	$5,035	$(356)	(7)%
Operating interest	$7,658	$7,504	$154	2 %
Depreciation and amortization	$24,970	$19,968	$5,002	25 %
Other operating expenses				
General and administrative	$30,536	$23,053	$7,483	32 %
Sales and marketing	$24,055	$23,354	$701	3 %
Depreciation and amortization	$21,517	$22,543	$(1,026)	(5)%
Operating income	$7,478	$13,364	$(5,886)	(44)%

Cost of services

Processing costs decreased $1.1 million in 2018, as compared to 2017, primarily due to the favorable impact of lower bank fees in WEX Latin America resulting from a shift in product mix, partly offset by higher WEX Health processing costs resulting from volume increases.

Service fees increased by $7.8 million in 2018, as compared to 2017, primarily due to revenue growth on WEX Health HSA assets and increased payment processing volumes.

Provision for credit losses was generally consistent with the prior year.

Operating interest for 2018 was generally consistent with the operating interest for the prior year. Higher interest charges in 2018 resulting from increased volume on our WEX Latin America securitization arrangement were entirely offset by accounting impacts on this securitization arrangement. During the third quarter of 2018, we amended this agreement, resulting in sale accounting treatment upon the transfer of WEX Latin America customer receivables. As such, our associated cost of funding is now embedded in the gain on sale of the receivables and is recorded within other revenue, resulting in decreased operating interest for the second half of 2018.

Depreciation and amortization expenses increased $5.0 million in 2018, as compared to 2017, resulting from higher depreciation expense on capitalized WEX Health internal-use software development costs and additional infrastructure to support business growth.

Other operating expenses

General and administrative expenses increased $7.5 million in 2018, as compared to 2017, due primarily to an increase in professional fees as compared to the prior year.

Other operating expenses for 2018 were generally consistent with the operating expenses for the prior year.

Unallocated corporate expenses

Unallocated corporate expenses represent the portion of expenses relating to general corporate functions including acquisition expenses, certain finance, legal, information technology, human resources, administrative and executive expenses and other expenses not directly attributable to a reportable segment.

Table of Contents

The following table compares line items within operating income for unallocated corporate expenses:

	Twelve Months Ended December 31,		Increase (Decrease)	
(In thousands)	2018	2017	Amount	Percent
Other operating expenses				
General and administrative	$80,228	$69,531	$10,697	15 %
Sales and marketing	$—	$138	$(138)	NM
Depreciation and amortization	$1,722	$1,612	$110	7 %
Gain on divestiture	$—	$(20,958)	$20,958	NM

NM - Not Meaningful

General and administrative expenses increased $10.7 million for 2018 as compared to 2017, due primarily to higher personnel related costs, including incremental headcount to support business growth, higher share based compensation expense, and increased professional fees incurred as part of our recently announced acquisitions and debt restructurings.

Sales and marketing expenses and depreciation and amortization were not material to the Company's operations for both 2018 and 2017.

During 2017, management determined that our Telapoint business did not align with the long-term strategy of our core businesses. During November 2017, the Company sold $8.9 million of net assets related to this business for proceeds of $29.9 million, which resulted in a pre-tax book gain of approximately $21.0 million.

Non-operating income and expense

The following table reflects comparative results for certain amounts excluded from operating income:

	Twelve Months Ended December 31,		Increase (Decrease)	
(In thousands)	2018	2017	Amount	Percent
Financing interest expense	$(105,023)	$(107,067)	$(2,044)	(2)%
Net foreign currency (loss) gain	$(38,800)	$31,487	$(70,287)	NM
Net unrealized gain on financial instruments	$2,579	$1,314	$1,265	96 %
Non-cash adjustments related to tax receivable agreement	$(775)	$15,259	$(16,034)	NM
Income taxes	$68,843	$15,450	$53,393	346 %
Net income (loss) from non-controlling interest	$1,481	$(1,096)	$2,577	NM

NM - Not Meaningful

Financing interest expense decreased $2.0 million in 2018, as compared to 2017. This decrease was primarily due to lower effective interest rates, including the impact of $1.3 billion in interest rate swaps outstanding during most of 2018, and a decrease in average borrowings under our 2016 Credit Agreement, partly offset by a loss on the extinguishment of debt as part of our January 2018 debt repricing.

Our foreign currency exchange exposure is primarily related to the re-measurement of our cash, receivable and payable balances, including intercompany transactions that are denominated in foreign currencies. In 2018, net foreign currency loss was $38.8 million, as compared to a net foreign currency gain of $31.5 million in 2017. In 2018, the U.S. dollar strengthened relative to all major foreign currencies in which we transact, including the Euro, British pound sterling, Australian dollar, Brazilian real and Canadian dollar. In 2017, we recognized gains on trade receivables and intercompany loans primarily from a strengthening of the British Pound Sterling and the Euro relative to the US dollar.

Net unrealized gain on financial instruments was $2.6 million in 2018, as compared to $1.3 million in 2017. The increase in unrealized gain was due to higher average notional amounts of interest rate swaps outstanding and the favorable impact of increases in the variable interest rates on our swap agreements, partly offset by the decrease in remaining swap duration. In December 2017, the Company entered into two separate interest rate swap arrangements with an aggregate notional amount of $500 million, increasing the amount of fixed future interest payments associated with our variable rate borrowings to $1.3 billion.

Table of Contents

Non-cash adjustments related to tax receivable agreement were not material to operations in 2018. In 2017, non-cash adjustments related to tax receivable agreement were $15.3 million, resulting from a decrease in a tax sharing liability due to our former parent company as a result of the 2017 Tax Act, which reduced the federal statutory rate from 35 percent to 21 percent.

Our effective tax rate was 28.9 percent for 2018 as compared to 8.9 percent for 2017. The lower tax rate in 2017 was primarily due to the reduction of our net deferred tax liabilities resulting from the change in federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018.

During the fourth quarter of 2017, the Company recorded a provisional one-time income tax benefit of $60.6 million associated with the 2017 Tax Act. During the third quarter of 2018, the Company recorded an adjustment for the one-time income tax benefit attributable to the Company updating its estimate of foreign undistributed earnings, which was materially offset by an adjustment to certain deferred tax attributes as a result of further clarification provided by the IRS relative to IRC 162(m). As of December 31, 2018, the Company completed its analysis and all amounts were considered final.

In January 2018, the FASB released guidance on the accounting for tax on the GILTI provisions of the 2017 Tax Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The Company elected to treat GILTI inclusions as a period cost and this resulted in an increase in tax expense of $1.8 million for the year ended December 31, 2018.

Undistributed earnings of certain foreign subsidiaries of the Company amounted to approximately $64.9 million and $58.7 million at December 31, 2018 and 2017, respectively. These earnings are considered to be indefinitely reinvested. The 2017 Tax Act imposed a one time “transition tax” on foreign undistributed earnings, which was included with our 2017 U.S. Income Tax Return. The Company offset the transition tax with net operating loss carryforwards and therefore this tax did not result in any additional cash tax payable.

Net income or loss from non-controlling interest relates to our 75 percent ownership stake in WEX Europe Services. Such amounts were not material to Company operations for 2018 or 2017.

Year Ended December 31, 2017, Compared to the Year Ended December 31, 2016

Fleet Solutions

Revenues

The following table reflects comparative revenue and key operating statistics within Fleet Solutions:

	Twelve Months Ended December 31,		Increase (Decrease)	
(In thousands, except per transaction and per gallon data)	2017	2016	Amount	Percent
Revenues[a]				
Payment processing revenue	$360,158	$297,900	$62,258	21 %
Account servicing revenue	165,083	127,105	37,978	30 %
Finance fee revenue	159,336	124,725	34,611	28 %
Other revenue	138,533	92,331	46,202	50 %
Total revenues	$823,110	$642,061	$181,049	28 %
Key operating statistics [b]				
Payment processing revenue:				
Payment processing transactions	429,716	385,861	43,855	11 %
Payment processing fuel spend	$30,288,539	$22,838,237	$7,450,302	33 %
Average price per gallon of fuel – Domestic – ($USD/gal)	$2.50	$2.21	$0.29	13 %
Net payment processing rate	1.19 %	1.30 %	(0.11)%	(8)%

[a] Foreign currency exchange rate fluctuations increased Fleet Solutions revenue by approximately $3 million in 2017.

[b] As of July 1, 2016, these key operating statistics include our EFS acquisition.

Payment processing revenue increased $62.3 million for 2017, as compared to 2016, due primarily to the impact of a 13% increase in the annual average domestic price per gallon of fuel and higher payment processing volumes. Higher payment processing volumes resulted from organic growth, the acquisition of EFS and a large customer portfolio converting from a

Table of Contents

transaction processing relationship to a payment processing relationship in the beginning of 2016. These favorable factors were partly offset by a decrease in our interchange rate as a result of the large portfolio conversion mentioned above.

Account servicing revenue increased $38.0 million for 2017, as compared to 2016, resulting from worldwide price modernization efforts over the course of the prior year and the EFS acquisition.

Other revenue increased $46.2 million in 2017, as compared to 2016, resulting primarily from higher transaction processing revenue due to the acquisition of EFS and additional pricing modernization efforts.

Finance fee revenue is comprised of the following components:

	Twelve Months Ended December 31,		Increase (Decrease)	
(In thousands)	2017	2016	Amount	Percent
Finance income	$129,783	$104,492	$25,291	24 %
Factoring fee revenue	29,018	19,689	$9,329	47 %
Cardholder interest income	535	544	$(9)	(2)%
Finance fee revenue	$159,336	$124,725	$34,611	28 %

Finance income increased $25.3 million in 2017, as compared to 2016, due to an increase in overdue customer balances. For the majority of 2016, late fees ranged up to 6.99% monthly, with minimum charges of up to $75. For the majority of 2017, late fees ranged up to 7.99% monthly, with minimum charges of $75. The weighted average late fee rate, net of related charge-offs was 4.4% and 4.3% for 2017 and 2016, respectively.

Concessions to certain customers experiencing financial difficulties may be granted and are limited to extending the time to pay, placing a customer on a payment plan or granting waivers of late fees. There were no material concessions to customers experiencing financial difficulties during either of the years ended December 31, 2017 and 2016. Though not material, the Company granted certain concessions to domestic customers impacted by hurricanes and forest fires during 2017.

Factoring fee revenue increased $9.3 million in 2017, as compared to 2016. The increase in factoring fee revenue is due to organic growth and customer demand for our services.

Operating expenses

The following table compares line items within operating income for Fleet Solutions:

	Twelve Months Ended December 31,		Increase (Decrease)	
(In thousands)	2017	2016	Amount	Percent
Cost of services				
Processing costs	$178,710	$186,203	$(7,493)	(4)%
Service fees	$5,789	$4,205	$1,584	38 %
Provision for credit losses	$59,251	$27,264	$31,987	117 %
Operating interest	$9,122	$3,476	$5,646	162 %
Depreciation and amortization	$47,574	$44,245	$3,329	8 %
Other operating expenses				
General and administrative	$73,397	$66,788	$6,609	10 %
Sales and marketing	$118,740	$93,835	$24,905	27 %
Depreciation and amortization	$91,748	$51,732	$40,016	77 %
Impairment charges	$18,181	$—	$18,181	NM
Operating income	$220,598	$164,313	$56,285	34 %

NM - Not Meaningful

Table of Contents

Cost of services

Processing costs decreased $7.5 million for 2017, as compared to 2016. 2016 results include additional processing costs associated with our Brazilian subsidiary. The reduction in processing costs during 2017 was partly offset by resources assumed as part of the acquisition of EFS and business growth.

Service fees increased $1.6 million during 2017, as compared to 2016, primarily due to an increase in professional fees.

Provision for credit losses increased $32.0 million for 2017, as compared to 2016, resulting from higher incidences of magnetic stripe card skimming fraud during 2017. Additionally, credit losses were impacted by higher relative fuel spend and the acquisition of EFS. During 2017, the Company took a number of steps to combat fraud losses, including establishing portfolio limits on the number of transactions and amount of fuel purchases. Additionally, we implemented new real-time technology during the fourth quarter of 2017, designed to increase fraud detection speed. As a result of these actions, monthly fraud losses trended downwards in the second half of 2017, most significantly in the fourth quarter.

Our credit losses as a percentage of total fuel expenditures on the payment processing transactions was 17.2 basis points of fuel expenditure for 2017, as compared to 11.1 basis points of fuel expenditures for 2016. The expense we recognize in each quarter is the amount necessary to bring the reserve to its required level based on accounts receivable aging and net charge offs.

Operating interest expense increased $5.6 million in 2017, as compared to 2016, primarily due to higher interest rates paid on recently issued certificates of deposit, which replaced previously held non-interest bearing deposits following the expiration of an agreement with a deposit partner during the fourth quarter of 2016. Additionally, payment processing volume increases and higher fuel prices contributed to the increase in operating interest expense.

Depreciation and amortization increased $3.3 million in 2017, as compared to 2016. Following the acquisition of EFS, we evaluated the estimated useful life of our existing over-the-road payment processing technology. As a result of this analysis, we accelerated amortization related to this technology during the third quarter of 2016, resulting in incremental amortization during 2017 as compared to the same period in the prior year. This technology is fully amortized as of December 31, 2017.

Other operating expenses

General and administrative expenses increased $6.6 million for 2017, as compared to 2016, resulting from personnel required to support the in-sourcing of technology functions from a third-party provider.

Sales and marketing expenses increased $24.9 million in 2017, as compared to 2016 due to resulting primarily from higher costs to support business growth, including incremental costs as a result of the EFS acquisition.

Depreciation and amortization increased $40.0 million in 2017, as compared to 2016, due primarily to a full year of amortization of intangibles acquired in the EFS acquisition.

During the second quarter of 2017, we incurred a $16.2 million non-cash impairment and asset write-off related to in-sourcing certain technology functions, approximately $12.2 million of which was allocated to Fleet Solutions. Additionally, as part of a technology plan assessment, we streamlined certain payment processing software offerings and incurred an approximately $6.0 million non-cash software impairment and asset write-off charge in the fourth quarter of 2017.

Table of Contents

Travel and Corporate Solutions

Revenues

The following table reflects comparative results and key operating statistics within Travel and Corporate Solutions:

	Twelve Months Ended December 31,		Increase (Decrease)	
(In thousands)	2017	2016	Amount	Percent
Revenues[a]				
Payment processing revenue	$158,660	$175,762	$(17,102)	(10)%
Account servicing revenue	7,531	1,247	6,284	504 %
Finance fee revenue	760	643	117	18 %
Other revenue	57,096	37,595	19,501	52 %
Total revenues	$224,047	$215,247	$8,800	4 %
Key operating statistics[b]				
Payment processing revenue:				
Payment solutions purchase volume	$30,344,752	$23,965,023	$6,379,729	27 %

[a] The impact of foreign currency exchange rate fluctuations did not have a material impact on revenue in 2017.

[b] As of July 1, 2016, these key operating statistics include our EFS acquisition.

Revenues

Payment processing revenue decreased approximately $17.1 million for 2017, as compared to 2016, primarily due to a decrease in our net interchange rate resulting from contract renegotiations with a large travel customer which went into effect in January 2017. This decrease in our net interchange rate was partly offset by an increase in corporate charge card purchase volume from our WEX travel product in all our markets, most notably the U.S. and Europe, and the acquisition of EFS.

Account servicing revenue increased approximately $6.3 million for 2017, as compared to 2016, primarily due to the acquisition of AOC in October 2017.

Finance fee revenue was not material to Travel and Corporate Solutions' operations in 2017 or 2016.

Other revenue increased approximately $19.5 million for 2017, as compared to 2016, primarily due to higher international settlement fees.

Concessions to certain customers experiencing financial difficulties may be granted and are limited to extending the time to pay, placing a customer on a payment plan or granting waivers of late fees. As of December 31, 2017 and 2016, customer balances with such concessions totaled $7.9 million and $16.7 million, respectively. The Company waived $2.1 million and $1.3 million in late fees in 2017 and 2016, respectively.

Table of Contents

Operating expenses

The following table compares line items within operating income for Travel and Corporate Solutions:

(In thousands)	Twelve Months Ended December 31, 2017	2016	Increase (Decrease) Amount	Percent
Cost of services				
Processing costs	$23,821	$22,551	$1,270	6 %
Service fees	$56,094	$67,841	$(11,747)	(17)%
Provision for credit losses	$(68)	$5,676	$(5,744)	(101)%
Operating interest	$8,367	$2,969	$5,398	182 %
Depreciation and amortization	$6,519	$4,188	$2,331	56 %
Other operating expenses				
General and administrative	$18,358	$30,006	$(11,648)	(39)%
Sales and marketing	$21,422	$18,908	$2,514	13 %
Depreciation and amortization	$13,760	$5,355	$8,405	157 %
Impairment charge	$25,990	$—	$25,990	NM
Operating income	$49,784	$57,753	$(7,969)	(14)%

NM - Not Meaningful

Cost of services

Processing costs increased $1.3 million in 2017, as compared to 2016, due primarily to the acquisitions of AOC and EFS.

Service fees decreased by $11.7 million in 2017, as compared to 2016, due primarily to lower network processing fees paid as a result of our MasterCard contract renewal executed during the third quarter of 2016, partly offset by incremental expenses resulting from higher relative purchase volumes.

Provision for credit losses decreased $5.7 million in 2017, as compared to 2016. Prior year results were negatively impacted by two discrete credit losses, including the bankruptcy of one of our online travel agency customers. We recovered a portion of the 2016 provision for credit loss during 2017.

Operating interest increased $5.4 million in 2017, as compared to 2016, due to higher deposit interest rates. Following the expiration of an agreement with a deposit partner during the fourth quarter of 2016, we issued certificates of deposit to replace previously held non-interest bearing deposits. Additionally, higher payment processing volumes contributed to the increase in operating interest expense.

Depreciation and amortization expenses increased $2.3 million in 2017, as compared to 2016, due to amortization of intangibles recognized as part of our AOC and EFS acquisitions.

Other operating expenses

General and administrative expenses decreased $11.6 million in 2017, as compared to 2016, primarily due to a one-time $15.5 million vendor settlement executed in 2016 in exchange for the release of potential claims related to in-sourcing certain technology, partly offset by personnel costs assumed in the AOC and EFS acquisitions.

Sales and marketing expenses increased $2.5 million in 2017, as compared to 2016, due primarily to the acquisitions of AOC and EFS.

Depreciation and amortization expenses increased $8.4 million in 2017, as compared to 2016, primarily due to amortization of intangibles recognized as part of our AOC acquisition.

During the second quarter of 2017, we incurred a $16.2 million non-cash impairment and an asset write-off related to in-sourcing certain technology functions, approximately $4.0 million of which was allocated to Travel and Corporate Solutions. Additionally, we determined that the developed technology obtained as part of the AOC acquisition more closely aligned with our

Table of Contents

current technological strategy than did other capitalized software on our balance sheet. As a result, $22.0 million of previously capitalized software development was determined to have no future benefit and was therefore written-off during 2017.

Health and Employee Benefit Solutions

Revenues

The following table reflects comparative revenue and key operating statistics within Health and Employee Benefit Solutions:

	Twelve Months Ended December 31,		Increase (Decrease)		
(In thousands)	2017	2016	Amount	Increase	
Revenues [a]					
Payment processing revenue	$50,348	$46,957	$3,391	7	%
Account servicing revenue	103,956	82,660	21,296	26	%
Finance fee revenue	28,696	7,600	21,096	278	%
Other revenue	18,420	17,963	457	3	%
Total revenues	$201,420	$155,180	$46,240	30	%
Key operating statistics					
Payment processing revenue:					
Purchase volume	$4,317,236	$3,823,035	$494,201	13	%
Account servicing revenue:					
Average number of SaaS accounts	9,213	7,197	2,016	28	%

[a] Foreign currency exchange rate fluctuations increased Health and Employee Benefit Solutions revenue by $3 million in 2017.

Revenues

Payment processing revenue increased approximately $3.4 million for 2017, as compared to 2016, resulting primarily from an increase in WEX Health purchase volume due to growth in the number of consumers, partly offset by a slight decline in WEX Latin America revenues.

Account servicing revenue increased $21.3 million for 2017, as compared to 2016. This increase was primarily due to WEX Health customer signings and existing customer growth, which resulted in a higher number of participants using our SaaS healthcare technology platform.

Finance fee revenue increased $21.1 million in 2017, as compared to 2016, due primarily to growth in revenue earned on our salary advance product in Brazil.

Concessions to certain customers experiencing financial difficulties may be granted and are limited to extending the time to pay, placing a customer on a payment plan or granting waivers of late fees. There were no material concessions to customers experiencing financial difficulties during either of the years ended December 31, 2017 and 2016.

Other revenue increased $0.5 million in 2017, as compared to 2016, resulting primarily from an increase in Brazil card transactions and higher ancillary WEX Health fees as result of a growing customer base.

Table of Contents

Operating expenses

The following table compares line items within operating income for Health and Employee Benefit Solutions:

	Twelve Months Ended December 31,		Increase (Decrease)	
(In thousands)	2017	2016	Amount	Percent
Cost of services				
Processing costs	$75,525	$61,963	$13,562	22 %
Service fees	$11,074	$7,321	$3,753	51 %
Provision for credit losses	$5,035	$518	$4,517	872 %
Operating interest	$7,504	$5,941	$1,563	26 %
Depreciation and amortization	$19,968	$14,446	$5,522	38 %
Other operating expenses				
General and administrative	$23,053	$17,688	$5,365	30 %
Sales and marketing	$23,354	$18,042	$5,312	29 %
Depreciation and amortization	$22,543	$20,158	$2,385	12 %
Operating income	$13,364	$9,103	$4,261	47 %

Cost of services

Processing costs increased $13.6 million in 2017, as compared to 2016, primarily due to an increase in volume resulting from a growth in the number of customers.

Service fees increased $3.8 million in 2017, as compared to 2016, primarily due to costs incurred as a result of the increase in participants using our SaaS healthcare offerings.

Provision for credit losses increased $4.5 million in 2017, as compared to 2016. 2016 was unfavorably impacted by increased credit losses in Brazil, primarily relating to a discrete customer.

Operating interest increased $1.6 million in 2017, as compared to 2016, primarily due to an increase in customer receivable balances due to business growth and higher average interest rates.

Depreciation and amortization expenses increased $5.5 million in 2017, as compared to 2016, resulting from higher depreciation expense primarily on capitalized internal-use software development costs.

Other operating expenses

General and administrative expenses increased $5.4 million in 2017, as compared to 2016, primarily due to expenses to support significant business growth and higher revenue-based taxes in Brazil.

Sales and marketing expenses increased $5.3 million in 2017, as compared to 2016, primarily in support of an overall increase in business growth.

Depreciation and amortization increased $2.4 million in 2017, as compared to 2016, resulting from higher amortization of acquired intangibles.

Table of Contents

Unallocated corporate expenses

The following table compares line items within operating income for unallocated corporate expenses:

(In thousands)	Twelve Months Ended December 31, 2017	2016	Increase (Decrease) Amount	Percent
Other operating expenses				
General and administrative	$69,531	$71,075	$(1,544)	(2)%
Sales and marketing	$138	$42	$96	229 %
Depreciation and amortization	$1,612	$1,527	$85	6 %
Gain on divestiture	$(20,958)	$—	$(20,958)	— %

General and administrative expenses in 2017 were generally consistent with the prior year.

Sales and marketing expenses and depreciation and amortization were not material to the Company's operations for both of 2017 and 2016.

During 2017, management determined that our Telapoint business did not align with the long-term strategy of our core businesses. During November 2017, the Company sold $8.9 million of net assets related to this business for proceeds of $29.9 million, which resulted in a pre-tax book gain of approximately $21.0 million.

Non-operating income and expense

The following table reflects comparative results for certain amounts excluded from operating profit:

(In thousands)	Twelve Months Ended December 31, 2017	2016	Increase (Decrease) Amount	Percent
Financing interest expense	$(107,067)	$(113,418)	$(6,351)	(6)%
Net foreign currency gain (loss)	$31,487	$(9,233)	$40,720	NM
Net realized and unrealized gains on fuel price derivatives	$—	$711	$(711)	NM
Net unrealized gain on financial instruments	$1,314	$12,908	$(11,594)	(90)%
Non-cash adjustments related to tax receivable agreement	$15,259	$(563)	$15,822	NM
Income taxes	$15,450	$28,592	$(13,142)	(46)%
Net loss from non-controlling interest	$(1,096)	$(3,161)	$(2,065)	(65)%

NM - Not Meaningful

Financing interest expense decreased $6.4 million in 2017, as compared to 2016. The Company was unfavorably impacted by $30 million of ticking fees incurred for the commitment of funds to finance the acquisition of EFS in 2016. The absence of this expense in 2017 was partly offset by higher relative borrowings and effective interest rates under the 2016 Credit Agreement.

Our foreign currency exchange exposure is primarily related to the re-measurement of our cash, receivable and payable balances, including intercompany transactions that are denominated in foreign currencies. In 2017, net foreign currency gain was $31.5 million, as compared to a net foreign currency loss of $9.2 million in 2016. In 2017, we recognized gains on trade receivables and intercompany loans primarily from a strengthening of the British Pound Sterling and the Euro relative to the US dollar. In 2016, we experienced foreign currency exchange losses from fluctuations in exchange rates that resulted in a significant devaluation of major currencies to which our business is exposed, including the British Pound Sterling, the Euro and the Australian dollar.

Net realized and unrealized gains on fuel price derivatives were not material to Company operations in 2017 or 2016.

Net unrealized gain on financial instruments decreased $11.6 million in 2017, as compared to 2016. In 2017, the favorable impact of increases in the variable interest rates on our swap agreements was almost entirely offset by the decrease in remaining swap duration.

Non-cash adjustments related to tax receivable agreement were $15.3 million in 2017 resulting from a decrease in a tax sharing liability due to our former parent company as result of recent tax reform which reduced the federal statutory rate from 35% to 21%.

53

Table of Contents

Our effective tax rate was 8.9 percent for 2017 as compared to 58.4 percent for 2016. The decrease in our tax rate was primarily due to the reduction of our net deferred tax liabilities resulting from the change in federal corporate income tax rate to 21 percent from 35 percent effective January 1, 2018 as part of the 2017 Tax Act and a decrease in non-deductible expense in 2017, partly offset by the increase in valuation allowance. The 2016 tax rate reflected non-deductible expenses related to the losses incurred by our Brazilian subsidiary, as these losses were not deductible for tax purposes.

During the fourth quarter of 2017, the Company estimated the provision for income taxes in accordance with the 2017 Tax Act and guidance available and as a result has recorded a provisional amount of one-time income tax benefit of approximately $60.6 million. This benefit is primarily related to the remeasurement of certain deferred tax assets and liabilities based on the tax rates at which they are expected to reverse in the future and a reduction in the amount due under our tax receivable agreement, which decreased primarily as a result of the decline in the federal corporate income tax rate. These favorable impacts were partly offset by income tax expense related to the one-time transition on the mandatory deemed repatriation of foreign earnings.

The 2017 Tax Act created a new requirement to tax certain foreign earnings relating to GILTI. During the year ended December 31, 2017, we did not record any deferred taxes related to GILTI and had not yet elected an accounting policy for GILTI.

Undistributed earnings of certain foreign subsidiaries of the Company amounted to approximately $58.7 million and $25.8 million at December 31, 2017 and 2016, respectively. These earnings are considered to be indefinitely reinvested. Beginning in 2018, except for GILTI, the Company no longer records United States federal income tax on its share of the income of its foreign subsidiaries, nor a benefit for foreign tax credits related to that income.

Net income or loss from non-controlling interest relates to our 75 percent ownership stake in WEX Europe Services. Such amounts were not material to Company operations for 2017 and 2016.

Non-GAAP Financial Measures That Supplement GAAP Measures

The Company's non-GAAP adjusted net income excludes unrealized gains and losses on financial instruments, net foreign currency remeasurement gains and losses, acquisition-related ticking fees, acquisition-related intangible amortization, other acquisition and divestiture related items, stock-based compensation, restructuring and other costs, gain on divestiture, impairment charges and asset write-offs, a one-time vendor settlement, debt restructuring and debt issuance cost amortization, non-cash adjustments related to tax receivable agreement, adjustments attributed to our non-controlling interest and certain tax related items.

Although adjusted net income is not calculated in accordance with GAAP, this non-GAAP measure is integral to the Company's reporting and planning processes and the chief operating decision maker of the Company uses segment adjusted operating income to allocate resources among our operating segments. The Company considers this measure integral because it excludes the above-specified items that the Company's management excludes in evaluating the Company's performance. Specifically, in addition to evaluating the Company's performance on a GAAP basis, management evaluates the Company's performance on a basis that excludes the above items because:

- Exclusion of the non-cash, mark-to-market adjustments on financial instruments, including fuel-price related derivatives and interest rate swap agreements and investment securities, helps management identify and assess trends in the Company's underlying business that might otherwise be obscured due to quarterly non-cash earnings fluctuations associated with these financial instruments. Additionally, the non-cash, mark-to-market adjustments on financial instruments are difficult to forecast accurately, making comparisons across historical and future quarters difficult to evaluate.
- Net foreign currency gains and losses primarily result from the remeasurement to functional currency of cash, receivable and payable balances, certain intercompany balances denominated in foreign currencies and any gain or loss on foreign currency hedges relating to these items. The exclusion of these items helps management compare changes in operating results between periods that might otherwise be obscured due to currency fluctuations.
- The Company considers certain acquisition-related costs, including certain financing costs, ticking fees, investment banking fees, warranty and indemnity insurance, certain integration related expenses and amortization of acquired intangibles, as well as gains and losses from divestitures to be unpredictable, dependent on factors that may be outside of our control and unrelated to the continuing operations of the acquired or divested business or the Company. In

addition, the size and complexity of an acquisition, which often drives the magnitude of acquisition-related costs, may not be indicative of such future costs. During the year ended December 31, 2017, the Company determined that our Telapoint business did not align with the long-term strategy of our core businesses and as result sold the net assets of the business. The Company believes that excluding acquisition-related costs and gains or losses of divestitures facilitates the comparison of our financial results to the Company’s historical operating results and to other companies in our industry.

Table of Contents

- Stock-based compensation is different from other forms of compensation, as it is a non-cash expense. For example, a cash salary generally has a fixed and unvarying cash cost. In contrast, the expense associated with an equity-based award is generally unrelated to the amount of cash ultimately received by the employee, and the cost to the Company is based on a stock-based compensation valuation methodology and underlying assumptions that may vary over time.
- Restructuring and other costs are related to certain identified initiatives to further streamline the business, improve the Company's efficiency, create synergies and to globalize the Company's operations, all with an objective to improve scale and increase profitability going forward. This also includes other immaterial costs that the Company has incurred and are non-operational and non-recurring. We exclude these items when evaluating our continuing business performance as such items are not consistently occurring and do not reflect expected future operating expense, nor do they provide insight into the fundamentals of current or past operations of our business.
- Impairment charges and asset write-offs represent non-cash write-offs, which do not reflect recurring costs that would be relevant to the Company's continuing operations. In 2018, impairment charges represent a goodwill impairment related to Fleet Solutions operations in Latin America. We also impaired certain computer software which was determined to have no future value in 2018. In 2017, we incurred impairment charges of certain prepaid services following a strategic decision to in-source certain technology functions and on certain payment processing software as part of our ongoing platform consolidation strategy. The Company believes that excluding these nonrecurring expenses facilitates the comparison of our financial results to the Company's historical operating results and to other companies in its industry.
- Vendor settlement represents a payment in exchange for the release of potential claims related to insourcing certain technology, and does not reflect recurring costs that would be relevant to the continuing operations of the Company. The Company believes that excluding this nonrecurring expense facilitates the comparison of our financial results to the Company's historical operating results and to other companies in its industry.
- Debt restructuring and debt issuance cost amortization are unrelated to the continuing operations of the Company. Debt restructuring costs are not consistently occurring and do not reflect expected future operating expense, nor do they provide insight into the fundamentals of current or past operations of our business. In addition, since debt issuance cost amortization is dependent upon the financing method which can vary widely company to company, we believe that excluding these costs helps to facilitate comparison to historical results as well as to other companies within our industry.
- The adjustments attributable to non-controlling interests and to non-cash adjustments related to our tax receivable agreement have no significant impact on the ongoing operations of the business.
- The tax related items are the difference between the Company's U.S. GAAP tax provision and a pro forma tax provision based upon the Company's adjusted net income before taxes as well as the impact from certain discrete tax items. The methodology utilized for calculating the Company's adjusted net income tax provision is the same methodology utilized in calculating the Company's U.S. GAAP tax provision.

For the same reasons, WEX believes that adjusted net income may also be useful to investors as one means of evaluating the Company's performance. However, because adjusted net income is a non-GAAP measure, it should not be considered as a substitute for, or superior to, net income, operating income or cash flows from operating activities as determined in accordance with GAAP. In addition, adjusted net income as used by WEX may not be comparable to similarly titled measures employed by other companies.

Table of Contents

The following table reconciles net income attributable to shareholders to adjusted net income attributable to shareholders:

	Year ended December 31,		
	2018	2017	2016
Net income attributable to shareholders	$168,295	$160,062	$23,499
Unrealized gains on financial instruments	(2,579)	(1,314)	(7,901)
Net foreign currency remeasurement loss (gain)	38,800	(31,487)	9,233
Acquisition-related ticking fees	—	—	30,045
Acquisition-related intangible amortization	138,186	153,810	97,829
Other acquisition and divestiture related items	4,143	5,000	20,879
Gain on divestiture	—	(20,958)	—
Stock-based compensation	35,103	30,487	19,742
Restructuring and other costs	13,717	11,129	13,995
Impairment charges and asset write-offs	5,649	44,171	—
Vendor settlement	—	—	15,500
Debt restructuring and debt issuance cost amortization	14,101	10,519	12,673
Non-cash adjustments related to tax receivable agreement	775	(15,259)	563
ANI adjustments attributable to non-controlling interests	(1,370)	(1,563)	(2,583)
Tax related items	(52,538)	(109,251)	(78,800)
Adjusted net income attributable to shareholders	$362,282	$235,346	$154,674

Table of Contents

Application of Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. Preparation of these financial statements requires us to make estimates and judgments that affect reported amounts of assets and liabilities, revenue and expenses and related disclosure of contingent assets and liabilities at the date of our financial statements. We continually evaluate our judgments and estimates in determination of our financial condition and operating results. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Estimates are based on information available as of the date of the financial statements and, accordingly, actual results could differ from these estimates, sometimes materially. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of our financial condition and operating results and require management's most subjective judgments. Our consolidated financial statements are based on the selection and application of critical accounting policies and estimates, the most significant of which are included in the tables below.

Revenue Recognition

Description	Assumptions/Approach Used	Effect if Actual Results Differ from Assumptions
The majority of the Company's revenues are comprised of transaction-based fees, which are generally calculated based on measures such as: (i) percentage of dollar value of volume processed; (ii) number of transactions processed; or (iii) some combination thereof. Interchange income, a fee paid by a merchant bank to the card-issuing bank (the Company) through the interchange network, is earned from the Company's suite of card products. Interchange fees are set by the credit card providers. The Company has entered into agreements with major oil companies, fuel retailers and vehicle maintenance providers which provide products and/or services to the Company's customers. These agreements specify that a transaction is deemed to be captured when the Company has validated that the transaction has no errors and has accepted and posted the data to the Company's records.	The Company's primary performance obligation to merchants is a stand-ready commitment to provide payment and transaction processing services as the merchant requires, which is satisfied over time in daily increments. Within our Travel and Corporate Solutions and Health and Employee Benefit Solutions segments, we provide SaaS services and support, which is satisfied over time in a series of daily increments. Revenue is recognized based on an output method using days elapsed to measure progress as the Company transfers control evenly over each monthly subscription period. The Company enters into contracts with certain large customers or strategic cardholders that provide for fee rebates tied to performance milestones. The Company considered whether such rebates constitute considerable payable to a customer or other parties that purchase services from the customer per Topic 606. If so, such rebates, which are considered variable consideration, are recorded as a reduction in payment processing revenue in the same period that related interchange income is recognized.	In preparing the financial statements, management must make estimates related to the contractual terms, customer performance and sales volume to determine the total amounts recorded as deductions, such as rebates and incentives, from revenue. Rebates and incentives are calculated based on estimated performance and the terms of the related business agreements. Management also considers historical results in making such estimates. The actual amounts ultimately paid to the customer may be different from our estimates. Such differences are recorded once they have been determined and have historically not been significant.

Account servicing revenue is primarily comprised of monthly fees charged to cardholders. The Company also recognizes SaaS based service fees in the healthcare market and licensing fees for use of our accounts receivable and accounts payable SaaS platforms.

The Company earns revenue on overdue accounts, calculated using the greater of a minimum charge or a stated late fee rate multiplied by the outstanding balance that is subject to a late fee charge.

The Company assesses fees for providing ancillary services, such as information products and services, software development projects and other services sold subsequent to the core offerings. Other revenues also include international settlement fees, fees for overnight shipping, certain customized electronic reporting and customer contact services provided on behalf of certain of the Company’s customers.

The Company earns revenue on overdue accounts, which is recognized as revenue at the time the fees are assessed.

The Company generally records revenue net of consideration retained based upon its conclusion that the Company is the agent in its principal versus agent relationships.

See Item 8 — Note 1, Summary of Significant Accounting Policies, for accounting guidance applied prior to the Company’s adoption of Topic 606.

Table of Contents

Reserve for Credit Losses

Description	Assumptions/Approach Used	Effect if Actual Results Differ from Assumptions
The reserve for losses relating to accounts receivable represents management's estimate of the losses inherent in the Company's outstanding portfolio of receivables, including fraud losses. The reserve for credit losses reduces the Company's accounts receivable balances as reported in its financial statements to the net realizable value.	Management has consistently considered its portfolio of charge card receivables as a large group of smaller balance accounts that it has collectively evaluated for impairment. Reserves for losses on these receivables are primarily based on a model that analyzes specific portfolio statistics, including average charge-off rates for various stages of receivable aging (including: current, 30 days, 60 days, 90 days) over historical periods including average bankruptcy and recovery rates. Receivables are generally written off when they are 150 days past due or declaration of bankruptcy by the customer. The reserve reflects management's judgment regarding overall reserve adequacy. Management considers whether to adjust the reserve that is calculated by the analytic model based on other factors, such as the actual charge-offs for the preceding reporting periods, expected charge-offs and recoveries for the subsequent reporting periods, a review of accounts receivable balances which become past due, changes in customer payment patterns, known fraudulent activity in the portfolio, as well as leading economic and market indicators.	To the extent historical credit experience is not indicative of future performance, actual loss experience could differ significantly from management's judgments and expectations, resulting in either higher or lower future provisions for credit losses, as applicable. As of December 31, 2018, we have an estimated reserve for credit losses which is 1.78 percent of the total gross accounts receivable balance. An increase or decrease to this reserve by 0.5 percent would increase or decrease the provision for credit losses for the year by $13.2 million. As of December 31, 2018, 2017 and 2016, our reserve for credit losses in an annual period has ranged from 0.97 percent to 1.78 percent of the total receivable balance.

Table of Contents

Business Combinations, Acquired Intangible Assets and Goodwill

Description	Assumptions/Approach Used	Effect if Actual Results Differ from Assumptions
Business combinations are accounted for at fair value. The accounting for business combinations requires estimates and judgment as to expectations for future cash flows of the acquired business, and the allocation of those cash flows to identifiable intangible assets, in determining the estimated fair value for assets and liabilities acquired. An acquisition not meeting the criteria to be accounted for as a business combination is accounted for as an asset acquisition. Asset acquisitions are recorded at purchase price allocated based on the the relative fair value of identifiable assets and liabilities. No goodwill is recorded in an asset acquisition. Goodwill is comprised of the cost of business acquisitions in excess of the fair value assigned to the net tangible and identifiable intangible assets acquired. Goodwill is not amortized but is reviewed for impairment annually, or when events or changes in the business environment indicate that the carrying value of the reporting unit may exceed its fair value. Acquired intangible assets result from the allocation of the cost of an acquisition. These acquired intangibles include assets that amortize, primarily software and customer relationships, and those that do not amortize, specifically trademarks and certain trade names. The annual review of goodwill and indefinite-lived intangibles values is performed as of October 1 of each year.	The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. In the fourth quarter of 2018, we elected to bypass the qualitative approach and instead proceeded directly to step one of the two-step impairment test to assess the fair value of all of our reporting units. For the reporting units that carry goodwill balances, our impairment test consists of a comparison of each reporting unit's carrying value to its estimated fair value. A reporting unit, for the purpose of the impairment test, is one level below the operating segment level. We have three reporting segments that are further broken into several reporting units for the impairment review. The estimated fair value for the majority of our reporting units is estimated using a combination of discounted estimated future cash flows and prices for comparable businesses. An appropriate discount rate is used, as well as risk premium for specific business units, based on the Company's cost of capital or reporting unit-specific economic factors. We generally validate the model through a reconciliation of the fair value of all our reporting units to our overall market capitalization. The assumptions used to estimate the discounted cash flows are based on our best estimates about payment processing fees/interchange rates, sales volumes, costs (including fuel prices), future growth rates, working capital needs, capital expenditures and market conditions over an estimate of the remaining operating period at the reporting unit level. The discount rate at each reporting unit is based on the weighted average cost of capital that is determined by evaluating the risk free rate of return, cost of debt, and expected equity premiums. Acquired intangible assets are considered non-recoverable if the carrying amount exceeds the sum of undiscounted cash flows expected to result from the use of the assets. The recoverability test is	We review the carrying values of goodwill and intangible assets with indefinite lives for impairment annually and whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be recoverable. Such circumstances would include, but are not limited to, a significant decrease in the perceived market price of the intangible, a significant adverse change in the way the asset is being used, or a history of operating or cash flow losses associated with the use of the intangible. Our goodwill resides in multiple reporting units. The profitability of individual reporting units may suffer periodically from downturns in customer demand or other economic factors. Individual reporting units may be more impacted than the Company as a whole. Specifically, during times of economic slowdown, our customers may reduce their expenditures. As a result, demand for the services of one or more of the reporting units could decline which could adversely affect our operations, cash flow, and

based on management's intended use of the assets. If the asset fails the recoverability test, impairment is measured as the amount by which the carrying amount of the asset group exceeds its fair value. Fair value measurements under FASB Accounting Standards Codification ("ASC") 820 – Fair Value Measurements and Disclosures, are based on the assumptions of market participants. When determining the fair value of the asset group, entities must consider the highest and best use of the assets from a market-participant perspective.

liquidity and could result in an impairment of goodwill or intangible assets.

During our annual goodwill and indefinite -lived intangible asset impairment tests performed as of October 1, 2018, we assessed the impact of a customer loss significant to our Brazil fleet business. Based on a comparison of the calculated fair value of this reporting unit to its carrying value, the Company recorded a $3.2 million goodwill impairment charge. There is no remaining net goodwill associated with this reporting unit. For all other reporting units tested, our 2018 goodwill impairment test indicated an excess of estimated fair value over the carrying amount ranging from approximately $135 million to $4.3 billion. Although no additional reporting units are deemed at risk of impairment as of December 31, 2018, the potential for impairment exists in the future should actual results deteriorate versus our current expectations. As of December 31, 2018, the Company had approximately $2.9 billion on its consolidated balance sheet related to goodwill and intangible assets of acquired entities.

The Company tests intangible assets with definite lives for impairment if conditions exist that indicate the carrying value may not be recoverable. The Company did not record any goodwill and intangible asset impairments during the years ended December 31, 2017 and 2016.

Table of Contents

Income Taxes

Description	Assumptions/Approach Used	Effect if Actual Results Differ from Assumptions
In preparing the consolidated financial statements, we calculate income tax expense (benefit) based on our interpretation of the tax laws in the various jurisdictions where we conduct business. This requires us to estimate current tax obligations and to assess temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. These differences result in current or long-term deferred tax assets and liabilities, the net amount of which we show as a line item on the consolidated balance sheet. All or a portion of the benefit of income tax positions is recognized only when we have made a determination that it is more likely than not that the tax position will be sustained upon examination, based upon the technical merits of the position and other factors. For tax positions that are determined as more likely than not to be sustained upon examination, the tax benefit recognized is the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. We must also assess the likelihood that the deferred tax assets will be realized. To the extent we believe that realization is not more likely than not, we establish a valuation allowance. When we establish a valuation allowance or increase this allowance, we generally record a corresponding income tax expense in the consolidated statement of income in the period of the change. Conversely, to the extent circumstances indicate that realization is more likely than not, the valuation allowance is decreased to the amount realizable, which generates an income tax benefit.	Management must make judgments to determine income tax expense (benefit), deferred tax assets and liabilities and any valuation allowance to be recorded against deferred tax assets. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. Changes in our estimates occur periodically due to changes in tax rates, changes in business operations, implementation of tax planning strategies, the expiration of relevant statutes of limitations, resolution with taxing authorities of uncertain tax positions and newly enacted statutory, judicial and regulatory guidance. We record a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. Significant judgment is required in determining valuation allowances. In evaluating the ability to recover deferred tax assets, we consider all available positive and negative evidence including past operating results, the existence of cumulative losses in the most recent years, forecasted earnings, future taxable income, and prudent and feasible tax planning strategies. In establishing a liability for unrecognized tax benefits, assumptions are made in determining whether, and to what extent, a tax position may be sustained. It requires significant management judgment regarding applicable statutes and their related interpretation as they apply to our particular facts and circumstances.	Although we believe that our income tax related judgments and estimates are reasonable, it is possible that our actual results could be different than what we expected, and we may be exposed to a material change in our total income tax expense, tax-related balances, or valuation allowances. Upon income tax audit, any unfavorable tax settlement may require use of our cash and result in an increase in our effective tax rate in the period of settlement. A favorable tax settlement could be recognized as a reduction in our effective tax rate in the period of settlement.

New Accounting Standards

See Item 8 – Note 2, “Recent Accounting Pronouncements,” for recently issued accounting standards that have not yet been adopted.

Table of Contents

Liquidity, Capital Resources and Cash Flows

We believe that our cash generating capability, financial condition and operations, together with our revolving credit facility, term loans and notes outstanding, as well as other available methods of financing (including deposits, participation loans, borrowed federal funds, and securitization facilities), will be adequate to fund our cash needs for at least the next 12 months.

Cash Flows

The table below summarizes our cash activities:

	Year ended December 31,		
(In thousands)	2018	2017	2016
Net cash provided by (used for) operating activities	$400,229	$135,427	$(141,186)
Net cash used for investing activities	$(254,175)	$(168,054)	$(1,160,439)
Net cash (used for) provided by financing activities	$(102,728)	$359,385	$1,216,081

Operating Activities

- Cash provided by operating activities for 2018 increased $264.8 million as compared to the prior year, resulting from lower relative increases in accounts receivable, net of associated accounts payable as compared to the prior year, the return of collateral as a result of contract renegotiations and higher net income adjusted for noncash charges.
- Cash provided by operating activities for 2017 increased $276.6 million as compared to the prior year, primarily due to higher net income adjusted for non-cash charges.

Investing Activities

- Cash used for investing activities for 2018 increased $86.1 million as compared to the prior year, resulting from a $162.8 million deposit paid to obtain a customer relationship intangible asset. Capital additions, primarily related to the development of internal-use software as we expand globally and provide competitive products and services to our customers, were generally consistent with 2017.
- Cash used for investing activities for 2017 decreased $992.4 million as compared to the prior year. In 2016, we paid approximately $1.2 billion for EFS, the Company's largest acquisition to date. Cash used for investing activities in 2017 was due to the acquisition of AOC and capital additions primarily related to the development of internal-use software. These impacts were partly offset by the sale of our Telapoint business after determining that its operations did not align with the core strategy of our Fleet business. The AOC acquisition was funded with cash on hand and through the Company's 2016 Credit Agreement.

Financing Activities

- Cash used for financing activities for 2018 was $102.7 million as compared to cash provided by financing activities of $359.4 million in the prior year. This was primarily due to net repayments under our 2016 Credit Agreement and our participation debt due to a WEX Bank factoring arrangement entered into in August 2018. These cash outflows were partly offset by $178.0 million of term loan borrowings as a result of the debt repricings in January 2018 and August 2018.
- Cash provided by financing activities for 2017 decreased $856.7 million as compared to the prior year, resulting from lower relative borrowings under the 2016 Credit Agreement. During 2016, we successfully closed our 2016 credit agreement in conjunction with the EFS acquisition.

Liquidity

In general, the Company's trade receivables provide for payment terms of 30 days or less. Receivables not paid within the terms of the agreement are generally subject to late fees based upon the outstanding receivable balance. The Company extends revolving credit to certain small fleets. These accounts are also subject to late fees, and balances that are not paid in full are subject to interest charges based on a revolving balance. The Company had approximately $18.9 million and $12.2 million of receivables with revolving credit balances as of December 31, 2018 and 2017, respectively.

At December 31, 2018, approximately 95 percent of the outstanding balance of $2.6 billion of total trade accounts receivable was 29 days or less past due and approximately 98 percent of the outstanding balance of total trade accounts receivable was 59 days or less past due. The receivables portfolio consists of a large group of homogeneous smaller balances across a wide

Table of Contents

range of industries. No one customer receivable balance represented 10 percent or more of the outstanding receivables balance at December 31, 2018 or December 31, 2017.

Our short-term cash requirements consist primarily of funding the working capital needs of our business, payments on maturities and withdrawals of brokered deposits and borrowed federal funds, required capital expenditures, repayments on our credit facility, interest payments on our credit facility and other operating expenses. WEX Bank can fund our short-term domestic cash requirements through the issuance of brokered deposits and borrowed federal funds. Any remaining cash needs are primarily funded through operations. Our long-term cash requirements consist primarily of amounts owed on our 2016 Credit Agreement and Notes, amounts due to Wyndham Worldwide Corporation as part of our tax receivable agreement and various facilities lease agreements.

Undistributed earnings of certain foreign subsidiaries of the Company amounted to an estimated $64.9 million and $58.7 million at December 31, 2018 and 2017, respectively. These earnings are considered to be indefinitely reinvested. As discussed above and in Item 8 – Note 14, Income Taxes, the United States enacted the 2017 Tax Act in December 2017, which impacted foreign undistributed earnings, among other things. The 2017 Tax Act imposed a one time “transition tax” on foreign undistributed earnings, which was included with our 2017 U.S. Income Tax Return. The Company offset the transition tax with net operating loss carryforwards and therefore this tax did not result in any additional cash tax payable. In December 2017, the Company reflected an estimate of the transition tax and recorded a provisional transition tax obligation of $9.1 million. In 2018, the Company completed a review of offshore earnings which resulted in a decrease in the tax obligation of $2.0 million. Upon distribution of these earnings in the form of dividends or otherwise, the Company would be subject to withholding taxes payable as applicable, to the various foreign countries, but would have no further federal income tax liability. The Company’s primary tax jurisdictions are the United States, Australia and the United Kingdom.

Earnings outside of the United States are accompanied by certain financial risks, such as changes in foreign currency exchange rates. Changes in foreign currency exchange rates may reduce the reported value of our foreign currency revenues, net of expenses and cash flows. We cannot predict changes in currency exchange rates, the impact of currency exchange rate changes nor the degree to which we will be able to manage the impact of currency exchange rate changes.

Deposits and Borrowed Federal Funds

WEX Bank issues certificates of deposit in various maturities ranging between 6 months and five years, with interest rates ranging from 1.30 percent to 3.52 percent as of December 31, 2018, as compared to interest rates ranging from 1.00 percent to 2.15 percent as of December 31, 2017. As of December 31, 2018, we had approximately $850.8 million of certificates of deposit outstanding at a weighted average interest rate of 2.36 percent, compared to $937.7 million of certificates of deposit outstanding at a weighted average interest rate of 1.51 percent as of December 31, 2017.

WEX Bank also issues interest-bearing money market deposits with variable interest rates ranging from 2.48 percent to 2.53 percent as of December 31, 2018, as compared to variable interest rates ranging from 1.24 percent to 1.55 percent as of December 31, 2017. As of December 31, 2018, we had approximately $283.8 million of interest-bearing brokered money market deposits at a weighted average interest rate of 2.49 percent, compared to $285.9 million of interest-bearing brokered money market deposits at a weighted average interest rate of 1.49 percent as of December 31, 2017.

WEX Bank may issue additional brokered deposits without limitation, subject to FDIC rules governing minimum financial ratios, which include risk-based asset and capital requirements. As of December 31, 2018, all brokered deposits were in denominations of $250 thousand or less, corresponding to FDIC deposit insurance limits. Interest-bearing money market funds may be withdrawn at any time. We believe that our brokered deposits are paying competitive yields and that there continues to be consumer demand for these instruments.

We also carry non-interest bearing deposits that are required for certain customers as collateral for their credit accounts. We had $138.1 million and $70.2 million of these deposits on hand at December 31, 2018 and 2017, respectively.

WEX Bank is required to maintain reserves against a percentage of certain customer deposits by keeping balances with the Federal Reserve Bank. The required reserve based on the outstanding customer deposits was $11.1 million and $8.4 million at December 31, 2018 and 2017, respectively.
WEX Bank also borrows from uncommitted federal funds lines of credit to supplement the financing of our accounts receivable. Our federal funds lines of credit were $309.0 million and $275.0 million as of December 31, 2018 and 2017, respectively, with no outstanding borrowings as of both December 31, 2018, and December 31, 2017.
WEX Bank participates in the ICS service offered by Promontory Interfinancial Network, which allows WEX Bank to purchase brokered money market demand accounts and demand deposit accounts in an amount not to exceed $125.0 million as

Table of Contents

part of a one-way buy program. At December 31, 2017, there was no outstanding balance for ICS purchases. At December 31, 2018, no amounts were available under this arrangement. Subsequently, the funding capacity of $125.0 million was reinstated.

2016 Credit Agreement

On July 1, 2016, we entered into the 2016 Credit Agreement in order to permit the additional financing necessary to facilitate the EFS acquisition. The 2016 Credit Agreement provided for secured tranche A and tranche B term loan facilities in the original principal amount equal to $455.0 million and $1,200.0 million, respectively, and a $470.0 million secured revolving credit facility. Effective July 3, 2017, the Company entered into a First Amendment to the 2016 Credit Agreement, which repriced the secured term loans under the 2016 Credit Agreement. The consolidated leverage ratio as defined in the 2016 Credit Agreement (i.e. consolidated funded indebtedness to consolidated EBITDA), was also modified for purposes of calculating the interest rate margin for tranche A term loans and revolving loans and determining compliance with the financial covenant by allowing the Company to exclude up to $75 million of certain corporate cash balances for purposes of determining consolidated funded indebtedness. Effective October 30, 2017, the Company entered into a Second Amendment to the 2016 Credit Agreement, which added $100.0 million of capacity to its revolving line of credit to provide additional liquidity and flexibility during 2017.

On January 17, 2018, the Company entered into a Third Amendment to the 2016 Credit Agreement, which increased the outstanding amounts on the tranche B term loan by $153.0 million, reduced the applicable interest rate margin for the tranche B term loan and amended certain aspects of the financial covenants. On August 24, 2018, the Company entered into a Fourth Amendment to the 2016 Credit Agreement, which increased the amount available under the revolving credit facility by $150.0 million, provided for an additional tranche A term loan in the amount of $25.0 million, reduced the applicable interest rate margin at current levels for the Company’s revolving credit loans, extended the maturity date for the revolving credit facility and tranche A term loan to July 1, 2023, and amended certain aspects of the financial covenants. After giving effect to these amendments, the 2016 Credit Agreement provides for a secured tranche A term loan in the original principal amount of $480.0 million, a secured tranche B term loan in the original principal amount of $1,335.0 million and a $720.0 million secured revolving credit facility, with a $250.0 million sublimit for letters of credit and $20.0 million sublimit for swingline loans. Under the 2016 Credit Agreement, the Company has granted a security interest in certain assets of the Company, subject to exceptions including the assets of WEX Bank.

Following the August 2018 repricing, the applicable interest rate margin for the revolving credit loans and tranche A term loans was 2.00% for LIBOR borrowings and 1.00% for base rate borrowings, and the applicable interest rate margin for tranche B term loans was 2.25% for LIBOR borrowings and 1.25% for base rate borrowings.

On January 18, 2019, the Company entered into a Fifth Amendment to the 2016 Credit Agreement, which provides for an additional tranche A term loan in the principal amount of $300 million, increasing the outstanding principal on the tranche A term loans to $723.7 million. In addition, subject to certain conditions, the amendment provides delayed draw commitments for an incremental $275.0 million tranche A term loan and an incremental $25 million of revolving credit commitments (subject to conversion of the delayed draw incremental tranche A term loan commitments and incremental revolving credit commitments to commitments of the other type). On March 5, 2019, the Company fully drew down this commitment, consisting of $250.0 million in tranche A term loans and an incremental $50.0 million of revolving credit loans in order to fund the acquisition of Discovery Benefits.

Incremental loans of up to the greater of $375.0 million (plus the amount of certain prepayments) and an unlimited amount subject to satisfaction of a consolidated leverage ratio test could be made available under the 2016 Credit Agreement upon the request of the Company subject to specified terms and conditions, including receipt of lender commitments. Proceeds from the 2016 Credit Agreement may be used for working capital purposes, acquisitions, payment of dividends and other restricted payments, refinancing of indebtedness and other general corporate purposes. The 2016 Credit Agreement contains various financial covenants requiring us to maintain certain financial ratios. In addition to the financial covenants, the 2016 Credit Agreement contains various customary restrictive covenants including restrictions in certain situations on the payment of dividends. WEX Bank is not subject to certain of these restrictions. We were in compliance with all material covenants and restrictions at December 31, 2018.

As of December 31, 2018, we had no outstanding borrowings against our $720.0 million revolving credit facility, which terminates in July of 2023. The combined outstanding debt under our tranche A term loan facility and our tranche B term loan facility, both of which expire in July 2023, totaled $1.7 billion at December 31, 2018. As of December 31, 2018, amounts outstanding under the 2016 Credit Agreement bore a weighted average effective interest rate of 4.7 percent.

See Item 8 – Note 15, Financing and Other Debt, for further information regarding interest rates, voluntary prepayments rights and principal payments required under the 2016 Credit Agreement.

Table of Contents

Ticking Fees
In January 2016, we began to incur ticking fees for the debt financing commitment associated with the 2016 Credit Agreement in anticipation of the then pending acquisition of EFS. Through June 30, 2016, we recorded $30 million of ticking fees, which are included in financing interest expense. These ticking fees were calculated based on the financing commitment of an aggregate principal amount of $2.125 billion that remained in place until the closing of the EFS acquisition on July 1, 2016. The total amount of ticking fees paid at the closing of the EFS acquisition was $22.2 million. The excess ticking fees of $7.9 million were netted against the net debt issuance costs related to the 2016 Credit Agreement and will be amortized over the 2016 Credit Agreement’s terms using the effective interest method for the tranche A and B term loans and the revolver.
Notes Outstanding
On January 30, 2013, the Company completed an offering of Notes at an issue price of 100.0 percent of the principal amount of $400 million, plus accrued interest, from January 30, 2013.
WEX Latin America Debt
WEX Latin America had debt of approximately $16.2 million and $9.7 million as of December 31, 2018 and 2017, respectively. This is comprised of credit facilities held in Brazil and loan arrangements related to our accounts receivable, with various maturity dates. As of December 31, 2018 and 2017, the interest rate was 23.59% and 24.10%, respectively.
Participation Debt
Historically, WEX Bank maintained three separate participation agreements with third-party banks to fund customer balances that exceeded WEX Bank’s lending limit to an individual customer. In June 2018, WEX Bank entered into a fourth participation agreement with a third-party bank to fund an additional customer’s balance. Associated unsecured borrowings carry a variable interest rate of 1 month to 3 month LIBOR plus a margin of 225 basis points. The Company had funding capacity of $180.0 million at December 31, 2018 under these agreements, which terminate on June 30, 2019, August 31, 2020, and on demand. Amounts outstanding under the participation agreements as of December 31, 2018 were $64.8 million and $50.0 million and were recorded in short-term debt, net and long-term debt, net, respectively. Amounts outstanding under the participation agreements were $135.0 million and $50.0 million and recorded in short-term debt, net and long-term debt, net, respectively, as of December 31, 2017.
Australian Securitization Facility
The Company maintains a securitized debt agreement with the Bank of Tokyo-Mitsubishi UFJ, Ltd., which expires April 2019. Under the terms of the agreement, each month, on a revolving basis, the Company sells certain of its Australian receivables to the Company’s Australian Securitization Subsidiary. The Australian Securitization Subsidiary, in turn, uses the receivables as collateral to issue asset-backed commercial paper (“securitized debt”) for approximately 85 percent of the securitized receivables. The amount collected on the securitized receivables is restricted to pay the securitized debt and is not available for general corporate purposes.
The Company pays a variable interest rate on the outstanding balance of the securitized debt, based on the Australian Bank Bill Rate plus an applicable margin. The interest rate was 2.89 percent and 2.53 percent as of December 31, 2018 and 2017, respectively. The Company had securitized debt under this facility of approximately $87.0 million and $90.0 million as of December 31, 2018 and 2017, respectively.
European Securitization Facility
On April 7, 2016, the Company entered into a five-year securitized debt agreement with the Bank of Tokyo-Mitsubishi UFJ, Ltd. Under the terms of the agreement, the Company sells certain of its receivables from selected European countries to our European Securitization Subsidiary. The European Securitization Subsidiary, in turn, uses the receivables as collateral to issue securitized debt. The amount collected on the securitized receivables is restricted to pay the securitized debt and is not available for general corporate purposes. The interest rate was 0.98 percent and 1.11 percent as of December 31, 2018 and December 31, 2017, respectively. The Company had $18.0 million and $17.9 million of securitized debt under this facility as of December 31, 2018 and December 31, 2017, respectively.

WEX Latin America Securitization of Receivables

During the second quarter of 2017, WEX Latin America entered into a securitized debt agreement to transfer certain unsecured receivables associated with our salary payment card product to an investment fund managed by an unrelated third-party financial institution. As of December 31, 2017 and through June 30, 2018, this securitization arrangement did not meet the derecognition conditions due to WEX Latin America's continuing involvement with the transferred assets and accordingly WEX Latin America reported the transferred receivables and securitized debt on our consolidated balance sheets.

During 2017, WEX Latin America securitized approximately $49.1 million of receivables to the investment fund for cash proceeds of approximately $43.8 million. This $5.3 million discount was recognized as operating interest in the Company's consolidated statements of income using the effective interest method over the weighted average term of the salary advances. The Company had $30.1 million and $19.0 million of securitized debt under this facility as of June 30, 2018 and December 31, 2017, respectively.

During the third quarter of 2018, the securitization agreements were amended, resulting in the Company giving up effective control of the transferred receivables to the buyer. Additionally, the Company received a true-sale opinion from an independent attorney stating that the amended agreements provide legal isolation upon WEX Latin America bankruptcy or receivership under local law. As such, the securitization arrangement meets the derecognition conditions and transfers under this arrangement are treated as a sale and are accounted for as a reduction in trade receivables.

During the year ended December 31, 2018, the Company sold approximately $39.8 million of receivables and recognized a $6.9 million gain on sale of receivables, consisting of the difference between the sales price and the carrying value of the receivables, which is recorded within other revenue in our consolidated income statement. Cash proceeds from the transfer of these receivables is reflected as an operating activity within our consolidated statement of cash flows.

WEX Bank Accounts Receivable Factoring

In August 2018, WEX Bank entered into a receivables purchase agreement with an unrelated third-party financial institution to sell certain of our trade receivables under non-recourse transactions. WEX Bank continues to service the receivables post-transfer with no participating interest. The Company obtained a true-sale opinion from an independent attorney, which states that the factoring agreement provides legal isolation upon WEX Bank bankruptcy or receivership under local law. As such, transfers under this arrangement are treated as a sale. Proceeds from the sale are reported net of a negotiated discount rate and are accounted for as a reduction in trade receivables because the agreements transfer effective control of the receivables to the buyer.

The Company sold approximately $3.2 billion of receivables under this arrangement during year ended December 31, 2018. Proceeds from the sale, which are reported net of a negotiated discount rate, are recorded in operating activities within the Company's consolidated statement of cash flows. The loss on factoring was not material for the year ended December 31, 2018.

WEX Europe Services Accounts Receivable Factoring

During the first quarter of 2017, WEX Europe Services entered into a factoring arrangement with an unrelated third-party financial institution (the "Purchasing Bank") to sell certain of its accounts receivable in order to accelerate the collection of the Company's cash and reduce internal costs, thereby improving liquidity. Under this arrangement, the Purchasing Bank establishes a credit limit for each customer account. The factored receivables are without recourse to the extent that the customer balances are maintained at or below the established credit limit. For customer receivable balances in excess of the Purchasing Bank's credit limit, the Company maintains the risk of default. The Company obtained a true sale opinion from an independent attorney, which states that the factoring agreement creates a sale of receivables under local law for amounts transferred both below and above the established credit limits. Additionally, there are no indications of the Company's continuing involvement in the factored receivables. As a result, the Purchasing Bank is deemed the purchaser of these receivables and is entitled to enforce payment of these amounts from the debtor.

This factoring arrangement is accounted for as a sale and accordingly the Company records the receivables sold as a reduction of accounts receivable and proceeds as cash provided by operating activities. The Company sold approximately $713.8 million and $574.4 million of receivables under this arrangement during years ended December 31, 2018 and December 31, 2017, respectively. Charge-backs on balances in excess of the credit limit during the years ended December 31, 2018 and December 31, 2017 were insignificant.

Other Liquidity Matters

At December 31, 2018, we had variable-rate borrowings of $1.7 billion under our 2016 Credit Agreement. We periodically review our projected borrowings under our 2016 Credit Agreement and the current interest rate environment in order to ascertain

Table of Contents

whether interest rate swaps should be used to reduce our exposure to interest rate volatility. As of December 31, 2018, we maintained four interest rate swap contracts that mature between December 2020 and December 2022. Collectively, these derivative contracts are intended to fix the future interest payments associated with $1.0 billion of our variable rate borrowings at between 1.108 percent to 2.212 percent. After December 31, 2018, the Company entered into three additional interest rate swap contracts. See Item 8 – Note 12, Derivative Instruments, Item 8 – Note 18, Fair Value and Item 8 – Note 25, Subsequent Events for more information.

We discuss our hedging strategies relative to commodity and interest rate risk in Item 7A below.

The Company's long-term cash requirements consist primarily of amounts owed on the 2016 Credit Agreement, the Notes and the amounts due to Wyndham Worldwide Corporation (see Item 8 – Note 16, Tax Receivable Agreement) as part of its tax receivable agreement and various facility lease agreements.

As of December 31, 2018, we had $53.5 million in letters of credit outstanding and $666.5 million in remaining borrowing capacity under the 2016 Credit Agreement, subject to the covenants as described above.

We currently have authorization from our Board to purchase up to $150 million of our common stock until September 2021, which is entirely unused as of December 31, 2018. The program is funded either through our future cash flows or through borrowings on our 2016 Credit Agreement. Share repurchases are made on the open market and may be commenced or suspended at any time. The Company's management, based on its evaluation of market and economic conditions and other factors, determines the timing and number of shares repurchased.

Contractual Obligations

The table below summarizes the estimated dollar amounts of payments under contractual obligations as of December 31, 2018, for the periods specified:

	Payments Due By Period				
(In thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating Lease Obligations[(a)]	$137,437	$14,794	$31,206	$25,809	$65,628
Debt Obligations					
Term Loans	1,745,084	35,278	70,557	1,639,249	—
Interest payments on term loans[(b)]	352,505	81,190	157,406	113,909	—
$400 million notes offering	400,000	—	—	400,000	—
Interest on $400 million notes offering	77,583	19,000	38,000	20,583	—
Other debt[(c)]	131,091	81,091	50,000	—	—
Securitization facility[(d)]	106,872	106,872	—	—	—
Other Commitments					
Certificates of deposit	850,813	505,582	345,231	—	—
Minimum volume purchase commitments[(e)]	170,501	170,501	—	—	—
Tax receivable agreement[(f)]	13,571	10,771	2,800	—	—
Total	$3,985,457	$1,025,079	$695,200	$2,199,550	$65,628

(a) Operating lease obligations – We lease office space and equipment under long-term operating leases. See Item 8 – Note 19, Commitments and Contingencies, for more information.

(b) Interest payments on term loans – Interest payments are based on effective rates and credit spreads in effect as of December 31, 2018. See Item 8 – Note 15, Financing and Other Debt, for more information.

(c) Other debt – This amount consists of participation debt at WEX Bank and debt balances at one of the Company's subsidiaries. Interest payments due were not included as the amount was not material.

(d) Securitization facility – Interest payments due on the securitization facility are not included as the amount was not material.

(e) Minimum volume purchase commitments – One of the Company's subsidiaries is required to purchase a minimum amount of fuel from their suppliers on an annual basis. If the minimum requirement is not fulfilled, they are subject to penalties based on the amount of spend below the minimum annual volume commitment. Starting in 2020, annual volume commitments reset based on prior year volume purchased. The table above represents the Company's annual penalty assuming we purchase no fuel under these commitments after December 31, 2018.

Table of Contents

(f) Tax receivable agreement – As a consequence of the Company's separation from its former parent company in 2005, the tax basis of the Company's net tangible and intangible assets increased, reducing the amount of tax that the Company would pay in the future to the extent the Company generated taxable income in sufficient amounts. The Company is contractually obligated to remit a portion of any such cash savings to a third party. The estimate of payments owed is reflected as Amounts due under tax receivable agreement on the consolidated balance sheets. See Item 8 – Note 16, Tax Receivable Agreement, for more information.

The Company has excluded $9.0 million in gross unrecognized tax benefits as of December 31, 2018 from the table above due to the uncertainty about the timing of payments to the taxing authority.

Off-balance Sheet Arrangements

In addition to the operating leases included in the table above, we have the following off-balance sheet arrangements as of December 31, 2018:

- Extension of credit to customers – We have entered into commitments to extend credit in the ordinary course of business. We had approximately $7.0 billion of unused commitments to extend credit at December 31, 2018, as part of established customer agreements. These amounts may increase or decrease during 2019 as we increase or decrease credit to customers, subject to appropriate credit reviews, as part of our lending product agreements. Many of these commitments are not expected to be utilized. We can adjust most of our customers' credit lines at our discretion at any time. Therefore, we do not believe total unused credit available to customers and customers of strategic relationships represents future cash requirements. We believe that we can adequately fund actual cash requirements related to these credit commitments through the issuance of certificates of deposit, borrowed federal funds and other debt facilities.
- Letters of credit – As of December 31, 2018, we had $53.5 million outstanding in irrevocable letters of credit issued by us in favor of third-party beneficiaries, primarily related to facility lease agreements and virtual card and fuel payment processing activity at our foreign subsidiaries. These irrevocable letters of credit are unsecured and are renewed on an annual basis unless the Company chooses not to renew them.
- Accounts receivable factoring and securitization – See Item 8 – Note 13, Off-Balance Sheet Arrangements, for further information.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk related to interest rates, foreign currency exchange rates and commodity prices. From time to time, the Company enters into derivative instrument arrangements to manage these risks.

Interest Rate Risk

2016 Credit Agreement

At December 31, 2018, we had variable-rate borrowings of $1.7 billion under our 2016 Credit Agreement. We periodically review the projected borrowings under our 2016 Credit Agreement and the current interest rate environment in order to ascertain whether interest rate swaps should be used to reduce our exposure to interest rate volatility. During 2016 and 2017, we entered into five interest rate swap contracts, one of which matured in December 2018. As of December 31, 2018, these derivative contracts are intended to fix the future interest payments associated with $1.0 billion of our variable rate borrowings at between 1.108% to 2.212% and expire at various dates through December 2022. See Item 8 – Note 12, Derivative Instruments, for more information.

Deposits

At December 31, 2018, WEX Bank had deposits (including certificates of deposits and interest bearing money market deposits) outstanding of $1.3 billion. The deposits are generally short-term in nature, though they are issued in up to five-year maturities. Upon maturity, the deposits will likely be replaced by issuing new deposits to the extent they are needed.

Sensitivity Analysis

The following table presents a sensitivity analysis of the impact of changes in interest rates on our deposits and corporate debt, assuming amounts outstanding, the notional amounts of our interest rate swap agreements, and certificate of deposit maturities in place as of December 31, 2018 remain constant. Actual results may differ materially.

	2019 impact of 1.00% increase in interest rates
2016 Credit Agreement	$ 6,951
Securitized debt	$ 1,069
Participation agreements	$ 1,148
Certificates of deposits	$ 2,247
Money market deposits	$ 2,838

Foreign Currency Risk

Our exposure to foreign currency fluctuation is due to our financial statements being presented in U.S. dollars and our foreign subsidiaries transacting in currencies other than the U.S. dollar, which results in gains and losses that are reflected in our consolidated statements of operations. We currently do not utilize hedging instruments to mitigate these risks. However, growth in our international operations increases this exposure and we may initiate strategies to hedge certain foreign currency risks in the future.

Commodity Price Risk

Since the first quarter of 2016, we are not hedged for changes in fuel prices. Management will continue to monitor the fuel price market and evaluate its alternatives as it relates to this hedging program.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of WEX Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of WEX Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 18, 2019, expressed an adverse opinion on the Company's internal control over financial reporting because of material weaknesses.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP
Boston, Massachusetts
March 18, 2019

We have served as the Company's auditor since 2003.

Table of Contents

WEX INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)