

S&P Global
Market Intelligence

WEX Inc. NYSE:WEX

Earnings Call

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Presentation

Operator

Thank you for standing by. My name is Bailey, and I will be your conference operator today. At this time, I would like to welcome everyone to the WEX Q3 2023 Earnings Call. [Operator Instructions] I will now hand the call over to Melissa Smith, CEO.

Melissa D. Smith

Chairman of the Board, President & CEO

Thanks, Bailey. Before we begin our prerecorded remarks, I want to take a moment and acknowledge the mass shooting that occurred last night in Lewiston, Maine and the ongoing search for the shooter. As a Mainer and leading one of Maine's largest companies, I'm shocked, horrified and saddened by these events. We have approximately 1,200 employees in Maine, many of whom live in Lewiston or in the vicinity. Our hearts are with those who have lost loved ones in this senseless tragedy. Our hearts are also with those fellow WEXers and our community members that are now sheltering in their own homes, many with young children.

We praise the work of those that protect our community and hope that this tragedy comes to an end shortly, and we can move toward grieving without fear of it continuing. It's a reminder that the tragedies that happens all over the world today doesn't escape any corner. We appreciate you lending your heart today to those that are suffering in this corner of the world. Bailey, please begin our prerecorded remarks, and Jagtar and I will open it up for Q&A thereafter.

Steven Alan Elder

Senior Vice President of Global Investor Relations

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

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

I would also like to remind you that we will discuss forward-looking statements under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those forward-looking statements as a result of various factors, including those discussed in our press release and the risk factors identified in our annual report on Form 10-K for the year ended December 31, 2022, filed with the SEC on February 28, 2023, and in our quarterly reports on Form 10-Q for the quarters ended March 31, 2023 and June 30, 2023, filed with the SEC on April 27, 2023, and July 27, 2023, respectively, and subsequent SEC filings.

While we may update forward-looking statements in the future, we disclaim any obligation to do so. You should not place undue reliance on these forward-looking statements, all of which speak only as of today. With that, I'll turn the call over to Melissa.

Melissa D. Smith

Chairman of the Board, President & CEO

Thank you, Steve, and good morning, everyone. We appreciate you joining us today. The third quarter marked another strong period of financial results for WEX, along with meaningful progress against our

strategic initiatives. In addition, we announced today that we have entered into a definitive agreement to purchase field service management software provider, Payzer, which I'll discuss in more detail momentarily.

I'm delighted to share that we were able to deliver record highs for revenue and adjusted net income per share in the third quarter. We beat the top end of our guidance range for both measures and exceeded the midpoint of guidance by \$17 million and \$0.35, respectively. Our performance this quarter positions us to continue driving growth across the business heading into the end of the year.

Now let's discuss our financial results in more detail. Revenue for the quarter increased 6% year-over-year, which marks another record high quarter at \$651 million. This increase of \$35 million over last year, with the result of 19% growth in our Corporate Payments segment and 34% growth in our Benefits segment. Similar to the second quarter, fuel prices declined year-over-year, reducing Mobility revenue by \$32 million and more than offsetting underlying growth in the segment, resulting in an overall decline in Mobility revenue of 7%.

WEX's ability to drive top line growth despite the continued fuel price headwinds, reflects our strong momentum and resilient business model. Revenue in the quarter grew an impressive 10% on a macro-neutral basis, which we continue to find is excluding the impact of fluctuations in fuel prices and foreign exchange rates.

Strong volume growth, significantly lower credit losses and our operational improvement efforts resulted in record high adjusted net income per diluted share of \$4.05, an increase of 15% versus last year, even with fuel price headwinds. Total volume processed across the organization in the third quarter increased 7.6% year-over-year to \$61.9 billion, which is also a record high led by contributions from our Corporate Payments and Benefits segments.

Let me turn to updates on each of our segments. Starting with Benefits. This year marks the 20th anniversary of the health savings account, which is recognized on National HSA Awareness Day on October 15. In 2020, we started serving as custodian of HSA accounts and our growth this year has now made us the fifth largest HSA custodian in the market according to the Devenir mid-year report.

In addition to WEX being a top 10 HSA provider, our Benefits technology is used by 9 of the other top 20 HSA providers. To that point, this quarter, WEX earned the business of a Fortune 500 company in the energy sector. We won this business because we offered a best-in-class HSA experience for their employees with a diverse range of investment choices. In addition to our data integration capabilities with the client's current medical provider, benefit administration's platform and payroll platform.

In Corporate Payments, purchase volumes increased 35% year-over-year, driven by strong travel volume in every region of the world. We believe that we are outpacing the OTA market growth, which we estimate in growing in the range of 8% to 10% based on recent market trends. By capitalizing on the shift in the market to settling transactions with virtual cards, we believe we will continue to benefit from this shift as online travel agencies choose WEX due to our differentiated product offering and deep expertise in this space.

Across this segment, we're pleased to sign a number of renewals and expanded relationships with customers, including an expanded relationship with business lodging technology company, Hotel Engine. Growth in travel, coupled with the continued growth of our embedded payments product and direct-to-corporate model has set us up with some great momentum.

In Mobility, we're pleased to have renewed our contract with the state of Georgia and to be implementing the Canadian heavy truck portfolio of Element Fleet Management, both longtime WEX customers. At the same time, our sales and marketing engine continues to sign new small business customers while balancing with more dynamic credit policies that we put in place last year.

During Q3, we added approximately 270,000 new vehicles compared to Q2 with approximately half of our new sales to local fleets coming in through digital channels. We believe the enhanced credit policies that we've put in place resulted in a dramatic reduction in losses over a short period of time.

WEX has a long history of balancing our sales and marketing engine and credit policy to drive growth and profitability in this segment. We continue to be pleased with our performance and growth prospects in Mobility. Our superior product and service offering continues to outpace our competitors. Given the strength of our Mobility franchise with more than 600,000 commercial fleet customers worldwide, we believe there's an opportunity to drive incrementally higher growth.

To that point, I want to give you an update on additional solutions aimed at our Mobility customers. We firmly believe that the convergence of software and payments is a secular trend that informs how we build new products and guide through M&A activity. To that end, I'm excited to announce today that we've entered into a definitive agreement to purchase Payzer, a leading cloud-native field service management software. We expect Payzer to strengthen our relationships with vertical customers in our Mobility segment, allowing us to match our world-class payment capabilities with integrated software that creates durable value to our customer base.

This anticipated acquisition is an example of us finding a high-growth market with a customer base that overlaps with our current customer footprint, a great product and service offering to address the needs of these customers, and a strong team that aligns with our purpose of simplifying the business of running a business.

Payzer's high-growth, top-tier service offering and feature set, which includes end-to-end business management software and enables a wide range of payment solutions is at the convergence of SaaS and payments. Payzer has initially focused on HVAC, plumbing and roofing verticals and has deep relationships and distribution partnerships with key OEMs in these industries, which offer them the privileged position to deliver to small businesses in certain trades. We're excited by the prospect of welcoming Payzer to WEX.

We continue to view EV as another exciting opportunity for WEX. As a reminder, we estimate the size of the commercial EV market will be between \$1.5 billion and \$2 billion of revenue by 2030. Our EV strategy remains focused on meeting our customers where they're at on their EV journey and providing fleet managers with the tools that they need to plan their energy transition, manage their vehicles in a mixed-fleet world, and help ensure their EVs can be conveniently controlled and charged across a distributed environment.

We've made progress against many of our initiatives within EV including our DriverDash mobile app, which we recently expanded to include the EV functionality. This means that through their existing WEX portal, fleet managers can enable their cards for EV charging and use our integrated app, DriverDash, defined, activate, pay for and track charges all on one credit line invoice dataset and management interface. This simplifies customer workflows while eliminating the need for drivers to have multiple fobs and apps in order to manage their mixed fleet.

We've also been in the testing phase of an at-home reimbursement product in the United States. I'm excited to share that we anticipate rolling out the initial phase of this product later this year and expect to roll out depot functionality in early 2024. Overall, our strategy is to ensure the workflow and payment surrounding mixed fleets are simplified.

As a reminder, at our Investor Day in March of 2022, and we stated that we expected to earn between \$5 and \$20 per vehicle per month for our EV customers. This compares to an average of about \$6 for ICE vehicles today. We are very encouraged by the fact that we are already at the low end of this range with only a small amount of product rolled out to the market. Our research shows that fleet managers are willing to pay for a solution that helps them integrate EVs in their fleet and operate them efficiently, and we're seeing this play out in the market today.

I'll shift gears to discuss the progress we've made executing against our other strategic initiatives this quarter. I'm pleased to announce we have accomplished our cloud migration goal with the migration of the Benefits segment in the third quarter. Our core technology is now cloud-based.

We've also made significant progress in reducing our dependency on physical data centers and are on track to achieve our data center reduction goal of consolidating from 33 data centers to 7 by the end

of 2023. We'll continue our cloud-first development philosophy which enables improved data security, infrastructure resiliency, system availability and speed to market.

Turning to our operational improvement efforts. We remain in a strong position to generate \$100 million in run rate cost savings exiting 2024. Currently, we're on track to achieve \$75 million on a run rate basis by the end of this year, which is ahead of our original expectations. We're reinvesting a portion of these cost savings and enhancing capabilities including our digital products and technology groups, our risk management capabilities and tools and centers of excellence, and we look forward to continuing these efforts through next year when we expect the benefits to be more visible.

Finally, I'd like to speak to our ongoing efforts to modernize the way we operate while enhancing our customer experiences and products. Today, we're taking advantage of enterprise-level tools which have enhanced AI capabilities as well as developing bespoke AI-based approaches internally. We believe an accumulation of many small projects and initiatives will lead to big results over time. This year, we've conducted more than 50 AI experiments across the enterprise, which have driven customer-focused outcomes, uncovered opportunities for workflow efficiencies and identified many other opportunities for us to continue driving value by leveraging these technologies. Our efforts in using machine learning in credit adjudication and monitoring have helped to reduced delinquencies significantly this year as you can see in our credit loss results.

As we head towards the end of 2023, I continue to be confident in our path forward and the long-term growth potential of our business. We continue to execute against our strategic initiatives and drive strong financial results, all while remaining resilient through a variety of macroeconomic and geopolitical environments.

Our scale and automation initiatives are paying off, creating a flywheel of strengthened experiences for customers and employees while creating additional earnings to shareholders. We're in the enviable position of deploying capital across a number of fronts, including efforts to grow the business, opportunistically returning capital to our shareholders through stock buybacks, and funding acquisitions that expand our addressable market. Because of the significant amount of cash we generate, we're able to do all of this while maintaining a solid balance sheet with low leverage. To that end, I'm excited to share that we are again raising our full year guidance to both revenue and earnings.

With that, I'll turn it over to Jagtar to walk you through this quarter's financial performance in more detail.

Jagtar Narula

Chief Financial Officer

Thanks, Melissa, and good morning, everyone. We reported a strong third quarter with record high revenue and adjusted EPS results that show continued execution against our strategic initiatives even against a year-over-year decline in fuel prices.

Now let's start with the quarter results. For the third quarter, total revenue exceeded the top end of our guidance by \$17 million due to a combination of higher-than-expected fuel prices and continued strong growth in both our Corporate Payments and Benefits segments.

Total revenue for Q3 came in at a record high of \$651.4 million, a 6% increase over Q3 2022 with more than 80% of revenue for the quarter recurring in nature. As a reminder, we define recurring revenue as payment processing and account servicing revenue, revenue from our factoring business, income from custodial HSA cash assets, transaction processing fees and other smaller items.

In total, adjusted operating income margin for the company was 41.8%, which is up from 39.1% last year, driven by a combination of improved credit losses and higher margins in our Corporate Payments and Benefits segments. From an earnings perspective, on a GAAP basis, we had net income attributable to shareholders of \$18.4 million in Q3 or \$0.42 per share.

Non-GAAP adjusted net income was \$176.8 million or \$4.05 per diluted share, which is an increase of 15% and a record high. Our results were especially impressive as we continue to navigate a significant year-

over-year decline in fuel prices as well as a significant increase in our operating and corporate debt costs due to a rise in interest rates.

As I mentioned in previous quarters, our HSA custodial cash balances allow us to mitigate those increases. Because of our diverse vertical focused businesses, strong recurring revenue and balanced interest rate exposure, we are able to sustain durable through the cycle, revenue and earnings growth throughout a variety of macroeconomic environments.

Now let's move to segment results, starting with Mobility. Mobility revenue for the quarter was \$350.1 million a 7% decrease from the prior year. Fuel prices are strong, but have retreated compared to last year with a domestic average fuel price in Q3 of \$3.97 and versus \$4.54 in 2022.

The year-over-year 13% fuel price decline decreased segment revenue by an estimated \$32 million. This fuel price impact to revenue was greater than our overall Mobility segment revenue decline of \$28 million from the prior year. This highlights that lower fuel prices were the primary reason for the Mobility segment revenue decline versus last year, while at a more fundamental level, revenue this quarter continues to reflect a strong core business model with stable volumes year-over-year.

Similar to last quarter, payment processing transactions remained roughly flat year-over-year, which was in line with our expectations for the quarter. Local customers in the U.S. were approximately flat compared to last year. And although over-the-road payment processing transactions remained slightly below year-ago levels, the decline was smaller than in Q2.

Over-the-road customers had a 4% increase in direct bill transactions, a model utilized by our larger trucking fleets, which is reflected in the other revenue line. Taken together, total transactions for OTR customers were up 1% compared to last year, which we consider a great result in a down market and reflects our strong offerings in the vertical.

Next, let's turn to late fees. The net late fee rate decreased 4 basis points versus the prior year, while finance fee revenue decreased 20%. The previously mentioned decline in fuel prices, a 9% decline in number of late fee instances and a 22% slowdown in our factoring revenue caused the decline in revenue.

We believe the decline in late fee instances reflects the tighter credit policies that we have put in place. While these tighter policies slightly impact our late fee revenue, these policies have also resulted in significantly lower credit losses and taken holistically, are a positive earnings impact to the company. I will touch further on credit losses in a moment.

The net interchange rate in Mobility segment was 1.18%, which is up 8 basis points over the last year. The increase reflects continued benefits from the interest rate escalator clauses contained in various merchant contracts, the rate benefit from lower domestic fuel prices, which is partly offset by negative fuel spreads in Europe and higher rates earned from merchant contract renewals at favorable terms.

The segment adjusted operating income margin for the quarter was 45.6%, down from 46.2% in Q3 2022. The decrease in margin was primarily due to the decline in fuel prices and higher operating interest costs offset by significantly better credit losses.

I'll now quickly discuss the credit losses, which decreased \$41 million in the Mobility segment versus last year and were better than our guidance range at 7 basis points of spend volume. The guidance we provided incorporated an expectation of lower loss rates based on improving delinquencies and charge-off rates and we ended up performing even better than expected. The elevated loss rates in the over-the-road trucking business that we saw over the past several quarters moderated. Likewise, the local fleet customers in the U.S. had a very low loss rate when compared to historical results. Fraud losses in this segment are back close to a normal range following several quarters of elevated losses. Overall, loss rates were further reduced by the release of reserves based on the improved metrics.

Turning now to Corporate Payments. Total segment revenue for the quarter increased 19% to \$135.2 million. Purchase volume issued by WEX was \$27.9 billion, which is an increase of 35% versus last year. The net interchange rate in the segment was down 4 basis points sequentially. We continue to see strength in consumer travel demand that drove strong results in Corporate Payments. Travel-related

customer volume represented approximately 78% of the total spend and grew 43% compared to last year, while revenue from travel-related customers was up 35% versus Q3 2022.

The interchange rate for travel-related customers is down slightly from Q2 based on an expectation of higher rebate tiers being achieved by customers, which is reflected in the strong volume growth. We continue to watch global travel trends closely for slight signs of a slowdown, but we have continued to see strong trends to date.

Outside of travel, our nontravel customer volumes were up 11%, although nontravel revenue was essentially flat due to an unfavorable mix of product and customers. The Corporate Payments segment delivered an adjusted operating income margin of 61.3%, up from 52.9% in Q3 last year, driven by continued acceleration in volume.

Our business model here is very strong, and the revenue drop-through for this segment is high given our relatively fixed cost base. For example, compared to Q2, the revenue drop-through was more than 100%. Revenue grew \$13 million while adjusted operating income grew \$16 million. Although this includes a onetime benefit from a credit loss reserve release, our revenue drop-through was still strong, excluding this benefit, and we were pleased with the performance.

Finally, let's look at the Benefits segment. We again achieved strong results in this segment with Q3 revenue of \$166.1 million, which is an increase of \$42 million or 34% over the prior year. SaaS accounts grew 9% in Q3 versus the prior year. Benefits segment purchase volume increased 11%, leading to a 9% increase in payment processing revenue.

We also realized approximately \$44 million in revenue from the custodial HSA cash deposits that were invested by WEX Bank and funds held at third-party banks compared to \$16 million last year. Approximately \$21 million of the revenue increase in this segment is due to the average interest rate earned on these balances increasing from 2.37% last year to 4.50% this year.

With the closing of the Ascensus transaction in September, we continue to expect that it will be roughly neutral on an adjusted net income for the remainder of 2023 and add approximately \$10 million of revenue in Q4. The Benefits segment adjusted operating income margin was 35.4% compared to 24.4% in 2022. The custodial revenue from the invested HSA cash deposits has very high incremental margins and is the primary driver of the increase in margin.

Now I will provide an update on the balance sheet and our liquidity position. We remain in a healthy financial position and ended the quarter with \$958 million in cash. We have \$925 million of available borrowing capacity and corporate cash of \$170 million as defined under the company's credit agreement at quarter end.

The total outstanding balance on our revolving line of credit and term loans was \$2.7 billion. You will see the bank term funding program borrowings from Q2 on the balance sheet as a \$500 million increase in short-term debt compared to the end of last year. This balance is no longer included in our leverage calculation after agreeing to this change with our bank group.

Additionally, in August, we repurchased all of our outstanding convertible notes for approximately \$370 million from an affiliate of Warburg Pincus. This transaction will fully remove the potential conversion of the convertible notes into 1.6 million shares from our adjusted EPS calculation, which we believe was an attractive use of capital given our long-term growth aspirations.

Last month, we amended our credit agreement to increase the size of our revolving line of credit by \$500 million. This restores most of the revolver capacity used to repurchase the convertible notes and close the Ascensus acquisition. There were no other significant changes to the credit agreement as part of this amendment.

I'd like to emphasize that even with the investments we have made in the convertible notes share repurchases and Ascensus acquisition, the leverage ratio as defined in the credit agreement stands at 2.4x, which is just below our long-term target of 2.5x to 3.5x. Our ability to invest in the business, return capital to shareholders while also maintaining conservative debt levels puts us in an enviable position.

Next, I would like to turn to cash flow. WEX generates a significant amount of cash each year. Using our definition, adjusted free cash flow was \$392 million year-to-date through Q3. Our primary use of free cash flow so far this year has been to repurchase shares, repurchase the convertible note and closed the Ascensus transaction.

Year-to-date, we have purchased 804,000 shares at a total cost of \$146 million, including \$50 million during Q3. Since restarting our share repurchase program in 2022, we have repurchased approximately 2.7 million shares at a cost of \$437 million which equates to an average cost of \$161 per share. Looking forward, we will continue to manage capital allocation between organic investment, M&A and returning capital to shareholders.

Finally, let's move to revenue and earnings guidance for the fourth quarter and full year. The third quarter was another very good quarter for us, and as a result, I am pleased to share that we are raising our guidance for 2023 to reflect those results and trends.

Starting with the fourth quarter, we expect to report revenue in the range of \$650 million to \$660 million. We expect ANI EPS to be between \$3.65 and \$3.75 per diluted share. For the full year, we expect to report revenue in the range of \$2.53 billion to \$2.54 billion. We expect ANI EPS to be between \$14.64 and \$14.74 per diluted share.

For the full year, these updated ranges represent an increase of \$35 million in revenue and \$0.44 of EPS compared to the midpoint of our previous guidance. The major moving pieces compared to our prior guidance are the results of Q3 and updated fuel price assumption, further improvements in our credit loss assumption, the impacts of the share repurchases completed through September and including the Ascensus acquisition for the full quarter.

In addition, we are very excited about the anticipated Payzer transaction for the new market it opens up and the growth potential. We entered into a definitive agreement for WEX to acquire Payzer for approximately \$250 million, subject to additional contingent considerations and certain working capital and other adjustments.

The transaction is expected to close in the fourth quarter of this year, subject to customary closing conditions. We expect the acquisition to be slightly dilutive through 2024 as we expand sales and marketing investments to further drive growth. We anticipate these investments will yield positive results and the acquisition will be accretive beginning in 2025.

Finally, while we are not yet providing a 2024 outlook, I did want to highlight interest rate swaps that are outstanding and will mature in the course of the next year. As of the end of the latest quarter, the collective notional amount of our interest rate swaps was \$1.1 billion. We do have \$200 million maturing in December of this year and another \$300 million that will mature in May of 2024. These maturities will increase our interest expense of 2024, barring any unforeseen changes in reference rates.

In conclusion, we delivered impressive financial results this quarter, and I'm especially proud that we again beat our previous quarterly guidance and have increased full year guidance every quarter this year. Our performance in Q3 positions us well to continue driving revenue growth and serving our customers efficiently in the quarters ahead. With that, operator, please open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Darrin Peller.

Darrin David Peller

Wolfe Research, LLC

Look, it's really nice to see the growth in the Benefits and the travel side. I do want to hone in though on a question we're getting from investors around the decline in macro-adjusted Mobility growth rates, just -- understanding the credit management is better there, but just why -- I think it was 1% macro adjusted we're getting to. It was a bit lower than we thought. So maybe just touch on that trend line and what you think is we should consider and look at for the opportunity on that business, especially if outlook -- if the outlook on the freight market could turn around also.

Melissa D. Smith

Chairman of the Board, President & CEO

Sure. Happy to. So first of all, if you look at our growth in the fleet segment, there's a couple of things that are impacting it this quarter. One, there's less business days year-over-year. It's about 2% less year-over-year, so that affects comparability between last year and this year and with effect if you're looking trend lines from Q2 to Q3.

The things that are the same is what you saw as last quarter, there's a negative 3% same-store sales coming through in the over-the-road marketplace. So that freight recession is continuing to have an impact on the business. And we're still down about 2% from attrition compared to historical norms based on some of the credit actions that we took last year. And so those 2 things are continuing.

We're also seeing a shift in activity in the over-the-road marketplace, similar to what we've seen earlier this year, where there's more movement to the larger over-the-road tracking companies, which affects mix. We're seeing more volume coming through that's unfunded versus funded. So just a few things that I would say, some of which we do expect to continue for a period of time. We are seeing great sales.

And from a sales perspective, our sales pipelines are very full. Closures are very strong. And we've continued to modify the digital marketing apparatus that we have to bring in even higher quality leads in keeping with the changes that we're making on the credit side.

So from a long-term perspective, the things that we are looking at look really good. So we feel really good about sales, we feel really good about customers coming in. The quality of the customers that are coming in are higher quality than prior year. And a lot of the work that we're doing is optimizing the idea of profitability for the customers that we are approving. So we do expect that you'll see some incremental benefit of that going forward in the future, too, with both higher approval rates and limited impact on credit loss.

Jagtar Narula

Chief Financial Officer

Sorry, just the only thing I'd add to that is, as I mentioned in my prepared remarks, late fees were down as well. And we've talked and -- most talked about the improving quality of the portfolio. And I mentioned in the prepared remarks that late fees is down, but that reflects our focus on quality applications and the improving quality of the portfolio. We more than made up for that in credit losses. So I think from an earnings bottom line perspective, it's very good result but you see a little bit of the top line impact.

Darrin David Peller

Wolfe Research, LLC

Understood. Just when you think about the medium term, I mean, is the mid-single or mid- to high single-digit growth in the segment still very much, in your mind, reasonable to think about for the next few years? Obviously, putting aside a couple of quarters here and there.

Melissa D. Smith

Chairman of the Board, President & CEO

We feel really good about it. We've given long-term guidance of 4% to 8% for that segment. And we're gearing towards that. And I would say just kind of at the top of the house, we're gearing the company to the 10% to 15% macro adjusted long-term guidance range that we have out there, the 15% to 20% on ANI EPS. I mean, that's really in the forefront of our minds and how we're making choices.

In this segment, as I said in my remarks, we're actually looking at ways that we can increase that over time in this Mobility segment. We're really excited about Payzer and how that creates a cross-sell opportunity. We are really excited about where we're positioned with our EV functionality, which we also think are new markets, new TAMs that are adding on to the existing TAMs. And I feel really good about the -- there's the engine that we have right now within the company of driving future sales.

Darrin David Peller

Wolfe Research, LLC

Just very quickly, Payzer wraps into Corporate Payments? Or is that just a cross-sell or an upsell to the fleets? I'm just trying to make sure I understand where it fits.

Jagtar Narula

Chief Financial Officer

So our intention is that it is a -- it's a synergy with the Mobility segment because there's -- as Melissa mentioned in her prepared remarks, roughly 150,000 fleet service companies in the Mobility segment that we think we can [kind of sell] to. We haven't made a determination of where it will go from a segment reporting standpoint, we'll do that in conjunction with initially the 8-K in Q4...

Operator

Your next question comes from the line of Bob Napoli.

Robert Paul Napoli

William Blair & Company L.L.C., Research Division

I like to follow up on Payzer. What is the TAM of that? And I guess just adding broader services, I think WEX has developed ClearView that we hear really good things about, that you're cross-selling to but it's actually your product. But just the thoughts around adding additional services, the TAM of Payzer, maybe the growth rate, I think that's a really interesting acquisition.

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. So just to give a little bit more context, and thanks, Bob. The U.S. field services software markets, looking at broadly the bigger marketplace. The TAM of that is \$5 billion. In this, Payzer addresses a section of that, the market itself is growing 20% to 30%. Part of what we like about Payzer, and we liked a lot of things, we like the intersection that it has between software and payments, and you get that as you move up into the workflow.

And so from a customer perspective, what Payzer does is really integrated within the customer to offer scheduling, dispatching, communications, pricing, invoicing, parts ordering. So I think of that as like the operating system for that end customer and you can integrate that with the services that we provide. So that if you're an HVAC operator as an example and you are out on a job, you can book the appointment in the system. The system reminds the homeowner of the appointment ahead of time, and dispatches the HVAC to address on the day of, the HVAC shows up at the address, and can present a mobile proposal

with real-time inventory and pricing information. They can then get if they'd say -- the homeowner accept proposals, they can schedule and manage within the system.

So if you can just envision a very integrated experience within the workflow of the customer. And as Jagtar said, we've got 150,000 customers within our fleet portfolio that -- within field services management. And so what we're really focused on is how we can take the relationships we have, the knowledge that we have and what customer need is, and then create an even better customer experience with our products.

Payzer itself is growing 30%. Just again, a little bit more context, it's \$25 million to \$30 million of revenue and growing at 30%.

Robert Paul Napoli

William Blair & Company L.L.C., Research Division

Great. My follow-up question on just the TAM of EV \$1.5 billion to \$2 billion. And obviously, you have your venture fund, you've made an investment or 2 there. But just your thoughts on attacking that? I know you're going to have a charge-at-home product. I think the EV payments market is a lot more complicated than people understand. And just maybe your thoughts around the TAM of EV, how you attack it and any update on what you're seeing?

Melissa D. Smith

Chairman of the Board, President & CEO

Yes, in the TAM we estimated just based on the existing initial product offerings that are needed within the marketplace. So we've talked about being very focused around an integrated experience with our customers so that if they're buying en route, if they're buying at home or if they're buying at a depot that we have an integrated offering with their ICE vehicles.

And that's been really the very much the focus that we've had. We've rolled out the en route charging. We talked about at home charging that we're in a test stage and anticipating rolling that out into full production by the end of the year here in the United States. And then depot charging in the beginning of next year. We also added in functionality on our app, which is called DriverDash, which allows an integrated offering of purchasing, which simplifies the way that fleets are able to actually purchase using historically some of these multiple fobs.

And so when we look at our opportunity, and you pointed it out, there's a lot of complexity. We have an opportunity to remove that. For charging fees associated with that, they're subscription-based fees. And we are in that range of \$5 to \$20 per month per vehicle that we talked about in Investor Day. And so we feel like we've got this great opportunity to introduce new products and really meeting our customers with where they're at and what they need and also change the revenue dynamics of the company into more and more subscription or SaaS-based fees, which are so far playing out to be very true in what we've seen in the marketplace. So we're really excited about this. We think this could be another opportunity we talk about the way to increase the growth profile of our Mobility business.

Operator

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

Ramsey Clark El-Assal

Barclays Bank PLC, Research Division

I wanted to ask, Melissa, about your comments about the travel volumes outpacing OTA and the sort of shift in the market to settle with the virtual cards. Can you talk about what's driving that shift and how sustainable you think it will prove to be?

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. When -- earlier, when we were coming out of the pandemic, a lot of volume, we would have attributed to the fact that you're seeing this rebound. But clearly, we're beyond that point in time. We're

154% of volume from 2019. And you can see the trends that we have are really positive here across all regions. We believe that what we're experiencing is in part because of the fact that we're working actively with our customers to make sure that we're providing offerings that are relevant to them.

We also believe that we're benefiting from this shift to the merchant model, particularly in Europe as online travel agencies have migrated from the agency model to the merchant model, where we're more relevant. And so we're capturing more of a benefit associated with that. And that's going to play over some time, that's not done yet. So we think in the -- kind of in the midterm that you will continue to see the benefit of those things.

We're also probably seeing some rebound, particularly in the beginning of this year. So we'd expect the rate would go down from this year's rate of growth. But we do think that we're going to continue to outpace the market growth.

Ramsey Clark El-Assal

Barclays Bank PLC, Research Division

Okay. And one follow-up from me. I wanted to ask again about Payzer and just to make sure I'm understanding it correctly. Is Payzer a way that you kind of deepen engagement and/or monetize existing customers? Or is it also a customer acquisition channels for your products like you -- just Payzer bringing you customers that maybe then you -- become fuel card customers or I guess that's one part of the question. The other one is there a broader opportunity to kind of verticalize your business?

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. Great question. So Payzer itself, on a stand-alone basis is growing 30%. So they're doing a great job with customer acquisition kind of [indiscernible] stop. And so when we looked at our model of the acquisition, it was with the idea that the asset that we're acquiring is already growing at that rate. We think that we can supplement that growth through exposure to our existing customers that are in their verticals that they're paying attention to.

And so it is -- the intention is to continue to have them sell -- to sell independently and then also expose our customers into their sales solutions. So they have an opportunity to increase the growth profile of the business, less about us selling into their customers, at least initially, just because our customer segment size is just much bigger than theirs. Over time, maybe that would happen.

Operator

Your next question comes from the line of Mihir Bhatia.

Mihir Bhatia

BofA Securities, Research Division

I wanted to ask about the Benefits side. Any comments just on early sign-up season, on what you're seeing? It sounds like you had a nice win in the segment with the energy company. But I was just more curious about just generally the drivers of growth in that segment also. Is it more employees signing up for HSAs? Is it mostly client wins and bringing more clients onto the platform? What's the main driver of growth there?

And with some forecast calling for a little bit of an uptick in unemployment next year. Is that something that could maybe be a bit of a headwind you have to grow through next year?

Melissa D. Smith

Chairman of the Board, President & CEO

All right. So I'm going to -- I'll hit a bunch of questions I think embedded in there. The growth along -- the growth of the segment, we said is 15% to 20%. And clearly, we're way above that this year. Some of that we're benefiting because of interest rate increases. But we do -- in our 15% to 20% growth we're

assuming that you're going to see custodial assets that will outpace the [growth] of the accounts, and so we're going to get some benefits from that.

So if you go through the primary drivers for us, first is the addition of accounts, which comes through supporting our partners for them to grow and grow indirectly in the marketplace. Historically, there's also more assets per account. The growth over time because those accounts filled so we should get some leverage on the fact that the account size gets bigger and so we get custodial revenues associated with that.

We will have some interest rate benefit continuing through next year because of the timing of when those assets when -- were placed this year. And those are really the big drivers. The third one is just the fact that health care costs keep going up and so from a spend perspective, we have historically seen spends increase year-over-year as well.

Mihir Bhatia

BofA Securities, Research Division

Got it. And then just switching gears maybe to the Corporate Payments segment. And again, I apologize, I'm just going to ask you a 2-part question here. One is on the third-party volume in that segment. It looks like it's been slowing down pretty dramatically -- well, my word dramatically, this year -- through the year. Is there a driver there? Was there any customer loss or anything happened there that that's driving it?

And then just on the travel side of this volume question, have you seen any softness from the rising, I guess, the situation in the Middle East or anything like that where you're starting to hear a little bit of softness from the airlines. Are you seeing any of those impacts coming through in your early data?

Melissa D. Smith

Chairman of the Board, President & CEO

So in Corporate Payments, on the travel side, we're not seeing an impact at this point in time, but we do tend to lag with our data because we're booking revenue when people are staying on location as opposed to when they're upfront making the bookings. The EMEA region is a pretty small part, though, of our overall portfolio. It's just a couple of percentage points, that's pretty small.

And then relating to the other part of Corporate Payments. There's a couple of things that have impacted the spend year-over-year. The biggest one is that we -- during the peak last year of some of the shipping issues our Mobility customers were using Corporate Payments products to pay demurrage fees, which had actually a pretty high rate associated with that. So you're seeing an impact both in terms of volume and rate, and this is affecting mix this year comparatively to last year. But nothing notable from a customer loss perspective. There's some smaller onetime noise type of thing, that's probably the biggest one.

Jagtar Narula

Chief Financial Officer

I do want to emphasize that the nontravel volume was up pretty substantially, 11% year-over-year. So I think you made reference to volumes declining. And I just wanted to emphasize the volumes were up.

Mihir Bhatia

BofA Securities, Research Division

Sorry, what I was referring to there was the third-party volume within corporate -- within the Corporate Payments segment, I guess, the stuff where you all are doing it -- where you're doing it for your bank partners, et cetera. That's what I was talking about. I do think it's down. I think it's only up like 1%, like if we do the math, but it looks like that's slowed down. That's what I was talking about. But I think you answered my question in general.

Operator

Your next question comes from the line of Sanjay Sakhrani.

Sanjay Harkishin Sakhrani*Keefe, Bruyette, & Woods, Inc., Research Division*

I've got a question on the health and employee segment as well. When I look at some of the account growth and the volume growth, those decelerated, but the revenues remain strong. Is that a census? Or is there something else that drove sort of the outperformance on revenues?

Jagtar Narula*Chief Financial Officer*

So I'd say there was a few impacts, Sanjay, into the growth this year. So we did the nonbank custodian side of the business has been growing quite robustly. We had benefit from year-over-year account growth. We had about \$3.2 billion of assets last year, closer to \$3.7 billion this year, also had the benefit of higher interest rates. That was about a \$21 million impact year-over-year. And then we did have about \$3 million of revenue from expenses in the quarter. So a minor impact, but that had an impact as well.

Sanjay Harkishin Sakhrani*Keefe, Bruyette, & Woods, Inc., Research Division*

Got it. Got it. And then, Jagtar, you mentioned the swaps for next year, understand like this year, probably not as big an impact, is there an impact that we need to think about next year?

Jagtar Narula*Chief Financial Officer*

Yes. So if you take, I think, the swaps on average are about 1.8%-ish. Well, if you take then going over to our reference rate, 30-day SOFR, your -- you've got about a \$15 million impact next year.

Sanjay Harkishin Sakhrani*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. And is that mitigated with anything? Or just...

Jagtar Narula*Chief Financial Officer*

Well, we -- I would expect that \$15 million to flow into the P&L next year. We do, from an overall perspective, as I've talk through a few times, we try to manage our overall interest rate risk to be close to neutral with HSA -- the HSA assets on our balance sheet against the commercial debt. But in this particular case, with the swaps rolling off, we do expect that to be a \$15 million impact to P&L.

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

And Sanjay, just we're putting that out just to make sure people had picked that up in their models. We are still just to reiterate what I said in the beginning, we're gearing the company to the 10% to 15% top line growth and 15% to 20% bottom line growth price, FX and price adjusted. Now, like so -- we just want to make sure people are picking up that piece in their model.

Sanjay Harkishin Sakhrani*Keefe, Bruyette, & Woods, Inc., Research Division*

Got it. Could I just add one -- ask one last question on Payzer. I know you got a lot of them. Just in terms of -- you mentioned the use cases being HVAC, plumbing, roofing, I guess like is the inside you're -- that identified clients that you mentioned, the 150,000, I guess, are those in those verticals? And can the use cases be expanded for Payzer?

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

So the 150,000 includes everybody in field services management, which is more expansive so think lawn care to some of the construction, specialty trades, machine repairs, pest control. And so we are very

much -- so if you look at Payzer, they are focused more on HVAC. So some of the initial verticals are more specialized.

Our focus right now is around exposing Payzer to the customers that are in their specific specialty trades that they are targeting right now. And then once we see success in that, then we may adopt the product to have broader applications. And so to your point, we're hyper focused on the specific subsection of our customers that are overlapping with their product capability right now. But from a -- the eye on the prize that we're targeting long term is 150,000 customers that we have.

Operator

Your next question comes from the line of Andrew Jeffrey.

Andrew William Jeffrey

Truist Securities, Inc., Research Division

And I'm going to ask another Payzer question, Melissa. Appreciating the commentary around the intersection of software and payments. Could you elaborate a little bit on how WEX plans to monetize payments at Payzer? Is it going to be largely V-card issuance? I'm just trying to understand the mechanics and maybe the selling motion around that.

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. So I'll start with the opportunity for us as we've modeled it right now is to take the customers that we have and expose it to Payzer so that we're increasing the growth rate of their existing product set. I would say that's kind of like a phase 1. What you're talking about is that we do also believe that there's an opportunity to monetize payments in their workflow stream largely through virtual card payments. So it's a secondary synergy though, in our mind. The first is take this sales motion that's already working and exposing it to customers that we have within our existing customer base.

Andrew William Jeffrey

Truist Securities, Inc., Research Division

Okay. Understood. And then just a question on the Corporate Payments. Is that an area -- I mean, outside of travel, some nontravel corporate payments, is that an area where you're still focused on building out or acquiring technology around bill pay or full stack AP automation or purchase order workflow? Just trying to think about how that business evolves over the next couple of years.

Melissa D. Smith

Chairman of the Board, President & CEO

Yes, the 2 key products that we have within our Corporate Payments is embedded payments product, which is what we're using with our travel customers and also with other fintech companies. And so we've got a sales pipeline associated with that. We've actually just had some contract signings associated with that this year.

And then the second one is an AP-direct product, where we are and have been adding to our sales force admittedly, we have a smaller sales force on the AP-direct side, but we do have a sales force that is out there selling that product both directly in directly through mostly financial institutions. And so growth for us is going to come in both those categories. We have not been really focused around how we're going to add through M&A into that capability right now amongst the other priorities that we have.

Operator

And our final question will come from Sheriq Sumar.

Sheriq Sumar

Evercore ISI Institutional Equities, Research Division

I want to follow up on the Corporate Payments side, within the nontravel segment. Just wanted to get a sense as to what's the outlook over here in terms of like Q4 and even in 2024? I mean in terms of more like strategic priorities, because I think the growth obviously is kind of pacing off. So just wanted to get a sense as to how do we think about once, I guess, the travel laps the tougher comps in '24.

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. So when we look at this segment, so we've got long-term guidance for this segment of 10% to 15%. And if you split that into 2, so first of all, I'd say we think about it as a segment guidance, so it includes everything that's in there. But from a sales motion perspective, we're focusing on outpacing the growth in travel that's happening within the travel marketplace, which has historically been a high teens -- I mean, sorry, a high single-digit number.

And then on top of that, we've been building a pipeline both in the direct and the embedded payments side of our business with the idea that growth would come from both of those, although largely probably more on the embedded payments just given the size of the embedded payments business. And that's how we're putting together the pieces to get to the 10% to 15% growth.

Operator

And I will now hand it back over to Steve Elder for closing remarks.

Steven Alan Elder

Senior Vice President of Global Investor Relations

Great. Thank you, operator -- thank you, Bailey. Appreciate everyone joining us today, and we look forward to speaking to you again with our fourth quarter earnings early next year. Thank you.

Operator

And this concludes today's conference call. You may now disconnect.

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