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Earnings Call

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Presentation

Operator

Hello, and thank you for standing by. My name is Tiffany, and I will be your conference operator today. At this time, I would like to welcome everyone to the WEX Q4 2025 Earnings Call. [Operator Instructions]

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

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 and supplemental materials we issued yesterday and a slide deck to walk through our prepared remarks have been posted to the Investor Relations section of our website at wexinc.com. A copy of the release and supplemental materials have been included in an 8-K filed with the SEC yesterday afternoon.

As a reminder, we will be discussing non-GAAP metrics, specifically adjusted net income, which we sometimes refer to as ANI, adjusted net income per diluted share, adjusted operating income and related margin as well as adjusted free cash flow during our call. Please see Exhibit 1 of the press release for an explanation and reconciliation of these non-GAAP measures. The company provides revenue guidance on a GAAP basis and earnings guidance on a non-GAAP basis due to the uncertainty and the indeterminate amount of certain elements that are included in reported GAAP earnings. I would also like to remind you that we'll discuss forward-looking statements under the Private Securities Litigation Reform Act of 1995.

Actual results may differ materially from those forward-looking statements as a result of various factors, including those discussed in the press release, the supplemental materials and the risk factors identified in our most recently filed annual report on Form 10-K and in our subsequent quarterly reports on Form 10-Q and other subsequent SEC filings. While we may update forward-looking statements in the future, we disclaim any obligations to do so. You should not place undue reliance on these forward-looking statements, all of which speak only as of today.

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

Melissa D. Smith

Chairman of the Board, President & CEO

Thank you, Steve, and good morning, everyone. We appreciate you joining us. Let me start today with how we think about our strategy and why we believe our business model is so durable. WEX serves customers in mission-critical areas where reliability, compliance, and control matter most. Our focus on and expertise in these areas has allowed us to earn long-lasting customer trust, win market share over time, and generate strong reoccurring cash flow. Today, we're modernizing our platforms to reduce friction, deepen workflow integration, and expand customer lifetime value, all while executing with discipline to deliver durable growth and expanding margins.

Before I go further, I want to connect back to what we said on our Q3 call. We described WEX as reaching an inflection point where the investments we have made in product velocity, go-to-market execution, and cost discipline were beginning to translate into stronger performance. In the fourth quarter, we saw that inflection point take hold. Earnings growth accelerated, operating leverage improved, and we made tangible progress towards the margin expansion we expect as our investments continue to scale. We're confident in our ability to build upon this progress. Our strategy remains anchored in 3 pillars: amplifying our core, expanding our reach, and accelerating innovation.

Each of these pillars is designed to turn customer trust into durable growth, margin expansion, and consistently strong free cash flow. Now turning to the quarter. Our fourth quarter results reflect the momentum we are building as execution improves across product, sales and customer experience. In

the fourth quarter, we delivered revenue of \$672.9 million, an increase of 5.7% year-over-year or 4.5% excluding the impact of fluctuations in fuel prices and foreign exchange rates. Adjusted net income per diluted share was \$4.11, an increase of 15.1% year-over-year. Excluding the impact of fluctuations in fuel prices and foreign exchange rates, Q4 adjusted EPS grew 12.1%. For the full year 2025, we delivered record revenue of \$2.66 billion, up 1.2% year-over-year with improving performance as the year progressed.

Adjusted net income per share was \$16.10, up 5.4% year-over-year. Excluding the impact of lower fuel prices and foreign exchange rates, revenue increased 2% with adjusted net income per share up 7.7% year-over-year. A few years ago, we started a journey to reimagine and accelerate how we organically invest in technology and new products. Part of that journey included bringing on a new tech and new product leader who have enhanced our foundational capabilities in technology and augmented our team's expertise in AI and data science. We've been modernizing our architecture, strengthening execution rigor, and increasing accountability for delivery. The result is that we're building faster, scaling more efficiently, and lowering our long-term cost to serve.

By combining operational discipline with an AI-first approach to product development, we increased product innovation velocity by more than 50% year-over-year. These investments are already improving customer outcomes and delivering efficiency. As we move through 2026, we plan to shift from an investment phase to a scaling phase with operating leverage driving meaningful margin expansion over the medium term. Let me give you a few examples of how this is showing up across the business. In Mobility, we continue to invest in our industry-leading fuel card solutions for fleets of all sizes. Targeted marketing investments in 2025 drove a 13% year-over-year increase in new small business customers.

On the product side, we've introduced innovative offerings like Fleet Plus, which combines the power of our proprietary closed-loop fuel card with open-loop flexibility. That translates into superior controls and data, creates a product experience that is difficult to replicate at scale, and increases revenue per customer in our Mobility business. In the Benefits segment, investments in both sales and product helped drive another strong open enrollment season. A great example is our use of AI to streamline health care claim reimbursements. Our AI-powered solution has reduced processing times from days to minutes with 98% accuracy, supporting our goal of improving participant satisfaction, reducing friction, and lowering our cost to serve.

We also launched a modernized brokerage experience that enables real-time trading and provides seamless access to HSA cash and investments and is designed to drive higher balances and asset retention. These are key drivers of long-term value creation in the HSA market. Our Direct Accounts Payable product continues to grow rapidly, and our investments in expanding the sales force are delivering as expected with Q4 volumes up approximately 15% year-over-year. The momentum in Direct AP is complemented by early success in our Embedded Payments offering with a growing pipeline of prospects and customers to support sustained growth in 2026 and beyond. We are deliberately extending our reach and extending addressable use cases across verticals.

Our product investments continue to help us differentiate ourselves across this business. For example, we recently launched a global funding engine that enables customers to issue virtual cards in multiple currencies and execute on-demand currency conversions without incurring FX costs. This expands our product capability to better serve customer needs, strengthens our value proposition beyond travel, and supports continued operating leverage as volume scales. Looking ahead, we see the potential for additional upside from geographic expansion in travel as well as new digital tools that accelerate onboarding and improve customer productivity. By balancing growth acceleration with operational efficiency, we've built a stronger and more agile WEX that is well positioned to capitalize on market opportunities, scale efficiently, and strengthen our long-term competitive advantages.

Now let's turn to our segment results for Q4, beginning with Mobility. Mobility is our largest segment and a great example of how we are amplifying our core by protecting profitable share in a down cycle while we continue to invest to drive long-term value. Despite ongoing market softness, fourth quarter Mobility revenue was flat year-over-year as we focused on capturing profitable market share. Transaction volumes declined modestly, consistent with our expectations, broader market trends and the patterns we saw in

the third quarter. It's also important to address what we're seeing in the over-the-road trucking market. The over-the-road market remains in a cyclical down cycle with muted freight demand and pressure on small operators. We've seen this pattern before. These cycles are historically temporary.

We're executing on what is in our control by protecting profitable market share, maintaining high retention, and continuing to invest in differentiated capabilities so that when volumes recover, we exit the cycle with stronger economics and greater operating leverage. As I mentioned earlier, we've been directing sales and marketing investments towards smaller fleets, which we believe represent a large and underserved market with significant potential. 10-4 by WEX expands our reach by bringing new small trucking fleets into the ecosystem while creating a pathway to amplify the core over time through deeper relationships. The discounts that we've negotiated with truck stop chains save the typical user hundreds of dollars each month, helping drive adoption.

Momentum has been strong, with December accounting for more than half of the total Q4 volume on the platform. Finally, WEX Field Service Management, formerly Payzer, continues to build momentum, delivering healthy double-digit revenue growth in the fourth quarter. Since acquiring this business 2 years ago, we have updated and aligned the brand, refined our cross-sell process, improved retention, made key product enhancements, and updated pricing. We remain energized by this opportunity as we deepen our presence in this attractive adjacent market where we believe we can generate up to 10x more revenue per field service management customer than for our traditional small fleet. Now turning to Benefits, which simplifies the complex world of employee benefits administration and comprises approximately 30% of annual revenue.

Benefits is where our accelerate innovation and expand our reach strategic priorities intersect most clearly. In 2025, we extended our track record of consistently growing HSA accounts faster than the underlying market as reported by Devenir. Our diversified portfolio spanning benefits administration, consumer-driven benefits, and HSA custodial services positions us to sustain market leadership as we continue to further strengthen our competitive edge. Overall SaaS account growth was 6% in the quarter, in line with previous quarters last year. Following a strong open enrollment season, we now have more than 9.4 million HSA accounts on our platform. We remain a top-5 HSA provider, powering more than 20% of all HSA accounts in the country and serving approximately 60% of the Fortune 1000 companies.

We're very pleased with the results of our 2026 open enrollment season, with direct new sales exceeding expectations and continued strength across our partner channels. As a result, we expect account growth to be in the range of 6% to 7% year-over-year in Q1. Our Benefits business continues to outperform the market, and we're confident in its long-term growth trajectory. Finally, let's turn to Corporate Payments, which is the clearest example of how we're expanding our reach, expanding our core capability across industries, geographies, and workflows, representing approximately 20% of annual revenue. This segment helps businesses pay their partners faster and more securely, while simplifying their workflows. Fourth quarter performance for this segment improved meaningfully from the first half of the year, in line with our expectations.

Purchase volume processed by WEX increased 16.9% year-over-year, reflecting the continued strength in travel customers. Travel-related revenue grew more than 30% in the quarter, supported by high existing customer activity and the onboarding of a meaningful new customer in Asia. Revenue from non-travel customers grew in the mid-single digits. The adjusted operating margin for Corporate Payments increased by 450 basis points, reflecting the strong operating leverage in the model as volumes scale. Our Direct Accounts Payable product continues to scale rapidly. New customer wins fall within the construction and health care verticals alongside retail and media, and this growing book of business now represents 20% of segment revenue.

Before I turn it over to Jagtar, I want to highlight a governance update we announced last month. As part of our multi-year Board refreshment plan and reflecting input from our ongoing engagement with shareholders, we announced the next phase of the Board's planned evolution. Under this plan, newly appointed Director, David Foss, will assume the role of Vice Chair and Lead Independent Director effective as of our 2026 Annual Meeting of Stockholders. We also announced that Shikhar Ghosh and Jack VanWoerkom will retire from the Board at that time. We're grateful to Shikhar and Jack for their dedicated

stewardship, and we look forward to Dave's leadership as we remain focused on long-term shareholder value creation.

Stepping back, we entered 2026 with strong momentum. We expect to deliver the strongest new sales year yet based on our current pipeline, improving sales productivity and greater customer demand across all 3 segments. Together, the strength of our platform, the resilience of our model, and the returns from our targeted investments give us confidence we're on the right path. As these investments continue to scale, we expect operating leverage to support margin expansion while sustaining strong free cash flow generation.

With that, I'll turn the call over to Jagtar to walk you through our financial performance and our 2026 guidance in more detail.

Jagtar Narula

Chief Financial Officer

Thank you, Melissa, and good morning, everyone. Before I begin, I want to remind you that unless otherwise noted, all comparisons are year-over-year. Overall, we delivered solid revenue growth and strong earnings performance while also continuing to lay the foundation for accelerating both top line growth and profitability in 2026. Total revenue in the quarter was \$672.9 million, up 5.7%. The impact of foreign exchange rates and fuel prices increased revenue growth by 1.2%. Notably, revenue exceeded the guidance range we provided last quarter, primarily as a result of higher-than-anticipated fuel prices and a strong quarter in the Benefits segment.

Without the fuel price benefit, revenue came in at the high end of our guidance range of \$646 million to \$666 million. Adjusted earnings per share of \$4.11 were up 15.1%, including a 3.1% favorable impact from fuel prices and foreign exchange rates. Adjusted EPS was \$0.25 above the midpoint of the guidance range we provided in October, of which \$0.18 was attributable to higher-than-anticipated fuel prices and the remainder due to execution. In our Mobility segment, revenue was \$345.1 million, which is flat with the prior year. This includes a favorable impact of 1.4% due to fuel prices and foreign exchange rates and a negative impact of 1% from lower interest rates. The market softness that we had highlighted throughout the year persisted in the fourth quarter, in line with our expectations. Our payment processing rate of 1.33% was down approximately 3 basis points, primarily due to the decline in interest rates.

In our Benefits segment, revenue of \$204.9 million rose 9.6%. SaaS account growth of 6% continues to be above recent industry trends according to Devenir. Custodial investment revenue, which represents the income we earn on custodial cash balances rose 14.2% to \$61 million due to the increase in both average asset levels and higher rates. Earned interest yield increased 11 basis points to 5%. Turning to our Corporate Payments segment. Revenue of \$122.9 million increased 17.8%. Purchase volume increased 16.9% with particular strength from travel-related customers benefiting from both underlying growth and a favorable comparison to last year. Results also benefited from our incentive contract with our primary scheme provider.

Direct Accounts Payable purchase volume grew more than 15%. The addressable AP market remains very large and relatively unpenetrated. Our virtual card products are resonating with customers, and our sales force remains productive. This continues to be one of our key focus areas going forward and where we plan to invest more in the future. Turning now to the balance sheet. Our business continues to generate strong recurring revenue and reliable free cash flow. That cash flow provides the flexibility to enhance shareholder value through our disciplined capital allocation strategy. Last year, we generated \$638 million of adjusted free cash flow compared to \$562 million in the prior year. I want to note that as of the end of the first quarter in 2026, we'll have substantially completed our deferred and contingent M&A payments related to our Benefits business, which will free up approximately \$150 million of cash flow starting in 2027.

When it comes to deploying capital, our priorities haven't changed, and we delivered last year in line with the commitments we set. First, we focus on preserving financial strength and flexibility by maintaining a strong balance sheet and appropriate leverage, ensuring we can operate effectively under both normal and stress conditions. We ended Q4 with a leverage ratio of 3.1x, down from 3.25x at the end of Q3

and continue to operate within our long-term target range of 2.5 to 3.5x. We will continue to prioritize debt reduction until leverage is below 3x, which we expect to achieve in Q2 or Q3 of this year. Second, we invest in our core businesses where we see attractive returns and opportunities to strengthen our competitive position.

This is aligned with our focus on amplifying our core and accelerating innovation. Tied to what Melissa said earlier about our plan to accelerate revenue growth, this will be driven by innovating and investing more in product development. We are taking a balanced and disciplined approach to margins by driving efficiencies and reducing costs in other areas of the company and reallocating resources towards our growth initiatives. We are applying a rigorous return threshold to every potential investment with clear accountability for growth, retention, and margin impact. This is a core of our financial algorithm. Disciplined cost actions fund high-return growth investments. And as revenue scales, we expect margins to expand over the medium term.

After addressing these 2 priorities, we evaluate deploying our remaining capital towards accretive M&A opportunities, which must meet strict financial and strategic criteria or returning capital to shareholders through share repurchases. Every step of our disciplined capital allocation process is underpinned by a clear objective to maximize long-term shareholder value. I also want to briefly touch on the important financial advantage we gain from having WEX Bank on our platform. The bank provides greater access to liquidity for our balance sheet at a lower cost than funding solely through capital markets. It also allows us to earn higher yields on our HSA portfolio. The bank is an important differentiator for the business that improves our bottom line.

Now let's turn to 2026 revenue and earnings guidance for the first quarter and the full year. Starting with the first quarter. We expect revenue in the range of \$650 million to \$670 million, which represents a growth of 4% at the midpoint. This growth includes a 2% net drag from fuel prices, FX, and interest rates. We expect adjusted net income EPS to be between \$3.80 and \$4 per diluted share, which represents growth of 11% at the midpoint. For the full year, we expect revenue in the range of \$2.70 billion to \$2.76 billion. We expect adjusted net income EPS to be between \$17.25 and \$17.85 per diluted share. At the midpoint, full year guidance reflects revenue growth of 5% and EPS growth of 13% when excluding the impact of fuel prices, FX rates, and interest rates.

These growth rates are accelerating into the long-term target ranges we set last year. Let me touch on some key factors driving guidance this year. Note that you can find a complete list of assumptions in our supplemental materials. In Mobility, excluding the impact of fuel price changes and FX, we are expecting full year revenue growth of 1% to 3%, which includes a headwind of approximately 1% due to the impact of lower interest rates on merchant contracts that include pricing escalators. We are also prudently assuming no improvement in the macro environment. As for quarterly cadence, recall that Q1 last year had a pull forward of gallons in OTR due to tariff worries, which creates a tougher comp for Q1 this year, followed by an easier comp in Q2. Also note that the incremental BP contribution will be weighted to the second half of the year and then continue to ramp into 2027.

Credit losses in Mobility are expected to be between 12 to 17 basis points for the full year and between 17 and 22 basis points in Q1. In Benefits, we are expecting full year revenue growth of 5% to 7%, which includes approximately a 2-point headwind from lower interest rates on the floating rate portion of our non-bank custodial assets. As a reminder, over 75% of our portfolio is in fixed rate instruments and therefore, not rate sensitive. Note, Q1 SaaS account growth is expected to be higher than the rest of 2026 as we lap the benefit of the UAW contract that began in Q2 of last year. In Corporate Payments, we are expecting full year revenue growth of 5% to 7%. As I mentioned earlier, we are investing more in innovation and product development to drive future growth.

Embedded in our guidance is \$50 million of cost savings actions. A portion of these savings will be reinvested in the business and a portion will drop to margins. The expected lower fuel prices this year impact adjusted operating margins negatively by approximately 75 basis points. As a result, for 2026, we expect the adjusted operating income margin to be flat with 2025. Our guidance does not assume any future M&A activity or share repurchases, and last year's tender offer will continue to benefit EPS growth

through Q1 before annualizing. Finally, our guidance assumes average fuel price per gallon of \$3.10 for the year and 2 interest rate cuts in line with market expectations.

As outlined in our earnings supplement, the sensitivities to these factors are for each \$0.10 increase in price per gallon, revenue increases by approximately \$20 million and adjusted EPS increases by approximately \$0.35 with symmetrical impacts in the event of a decrease. For interest rates, 100 basis points higher than our outlook would translate to approximately \$30 million higher revenue and \$0.35 lower adjusted EPS, while 100 basis point lower rates would decrease revenue by approximately \$30 million while increasing EPS by \$0.45. Let me take a moment to review our revenue and earnings trajectory. 2025 was a transition year with muted revenue growth in the first half that accelerated in the second half, while earnings growth benefited from stock buybacks. As we look to 2026, we anticipate continued revenue growth as momentum builds.

At the same time, we are actively managing our levers to invest in the business while also driving earnings growth. In closing, our results underscore our disciplined financial execution and the strength of WEX's operating model. We are energized by the momentum we are driving across the business and the tangible progress we are making toward our long-term growth and margin expansion goals. We remain firmly focused on operational excellence, maintaining financial resilience, and allocating capital strategically to support sustainable long-term value creation for our shareholders. As we enter 2026, we're well positioned to capitalize on improving market conditions and to continue executing against our strategic and financial priorities.

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

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of David Koning with Baird.

David John Koning

Robert W. Baird & Co. Incorporated, Research Division

I guess my first question, just the cadence of the corporate business through 2026, both kind of volumes and yields, just kind of thinking about -- it seems like the first half had much easier comps. So Q4 growth was really good. I assume the first half will continue to be good on easy comps. So that's on the growth side. And then on the yield side, just understanding yield was really good in '25. Some of that was the mix more towards B2B. Is mix going to stay -- I know you have the new Asia client that was big that came on. Can yields stay flat to even maybe up in '26?

Melissa D. Smith

Chairman of the Board, President & CEO

Thanks. Let me start and give a little bit of context around that because you're right, we had really strong growth in the fourth quarter. Some of that, as you point out, are because we had a favorable comp. So the prior year, we saw more volatility in our OTA spend quarter-to-quarter. So that was a headwind in the first half of the year, and it's been a tailwind in the second half of the year. What -- part of what we're really excited about is now that we've successfully got our transition with that major OTA behind us, and we're entering a period where volume is just going to be cleaner, and we think visibility is better.

So that puts us in a position where you're going to be able to see more normalized growth in the course of next year. So think of the quarter should play out more evenly year-over-year than what you've seen historically. But we did get a bit of a benefit in the fourth quarter because of the comp year-over-year.

Jagtar Narula

Chief Financial Officer

And then David, I'll address your questions on the yield rates. So we're expecting yield overall to be flat to slightly down and slightly, I mean, like a basis point. When you look at it, travel will be down a basis point or 2, non-travel will be down 2 to 3 or 2 to 4. But you'll mix more to non-travel, so that will stabilize overall yield.

Operator

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

Sanjay Harkishin Sakhrani

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

I wanted to drill down a little bit on Mobility. I know, Melissa, you talked about over-the-road still seeing choppiness. I guess when we think about sort of organic growth assumptions in 2026, could you just sort of outline what you're expecting? What are the key variables there that could maybe help outperform, underperform? And then I know, Jagtar, you mentioned BP sort of more of a second half contributor. So maybe you could just give us like sort of what the first half versus second half contribution might be in terms of total Mobility in growth?

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. Sure. Sure, happy to. In our mobility business, when we think about the business, about 40% of the volume comes from over-the-road customers. So I'll split the business in those 2 pieces. The way that we've approached this part of the business, and we're thinking about amplifying our core, it's been really leveraging the benefit of our closed loop network, make sure that we're acquiring customers,

retaining customers, delighting customers throughout the course of the year. And our actual retention rates have remained strong. Our acquisition rates have gone up year-over-year, as you might imagine, in part because we've invested more in marketing in the small end of the marketplace, but also because we've seen productivity in the large end of the marketplace.

And so we're going into the year feeling really good about how we're positioned. And part of the question, I think that's underlying your point is the macro itself is something that we know historically has been transient. We know in the over-the-road marketplace that we're seeing some good signs, although there's still volume weakness in the course of what we're seeing play out right now. But there's tightening of drivers, which is creating spot rates to go up, which we think is overall good for the industry and will make it healthier, more vibrant.

The assumption we have in our guidance is that we're going to be in a similar macro environment in '26 as what we've been in, in '25. We'll have continued acceleration in new sales. We'll have strong retention of customers. And so the things that could play out that are different, the macro environment could improve from what we expect. From a sales perspective, we have a pretty good line of sight, but always an opportunity to outperform there as well.

Jagtar Narula

Chief Financial Officer

And Sanjay, I'll address your question on the guidance bridge and the cadence of '26. So just to think about the guide that we've given for Mobility, if you look at Mobility in 2025 ex fuel prices and ex FX, we grew about 1% in Mobility. So when you think about 2026, you take that run rate and you would say, okay, with BP, with new products that are coming online and with the sales and marketing investments last year, you can understand the increase in growth rates that we have going into '26.

From a cadence standpoint, we really expect the growth rate to be even -- roughly even over the course of the year, but there's some puts and takes with that. So obviously, we have BP coming online in the second half, which helps growth in Mobility. But we're also assuming interest rates decrease over the course of the year, especially in the second half of the year. And so that puts an overall drag in Mobility and [hence] once you look at those 2 together, you get to the cadence of roughly even growth over the course of the year.

Sanjay Harkishin Sakhrani

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

Okay. Great. Maybe a follow-up question on Corporate Payments. From a similar vein, as we think about the organic growth assumptions there, I know, Melissa, you're talking relative to the previous question that there'll be more balanced growth over the course of the year for the travel. But how about sort of non-travel? I know you guys have some share -- some wins there. I saw the announcement with Nuvei. Just trying to make sure I understand sort of how to think about that and factor that in.

And then even in that direct payables business, sort of what the assumptions are there? Because I know you guys were making some investments there. Do you see an acceleration there as a result of some of these investments? Maybe you can give us -- just elaborate a little bit more on Corporate Payments and the building blocks there.

Melissa D. Smith

Chairman of the Board, President & CEO

Sure. We're really confident in the trajectory of Corporate Payments. I'll just start with that. We're seeing some really great trends across the board, strong volume coming through with our travel customers as well as if you look at the functionality that we've rolled out, so we took the core capability that we have with our travel customers and made enhancements to that so that we've been selling it in the course of this year outside of travel to other embedded payments customers.

And really, the core offering that we have for that customer base is leveraging the bank and being able to take really complicated payment flows that are often have quite a bit of regulatory oversight and

doing that in one shop. And so we're using our world-class virtual card platform, but we've got our bank combined in that. And so that product in the marketplace continues to have really good product market fit. We're continuing to add new customers. We're going through implementation cycles now. And so we're really bullish about how that product will continue to build in the course of the year. On the AP direct side, I think of that as it's a great engine. We've continued to add salespeople and those salespeople are ramping. We're seeing really good production from that.

And so we expect to continue to have double-digit growth in 2026 relating to sales in that. It's coming off a growing base, and so we expect the growth rates to look pretty similar. So if you kind of take all of that in and factor in any contract renewals we have across the portfolio, we are expecting to see a build in the course of the year. So spend on travel will look pretty consistent in the course of the year from everything we know. Outside of travel in these new customer implementations, we [may] see that spend volume lift and increase over the course of the year. And so there will be a little bit of an increase in growth. But I would say travel is still a large part of the business.

And our embedded payments and our AP direct products are still the minority of the segment. So places we're super excited because we're building on that. We think they're going to become a bigger part of the segment and will drive growth rate acceleration over time. But it's going to have less of an impact in terms of like seeing a huge ramp from a quarter-to-quarter perspective.

Operator

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

Ramsey Clark El-Assal

Cantor Fitzgerald & Co., Research Division

I wanted to ask a question about Benefits and whether you're seeing any impacts, probably tailwinds from any political or policy-related stuff that's going on out there. I'm thinking the Big Beautiful Bill, lapsing of some Affordable Care Act coverage. Just curious if there's any kind of political overlay to the performance in that segment that you're seeing or expect to see.

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. It's interesting times, right? I would say there's a lot of interest. And pretty much every month, we hear different ideas of how these tax-deferred assets can be further utilized and specifically focusing around the construct of an HSA. There's still a lot of details that need to make their way through. So I believe we're in an environment that is really positive, likely something that we will benefit from, not something we factored into our guidance. And I would say we had a really strong open enrollment season.

But we don't think we saw much of an impact from the Big Beautiful Bill in part because the consumers are going through these exchanges. So consumer education takes some time. We do believe that this will continue to be a headwind -- I mean, a tailwind for us in this part of the business. And so we're excited about not just what has happened already in terms of legislative changes, but the conversations that are happening and where we think this is going, but nothing that we factored into our guidance.

Ramsey Clark El-Assal

Cantor Fitzgerald & Co., Research Division

Okay. One quick follow-up. And forgive me if I missed you guys commenting on this a little more. Jagtar, I wanted to ask about the elevated credit losses in the first quarter versus the rest of the year. Is there anything that you had already called out or any kind of finite reasons why that is occurring?

Jagtar Narula

Chief Financial Officer

Ramsey, great question. Thanks for the question. Really 2 pieces for us. So first, let me say, overall, we feel really good about the quality of our portfolio. We've made investments that we've talked about in the past and our ability to use AI and heavy analytics in managing the credit quality of portfolio, and we still

feel really good and really confident about that. Relative to Q1, there's really 2 reasons. So first, just recall that it takes about 6 months for something to be a late payment that eventually doesn't get paid and goes into being written off. So when we're talking about receivables that are now 6 months old when fuel prices were higher.

So with fuel prices coming down, but the higher value of those receivables that are being written off, just the simple math of the write-offs against the spend levels with lower PPG just causes an increase in the basis points. A second smaller reason is we went into market in the second half of last year. We were testing a couple of offers. Those offers are no longer in market, but we saw a little bit of elevated credit losses associated with them. Like I said, we've pulled those offers, but those are taking Q1 to work through. But overall, we feel really good about where we are.

Operator

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

Mihir Bhatia

BofA Securities, Research Division

I wanted to go back to the direct payables business. You called out making some investments in it, but the growth has slowed, I think, from like 25% in the first half of this year to 20%, I think, in 3Q and now 15% plus, I think you said this quarter. And some of it, I suspect is you're just growing off a larger base. But maybe just talk a little bit more about that, like given the investments you're making, what's driving that? And what do you expect that to look like for 2026?

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. We do expect to see double-digit growth in 2026. Part of why you're seeing that decelerate is there's some lumpiness around when the customers that have been implementing when they actually spend. So I wouldn't read too much into it. It's still prone to having some mix in there. From just what we're adding to the business, I would say it's a very consistent motion of adding salespeople.

Those salespeople are out there soliciting customers. Those customers are going through actually a pretty quick implementation process, very high retention rates with that underlying customer base. And so very, very consistent with the investment thesis that we've laid out, and we think that will continue to play out really well into 2026 and beyond.

Mihir Bhatia

BofA Securities, Research Division

Got it. Okay. And then maybe turning to Benefits, and I just want to make sure I heard correctly. I think, Melissa, you said 6% to 7% account growth in 1Q for Benefits. Does that include the UAW benefit in there? So like it would be a step down after that? Is that the way to think about it, just given you're just -- assuming like through enrollment season at this point? I'm just trying to understand what we should think about the account growth for the full year.

Jagtar Narula

Chief Financial Officer

So just to correct, Q1, we expect 5% to 7% account growth. I think I said that in my prepared remarks. Then in terms of UAW, no, we don't expect a step down in Q1. Those accounts will continue. We typically have a step down from Q1 to Q2 just in the number of accounts. We see that year after year just because new onboarding happens in Q1 and then customers that are leaving the system tend to happen in Q2. So you do see a step down. But UAW is continuing, nothing to be worried about that. It's just the year-over-year growth rate that UAW becomes a year-over-year [indiscernible] going in the second half of the year, but not a [indiscernible].

Mihir Bhatia

BofA Securities, Research Division

Right. So the growth rate will step down, though, just to clarify.

Jagtar Narula

Chief Financial Officer

Correct...

Operator

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

Rayna Kumar

Oppenheimer & Co. Inc., Research Division

So I just want to ask something about free cash flow. I think your free cash flow conversion this year was a bit below 55%. Any call out there? And how should we think about free cash flow for '26? And then separately, could you just call out the same-store sales growth for your local fleets in Mobility?

Jagtar Narula

Chief Financial Officer

Sure. So free cash flow, I mean, nothing in particular to call out. We were very pleased with free cash flow in '25 at \$638 million. We view that as pretty strong free cash flow and improvement over the \$500 million and change that we did in 2024. For 2026, we are continuing to expect north of \$600 million. We expect a further increase from the 2025 levels. So we continue to feel confident. With regard to same-store sales, I think what we said overall is that we saw similar trends to what we saw in Q3. I'd say local fleets was a slight improvement over what we saw in Q3.

Melissa D. Smith

Chairman of the Board, President & CEO

And OTR was slightly worse.

Jagtar Narula

Chief Financial Officer

Yes.

Operator

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

Christopher Nathaniel Svensson

Deutsche Bank AG, Research Division

I was hoping to ask about some of the moving pieces for operating margins in '26. I guess for the full year, how should we think about each of the segments and how that builds up to total company margins being flat? I know in Benefits, we'll have the impact of float headwinds. Corporate payments, we're exiting the year a little north of 48%. And then hopefully, we get some operating leverage as that normalizes. Mobility, we have BP coming on, lower interest rates offsetting. And then on top of all of that, you have the investments. So I was just hoping you could put all of that together and maybe talk about margin cadence for the year by each of the segments.

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. And let me start actually just talking about margins overall because it's something that we think a lot about. Jagtar talked about some of the cost actions that we're taking and have been taking in the course of this year. Those are setting us up well. So if you exclude the impact of macro in the midpoint of our guidance, we're assuming 75 basis points of improvement in margins. So -- in the margin improvement. That's coming -- when I talked about product innovation velocity, one of the things that we've really

focused on is how to get more through using AI and advanced tools than we have in the past. So we're getting more through, and we're doing it at a lower cost.

So that 50% improvement had about 400 less people in our technology group. And you can see that coming through with lower CapEx in the course of 2025. And so we're seeing some material improvements of how we're bringing products into the marketplace from a redesign all the way from a development perspective. We've taken that same philosophy and started to deploy it in our operations group. We talked about the fact that we have a new tool that we put out there within our benefits business, which is claims automation. Great tool because it relieves one of the pain points from our customer in submitting the claim, does it more accurately and quicker than what we were able to do before.

And we think of that as just the tip of the iceberg. And so we're really focused on how we can continue to use these use cases, amplify that through increasing our innovation. And those are things that we're factoring in when we're thinking about margin expansion. So as Jagtar said, we're moving -- we're really focused on how we can invest at the same time, how we can create scale within the business.

Jagtar Narula

Chief Financial Officer

And then, Nate, just how to think about margins per segment. I would say we're pleased because within our guide, all of our segment margins are improving before you include the effects of macro. And so we're pleased with that. Obviously, with macro effects that impacts a couple of our segments. So Mobility and Benefits will be a little bit more flattish because of the macro impacts, while Corporate Payments will continue to improve from the higher revenue and relatively fixed cost base.

Christopher Nathaniel Svensson

Deutsche Bank AG, Research Division

Makes sense. Appreciate the detail. And then Jagtar, maybe this is one for you. You mentioned it in the prepared remarks, and there are some comments in the supplemental. Just about the incentive with your scheme provider in Corporate Payments. Correct me if I'm wrong, but it seems like maybe incentives were a little bit higher than normal this year, maybe a little more weighted to 4Q. I guess if that's right, what were the reasons for that? And then is there any way to think about incentives with the scheme partner in '26? Are there comp considerations we have to keep in mind with regard to that specifically?

Jagtar Narula

Chief Financial Officer

Yes. We negotiated a new scheme relationship in the second half of the year. We were really pleased with that. It helped us in the second half, saw a little bit in Q3, a little bit more in Q4. That will continue on into next year. So you'll have good comps on that in the first half of the year and then lower in the second half.

Operator

Your next question comes from the line of Trevor Williams with Jefferies.

Trevor Ellis Williams

Jefferies LLC, Research Division

I want to start with a bigger picture question on Mobility, just given the sales focus on the lower end of the market. Melissa, maybe you can give us a sense for how much of that segment you think is still up for grabs at the low end? And how you'd frame any of the competitive dynamics with some of the open loop providers?

Melissa D. Smith

Chairman of the Board, President & CEO

Sure, sure. Actually, if you look at the market, we are continuing to -- when you think about the marketplace itself, we have a sales force that's dedicated towards going after larger accounts. It's a place that we've had a lot of success in our business model. We've continued to win those new accounts. And

then when we thought about where is the kind of broader open market opportunity, it's in the smaller account arena. We spent a lot of time refining first our credit tools and fraud tools and making sure that we're in a position that we felt really good about opening up our marketing channels. We've opened those up. We're having success in bringing customers through digitally and seeing that continue to be quite profitable for the business.

And so the focus for us is continue to build market leadership in the mid and upward part of the marketplace. But we're also keenly focused on how can we increase the market share, which is largely unpenetrated in that smaller end of the marketplace, both for our North American mobility business, but also with our over-the-road business. This 10-4 offering that we have out there, we're really excited about because it allows us to extend into a new part of the marketplace that we historically haven't played in, and that's owner operators. And what they're doing is downloading an application, they're accessing our fuel network. They're doing that at a discount.

Fuel prices are their largest operating cost. And so we're saving them meaningful money, but we're also introducing them into our set of products where they're building relationship with us, which if they grow, they can continue to mature into the other products that we have. If we don't, we have an extended credit to them. And so across the board, we think of the small fleet opportunity is a place that we're going to continue to penetrate.

Trevor Ellis Williams

Jefferies LLC, Research Division

Okay. Great. And then maybe for Jagtar, on quarter-to-date trends, I'm just wondering how same-store sales in Mobility are looking relative to Q4 between the comps and assuming there's been some weather impact from the last couple of weeks. And then just to clarify to make sure we're hearing you right on the ex fuel growth cadence for Mobility. Is the message that Q1 should be the low point of the year because of the comps and then growth should look pretty similar for the balance of '26? I just want to make sure we have that.

Jagtar Narula

Chief Financial Officer

Yes. Let me address the second one first. So Q1 is slightly lower because we have -- remember, we had the pull forward last year in the OTR business. So that will impact Q1 a little bit. And then growth, yes, correct. It's pretty similar over the balance of the year for the reasons I talked about earlier, BP coming online, but then you have the drag from interest rates. On the KPIs, what we saw from same-store sales is embedded in the guidance that we've given you. And what we're seeing from KPIs right now is on track for the guidance we've put out there. We did have some weather impacts, what was that, a week or 2 ago, but that's embedded in the guidance. So far, things are looking like they're on plan.

Operator

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

Darrin David Peller

Wolfe Research, LLC

I want to start off, just I saw the changes with David Foss. We're big fans of his, and it's good to see him taking such an active role on the Board. But more importantly, just curious what the -- I know you [put a release out] about the changes on the Board a bit more, bringing down a couple of positions to 10, I think. Help us understand what the thought process is there? What you think the Board wants to see strategically? Has anything changed from a strategic direction standpoint over the last couple of quarters as this has gone on as well? Obviously, you had a process going on. I'm curious what came out of that more so with the new Board.

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. Yes, great question. I think if anything, it has reinforced the strategy that we have in place when we talk about the 3 pillars of how we're really focused on driving strategy and driving growth across the company, both the process of bringing in the external bankers, which just validated the fact that the business is better off together and execution should be our focus, execution of our strategy. And I would say that, that same thing has been true as we've gone through a refreshment process over a number of years. Bringing Dave on is part of that refreshment process of bringing in a new Lead Independent Director. He's great. I'm excited to have him on board. I'm sure he'll have his own perspective. But so far, I'd say it's just reinforcing the strategy that we have.

Darrin David Peller

Wolfe Research, LLC

Okay. And no change from your perspective to capital allocation decisions versus what maybe we would have thought about a year ago. And maybe just remind us what you're hoping for and looking for from the mix between M&A and buybacks. I know you talked a bit about it in the presentation, but anything that's really changed would be helpful in terms of thought process.

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. It's a great question. When we think about capital allocation, risk-adjusted return is our North Star. And so for quite a period of time, that moved us into M&A. Over the last few years, we've spent \$2 billion buying back stock. And it actually kind of leads [into path]. When I talked about in my prepared remarks that a couple of years ago, we started on this journey of really focusing on increasing organic innovation. It's really in mind of the fact we're in an environment where we've been doing less M&A, and therefore, we're really focused on how we can continue to go faster and bring new products into the marketplace and commercialize them.

And we've seen some really good success in that. So we're actually really excited on the path we're on because we're seeing new products coming in. We're seeing them have commercial success. We feel really bullish on how we're going to continue to increase the pace of that and where that's going to bring the company over time. So from a capital allocation perspective, I would say, our North Star is risk-adjusted return, and we're going to evaluate share buyback versus looking at M&A for the near term, we're very focused on paying down debt. And the multiple we're trading at right now, we'll continue to buy back stock.

Operator

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

Michael Nicholas Infante

Morgan Stanley, Research Division

There's obviously been a lot of noise around agentic travel booking potentially reshaping OTA workflows and over time, the economics and the routing of travel payments. So I'm curious how you are thinking about that and what you're doing to be positioned for that shift. And as you contemplate the medium term, how should we be thinking about sort of where any potential impact would show up first across volumes, take rates or just changes in channel mix?

Melissa D. Smith

Chairman of the Board, President & CEO

Yes. Yes, sure. And we obviously, we think a lot about the agentic AI across our whole customer segment. When you talk specifically about travel, when we think about the search to book to pay journey, it's evolved for decades, and it's going to continue to do that. So the -- what we think about and what we see actually when we're working with OTAs is that they're structurally embedded in that journey. The large OTAs are effectively partnering with the AI platforms like OpenAI, like Google and the smaller ones are differentiating through curated experiences. And so there's a lot of adoption that's happening right now within the OTA space.

What we know is that virtual card payments are really important in the space because it's this unique ability to have buyer-seller protections, you have global acceptance, automated reconciliation, a whole wealth of data that's put in there. So what we're seeing right now is that what we have, the capabilities that we have are becoming, if anything, more important and kind of the way that it's happening is changing, but the OTA is still deeply embedded in that process. And you can see that coming through in our volume growth. We've had really strong volume growth.

Michael Nicholas Infante

Morgan Stanley, Research Division

That's helpful. And then just one housekeeping follow-up. Melissa, you alluded to this in some of your commentary on Corporate Payments. And I know it's a fairly small part of the portfolio on both an absolute and a relative basis. But have you directly incorporated any impact from a potential renewal of a key OTA customer within the guide this year?

Jagtar Narula

Chief Financial Officer

Yes, Michael, that -- we have factored that into our guidance. Our guidance includes everything that we're thinking about for the corporate payments business, including potential pricing impact, et cetera.

Operator

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

Steven Alan Elder

Senior Vice President of Global Investor Relations

I appreciate everyone joining us today, and we've got a couple of minutes over here, but thank you for all the questions and interest, and we look forward to sharing our progress next quarter.

Operator

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

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