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CSG Systems International, Inc.

NasdaqGS:CSGS

Earnings Call

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Presentation

Operator

Thank you for standing by. My name is Greg, and I will be your conference operator today. At this time, I would like to welcome everyone to CSG's Q4 and Full Year 2023 Earnings Call. [Operator Instructions] I would now like to turn the call over to John Rea, Treasurer and Head of Investor Relations. John, please go ahead.

John Rea

Head of Investor Relations

Thank you, operator, and thanks to everyone for joining us. Like last quarter, we will be working from a slide deck, which can be found on the Investor Relations section of our website. Please take a moment to locate these slides. Today's discussion will contain a number of forward-looking statements. These include, but are not limited to, statements regarding our projected financial results, our ability to meet our clients' needs through our products, services and performance and our ability to successfully integrate and manage acquired businesses in order to achieve their expected strategic operating and financial goals.

While these risks reflect our best current judgment, they are subject to risks and uncertainties that could cause our actual results to differ materially. Please note that these forward-looking statements reflect our opinions only as of the date of this call, and we undertake no obligation to revise or publicly release any revision to these forward-looking statements in light of new or future events.

In addition to factors noted during this call, a more comprehensive discussion of our risk factors can be found in today's press release as well as our most recently filed 10-K and 10-Q, which are all available in the Investor Relations section of our website.

Also, we will discuss certain financial information that is not prepared in accordance with GAAP. We believe that these non-GAAP financial measures, when reviewed in conjunction with our GAAP financial measures, provide investors with greater transparency to the information used by our management team in our financial and operational decision-making.

For more information regarding our use of non-GAAP financial measures, we refer you to today's earnings release and non-GAAP reconciliation tables on our website, which will also be furnished to the SEC on Form 8-K.

With me today on the phone are Brian Shepherd, Chief Executive Officer; and Hai Tran, Chief Financial Officer. With that, I'd like to now turn the call over to Brian.

Brian A. Shepherd

CEO, President & Director

Thanks, John. Hi, everyone. We appreciate you joining the call as we begin on Slide 4. Team CSG finished a record-setting 2023 with a strong fourth quarter. We posted 7.3% year-over-year revenue growth in 2023, all coming from organic growth. Our performance this year was the best annual result in nearly 2 decades. Our full year non-GAAP adjusted operating margin was 17.2%, which is a significant improvement over the 16.6% we reported in 2022, proving our ability and our commitment to consistently expand CSG's operating leverage with disciplined execution.

Another highlight of the year was our strong 2023 free cash flow performance especially during Q4. For the year, we generated \$104 million in free cash flow, including over \$74 million in Q4, our best quarterly free cash flow performance on record.

At the end of the day, our faster revenue growth is fueled by strong ongoing market demand for CSG's industry-leading SaaS products and good sales performance across all areas of our business.

CSG's sales pipeline is large and healthy as we win and wow big new customers in a wide variety of faster growth industry verticals. Another important topic I want to touch on is our belief of diverse companies

who care about sustainability, perform better and consistently deliver better results. At CSG, we believe that good people and high-integrity companies can and should finish first.

In December, we announced our official carbon commitment as we strive to be carbon neutral in both Scope 1 and Scope 2 emissions by 2035. In 2023, we issued our inaugural impact report which showcases our initiatives around ESG, diversity, inclusion and global community impact.

In our increased disclosures, especially with our annual SASB and TCFD reports are moving the needle from an ESG rating agency perspective. In April, we received our second consecutive prime rating from ISS, which means that CSG is in the top 20% of its software peers when it comes to quality ESG disclosure.

Additionally, we received a AA rating from MSCI, a step-up from the BBB rating we received 2 years ago. And we recently ranked the top 10% of our software peers according to Sustainalytics and top 25% of all publicly rated companies according to S&P's CSA ESG framework. As we look ahead, we will continue to focus on our corporate responsibility commitments as we believe our culture first, people first approach is a key differentiator for us. A talented and inspired CSG workforce, in turn then makes CSG more value-adding and easier to do business within our competitors as we solve our customers' toughest business challenges with our mission-critical enterprise SaaS products. We look forward to sharing our continued progress in the quarters and years ahead on this important journey.

With regards to share buybacks, we repurchased \$117 million of stock during 2023. Looking forward, we will continue to opportunistically repurchase shares through the end of 2024, with the expectation that at a minimum, we will buy back enough shares to offset employee stock compensation with the opportunity to buy back more than this when we believe it will create greater shareholder value.

On dividends, we are pleased to announce that we will be increasing our dividend by 7% to \$1.20 per year paid in quarterly increments. This marks our 11th consecutive annual increase and underpins our dedication to a friendly shareholder return policy.

And our 2024 guidance should prove that we see CSG's strong business momentum continuing into the new year. We expect organic revenue growth to be above the midpoint of our long-term 2% to 6% range with revenue of \$1.2 billion to \$1.24 billion this year.

Further, we foresee profitability as measured by our adjusted operating margin percentage remaining strong with a range of 17% to 17.4%. This highlights Team CSG's dual commitment to both accelerate organic revenue growth in the mid-single-digit range, while continuously expanding our profitability and free cash flow generation.

I will go into more details on our full year 2024 guidance outlook, but investors can be confident that CSG leadership team is laser-focused on turning good revenue growth into strong profitability and then converting that good profitability into constantly improving free cash flow.

Turning to Slide 5. I will reiterate the 4 strategic objectives that will help CSG create greater shareholder value and allow followers of our story to track our progress. As I just shared, CSG aspires to deliver long-term organic revenue growth in the 2% to 6% range, striving to consistently be at or above the midpoint of this range. The midpoint of our 2024 revenue guidance implies a 4.3% year-over-year organic growth rate with any disciplined M&A deals that we closed, then accelerating our revenue growth even more.

We aim to add operating scale and expand our operating leverage by growing revenue to \$1.5 billion by year-end 2025 with bottom line growing as faster -- faster than top line growth. This scale will come from a combination of good organic revenue and sales growth, combined with disciplined inorganic moves.

Our third strategic imperative is to be the #1 SaaS provider of choice for global communications service providers by providing the most value-adding technology platforms and by helping our customers make more money in the digital world. And finally, we plan to diversify revenue even more as we win big in faster growth industry verticals like retail, government, financial services, health care, technology and more.

Moving to Slide 6, you can see that we delivered against all 4 objectives with our excellent results in 2023. On strategic revenue growth, we reported a record setting \$1.169 billion of revenue in 2023, resulting in 7.3% year-over-year growth, our best full year result in nearly 20 years.

On the right-hand side of Slide 6, we believe that CSG's high recurring revenue SaaS business model and our strong healthy balance sheet make us an attractive investment. By 2025, we aspire to gain scale in the markets where we compete and generate \$1.5 billion in annual revenue, which implies that CSG will have added over \$500 million in profitable recurring revenue from 2020 to 2025.

Over the medium to long term, we aspire to expand CSG's operating leverage and use our strong balance sheet to deliver non-GAAP EPS growth that meets or exceeds revenue growth. On this last point, I want to reinforce the key principle for the CSG Board of Directors and management team. Team CSG will add strategic scale with disciplined M&A that puts a premium on accelerating our organic growth expanding our operating margins and cash generation and creating greater shareholder value by paying the right price and extracting the expected M&A synergies inherent in the investment thesis for each acquisition that we close.

Turning to Slide 7. We had good success in our goal to be the #1 technology provider of choice for communication service providers globally. In the first half of 2023, we completed our conversion of 14 million customers from a competitor's platform at Charter. We have long-term contracts with both Charter and Comcast that run through Q1 2028 and year-end 2025, respectively. And as a reminder, CSG's relationship with Comcast and Charter is on a per customer basis. This may seem like a minor nuance, but it's a very big distinction for us.

We know there have been headlines over the last several weeks related to subscriber losses at several of our existing cable broadband customers. It's worth reiterating that we serve over 64 million combined subscribers at Comcast and Charter and nearly 80 million subscribers across all of North American cable broadband customers, so small changes in subscriber counts do not have a meaningful impact on our business results and growth.

It should also be noted that CSG grew our combined revenue 5% year-over-year at our 2 largest customers in 2023. And even as our revenue grew nicely this year at these industry-leading customers, the revenue concentration from Comcast and Charter dropped to less than 40% of our total revenue for the first time in the last 2 decades.

CSG's improving revenue diversification and faster revenue growth is a testament to our success in winning many big new logo sales deals in other parts of our business, continued expansion of our business with existing customers all around the world and our success in diversifying into big, exciting and faster growth industry verticals.

On the new wins front, Team CSG was selected to digitally transform an existing cable broadband customer's BSS stack to simplify their business processes with our agile and cutting-edge solutions. As part of this win, we extended and expanded our 10-plus year relationship with this important customer.

During 2023, we also announced a great new deal with ATN International a leading provider of digital infrastructure and communication services. Team CSG will modernize their networks with our mediation and roaming settlement products. This will enable ATN to automate mediation and wholesale settlement workflows and access real-time performance data to better align resources and to more quickly react to changing business needs.

Outside of North America, we continue to win more business in the wireless telecom market. In fact, over the last 3 years, our strategy of extending our cable, telecom and wireless business globally is paying off big time. Over that period, we have added 16 exciting new logo sales wins and expanded our business with an additional 35 existing customers.

Specifically, in 2023, we expanded our engagement with 1 of the top telecom operators in Saudi Arabia. Team CSG was trusted to consolidate this customer's fragmented legacy BSS solutions into a modern unified platform. Our solution will reduce this customer's BSS complexity, improve time to market with new product offers and enhance the efficiency of their business operations.

During the first quarter, we also expanded our relationship with a leading telecom operator in Latin America and the Caribbean. We are now helping this business with our digital customer engagement needs. Our solution will help this customer reduce costs and standardize their digital experience across the dozens of countries in which it operates.

And in Q2 2023, we announced a fantastic new deal with PLDT, the Philippines' largest fully integrated wireless operator. PLDT is expanding its 2-decade partnership with CSG as it embraces the power of the cloud to bring its wireless business into the future and transform its customer experience, particularly for its enterprise unit. Plus this is the latest example of us serving customers in an environment of their choice. This one in Amazon Web Services cloud-based environment.

Also in July, we announced the completion of our digital BSS transformation project with Airtel Africa, a leading telecommunications and mobile money service provider with close to 140 million wireless subscribers across 14 countries in Africa. With CSG's unified revenue management solution, Airtel Africa is primed to streamline processes across its business, minimize costs and shorten time to market while delivering digital experiences that drives customer loyalty and sustainable business growth.

In the fall, we won a great new logo with M1 of the leading mobile carriers in Singapore. CSG was selected to modernize their B2B BSS stack. And importantly, this deal highlights the strength of CSG's solutions as we are replacing our main competitor. And we have a strong sales pipeline in the global telecom market that will position CSG well to announce more exciting new logo sales win in 2024.

Turning to Slide 8. Since 2017, we have diversified our revenue coming from exciting new industry verticals from 7% of total 2017 revenue to 28% of our 2023 revenue, a fantastic accomplishment in a relatively short period of time. We are the partner of choice for big brands in higher growth industry verticals and where we help our customers digitize and monetize their customer experience and provide them with cutting-edge integrated payment solutions. And during 2023, both solutions delivered good double-digit organic revenue growth and continue to be game changers for both CSG and our customers.

During the year, we won a good contract expansion with Safe Harbor Marinas, which is the largest marina management company in the United States. Specifically, Team CSG is supporting Safe Harbor Marinas with their digital operations, including new go-to-market offerings. This is another example of how our digital customer experience suite of products is finding use cases across multiple industry verticals. Another nice win was with NRC Health, one of the nation's largest health care performance improvement firms supporting more than 7,000 organizations.

We are enabling NRC to execute digital multichannel communication strategy in a streamlined, effective and scalable manner. We also won a good contract with a bundled utility service provider for municipal and private utilities to support various customer engagement initiatives. This deal expands our footprint in the utility industry.

Further, during the year, we significantly expanded our customer experience business with one of the world's leading technology firms. We are deploying our AI-powered digital CX solutions to provide their customer self-service capabilities in the voice channel in every country where this company operates. This is an excellent example of how CSG's AI-driven digital CX SaaS platform helps big exciting brands, improved customer experience and save operating costs.

And finally, in the fourth quarter, we won a fantastic new ascended deal with one of the largest banks in APAC with business operations across multiple countries. This customer provides a variety of financial services, including retail, business and institutional banking, funds management, insurance and brokerage services. What is truly phenomenal about this deal is it marks the first time we've sold our Ascendon SaaS monetization product to a large financial institution. Specifically, we will be transforming their fragmented billing and pricing systems into a unified solution powered by CSG's Ascendon product.

CSG Ascendon will help minimize billing errors, mitigate revenue leakage, improve the customer and employee experience and significantly decrease their time to market with new products and services as we digitally transform their BSS platform.

In the payments market, we closed 2023 with record organic revenue growth in this part of our business with strong double-digit revenue growth, which is a testament to our industry-leading SaaS integrated payments platform. We now provide award-winning payment solutions to 114,000 active merchants and ISV partners, which represents a 16,000 increase or a 16% year-over-year growth from the 98,000 active merchants we served at the end of 2022.

Our solutions are critical to customers who need ACH, credit card payment gateway and payment processing capabilities serving a wide range of recurring revenue industry verticals. We continue to see a big runway for growth for this business and we believe we have a good chance to accelerate our organic revenue growth even faster in 2024 and beyond.

I will wrap up on Slide 9 before turning it over to Hai. Simply put, CSG delivered record-setting results in 2023. We continue to win fantastic new customer logos quarter in, quarter out. We continue to innovate with industry-leading AI-driven SaaS solutions that big brands all around the world are buying to solve some of their most pressing business challenges.

We continue to diversify our business with 28% of revenue coming from big faster-growing industry verticals like health care, financial services, retail, tech and government. And we continue to demonstrate our commitment to run our business more efficiently as we consistently improve non-GAAP adjusted operating margins and free cash flow generation. So our message to our 3 key stakeholders are clear.

To employees, CSG's best days and biggest breakthroughs are still ahead of us. We will keep dreaming big and demanding even more from our collective global talent as we do whatever it takes to turn our giant dream into reality.

To customers, CSG is here for you. We are dedicated to being easier to do business with than any of our competitors while solving your toughest business and technology-related challenges. We thank you for your continued trust in us.

To shareholders, CSG's transformation is just getting started. Faster recurring revenue growth, improved operating leverage, more free cash flow generation and exciting industry vertical diversification. But with this management team and our Board of Directors will hold ourselves accountable to and we will do it with the high integrity, focused execution and good governance that you've always expected from CSG. With that, I will turn it over to Hai.

Hai V. Tran

Executive VP & CFO

Thanks, Brian. Let's walk through our 2023 financial results, and then I'll wrap it up with some key conclusions. Starting on Slide 11, we generated \$1.169 billion of revenue, which represents 7.3% year-over-year growth. For the year, the increase in revenue was primarily attributed to the continued growth of CSG's revenue management solution, including the conversion of customer accounts onto CSG solutions, strong year-over-year growth in our digital customer experience solutions and increased payments volumes.

As we mentioned on our Q1 earnings call, some of the revenue uplift we recognized in Q1 was related to the timing of certain license-oriented deals moving from Q4 2022 into Q1 of 2023. And the growth we got in 2023 from converting certain subscribers off of a competitor at Charter.

When excluding both of these items, our year-over-year revenue growth rate would have been towards the top end of our long-term organic revenue growth range of 2% to 6%. Our 2023 non-GAAP operating income was \$186 million, or non-GAAP adjusted operating margin of 17.2% as compared to \$169 million or 16.6% in the prior year.

The growth in non-GAAP operating income and non-GAAP adjusted operating income margin percentage for the full year period was driven by higher revenue growth and improved profitability.

Moving on, our non-GAAP adjusted EBITDA was \$243 million for 2023 or 22.4% of revenue, excluding transaction fees, as compared to \$226 million or 22.3% in the prior year.

Lastly, our 2023 non-GAAP EPS was \$3.69, a 2.2% year-over-year increase as compared to \$3.61 in the prior year. The increase in non-GAAP EPS is mainly due to higher operating income and to a lesser degree, share repurchases, partially offset by higher interest rate expense and adverse foreign currency movements.

Turning to Slide 12. I'll go through the balance sheet, our cash flow generation and shareholder returns. Our 2023 cash flow from operations was \$132 million as compared to \$64 million in the prior year. Further, we had non-GAAP free cash flow of \$104 million in 2023 as compared to \$27 million of free cash flow generated in 2022. The primary driver of this increased cash flow performance was favorable working capital changes. Specifically, in Q4, we generated \$74 million of free cash flow, which represents our strongest quarterly free cash flow performance on record. The primary driver of this performance with positive working capital items, including increased intensity regarding management of our accounts receivable collection.

I want to reiterate that this management team is committed to identifying opportunities for improvement, transparently owning up to them and then rapidly driving enhanced performance. As we have previously mentioned, our non-GAAP free cash flow performance in 2022 was not up to our expectations, and we are starting to bear the fruit of the specific action that the CSG leadership team implemented to address those challenges.

Similarly, when our profitability was below our expectations in the first half of 2022, again, CSG management quickly implemented our operating margin initiatives in Q2 of 2022, which continues to benefit our shareholders with 2023 operating margin coming in strong at 17.2%.

Put simply, when we see ways to enhance our operating and financial performance, we will nimbly find and aggressively implement the needed improvement in order to create more shareholder value.

Moving on, with respect to our balance sheet, we executed a very successful convertible debt deal in September. This deal delivered multiple benefits, including lowering our interest rate, freeing up our revolver for future M&A and giving our balance sheet a better mix of fixed and floating rate debt plus equity shareholders who will experience no equity dilution until our share price reaches approximately \$96.50. As a reminder, we raised \$425 million of convertible debt with a 3.875% coupon and repaid \$275 million on our revolver.

Further, we ended the fourth quarter with \$186 million of cash and cash equivalents. That, along with our outstanding debt at December 31, 2023, results in \$372 million of net debt and our net debt leverage ratio sits at 1.5x adjusted EBITDA.

Moving to the bottom right of the slide, we declared \$34 million in dividends during 2023. In addition, we repurchased \$117 million in stock during 2023 under our stock repurchase program.

Turning the page, I will lay out our 2024 guidance. Starting with the top line, we expect our organic revenue before the impact of any acquisition to range from \$1.2 billion to \$1.24 billion and transaction fees to range from \$98 million to \$103 million. We are currently forecasting our first half 2024 revenue to make up approximately 48% to 49% of our full year revenue. while we expect 51% to 52% of our revenue to be generated in the second half.

As a reminder, our strong revenue and profitability in Q1 of 2023 was enhanced by highly profitable onetime licensing revenue, which we generated from a few of our global telecommunications customers. As such, we do not expect this revenue to recur in Q1 of 2024. We which will temporarily distort our revenue and profitability comparisons on a year-over-year basis for the first quarter.

We also expect our non-GAAP adjusted operating margin percentage to range between 17% to 17.4%, which represents a meaningful increase from the 16.5% to 17% range from our original 2023 guidance. We believe this non-GAAP adjusted operating margin guidance range demonstrates Team CSG commitment to consistently expanding on our operating leverage with improved profitability.

On the next metric, we anticipate our non-GAAP EPS to range between \$3.85 to \$4.15 based on a non-GAAP tax rate of approximately 29% and a share count of approximately 29 million shares for the year.

Moving on, non-GAAP adjusted EBITDA is expected to range between \$245 million to \$255 million. And finally, we expect the range of non-GAAP free cash flow to be \$95 million to \$135 million with a guidance range midpoint of \$115 million. Additionally, we expect capital expenditures to come in between \$25 million to \$35 million. Wrapping up, CSG will continue to relentlessly prioritize every investment we make and stay disciplined in the allocation of resources and the use of capital. Innovation, including how we leverage the transformative power of AI across CSG and the adherence to a risk and reward framework with continuous learning are key cornerstones of how we manage the business.

CSG is well positioned with a strong sales pipeline and a high-quality recurring revenue customer base. We remain committed to accelerating and diversifying our revenue growth, which may include closing and integrating disciplined value-adding acquisitions. We believe this approach, combined with our consistent capital distribution will serve our shareholders well.

With that, I'll turn it over to the operator to facilitate the question-and-answer session.

Question and Answer

Operator

[Operator Instructions] It looks like our first question comes from the line of Maggie Nolan with William Blair.

Margaret Marie Niesen Nolan

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

So you highlighted and you have in the past as well, the significant vertical diversification that you've been able to achieve over the last 5 years or so. What is your confidence in the ability to further diversify on an organic basis as you think about your medium-term base case goals? Or are acquisitions a really important part of further diversification from here?

Brian A. Shepherd

CEO, President & Director

Love the question. We are highly confident that we can continue to diversify the revenue into new faster-growing verticals organically. I mean we continue to report the strong double-digit revenue growth, the strong sales bookings, the good consistent new logo wins coming from both our AI-driven digital CX business and our North American payments business, and we see that continuing with everything that we see in the business.

The win we announced with a large financial service provider, one of the leaders in APAC, which is the first for our cloud-based Ascendon platform to be the digital monetization and the order price quote solution for that bank is also a game changer and will also contribute nicely to the organic growth. And you should see that 28% continue to grow even as the other parts of our business still grow nicely. They'll just grow faster in these other verticals.

And to your point, we do think that there will continue to be disciplined, attractive accretive acquisitions that we could do both in the digital CX and the payment space in the coming quarters and years that should layer on additional growth on top of the strong organic growth we're seeing.

Margaret Marie Niesen Nolan

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

That's really helpful. And then on the margin range that you gave for the year, it's operating margin range you gave for the year, can you kind of talk through the puts and takes of what would get the company to the low end versus the high end, particularly in the context of some of the factors that you -- Hai, mentioned in your remarks about some of the nonrecurring revenue in the first quarter and maybe think about what it would look like on a quarterly basis as you frame your comments, if you can.

Hai V. Tran

Executive VP & CFO

Yes. Sure, Maggie. One, I think we -- the guidance we gave, hopefully, it shows our confidence in continuing that progress towards growing both our revenue as well as expanding our margins over time. We're committed to delivering on those numbers. I think that when we think, though, about the low versus high and a lot of that has to do with mix. It's something I've spoken to quite a bit in the past. It's the mix of revenue is going to drive effectively that margin profile. But in terms of our commitment to creating operating leverage, we've got a pretty disciplined and intentional plan to ensure that our expenses are going to grow at a rate that is less than our revenue growth.

Brian A. Shepherd

CEO, President & Director

Maybe the only thing I would add, you mentioned a little bit about quarterly spread. You will see, as you heard in Hai's remarks, Maggie, you'll see a more traditional CSG-like spread, 48% to 49% in the first half

and then a little stronger, a little bit above 51%, 52% in the second half. Therefore, with the mix, with the higher revenue growth, you might see a little more profitability even in Q3 and Q4 is what you sometimes have seen with a more historical spread, but we expect strong profitability for all 4 quarters.

Operator

And our next question comes from Matthew Harrigan with Benchmark.

Matthew Joseph Harrigan

The Benchmark Company, LLC, Research Division

Thanks for the encouraging outlook and information on all the strategic initiatives. But sort of, I guess, mundane, on Q1, you talked about the difficult comparisons, licensing internationally and how that really has the anomaly of being very front-loaded on last year's revenues and margin. Can you more precisely quantify how we should -- how much that might dampen the year-over-year Q1 comparison.

Hai V. Tran

Executive VP & CFO

Yes, Matt, thanks for the question. So last year, as we've highlighted throughout the year, we did benefit from a couple of licensing deals that are nonrecurring in nature in Q1, and hence, we had a very strong Q1 last year. But they were roughly about \$10 million of revenue. And if you think about the margin impact, if we excluded the impact of those licenses in Q1 last year, our effective margin would have been in the mid-16 16.5% or so.

Operator

Our next question comes from the line of Greg Burns with Sidoti & Company.

Gregory John Burns

Sidoti & Company, LLC

So when you think about fixed wireless penetration. I know you said it's not really that big of a concern right now. But I think the story, at least as far as I understood with the cable operators was that even though there was core cutting, broadband is growing and net subs are growing, so that's good for CSG. So I'm just trying to understand that why you don't consider maybe a competitive threat to their broadband businesses as maybe a risk?

And is there other areas where you can diversify within the North American cable market beyond your traditional revenue management solutions to continue to grow revenue even if subscribers are not growing anymore.

Brian A. Shepherd

CEO, President & Director

Yes. Let me give maybe just a couple of data points on why we might believe that there is a fairly significant overreaction to some of the news in the market.

Data point number one, even as there's been some headwinds with some of our customers on the broadband growth throughout 2023, we saw very good growth from overall revenue. At the corporate level, we even saw our big 2 grow 5% year-over-year, and some of those headwinds were there in the first part and throughout 2023, would be point one.

Point 2 is to remember that there is a tiered pricing in this. So as we talked, we serve 64 million subscribers at Comcast and Charter, almost 80 million across North American broadband, those incremental subs are on top of that are priced at a much lower price point, which is why you -- some people ask, why didn't we see even more pickup when we converted 14 million subscribers at Charter. Therefore, even if there is some impact on the customer, it tends to be a lot smaller than might be modeled or anticipated by some of those players.

Third, we've done a nice job of just trying to relentlessly bring greater value to all of our big North American cable customers. We're mission-critical. We picked up a lot of land mass, and there is a sizable footprint in all of these customers, even if they continue to face some headwinds in the coming quarters, we can win and grow in other areas just like we've done pretty consistently over the last several years.

And then fourth, we tend to just believe we've seen these players. We've served them well for 3-plus decades. We tend not to underestimate the competitive response of industry leaders like Comcast, Charter and others.

And maybe the fifth point is one of our fastest-growing areas is in global telecom. So we also served multiple players in North America and around the world. So it doesn't mean that there's not some of those headwinds in storm clouds. But like you saw us in 2023, we grew through it extremely well at 7.3% growth. And the midpoint of our guidance even in 2024 is 4.3%. So we don't take it for granted. We go out and earn it every day.

Operator

And our next question comes from the line of George Notter with Jefferies.

George Charles Notter

Jefferies LLC, Research Division

I guess I was just curious about the progress you guys are making with new products, I was thinking a bit about the Bill Explainer product. Obviously, AI is going into lots of products and across the marketplace. What can you tell us about anything you're seeing that's new or different there in the last 3 months? And then, again, progress with Bill Explainer.

Brian A. Shepherd

CEO, President & Director

Yes. I mean, we try -- we have mission-critical enterprise software, not only we got to keep the lights on and just be flawless in our execution. We've got to constantly invest in innovation. And so we have made a meaningful investment in AI. The most important areas in our digital CX business. We announced and launched the Bill Explainer.ai. We see good traction both in cable global telco. We've already sold and won a couple of early deals, small, but still, it shows the power of how you can actually bring value relatively quickly.

This is a solution that can be deployed in a matter of weeks. And so we also see applicability in other industry verticals, more subscription economies even outside of cable and telecom. So we like the building sales pipeline. I would say we're still in the early days in terms of where that is. But we're super excited about what's going on in that digital CX space.

We're also leveraging AI in our payments business. Fraud is 1 of the biggest areas that most merchants focus on. It's one of the things we invest a lot in to really reduce the fraud and risk profile, speed onboarding of new merchants and help. So we're doing a lot around data and some new solutions with nano sites and micro sites to help merchants make it easier to collect the payments that they have. And then if you come all the way back to kind of our core monetization BSS part of the business, working with our telecom media cable customers to leverage the data that is in their possession to be able to make it easier to predict what customers want and when they want upgrade, downgrade service, cross-sell, deal with promotion roll-off, reduce calls to the call center like the Bill Explainer, great opportunities to just expand the value that we bring.

So love what we're seeing on the innovation. We spend a little over 14% of our revenue on R&D. So innovation and co-creating with customers and testing that in the market is a big part of our business model.

Operator

And our next question comes from the line of Shlomo Rosenbaum with Stifel.

Adam Parrington*Stifel, Nicolaus & Company, Incorporated, Research Division*

This is Adam on for Shlomo. Could you provide an update on what you're seeing on the M&A front? You're seeing assets with valuations coming more in line with what you consider attractive now? And just general commentary there.

Brian A. Shepherd*CEO, President & Director*

We are seeing the market improve on that. There's always going to be some degree of separation, I think, between buyers and sellers. But in general, yes, much more in line than what we saw in the back half of 2022, definitely much better than what we saw in 2023. And we think that there are deals that can be done. What we've kind of found, though, is you just -- with the company our size, you've got to constantly be working deal flow. We work with founders, we work with partners. We work with maybe larger companies that would be looking at spinouts of smaller assets, maybe it's not core to them. So we kind of run the gamut from small, mid and even larger deal size constantly looking at how do we expand our portfolio capability with recurring revenue around CX, payments, and monetization scale for telecom, cable or financial services. So we tend to be pretty laser-focused on how we can actually pay an attractive price on a pre-synergy basis and do even better in terms of cost synergies and revenue post acquisition. And so we like what we're seeing. Stay tuned on what we might be announcing in quarters.

Operator

[Operator Instructions] It looks like our next question comes from the line of Nehal Chokshi with Northland Capital Markets.

Nehal Sushil Chokshi*Northland Capital Markets, Research Division*

Nice results, especially on the free cash flow -- is that by any chance impacting your calendar '24 free cash flow guidance?

Hai V. Tran*Executive VP & CFO*

No. I mean as you saw in our guidance for 2024 remains very strong, right? We increased our guidance with the midpoint of \$115 million. So it's a nice sequential progress. And the team has done particularly well, as I highlighted in my prepared remarks, we just got after just similar to how we got after profitability and we'll continue to go after opportunities to improve our performance over time.

Nehal Sushil Chokshi*Northland Capital Markets, Research Division*

And my other quick question here is that outside of potential M&A, do you see it as potentially plausible to hit the \$1.5 billion goal organically?

Brian A. Shepherd*CEO, President & Director*

I love the question. Would love to have that be the case. That's not what we've talked about, though. The reality is, I think at this stage, you've seen this year alone in 2023, CSG put up just shy of \$80 million of organic incremental revenue, most that have tracked our stock over a longer period of time. That's not what they would have seen from maybe CSG a few years ago, we love the organic growth. We're committed to it. It's built into our executive compensation. So we put our money where our mouth is on this thing, and we are going to consistently grow this thing mid-single digit or better.

That said, would we, from a planning standpoint, plan to get to \$1.5 billion organic, no. That's where we would do smart, disciplined acquisitions marrying on.

Operator

And our next question comes from the line of Brett Knoblauch with Cantor Fitzgerald.

Brett Anthony Knoblauch

Cantor Fitzgerald & Co., Research Division

Congrats on the quarter guys. Maybe to start, what are you expecting from a growth standpoint from your 2 largest customers for this year. They grew very nicely in 2023. Is that something that you expect to continue? Or what is based on your current guide for the full year from them?

Brian A. Shepherd

CEO, President & Director

Yes. That's -- we don't break out segments of our business other than to say we're committed to the 2% to 6%. We're on record of saying across the full year, we would expect in a good performance to be midpoint or higher in terms of that, at least 4% or better, midpoint is at 4.3%. We expect CX and payments to be strong double-digit growth. We don't break out beyond that.

That said, we think that there could be growth in all of our customers. Yes, that's where we plan, that's where we drive the teams. But then we'll react and that's the portfolio effect of our business and why we talk so much also about constant industry diversification and revenue diversification as one of the exciting parts of our story. But do we think there could be growth in our big 2? We think there could be. Let's see how it plays out.

Brett Anthony Knoblauch

Cantor Fitzgerald & Co., Research Division

Perfect. And that's a good segue on my second question on breaking out segments. With Charter and Comcast continuously becoming a smaller percentage of the total and payments continue to grow double digits. Is there any plan for you guys to maybe give us a bit more color on the higher growth segments?

Hai V. Tran

Executive VP & CFO

Yes. I mean I think it's something that we evaluate kind of constantly. I think it is at some point in the future, when those businesses get to a certain scale, it makes sense for us to explore that opportunity to really break them out as separate segments. We're not quite there yet, but it is something that we constantly evaluate.

Operator

And our next question comes from the line of Michael Berg with Wells Fargo.

Michael H. Berg

Wells Fargo Securities, LLC, Research Division

I just wanted to go back to the subscriber question 1 more time. Looking at my numbers and assuming my percentages and math are correct, it looks like the broadband cable segment declined 4% year-over-year after about 5 to 1% in Q3. And then Comcast specifically, was flat in Q3 and slightly down in Q4. I guess given what you said earlier on the call in the script, what should we think about as driving the outcomes there?

Brian A. Shepherd

CEO, President & Director

Yes, I think there's a couple of things. Let's just check the data points. If you look at the combined, 2 revenue from our big 2, it grew about 5% year-over-year. A majority of that would have come from some of the subscriber conversions that we did. So you neutralize that out, you would have seen, like you said, Comcast kind of flattish, give or take. Charter up a little bit. And so that would be a combination of the additional services we would do, some of the impacts we saw that are already building into some of the subscriber counts. So I think the main thing that we're kind of highlighting is, a, there's additional

headroom to grow and win more land mass in these customers; b, even if they continue to face some headwinds, it doesn't have an outsized impact on CSG, we've been able to grow through that nicely.

And what we're really focused on is how do we help them perform better and respond to some of those challenges they may be facing. They've got great homes passed. They've got great offers. And we think with our digital CX, our payments and our monetization, there's a lot we could do to help them with some of the challenges, and we'll see how they respond to some of their competitive dynamics in the market. Any other clarification on that, that would be helpful.

Hai V. Tran

Executive VP & CFO

Yes, I think the only thing I'd highlight is what you said, Brian. If you look at quarter-to-quarter, there's always going to be some fluctuations because we do, do some ancillary -- we do provide some ancillary services to both Comcast and Charter, and that's what's going to drive the fluctuations that you're seeing.

Operator

Our final question today comes from the line of Matt Harrigan with Benchmark.

Matthew Joseph Harrigan

The Benchmark Company, LLC, Research Division

Your company has a particularly good prism on global economic activity of the consumer and obviously corporate planning, that's probably only enhanced by AI. What are you seeing, especially in Europe, but also in the U.S. right now with all the geopolitical uncertainty, how it's affecting the consumer. And with AI, do you see that you're sensitivity, the economic conditions is moderated? Or is it about the same? Or do you have any thoughts just on the broad genre there?

Hai V. Tran

Executive VP & CFO

Yes. I mean, I'll ask Brian to comment a little bit about his thoughts on the AI side. But in terms of the broad economic trends that we're seeing, I think that it's gone back and forth, right? I think that there was obviously some concerns or some anxiety around a recession on the horizon, that has come and has gone and it keeps coming back in cycles.

It hasn't really slowed down our opportunities yet. We still see a very strong pipeline building. In fact, a very robust pipeline that is building for us. And those opportunities will, I think, continue to play itself out through the year.

With that said, however, given some of the dimension within on the global economy, one of the things we do see as a trend is the need and the hyper focus on CX. This is a consistent message across many of our customer base, regardless of the industry verticals that everybody is focused on how do we really differentiate ourselves from our competition by focusing on that customer experience and engaging partners like ourselves to help them think through those dynamics is something that is a priority for any of the organization we work with.

Brian A. Shepherd

CEO, President & Director

Yes. Maybe -- the only thing I would add to that, Matt, is I think most companies saw some nervousness throughout 2023. I've seen that -- I haven't seen that get worse. I haven't necessarily seen that get better. I think companies are just looking at, is there a softer landing? Is there a harder landing? Do things go bump with the global political economic situation. So I think companies that we see are kind of preparing for both sides.

What we keep hearing over and over again, what's most important? One, can you bring us solutions to help us drive revenue growth faster, can you help us serve our customers around what Hai talked about, that digital CX in a lower-cost way. And if we're going to make an investment in our business, better ring

the cash register, either on revenue or cost savings and efficiency in the near term in 1, 2, 3, 4 quarters. And that's one of the things that we've been pleased about with our sales pipeline and the solutions we have as we talked before.

So far, we're staying above the cut line because we're either able to help them on revenue, improve customer experience or take costs out of their business. And as long as we keep doing that, we think that's fueling a lot of this accelerated revenue growth. So I'm not sure we have the best crystal ball on your question, but that's kind of what we're seeing.

Operator

And thank you for all that had questions today. I would now like to turn the call back over to Brian Shepherd for closing remarks. Brian, the floor is yours.

Brian A. Shepherd

CEO, President & Director

Thanks for joining everyone. We're excited about the record-setting results in the rearview mirror, but 2023 is over. Now this team is laser-focused. We got to deliver against midpoint to upper end of the guidance we just put out. We fully expect to do that, but we've got work to do. And this team is already 1 month into the year. We're going to get after it. So thanks for joining. We're going to continue the momentum and the commitment of doing business the right way at CSG. Thank you all.

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