CSG SYSTEMS INTERNATIONAL, INC.
DISCLOSURES FOR NON-GAAP FINANCIAL MEASURES

Use of Non-GAAP Financial Measures and Limitations

To supplement its condensed consolidated financial statements presented in accordance with generally accepted accounting principles (GAAP), CSG uses non-GAAP operating income, non-GAAP adjusted operating margin percentage, non-GAAP EPS, non-GAAP adjusted EBITDA, and non-GAAP free cash flow. CSG believes that these non-GAAP financial measures, when reviewed in conjunction with its GAAP financial measures, provide investors with greater transparency to the information used by CSG's management in its financial and operational decision making. CSG uses these non-GAAP financial measures for the following purposes:

- Certain internal financial planning, reporting, and analysis;
- Forecasting and budgeting;
- Certain management compensation incentives; and
- Communications with CSG's Board of Directors, stockholders, financial analysts, and investors.

These non-GAAP financial measures are provided with the intent of providing investors with the following information:

- A more complete understanding of CSG's underlying operational results, trends, and cash generating capabilities;
- Consistency and comparability with CSG's historical financial results; and
- Comparability to similar companies, many of which present similar non-GAAP financial measures to investors.

Non-GAAP financial measures are not measures of performance under GAAP, and therefore should not be considered in isolation or as a substitute for GAAP financial information. Limitations with the use of non-GAAP financial measures include the following items:

- Non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles;
- The way in which CSG calculates non-GAAP financial measures may differ from the way in which other companies calculate similar non-GAAP financial measures;
- Non-GAAP financial measures do not include all items of income and expense that affect CSG's operations and that are required by GAAP to be included in financial statements;
- Certain adjustments to CSG's non-GAAP financial measures result in the exclusion of items that are recurring and will be reflected in CSG's financial statements in future periods; and
- Certain charges excluded from CSG's non-GAAP financial measures are cash expenses, and therefore do impact CSG's cash position.

CSG compensates for these limitations by relying primarily on its GAAP results and using non-GAAP financial measures as a supplement only. Additionally, CSG provides specific information regarding the treatment of GAAP amounts considered in preparing the non-GAAP financial measures and reconciles each non-GAAP financial measure to the most directly comparable GAAP measure.

Non-GAAP Financial Measures: Basis of Presentation

The table below outlines the exclusions from CSG's non-GAAP financial measures:

Non-GAAP Exclusions	Operating Income	Adjusted Operating Margin Percentage	EPS
Transaction fees	—	X	—
Restructuring and reorganization charges	X	X	X
Executive transition costs	X	X	X
Acquisition-related expenses:			
Amortization of acquired intangible assets	X	X	X
Transaction-related costs	X	X	X
Stock-based compensation	X	X	X
Gain (loss) on debt extinguishment/conversion	—	—	X
Gain (loss) on acquisitions or dispositions	—	—	X
Unusual income tax matters	—	—	X

CSG believes that excluding certain items in calculating its non-GAAP financial measures provides meaningful supplemental information regarding CSG's performance and these items are excluded for the following reasons:

- Transaction fees are primarily comprised of fees paid to third-party payment processors and financial institutions and interchange fees under CSG's payment services contracts. Transaction fees are included in revenue in CSG's Income Statement (and not netted against revenue) because CSG maintains control and acts as principal over the integrated service provided under its payment services customer contracts. However, CSG excludes expense associated with transaction fees from the numerator and denominator in calculating its non-GAAP adjusted operating margin percentage in order to provide comparability with historical and future periods and with its peer group and competitors.

- Restructuring and reorganization charges are expenses that result from cost reduction initiatives and/or significant changes to CSG's business, to include such things as involuntary employee terminations, changes in management structure, divestitures of businesses, facility consolidations and abandonments, and fundamental reorganizations impacting operational focus and direction. These charges are not considered reflective of CSG's recurring business operating results. The exclusion of these items in calculating CSG's non-GAAP financial measures allows management and investors an additional means to compare CSG's current financial results with historical and future periods.

- Executive transition costs include expenses incurred related to a departure of a CSG executive officer under the terms of the related separation agreement. These types of costs are not considered reflective of CSG's recurring business operating results. The exclusion of these costs in calculating CSG's non-GAAP financial measures allows management and investors an additional means to compare CSG's current financial results with historical and future periods.

- Acquisition-related expenses include amortization of acquired intangible assets and transaction-related costs, to include earn-out compensation. Transaction-related costs, which typically include expenses related to legal, accounting, and other professional services, are direct and incremental expenses related to business acquisitions, and thus, are not considered reflective of CSG's recurring business operating results. The total amount of acquisition-related expenses can vary significantly between periods based on the number and size of acquisition activities, previously acquired intangible assets becoming fully amortized, and ultimate realization of earn-out compensation. In addition, the timing of these expenses may not directly correlate with underlying performance of the CSG's operations. Therefore, the exclusion of acquisition-related expenses in calculating CSG's non-GAAP financial measures allows management and investors an additional means to compare CSG's current financial results with historical and future periods.
- Stock-based compensation results from CSG's issuance of equity awards to its employees under incentive compensation programs. The amount of this incentive compensation in any period is not generally linked to the level of performance by employees or CSG. The exclusion of these expenses in calculating CSG's non-GAAP financial measures allows management and investors an additional means to evaluate the non-cash expense related to compensation included in CSG's results of operations, and therefore, the exclusion of this item allows investors to further evaluate the cash generating capabilities of CSG's business.
- Gains and losses related to the extinguishment/conversion of debt can be as a result of the refinancing of CSG's credit agreement and/or repurchase, conversion, or settlement of CSG's convertible notes. These activities, to include any derivative activity related to debt conversions, are not considered reflective of CSG's recurring business operating results. Any resulting gain or loss is generally non-cash income or expense, and therefore, the exclusion of these items allows investors to further evaluate the cash impact of these activities for cash flow and liquidity purposes. In addition, the exclusion of these gains and losses in calculating CSG's non-GAAP EPS allows management and investors an additional means to compare CSG's current operating results with historical and future periods.
- Gains or losses related to the acquisition or disposition of certain of CSG's business activities are not considered reflective of CSG's recurring business operating results. Any resulting gain or loss is generally non-cash income or expense, and therefore, the exclusion of these items allows investors to further evaluate the cash impact of these activities for cash flow and liquidity purposes. In addition, the exclusion of these gains and losses in calculating CSG's non-GAAP EPS allows management and investors an additional means to compare CSG's current operating results with historical and future periods.
- Unusual items within CSG's quarterly and/or annual income tax expense can occur from such things as income tax accounting timing matters, income taxes related to unusual events, or as a result of different treatment of certain items for book accounting and income tax purposes. Consideration of such items in calculating CSG's non-GAAP financial measures allows management and investors an additional means to compare CSG's current financial results with historical and future periods

CSG also reports non-GAAP adjusted EBITDA and non-GAAP free cash flow. Management believes non-GAAP adjusted EBITDA is a useful measure to investors in evaluating CSG's operating performance, debt servicing capabilities, and enterprise valuation. CSG defines non-GAAP adjusted EBITDA as income before interest, income taxes, depreciation, amortization, stock-based compensation, foreign currency transaction adjustments, acquisition-related expenses, and unusual items, such as restructuring and reorganization charges, executive transition costs, gains and losses related to the extinguishment of debt, and gains and losses on acquisitions or dispositions, as discussed above. Additionally, management uses non-GAAP free cash flow, among other measures, to assess its financial performance and cash generating capabilities, and believes that it is useful to investors because it shows CSG's cash available to service debt, make strategic acquisitions and investments, repurchase its common stock, pay cash dividends, and fund ongoing operations. CSG defines non-GAAP free cash flow as net cash flows from operating activities less the purchases of software, property and equipment.

Non-GAAP Financial Measures

Non-GAAP Operating Income and Non-GAAP Adjusted Operating Margin Percentage:

The reconciliation of GAAP operating income to non-GAAP operating income, and calculation of CSG's non-GAAP adjusted operating margin percentage, for the indicated periods are as follows (in thousands, except percentages):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Non-GAAP Operating Income				
GAAP operating income	$ 25,420	$ 28,206	$ 57,217	$ 66,399
Restructuring and reorganization charges (1)	7,099	2,075	9,097	7,269
Executive transition costs	-	-	352	-
Acquisition-related expenses:				
Amortization of acquired intangible assets	3,393	2,998	6,245	6,207
Transaction-related costs	1,036	2,004	1,036	2,162
Stock-based compensation (1)	9,193	7,667	17,062	14,424
Non-GAAP operating income	$ 46,141	$ 42,950	$ 91,009	$ 96,461
Non-GAAP Adjusted Operating Margin Percentage				
Revenue	$ 290,318	$ 286,327	$ 585,453	$ 585,066
Less: Transaction fees (2)	(24,207)	(21,176)	(49,269)	(43,149)
Revenue less transaction fees	$ 266,111	$ 265,151	$ 536,184	$ 541,917
Non-GAAP adjusted operating margin percentage	17.3 %	16.2 %	17.0 %	17.8 %

(1) Restructuring and reorganization charges include stock-based compensation, which is not included in the stock-based compensation line in the tables above and following, and depreciation, which has not been recorded to the depreciation line item on CSG's Income Statement.

(2) Transaction fees are primarily comprised of fees paid to third-party payment processors and financial institutions and interchange fees under CSG's payment services contracts. Transaction fees are included in revenue in CSG's Income Statement (and not netted against revenue) because CSG maintains control and acts as principal over the integrated service provided under its payment services customer contracts. However, CSG excludes expense associated with transaction fees from the numerator and denominator in calculating its non-GAAP adjusted operating margin percentage in order to provide comparability with historical and future periods and with its peer group and competitors.

Non-GAAP EPS:

The reconciliations of GAAP EPS to non-GAAP EPS for the indicated periods are as follows (in thousands, except per share amounts):

	Quarter Ended June 30, 2024		Quarter Ended June 30, 2023	
	Amounts	EPS (4)	Amounts	EPS (4)
GAAP net income	$ 13,829	$ 0.48	$ 13,954	$ 0.45
GAAP income tax provision (3)	6,170		5,759	
GAAP income before income taxes	19,999		19,713	
Restructuring and reorganization charges (1)	7,099		2,075	
Acquisition-related costs:				
Amortization of acquired intangible assets	3,393		2,998	
Transaction-related costs	1,036		2,004	
Stock-based compensation (1)	9,193		7,667	
Non-GAAP income before income taxes	40,720		34,457	
Non-GAAP income tax provision (3)	(11,605)		(9,820)	
Non-GAAP net income	$ 29,115	$ 1.02	$ 24,637	$ 0.80

	Six Months Ended June 30, 2024		Six Months Ended June 30, 2023	
	Amounts	EPS (4)	Amounts	EPS (4)
GAAP net income	$ 33,296	$ 1.16	$ 34,882	$ 1.14
GAAP income tax provision (3)	14,168		13,942	
GAAP income before income taxes	47,464		48,824	
Restructuring and reorganization charges (1)	9,097		7,269	
Executive transition costs	352		-	
Acquisition-related expenses:				
Amortization of acquired intangible assets	6,245		6,207	
Transaction-related costs	1,036		2,162	
Stock-based compensation (1)	17,062		14,424	
Non-GAAP income before income taxes	81,256		78,886	
Non-GAAP income tax provision (3)	(23,158)		(22,483)	
Non-GAAP net income	$ 58,098	$ 2.02	$ 56,403	$ 1.84

(3) For the second quarter and six months ended June 30, 2024 the GAAP effective income tax rates were approximately 31% and 30%, respectively, and the non-GAAP effective income tax rates were 28.5% for both periods. For the second quarter and six months ended June 30, 2023 the GAAP effective income tax rates were approximately 29% for both periods, and the non-GAAP effective income tax rates were 28.5% for both periods.

(4) The outstanding diluted shares for the second quarter and six months ended June 30, 2024 were 28.6 million and 28.7 million, respectively, and for the second quarter and six months ended June 30, 2023 were 30.7 million, for both periods.

Non-GAAP Adjusted EBITDA:

CSG's calculation of non-GAAP adjusted EBITDA and the reconciliation of CSG's non-GAAP adjusted EBITDA measure to GAAP net income is provided below for the indicated periods (in thousands, except percentages):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
GAAP net income	$ 13,829	$ 13,954	$ 33,296	$ 34,882
GAAP income tax provision	6,170	5,759	14,168	13,942
Interest expense (5)	7,698	7,837	15,204	15,056
Interest and investment income and other, net	(2,277)	656	(5,451)	2,519
GAAP operating income	25,420	28,206	57,217	66,399
Restructuring and reorganization charges (1)	7,099	2,075	9,097	7,269
Executive transition costs	-	-	352	-
Acquisition-related expenses:				
Amortization of acquired intangible assets (6)	3,393	2,998	6,245	6,207
Transaction-related costs	1,036	2,004	1,036	2,162
Stock-based compensation (1)	9,193	7,667	17,062	14,424
Amortization of other intangible assets (6)	2,880	3,383	5,445	6,836
Amortization of customer contract costs (6)	5,694	4,771	10,722	9,393
Depreciation (1)	5,337	5,573	10,973	11,293
Non-GAAP adjusted EBITDA	$ 60,052	$ 56,677	$ 118,149	$ 123,983
Non-GAAP adjusted EBITDA as a percentage of revenue less transaction fees (2)	22.6%	21.4%	22.0%	22.9%

(5) Interest expense includes amortization of deferred financing costs as provided in Note 6 below.

(6) Amortization on the statement of cash flows is made up of the following items for the indicated periods (in thousands):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Amortization of acquired intangible assets	$ 3,393	$ 2,998	$ 6,245	$ 6,207
Amortization of other intangible assets	2,880	3,383	5,445	6,836
Amortization of customer contract costs	5,694	4,771	10,722	9,393
Amortization of deferred financing costs	871	185	1,735	372
Total amortization	$ 12,838	$ 11,337	$ 24,147	$ 22,808

Non-GAAP Free Cash Flow:

CSG's calculation of non-GAAP free cash flow and the reconciliation of CSG's non-GAAP free cash flow measure to cash flows from operating activities are provided below for the indicated periods (in thousands):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Cash flows from operating activities	$ 43,105	$ 12,386	$ 13,754	$ 27,783
Purchases of software, property and equipment	(4,299)	(7,728)	(9,073)	(16,428)
Non-GAAP free cash flow	$ 38,806	$ 4,658	$ 4,681	$ 11,355

Non-GAAP Financial Measures – 2024 Financial Guidance

Non-GAAP Operating Income and Non-GAAP Adjusted Operating Margin Percentage:

The reconciliation of GAAP operating income to non-GAAP operating income, and calculation of non-GAAP adjusted operating margin percentage, as included in CSG's 2024 full year financial guidance, is as follows (in thousands, except percentages):

	2024 Guidance Range	
	Low Range	**High Range**
Non-GAAP Operating Income		
GAAP operating income	$ 131,600	$ 141,600
Restructuring and reorganization charges	9,100	9,100
Executive transition costs	400	400
Acquisition-related expenses:		
Amortization of acquired intangible assets	14,400	14,400
Transaction-related costs	1,000	1,000
Stock-based compensation	34,200	34,200
Non-GAAP operating income	$ 190,700	$ 200,700
Non-GAAP Operating Margin Percentage		
Revenue	$ 1,200,000	$ 1,240,000
Less: Transaction fees	(98,000)	(103,000)
Revenue less transaction fees	$ 1,102,000	$ 1,137,000
Non-GAAP adjusted operating margin percentage	17.3%	17.7%

Non-GAAP EPS:

The reconciliation of GAAP EPS to non-GAAP EPS as included in CSG's 2024 full year financial guidance is as follows (in thousands, except per share amounts):

	2024 Guidance Range			
	Low Range		High Range	
	Amounts	**EPS (8)**	**Amounts**	**EPS (8)**
GAAP net income	$ 75,700	$ 2.59	$ 82,900	$ 2.88
GAAP income tax provision (7)	31,500		34,300	
GAAP income before income taxes	107,200		117,200	
Restructuring and reorganization charges	9,100		9,100	
Executive transition costs	400		400	
Acquisition-related expenses:				
Amortization of acquired intangible assets	14,400		14,400	
Transaction-related costs	1,000		1,000	
Stock-based compensation	34,200		34,200	
Non-GAAP income before income taxes	166,300		176,300	
Non-GAAP income tax provision (7)	(48,500)		(51,000)	
Non-GAAP net income	$ 117,800	$ 4.05	$ 125,300	$ 4.35

(7) For 2024, the estimated effective income tax rates for GAAP and non-GAAP purposes are expected to be approximately 29%.

(8) The weighted-average diluted shares outstanding are expected to be approximately 29 million.

Non-GAAP Adjusted EBITDA:

CSG's calculation of non-GAAP adjusted EBITDA and the reconciliation of CSG's non-GAAP adjusted EBITDA measure to GAAP net income is provided below for CSG's 2024 full year financial guidance (in thousands, except percentages):

	2024 Guidance Range	
	Low Range	**High Range**
GAAP net income	$ 75,700	$ 82,900
GAAP income tax provision (7)	31,500	34,300
Interest expense	31,100	31,100
Interest and investment income	(6,700)	(6,700)
GAAP operating income	131,600	141,600
Restructuring and reorganization charges	9,100	9,100
Executive transition costs	400	400
Acquisition-related expenses:		
Amortization of acquired intangible assets	14,400	14,400
Transaction-related costs	1,000	1,000
Stock-based compensation	34,200	34,200
Amortization of other intangible assets	10,000	10,000
Amortization of client contract costs	22,500	22,500
Depreciation	23,800	23,800
Non-GAAP adjusted EBITDA	$ 247,000	$ 257,000
Non-GAAP adjusted EBITDA as a percentage of revenue less transaction fees (2)	22.4 %	22.6 %

Non-GAAP Free Cash Flow:

CSG's calculation of non-GAAP free cash flow and the reconciliation of CSG's non-GAAP free cash flow measure to cash flows from operating activities is provided below for CSG's 2024 full year financial guidance (in thousands):

	2024 Guidance Range	
	Low Range	**High Range**
Cash flows from operating activities	$ 120,000	$ 170,000
Purchases of software, property and equipment	(25,000)	(35,000)
Non-GAAP free cash flow	$ 95,000	$ 135,000