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CSG Systems International, Inc.

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Earnings Call

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CSG SYSTEMS INTERNATIONAL, INC. FQ2 2025 EARNINGS CALL AUG 06, 2025

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Presentation

Operator

Welcome, ladies and gentlemen, and thank you for standing by. My name is Chris, and I will be your conference operator for today. At this time, I would like to welcome everyone to CSG's Second Quarter 2025 Earnings Call. [Operator Instructions]

I would now like to turn the conference over to John Rea. You may begin.

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. Welcome to the call as we begin on Slide 4. Team CSG delivered very strong results in Q2 and through the first half of 2025. We reported 19.5% non-GAAP operating margin in the first half with a 250-basis-point improvement compared to 17% in the same prior year period. Based on the confidence we have from our highly recurring revenue model, our success selling higher gross margin SaaS deals and our ability to consistently unlock greater operating efficiencies for the second consecutive quarter, we are pleased to raise our 2025 full year profitability targets, along with increasing the midpoint of our non-GAAP adjusted free cash flow expectations for the full year.

Even as revenue comes in at the lower end of our revenue growth guidance, we continue to diversify our revenue with a goal to have greater than 35% of our revenue coming from exciting new industry verticals by the end of 2026. In the first half of 2025, 32% of total CSG revenue came from industries outside of cable and telecom, up from 31% in the prior year period. The consistently improving revenue diversification is being driven by our data-driven CX, monetization, and payment solutions. With more revenue coming from faster-growing new industry verticals, CSG's revenue concentration also continues to improve, with our top 2 customers, Charter and Comcast, now representing 36% of total CSG revenue, a

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significant reduction from 49% in 2017. And our revenue from Charter and Comcast has still grown nicely since 2017 as we expanded what we do for both customers.

In Q2, we signed some exciting new logo sales wins and deal expansions in financial services, insurance, and property management that I will talk more about momentarily, along with some great wins in the global telecom market. On cash flow, we reported our best first-half non-GAAP adjusted free cash flow in a decade, generating \$47 million of non-GAAP adjusted free cash flow in the first half, a huge improvement over the \$5 million we generated in the same period last year, and we are well on our way to meet or exceed our \$100 million shareholder remuneration commitment for 2025 as we rewarded shareholders with \$19 million of dividends and repurchased \$40 million worth of CSG shares in the first half of the year.

We love the business momentum and acceleration we see across every aspect of CSG as we become more disciplined, more global, and more diverse.

Slide 5 highlights the 3 long-term value creation commitments that the CSG leadership team and Board of Directors will hold ourselves accountable to deliver. CSG aspires to deliver 2% to 6% pure organic revenue growth and to diversify revenue from bigger, faster-growing new industry verticals to greater than 35% of total CSG revenue by 2026. We are pleased to reiterate our original full-year 2025 revenue guidance range. But as we discussed last quarter, we expect to grow total revenue between 2% and 3% at the lower end of our range for full year 2025.

We are committed to consistently expanding non-GAAP adjusted operating margin with a long-term range of 18% to 20% without impeding our ability to deliver good annual organic revenue growth most quarters and years. And we expect this improving profitability to convert nicely into strong adjusted free cash flow growth in both 2025 and 2026, with the midpoint of our 2025 guidance range sitting at \$135 million, which represents approximately 20% year-over-year growth in free cash flow in 2025 versus last year.

We are also committed to excellent shareholder capital returns year in, year out as evidenced by the over \$600 million in capital returned to shareholders since 2020, and we are clearly on track to meet our commitment to return more than \$100 million in share repurchases and dividends combined with \$59 million of capital returned to shareholders in the first half of the year.

On Slide 6, investors can see the exciting revenue growth coming from big new verticals. As a reminder, CSG targets industry verticals that have high recurring customer relationships powered by complex subscription and consumption-based business models because the business problems and customer pain points are surprisingly similar across industry verticals.

With CSG's integrated workflow solutions, our customers sell, monetize, and engage better as we help them simplify their complex monetization and customer engagement processes. The highly sticky, mission-critical nature of our SaaS solutions is also why we enter most years with 90% or greater revenue visibility, and it's why the vast majority of our customers stay with CSG for decades, thereby reducing the risk for us and our investors even during times of greater market volatility. And our global sales and go-to-market teams delivered exciting new sales wins in the quarter.

Starting off, I'm pleased to share that we won a fantastic new deal with Orange Business, the enterprise division of the Orange Group and a leading network and digital integrator. The Orange Business team selected CSG to help accelerate its digital transformation journey across more than 25 different countries. Team CSG will help by simplifying the quote-to-cash process by leveraging our catalog-driven CPQ solution to enable faster air-free product configuration and order fulfillment. We look forward to helping Orange Business continue to pursue its digital transformation to deliver simpler, more flexible customer experiences.

We also extended our relationship with Liberty Communications of Puerto Rico, one of the largest operations in Liberty Latin America's portfolio. Liberty Puerto Rico will continue to trust CSG for integrated billing and subscriber management across the residential and B2B fixed line subscribers. We are proud to announce this win with Liberty Latin America and look forward to propelling its business forward even more by helping them deliver great customer experiences.

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Moving outside of telecom. In April, we executed a great renewal with a large mutual life insurance and financial services company in the United States. Using CSG's exponent suite, this customer will continue to trust Team CSG to help them optimize how they attract and convert new customers and enable smarter, data-driven decisions in how they identify, engage, and onboard new advisers. This is another fantastic win for CSG in the insurance and financial services industry.

In payments, we closed an exciting new win with a leading U.S. property management technology company. This customer selected CSG's cloud-based payment platform to modernize the payment experience for their residents and fuel scalable future growth. This is another great win for Team CSG to move us further into a high-margin property management vertical. We continue to see good business performance and growth in payments, where we grew our merchant base 14% year-over-year to 142,000 merchants in Q2. We continue to see good business performance and growth, and expect that to continue in the quarters ahead.

Moving to Slide 7. I want to remind investors where the CSG management team and Board are focused to turbocharge CSG profitability and free cash flow well beyond our good H1 results. We are committed to evolving into a more asset-light SaaS business that consistently generates higher profit and cash flow from every dollar we invest. And although our annual CapEx remains modest at \$20 million to \$30 million each year, we are focused on further optimizing working capital and reducing fixed asset intensity with the same operational discipline that's also driving our big margin expansion. Following steady non-GAAP operating margin expansion from 16.6% in 2022 to 17.2% in 2023 and 18.1% in 2024, our updated 2025 midpoint guidance of 18.8% reinforces our belief that CSG can reach or exceed the upper end of our 18% to 20% target range in the years ahead with an aspiration to operate above 19% by 2026.

And we are seeing similar improvements in adjusted EBITDA margin where we grew our adjusted EBITDA margin 240 basis points to 24.4% in the first half of 2025 year-over-year, a trend we expect to continue, which is represented in our revised 2025 guidance. As we drive these operating improvements, one of the top priorities remains translating stronger profitability into double-digit non-GAAP adjusted free cash flow growth in both 2025 and 2026.

Turning to Slide 8. CSG has a strong, healthy balance sheet, a proven ability to unlock shareholder value with disciplined M&A, and a commitment to being an excellent offensive and defensive choice for investors looking for relative safety in today's turbulent markets. We believe CSG's stock price represents an excellent buy for investors and for CSG, so we will stay balanced, disciplined, and focused on any strategic or financial move that the Board of Directors and management believe will deliver excellent value for shareholders.

With respect to M&A, we are very pleased with the 2 smaller, highly accretive acquisitions closed in 2024. We were able to acquire both companies at highly attractive multiples, with both small tuck-in deals adding highly profitable recurring revenue for CSG. We continue to actively search for, vet, and potentially close more value-adding M&A deals in 2025.

As I wrap up my opening remarks, we are excited about our good first half of the year as we stay laser-focused on making 2025 a year of breakthrough results to become the springboard for even bigger growth heading into 2026 and beyond. As we pursue every creative new idea that can help us elevate our performance and accelerate our results, the foundation of our success remains constant. CSG has an unwavering commitment to being a humble, culture-first, diverse global leader.

CSG will hold ourselves highly accountable to world-class operating discipline with a relentless drive to constantly learn and get better. CSG will co-create quantifiable game-changing value with customers all around the world as we help them sell, monetize, and engage better with our integrated domain-specific CSG and workflow solutions. CSG will put our money where our mouth is by tightly linking management compensation to the business and financial commitments we make to shareholders. And CSGs around the world will stay hungry and obsessed because we know growth-oriented relentlessness is an essential ingredient to creating sustained value regardless of the obstacles standing in our way.

I want to recognize and thank every single CSG employee and leader for what they're doing to contribute to the huge success and growth that CSG is experiencing.

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With that, I will turn it over to Hai.

Hai V. Tran

Executive VP & CFO

Thanks, Brian. Let's walk through our Q2 2025 financial results, and then I'll wrap up with some key conclusions. Starting on Slide 10, we reported a record high \$597 million of revenue in the first half of 2025 versus \$585 million in 2024. This represents the highest revenue in the first half of the year in CSG's history. From a phasing perspective, our Q2 non-GAAP results came in slightly better than we had expected and benefited from a \$6 million nonrecurring high-margin license revenue arrangement recognized in Q2.

Moving on, our first half 2025 non-GAAP operating income was \$106 million or a non-GAAP adjusted operating margin of 19.5% as compared to \$91 million or 17.0% in the prior year period. Similarly, our non-GAAP adjusted EBITDA was \$132 million for the first half or 24.4% of revenue, excluding transaction fees, as compared to \$118 million, or 22.0% in the prior year period. Our margin expansion is being driven by improvement in our operating efficiencies and our increasing success in selling sticky SaaS revenue solutions. And because of our continued profitability improvements, we are raising our profitability guidance targets for the second quarter in a row. More on that in a moment.

Lastly, our first half 2025 non-GAAP EPS was \$2.29, a 13% increase as compared to \$2.02 in the prior year period. The increase in non-GAAP EPS is mainly due to the higher non-GAAP adjusted operating income and to a lesser degree, a lower non-GAAP effective tax rate and lower diluted shares outstanding. These increases are partially offset by adverse foreign currency movements.

Turning to Slide 11. I will go through the balance sheet, our cash flow performance, and shareholder returns. Our cash flow from operations was \$49 million in the first half of 2025 as compared to \$14 million in the first half of the prior year. Further, we had non-GAAP adjusted free cash flow of \$47 million in the first half of 2025 as compared to \$5 million of non-GAAP adjusted free cash flow over the same period last year. This represents our strongest first-half non-GAAP adjusted free cash flow result in a decade and is driven primarily by our increased operating margins and improvements in our working capital, including changes in our variable incentive compensation.

Moving on, we ended the second quarter of 2025 with \$146 million of cash and cash equivalents. That, along with our outstanding debt at June 30, 2025, results in \$404 million of net debt, and our net debt leverage ratio sits at 1.5x adjusted EBITDA. Further, we have \$621 million in liquidity as of the end of the quarter.

Turning the page, I'll revisit our 2025 guidance targets. In summary, we are raising our profitability target for the second quarter in a row, while simultaneously increasing our non-GAAP adjusted free cash flow target, partially driven by a lower effective tax rate. Further, we are reiterating all other guidance targets for full year 2025. And as Brian mentioned, we are reiterating our original revenue guidance range, but believe total revenue growth will likely come in between 2% and 3%, just like we messaged on our last earnings call, primarily driven by continued small headwinds in the North American broadband market and slightly elongated sales cycles.

We also wanted to note that we terminated a contract with a Latin American telecommunications customer in July. This customer accounted for \$1.4 million of first half 2025 revenue. We do not expect this contract termination to have a significant impact on our 2025 revenue. From a revenue phasing perspective, we now expect approximately 49% of our full-year revenue to have come from our first half performance, and 51% will be generated in the second half, with Q4 revenue expected to be higher than Q3 revenue, consistent with our historical norms.

Wrapping up on guidance, while it is early, we are likely to be in a similar 2% to 4% revenue growth range in 2026. Wrapping up, we love what we see in our business, powered by our operating discipline, R&D innovation, and ongoing sales mix. CSG will continue to relentlessly prioritize every investment we make and stay very disciplined in the allocation of resources and the use of capital. Innovation, including how we leverage the transformative power of AI across CSG and an adherence to a risk-reward framework

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with continuous learning, are key cornerstones of how we have and will continue to grow top and bottom results even faster.

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 will turn it over to the operator to facilitate the question-and-answer session.

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Question and Answer

Operator

[Operator Instructions] But first up, we have Dan Bergstrom of RBC Capital Markets.

Daniel Robert Bergstrom
RBC Capital Markets, Research Division

Maybe just to start on the broader macro environment. Is there anything to point out from your perspective? It seems like there's been some uncertainty for a few quarters now. You didn't really point anything out last quarter, whereas other companies did. I guess, just anything to point out around that end market, where we are now versus the start of the year, or where we sit as we enter the back half of the year?

Brian A. Shepherd
CEO, President & Director

Yes. No, Dan, thanks for joining. Appreciate the question. I mean what we see is we don't see anything that's really changed. What we've seen over the last, I'd say, 12 to 18 months is in the prior 3 years, we've consistently grown organic revenue kind of 5% to 5.5%. And so what we've seen is we've just seen a little bit more cautiousness, and on some of the discretionary spend all around the world across different industry verticals, we've just seen decision-makers be a little more thoughtful and careful on some of those. What we see is big strategic decisions, transformations, new technology deployments that have a quick payback or a strategic element. We still see our customers making buy decisions and moving forward, like some of the deals we announced this quarter, we don't think that's changed. But on the margin, I would say there's still just a cautiousness.

And what that's done is that's kind of caused us to be at the lower end, like we've said this year, we think we expect revenue growth in the 2% to 3% range. That's kind of the same thing we've seen over the last several quarters, and that's kind of what we're seeing heading into Q3 and Q4.

Daniel Robert Bergstrom
RBC Capital Markets, Research Division

And then there was some large M&A this quarter within the customer base. Could you maybe help frame acquisitions such as that from within the base from your perspective? And I guess, what have you seen historically when there's been consolidation among customers?

Brian A. Shepherd
CEO, President & Director

Yes. I mean I think you may be referring to, there was an announcement in the U.S. cable broadband side of a potential large strategic move that's going through the regulatory process now between Charter and Comcast.

I mean what we've seen, at least on the cable, broadband, and telco side globally is for 2 decades now is consolidation. And so that's just a trend that's been here for a few decades, and that's likely to continue even though there's just fewer players out there now. What we've seen on the CSG side is historically, as those acquisitions occur, if you're the large incumbent that's had 2 to 3 decade-long relationship with some of these players, you've served them well, you've earned the right to keep doing more with them. It typically has worked out well for us. Obviously, if you specifically to that one, there's -- time will tell. There's no guarantees, but obviously, we were successful in displacing a competitor and winning all of the triple-play business at Charter going back a few years ago.

So will the past be a prologue? Time will tell. But as long as we keep bringing value and serving them well, we like where we're positioned.

Operator

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Next up, we have Greg Burns of Sidoti.

Gregory John Burns
Sidoti & Company, LLC

You've been -- you've talked recently about the success you're having on the global telecom -- in the global telecom space, getting into the enterprise divisions of these telecom operators. Orange was a good example of that this quarter. Why is that such a good opportunity for you? And are there any examples of you getting in the door, maybe through the enterprise vertical, but expanding beyond that over time?

Hai V. Tran
Executive VP & CFO

Yes. So Greg, thanks for joining. Thanks for the question. I think at the end of the day, that is kind of where we have defined our differentiated capability is on the enterprise space. We do particularly well where there's complexity. And we've proven that time and time again. Specific to Orange, we think we have an industry-leading capability on the CPQ side, right? And that's kind of played itself out. It was a very competitive process that Orange went through. Obviously, Orange being a Tier 1 operator, was pretty diligent in their evaluation. And it just reinforces that our differentiated solution really stood above the rest of the competition.

And as a result of that announcement by Orange, what we're seeing is we're in a number of conversations with other operators in the Tier 1 and Tier 2 space. So I think it's early innings yet. We think it bodes well in terms of our capabilities. Once again, that is really specialized and differentiated on the enterprise side.

Brian A. Shepherd
CEO, President & Director

No, I think the only thing I might add is exactly right. Greg, you asked the second part of that question, have we seen cross-sell success, and the answer is yes. I can talk about 2 specifically. We've announced in the past big wins and expansions with MTN in South Africa. In that case, we actually started many years ago. We won their interconnected wholesale business, performed well. We then moved to enterprise for all the reasons in B2B that Hai talked about. And eventually, we then serve them well there, and we won the consumer. There's also an example in Asia Pacific, where we started with a winning the large enterprise business with one customer after they had grown through some additional acquisitions, we then won meaningful piece of business on the consumer. So it often can lead to an integrated stack because it can bring more value. It doesn't always. Sometimes they run different stacks, but it can.

Operator

Next up, we have Matthew Harrigan of Benchmark.

Matthew Joseph Harrigan
The Benchmark Company, LLC, Research Division

I have one down in the weeds question and then one more or less base nation Sunday morning show question, I'm sure you'll be delighted with. I guess I'd like to actually go with the latter first. I mean you've got a realistic view of the implications of AI because you have to deliver ROI that you can show to your clients, and that's one reason why you've been successful in these bidding processes.

But when you look at kind of the McKinsey view of AI and all these effects in global GDP, significant percentage points, I mean, you have to conclude that GDP would be down globally like 3% or 4% this year if it wasn't for AI. Where do you think we are in the maturation process? And you're kind of the adult in the room because you don't have to really drink the Kool-Aid too much because you can show the immediate impact, whereas a lot of what's out there is just kind of out there. And I know that's kind of literally a face in nation question, but I thought you might have an interesting perspective on it.

Brian A. Shepherd
CEO, President & Director

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Yes. Matt, thanks. I love the question. Yes, CSG is not really a Kool-Aid and hype kind of company, as you know. What I'll tell you is I'll maybe start with the broader -- on the profitability side, we've talked a lot the last couple of years about 4 turns of the wrench, of which AI is starting to be a contributor. Now you're going to hear us talk more about half turns the wrench. You're starting to see us take 80 to 90 to 100 basis point steps up, and that's through a combination of mix shift, operating discipline. And I would say AI, if you ask us our view, 4 quarters ago, 3 quarters ago, we said great capability, probably further out. We got to experiment. We got to go a little slower. I'd say we're getting more bullish on the impact of what AI could do to both enable us to bring much greater value by building it into our products. We're already doing that in almost without exception, every one of our products, we're bringing AI and data-driven solutions to market as we speak.

You're seeing it in terms of the efficiency and the quality of our R&D, and how we can accelerate R&D and the efficiency, and how we could just run our company more cost-effectively. I would say, if anything, the time horizon of how we get on the EBITDA side from -- we were at 21% a few years ago, we're now approaching 25%, getting to the 28% to 30% in the out years of our 5-year plan, similar things on op margin. We think it's going to come faster and be more impactful even than we thought 2 or 3 quarters ago.

Matthew Joseph Harrigan

The Benchmark Company, LLC, Research Division

And the second question, this might be somewhat of an adjunct to the last question or the former analyst questions from Sidoti, is Liberty Puerto Rico, I mean, you're too tactful to say this, but clearly, they had some issues integrating AT&T Mobile acquisition. And I think there are a lot of instances of telecom companies having really mangled billing system integrations when they do integrations, and that's not to pick on Liberty Puerto Rico. It seems to happen almost across the board. When you look at prospects on the telecom side, do you think -- and again, not talking about companies that have specific integration issues right now. But do you think there's just an incredible opportunity not just to displace competitors, but to really fix something that maybe companies didn't realize how suboptimized it was? I mean, even if you -- particularly if you went in and stuck in Exponent, CSG Exponent as well, to complement what you would be doing on the billing side?

Hai V. Tran

Executive VP & CFO

Yes. No, I think we do see -- we still see customers being very thoughtful about billing system conversions. I mean, effectively, these are the lifeblood and the ATMs of these companies. And so for them to embrace and make a decision to move off of a -- or swap out a billing system, it's still a big decision. But what we see and kind of our view strategically is it's a business imperative for many, many global telecom operators all around the world.

And the reason is, is because they're under a lot of pressure on the OpEx side, there's an expectation that there'll be lower price points. They have more CapEx spend. And for them to hit their kind of financial returns, it starts not with a technology refresh. It actually starts with a business simplification, becoming more digital and therefore, simplifying their business process, which can enable them to serve their customers in a new digital AI-driven way. And often they need new technology that's also more SaaS and product-based. That is a trend that is hugely in our favor relative to more services, managed services-based competitors that we have. And we think it's what's driven a lot of the sales wins we've had in the last couple of years. We think that can continue and even accelerate, but they still tend to be lumpy because it's still a big decision for them to make. So we think that's going to continue.

Operator

Next up, we have [indiscernible] Lee of Cantor Fitzgerald.

Unknown Analyst

Congrats on the strong, steady, consistent execution. So Brian, my question revolves around a more longer-term strategy rather than just this quarter. I understand that CSG is more disciplined when it

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comes to M&A. What are your thoughts of doing more of a transformational larger M&A deal to kind of like accelerate the diversification, whether it be cross-border or in the U.S. What are your thoughts on that? And what verticals would it be or adjacency would it be, if so?

Brian A. Shepherd
CEO, President & Director

Yes. No, you're welcome to the company and the call, and joining us. I appreciate your comments. There's really 2 avenues on the bigger strategic moves. And yes, we have moves like that in our sights. We would like to actually execute those. But we've always talked about, we're a pretty disciplined acquirer. And so therefore, to do the bigger deals, we've got to get those right. And so we've had a great track record. We want to keep that great track record going. The bigger moves would really fall into 2 categories. One, at the core of what we do is we help large brands in multiple verticals simplify how they sell, monetize, and engage with their customers in these recurring revenue industry verticals. So where we've had massive success, like in the U.S. cable broadband market in global telecom is when we have the full integrated stack for that vertical. We have the catalog, we have the billing, we have the wallet, we have the workflows. We touch every aspect of their digital customer engagement.

And so therefore, what you could see us do is where we've sold CX, payments, some of our point solutions in these other verticals, you could see us actually then acquire a domain-specific monetization platform so that we can then stitch it together with SaaS product integrated workflow so that we have effectively the ATM end-to-end workflow for those other verticals. That would be the type and example of a bigger move that we would look at, and we -- there are clearly those out there, but we got to get those right. We've talked about the verticals we care most about.

The other one would be in more of the global TMT space, is scale acquisition. where we could acquire a good product capability, a portfolio expansion, or just a competitor that can actually give us scale at a really attractive pre-synergy price and an even more attractive post-synergy price on a cost synergy basis. Those would typically be the 2 bigger moves that you might see us do in the coming period of time.

Unknown Analyst

And I just want to follow up quickly. I know the previous caller talked about GenAI and AI usage. Apologies, I dropped off back to dial back in if some of the questions are answered on that part piece of it. I felt like this is an area that affects everything in terms of the economics, technology that to gain efficiency on. In terms of leveraging GenAI, are there target acquisitions, Brian, that you could target that can help you accelerate, whether it be a specific vertical like customer experience or data fraud protection, that it was a great use case in the financial services, I think you mentioned a couple of quarters ago. That could help you speed up on that. And in terms of the Latin America termination contract, can you just give us a little more color on why this contract was terminated? And that's it for me.

Brian A. Shepherd
CEO, President & Director

Thanks. I'll cover the first. Hai will cover the second, give a little more color. First, we've done a lot with data even before there was Gen AI, going back to machine learning, natural language processing. We both have built products around data-driven CX, and we acquired a few years ago, a fantastic industry-leading asset at a great price, and multiple that really moved us in a much bigger way into the data-driven CX. We're going to continue to focus on leveraging those assets.

And I would say from the ecosystem, the partnership side, you'll see us leverage large hyperscalers and do more of a partnership play to add more capability. I don't think you'll see us or would anticipate any meaningful M&A move because, quite frankly, we see the multiples and the money getting thrown around as being, let's just say, as not necessarily conducive to shareholder value. So we think we can execute it with R&D and partnerships based on the assets that we've already either built or acquired, don't anticipate as much on the acquisition side in AI and data.

Hai, do you want to take the second part of that?

CSG SYSTEMS INTERNATIONAL, INC. FQ2 2025 EARNINGS CALL AUG 06, 2025**Hai V. Tran***Executive VP & CFO*

Yes. So the customer is Digicel. They're an operator in the Caribbean across multiple different markets. We -- that organization, we highly respect the leadership and the team in that organization, but that organization has gone through quite a number of changes organizationally, the leadership, their balance sheet even. And so throughout all that, to the extent that there's a change in strategic direction, that happens, right?

But at the end of the day, what's important is kind of what we highlighted in the prepared remarks. The revenue impact to us in the first half is quite small, \$1.4 million. They don't -- the termination does not impact our revenue guidance for the year either, right? So that's what I would focus.

Operator

Next up, we have Nehal Chokshi of Northland Capital Markets.

Nehal Sushil Chokshi*Northland Capital Markets, Research Division*

Congrats on the strong profitability results. I think typically, you guys assess that the driver of profitability growth are the quarter turn to wrench and then also the ongoing SaaS mix shift. Was it a 50-50 mix as usual? Or was it a little bit more tilted towards SaaS mix shift this year, I mean, this quarter?

Brian A. Shepherd*CEO, President & Director*

Yes. So this quarter, specifically, there's a couple of things, right? If you look at even at the gross margin calculation, right, the big year-over-year move, a lot of that was the \$6 million kind of license -- nonrecurring license that we talked about. That's very high margin that really drove the kind of outsized improvement at the gross margin line. However, with that said, even if you back that number out, you're still showing over 100 basis point movement year-over-year in terms of gross margin improvement. And that is a combination still improvements in our cost of goods sold, primarily around our services. And therefore, our services margins are improving, and that accrues to gross margin improvement as well as mix.

Nehal Sushil Chokshi*Northland Capital Markets, Research Division*

And then just to pick a little bit here on the guidance raise here. Can you help me understand why doesn't the \$3 million increase in EBITDA translate to an increase in EPS?

Brian A. Shepherd*CEO, President & Director*

Yes. So the biggest -- one of the things that we talked about in the prepared remarks, Nehal, is the adverse currency impacts, most of which are kind of on the balance sheet basis. You'll see that in kind of a net other line in our P&L, right, at the end of the day. That's mostly revaluation of balance sheet items that flows through our P&L and impacts our EPS, right? And without that, it would be a much bigger impact -- positive impact to EPS. But with that said, the underlying business is doing well. So as currency movements come back in our favor, you'll see that outsized improvement.

Hai V. Tran*Executive VP & CFO*

In another way, Nehal, exactly like you were highlighting, is without that negative ForEx impact, you would have seen the 13% EPS year-over-year growth in first half be even bigger.

Nehal Sushil Chokshi*Northland Capital Markets, Research Division*

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Well, that was a little bit too easy, so I'm going to sneak another one in here. Brian, you mentioned that you're striving for a greater profit for every dollar that you invest. Basically, that's an ROIC metric. What is that actual ROIC that CSG holds itself to today? And what was it, say, 1 and 3 years ago?

Brian A. Shepherd
CEO, President & Director

Yes. Look, if you think about it this way, right, our WACC is probably high single digits at this point in time. So our ROIC will be well in excess of that, right? That's the way we think about it. And we think about it very simplistically, when we make decisions on a day-to-day basis, the way to translate ROIC to action for our team is to think through cash and cash return. So every time we -- the team is making investment, we are literally thinking about cash and cash return. But the nice part about that, Nehal, is that we fundamentally believe that we're nearly at a tipping point for accelerating growth of profitability because AI, as others have mentioned, is going to impact them.

Operator

Next up, we have George Notter of Wolfe Research.

George Charles Notter
Wolfe Research, LLC

This is Tern on for George. Just a quick question on AI. Are you guys seeing increased competition from AI-enabled competitors, especially in -- given the fact that you guys focus on this complex billing space? Yes. Any insight would be great on that.

Brian A. Shepherd
CEO, President & Director

Yes. We really don't see direct competition. I think what we see is on the CX side of the business, which has been a strong double-digit growth business for us, we really have to get even sharper and we have in our selling value proposition and our targeted messaging of the value and the use cases because in some cases, this can we do it -- the company is thinking about can we do it ourselves? Do we use a bigger tool? Do we go with somebody like our CSG on our Exponent solution? We just have to be sharper. And so what we've stayed focused on is really around the use case and the speed of the payback. And so far, that's worked extremely well for us as we continue to grow the business.

We have not seen it be an impact and part of that in the core of our monetization or even in our payment side of the business. And part of that is just the complexity and the interrelatedness of what we do, we are effectively the ATM or the entire backbone of everything from customer onboarding, customer engagement, monetization. And so we -- what we find is we can go in and actually optimize that ecosystem and that end-to-end way faster. And that's why it's having such a positive impact and effect on us. And we don't see the risk that you might see in simpler use cases or stand-alone applications that's a different model than where CSG is.

George Charles Notter
Wolfe Research, LLC

And also, is that CX and payments business of each growing like that combo, the Rule of 30 still? Are there any changes in each individual one? And any more insight the acceleration?

Hai V. Tran
Executive VP & CFO

I think in combination, you're right, it's around the Rule of 30. That's kind of where we remain. With that said, we do expect some acceleration in the back half of the year.

Operator

Next up, we have Matt Dezort of William Blair.

CSG SYSTEMS INTERNATIONAL, INC. FQ2 2025 EARNINGS CALL AUG 06, 2025**Matthew Stotler**

This is Matt on for Maggie. Congrats on the results. I guess how are you thinking about new business pipeline into the second half? I know you cited some elongated sales cycles you're still dealing with. I guess what's causing that? How are you embedding the newer sales pipeline and close rates, and win rates into your outlook?

Brian A. Shepherd

CEO, President & Director

Matt, thanks for joining, and give Maggie your congratulations on the new addition to the family. I look forward to having when she comes back. What we're seeing in the -- first, like we've talked about pretty much the same as the last few quarters, continue to have a strong, healthy sales pipeline, continue to see a lot of new deals coming into the funnel. We like the same shape of the pipeline. What we've seen is it's just translated into a few single-digit percentage lower growth overall that we saw kind of from 2020 to 2023. There's no one aspect of that. Kind of all parts of our business are performing well with good deal flow. We're just seeing customers 2 things, customers being a little more cautious on the edges, needing that strong quick payback to move forward. And on the margin, we're seeing a little bit of reduction in discretionary spend that can kind of fluctuate in some quarters.

But that's really the difference between what we would have been 3 years in a row at low 5% organic growth, and now we're talking more 2% to 3%. So in terms of Q3, Q4, whenever we give guidance, we give -- we're pretty -- we call it straight down the middle of the road. And so as we talk about this 49-51 split, we talk about expecting this year's revenue growth to be in the 2% to 3% range. That kind of gives you an idea of what we're seeing for Q3 and Q4.

Matthew Stotler

And then can I ask about pricing and contract renewals within the big 2? Can you just remind us of the timing of those when you last renewed, how the pricing came in versus your expectations, and how you're thinking about expansionary opportunities with those special clients as spending rebounds?

Brian A. Shepherd

CEO, President & Director

Yes. I mean, first, we're extremely grateful for the business that our big 2, our top 2, and all of our customers do with us. As a reminder, we've been extremely well-positioned. We won -- if you widen the range back to about the time I was joining the company, we won and converted 9 million subscribers off Amdocs at that customer. That -- those conversions were successful. We've grown nicely at Comcast. We've expanded our business into digital. We won meaningful piece of business in a different area than triple-play cable that we announced in the second half of last year, and we've grown well. And we think we have continued upside and opportunities as long as we keep delivering great value, which we're fixated on.

Charter, a few years later, made the decision to consolidate all their triple-play subscribers and move 14 million subscribers off a competitor onto CSG. We've also expanded our relationship. So if you look at the top 2 customers, they've grown about 2.6% year-over-year compounded with us since 2017. Some of that's from subscriber gains. Some of that's from winning new lines of business, even as they sometimes trim some discretionary spending that we grow through that over time. As far as the renewals, we just signed here recently in the last couple of quarters, a best-ever renewal with Comcast that takes us out through the end of 2030. There was no price discount given, which was a first. We did let them avoid some annual price escalators this year. And we also -- with the number -- the charter of the largest, their contract is through about the second quarter of 2028 at this stage.

Operator

And with that, I'm seeing no further questions in the queue. So I'll turn things over to Brian Shepherd for concluding remarks.

Brian A. Shepherd

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CEO, President & Director

Thanks, everyone, for joining. Hopefully, you see why we're excited and love what's going on in the business. We are now, what, 5 weeks into the third quarter. We are fixated on trying to ensure that Q3 and Q4 are even more impressive than Q1 and Q2. We got work to do, but that's where we're laser-focused, super grateful to every CSG around the world. Thanks for joining.

Operator

All right. Ladies and gentlemen, this does conclude your call. You may now disconnect your lines, and thank you again for joining us today.

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