



FOR IMMEDIATE RELEASE

PRESS RELEASE

**CSG SYSTEMS INTERNATIONAL REPORTS
THIRD QUARTER 2024 RESULTS**

DENVER--(November 6, 2024) — [CSG](#) (NASDAQ: CSGS) today reported results for the quarter ended September 30, 2024.

Announced Watershed Contract Renewal with Comcast through Year-End 2030

Raising 2024 Profitability and Non-GAAP EPS Guidance Targets for Second Consecutive Quarter

Commitment to Return \$100+ Million to Shareholders via Dividends and Buybacks in 2024 and 2025

Financial Results:

Third quarter 2024 financial results:

- Total revenue was **\$295.1 million**.
- GAAP operating income was **\$31.8 million**, or an operating margin of **10.8%**, and non-GAAP operating income was **\$50.1 million**, or a non-GAAP adjusted operating margin of **18.4%**.
- GAAP earnings per diluted share (EPS) was **\$0.67** and non-GAAP EPS was **\$1.06**.
- Cash flows from operations were **\$39.5 million**, with non-GAAP free cash flow of **\$32.0 million**.

Shareholder Returns:

- CSG declared its quarterly cash dividend of **\$0.30** per share of common stock, or a total of approximately **\$9 million**, to shareholders.
- During the third quarter of 2024, CSG repurchased under its stock repurchase program, approximately **313,000 shares** of its common stock for approximately **\$15 million**.

“We were excited to announce earlier this week a fantastic win-win contract expansion with Comcast that will extend our contract term through year-end 2030,” said Brian Shepherd, President and Chief Executive Officer of CSG. “Regarding Q3 earnings, team CSG posted good operating results in the first nine months of 2024 and we are pleased to raise our 2024 profitability and non-GAAP EPS guidance targets for a second consecutive quarter while reiterating all other guidance metrics. From a shareholder return perspective, we plan on returning \$100+ million to shareholders via dividends and share repurchases in each of 2024 and 2025. Returning capital to shareholders remains a cornerstone commitment as we have returned nearly \$500 million to shareholders since 2020.”

Financial Overview (unaudited)

(in thousands, except per share amounts and percentages):

	Quarter Ended September 30,			Nine Months Ended September 30,		
	2024	2023	Percent Changed	2024	2023	Percent Changed
GAAP Results:						
Revenue	\$ 295,143	\$286,868	2.9%	\$ 880,596	\$ 871,934	1.0%
Operating Income	31,822	32,731	(2.8%)	89,039	99,130	(10.2%)
Operating Margin Percentage	10.8%	11.4%		10.1%	11.4%	
EPS.....	\$ 0.67	\$ 0.62	8.1%	\$ 1.83	\$ 1.75	4.6%
Non-GAAP Results:						
Operating Income	\$ 50,076	\$ 45,203	10.8%	\$ 141,085	\$ 141,664	(0.4%)
Adjusted Operating Margin Percentage	18.4%	17.0%		17.4%	17.5%	
EPS.....	\$ 1.06	\$ 0.92	15.2%	\$ 3.08	\$ 2.76	11.6%

For additional information and reconciliations regarding CSG's use of non-GAAP financial measures, please refer to the attached Exhibit 2 and the Investor Relations section of CSG's website at csgi.com.

Results of Operations

GAAP Results: Total revenue for the third quarter of 2024 was \$295.1 million, a 2.9% increase when compared to revenue of \$286.9 million for the third quarter of 2023. The increase in revenue can be attributed to the continued growth of our SaaS and related solutions revenue, to include approximately \$6 million of revenue generated from the businesses acquired in the second quarter of 2024, which more than offset lower software and services revenue for the quarter.

GAAP operating income for the third quarter of 2024 was \$31.8 million, or 10.8% of total revenue, compared to \$32.7 million, or 11.4% of total revenue, for the third quarter of 2023. The decrease in operating income is mainly attributed to the increase in acquisition-related expenses in the third quarter of 2024, to include earn-out compensation and amortization of acquired intangible assets.

GAAP EPS for the third quarter of 2024 was \$0.67, compared to \$0.62 for the third quarter of 2023, with the third quarter of 2024 benefiting from a lower effective income tax rate and a lower share count, partially offset by foreign currency movements.

Non-GAAP Results: Non-GAAP operating income for the third quarter of 2024 was \$50.1 million, or a non-GAAP adjusted operating margin of 18.4%, compared to \$45.2 million, or a non-GAAP adjusted operating margin of 17.0% for the third quarter of 2023. The increase in non-GAAP operating income and non-GAAP adjusted operating margin can be primarily attributed to the higher revenue discussed above.

Non-GAAP EPS for the third quarter of 2024 was \$1.06 compared to \$0.92 for the third quarter of 2023. The increase in non-GAAP EPS is mainly due to the higher non-GAAP operating income, discussed above, and the lower share count, partially offset by foreign currency movements.

Balance Sheet and Cash Flows

Cash and cash equivalents as of September 30, 2024 were \$118.4 million compared to \$110.4 million as of June 30, 2024 and \$186.3 million as of December 31, 2023. CSG had net cash flows provided by operations for the third quarters ended September 30, 2024 and 2023 of \$39.5 million and \$24.6 million, respectively, and non-GAAP free cash flow of \$32.0 million and \$18.1 million, respectively.

Summary of Financial Guidance

CSG is revising its financial guidance for the full year 2024, as follows:

	As of November 6, 2024	Previous
GAAP Measures:		
Revenue.....	No change	\$1,200 - \$1,240 million
Non-GAAP Measures:		
Adjusted Operating Margin Percentage.....	17.7% - 18.1%	17.3% - 17.7%
EPS	\$4.25 - \$4.55	\$4.05 - \$4.35
Adjusted EBITDA	\$251 - \$261 million	\$247 - \$257 million
Free Cash Flow.....	No change	\$95 - \$135 million

For additional information and reconciliations regarding CSG's use of non-GAAP financial measures, please refer to the attached Exhibit 2 and the Investor Relations section of CSG's website at csgi.com.

Conference Call

CSG will host a conference call on Wednesday, November 6, 2024 at 5:00 p.m. ET, to discuss CSG's third quarter of 2024 earnings results. The call will be carried live and archived on the Internet. A link to the conference call is available at <http://ir.csgi.com>. In addition, to reach the conference by phone, call 1-888-412-4131 and use the passcode 2327393.

Additional Information

For information about CSG, please visit CSG's web site at csgi.com. Additional information can be found in the Investor Relations section of the website.

About CSG

CSG empowers companies to build unforgettable experiences, making it easier for people and businesses to connect with, use and pay for the services they value most. Our customer experience, billing and payments solutions help companies of any size make money and make a difference. With our SaaS solutions, company leaders can take control of their future and tap into guidance along the way from our fiercely committed and forward-thinking CSGers around the world.

Want to be future-ready and a change-maker like the global brands that trust CSG? Visit csgi.com to learn more.

Forward-Looking Statements

This news release contains forward-looking statements as defined under the Securities Act of 1933, as amended, that are based on assumptions about a number of important factors and involve risks and uncertainties that could cause actual results to differ materially from what appears in this news release. Some of these key factors include, but are not limited to the following items:

- CSG derives a significant portion of its revenue from a limited number of customers, with approximately forty percent of its revenue from its two largest customers;
- Fluctuations in credit market conditions, general global economic and political conditions, and foreign currency exchange rates;
- CSG's ability to maintain a reliable, secure computing environment;
- Continued market acceptance of CSG's products and services;
- CSG's ability to continuously develop and enhance products in a timely, cost-effective, technically advanced and competitive manner;
- CSG's ability to deliver its solutions in a timely fashion within budget, particularly large and complex software implementations;
- CSG's dependency on the global telecommunications industry, and in particular, the North American telecommunications industry;
- CSG's ability to meet its financial expectations;
- Increasing competition in CSG's market from companies of greater size and with broader presence;
- CSG's ability to successfully integrate and manage acquired businesses or assets to achieve expected strategic, operating and financial goals;
- CSG's ability to protect its intellectual property rights;
- CSG's ability to conduct business in the international marketplace;
- CSG's ability to comply with applicable U.S. and International laws and regulations; and
- CSG's business may be disrupted, and its results of operations and cash flows adversely affected by a global pandemic.

This list is not exhaustive, and readers are encouraged to review the additional risks and important factors described in CSG's reports on Forms 10-K and 10-Q and other filings made with the SEC.

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CSG SYSTEMS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS-UNAUDITED
(in thousands)

	September 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 118,444	\$ 186,264
Settlement and merchant reserve assets.....	240,755	274,699
Trade accounts receivable:		
Billed, net of allowance of \$4,810 and \$5,432.....	279,930	267,680
Unbilled.....	82,585	82,163
Income taxes receivable.....	13,992	1,345
Other current assets.....	51,534	50,075
Total current assets.....	<u>787,240</u>	<u>862,226</u>
Non-current assets:		
Property and equipment, net of depreciation of \$136,641 and \$121,816.....	58,353	65,545
Operating lease right-of-use assets.....	25,842	34,283
Software, net of amortization of \$168,808 and \$157,601.....	22,953	14,224
Goodwill.....	323,449	308,596
Acquired customer contracts, net of amortization of \$134,742 and \$126,469.....	42,786	35,879
Customer contract costs, net of amortization of \$46,641 and \$42,094.....	60,490	54,421
Deferred income taxes.....	57,831	57,855
Other assets.....	8,502	10,017
Total non-current assets.....	<u>600,206</u>	<u>580,820</u>
Total assets.....	<u>\$ 1,387,446</u>	<u>\$ 1,443,046</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt.....	\$ 7,500	\$ 7,500
Operating lease liabilities.....	14,002	15,946
Customer deposits.....	37,716	41,035
Trade accounts payable.....	51,907	46,406
Accrued employee compensation.....	57,704	84,380
Settlement and merchant reserve liabilities.....	238,783	273,817
Deferred revenue.....	62,797	54,199
Income taxes payable.....	937	4,104
Other current liabilities.....	28,163	33,449
Total current liabilities.....	<u>499,509</u>	<u>560,836</u>
Non-current liabilities:		
Long-term debt, net of unamortized discounts of \$13,014 and \$15,628.....	531,986	534,997
Operating lease liabilities.....	24,427	34,360
Deferred revenue.....	22,968	23,447
Income taxes payable.....	2,684	3,041
Deferred income taxes.....	120	123
Other non-current liabilities.....	17,341	12,916
Total non-current liabilities.....	<u>599,526</u>	<u>608,884</u>
Total liabilities.....	<u>1,099,035</u>	<u>1,169,720</u>
Stockholders' equity:		
Preferred stock, par value \$.01 per share; 10,000 shares authorized; zero shares issued and outstanding.....	-	-
Common stock, par value \$.01 per share; 100,000 shares authorized; 29,292 and 29,541 shares outstanding.....	717	713
Additional paid-in capital.....	509,294	490,947
Treasury stock, at cost; 41,115 and 40,398 shares.....	(1,170,118)	(1,136,055)
Accumulated other comprehensive income (loss):		
Unrealized gain on short-term investments, net of tax.....	-	1
Cumulative foreign currency translation adjustments.....	(45,562)	(50,414)
Accumulated earnings.....	994,080	968,134
Total stockholders' equity.....	<u>288,411</u>	<u>273,326</u>
Total liabilities and stockholders' equity.....	<u>\$ 1,387,446</u>	<u>\$ 1,443,046</u>

CSG SYSTEMS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME-UNAUDITED
(in thousands, except per share amounts)

	Quarter Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Revenue	\$ 295,143	\$ 286,868	\$ 880,596	\$ 871,934
Cost of revenue (exclusive of depreciation, shown separately below)	149,487	152,734	460,266	458,897
Other operating expenses:				
Research and development	41,665	35,292	116,171	107,401
Selling, general and administrative.....	63,913	59,097	186,794	180,930
Depreciation	5,313	5,862	16,286	17,155
Restructuring and reorganization charges.....	2,943	1,152	12,040	8,421
Total operating expenses.....	263,321	254,137	791,557	772,804
Operating income	31,822	32,731	89,039	99,130
Other income (expense):				
Interest expense.....	(7,778)	(8,036)	(22,982)	(23,092)
Interest income.....	1,922	1,175	6,641	2,516
Other, net	(2,187)	813	(1,455)	(3,047)
Total other.....	(8,043)	(6,048)	(17,796)	(23,623)
Income before income taxes.....	23,779	26,683	71,243	75,507
Income tax provision	(4,691)	(7,989)	(18,859)	(21,931)
Net income	<u>\$ 19,088</u>	<u>\$ 18,694</u>	<u>\$ 52,384</u>	<u>\$ 53,576</u>
Weighted-average shares outstanding:				
Basic	28,362	30,097	28,475	30,381
Diluted.....	28,468	30,284	28,621	30,540
Earnings per common share:				
Basic	\$ 0.67	\$ 0.62	\$ 1.84	\$ 1.76
Diluted.....	0.67	0.62	1.83	1.75

CSG SYSTEMS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS-UNAUDITED
(in thousands)

	Nine Months Ended	
	September 30, 2024	September 30, 2023
Cash flows from operating activities:		
Net income.....	\$ 52,384	\$ 53,576
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation.....	16,724	17,549
Amortization.....	37,467	34,543
Asset impairment.....	-	1,689
Gain on lease modifications.....	-	(4,349)
Unrealized foreign currency transaction (gain) loss, net.....	225	(442)
Deferred income taxes.....	(189)	(12,504)
Stock-based compensation.....	25,023	21,253
Subtotal.....	131,634	111,315
Changes in operating assets and liabilities, net of acquired amounts:		
Trade accounts receivable, net.....	(7,873)	(33,351)
Other current and non-current assets and liabilities.....	(12,771)	(11,449)
Income taxes payable/receivable.....	(16,194)	(4,650)
Trade accounts payable and accrued liabilities.....	(48,658)	(24,158)
Deferred revenue.....	7,075	14,658
Net cash provided by operating activities.....	53,213	52,365
Cash flows from investing activities:		
Purchases of software, property, and equipment.....	(16,528)	(22,940)
Proceeds from sale/maturity of short-term investments.....	-	71
Business combinations, net of cash and settlement assets acquired of \$46,432 and zero.....	17,293	-
Net cash provided by (used in) investing activities.....	765	(22,869)
Cash flows from financing activities:		
Proceeds from issuance of common stock.....	2,416	2,541
Payment of cash dividends.....	(26,598)	(26,231)
Repurchase of common stock.....	(42,439)	(116,418)
Deferred acquisition payments.....	(2,488)	(3,220)
Proceeds from long-term debt.....	15,000	470,000
Payments on long-term debt.....	(20,625)	(310,625)
Purchase of capped call transactions related to convertible notes.....	-	(34,298)
Payments of deferred financing costs.....	-	(13,518)
Payments on financing obligations.....	(2,191)	-
Settlement and merchant reserve activity.....	(79,606)	(46,196)
Net cash used in financing activities.....	(156,531)	(77,965)
Effect of exchange rate fluctuations on cash, cash equivalents, and restricted cash.....	(337)	(448)
Net decrease in cash, cash equivalents, and restricted cash.....	(102,890)	(48,917)
Cash, cash equivalents, and restricted cash, beginning of period.....	463,876	389,018
Cash, cash equivalents, and restricted cash, end of period.....	<u>\$ 360,986</u>	<u>\$ 340,101</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for-		
Interest.....	\$ 24,592	\$ 21,772
Income taxes.....	35,292	39,136
Non-cash investing and financing activities-		
Software, property, and equipment included in current and noncurrent liabilities.....	9,830	-
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents.....	\$ 118,444	\$ 146,730
Settlement and merchant reserve assets.....	240,755	193,371
Restricted cash included in current and non-current assets.....	1,787	-
Total cash, cash equivalents, and restricted cash.....	<u>\$ 360,986</u>	<u>\$ 340,101</u>

EXHIBIT 1
CSG SYSTEMS INTERNATIONAL, INC.
SUPPLEMENTAL REVENUE ANALYSIS

Revenue by Significant Customers: 10% or more of Revenue

	Quarter Ended September 30, 2024		Quarter Ended June 30, 2024		Quarter Ended September 30, 2023	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Charter	\$ 59,070	20%	\$ 60,629	21%	\$ 59,432	21%
Comcast	58,688	20%	54,576	19%	53,653	19%

Revenue by Vertical

	Quarter Ended September 30, 2024	Quarter Ended June 30, 2024	Quarter Ended September 30, 2023
Broadband/Cable/Satellite	53%	53%	53%
Telecommunications	18%	16%	20%
All other	29%	31%	27%
Total revenue	<u>100%</u>	<u>100%</u>	<u>100%</u>

Revenue by Geography

	Quarter Ended September 30, 2024	Quarter Ended June 30, 2024	Quarter Ended September 30, 2023
Americas	88%	89%	86%
Europe, Middle East and Africa.....	9%	6%	9%
Asia Pacific.....	3%	5%	5%
Total revenue	<u>100%</u>	<u>100%</u>	<u>100%</u>

EXHIBIT 2
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
Earn-out compensation.....	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, earn-out compensation, and transaction-related costs. 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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Non-GAAP Operating Income				
GAAP operating income	\$ 31,822	\$ 32,731	\$ 89,039	\$ 99,130
Restructuring and reorganization charges (1)	2,943	1,152	12,040	8,421
Executive transition costs	-	1,148	352	1,148
Acquisition-related expenses:				
Amortization of acquired intangible assets.....	3,929	2,996	10,174	9,203
Earn-out compensation	2,591	-	3,416	(14)
Transaction-related costs	32	(40)	243	2,136
Stock-based compensation (1)	8,759	7,216	25,821	21,640
Non-GAAP operating income.....	<u>\$ 50,076</u>	<u>\$ 45,203</u>	<u>\$ 141,085</u>	<u>\$ 141,664</u>
Non-GAAP Adjusted Operating Margin Percentage				
Revenue.....	\$ 295,143	\$ 286,868	\$ 880,596	\$ 871,934
Less: Transaction fees (2)	(22,524)	(20,314)	(71,793)	(63,463)
Revenue less transaction fees.....	<u>\$ 272,619</u>	<u>\$ 266,554</u>	<u>\$ 808,803</u>	<u>\$ 808,471</u>
Non-GAAP adjusted operating margin percentage	18.4%	17.0%	17.4%	17.5%

- (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 September 30, 2024		Quarter Ended September 30, 2023	
	Amounts	EPS (4)	Amounts	EPS (4)
GAAP net income	\$ 19,088	\$ 0.67	\$ 18,694	\$ 0.62
GAAP income tax provision (3).....	4,691		7,989	
GAAP income before income taxes	23,779		26,683	
Restructuring and reorganization charges (1)	2,943		1,152	
Executive transition costs	-		1,148	
Acquisition-related costs:				
Amortization of acquired intangible assets	3,929		2,996	
Earn-out compensation	2,591		-	
Transaction-related costs	32		(40)	
Stock-based compensation (1)	8,759		7,216	
Non-GAAP income before income taxes	42,033		39,155	
Non-GAAP income tax provision (3)	(11,979)		(11,159)	
Non-GAAP net income.....	<u>\$ 30,054</u>	<u>\$ 1.06</u>	<u>\$ 27,996</u>	<u>\$ 0.92</u>

	Nine Months Ended September 30, 2024		Nine Months Ended September 30, 2023	
	Amounts	EPS (4)	Amounts	EPS (4)
GAAP net income	\$ 52,384	\$ 1.83	\$ 53,576	\$ 1.75
GAAP income tax provision (3).....	18,859		21,931	
GAAP income before income taxes	71,243		75,507	
Restructuring and reorganization charges (1)	12,040		8,421	
Executive transition costs	352		1,148	
Acquisition-related expenses:				
Amortization of acquired intangible assets	10,174		9,203	
Earn-out compensation	3,416		(14)	
Transaction-related costs	243		2,136	
Stock-based compensation (1)	25,821		21,640	
Non-GAAP income before income taxes	123,289		118,041	
Non-GAAP income tax provision (3)	(35,137)		(33,642)	
Non-GAAP net income.....	<u>\$ 88,152</u>	<u>\$ 3.08</u>	<u>\$ 84,399</u>	<u>\$ 2.76</u>

(3) The GAAP effective income tax rates for the third quarters of 2024 and 2023 were approximately 20% and 30%, respectively, and for the nine months ended September 30, 2024 and 2023 were approximately 26% and 29%, respectively. The year-over-year decreases in the GAAP effective income tax rates is due primarily to the revaluation of deferred taxes in the third quarter of 2024.

The non-GAAP effective income tax rates for the third quarters of 2024 and 2023 were 28.5% for both periods, and for the nine months ended September 30, 2024 and 2023 were 28.5% for both periods.

(4) The outstanding diluted shares for the third quarter and nine months ended September 30, 2024 were 28.5 million and 28.6 million, respectively, and for the third quarter and nine months ended September 30, 2023 were 30.3 and 30.5 million, respectively.

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
GAAP net income	\$ 19,088	\$ 18,694	\$ 52,384	\$ 53,576
GAAP income tax provision	4,691	7,989	18,859	21,931
Interest expense (5).....	7,778	8,036	22,982	23,092
Interest and investment income and other, net	265	(1,988)	(5,186)	531
GAAP operating income	31,822	32,731	89,039	99,130
Restructuring and reorganization charges (1)	2,943	1,152	12,040	8,421
Executive transition costs	-	1,148	352	1,148
Acquisition-related expenses:				
Amortization of acquired intangible assets (6)	3,929	2,996	10,174	9,203
Earn-out compensation	2,591	-	3,416	(14)
Transaction-related costs	32	(40)	243	2,136
Stock-based compensation (1).....	8,759	7,216	25,821	21,640
Amortization of other intangible assets (6)	3,139	3,438	8,584	10,274
Amortization of customer contract costs (6)	5,373	4,997	16,095	14,390
Depreciation (1)	5,313	5,862	16,286	17,155
Non-GAAP adjusted EBITDA.....	<u>\$ 63,901</u>	<u>\$ 59,500</u>	<u>\$ 182,050</u>	<u>\$ 183,483</u>
Non-GAAP adjusted EBITDA as a percentage of revenue less transaction fees (2)	<u>23.4%</u>	<u>22.3%</u>	<u>22.5%</u>	<u>22.7%</u>

(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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Amortization of acquired intangible assets	\$ 3,929	\$ 2,996	\$ 10,174	\$ 9,203
Amortization of other intangible assets.....	3,139	3,438	8,584	10,274
Amortization of customer contract costs.....	5,373	4,997	16,095	14,390
Amortization of deferred financing costs	879	304	2,614	676
Total amortization	<u>\$ 13,320</u>	<u>\$ 11,735</u>	<u>\$ 37,467</u>	<u>\$ 34,543</u>

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Cash flows from operating activities.....	\$ 39,459	\$ 24,582	\$ 53,213	\$ 52,365
Purchases of software, property and equipment ...	(7,455)	(6,512)	(16,528)	(22,940)
Non-GAAP free cash flow	<u>\$ 32,004</u>	<u>\$ 18,070</u>	<u>\$ 36,685</u>	<u>\$ 29,425</u>

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
<u>Non-GAAP Operating Income</u>		
GAAP operating income	\$ 129,300	\$ 139,300
Restructuring and reorganization charges.....	12,000	12,000
Executive transition costs	400	400
Acquisition-related expenses:		
Amortization of acquired intangible assets	14,000	14,000
Earn-out compensation.....	5,600	5,600
Transaction-related costs	400	400
Stock-based compensation	33,600	33,600
Non-GAAP operating income	<u>\$ 195,300</u>	<u>\$ 205,300</u>
<u>Non-GAAP Operating Margin Percentage</u>		
Revenue	\$ 1,200,000	\$ 1,240,000
Less: Transaction fees.....	(98,000)	(103,000)
Revenue less transaction fees	<u>\$ 1,102,000</u>	<u>\$ 1,137,000</u>
Non-GAAP adjusted operating margin percentage	17.7%	18.1%

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	\$ 76,500	\$ 2.64	\$ 83,700	\$ 2.91
GAAP income tax provision (7).....	30,400		33,200	
GAAP income before income taxes	106,900		116,900	
Restructuring and reorganization charges.....	12,000		12,000	
Executive transition costs	400		400	
Acquisition-related expenses:				
Amortization of acquired intangible assets	14,000		14,000	
Earn-out compensation.....	5,600		5,600	
Transaction-related costs.....	400		400	
Stock-based compensation.....	33,600		33,600	
Non-GAAP income before income taxes	172,900		182,900	
Non-GAAP income tax provision (7).....	(49,300)		(52,200)	
Non-GAAP net income.....	<u>\$ 123,600</u>	<u>\$ 4.25</u>	<u>\$ 130,700</u>	<u>\$ 4.55</u>

- (7) For 2024, the estimated effective income tax rates for GAAP and non-GAAP purposes are expected to be approximately 28% and 29%, respectively.
- (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	\$ 76,500	\$ 83,700
GAAP income tax provision (7)	30,400	33,200
Interest expense.....	30,700	30,700
Interest and investment income	(8,300)	(8,300)
GAAP operating income	129,300	139,300
Restructuring and reorganization charges	12,000	12,000
Executive transition costs.....	400	400
Acquisition-related expenses:		
Amortization of acquired intangible assets	14,000	14,000
Earn-out compensation	5,600	5,600
Transaction-related costs	400	400
Stock-based compensation	33,600	33,600
Amortization of other intangible assets	11,400	11,400
Amortization of client contract costs.....	22,000	22,000
Depreciation	22,300	22,300
Non-GAAP adjusted EBITDA	<u>\$ 251,000</u>	<u>\$ 261,000</u>
Non-GAAP adjusted EBITDA as a percentage of revenue less transaction fees (2)	<u>22.8%</u>	<u>23.0%</u>

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.....	<u>\$ 95,000</u>	<u>\$ 135,000</u>