

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 adjusted revenue, 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:	X	X	X
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
Amortization of original issue discount ("OID")	—	—	X
Gain (loss) on extinguishment of debt	—	—	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 interchange and other payment-related fees paid, in conjunction with the delivery of service to customers under CSG's payment services contracts, to third-party payment processors and financial institutions by CSG. Because CSG controls the integrated service provided under its payment services customer contracts, these transaction fees are presented gross, and not netted against revenue; however, other payments companies who do not provide and/or control an integrated service present their revenue net of transaction fees. The exclusion of these fees in calculating CSG's non-GAAP adjusted revenue provides management and investors an additional means to use to compare CSG's current revenue with historical and future periods, as well as with other payments companies.
- 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 the departure of CSG's former CEO under the terms of his separation agreement. These costs were primarily recognized during the third and fourth quarters of 2020 (the CEO's remaining term) and were 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.
- The convertible notes OID is the result of allocating a portion of the principal balance of the debt at issuance to the equity component of the instrument, as required under current accounting rules. This OID is then amortized to interest expense over the life of the respective convertible debt instrument. The interest expense related to the amortization of the OID is a non-cash expense, and therefore, the exclusion of this item allows investors to further evaluate the cash interest costs of CSG's convertible notes for cash flow, liquidity, and debt service purposes.
- Gains and losses related to the extinguishment of debt are a result of the refinancing of CSG's credit agreement and/or repurchase of CSG's convertible notes. These 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 this item allows investors to further evaluate the cash impact of these repurchases 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, and gains and losses related to the extinguishment of debt, 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 Adjusted Revenue:

The reconciliations of GAAP revenue to non-GAAP adjusted revenue for the indicated periods are as follows (in thousands):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
GAAP revenue.....	\$ 255,134	\$ 240,321	\$ 508,253	\$ 485,938
Less: Transaction fees	(16,655)	(15,695)	(33,105)	(34,019)
Non-GAAP adjusted revenue	<u>\$ 238,479</u>	<u>\$ 224,626</u>	<u>\$ 475,148</u>	<u>\$ 451,919</u>

Non-GAAP Operating Income:

The reconciliations of GAAP operating income to non-GAAP operating income for the indicated periods are as follows (in thousands, except percentages):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
GAAP operating income	\$ 32,166	\$ 19,775	\$ 63,543	\$ 52,934
Restructuring and reorganization charges (1)	1,760	2,497	2,820	3,463
Executive transition costs	5	-	60	-
Acquisition-related expenses:				
Amortization of acquired intangible assets	2,618	3,033	4,859	6,084
Earn-out compensation	(2,521)	-	(2,521)	-
Transaction-related costs	623	73	702	126
Stock-based compensation (1)	5,138	5,255	10,533	10,180
Non-GAAP operating income	<u>\$ 39,789</u>	<u>\$ 30,633</u>	<u>\$ 79,996</u>	<u>\$ 72,787</u>
Non-GAAP adjusted revenue	\$ 238,479	\$ 224,626	\$ 475,148	\$ 451,919
Non-GAAP adjusted operating margin percentage	16.7%	13.6%	16.8%	16.1%

- (1) Stock-based compensation included in the tables above and following excludes amounts that have been recorded in restructuring and reorganization charges.

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, 2021		Quarter Ended June 30, 2020	
	Amounts	EPS (3)	Amounts	EPS (3)
GAAP net income	\$ 19,321	\$ 0.60	\$ 10,366	\$ 0.32
GAAP income tax provision (2)	8,412		3,884	
GAAP income before income taxes.....	27,733		14,250	
Restructuring and reorganization charges (1)	1,760		2,497	
Executive transition costs	5		-	
Acquisition-related costs:				
Amortization of acquired intangible assets	2,618		3,033	
Earn-out compensation	(2,521)		-	
Transaction-related costs	623		73	
Stock-based compensation (1).....	5,138		5,255	
Amortization of OID	784		740	
Non-GAAP income before income taxes.....	36,140		25,848	
Non-GAAP income tax provision (2).....	(9,757)		(6,850)	
Non-GAAP net income	<u>\$ 26,383</u>	<u>\$ 0.82</u>	<u>\$ 18,998</u>	<u>\$ 0.59</u>

	Six Months Ended June 30, 2021		Six Months Ended June 30, 2020	
	Amounts	EPS (3)	Amounts	EPS (3)
GAAP net income	\$ 38,952	\$ 1.21	\$ 31,880	\$ 0.99
GAAP income tax provision (2)	15,363		11,046	
GAAP income before income taxes.....	54,315		42,926	
Restructuring and reorganization charges (1)	2,820		3,463	
Executive transition costs	60		-	
Acquisition-related expenses:				
Amortization of acquired intangible assets	4,859		6,084	
Earn-out compensation	(2,521)		-	
Transaction-related costs	702		126	
Stock-based compensation (1).....	10,533		10,180	
Amortization of OID	1,556		1,470	
Non-GAAP income before income taxes.....	72,324		64,249	
Non-GAAP income tax provision (2).....	(19,527)		(17,026)	
Non-GAAP net income	<u>\$ 52,797</u>	<u>\$ 1.65</u>	<u>\$ 47,223</u>	<u>\$ 1.46</u>

(2) For the second quarter and six months ended June 30, 2021 the GAAP effective income tax rates were approximately 30% and 28%, respectively, and the non-GAAP effective income tax rates were approximately 27% for both periods. For the second quarter and six months ended June 30, 2020 the GAAP effective income tax rates were approximately 27% and 26%, respectively, and the non-GAAP effective income tax rates were approximately 27% for both periods.

(3) The outstanding diluted shares for the second quarter and six months ended June 30, 2021 were 32.0 million and 32.1 million, respectively, and for the second quarter and six months ended June 30, 2020 were 32.3 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,	
	2021	2020	2021	2020
GAAP net income	\$ 19,321	\$ 10,366	\$ 38,952	\$ 31,880
GAAP income tax provision	8,412	3,884	15,363	11,046
Interest expense (4)	3,633	4,040	7,225	8,253
Amortization of OID	784	740	1,556	1,470
Interest and investment income and other, net.....	16	745	447	285
GAAP operating income	32,166	19,775	63,543	52,934
Restructuring and reorganization charges (1).....	1,760	2,497	2,820	3,463
Executive transition costs.....	5	-	60	-
Acquisition-related expenses:				
Amortization of acquired intangible assets (5)	2,618	3,033	4,859	6,084
Earn-out compensation	(2,521)	-	(2,521)	-
Transaction-related costs	623	73	702	126
Stock-based compensation (1)	5,138	5,255	10,533	10,180
Amortization of other intangible assets (5).....	3,267	3,249	6,603	6,534
Amortization of customer contract costs (5).....	4,956	4,542	9,678	8,568
Depreciation	6,266	5,634	12,379	11,199
Non-GAAP adjusted EBITDA	<u>\$ 54,278</u>	<u>\$ 44,058</u>	<u>\$ 108,656</u>	<u>\$ 99,088</u>
Non-GAAP adjusted EBITDA as a percentage of non-GAAP adjusted revenue.....	<u>23%</u>	<u>20%</u>	<u>23%</u>	<u>22%</u>

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

(5) 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,	
	2021	2020	2021	2020
Amortization of acquired intangible assets.....	\$ 2,618	\$ 3,033	\$ 4,859	\$ 6,084
Amortization of other intangible assets	3,267	3,249	6,603	6,534
Amortization of customer contract costs	4,956	4,542	9,678	8,568
Amortization of deferred financing costs	440	431	878	857
Total amortization	<u>\$ 11,281</u>	<u>\$ 11,255</u>	<u>\$ 22,018</u>	<u>\$ 22,043</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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Cash flows from operating activities	\$ 44,453	\$ 57,822	\$ 42,229	\$ 50,860
Purchases of software, property and equipment	(6,919)	(9,512)	(15,158)	(14,334)
Non-GAAP free cash flow.....	<u>\$ 37,534</u>	<u>\$ 48,310</u>	<u>\$ 27,071</u>	<u>\$ 36,526</u>

Non-GAAP Financial Measures – 2021 Financial Guidance

Non-GAAP Adjusted Revenue:

The reconciliation of GAAP revenue to non-GAAP adjusted revenue, as included in CSG's 2021 full year financial guidance, is as follows:

	2021 Guidance Range	
	Low Range	High Range
GAAP revenue.....	\$ 1,015,000	\$ 1,045,000
Less: Transaction fees	(69,000)	(81,000)
Non-GAAP adjusted revenue	<u>\$ 946,000</u>	<u>\$ 964,000</u>

Non-GAAP Operating Income:

The reconciliation of GAAP operating income to non-GAAP operating income, as included in CSG's 2021 full year financial guidance, is as follows (in thousands, except percentages):

	2021 Guidance Range	
	Low Range	High Range
<u>Operating Income</u>		
GAAP operating income	\$ 125,200	\$ 133,000
Restructuring and reorganization charges	2,900	2,900
Executive transition costs	100	100
Acquisition-related expenses:		
Amortization of acquired intangible assets	9,300	9,300
Earn-out compensation	(2,500)	(2,500)
Transaction-related costs.....	700	700
Stock-based compensation.....	20,500	20,500
Non-GAAP operating income.....	<u>\$ 156,200</u>	<u>\$ 164,000</u>
<u>Operating Margin Percentage</u>		
GAAP revenue	\$ 1,015,000	\$ 1,045,000
GAAP operating margin percentage	12.3%	12.7%
Non-GAAP adjusted revenue.....	\$ 946,000	\$ 964,000
Non-GAAP adjusted operating margin percentage	16.5%	17.0%

Non-GAAP EPS:

The reconciliation of GAAP EPS to non-GAAP EPS as included in CSG's 2021 full year financial guidance is as follows (in thousands, except per share amounts):

	2021 Guidance Range			
	Low Range		High Range	
	Amounts	EPS (7)	Amounts	EPS (7)
GAAP net income	\$ 75,200	\$ 2.35	\$ 80,900	\$ 2.53
GAAP income tax provision (6)	29,300		31,400	
GAAP income before income taxes.....	104,500		112,300	
Restructuring and reorganization charges	2,900		2,900	
Executive transition costs	100		100	
Acquisition-related expenses:				
Amortization of acquired intangible assets	9,300		9,300	
Earn-out compensation.....	(2,500)		(2,500)	
Transaction-related costs	700		700	
Stock-based compensation	20,500		20,500	
Amortization of OID	3,000		3,000	
Non-GAAP income before income taxes.....	138,500		146,300	
Non-GAAP income tax provision (6).....	(37,400)		(39,500)	
Non-GAAP net income	<u>\$ 101,100</u>	<u>\$ 3.16</u>	<u>\$ 106,800</u>	<u>\$ 3.34</u>

(6) For 2021, the estimated effective income tax rate for GAAP and non-GAAP purposes is expected to be approximately 27%.

(7) The weighted-average diluted shares outstanding are expected to be approximately 32 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 2021 full year financial guidance (in thousands, except percentages):

	2021 Guidance Range	
	Low Range	High Range
GAAP net income	\$ 75,200	\$ 80,900
GAAP income tax provision (6)	29,300	31,400
Interest expense	18,400	18,400
Amortization of OID	3,000	3,000
Interest and investment income and other, net	(700)	(700)
GAAP operating income	125,200	133,000
Restructuring and reorganization charges	2,900	2,900
Executive transition costs	100	100
Acquisition-related expenses:		
Amortization of acquired intangible assets	9,300	9,300
Earn-out compensation	(2,500)	(2,500)
Transaction-related costs	700	700
Stock-based compensation	20,500	20,500
Amortization of other intangible assets	12,300	12,300
Amortization of client contract costs	22,200	22,200
Depreciation	26,500	26,500
Non-GAAP adjusted EBITDA	<u>\$ 217,200</u>	<u>\$ 225,000</u>
Non-GAAP adjusted EBITDA as a percentage of non-GAAP adjusted revenue	<u>23%</u>	<u>23%</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 the indicated period (in thousands):

	2021 Guidance Range	
	Low Range	High Range
Cash flows from operating activities	\$ 140,000	\$ 160,000
Purchases of software, property and equipment	(25,000)	(35,000)
Non-GAAP free cash flow	<u>\$ 115,000</u>	<u>\$ 125,000</u>