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Market Intelligence



# **CSG Systems International, Inc.**

NasdaqGS:CSGS

*Earnings Call*

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# Call Participants

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*Executive VP & CFO*

**John Rea**  
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# Presentation

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## Operator

Thank you for standing by. My name is Eric, and I will be your conference operator today. At this time, I would like to welcome everyone to the CSG's Second Quarter 2024 Earnings Call.

[Operator Instructions] Thank you. I'd now like to turn the call over to John Rea, Head of Investor Relations and Treasury. Please go ahead.

## John Rea

*Head of Investor Relations*

Thank you, operator, and thanks to everyone for joining us. Like last quarter, we will be working from a slide deck, which can be found on the Investor Relations section of our website. Please take a moment to locate these slides.

Today's discussion will contain a number of forward-looking statements. These include, but are not limited to, statements regarding our projected financial results, our ability to meet our clients' needs through our products, services, and performance, and our ability to successfully integrate and manage acquired businesses in order to achieve their expected strategic, operating and financial goals.

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

In addition to factors noted during this call, a more comprehensive discussion of our risk factors can be found in today's press release as well as our most recently filed 10-K and 10-Q, which are all available in the Investor Relations section of our website. Also, we will discuss certain financial information that is not prepared in accordance with GAAP. We believe that these non-GAAP financial measures, when reviewed in conjunction with our GAAP financial measures, provide investors with greater transparency to the information used by our management team in our financial and operational decision-making.

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

With me today on the phone are; Brian Shepherd, Chief Executive Officer; and Hai Tran, Chief Financial Officer.

With that, I'd like to now turn the call over to Brian.

## Brian A. Shepherd

*CEO, President & Director*

Thanks, John. Hi, everyone. Welcome to the call today as we begin on Slide 4. We are excited to share that based on the strength of our Q2 performance, we are raising both profitability and non-GAAP EPS guidance targets for 2024. The exciting new logo sales wins and deal expansions closed in the quarter also give us confidence that we will continue to deliver organic revenue growth for the full year, in line with our 2% to 6% long-term target range, albeit we are likely to come in at the lower end of the organic revenue growth range for full-year 2024, which Hai will cover in more detail during his financial update.

Overall, we really like what we see in our business, so we want to simplify for every investor the 3 key value-creation commitments that the CSG leadership team and Board of Directors will hold ourselves accountable to deliver over the next several years.

First, even as we grow through some smallish near-term headwinds on organic revenue growth, we aspire to consistently deliver 2% to 6% pure organic revenue growth and to diversify revenue from exciting new

industry verticals to greater than 35% of total CSG revenue. As a reminder, since January 1, 2021, CSG has added nearly \$160 million worth of new organic revenue through Q2 2024.

Second, we aspire to expand non-GAAP operating margin from our previous long-term range of 16% to 18% to our new long-term range of 18% to 20%, with free cash flow growing faster than revenue growth, and to achieve this higher operating profit without impeding our ability to get back to the 5% or higher annual organic revenue growth that we achieved from 2021 through 2023 once we get past some of the smallish near-term headwinds.

Third, we will continue to return significant capital to shareholders as our Board of Directors authorized an additional \$100 million share buyback program this month. This enhanced share repurchase program is in addition to our inorganic growth strategy that will be focused on highly disciplined value creation for our shareholders. This new \$100 million buyback authorization is on top of the approximately \$76 million in buybacks remaining on the previous Board authorization.

As a reminder, the combined \$176 million in remaining authorized buybacks is on top of the nearly \$480 million that CSG has returned to shareholders in dividends and buybacks since 2020. We are now in our 11th consecutive year of increasing our dividend, a key tenet of the CSG investment thesis.

Turning to Slide 5. Since we have a number of new investors to our story, we wanted to connect the dots on how team CSG is setting ourselves apart in the market as a leading provider of mission-critical enterprise SaaS solutions to global brands in a wide variety of industry verticals. With the record-setting revenue diversification results we keep reporting each quarter, many investors ask us how we determine which industry verticals that we target.

The answer is simple. We target industry verticals that have highly recurring relationships with their end customers, powered by complex subscription and consumption-based business models. This is why we've expanded so quickly beyond our traditional telecom and cable broadband customer base into exciting industry verticals like media, financial services, healthcare, pharmacy retail, technology, government and more.

We help great brands like JPMorgan Chase, NRC Health and Formula One solve similar customer engagement and monetization business challenges, just like we help Comcast, Charter, MTN and Telstra, in these same areas. While the industries are different, the customer pain points and business needs are surprisingly similar.

This explains why we've been able to sell our industry-leading cloud-native SaaS Ascendon platform to one of the largest banks in Australia, and why Formula One and other big content providers have selected Ascendon to monetize their media and digital content businesses, and it's also why leading global telecom operators like Claro Brasil, M1 in Singapore, Telenor Denmark and Lyse in Norway have all selected Ascendon in the wireless and telecom industry vertical.

These common business needs across industry verticals also explain why we've been able to sell our data-driven CX and payment SaaS solutions to so many big customers in faster-growing industry verticals. Many investors also ask us about our value proposition and what business problems we solve for customers in different industry verticals? The answer to this question also explains why CSG has been able to grow organic revenue over 5% on a compound annual growth rate basis since 2021.

Every large customer in all these bigger, faster growing, recurring revenue verticals have similar business challenges related to their post-acquisition or post-purchase customer engagement. They all need to lower their cost and effort to activate, onboard and educate new customers. They all need to give their customers the power and flexibility to upgrade and downgrade their services more seamlessly through digital self-serve channels. They all need to harness their data to more proactively upsell, cross-sell and retain their most valuable customers with real-time, data-driven promotional offers, and they all need to make it easier to build, collect, and resolve payment disputes on a timely basis.

An important point that is often misunderstood by investors is that CSG is not just a billing company. Our comprehensive workflow engines are foundational to how our customers holistically serve their end customers and make money. Our investors also routinely ask us why we win against bigger competitors.

The answer is, because we relentlessly focus and prioritize our R&D, sales and marketing, and disciplined inorganic M&A to constantly strengthen our industry-leading future-ready SaaS portfolio so we can grow faster and simultaneously expand our operating margins and profitability.

As a reminder, CSG is ranked in the leaders quadrant in the Gartner's Integrated Revenue and Customer Management category. And CSG is also ranked in the Leaders Quadrant in Forrester's Customer Journey Orchestration category, ahead of almost all other competitors. And CSG also routinely wins industry leadership awards in the payment space. We never take our customer relationships for granted, and we constantly push ourselves to be more future-ready, more innovative and easier to do business with than our competitors.

Is doing all this easy? No, it isn't. Being as mission-critical as it gets for giant customers all around the world in a wide variety of industry verticals is never easy. And yet, being a critical provider to help our customers lower their cost, retain and upsell their most valuable end customers, grow revenue faster and make more money is precisely why our customer relationships are so sticky, often lasting 3 decades or longer. And it also explains why we've continued to grow organic revenue and close exciting new sales wins even in tough economic conditions, because our SaaS workflow solutions deliver faster ROI paybacks.

On Slide 6, you can see the success we have had in increasing our organic revenue growth since 2021 and the industry vertical revenue diversification success we've had since 2017. The truly exciting part for us, notwithstanding some near-term market choppiness, is that even as we grow 2024 organic revenue in line with the lower end of our 2% to 6% organic growth range for the near-term quarters, CSG's profitability will continue to expand at its fastest clip in many years. This exciting business momentum is powered by the fact that CSG continues to close big exciting new sales wins quarter in, quarter out, like many Q2 wins that we'll talk about momentarily.

One positive highlight in Q2 was the revenue growth we saw at our top 2 customers, Charter and Comcast. Even as their businesses faced slight broadband subscriber headwinds, we grew Q2 revenue from Comcast and Charter combined by over 1%, both sequentially and year-over-year. This growth is coming from several areas, including our expansion into new areas of their businesses that we have historically not served, like team CSG being selected in signing a new stand-alone contract with Comcast to power a new strategic growth area for them.

Turning to Slide 7, we wanted to provide more detail on the many exciting new logo sales wins and deal expansions we have delivered over the last few months. These wins are underpinned by our strong global sales teams that continue to perform well and deliver meaningful new wins like Clockwork.

First, we won a fantastic new telecom logo at Telenor Denmark, the second largest mobile operator in Denmark. We will be deploying both our cloud-native SaaS Ascendon and CSG Xponent Solutions. This win highlights our ability to cross-sell our cutting-edge digital customer experience suite of solutions together with our cloud monetization offerings. With CSG's help, Telenor Denmark will deliver enhanced digital experiences across all touch points, enhance omnichannel support for all business segments, and win new revenue-generating opportunities.

Second, we expanded our relationship with One New Zealand, formerly Vodafone New Zealand. Specifically, we are deploying our CSG Quote & Order suite of catalog-driven solutions to provide a seamless experience between the quoting of new products and the monetization of their offers. Our solution provides a consolidated BSS stack that will modernize the digital quotation experience and help the One New Zealand sales team shrink the launch and selling of new product offers while improving the overall customer experience.

We also won another fantastic CSG Ascendon and Xponent joint cross-sell new logo deal with Lyse, a leading telecom and utility provider in Norway. Lyse has selected CSG for a full digital BSS transformation. Specifically, this customer will leverage our cloud-based Ascendon billing solution and our digital wholesale product to manage and monetize their subscriber relationships. Additionally, Lyse also selected CSG's Xponent solution to automate and personalize the post-acquisition customer journey for their subscribers. This excellent deal highlights the power that our customers get when they buy both our digital monetization and data-rich CX solutions together.

Team CSG had a great digital BSS transformation win with Mascom Botswana, a leading telecom operator in Africa. Specifically, our solutions will help manage their prepaid and postpaid charging and billing for subscribers to allow Mascom to focus on their day-to-day business operations, while CSG handles the complex back-end billing processes for their customers.

Another exciting telecom win during the quarter was with Zain Sudan, part of the Zain Group and a leading wireless operator in the Middle East and North Africa. After a recent data center outage, Zain Sudan trusted CSG to drive the disaster recovery of its wireless business and keep the people of Sudan connected while preserving its market leadership. Through a CSG-powered gateway rebuild, this customer quickly relaunched essential services so that customers across the country could regain their wireless connectivity.

We are also pleased to announce that we signed a fantastic deal extension and expansion with Telstra, a 20-plus year customer of ours. Telstra chose CSG to help transform its enterprise, wholesale, and international businesses. This multi-year deal extends a long-standing relationship where CSG Encompass solution suite will help Telstra explore new business models and expand into new verticals as we manage their most complex enterprise B2B customers. This is another great example of a long-standing customer extending their relationship with us.

And on the North American broadband front, we are thrilled to have won a meaningful new stand-alone billing deal in a new growth area for Comcast, which should reinforce to our investors the positive position we are in with our second largest customer. On a related note, many investors and analysts routinely ask us how the bigger renewal with Comcast is going.

What we can share is that we are as well positioned as CSG has been with Comcast for nearly 3 decades, and we are highly confident that we will sign an exciting new long-term agreement when Comcast is ready to sign that renewal. We don't say this because we take this renewal for granted. In fact, the exact opposite is the case. The reason we are extremely well positioned with Comcast and our other biggest customers is because we never ever take their businesses for granted.

We know how mission-critical our end-to-end workflow platforms are to all aspects of how they operate well beyond just billing. So, we constantly push our solutions to be more resilient, more value-adding and more future forward so that CSG always brings them greater value and is easier to do business with than any of our competitors.

Is it possible that Comcast could sign an excellent renewal with CSG that is great for both companies this year? Yes, it is possible. We'll be in a position to announce an exciting Comcast renewal sometime in 2024. Is it also possible that Comcast and CSG announce an exciting, mutually beneficial long-term renewal next year? If Comcast decides that is better timing for them, the answer is also yes. It is possible that a great renewal would be signed next year. But regardless of whatever timing Comcast decides is best for them, team CSG will stay fixated on delivering fantastic value as we continue to help Comcast solve their toughest business challenges.

Moving on to other key Q2 sales wins outside of the communication service provider space, we expanded our relationship with NRC Health, one of the nation's largest health care experience management firms supporting over half the health care systems in the U.S. We are partnering with NRC to execute a digital multichannel communication strategy in a streamlined, effective, and scalable manner.

And finally, I will wrap up with a good sales win we had in the payments arena with a leading regional bank in the U.S., selecting CSG to power their payments needs. Specifically, CSG's payment solutions allowed this bank to reduce transactional costs and modernize their online payment portal with our BillPay product. We believe there are many domestic banks that could benefit by similarly leveraging our solutions for their payments needs.

And while most of these great sales wins signed over the last few months won't immediately impact our revenue in 2024, we expect them to contribute to good organic revenue growth in 2025 and beyond, which is exactly why over the medium to longer term, we fully expect that CSG will be able to grow revenue at the midpoint or higher of our 2% to 6% range.

Moving to Slide 8, we would like to provide more color on our second value creation priority, our commitment to consistently expand CSG's profitability. One of the most meaningful Q2 highlights is the high confidence we have in CSG's ability to continue to significantly expand our profitability and operating leverage in the quarters and years ahead.

We have shown very good continuous improvement in our non-GAAP adjusted operating margin as it grew from 16.6% in 2022 to 17.2% in 2023. And as our enhanced profitability guidance targets announced today indicate, we believe that 2024 will continue this trend.

Looking ahead, we absolutely believe there is a clear pathway for CSG to consistently achieve 18% to 20% non-GAAP adjusted operating income in 2025 and beyond. And it's important to note that this enhanced profitability is not coming at the expense of slower revenue growth in the medium to longer term. We continue to expect our business to generate 2% to 6% organic revenue growth with an aspiration to be at the midpoint or higher in most years.

Our continuously expanding profitability stems from our improved operating leverage at scale, ongoing cost efficiencies, unrelated to sales and marketing, and growing higher gross margin SaaS revenue faster than the rest of CSG. And as we generate higher non-GAAP operating margin in the quarters and years ahead, this should also result in free cash flow growing faster than revenue growth.

Turning to Slide 9, we will touch on our third value creation priority; our commitment to shareholder returns and our ability to execute very value-creating accretive M&A. Today, our Board authorized a new \$100 million share repurchase program that demonstrates CSG's commitment to disciplined capital allocation and a dedication to returning capital to our shareholders.

Regarding our \$1.5 billion revenue ambitions by year-end 2025, it is possible that this goal may take us a little longer to achieve, depending on the size of excellent and extremely value-creating M&A deals that we find in the market over the next 4 to 6 quarters. We believe that CSG's stock price represents an excellent value creating buy for investors and for us, so we will stay balanced, disciplined and focused on any strategic or financial move that the Board of Directors and management believe will deliver the most value for our shareholders.

When we set the \$1.5 billion goal in 2020, we knew about half of the revenue expansion would need to come from disciplined and accretive M&A. While we continue to assess qualified M&A opportunities, when our share price trades lower, the hurdle rate for good M&A deals gets that much higher. We are very pleased with the 2 smaller, highly accretive acquisitions that we've closed so far in 2024.

We were able to acquire both companies at highly attractive multiples. Both of these small tuck-in deals add very sticky, highly profitable revenue for CSG. And with respect to integration, both deals remain well on track to deliver the value we expected in our M&A business cases. And on the organic revenue growth side, we have delivered on our commitment of approximately 5% annual organic revenue growth from 2021 to 2023 with significantly expanding profitability at the corporate level.

Given all this exciting business momentum, I hope you see why we absolutely believe that CSG's best days and biggest breakthroughs are still ahead of us. This is also why CSGers all around the world stay hungry and customer-obsessed, because we know this relentless focus is what is required to lead the industries where we operate, and it is also essential to creating significant shareholder value in the quarters and years ahead, regardless of any near-term challenge standing in the way of Team CSG.

With that, Hai will provide more detail on our financial highlights and updated guidance ranges.

**Hai V. Tran**

*Executive VP & CFO*

Thanks, Brian. Let's walk through our Q2 2024 financial results and then I'll wrap up with some key conclusions. Starting on Slide 11, we generated \$290 million of revenue in Q2 versus \$286 million in the same prior year period. The increase in revenue can be attributed to the continued growth of our cloud revenue in addition to revenue generated from the acquired businesses, which offset lower software and services revenue for the quarter.

Our Q2 2024 non-GAAP operating income was \$46 million or a non-GAAP adjusted operating margin of 17.3% as compared to \$43 million or 16.2% in the prior year. We are very pleased with this approximately 110 basis point year-over-year improvement in our Q2 non-GAAP adjusted operating income. Similarly, our non-GAAP adjusted EBITDA was \$60 million for Q2 2024 or 22.6% of revenue, excluding transaction fees, as compared to \$57 million or 21.4% in Q2 2023.

Looking ahead, we expect our profitability metrics to further improve as we took significant cost efficiency actions in the first half of 2024 to optimize our capacity and better align CSG resources to areas of our business that have higher growth profiles. Lastly, our Q2 2024 non-GAAP EPS grew almost 28% year-over-year to \$1.02 as compared to \$0.80 in Q2 2023. This big increase in non-GAAP EPS is mainly due to higher operating income and the benefit from our share repurchase activity over the last 12 months.

Turning to Slide 12, I will go through the balance sheet, our cash flow performance and shareholder returns. We had non-GAAP free cash flow of \$39 million in Q2 2024 as compared to \$5 million of non-GAAP free cash flow in Q2 2023. Our strong Q2 2024 cash flow performance was better than anticipated due to the timing of certain working capital items, including improvement in accounts receivables and unbilled revenue.

Moving on, we ended the second quarter of 2024 with \$110 million of cash and cash equivalents. That, along with our outstanding debt at June 30, 2024, resulted in \$444 million in net debt, and our net debt leverage ratio sits at 1.9x adjusted EBITDA. Further, we have \$558 million in liquidity as of the end of the quarter. And on the bottom right of the slide, you can see we have returned \$46 million in dividends and share repurchases to shareholders in the first half of 2024.

Turning the page, I'll revisit our 2024 guidance targets. As Brian highlighted, we are pleased to be increasing certain 2024 guidance targets, including non-GAAP adjusted operating margins, non-GAAP adjusted EBITDA and non-GAAP EPS.

We are also excited to reiterate all other guidance targets for full year 2024. Specifically on our enhanced non-GAAP profitability target, we continue to take disciplined cost reduction actions that will optimize and streamline our business while still investing in higher growth activity that we believe will enable us to get back to mid-single-digit non-GAAP adjusted operating profit in the quarters ahead.

We believe these cost-efficiency moves will not only boost CSG's profitability in 2024, but will also create a meaningful tailwind to steadily improve our profitability next year and beyond. With that said, the cost reduction steps we have and continue to take will result in some short-term impacts to our cash flows in 2024 due to restructuring expenses related to these initiatives. At this point, the cash impact from our restructuring activities in the first half of 2024 has been approximately \$14 million.

And with respect to our original \$1.2 billion to \$1.24 billion revenue guidance range, as Brian mentioned, we are reiterating our original guidance range, but we will likely end up towards the low end of the range as the amount of revenue we expect to generate from our acquired assets in 2024 is anticipated to be more than offset by lower revenue expectations in our core business when compared to our original guidance expectations in February.

Some of the main drivers of this include: one, we are seeing a little belt-tightening with our current and prospective customers; two, we are experiencing smallish headwinds in the North American broadband market; and three, there are some services-based revenue recognition timing related headwinds surrounding a couple of the larger global telecommunication deployments as we continue to implement these important projects. Because of this, we expect our 2024 organic revenue growth to be towards the low end of our 2% to 6% range.

Wrapping up, 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 adherence to a risk-reward framework with continuous learning are key cornerstone of how we have and will continue to manage our business.

CSG is extremely well positioned with a strong sales pipeline and a high-quality recurring revenue customer base that we believe will enable us to return closer to the approximately 5% year-over-year



organic growth that we achieved from 2021 through 2023 once we work through some of the smallest headwinds to grow in the next several quarters.

We remain committed to accelerating and diversifying our revenue growth, which may include closing and integrating disciplined value-adding acquisitions in the quarters ahead. We believe this approach, combined with our consistent capital contribution, will serve our shareholders well.

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

## Question and Answer

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### Operator

[Operator Instructions] Your first question comes from the line of Maggie Nolan with William Blair.

### Margaret Marie Niesen Nolan

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

I had a question about the near-term headwinds that you called out, in particular on some of your top client accounts. Have those headwinds gotten incrementally worse than you expected last quarter? What is the impact to Q2 versus what you're expecting maybe in Q3 or Q4? And how long do you expect these headwinds to persist?

### Brian A. Shepherd

*CEO, President & Director*

Yes. Maggie, thanks for joining the call today. When we look at this, I wouldn't say it's gotten worse in terms of some of those headwinds. If anything, what we saw coming from the North American cable space with some of the broadband numbers they reported this quarter, it was actually better than we anticipated.

So, I'd say, relative to where we were a quarter ago, probably about the same. What we see, if you look at our long-term guidance for this year and being at the lower end, call it the low 2s to low 3s, that actually implies a Q3 and Q4 that would actually be midpoint or higher of our 4% or higher range.

So, we actually love the sales booking wins we closed in the last couple of months, gives us a lot of excitement and confidence that we have a strong second half of the year coming. And we just have to continue to kind of work through, I think, what the choppiness that a lot of providers are facing in the market right now. But it's not worse than what we saw a quarter ago, but it's something that we just have to sell through as we get back to that 5% or higher that we delivered for a few years in a row now.

### Margaret Marie Niesen Nolan

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

Got it. And then, as you think about your near-term aspiration of getting to an 18% to 20% margin, is there additional investments in cost savings programs or optimization that needs to happen in the near term before you start to see some benefit that would get you to that level? Or how are you thinking about the main levers to get you there over a -- maybe 2-year period?

### Hai V. Tran

*Executive VP & CFO*

Yes. I think, it's less about investments, but it's the restructuring charges that we called out because, obviously, as we're making some of the difficult choices that are in the near term that will yield some meaningful benefits in the longer term. That's where you'll see the impact to the business. Investments that we're looking to make to drive that improve processes, greater automation, improved tooling, that's all going to be baked into our guidance and how we prioritize and allocate our resources.

### Brian A. Shepherd

*CEO, President & Director*

Maggie, the only thing I would add on top of that is, it's not going to take us 2 years to get to the 18% to 20% range. We absolutely expect that we'll operate 2025. We're not giving next year's guidance yet, but I can tell you with this disciplined focus on margin improvement that we've been driving these quarter in terms of the wrench that we often talk about, we absolutely do expect that the business will operate above 18% starting next year.

### Operator

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

**Unknown Analyst**

This is [Indiscernible] on for George. Just a quick question regarding M&A. Any changes relative to last quarter in terms of the environment or plans and how you plan to approach that?

**Brian A. Shepherd**

*CEO, President & Director*

No, thanks for the question. I think it's pretty similar to what we talked about last quarter and what we talked about in the scripts. We'd expect to be highly disciplined. We're constantly evaluating lots of opportunities. We've closed 2 small tuck-ins. We love those deals. And what we're seeing, even though they're on the smaller side, and we're continuing to look at a range of deals. But as we talked with a higher cost of capital, with a higher hurdle rate, and with our stock being on the lower end, we're being even more disciplined.

So, therefore, that balance of strong capital return, the new \$100 million share buyback that was authorized by the Board, we expect to continue to return a lot of capital to shareholders. And when there's a great M&A, it comes at the right price, the right strategic fit, that can unlock a lot of value and we know we can execute and deliver on the investment memo; in a way that will be great for shareholders. You'll also hear us announce and execute those M&A deals as well.

**Operator**

Your next question comes from the line of Dan Bergstrom with RBC Capital Markets.

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

**Shlomo H. Rosenbaum**

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

I do have 2 questions really. One, the margin expansion is going pretty well and faster than planned, and you have that target. I just want to follow up back on the question that was started off with, which is, what is driving the margin expansion? And can you point out some -- maybe some specific examples of how you're going to get to that 18% to 20%? It's a nice target. It's decently above where you've been only several years ago and you're not -- the leverage -- you should get some operating leverage. But sounds like there's a lot more of an efficiency focus, and maybe you could just give us some examples so that we can understand exactly what's going on.

**Hai V. Tran**

*Executive VP & CFO*

Shlomo, it's Hai. Thanks for being with us today. It's a great question. I think for us, it's like most of our initiatives, it isn't single-threaded, it's multi-pronged in nature. Obviously, you hit on one of them, which is just driving greater efficiencies. And so, we're taking a hard look at kind of all of our businesses, our processes, and try to figure out what's going to yield the best return on capital and then making some difficult decisions to drive those efficiencies.

I think the second thing is to look at mix of revenue. One of the things that you saw on our announcement and in the prepared remarks was kind of the great new logo wins we've had. As you noticed, many of those are actually related to our SaaS platform products, right? And so as we think about our growth in the future periods, you're going to see a shifting of the mix of revenue to higher margin SaaS revenue that's going to help us expand our gross margins even further.

And then the third is operating leverage, right? It's just managing our expenses. So as we continue to grow the business from a revenue perspective, our operating expenses are growing at a much slower pace. So those are the 3 things that we focus on internally and gives us great confidence in terms of tailwinds to margin expansion over a multi-year period.

**Shlomo H. Rosenbaum**

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

Okay. Great. And then the domestic business in terms of revenue geographically continued to do well. The EMEA revenue declined a pretty decent amount sequentially. Maybe you could give us a little bit of detail as to what's going on in EMEA?

**Brian A. Shepherd**  
*CEO, President & Director*

Yes. It's really related more to the global telco, as Hai just talked about in the past, and we have these big implementation programs, typically multi-year in nature. And so that drives more services revenue to get those implementations deployed. So you will see then on the telco side, that kind of moved more quarter-to-quarter and over time. That's one of the things that we were so excited about would be now kind of the third quarter in a row, large, exciting new Ascendon wins in the cloud and SaaS platforms. Those tend to be much less services heavy, much higher gross margin.

So that's a trend that we're seeing. If we go back 2 or 3 years ago, a lot of the telecom companies were not willing to run their core in the cloud, and we're seeing that fundamentally shift with the 6 to 8 big Ascendon wins that we've announced and 2 more this quarter with the cross-sell with Xponent, it's super exciting to see. But it really is driven by that services revenue with the more on-prem telco solutions that we've sold in prior years.

**Operator**

Your next question comes from the line of Dan Bergstrom with RBC Capital Markets.

**Daniel Robert Bergstrom**  
*RBC Capital Markets, Research Division*

So, it was nice to see the new industry verticals at 31% of revenue versus 30% last quarter. You mentioned aspiring to 35% at the start of the prepared remarks. Any thoughts around timing of that 30% target? Seems like the percentage is moving up about 100 bps a quarter. Is that a realistic way to think around timing and progression to that 35% number?

**Brian A. Shepherd**  
*CEO, President & Director*

Yes. Dan, thanks for joining. I think that's a good way to look at it. If you just kind of model what it's been the last 4 or 5 quarters, it's kind of been that steady step up, and what we see in our CX and our payments business, through the first half of the year, each of those businesses has continued to grow revenue on an organic basis, strong double-digit.

And so that, combined with some of the smaller acquisitions, both will be additive. So we think it is linear, may not be a 100%. You may see a little bit of movement up or not quite that same 100 basis points, but I think that's a good trend. That's why we felt good saying that, that 35% should be achievable in the next 2-year planning cycle, if not sooner in that period.

**Daniel Robert Bergstrom**  
*RBC Capital Markets, Research Division*

That's great. Then sticking with the verticals, any update around channel partners in those additional verticals? I think we're about a year into investments there. How is the new logo pipeline looking for partners?

**Brian A. Shepherd**  
*CEO, President & Director*

Yes. No, we love the channel approach. I'd say with both our payments, our Ascendon and our CX business, it'll continue to be a combination of channel-driven as well as direct sales. And in many cases, we're actually seeing the benefit of cross-selling into our telco base, which is exciting, with a couple of those big cross-sells of Xponent at Telenor Denmark, and in Lyse.

But, yes, we like what we're seeing on the channel side. We're signing up good partnerships. The pipelines are expanding in there and that's one that really hasn't even started to bear fruit yet. We think that's going to be part of this growth acceleration in Q3 and Q4 and into next year, back closer to the 3%, 4%, 5% that we anticipate. That's going to come from some of those -- that investment we've made in channel, which I think is a big one.

Even as we've gotten to this margin expansion, it's not coming because we've cut sales and marketing. We're continuing to invest both in differentiated SaaS product R&D and we're continuing to invest in sales and marketing and channel partner sales, and that's going to continue. And that's why we really feel good about our ability over the medium to longer term to be a mid-single-digit organic growth company or higher.

**Operator**

Your next question comes from the line of Nehal Chokshi with Northland Capital Markets. Please go ahead.

**Nehal Sushil Chokshi**

*Northland Capital Markets, Research Division*

Big news on the operating margin raise, that's great, and how you mentioned that mix shift to SaaS is a driver to the calendar '25 margin expansion being discussed. What is the mature operating margin of your SaaS business?

**Brian A. Shepherd**

*CEO, President & Director*

Yes. I mean, I think if you generally look at SaaS businesses in general, right, they -- most of them have gross margins in the 70% to 80%. I think that's something that we're looking to drive with scale as well.

**Nehal Sushil Chokshi**

*Northland Capital Markets, Research Division*

What about the operating margin portion?

**Brian A. Shepherd**

*CEO, President & Director*

I think the operating margin, I think it depends, right? What I mean by that is, I think it depends on what phase of the growth expansion that we're in. Obviously, a lot of SaaS businesses over-invest in sales and marketing R&D as they're gaining traction and growing. But I can imagine a scenario at maturity, where you're talking about EBITDA that's approaching kind of mid-20 to low 30s.

**Nehal Sushil Chokshi**

*Northland Capital Markets, Research Division*

Okay. So, in that context then, this 18% to 20%, this is more of a milepost as opposed to the long-term expectation. Is that fair?

**Brian A. Shepherd**

*CEO, President & Director*

Yes. I think it always comes down to revenue mix at the end of the day, right? A big chunk of our businesses are still very services-oriented from a revenue perspective and likely will remain so because there are geographies that we serve, whereby an on-prem solution will remain kind of the better solution for those customers. So, I think you'll always have a chunk of revenue that will be lower margin. Strategically important for us, but lower margin in nature.

**Hai V. Tran**

*Executive VP & CFO*

Yeah. Thanks, Nehal. Appreciate you joining. I think the only thing I would add to that is, we'll give more color for 2025, and I think a little more on this 18% to 20% next quarter and the following. But we kind

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of see that as a 2-to-3-year horizon in terms of how we at least think about and see the business. And to your point, as we continue to shift mix, we have a higher percentage of our revenue coming from faster-growing SaaS and we benefit at higher scale. You're exactly right. There's no reason that 18% to 20% would be our medium to longer-term cap, not by any stretch. I think you're exactly right.

**Nehal Sushil Chokshi**

*Northland Capital Markets, Research Division*

Okay. Great. And then I do have another question. With the incremental buyback capacity that you've announced, but you did have plenty of capacity left on the existing buyback. Are you trying to signal that your projected pace of share backs are going to materially hasten here?

**Brian A. Shepherd**

*CEO, President & Director*

Yes. I mean, I think what we're trying to say is that we are committed to delivering value back to our shareholders. We understand that at these levels, that is a good use of our capital. And that's really what we're trying to signal at the end of the day, right? And because we speak a lot of times about organic growth, about inorganic growth. And sometimes as investors have a certain perspective that somehow that inorganic growth is going to trump the value we deliver back to shareholders. And what you heard Brian say is, we're going to be extremely disciplined and continue to be committed to delivering value back to our shareholders through buybacks.

**Hai V. Tran**

*Executive VP & CFO*

Yes. And I think as data -- historical performance is a great indicator. We've returned \$480 million to shareholders since 2020. We've done well over \$100 million each of the last 2 years. We've returned a lot of capital, and there's additional authorization for us to do more in the coming quarters.

**Operator**

The next question comes from the line of Matthew Harrigan with Benchmark Company. Please go ahead.

**Matthew Joseph Harrigan**

*The Benchmark Company, LLC, Research Division*

One of the beauty of the Xponent in this environment is, you can really [ instill ], I think, fairly readily to existing customers and maybe new customers are somewhat [ lesser than ] that, really what the quantifiable impacts are on customer retention and cost efficiency on the customer journey and all that. And given that that's a priority, I mean, is this sort of natural inertia on your corporate clients to spending any money even though you can demonstrate that the ROI is really high and is that something you think they're able to work out over a period of time? What are the real hurdles on the selling process for Xponent to new customers, and then layering in more capabilities for your existing customers?

**Brian A. Shepherd**

*CEO, President & Director*

Yeah. No, Matt, I mean, what we're seeing on the CX Xponent side is almost identical to what you said. We can ring the cash register quickly with a very fast payback for lots of brands and lots of verticals on a wide number of fronts. We see some use cases getting deployed around our billexplainer.ai, where they want to reduce the number of calls into their call center and reduce churn during a promotional period.

We've got other customers that want to deal with fraud alert notifications, and that's the entry point to get a quick sale. We have other customers that are trying to actually grow revenue faster, and they use it to do proactive offers, try to upsell or cross-sell and it's more of a revenue driver. And often, what we find on speed is it's use case driven. And then once they deploy for 1 or 2 use cases, they realize the power in that platform can actually be used for dozens of use cases.

So, occasionally, we'll sell it more as a pure platform play and a Swiss army knife to solve any of their needs. But often in this, I'd say, higher hurdle rate payback period, often is just ring the cash register, solve a near-term problem and then move on. So, we have traditional SaaS economic pricing that you would expect with that.

Could it become more performance-based over time? Always open to that. It just has to work for us and for our customers. But we're always flexible to just different approaches over time. But we love what we're saying, and one of the real breakthroughs this quarter order on CX was that cross-sell into telco that we saw with Telenor Denmark and Lyse getting sold with our [ authorization ] SaaS platform as well. That was super exciting for us, and we think we can do a lot more of that.

**Matthew Joseph Harrigan**

*The Benchmark Company, LLC, Research Division*

And then you had a question on M&A earlier, and you also went into it in extent on your commentary, and certainly I understand the relative hurdle rates compared to buying back your own stock. But are you seeing any loosening of multiples? Are you seeing the likelihood of more forward selling on the part of some smaller entrepreneurial companies who might not have had the access to capital that they had even 12 or 18 months ago?

**Brian A. Shepherd**

*CEO, President & Director*

Yes. I think that there's a couple of interesting dynamics on the M&A, but also it relates to a couple of other non-M&A related portions. Periods like this actually tend to play to the favor of stronger, larger providers. And we've seen periods like this where customers have made decisions to maybe break some of their hard-held, long-held beliefs and open up new buying opportunities for CSG. And that's true on the M&A side as well.

So, in tougher periods, sometimes weaker performers, sometimes reevaluate whether they should still be in the business or not in various areas, and they can create opportunities where we can just win more sales organically from them and go take market share. And in some cases, it may create a fantastic opportunity to buy an extremely attractive price on a multiple of revenue and EBITDA pre-cost synergies that could create opportunities.

And so, even though I think the macroeconomic environment right now we'd love it to be -- have a few less single digit, 1% to 2% headwinds to growth, but we think it's actually going to be a gift in the longer and medium term for CSG, both on the organic side of our business and potentially on the M&A.

And what we just try to do, we just try to stay extremely disciplined on what we know would unlock a ton of value for our shareholders. And if it comes in, if a good M&A, small, mid or larger comes in and it fits the criteria, we have the flexible balance sheet to be able to act on that in a way that could be very attractive for our shareholders. If it doesn't come in, no problem, we'll just keep working and keep driving the organic part of our business. That's how we think about it.

**Matthew Joseph Harrigan**

*The Benchmark Company, LLC, Research Division*

You still have all those Netcracker engineers still sitting in Dubai now presumably, Okay, Great.

**Operator**

The next question comes from the line of Michael Berg with Wells Fargo Securities.

**Michael H. Berg**

*Wells Fargo Securities, LLC, Research Division*

I want to double click on the dynamics happening within Comcast and Charter. Those are both healthy points in the quarter. You mentioned specifically expansion in new areas of business and that the Comcast renewal may get pulled forward here. So, maybe you could just help us understand some more nuance of

those new areas of business. What areas of business are still left to capture at both Comcast and Charter? And any more details you can share on the Comcast renewal.

**Brian A. Shepherd**  
*CEO, President & Director*

No. Thanks so much, Mike. Appreciate you joining. Yes, as we've talked, I mean, we've talked for a few quarters now. We have high confidence that Comcast, Charter are extremely strong brands, industry-leading companies. We believe they will mount a strong, formidable competitive response to some of the things they see going on in the market. We love what they're doing in the business. We love our 3 decades plus relationship with both, and we have significant opportunities to expand if they decide that that's good for their business.

And so first, we serve over 63 million subscribers at Comcast and Charter combined, all of their triple-play subscribers on both. As a reminder, we moved 11 million subscribers off of Amdocs to us a few years ago, and we moved 14 million off of Netcracker a couple of years ago as well. And so, we continue to serve them well.

It was very exciting to see 1% growth and it was exciting to sign a good new billing contract with Comcast in a new growth area for them, unrelated to the 63 million triple-play subscribers we already serve with our long-term contracts. So, love what we're seeing. We could have opportunities to grow in the CX space if they chose to use us in those areas. We could grow in the wireless space.

Right now, both of them in their wireless growth are on an Amdocs platform. We could also just help them in other areas of the business where they might decide to rely on some of our proven technology. And so, what we try to do is just always be on and resilient, always be future ready with our platforms and just constantly bring them ideas that can help them mount a more formidable response.

And so, that's why we gave the additional color on the Comcast renewal. We've never been better positioned at Comcast and yet we never take it for granted. And so, what we're -- as you can imagine, with about 18 months left on that contract, we're in active discussions. Maybe something gets signed sooner this year. Maybe Comcast decides to sign the renewal sometime next year. There is going to be a good win-win renewal that brings a lot of value for Comcast and fantastic value for CSG. We're highly confident it's coming, whether it's next quarter or the quarter after or in 2025. Stay tuned, but we love where we're positioned.

**Operator**

I will now turn the call back over to Brian Shepherd for closing remarks. Please go ahead.

**Brian A. Shepherd**  
*CEO, President & Director*

Thanks for joining, everyone. We were super excited about the great sales wins we saw in Q2, gives us confidence that we'll see improved organic revenue growth in Q3 and Q4. We are going to consistently improve our non-GAAP adjusted operating margin and our EPS, and that is here to stay, and we're going to continue to execute on that like those quarter turns in a wrench. Super grateful to all the CSGers around the world for making this happen. Look forward to talking next quarter. We've got some work to do to deliver fantastic results in Q3. Thank you all.

**Operator**

Ladies and gentlemen, that concludes today's call. Thank you all for joining, and you may now disconnect.



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