

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	Adjusted Revenue	Operating Income	Adjusted Operating Margin Percentage	EPS
Transaction fees	X	—	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 clients 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 client 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 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 December 31,		Year Ended December 31,	
	2020	2019	2020	2019
GAAP revenue.....	\$ 260,487	\$ 254,747	\$ 990,533	\$ 996,810
Less: Transaction fees	(17,239)	(17,840)	(67,671)	(69,114)
Non-GAAP adjusted revenue	<u>\$ 243,248</u>	<u>\$ 236,907</u>	<u>\$ 922,862</u>	<u>\$ 927,696</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 December 31,		Year Ended December 31,	
	2020	2019	2020	2019
GAAP operating income	\$ 23,675	\$ 30,258	\$ 105,556	\$ 126,109
Restructuring and reorganization charges (1)	1,051	1,563	5,328	4,834
Executive transition costs	11,226	-	13,012	-
Acquisition-related expenses:				
Amortization of acquired intangible assets	2,681	3,095	11,816	12,603
Earn-out compensation	-	-	-	1,260
Transaction-related costs	(728)	-	(587)	-
Stock-based compensation (1).....	5,082	6,624	19,762	20,896
Non-GAAP operating income	<u>\$ 42,987</u>	<u>\$ 41,540</u>	<u>\$ 154,887</u>	<u>\$ 165,702</u>
Non-GAAP adjusted revenue	\$ 243,248	\$ 236,907	\$ 922,862	\$ 927,696
Non-GAAP adjusted operating margin percentage	17.7%	17.5%	16.8%	17.9%

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

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 December 31, 2020		Quarter Ended December 31, 2019	
	Amounts	EPS (3)	Amounts	EPS (3)
GAAP net income	\$ 13,265	\$ 0.41	\$ 22,581	\$ 0.70
GAAP income tax provision (2)	6,423		1,633	
GAAP income before income taxes.....	19,688		24,214	
Restructuring and reorganization charges (1)	1,051		1,563	
Executive transition costs	11,226		-	
Acquisition-related costs:				
Amortization of acquired intangible assets	2,681		3,095	
Transaction-related costs	(728)		-	
Stock-based compensation (1).....	5,082		6,624	
Amortization of OID	762		720	
Non-GAAP income before income taxes.....	39,762		36,216	
Non-GAAP income tax provision (2).....	(10,864)		(4,306)	
Non-GAAP net income	<u>\$ 28,898</u>	<u>\$ 0.90</u>	<u>\$ 31,910</u>	<u>\$ 0.98</u>

	Year Ended December 31, 2020		Year Ended December 31, 2019	
	Amounts	EPS (3)	Amounts	EPS (3)
GAAP net income	\$ 58,711	\$ 1.82	\$ 82,770	\$ 2.55
GAAP income tax provision (2)	26,645		22,953	
GAAP income before income taxes.....	85,356		105,723	
Restructuring and reorganization charges (1)	5,328		4,834	
Executive transition costs	13,012		-	
Acquisition-related expenses:				
Amortization of acquired intangible assets	11,816		12,603	
Earn-out compensation	-		1,260	
Transaction-related costs	(587)		-	
Stock-based compensation (1).....	19,762		20,896	
Amortization of OID	2,983		2,819	
Non-GAAP income before income taxes.....	137,670		148,135	
Non-GAAP income tax provision (2).....	(36,978)		(33,404)	
Non-GAAP net income	<u>\$ 100,692</u>	<u>\$ 3.12</u>	<u>\$ 114,731</u>	<u>\$ 3.53</u>

(2) For the fourth quarter and year ended December 31, 2020 the GAAP effective income tax rates were approximately 33% and 31%, respectively, and the non-GAAP effective income tax rate was approximately 27% for both periods. The difference between the GAAP and non-GAAP effective income tax rates is due primarily to the non-GAAP tax impact of the separation agreement entered into during the third quarter of 2020 with CSG's former CEO.

For the fourth quarter and year ended December 31, 2019 the GAAP effective income tax rates were approximately 7% and 22%, respectively, and the non-GAAP effective income tax rates were approximately 12% and 23%, respectively. These rates reflect an approximately \$4 million net income tax benefit related to Comcast's exercise of 0.4 million vested common stock warrants in December 2019.

(3) The outstanding diluted shares for the fourth quarter and year ended December 31, 2020 were 32.2 million and 32.3 million, respectively, and for the fourth quarter and year ended December 31, 2019 were 32.4 million and 32.5 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 December 31,		Year Ended December 31,	
	2020	2019	2020	2019
GAAP net income	\$ 13,265	\$ 22,581	\$ 58,711	\$ 82,770
GAAP income tax provision	6,423	1,633	26,645	22,953
Interest expense (4)	3,606	4,300	15,500	17,748
Amortization of OID	762	720	2,983	2,819
Interest and investment income and other, net.....	(381)	1,024	1,717	(181)
GAAP operating income	23,675	30,258	105,556	126,109
Restructuring and reorganization charges (1).....	1,051	1,563	5,328	4,834
Executive transition costs.....	11,226	-	13,012	-
Acquisition-related expenses:				
Amortization of acquired intangible assets (5)	2,681	3,095	11,816	12,603
Earn-out compensation	-	-	-	1,260
Transaction-related costs	(728)	-	(587)	-
Stock-based compensation (1)	5,082	6,624	19,762	20,896
Amortization of other intangible assets (5).....	3,400	2,897	13,216	10,641
Amortization of client contract costs (5)	4,432	4,705	17,190	20,779
Depreciation	5,910	5,503	22,926	21,422
Non-GAAP adjusted EBITDA	<u>\$ 56,729</u>	<u>\$ 54,645</u>	<u>\$ 208,219</u>	<u>\$ 218,544</u>
Non-GAAP adjusted EBITDA as a percentage of non- GAAP adjusted revenue.....	<u>23%</u>	<u>23%</u>	<u>23%</u>	<u>24%</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 December 31,		Year Ended December 31,	
	2020	2019	2020	2019
Amortization of acquired intangible assets.....	\$ 2,681	\$ 3,095	\$ 11,816	\$ 12,603
Amortization of other intangible assets	3,400	2,897	13,216	10,641
Amortization of client contract costs.....	4,432	4,705	17,190	20,779
Amortization of deferred financing costs	436	424	1,725	1,677
Total amortization	<u>\$ 10,949</u>	<u>\$ 11,121</u>	<u>\$ 43,947</u>	<u>\$ 45,700</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 December 31,		Year Ended December 31,	
	2020	2019	2020	2019
Cash flows from operating activities	\$ 57,335	\$ 43,549	\$ 173,020	\$ 151,076
Purchases of software, property and equipment	(5,196)	(9,613)	(29,397)	(37,319)
Non-GAAP free cash flow.....	<u>\$ 52,139</u>	<u>\$ 33,936</u>	<u>\$ 143,623</u>	<u>\$ 113,757</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.....	\$ 995,000	\$ 1,035,000
Less: Transaction fees	(73,000)	(81,000)
Non-GAAP adjusted revenue	<u>\$ 922,000</u>	<u>\$ 954,000</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	\$ 121,300	\$ 131,300
Restructuring and reorganization charges.....	300	300
Executive transition costs	100	100
Acquisition-related expenses:		
Amortization of acquired intangible assets	8,400	8,400
Stock-based compensation.....	19,700	19,700
Non-GAAP operating income.....	<u>\$ 149,800</u>	<u>\$ 159,800</u>
<u>Operating Margin Percentage</u>		
GAAP revenue	\$ 995,000	\$ 1,035,000
GAAP operating margin percentage	12.2%	12.7%
Non-GAAP adjusted revenue.....	\$ 922,000	\$ 954,000
Non-GAAP adjusted operating margin percentage	16.25%	16.75%

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	\$ 73,700	\$ 2.30	\$ 81,000	\$ 2.53
GAAP income tax provision (6)	27,900		30,600	
GAAP income before income taxes.....	101,600		111,600	
Restructuring and reorganization charges	300		300	
Executive transition costs	100		100	
Acquisition-related expenses:				
Amortization of acquired intangible assets	8,400		8,400	
Stock-based compensation	19,700		19,700	
Amortization of OID	3,000		3,000	
Non-GAAP income before income taxes.....	133,100		143,100	
Non-GAAP income tax provision (6).....	(36,500)		(39,200)	
Non-GAAP net income	<u>\$ 96,600</u>	<u>\$ 3.02</u>	<u>\$ 103,900</u>	<u>\$ 3.24</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	\$ 73,700	\$ 81,000
GAAP income tax provision (6)	27,900	30,600
Interest expense.....	17,500	17,500
Amortization of OID.....	3,000	3,000
Interest and investment income and other, net.....	(800)	(800)
GAAP operating income	121,300	131,300
Restructuring and reorganization charges	300	300
Executive transition costs	100	100
Acquisition-related expenses:		
Amortization of acquired intangible assets	8,400	8,400
Stock-based compensation.....	19,700	19,700
Amortization of other intangible assets	10,100	10,100
Amortization of client contract costs	22,200	22,200
Depreciation	29,400	29,400
Non-GAAP adjusted EBITDA	<u>\$ 211,500</u>	<u>\$ 221,500</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	\$ 135,000	\$ 155,000
Purchases of software, property and equipment	(25,000)	(35,000)
Non-GAAP free cash flow	<u>\$ 110,000</u>	<u>\$ 120,000</u>