

EVERTEC, Inc.  
Form 10-Q  
May 03, 2019  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
COMMISSION FILE NUMBER 001-35872

EVERTEC, Inc.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Puerto Rico 66-0783622  
(State or other jurisdiction of (I.R.S. employer  
incorporation or organization) identification number)

Cupey Center Building, Road 176, Kilometer 1.3, 00926  
San Juan, Puerto Rico  
(Address of principal executive offices) (Zip Code)

(787) 759-9999  
(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer  
Non-accelerated filer Smaller reporting company  
Emerging growth company

Edgar Filing: EVERTEC, Inc. - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes No

---

Table of Contents

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

At April 26, 2019, there were 72,226,415 outstanding shares of common stock of EVERTEC, Inc.

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	EVTC	New York Stock Exchange

---

Table of Contents

## TABLE OF CONTENTS

	Page
Part I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Unaudited Consolidated Condensed Balance Sheets at March 31, 2019 and December 31, 2018</u>	<u>1</u>
<u>Unaudited Consolidated Condensed Statements of Income and Comprehensive Income for the three months ended March 31, 2019 and 2018</u>	<u>2</u>
<u>Unaudited Consolidated Condensed Statements of Changes in Stockholders' Equity for the three months ended March 31, 2019 and 2018</u>	<u>3</u>
<u>Unaudited Consolidated Condensed Statements of Cash Flows for the three months ended March 31, 2019 and 2018</u>	<u>4</u>
<u>Notes to Unaudited Consolidated Condensed Financial Statements</u>	<u>5</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>31</u>
Item 4. <u>Controls and Procedures</u>	<u>31</u>
Part II. OTHER INFORMATION	<u>33</u>
Item 1. <u>Legal Proceedings</u>	<u>33</u>
Item 1A. <u>Risk Factors</u>	<u>33</u>
Item 2. <u>Unregistered Sales of Equity in Securities and Use of Proceeds</u>	<u>33</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>33</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>33</u>
Item 5. <u>Other Information</u>	<u>33</u>
Item 6. <u>Exhibits</u>	<u>34</u>
<u>SIGNATURES</u>	<u>35</u>

All reports we file with the Securities and Exchange Commission ("SEC") are available free of charge via the Electronic Data Gathering Analysis and Retrieval (EDGAR) System on the SEC's website at [www.sec.gov](http://www.sec.gov). We also provide copies of our SEC filings at no charge upon request and make electronic copies of our reports available through our website at [www.evertecinc.com](http://www.evertecinc.com) as soon as reasonably practicable after filing such material with the SEC.



Table of Contents

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of, and subject to the protection of, the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the use of forward-looking terminology such as “believes,” “expects,” “may,” “estimates,” “will,” “should,” “plans” or “anticipates” or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and may involve significant risks and uncertainties, and that actual results may vary materially from those in the forward-looking statements as a result of various factors. Among the factors that significantly impact our business and could impact our business in the future are:

- our reliance on our relationship with Popular, Inc. (“Popular”) for a significant portion of our revenues pursuant to our master services agreement with them, and to grow our merchant acquiring business;
- as a regulated institution, the likelihood we will be required to obtain regulatory approval before engaging in certain new activities or businesses, whether organically or by acquisition, and our potential inability to obtain such approval on a timely basis or at all, which may make transactions more expensive or impossible to complete, or make us less attractive to potential sellers;
- our ability to renew our client contracts on terms favorable to us, including our contract with Popular, and any significant concessions we may have to grant to Popular with respect to pricing or other key terms in anticipation of the negotiation of the extension of the MSA, both in respect of the current term and any extension of the MSA;
- our dependence on our processing systems, technology infrastructure, security systems and fraudulent payment detection systems, as well as on our personnel and certain third parties with whom we do business, and the risks to our business if our systems are hacked or otherwise compromised;
- our ability to develop, install and adopt new software, technology and computing systems;
- a decreased client base due to consolidations and failures in the financial services industry;
- the credit risk of our merchant clients, for which we may also be liable;
- the continuing market position of the ATH network;
- a reduction in consumer confidence, whether as a result of a global economic downturn or otherwise, which leads to a decrease in consumer spending;
- our dependence on credit card associations, including any adverse changes in credit card association or network rules or fees;
- changes in the regulatory environment and changes in international, legal, tax, political, administrative or economic conditions;
- the geographical concentration of our business in Puerto Rico, including our business with the government of Puerto Rico and its instrumentalities, which are facing severe fiscal challenges;
- additional adverse changes in the general economic conditions in Puerto Rico, whether as a result of the government’s debt crisis or otherwise, including the continued migration of Puerto Ricans to the U.S. mainland, which could negatively affect our customer base, general consumer spending, our cost of operations and our ability to hire and retain qualified employees;
- a protracted federal government shutdown may affect our financial performance;
- operating an international business in Latin America and the Caribbean, in jurisdictions with potential political and economic instability;
- our ability to execute our geographic expansion and acquisition strategies, including challenges in successfully acquiring new businesses and integrating and growing acquired businesses;
- our ability to protect our intellectual property rights against infringement and to defend ourselves against claims of infringement brought by third parties;
- our ability to recruit and retain the qualified personnel necessary to operate our business;
- our ability to comply with U.S. federal, state, local and foreign regulatory requirements;
- evolving industry standards and adverse changes in global economic, political and other conditions;

Edgar Filing: EVERTEC, Inc. - Form 10-Q

- our high level of indebtedness and restrictions contained in our debt agreements, including the senior secured credit facilities, as well as debt that could be incurred in the future;
  - our ability to prevent a cybersecurity attack or breach in our information security;
- our ability to generate sufficient cash to service our indebtedness and to generate future profits;
- our ability to refinance our debt;
- the possibility that we could lose our preferential tax rate in Puerto Rico;
- the risk that the counterparty to our interest rate swap agreements fail to satisfy its obligations under the agreement;
-

Table of Contents

uncertainty of the pending debt restructuring process under Title III of the Puerto Rico Oversight, Management and Economic Stability Act (“PROMESA”), as well as actions taken by the Puerto Rico government or by the PROMESA Board to address the Puerto Rico fiscal crisis;

uncertainty related to Hurricanes Irma and Maria and their aftermaths’ impact on the economies of Puerto Rico and the Caribbean;

the possibility of future catastrophic hurricanes affecting Puerto Rico and/or the Caribbean, as well as other potential natural disasters; and

the nature, timing and amount of any restatement.

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should, therefore, be considered in light of various factors, including those set forth under “Item 1A. Risk Factors,” in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Report. These forward-looking statements speak only as of the date of this Report, and we do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Report or to reflect the occurrence of unanticipated events.

---



Table of ContentsEVERTEC, Inc. Unaudited Consolidated Condensed Balance Sheets  
(Dollar amounts in thousands, except for share information)

	March 31, 2019	December 31, 2018
Assets		
Current Assets:		
Cash and cash equivalents	\$73,183	\$69,973
Restricted cash	13,318	16,773
Accounts receivable, net	96,307	100,323
Prepaid expenses and other assets	34,451	29,124
Total current assets	217,259	216,193
Investment in equity investee	12,337	12,149
Property and equipment, net	45,778	36,763
Operating lease right-of-use asset	34,743	—
Goodwill	395,723	394,644
Other intangible assets, net	252,592	259,269
Deferred tax asset	2,167	1,917
Net investment in lease	982	1,060
Other long-term assets	7,195	5,297
Total assets	\$968,776	\$927,292
Liabilities and stockholders' equity		
Current Liabilities:		
Accrued liabilities	\$44,353	\$57,006
Accounts payable	45,995	47,272
Unearned income	12,156	11,527
Income tax payable	6,841	6,650
Current portion of long-term debt	14,250	14,250
Short-term borrowings	15,000	—
Current portion of operating lease liability	9,458	—
Total current liabilities	148,053	136,705
Long-term debt	520,771	524,056
Deferred tax liability	9,041	9,950
Unearned income - long term	30,199	26,075
Operating lease liability	25,475	—
Other long-term liabilities	18,739	14,900
Total liabilities	752,278	711,686
Commitments and contingencies (Note 12)		
Stockholders' equity		
Preferred stock, par value \$0.01; 2,000,000 shares authorized; none issued	—	—
Common stock, par value \$0.01; 206,000,000 shares authorized; 72,267,445 shares issued and outstanding at March 31, 2019 (December 31, 2018 - 72,378,710)	722	723
Additional paid-in capital	—	5,783
Accumulated earnings	237,418	228,742
Accumulated other comprehensive loss, net of tax	(25,879 )	(23,789 )
Total EVERTEC, Inc. stockholders' equity	212,261	211,459
Non-controlling interest	4,237	4,147

Total equity	216,498	215,606
Total liabilities and equity	\$968,776	\$927,292

The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.

1

---

Table of ContentsEVERTEC, Inc. Unaudited Consolidated Condensed Statements of Income and Comprehensive Income  
(Dollar amounts in thousands, except per share information)

	Three months ended March 31,	
	2019	2018
Revenues (affiliates Note 13)	\$118,836	\$110,274
Operating costs and expenses		
Cost of revenues, exclusive of depreciation and amortization shown below	50,019	47,420
Selling, general and administrative expenses	15,139	13,432
Depreciation and amortization	16,273	15,867
Total operating costs and expenses	81,431	76,719
Income from operations	37,405	33,555
Non-operating income (expenses)		
Interest income	259	157
Interest expense	(7,551)	(7,679)
Earnings of equity method investment	222	199
Other income, net	208	817
Total non-operating expenses	(6,862)	(6,506)
Income before income taxes	30,543	27,049
Income tax expense	3,809	3,935
Net income	26,734	23,114
Less: Net income attributable to non-controlling interest	90	92
Net income attributable to EVERTEC, Inc.'s common stockholders	26,644	23,022
Other comprehensive income (loss), net of tax of \$384 and \$140		
Foreign currency translation adjustments	1,965	2,407
(Loss) gain on cash flow hedges	(4,055)	1,503
Total comprehensive income attributable to EVERTEC, Inc.'s common stockholders	\$24,554	\$26,932
Net income per common share - basic attributable to EVERTEC, Inc.'s common stockholders	\$0.37	\$0.32
Net income per common share - diluted attributable to EVERTEC, Inc.'s common stockholders	\$0.36	\$0.31

The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.

Table of ContentsEVERTEC, Inc. Unaudited Consolidated Condensed Statements of Changes in Stockholders' Equity  
(Dollar amounts in thousands, except share information)

	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total Stockholders' Equity
Balance at December 31, 2018	72,378,710	\$ 723	\$ 5,783	\$ 228,742	\$ (23,789 )	\$ 4,147	\$ 215,606
Share-based compensation recognized	—	—	3,279	—	—	—	3,279
Repurchase of common stock	(618,573 )	(6 )	(3,129 )	(14,351 )	—	—	(17,486 )
Restricted stock units delivered, net of cashless	507,308	5	(5,933 )	—	—	—	(5,928 )
Net income	—	—	—	26,644	—	90	26,734
Cash dividends declared on common stock, \$0.05 per share	—	—	—	(3,617 )	—	—	(3,617 )
Other comprehensive loss	—	—	—	—	(2,090 )	—	(2,090 )
Balance at March 31, 2019	72,267,445	\$ 722	\$ —	\$ 237,418	\$ (25,879 )	\$ 4,237	\$ 216,498
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total Stockholders' Equity
Balance at December 31, 2017	72,393,933	\$ 723	\$ 5,350	\$ 148,887	\$ (10,848 )	\$ 3,864	\$ 147,976
Cumulative adjustment from implementation of ASC 606	—	—	—	868	—	(16 )	852
Share-based compensation recognized	—	—	3,637	—	—	—	3,637
Restricted stock units delivered, net of cashless	35,208	1	(205 )	—	—	—	(204 )
Net income	—	—	—	23,022	—	92	23,114
Other comprehensive income	—	—	—	—	3,910	—	3,910
Balance at March 31, 2018	72,429,141	\$ 724	\$ 8,782	\$ 172,777	\$ (6,938 )	\$ 3,940	\$ 179,285

The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.

Table of ContentsEVERTEC, Inc. Unaudited Consolidated Condensed Statements of Cash Flows  
(Dollar amounts in thousands)

	Three months ended March 31,	
	2019	2018
Cash flows from operating activities		
Net income	\$26,734	\$23,114
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,273	15,867
Amortization of debt issue costs and accretion of discount	415	1,270
Operating lease expense	1,472	—
Provision for doubtful accounts and sundry losses	815	221
Deferred tax benefit	(882)	(1,152)
Share-based compensation	3,279	3,637
Loss on disposition of property and equipment and other intangibles	22	11
Earnings of equity method investment	(222)	(199)
(Increase) decrease in assets:		
Accounts receivable, net	3,961	(6,815)
Prepaid expenses and other assets	(5,326)	(5,108)
Other long-term assets	(2,558)	(1,117)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(18,339)	(4,905)
Income tax payable	191	2,716
Unearned income	4,754	2,645
Operating lease liabilities	(1,281)	—
Other long-term liabilities	31	183
Total adjustments	2,605	7,254
Net cash provided by operating activities	29,339	30,368
Cash flows from investing activities		
Additions to software	(8,917)	(5,208)
Property and equipment acquired	(5,071)	(4,157)
Proceeds from sales of property and equipment	32	—
Net cash used in investing activities	(13,956)	(9,365)
Cash flows from financing activities		
Statutory withholding taxes paid on share-based compensation	(5,928)	(204)
Net increase (decrease) in short-term borrowings	15,000	(12,000)
Repayment of short-term borrowings for purchase of equipment and software	(34)	(114)
Dividends paid	(3,617)	—
Repurchase of common stock	(17,486)	—
Repayment of long-term debt	(3,563)	(5,041)
Net cash used in financing activities	(15,628)	(17,359)
Net (decrease) increase in cash, cash equivalents and restricted cash	(245)	3,644
Cash, cash equivalents and restricted cash at beginning of the period	86,746	60,367
Cash, cash equivalents and restricted cash at end of the period	\$86,501	\$64,011
Reconciliation of cash, cash equivalents and restricted cash		
Cash and cash equivalents	\$73,183	\$53,471
Restricted cash	13,318	10,540
Cash, cash equivalents and restricted cash	\$86,501	\$64,011

Edgar Filing: EVERTEC, Inc. - Form 10-Q

Supplemental disclosure of cash flow information:

Cash paid for interest	\$7,390	\$6,526
Cash paid for income taxes	3,496	1,074
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	1,558	—
Operating cash flows from finance leases	110	—
Supplemental disclosure of non-cash activities:		
Payable due to vendor related to equipment and software acquired	6,703	893

The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.

4

---

Table of Contents

Notes to Unaudited Consolidated Condensed Financial Statements

<u>Note 1 – The Company and Basis of Presentation</u>	<u>6</u>
<u>Note 2 - Recent Accounting Pronouncements</u>	<u>6</u>
<u>Note 3 - Property and Equipment, Net</u>	<u>8</u>
<u>Note 4 - Goodwill and Other Intangible Assets</u>	<u>8</u>
<u>Note 5 - Debt and Short-Term Borrowings</u>	<u>9</u>
<u>Note 6 - Financial Instruments and Fair Value Measurements</u>	<u>10</u>
<u>Note 7 - Equity</u>	<u>12</u>
<u>Note 8 - Share-based Compensation</u>	<u>12</u>
<u>Note 9 - Revenues</u>	<u>12</u>
<u>Note 10 - Income Tax</u>	<u>14</u>
<u>Note 11 - Net Income per Common Share</u>	<u>15</u>
<u>Note 12 - Commitments and Contingencies</u>	<u>15</u>
<u>Note 13 - Related Party Transactions</u>	<u>17</u>
<u>Note 14 - Segment Information</u>	<u>18</u>
<u>Note 15 - Subsequent Events</u>	<u>20</u>

## Table of Contents

### Note 1 – The Company and Basis of Presentation

#### The Company

EVERTEC, Inc. (formerly known as Carib Latam Holdings, Inc.) and its subsidiaries (collectively the “Company,” or “EVERTEC”) is a leading full-service transaction processing business in Latin America and the Caribbean. The Company is based in Puerto Rico and provides a broad range of merchant acquiring, payment processing and business process management. The Company provides services across 26 countries in the region. EVERTEC owns and operates the ATH network, one of the leading debit networks in Latin America. In addition, EVERTEC provides a comprehensive suite of services for core bank processing, cash processing and technology outsourcing in the regions the Company serves. EVERTEC serves a broad and diversified customer base of leading financial institutions, merchants, corporations and government agencies with solutions that are essential to their operations, enabling them to issue, process and accept transactions securely. EVERTEC's common stock is listed under the ticker symbol "EVTC" on the New York Stock Exchange.

#### Basis of Presentation

The unaudited consolidated condensed financial statements of EVERTEC have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of the accompanying unaudited consolidated condensed financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited consolidated condensed financial statements. Actual results could differ from these estimates.

Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted from these statements pursuant to the rules and regulations of the SEC and, accordingly, these consolidated condensed financial statements should be read in conjunction with the Audited Consolidated Financial Statements of the Company for the year ended December 31, 2018, included in the Company's Annual Report on Form 10-K. In the opinion of management, the accompanying consolidated condensed financial statements, prepared in accordance with GAAP, contain all adjustments necessary for a fair presentation. Intercompany accounts and transactions are eliminated in consolidation.

### Note 2 – Recent Accounting Pronouncements

#### Recently adopted accounting pronouncements

In December 2018, SEC Release No. 33-10532, Disclosure Update and Simplification, became effective, amending certain disclosure requirements that were redundant or outdated. The amendments include replacing the requirement to disclose the high and low trading prices of the Company's common stock with a requirement to disclose the ticker symbol of the common stock. In addition, the amendments expanded the disclosure requirements on the analysis of stockholder's equity for interim financial statements. Under the amendments, the changes in each caption of stockholder's equity presented in the balance sheet must be provided in a note or separate statement for the current and comparative year-to date interim periods. The Company adopted the new disclosure requirements in the first quarter of 2019.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued updated guidance for leases, codified as Topic 842, to increase transparency and comparability among organizations by recognizing Right of Use (“ROU”) assets and lease liabilities on the balance sheet for all leases, notwithstanding the lease classification. Under the standard, organizations are required to provide disclosures with the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. For lessors, this amended guidance



modifies the classification criteria and the accounting for sales-type and direct financing leases. In January 2018, July 2018 and March 2019, the FASB issued Accounting Standards Update (“ASU”) 2018-01, 2018-10, 2018-11 and 2019-01, to amend narrow aspects of the standard, to add new and optional transition method for the adoption of the standard and provide lessors with a practical expedient, among others. These standards are effective for public reporting companies for annual periods, and interim within annual periods beginning December 15, 2018 and replaced the leasing guidance of Topic 840. The Company adopted the standard effective January 1, 2019 using the modified retrospective transition approach and the transition provisions provided by ASU 2018-11. In addition, the Company applied all the practical expedients available for transition, except for the practical expedient pertaining to land easements, since it was not applicable to the Company. Accordingly, the Company accounted for its existing leases without reassessing whether (a) the contract contains a lease under Topic 842, (b) the lease classification was different in accordance to Topic 842, and (c) initial direct costs before transition met the definition of the new leasing standard. For the lease terms determination, the Company considered all facts and circumstances from the lease contract inception up to the effective date of

Table of Contents

Topic 842. The Company, as a lessee, changed the characterization of the asset recognized for financing leases to an ROU asset, and the obligation to a lease liability. The Company recognized lease liabilities of \$36.2 million, with corresponding ROU assets for the same amount based on the present value of the remaining lease payments of existing operating leases entered into as a lessee with the implementation of the new leasing standard as of January 1, 2019. As a lessor, the Company changed the characterization of the asset recognized for financing leases to a net investment in lease. Results for reporting periods beginning after January 1, 2019 are presented under the new guidance provided by Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 840.

Refer to Note 12, Commitments and Contingencies, for discussions of the implementation of the Topic 842 on the Company's consolidated condensed financial statements for the period ended March 31, 2019.

In June 2018, the FASB issued updated guidance for accounting for non-employee share-based payments. The update was issued as part of the FASB simplification initiative and requires an entity to apply the requirements of Topic 718 to nonemployee awards, with certain exceptions, which were previously accounted under Topic 505. The Company adopted this update in the first quarter of 2019 with no material impact on the financial statements. Any future grants to non-employees will be accounted for under this update.

In July 2018, the FASB issued codification improvements for various standards. The amendments represent changes to clarify, correct errors in, or make minor improvements to the codification. Certain amendments included in the update were effective upon issuance of the guidance and the Company adopted them without a material impact on the consolidated condensed financial statements. The remaining guidance improvements with effective dates for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year, were adopted by the Company in the first quarter of 2019, except for the amendments with a later effective date (i.e., Topic 820, Fair Value Measurement), with no material impact on the financial statements.

Accounting pronouncements issued prior to 2019 and not yet adopted

In June 2016, the FASB issued updated guidance for the measurement of credit losses on financial instruments, which replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This guidance was further clarified and amended by an update issued in November 2018. The update requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses as valuation account is deducted from the amortized cost basis of the financial asset or assets to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses should be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect collectibility of the reported amount. An entity should use judgment in determining the relevant information and estimation methods that are appropriate to its circumstances. The Company expects to adopt this guidance in the fiscal period required by the update (i.e., fiscal years beginning after December 15, 2019, including interim periods within those fiscal years) and currently continues to evaluate if the adoption will have an impact on its consolidated financial statements.

In August 2018, the FASB issued an updated disclosure framework for fair value measurements. The amendments in the issued update remove, modify and add disclosure requirements on fair value measurements in Topic 820 Fair Value Measurements. The amendments in this update are effective to all entities for the fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments in the update should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented. Early adoption is permitted upon

issuance of this update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until their effective date. The Company is currently evaluating the impact of the adoption of this update on the notes to the consolidated financial statements.

In August 2018, the FASB issued updated guidance for customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently evaluating the impact of the adoption of this update to the consolidated financial statements.

Table of Contents

In October 2018, the FASB issued updated guidance to improve related party guidance for variable interest entities. The updated guidance requires entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety when determining whether a decision-making fee is a variable interest. The amendments in this update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. These amendments should be applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In November 2018, the FASB issued updated guidance to clarify the interaction between the guidance for collaborative arrangements and the updated revenue recognition guidance. The amendments in this update, among other things, provide guidance on how to assess whether certain collaborative arrangement transactions should be accounted for under Topic 606. The amendments in this update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

## Note 3 – Property and Equipment, net

Property and equipment, net consists of the following:

(Dollar amounts in thousands)	Useful life in years	March 31, 2019	December 31, 2018
Buildings	30	\$1,436	\$1,440
Data processing equipment	3 - 5	123,802	110,673
Furniture and equipment	3 - 20	7,667	7,761
Leasehold improvements	5 -10	2,638	2,625
		135,543	122,499
Less - accumulated depreciation and amortization		(91,036 )	(86,990 )
Depreciable assets, net		44,507	35,509
Land		1,271	1,254
Property and equipment, net		\$45,778	\$36,763

Depreciation and amortization expense related to property and equipment for the three months ended March 31, 2019 amounted to \$4.0 million compared to \$3.6 million for the same period in 2018.

## Note 4 – Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill, allocated by operating segments, were as follows (See Note 14):

(In thousands)	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Total
Balance at December 31, 2018	\$ 160,972	\$ 49,728	\$ 138,121	\$ 45,823	\$ 394,644
Foreign currency translation adjustments	—	1,079	—	—	1,079
Balance at March 31, 2019	\$ 160,972	\$ 50,807	\$ 138,121	\$ 45,823	\$ 395,723

Goodwill is tested for impairment on an annual basis as of August 31, or more often if events or changes in circumstances indicate there may be impairment. The Company may test for goodwill impairment using a qualitative

or a quantitative analysis. In the quantitative analysis, the Company compares the estimated fair value of the reporting units to their carrying values, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired. If the fair value does not exceed the carrying value, an impairment loss equaling the excess amount is recorded, limited to the recorded balance of goodwill. No impairment losses were recognized for the three months ended March 31, 2019 or 2018.

Table of Contents

The carrying amount of other intangible assets at March 31, 2019 and December 31, 2018 was as follows:

		March 31, 2019		
(Dollar amounts in thousands)	Useful life in years	Gross amount	Accumulated amortization	Net carrying amount
Customer relationships	8 - 14	\$342,891	\$ (201,038 )	\$ 141,853
Trademark	2 - 15	41,495	(29,781 )	11,714
Software packages	3 - 10	230,114	(155,588 )	74,526
Non-compete agreement	15	56,539	(32,040 )	24,499
Other intangible assets, net		\$671,039	\$ (418,447 )	\$ 252,592

		December 31, 2018		
(Dollar amounts in thousands)	Useful life in years	Gross amount	Accumulated amortization	Net carrying amount
Customer relationships	8 - 14	\$342,738	\$ (194,570 )	\$ 148,168
Trademark	2 - 15	41,357	(28,888 )	12,469
Software packages	3 - 10	224,855	(151,666 )	73,189
Non-compete agreement	15	56,539	(31,096 )	25,443
Other intangible assets, net		\$665,489	\$ (406,220 )	\$ 259,269

For both the three months ended March 31, 2019 and 2018, the Company recorded amortization expense related to other intangibles of \$12.2 million.

The estimated amortization expense of the balances outstanding at March 31, 2019 for the next five years is as follows:

(Dollar amounts in thousands)	
Remaining 2019	\$36,798
2020	40,633
2021	35,497
2022	31,868
2023	30,245

#### Note 5 – Debt and Short-Term Borrowings

Total debt at March 31, 2019 and December 31, 2018 follows:

(In thousands)	March 31, 2019	December 31, 2018
Secured Credit Facility (2023 Term A) due on November 27, 2023 paying interest at a variable interest rate (LIBOR plus applicable margin <sup>(1)(2)</sup> )	215,157	217,791
Senior Secured Credit Facility (2024 Term B) due on November 27, 2024 paying interest at a variable interest rate (LIBOR plus applicable margin <sup>(2)(3)</sup> )	319,864	320,515
Senior Secured Revolving Credit Facility <sup>(1)</sup>	15,000	—
Note Payable due on April 30, 2021 <sup>(2)</sup>	269	300
Note Payable due on December 28, 2019	\$6,434	\$—
Total debt	\$556,724	\$538,606

(1) Applicable margin of 2.00% at March 31, 2019 and 2.25% at December 31, 2018.

(2) Net of unaccreted discount and unamortized debt issue costs, as applicable.

(3)

Subject to a minimum rate ("LIBOR floor") of 0% plus applicable margin of 3.50% at March 31, 2019 and December 31, 2018.

Table of Contents

## 2018 Secured Credit Facilities

On November 27, 2018, EVERTEC and EVERTEC Group (“Borrower”) entered into a credit agreement governing the secured credit facilities, consisting of a \$220.0 million term loan A facility that matures on November 27, 2023 (“2023 Term A”), a \$325.0 million term loan B facility that matures on November 27, 2024 (“2024 Term B”) and a \$125.0 million revolving credit facility (the “Revolving Facility”) that matures on November 27, 2023, with a syndicate of lenders and Bank of America, N.A. (“Bank of America”), as administrative agent, collateral agent, swingline lender and line of credit issuer (collectively the “2018 Credit Agreement”).

The unpaid principal balance at March 31, 2019 of the 2023 Term A Loan and the 2024 Term B Loan was \$217.3 million and \$324.2 million, respectively. The additional borrowing capacity for the Revolving Facility at March 31, 2019 was \$82.9 million. The Company issues letters of credit against the Revolving Facility which reduce the additional borrowing capacity of the Revolving Facility.

## Notes payable

In May 2016, EVERTEC Group entered into a non-interest bearing financing agreement amounting to \$0.7 million to purchase software. As of both March 31, 2019 and December 31, 2018, the outstanding principal balance of the note payable was \$0.3 million. The current portion of this note is recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

In January 2019, EVERTEC Group entered into a non-interest bearing financing agreement amounting to \$10.0 million to purchase data processing equipment and maintenance. As of March 31, 2019, the outstanding principal balance of the note payable was \$6.4 million, recorded as part of accounts payable.

## Interest Rate Swaps

At March 31, 2019, the Company has two interest rate swap agreements, entered in December 2015 and December 2018, which convert a portion of the interest rate payments on the Company's 2024 Term B Loan from variable to fixed:

Swap Agreement	Effective date	Maturity Date	Notional Amount	Variable Rate	Fixed Rate
2015 Swap	January 2017	April 2020	\$200 million	1-month LIBOR	1.9225%
2018 Swap	April 2020	November 2024	\$250 million	1-month LIBOR	2.89%

The Company has accounted for these transactions as cash flow hedges.

At March 31, 2019 and December 31, 2018, the carrying amount of the derivatives on the Company's balance sheets is as follows:

(In thousands)	March 31, 2019	December 31, 2018
Other long-term assets	\$1,032	\$ 1,683
Other long-term liabilities	\$7,851	\$ 4,059

During the three months ended March 31, 2019, the Company reclassified gains of \$0.3 million from accumulated other comprehensive loss into income through interest expense. Based on current LIBOR rates, the Company expects to reclassify gains of \$1.0 million from accumulated other comprehensive loss into income through interest expense over the next 12 months. Refer to Note 6 for tabular disclosure of the fair value of derivatives and to Note 7 for tabular disclosure of gains recorded on cash flow hedging activities.

The cash flow hedges are considered highly effective.

## Note 6 – Financial Instruments and Fair Value Measurements



### Recurring Fair Value Measurements

Fair value measurement provisions establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. These provisions describe three levels of input that may be used to measure fair value:

10

---

Table of Contents

Level 1: Inputs are unadjusted, quoted prices for identical assets or liabilities in an active market at the measurement date.

Level 2: Inputs, other than quoted prices included in Level 1, which are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3: Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The Company uses observable inputs when available. Fair value is based upon quoted market prices when available. If market prices are not available, the Company may employ models that mostly use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. The Company limits valuation adjustments to those deemed necessary to ensure that the financial instrument's fair value adequately represents the price that would be received or paid in the marketplace. Valuation adjustments may include consideration of counterparty credit quality and liquidity as well as other criteria. The estimated fair value amounts are subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in estimating fair value could affect the results. The fair value measurement levels are not indicative of risk of investment.

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value estimates are made at a specific point in time based on the type of financial instrument and relevant market information. Many of these estimates involve various assumptions and may vary significantly from amounts that could be realized in actual transactions. The following table summarizes the fair value measurement by level at March 31, 2019 and December 31, 2018 for the asset measured at fair value on a recurring basis:

(In thousands)	Level 1	Level 2	Level 3	Total
March 31, 2019				
Financial asset:				
Interest rate swap	\$ —	—\$1,032	\$ —	—\$1,032
Financial liability:				
Interest rate swap	—	7,851	—	7,851
December 31, 2018				
Financial asset:				
Interest rate swap	\$ —	—\$1,683	\$ —	—\$1,683
Financial liability:				
Interest rate swap	—	4,059	—	4,059

The following table presents the carrying value, as applicable, and estimated fair values for financial instruments at March 31, 2019 and December 31, 2018:

(In thousands)	March 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Interest rate swap	\$1,032	\$1,032	\$1,683	\$1,683
Financial liabilities:				
Interest rate swap	7,851	7,851	4,059	4,059
2023 Term A	215,157	214,806	217,791	218,625
2024 Term B	319,864	323,377	320,515	319,517

The fair values of the term loans at March 31, 2019 and December 31, 2018 were obtained using the prices provided by third party service providers. Their pricing is based on various inputs such as: market quotes, recent trading activity in a non-active market or imputed prices. Also, the pricing may include the use of an algorithm that could take into account movement in the general high yield market, among other variants.

Table of Contents

The secured term loans, which are not measured at fair value in the balance sheets, would be categorized as Level 3 in the fair value hierarchy.

## Note 7 – Equity

## Accumulated Other Comprehensive Loss

The following table provides a summary of the changes in the balances of accumulated other comprehensive loss for the three months period ended March 31, 2019:

(In thousands)	Foreign Currency		Total
	Translation Adjustments	Cash Flow Hedges	
Balance - December 31, 2018, net of tax	\$ (21,626 )	\$ (2,163 )	\$(23,789)
Other comprehensive income (loss) before reclassifications	1,965	(3,773 )	(1,808 )
Effective portion reclassified to Net Income	—	(282 )	(282 )
Balance - March 31, 2019, net of tax	\$ (19,661 )	\$ (6,218 )	\$(25,879)

## Note 8 – Share-based Compensation

## Long-term Incentive Plan ("LTIP")

In the first quarter of 2017, 2018 and 2019, the Compensation Committee of the Company's Board of Directors ("Board") approved grants of restricted stock units ("RSUs") to executives and certain employees pursuant to the 2017 LTIP, 2018 LTIP and 2019 LTIP, respectively, all under the terms of our 2013 Equity Incentive Plan. Under the LTIPs, the Company granted restricted stock units to eligible participants as time-based awards and/or performance-based awards.

The vesting of the RSUs is dependent upon service, market, and/or performance conditions as defined in the grants. Employees that received time-based awards with service conditions are entitled to receive a specific number of shares of the Company's common stock on the vesting date if the employee is providing services to the Company on the vesting date. Time-based awards vest over a period of three years in substantially equal installments commencing on the grant date and ending on February 24 of each year for the 2017 LTIP, February 28 of each year for the 2018 LTIP, and February 22 of each year for the 2019 LTIP.

For the performance-based awards under the 2017 LTIP, 2018 LTIP, and 2019 LTIP, the Compensation Committee established adjusted earnings before income taxes, depreciation and amortization ("Adjusted EBITDA") as the primary performance measure while maintaining focus on total shareholder return through the use of a market-based total shareholder return ("TSR") performance modifier. The TSR modifier adjusts the shares earned based on the core Adjusted EBITDA performance upwards or downwards (+/- 25%) based on the Company's relative TSR at the end of the three-year performance period as compared to the companies in the Russell 2000 Index. The Adjusted EBITDA performance measure will be calculated for the one-year period commencing on January 1 of the year of the grant and ending on December 31 of the same year, relative to the goals set by the Compensation Committee for this same period. The shares earned will be subject to a further two-year service vesting period.

Performance and market-based awards vest at the end of the performance period that commenced on February 24, 2017 for the 2017 LTIP, February 28, 2018 for the 2018 LTIP, and February 22, 2019 for the 2019 LTIP. The periods end on February 24, 2020 for the 2017 LTIP, February 28, 2021 for the 2018 LTIP, and February 22, 2022 for the 2019 LTIP. Unless otherwise specified in the award agreement, or in an employment agreement, awards are forfeited if the employee voluntarily ceases to be employed by the Company prior to vesting.

The following table summarizes nonvested restricted shares and RSUs activity for the three months ended March 31, 2019:

12

---

Table of Contents

Nonvested restricted shares and RSUs	Shares	Weighted-average grant date fair value
Nonvested at December 31, 2018	2,036,163	\$ 15.09
Vested	(715,251 )	28.50
Granted	432,216	18.16
Nonvested at March 31, 2019	1,753,128	\$ 18.18

For the three months ended March 31, 2019, the Company recognized \$3.3 million of share based compensation expense compared with \$3.6 million for the same period in 2018.

As of March 31, 2019, the maximum unrecognized cost for restricted stock and RSUs was \$23.2 million. The cost is expected to be recognized over a weighted average period of 2.1 years.

## Note 9 - Revenues

## Summary of Revenue Recognition Accounting Policy

The Company's revenue recognition policy follows the guidance from Accounting Standards Codification ("ASC") 606 Revenue from Contracts with Customers, which provides guidance on the recognition, presentation and disclosure of revenue in consolidated financial statements.

Revenue is measured on the consideration specified in a contract with a customer. Once the Company determines a contract's performance obligations and the transaction price, including an estimate of any variable consideration, the Company allocates the transaction price to each performance obligation in the contract using a stand-alone selling price. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a product or service to a customer. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities.

At contract inception, the Company assesses the goods and service promised in the contract with a customer and identifies a performance obligation for each promise to transfer to the customer a good or service (or bundle of goods or services) that is distinct. To identify the performance obligations, the Company considers all the goods or services promised in the contract regardless of whether they are explicitly stated or implied. Payment for the Company's contracts with customers are typically due in full within 30 days of invoice date.

## Disaggregation of revenue

The Company disaggregates revenue from contracts with customers into primary geographical markets, nature of the products and services, and timing of transfer of goods and services. The Company's operating segments are determined by the nature of the products and services the Company provides and the primary geographical markets in which the Company operates. Revenue disaggregated by segment is discussed in Note 14, Segment Information.

In the following table, revenue is disaggregated by timing of revenue recognition for the three months ended March 31, 2019 and 2018.

(In thousands)	Three months ended March 31, 2019				Total
	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	

Edgar Filing: EVERTEC, Inc. - Form 10-Q

Timing of revenue recognition

Products and services transferred at a point in time	\$2,677	\$70	\$ —	\$ 877	\$3,624
Products and services transferred over time	20,073	18,678	25,974	50,487	115,212
	\$22,750	\$ 18,748	\$ 25,974	\$ 51,364	\$118,836

Table of Contents

(In thousands)	Three months ended March 31, 2018				Total
	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	
Timing of revenue recognition					
Products and services transferred at a point in time	\$ 126	\$ 392	\$	—\$ 973	\$ 1,491
Products and services transferred over time	18,457	19,999	23,379	46,948	108,783
	18,583	20,391	23,379	47,921	110,274

## Contract balances

The following table provides information about contract assets from contracts with customers.

(In thousands)	March 31, 2019
Balance at beginning of period	\$996
Services transferred to customers	49
Transfers to accounts receivable	(151 )
March 31, 2019	\$894

The current portion of contract assets is recorded as part of prepaid expenses and other assets and the long-term portion is included in other long-term assets.

Accounts receivable, net at March 31, 2019 amounted to \$96.3 million. Unearned income and Unearned income - Long term, which refer to contract liabilities, at March 31, 2019 amounted to \$12.2 million and \$30.2 million, respectively, and generally arise when consideration is received or due in advance from customers prior to performance. Unearned income is mainly related to upfront fees for implementation or set up activities, including fees charged in pre-production periods in connection with managed services. During the three months ended March 31, 2019, the Company recognized revenue of \$6.1 million that was included in unearned income at December 31, 2018. During the three months ended March 31, 2018, the Company recognized revenue of \$3.7 million that was included in unearned income at December 31, 2017.

The estimated aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at March 31, 2019 is \$267.6 million. This amount primarily consists of professional service fees for implementation or set up activities related to managed services and maintenance services, typically recognized over the life of the contract, which vary from 2 to 5 years. It also includes professional service fees for customizations or development of on-premise licensing agreements, which are recognized over time based on inputs relative to the total expected inputs to satisfy a performance obligation.

## Note 10 – Income Tax

The components of income tax expense for the three months ended March 31, 2019 and 2018, respectively, consisted of the following:

Three months ended
--------------------



	March 31,	
(In thousands)	2019	2018
Current tax provision	\$4,691	\$5,087
Deferred tax benefit	(882 )	(1,152 )
Income tax expense	\$3,809	\$3,935

The Company conducts operations in Puerto Rico and certain countries in Latin America. As a result, the income tax expense includes the effect of taxes paid to the Puerto Rico government as well as foreign jurisdictions. The following table presents the

Table of Contents

components of income tax expense for the three months ended March 31, 2019 and 2018, and its segregation based on location of operations:

(In thousands)	Three months ended March 31,	
	2019	2018
Current tax provision		
Puerto Rico	\$1,813	\$2,399
United States	112	80
Foreign countries	2,766	2,608
Total current tax provision	\$4,691	\$5,087
Deferred tax benefit		
Puerto Rico	\$(476 )	\$(839 )
United States	(372 )	(87 )
Foreign countries	(34 )	(226 )
Total deferred tax benefit	\$(882 )	\$(1,152)

Taxes payable to foreign countries by EVERTEC's subsidiaries will be paid by such subsidiary and the corresponding liability and expense will be presented in EVERTEC's consolidated financial statements.

As of March 31, 2019, the Company has \$51.1 million of unremitted earnings from foreign subsidiaries. The Company has not recognized a deferred tax liability on undistributed earnings for the Company's foreign subsidiaries because these earnings are intended to be indefinitely reinvested.

As of March 31, 2019, the gross deferred tax asset amounted to \$12.6 million and the gross deferred tax liability amounted to \$19.5 million, compared to \$10.8 million and \$18.8 million, respectively, as of December 31, 2018.

## Note 11 – Net Income Per Common Share

The reconciliation of the numerator and denominator of the income per common share is as follows:

(Dollar amounts in thousands, except per share information)	Three months ended March 31,	
	2019	2018
Net income attributable to EVERTEC, Inc.'s common stockholders	\$26,644	\$ 23,022
Less: non-forfeitable dividends on restricted stock	6	14
Net income available to EVERTEC, Inc.'s common shareholders	\$26,638	\$ 23,008
Weighted average common shares outstanding	72,378,532	72,409,462
Weighted average potential dilutive common shares <sup>(1)</sup>	1,391,534	1,063,373
Weighted average common shares outstanding - assuming dilution	73,770,066	73,372,835
Net income per common share - basic	\$0.37	\$ 0.32
Net income per common share - diluted	\$0.36	\$ 0.31

(1) Potential common shares consist of common stock issuable under the assumed release of restricted stock awards using the treasury stock method.

On February 15, 2019, the Board declared a quarterly cash dividend of \$0.05 per share of common stock, which was paid on March 22, 2019 to stockholders of record as of the close of business on February 26, 2019.

Note 12 – Commitments and Contingencies

EVERTEC is a defendant in a number of legal proceedings arising in the ordinary course of business. Based on the opinion of legal counsel and other factors, Management believes that the final disposition of these matters will not have a material adverse

## Table of Contents

effect on the business, results of operations, financial condition, or cash flows of the Company. The Company has identified certain claims as a result of which a loss may be incurred, but in the aggregate the loss would be insignificant. For other claims regarding proceedings that are in an initial phase, the Company is unable to estimate the range of possible loss, if any, but at this time believes that any loss related to such claims will not be material.

### Leases

The Company's leases accounting policy follows the guidance from Accounting Standards Codification ("ASC") 842, Leases, which provides guidance on the recognition, presentation and disclosure of leases in consolidated condensed financial statements.

The Company determines if an arrangement is or contains a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, operating lease payable, and operating lease liabilities in the consolidated condensed balance sheet. Finance leases are included in property and equipment, accrued liabilities, and other long-term liabilities in the consolidated condensed balance sheet.

ROU assets and lease liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date. As most of the Company's leases do not provide an implicit rate, Management used the Company's collateralized incremental borrowing rate ("IBR") based on the information available at commencement date in determining the present value of future payments. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. We monitor events or changes in circumstances that change the timing or amount of future lease payments which results in the remeasurement of a lease liability, with a corresponding adjustment to the ROU asset. The lease payment terms may include fixed payment terms and variable payments. Fixed payment terms and variable payments that depend on an index (i.e., Consumer Price Index or "CPI") or rate are considered in the determination of the operating lease liabilities. While lease liabilities are not remeasured because of changes to the CPI, changes are treated as variable lease payments and recognized in the period in which the obligation for those payments was incurred. Variable payments that do not depend on an index or rate are not included in the lease liabilities determination. Rather, these payments are recognized as variable lease expense when incurred. Variable lease payments are included within operating costs and expenses in the consolidated condensed statement of income and comprehensive income. For operating leases, lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. For finance leases, lease expense is composed of interest expense and amortization expense. The lease liability of these leases is measured using the interest rate method. The ROU asset from financing leases are amortized on a straight-line basis, as part of Property and Equipment, net.

The Company has lease agreements with lease and non-lease components, which are accounted for as a single lease component. The Company elected the practical expedient of not separating lease and related non-lease components for all classes of underlying assets (i.e., building and equipment). The Company also elected as an accounting policy to not recognize lease liabilities and ROU assets for any future short-term leases (i.e., leases with a lease term of 12 months or less).

The Company has operating leases for certain office facilities, buildings, telecommunications and other equipment; and finance leases for certain equipment. The Company's lease contracts have remaining terms ranging from 1 year to 10 years, some of which may include options to extend the leases for up to 5 years, and some which may include the option to terminate the lease within 1 year.

As of March 31, 2019, equipment leases classified as finance leases, which are included within Property and Equipment, net, were \$1.6 million, net of accumulated depreciation.

Total lease cost for the three months ended March 31, 2019, was as follows:

(in thousands)

Operating lease cost	\$1,923
Finance lease cost	
Amortization of right-of-use assets	67
Interest on lease liabilities	8
Variable lease cost	714
	\$2,712

Table of Contents

Other information related to leases, for the three months ended March 31, 2019, was as follows:

(In thousands)

Right-of-use assets obtained in exchange for operating lease obligations:	\$ 140
Weighted average remaining lease term, in years	
Operating leases	7
Finance leases	2
Weighted Average Discount Rate	
Operating leases	4.8 %
Finance leases	4.3 %

Future minimum lease payments under leases as of March 31, 2019 were as follows:

(In thousands)	Operating Leases	Finance Leases
Remainder of 2019	\$4,651	\$ 324
2020	5,853	328
2021	5,773	34
2022	5,579	—
2023 and thereafter	17,504	—
Total future minimum lease payments	39,360	686
Less: imputed interest	(4,427 )	(19 )
	\$34,933	\$ 667
Reported as of March 31, 2019		
Accrued liabilities	\$—	\$ 410
Operating lease payable	9,458	—
Operating lease liabilities - long term	25,475	—
Other long-term liabilities	—	257
	\$34,933	\$ 667

### Note 13 – Related Party Transactions

The following table presents the Company's transactions with related parties for the three months ended March 31, 2019 and 2018:

(Dollar amounts in thousands)	Three months ended March 31,	
	2019	2018
Total revenues <sup>(1)(2)</sup>	\$49,030	\$45,535
Cost of revenues	\$523	\$384
Operating lease cost and other fees	\$2,128	\$1,963
Interest earned from affiliate		
Interest income	\$28	\$32

(1) Popular revenues as a percentage of total revenues were 41% for each of the periods presented above.

(2) Includes revenues generated from investee accounted for under the equity method of \$0.3 million for each the periods presented above.

At March 31, 2019 and December 31, 2018, EVERTEC had the following balances arising from transactions with related parties:



Table of Contents

(Dollar amounts in thousands)	March 31, 2019	December 31, 2018
Cash and restricted cash deposits in affiliated bank	\$27,447	\$ 29,136
Other due/to from affiliate		
Accounts receivable	\$30,984	\$ 25,714
Prepaid expenses and other assets	\$4,019	\$ 2,796
Operating lease right-of use assets	\$24,105	\$ —
Other long-term assets	\$ 130	\$ 166
Accounts payable	\$6,353	\$ 6,344
Unearned income	\$30,915	\$ 25,401
Operating lease liabilities	\$24,182	\$ —

## Note 14 – Segment Information

The Company operates in four business segments: Payment Services - Puerto Rico & Caribbean, Payment Services - Latin America, Merchant Acquiring, and Business Solutions.

The Payment Services - Puerto Rico & Caribbean segment revenues are comprised of revenues related to providing access to the ATH debit network and other card networks to financial institutions, including related services such as authorization, processing, management and recording of ATM and point of sale ("POS") transactions, and ATM management and monitoring. The segment revenues also include revenues from card processing services (such as credit and debit card processing, authorization and settlement and fraud monitoring and control to debit or credit issuers), payment processing services (such as payment and billing products for merchants, businesses and financial institutions) and EBT (which principally consist of services to the government of Puerto Rico for the delivery of benefits to participants). For ATH debit network and processing services, revenues are primarily driven by the number of transactions processed. Revenues are derived primarily from network fees, transaction switching and processing fees, and the leasing of POS devices. For card issuer processing, revenues are primarily dependent upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed and other processing services. For EBT services, revenues are primarily derived from the number of beneficiaries on file.

The Payment Services - Latin America segment revenues consist of revenues related to providing access to the ATH network and other card networks to financial institutions, including related services such as authorization, processing, management and recording of ATM and POS transactions, and ATM management and monitoring. The segment revenues also include revenues from card processing services (such as credit and debit card processing, authorization and settlement and fraud monitoring and control to debit or credit issuers), payment processing services (such as payment and billing products for merchants, businesses and financial institutions), as well as, licensed software solutions for risk and fraud management and card payment processing. For ATH debit network and processing services, revenues are primarily driven by the number of transactions processed. Revenues are derived primarily from network fees, transaction switching and processing fees, and the leasing of POS devices. For card issuer processing, revenues are primarily dependent upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed and other processing services.

The Merchant Acquiring segment consists of revenues from services that allow merchants to accept electronic methods of payment. In the Merchant Acquiring segment, revenues include a discount fee and membership fees charged to merchants, debit network fees and rental fees from POS devices and other equipment, net of credit card interchange and assessment fees charged by credit cards associations (such as VISA or MasterCard) or payment networks. The discount fee is generally a percentage of the transaction value. EVERTEC also charges merchants for



other services that are unrelated to the number of transactions or the transaction value.

The Business Solutions segment consists of revenues from a full suite of business process management solutions in various product areas such as core bank processing, network managed services, IT professional services, business process outsourcing, item processing, cash processing, and fulfillment. Core bank processing and network services revenues are derived in part from a recurrent fixed fee and from fees based on the number of accounts on file (i.e. savings or checking accounts, loans, etc.) or computer resources utilized. Revenues from other processing services within the Business Solutions segment are generally volume-based and depend on factors such as the number of accounts processed. In addition, EVERTEC is a reseller of hardware and software products and these resale transactions are generally non-recurring.

Table of Contents

In addition to the four operating segments described above, Management identified certain functional cost areas that operate independently and do not constitute businesses in themselves. These areas could neither be concluded as operating segments nor could they be combined with any other operating segments. Therefore, these areas are aggregated and presented as "Corporate and Other" category in the financial statements alongside the operating segments. The Corporate and other category consists of corporate overhead expenses, intersegment eliminations, certain leveraged activities and other non-operating and miscellaneous expenses that are not included in the operating segments. The overhead and leveraged costs relate to activities such as:

- marketing,
- corporate finance and accounting,
- human resources,
- legal,
- risk management functions,
- internal audit,
- corporate debt related costs,
- non-operating depreciation and amortization expenses generated as a result of merger and acquisition activity,
- intersegment revenues and expenses, and
- other non-recurring fees and expenses that are not considered when management evaluates financial performance at a segment level

The Chief Operating Decision Maker ("CODM") reviews the operating segments separate financial information to assess performance and to allocate resources. Management evaluates the operating results of each of its operating segments based upon revenues and Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"). Adjusted EBITDA is defined as EBITDA further adjusted to exclude unusual items and other adjustments. Adjusted EBITDA, as it relates to operating segments, is presented in conformity with Accounting Standards Codification Topic 280, "Segment Reporting" given that it is reported to the CODM for purposes of allocating resources. Segment asset disclosure is not used by the CODM as a measure of segment performance since the segment evaluation is driven by revenues and adjusted EBITDA performance. As such, segment assets are not disclosed in the notes to the accompanying consolidated financial statements.

The following tables set forth information about the Company's operations by its four business segments for the periods indicated:

(In thousands)	Three months ended March 31, 2019					
	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Corporate and Other <sup>(1)</sup>	Total
Revenues	\$32,017	\$20,831	\$ 25,974	\$51,364	\$(11,350)	\$118,836
Operating costs and expenses	14,215	17,573	14,718	32,910	2,015	81,431
Depreciation and amortization	2,643	2,196	468	3,854	7,112	16,273
Non-operating income (expenses)	581	2,634	21	186	(2,992)	430
EBITDA	21,026	8,088	11,745	22,494	(9,245)	54,108
Compensation and benefits <sup>(2)</sup>	237	166	220	554	2,262	3,439
Transaction, refinancing and other fees <sup>(3)</sup>	—	2	—	—	47	49
Adjusted EBITDA	\$21,263	\$8,256	\$ 11,965	\$23,048	\$(6,936)	\$57,596

- Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment revenue eliminations predominantly reflect the \$9.2 million processing fee from the Payments Services - Puerto Rico & Caribbean segment to the Merchant Acquiring segment,
- (1) intercompany software sale and developments of \$2.1 million from the Payment Services - Latin America segment charged to the Payment Services - Puerto Rico & Caribbean segment. Corporate and Other was impacted by the intersegment elimination of revenue recognized in the Payment Services - Latin America segment and capitalized in the Payment Services - Puerto Rico & Caribbean segment; excluding this impact, Corporate and Other Adjusted EBITDA would be \$4.8 million.
- (2) Primarily represents share-based compensation, other compensation expense and severance payments. Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement
- (3) and the elimination of non-cash equity earnings from our 19.99% equity investment in Consorcio de Tarjetas Dominicanas S.A.

Table of Contents

(In thousands)	Three months ended March 31, 2018					
	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Corporate and Other <sup>(1)</sup>	Total
Revenues	\$27,168	\$20,391	\$ 23,379	\$47,921	\$(8,585 )	\$110,274
Operating costs and expenses	12,933	18,060	13,141	29,015	3,570	76,719
Depreciation and amortization	2,316	2,449	420	3,519	7,163	15,867
Non-operating income (expenses)	816	1,813	4	300	(1,917 )	1,016
EBITDA	17,367	6,593	10,662	22,725	(6,909 )	50,438
Compensation and benefits <sup>(2)</sup>	193	400	190	440	2,606	3,829
Transaction, refinancing and other fees <sup>(3)</sup>	(250 )	—	—	—	(49 )	(299 )
Adjusted EBITDA	\$17,310	\$6,993	\$ 10,852	\$ 23,165	\$(4,352 )	\$53,968

Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and (1) intersegment eliminations. Intersegment revenue eliminations predominantly reflect the \$8.6 million processing fee from the Payments Services - Puerto Rico & Caribbean segment to the Merchant Acquiring segment.

(2) Primarily represents share-based compensation, other compensation expense and severance payments.

Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement (3) and the elimination of non-cash equity earnings from our 19.99% equity investment in Consorcio de Tarjetas Dominicanas S.A.,

The reconciliation of EBITDA to consolidated net income is as follows:

(In thousands)	Three months ended March 31,	
	2019	2018
Total EBITDA	\$54,108	\$50,438
Less:		
Income tax expense	3,809	3,935
Interest expense, net	7,292	7,522
Depreciation and amortization	16,273	15,867
Net Income	\$26,734	\$23,114

## Note 15 – Subsequent Events

On April 25, 2019, the Board declared a regular quarterly cash dividend of \$0.05 per share on the Company's outstanding shares of common stock. The dividend will be paid on June 7, 2019 to stockholders of record as of the close of business on May 6, 2019. The Board anticipates declaring this dividend in future quarters on a regular basis; however future declarations of dividends are subject to the Board's approval and may be adjusted as business needs or market conditions change.

## Table of Contents

### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following Management’s Discussion and Analysis (“MD&A”) covers: (i) the results of operations for the three months ended March 31, 2019 and 2018 and (ii) the financial condition as of March 31, 2019. You should read the following discussion and analysis in conjunction with the audited consolidated financial statements (the “Audited Consolidated Financial Statements”) and related notes for the fiscal year ended December 31, 2018, included in the Company’s Annual Report on Form 10-K and with the unaudited consolidated condensed financial statements (the “Unaudited Consolidated Financial Statements”) and related notes appearing elsewhere herein. This MD&A contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those indicated in the forward-looking statements. See “Forward-Looking Statements” for a discussion of the risks, uncertainties and assumptions associated with these statements.

Except as otherwise indicated or unless the context otherwise requires, (a) the terms “EVERTEC,” “we,” “us,” “our,” “our Company” and “the Company” refer to EVERTEC, Inc. and its subsidiaries on a consolidated basis, (b) the term “Holdings” refers to EVERTEC Intermediate Holdings, LLC, but not any of its subsidiaries and (c) the term “EVERTEC Group” refers to EVERTEC Group, LLC and its predecessor entities and their subsidiaries on a consolidated basis, including the operations of its predecessor entities prior to the Merger (as defined below). EVERTEC Inc.’s subsidiaries include Holdings, EVERTEC Group, EVERTEC Dominicana, SAS, Evertec Chile Holdings SpA (formerly known as Tecnopago SpA), Evertec Chile SpA (formerly known as EFT Group SpA), Evertec Chile Global SpA (formerly known as EFT Global Services SpA), Evertec Chile Servicios Profesionales SpA (formerly known as EFT Servicios Profesionales SpA), , EFT Group S.A., Tecnopago España SL, Paytrue S.A., Caleidon, S.A., Evertec Brasil Solutions Informática Ltda. (formerly known as Paytrue Solutions Informática Ltda.), EVERTEC Panamá, S.A., EVERTEC Costa Rica, S.A. (“EVERTEC CR”), EVERTEC Guatemala, S.A., Evertec Colombia, SAS (formerly known as Processa, SAS), EVERTEC USA, LLC and EVERTEC México Servicios de Procesamiento, S.A. de C.V. Neither EVERTEC nor Holdings conducts any operations other than with respect to its indirect or direct ownership of EVERTEC Group.

### Executive Summary

EVERTEC is a leading full-service transaction processing business in Latin America and the Caribbean, providing a broad range of merchant acquiring, payment services and business process management services. According to the August 2018 Nilson Report, we are one of the largest merchant acquirers in Latin America based on total number of transactions and we believe we are the largest merchant acquirer in the Caribbean and Central America. We serve 26 countries in the region from our base in Puerto Rico. We manage a system of electronic payment networks that process more than two billion transactions annually, and offer a comprehensive suite of services for core bank processing, cash processing and technology outsourcing. In addition, we own and operate the ATH network, one of the leading debit networks in Latin America. We serve a diversified customer base of leading financial institutions, merchants, corporations and government agencies with “mission-critical” technology solutions that enable them to issue, process and accept transactions securely. We believe our business is well-positioned to continue to expand across the fast-growing Latin American region.

We are differentiated, in part, by our diversified business model, which enables us to provide our varied customer base with a broad range of transaction-processing services from a single source across numerous channels and geographic markets. We believe this capability provides several competitive advantages that will enable us to continue to penetrate our existing customer base with complementary new services, win new customers, develop new sales channels and enter new markets. We believe these competitive advantages include:

- Our ability to provide competitive products;
- Our ability to provide in one package a range of services that traditionally had to be sourced from different vendors;
-

Our ability to serve customers with disparate operations in several geographies with technology solutions that enable them to manage their business as one enterprise; and

Our ability to capture and analyze data across the transaction processing value chain and use that data to provide value-added services that are differentiated from those offered by pure-play vendors that serve only one portion of the transaction processing value chain (such as only merchant acquiring or payment services).

Our broad suite of services spans the entire transaction processing value chain and includes a range of front-end customer-facing solutions such as the electronic capture and authorization of transactions at the point-of-sale, as well as back-end support services such as the clearing and settlement of transactions and account reconciliation for card issuers. These include: (i) merchant acquiring services, which enable point of sales (“POS”) and e-commerce merchants to accept and process electronic methods of payment such as debit, credit, prepaid and electronic benefit transfer (“EBT”) cards; (ii) payment processing services, which enable financial institutions and other issuers to manage, support and facilitate the processing for credit, debit,

## Table of Contents

prepaid, automated teller machines (“ATM”) and EBT card programs; and (iii) business process management solutions, which provide “mission-critical” technology solutions such as core bank processing, as well as IT outsourcing and cash management services to financial institutions, corporations and governments. We provide these services through scalable, end-to-end technology platforms that we manage and operate in-house and that generates significant operating efficiencies that enable us to maximize profitability.

We sell and distribute our services primarily through a proprietary direct sales force with established customer relationships. We continue to pursue joint ventures and merchant acquiring alliances. We benefit from an attractive business model, the hallmarks of which are recurring revenue, scalability, significant operating margins and moderate capital expenditure requirements. Our revenue is predominantly recurring in nature because of the mission-critical and embedded nature of the services we provide. In addition, we generally negotiate multi-year contracts with our customers. We believe our business model should enable us to continue to grow our business organically in the primary markets we serve without significant incremental capital expenditures.

## Corporate Background

EVERTEC, Inc. (“EVERTEC”, formerly known as Carib Latam Holdings, Inc.) is a Puerto Rico corporation organized in April 2012. Our main operating subsidiary, EVERTEC Group, LLC (formerly known as EVERTEC, LLC and EVERTEC, Inc., hereinafter “EVERTEC Group”), was organized in Puerto Rico in 1988. EVERTEC Group was formerly a wholly-owned subsidiary of Popular. On September 30, 2010, pursuant to an Agreement and Plan of Merger (as amended, the “Merger Agreement”), AP Carib Holdings, Ltd. (“Apollo”), an affiliate of Apollo Global Management LLC, acquired a 51% indirect ownership interest in EVERTEC Group as part of a merger (the “Merger”) and EVERTEC Group became a wholly-owned subsidiary of Holdings.

On April 17, 2012, EVERTEC Group was converted from a Puerto Rico corporation to a Puerto Rico limited liability company (the “Conversion”) for the purpose of improving its consolidated tax efficiency by taking advantage of changes to the Puerto Rico Internal Revenue Code, as amended (the “PR Code”), that permit limited liability companies to be treated as partnerships that are pass-through entities for Puerto Rico tax purposes. Concurrent with the Conversion, Holdings, which is our direct subsidiary, was also converted from a Puerto Rico corporation to a Puerto Rico limited liability company. Prior to these conversions, EVERTEC, Inc. was formed in order to act as the new parent company of Holdings and its subsidiaries, including EVERTEC Group. The transactions described above in this paragraph are collectively referred to as the “Reorganization.”

## Separation from and Key Relationship with Popular

Prior to the Merger on September 30, 2010, EVERTEC Group was 100% owned by Popular, the largest financial institution in the Caribbean, and operated substantially as an independent entity within Popular. After the consummation of the Merger, Popular retained an indirect ownership interest in EVERTEC Group and is our largest customer. In connection with, and upon consummation of the Merger, EVERTEC Group entered into a 15-year Master Services Agreement (the “MSA”), and several related agreements with Popular. Under the terms of the MSA, Popular agreed to continue to use EVERTEC services on an ongoing and exclusive basis, for the duration of the agreement, on commercial terms consistent with those of our historical relationship. Additionally, Popular granted us a right of first refusal on the development of certain new financial technology products and services for the duration of the MSA.

## Factors and Trends Affecting the Results of Our Operations

The ongoing migration from cash and paper methods of payment to electronic payments continues to benefit the transaction-processing industry globally. We believe that the penetration of electronic payments in the markets in which we operate is significantly lower relative to the U.S. market, and that this ongoing shift will continue to generate substantial growth opportunities for our business. For example, currently the adoption of banking products, including electronic payments, in the Latin American and Caribbean regions is lower relative to the mature U.S. and European markets. We believe that the unbanked and underbanked population in our markets will continue to shrink, and therefore drive incremental penetration and growth of electronic payments in Puerto Rico and other Latin American regions. We also benefit from the trend for financial institutions and government agencies to outsource technology systems and processes. Many medium- and small-size institutions in the Latin American markets in which we operate have outdated computer systems and updating these IT legacy systems is financially and logistically challenging, which presents a business opportunity for us.

Finally, our financial condition and results of operations are, in part, dependent on the economic and general conditions of the geographies in which we operate.



Table of Contents

On June 30, 2016, the U.S. President signed into law PROMESA. PROMESA establishes a fiscal oversight and the Oversight Board comprised of seven voting members appointed by the President. The Oversight Board has broad budgetary and financial powers over Puerto Rico's budget, laws, financial plans and regulations, including the power to approve restructuring agreements with creditors, file petitions for restructuring and reform the electronic system for the tax collection. The Oversight Board will have ultimate authority in preparing the Puerto Rico government's budget and any issuance of future debt by the government and its instrumentalities. In addition, PROMESA imposes an automatic stay on all litigation against Puerto Rico and its instrumentalities, as well as any other judicial or administrative actions or proceedings to enforce or collect claims against the Puerto Rico government. On May 1, 2017, the automatic stay expired. Promptly after the expiration of the stay, creditors of the Puerto Rico government filed various lawsuits involving defaults on more than \$70 billion of bonds issued by Puerto Rico, having failed to reach a negotiated settlement on such defaults with the Puerto Rico government during the period of the automatic stay. On May 3, 2017, the Oversight Board filed a voluntary petition of relief on behalf of the Commonwealth pursuant to Title III of PROMESA for the restructuring of the Commonwealth's debt. Subsequently, the Oversight Board filed voluntary petitions of relief pursuant to Title III of PROMESA on behalf certain public corporations and instrumentalities. Title III is an in-court debt restructuring proceeding similar to protections afforded debtors under Chapter 11 of the United States Code (the "Bankruptcy Code"); the Bankruptcy Code is not available to the Commonwealth or its instrumentalities.

As the solution to the Puerto Rican government's debt crisis remains unclear, we continue to carefully monitor our receivables with the government as well as monitor general economic trends to understand the impact the crisis has on the economy of Puerto Rico and our card payment volumes. To date our receivables with the Puerto Rican government and overall payment transaction volumes have not been significantly affected by the debt crisis, however we remain cautious.

In addition to the macroeconomic trends described above, Management currently estimates that we will continue to experience a revenue attrition in Latin America of approximately \$3 million to \$4 million for previously disclosed migrations anticipated in 2019. The clients' decisions, which were made prior to 2015, for these anticipated migrations were driven by a variety of historical factors, most importantly customer service experience. Management believes that these customer decisions are unlikely to change, however timing is subject to change based on customer's conversion schedules.

## Results of Operations

## Comparison of the three months ended March 31, 2019 and 2018

In thousands	Three months ended March 31,		Variance	
	2019	2018	2019 vs. 2018	
Revenues	\$118,836	\$110,274	\$8,562	8 %
Operating costs and expenses				
Cost of revenues, exclusive of depreciation and amortization shown below	50,019	47,420	2,599	5 %
Selling, general and administrative expenses	15,139	13,432	1,707	13 %
Depreciation and amortization	16,273	15,867	406	3 %
Total operating costs and expenses	81,431	76,719	4,712	6 %
Income from operations	\$37,405	\$33,555	\$3,850	11 %

Revenues

Total revenues in the first quarter of 2019 increased by \$8.6 million or 8% to \$118.8 million. Revenue increase in the first quarter of 2019 reflected growth from elevated sales volumes in Puerto Rico and increased core banking transactions, in part due to last year's hurricane impacted results. Additionally, revenue growth was a result of an increase in network services related to new managed services projects, as well as, a one-time revenue related to an electronic benefits contract of approximately \$2.7 million.

Table of Contents

## Cost of revenues

Cost of revenues amounted to \$50.0 million, an increase of \$2.6 million or 5% when compared with the prior year period. The increase is primarily related to increases in cost of sales and higher equipment maintenance expenses.

## Selling, general and administrative

Selling, general and administrative expenses in the first quarter of 2019 increased by \$1.7 million or 13% when compared with the same quarter in 2018. The increase is primarily related to increases in salaries expense and increases in legal, consulting and other professional fees incurred in connection with specific initiatives.

## Depreciation and amortization

Depreciation and amortization expense amounted to \$16.3 million, an increase of \$0.4 million or 3%. The increase is mainly related to higher capital expenditures in prior year as well as impact from development projects going into production.

## Non-operating income (expenses)

In thousands	Three months ended March 31,		Variance	
	2019	2018	2019 vs.	2018
Interest income	\$259	\$157	\$102	65 %
Interest expense	(7,551 )	(7,679 )	128	(2 )%
Earnings of equity method investment	222	199	23	12 %
Other income, net	208	817	(609 )	(75)%
Total non-operating expenses	\$(6,862)	\$(6,506)	(356 )	5 %

Non-operating expenses increased by \$0.4 million to \$6.9 million when compared with the prior year period. The increase is mainly related to a \$0.6 million decrease in Other income, net due to a decrease in foreign exchange gains relative to the same quarter in 2018.

## Income tax expense

In thousands	Three months ended March 31,		Variance	
	2019	2018	2019 vs.	2018
Income tax expense	\$3,809	\$3,935	(126)	(3)%

Income tax expense amounted to \$3.8 million, relatively flat when compared with the prior year period. The effective tax rate for the quarter was 12.5%, compared with 14.5% in the 2018 period. The decrease in effective tax rate is primarily related to the mix between taxable and exempt income in Puerto Rico coupled with the impact of the decrease in income tax rate for fully taxable operations that came into effect on January 1, 2019.

## Segment Results of Operations

The Company operates in four business segments: Payment Services - Puerto Rico & Caribbean, Payment Services - Latin America, Merchant Acquiring, and Business Solutions.

The Payment Services - Puerto Rico & Caribbean segment revenues are comprised of revenues related to providing access to the ATH debit network and other card networks to financial institutions, including related services such as authorization, processing, management and recording of ATM and POS transactions, and ATM management and monitoring. The segment revenues also include revenues from card processing services (such as credit and debit card processing, authorization and settlement and fraud monitoring and control to debit or credit issuers), payment processing services (such as payment and billing products for merchants, businesses and financial institutions) and electronic benefit transfer (“EBT”) (which principally consist of services to the government of Puerto Rico for the delivery of benefits to participants). For ATH debit network and processing services, revenues are primarily driven by the number of transactions processed. Revenues are derived primarily

Table of Contents

from network fees, transaction switching and processing fees, and the leasing POS devices. For card issuer processing, revenues are primarily dependent upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed and other processing services. For EBT services, revenues are primarily derived from the number of beneficiaries on file.

The Payment Services - Latin America segment revenues consist of revenues related to providing access to the ATH network and other card networks to financial institutions, including related services such as authorization, processing, management and recording of ATM and POS transactions, and ATM management and monitoring. The segment revenues also include revenues from card processing services (such as credit and debit card processing, authorization and settlement and fraud monitoring and control to debit or credit issuers), payment processing services (such as payment and billing products for merchants, businesses and financial institutions), as well as, licensed software solutions for risk and fraud management and card payment processing. For ATH debit network and processing services, revenues are primarily driven by the number of transactions processed. Revenues are derived primarily from network fees, transaction switching and processing fees, and the leasing POS devices. For card issuer processing, revenues are primarily dependent upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed and other processing services.

The Merchant Acquiring segment consists of revenues from services that allow merchants to accept electronic methods of payment. In the Merchant Acquiring segment, revenues include a discount fee and membership fees charged to merchants, debit network fees and rental fees from POS devices and other equipment, net of credit card interchange and assessment fees charged by credit cards associations (such as VISA or MasterCard) or payment networks. The discount fee is generally a percentage of the transaction value. EVERTEC also charges merchants for other services that are unrelated to the number of transactions or the transaction value.

The Business Solutions segment consists of revenues from a full suite of business process management solutions in various product areas such as core bank processing, network hosting and management, IT professional services, business process outsourcing, item processing, cash processing, and fulfillment. Core bank processing and network services revenues are derived in part from a recurrent fee and from fees based on the number of accounts on file (i.e. savings or checking accounts, loans, etc.) or computer resources utilized. Revenues from other processing services within the Business Solutions segment are generally volume-based and depend on factors such as the number of accounts processed. In addition, EVERTEC is a reseller of hardware and software products and these resale transactions are generally one-time transactions.

In addition to the four operating segments described above, Management identified certain functional cost areas that operate independently and do not constitute businesses in themselves. These units could neither be concluded as operating segments nor could they be combined with any other operating segments. Therefore, these units are aggregated and presented as “Corporate and Other” category in the financial statements alongside the operating segments. The Corporate and other category consists of corporate overhead expenses, intersegment eliminations, certain leveraged activities and other non-operating and miscellaneous expenses that are not included in the operating segments. The overhead and leveraged costs relate to activities such as:

- marketing,
- corporate finance and accounting,
- human resources,
- legal,
- risk management functions,
- internal audit,
- corporate debt related costs,
- non-operating depreciation and amortization expenses generated as a result of merger and acquisition activity,
- intersegment revenues and expenses, and

other non-recurring fees and expenses that are not considered when management evaluates financial performance at a segment level

The CODM reviews the operating segments separate financial information to assess performance and to allocate resources. Management evaluates the operating results of each of its operating segments based upon revenues and Adjusted EBITDA. Adjusted EBITDA, as it relates to operating segments, is presented in conformity with Accounting Standards Codification Topic 280, "Segment Reporting" given that it is reported to the CODM for purposes of allocating resources. Segment asset disclosure is not used by the CODM as a measure of segment performance since the segment evaluation is driven by revenues and adjusted EBITDA performance. As such, segment assets are not disclosed in the notes to the accompanying consolidated financial statements.

Table of Contents

The following tables set forth information about the Company's operations by its four business segments for the periods indicated below.

## Comparison of the three months ended March 31, 2019 and 2018

## Payment Services - Puerto Rico &amp; Caribbean

	Three months ended March 31,	
Dollar amounts in thousands	2019	2018
Revenues	\$32,017	\$27,168
Adjusted EBITDA	21,263	17,310

Payment Services - Puerto Rico & Caribbean segment revenue increased by \$4.8 million to \$32.0 million when compared with the 2018 period. The increase in revenues was driven by higher ATM Network and POS transaction volumes coupled with new transaction fees, growth over the prior year, as January and February in the prior year were still recovering from the 2017 hurricanes, and one-time revenue related to an electronic benefits contract of approximately \$2.7 million. Adjusted EBITDA increased by \$4.0 million to \$21.3 million primarily due to higher revenues from the electronic benefits contract.

## Payment Services - Latin America

	Three months ended March 31,	
Dollar amounts in thousands	2019	2018
Revenues	\$20,831	\$20,391
Adjusted EBITDA	8,256	6,993

Payment Services - Latin America segment revenue increased \$0.4 million to \$20.8 million driven mainly by higher intercompany software sale and development revenues from the Payment Services - Latin America segment to the Payment Services Puerto Rico & Caribbean segment, partially offset by one-time sales and revenue from completed implementations in the prior year that did not recur and impact from client attrition. Adjusted EBITDA increased \$1.3 million when compared to the prior year period, due to increased revenue associated to intercompany services and licenses sold to Payment Services - Puerto Rico & Caribbean segment.

## Merchant Acquiring

	Three months ended March 31,	
Dollar amounts in thousands	2019	2018
Revenues	\$25,974	\$23,379
Adjusted EBITDA	11,965	10,852

Merchant Acquiring segment revenue increased \$2.6 million to \$26.0 million due to increased sales volumes compared to results in prior year, which was negatively impacted by the 2017 hurricanes, and by electronic benefit disaster recovery funding that started in March 2018 and ended in March 2019. Increases in transactional fees contributed to higher net spreads versus the same period in the previous year, while higher non-transactional fees also helped to drive the year-over-year revenue increase. Adjusted EBITDA increased \$1.1 million mainly due to increased sales volumes and higher transactional and non-transactional fees, partially offset by higher transaction processing charges and lower average ticket versus the first quarter of 2018.

## Business Solutions

Edgar Filing: EVERTEC, Inc. - Form 10-Q

	Three months ended March 31,	
Dollar amounts in thousands	2019	2018
Revenues	\$51,364	\$47,921
Adjusted EBITDA	23,048	23,165

Business Solutions segment revenue increased \$3.4 million or 7% mainly driven by new services provided to Popular and incremental managed services revenues from the Government of Puerto Rico. Adjusted EBITDA decreased \$0.1 million to

26

---



Table of Contents

\$23.0 million when compared with the prior year results mainly driven by higher costs incurred related to support and maintenance hours for Business Solutions applications, coupled with higher expenses related to infrastructure supporting the Business Solutions segment as we continue to replace obsolete assets.

## Liquidity and Capital Resources

Our principal source of liquidity is cash generated from operations, and our primary liquidity requirements are the funding of capital expenditures, working capital needs and acquisitions. We also have a \$125.0 million Revolving Facility, of which \$82.9 million was available as of March 31, 2019. The Company issues letters of credit against our Revolving Facility which reduce our availability of funds to be drawn.

At March 31, 2019, we had cash and cash equivalents of \$73.2 million, of which \$48.4 million resides in our subsidiaries located outside of Puerto Rico for purposes of (i) funding the respective subsidiary's current business operations and (ii) funding potential future investment outside of Puerto Rico. We intend to indefinitely reinvest these funds outside of Puerto Rico, and based on our liquidity forecast, we will not need to repatriate this cash to fund the Puerto Rico operations or to meet debt-service obligations. However, if in the future we determine that we no longer need to maintain cash balances within our foreign subsidiaries, we may elect to distribute such cash to the Company in Puerto Rico. Distributions from the foreign subsidiaries to Puerto Rico may be subject to tax withholding and other tax consequences. Additionally, our credit agreement imposes certain restrictions on the distribution of dividends from subsidiaries.

Our primary use of cash is for operating expenses, working capital requirements, capital expenditures, dividend payments, share repurchases, debt service, acquisitions and other transactions as opportunities present themselves.

Based on our current level of operations, we believe our cash flows from operations and the available secured Revolving Credit Facility will be adequate to meet our liquidity needs for the next twelve months. However, our ability to fund future operating expenses, dividend payments, capital expenditures, mergers and acquisitions, and our ability to make scheduled payments of interest, to pay principal on or refinance our indebtedness and to satisfy any other of our present or future debt obligations will depend on our future operating performance, which will be affected by general economic, financial and other factors beyond our control.

(In thousands)	Three months ended March 31,	
	2019	2018
Cash provided by operating activities	\$29,339	\$30,368
Cash used in investing activities	(13,956 )	(9,365 )
Cash used in financing activities	(15,628 )	(17,359 )
(Decrease) increase in cash, cash equivalents and restricted cash	\$(245 )	\$3,644

Net cash provided by operating activities for the three months ended March 31, 2019 was \$29.3 million compared with cash provided by operating activities of \$30.4 million for the corresponding 2018 period. The \$1.0 million decrease in cash provided by operating activities is primarily driven by more cash used to pay down accounts payable, accrued liabilities, and income taxes, partially offset by more collections of accounts receivable.

Net cash used in investing activities for the three months ended March 31, 2019 was \$14.0 million compared with \$9.4 million for the corresponding period in 2018. The \$4.6 million increase is attributable to increases in capital expenditures.

Net cash used in financing activities for the three months ended March 31, 2019 was \$15.6 million compared with \$17.4 million for the corresponding 2018 period. The \$1.7 million decrease was mainly related to a \$15.0 million draw on our Revolving Facility, compared with a \$12.0 million paydown in the prior year, coupled with a \$1.5 million decrease in cash used to paydown long-term debt. This decrease was partially offset by cash dividends paid amounting to \$3.6 million and cash used for repurchases of common stock of \$17.5 million, while in the prior year no cash was used for these activities, and a \$5.7 million increase in cash used for payment of statutory withholding taxes for share-based compensation.

## Table of Contents

### Capital Resources

Our principal capital expenditures are for hardware and computer software (purchased and internally developed) and additions to property and equipment. We invested approximately \$14.0 million and \$9.4 million for the three months ended March 31, 2019 and 2018, respectively. Capital expenditures are expected to be funded by cash flow from operations and, if necessary, borrowings under our Revolving Facility. We expect capital expenditures to be in a range of \$40 million to \$45 million in 2019.

### Dividend Payments

On April 25, 2019, the Board declared a regular quarterly cash dividend of \$0.05 per share on the Company's outstanding shares of common stock. The dividend will be paid on June 7, 2019 to stockholders of record as of the close of business on May 6, 2019. Any declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board and will depend on many factors, including our financial condition, earnings, available cash, business opportunities, legal requirements, restrictions in our debt agreements and other contracts, capital requirements, level of indebtedness and other factors that our Board deems relevant.

### Financial Obligations

#### Secured Credit Facilities

On November 27, 2018, EVERTEC and EVERTEC Group ("Borrower") entered into a credit agreement governing the senior secured credit facilities, consisting of a \$220.0 million term loan A facility that matures on November 27, 2023 ("2023 Term A"), a \$325.0 million term loan B facility that matures on November 27, 2024 ("2024 Term B") and a \$125.0 million revolving credit facility (the "Revolving Facility") that matures on November 27, 2023, with a syndicate of lenders and Bank of America, N.A. ("Bank of America"), as administrative agent, collateral agent, swingline lender and line of credit issuer (collectively the "2018 Credit Agreement").

The unpaid principal balance at March 31, 2019 of the 2023 Term A Loan and the 2024 Term B Loan was \$217.3 million and \$324.2 million, respectively. The additional borrowing capacity for the Revolving Facility at March 31, 2019 was \$82.9 million. The Company issues letters of credit against the Revolving Facility which reduce the additional borrowing capacity of the Revolving Facility.

#### Notes payable

In May 2016, EVERTEC Group entered into a non-interest bearing financing agreement amounting to \$0.7 million to purchase software. As of both March 31, 2019 and December 31, 2018, the outstanding principal balance of the note payable is \$0.3 million. The current portion of these notes is recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

In January 2019, EVERTEC Group entered into a non-interest bearing financing agreement amounting to \$10.0 million to purchase data processing equipment and maintenance. As of March 31, 2019, the outstanding principal balance of the note payable was \$6.4 million, recorded as part of accounts payable.

#### Interest Rate Swaps

As of March 31, 2019, the Company has the following interest rate swap agreements converting a portion of the interest rate exposure on the Company's Term B Loan from variable to fixed:

Edgar Filing: EVERTEC, Inc. - Form 10-Q

Swap Agreement	Effective date	Maturity Date	Notional Amount	Variable Rate	Fixed Rate
2015 Swap	January 2017	April 2020	\$200 million	1-month LIBOR	1.9225%
2018 Swap	April 2020	November 2024	\$250 million	1-month LIBOR	2.89%

The Company has accounted for these transactions as cash flow hedges.

As of March 31, 2019 and December 31, 2018, the carrying amount of the derivatives on the Company's balance sheets is as follows:

28

---

Table of Contents

(In thousands)	March 31, 2019	December 31, 2018
----------------	----------------------	----------------------

Other long-term assets	\$1,032	\$ 1,683
------------------------	---------	----------

Other long-term liabilities	\$7,851	\$ 4,059
-----------------------------	---------	----------

During the three months ended March 31, 2019, the Company reclassified gains of \$0.3 million from accumulated other comprehensive loss into income through interest expense. Based on current LIBOR rates, the Company expects to reclassify gains of \$1.0 million from accumulated other comprehensive loss into income through interest expense over the next 12 months. Refer to Note 6 for tabular disclosure of the fair value of derivatives and to Note 7 for tabular disclosure of gains recorded on cash flow hedging activities.

The cash flow hedge is considered highly effective.

### Covenant Compliance

As of March 31, 2019, the secured leverage ratio was 2.31 to 1.00. As of the date of filing of this Form 10-Q, no event has occurred that constitutes an Event of Default or Default.

### Net Income Reconciliation to EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share (Non-GAAP Measures)

We define “EBITDA” as earnings before interest, taxes, depreciation and amortization. We define “Adjusted EBITDA” as EBITDA further adjusted to exclude unusual items and other adjustments described below. Adjusted EBITDA by segment is reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. For this reason Adjusted EBITDA, as it relates to our segments, is presented in conformity with Accounting Standards Codification 280, Segment Reporting, and is excluded from the definition of non-GAAP financial measures under the Securities and Exchange Commission's Regulation G and Item 10(e) of Regulation S-K. We define “Adjusted Net Income” as net income adjusted to exclude unusual items and other adjustments described below. We define “Adjusted Earnings per common share” as Adjusted Net Income divided by diluted shares outstanding.

We present EBITDA and Adjusted EBITDA because we consider them important supplemental measures of our performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of ourselves and other companies in our industry. In addition, our presentation of Adjusted EBITDA is substantially consistent with the equivalent measurements that are contained in the senior secured credit facilities in testing EVERTEC Group's compliance with covenants therein such as the senior secured leverage ratio. We use Adjusted Net Income to measure our overall profitability because we believe better reflects our comparable operating performance by excluding the impact of the non-cash amortization and depreciation that was created as a result of the Merger. In addition, in evaluating EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share, you should be aware that in the future we may incur expenses such as those excluded in calculating them. Further, our presentation of these measures should not be construed as an inference that our future operating results will not be affected by unusual or nonrecurring items.

Some of the limitations of EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted earnings per common share are as follows:

- they do not reflect cash outlays for capital expenditures or future contractual commitments;
- they do not reflect changes in, or cash requirements for, working capital;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect cash requirements for such

replacements;

• in the case of EBITDA and Adjusted EBITDA, they do not reflect interest expense, or the cash requirements necessary to service interest, or principal payments, on indebtedness;

• in the case of EBITDA and Adjusted EBITDA, they do not reflect income tax expense or the cash necessary to pay income taxes; and

• other companies, including other companies in our industry, may not use EBITDA, Adjusted EBITDA, Adjusted Net Income, and Adjusted Earnings per common share or may calculate EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share differently than as presented in this Report, limiting their usefulness as a comparative measure.

Table of Contents

EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share are not measurements of liquidity or financial performance under GAAP. You should not consider EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share as alternatives to cash flows from operating activities or any other performance measures determined in accordance with GAAP, as an indicator of cash flows, as a measure of liquidity or as an alternative to operating or net income determined in accordance with GAAP.

A reconciliation of net income to EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share is provided below:

(Dollar amounts in thousands, except per share information)	Three months ended March 31,		Twelve months ended March 31,
	2019	2018	2019
Net income	\$26,734	\$ 23,114	\$90,189
Income tax expense	3,809	3,935	12,470
Interest expense, net	7,292	7,522	29,027
Depreciation and amortization	16,273	15,867	63,473
EBITDA	54,108	50,438	195,159
Equity income <sup>(1)</sup>	(222 )	(199 )	(282 )
Compensation and benefits <sup>(2)</sup>	3,439	3,829	13,269
Transaction, refinancing and other fees <sup>(3)</sup>	271	(100 )	7,941
Adjusted EBITDA	57,596	53,968	216,087
Operating depreciation and amortization <sup>(4)</sup>	(7,965 )	(7,321 )	(29,852 )
Cash interest expense, net <sup>(5)</sup>	(7,132 )	(6,368 )	(26,867 )
Income tax expense <sup>(6)</sup>	(5,300 )	(5,567 )	(19,247 )
Non-controlling interest <sup>(7)</sup>	(112 )	(138 )	(446 )
Adjusted net income	\$37,087	\$ 34,574	\$ 139,675
Net income per common share (GAAP):			
Diluted	\$0.36	\$ 0.31	
Adjusted Earnings per common share (Non-GAAP):			
Diluted	\$0.50	\$ 0.47	
Shares used in computing adjusted earnings per common share:			
Diluted	73,770,067	73,372,835	

1) Represents the elimination of non-cash equity earnings from our 19.99% equity investment in Consorcio de Tarjetas Dominicanas S.A., net of cash dividends received.

2) Primarily represents share-based compensation and other compensation expense of \$3.3 million and \$3.6 million for the quarters ended March 31, 2019 and 2018, respectively and severance payments of \$0.2 million for both quarters ended March 31, 2019 and 2018.

3) Represents fees and expenses associated with corporate transactions as defined in the Credit Agreement, recorded as part of selling, general and administrative expenses and cost of revenues.

4) Represents operating depreciation and amortization expense, which excludes amounts generated as a result of merger and acquisition activity.

5) Represents interest expense, less interest income, as they appear on our consolidated statements of income and comprehensive income, adjusted to exclude non-cash amortization of the debt issue costs, premium and accretion of discount.

6) Represents income tax expense calculated on adjusted pre-tax income using the applicable GAAP tax rate, adjusted for certain discreet items.

7)

Represents the 35% non-controlling equity interest in Evertec Colombia, net of amortization for intangibles created as part of the purchase.



## Table of Contents

### Off Balance Sheet Arrangements

In the ordinary course of business the Company may enter into commercial commitments. As of March 31, 2019, the Company did not have any off balance sheet items.

### Seasonality

Our payment businesses generally experience moderate increased activity during the traditional holiday shopping periods and around other nationally recognized holidays, which follow consumer spending patterns.

### Effect of Inflation

While inflationary increases in certain input costs, such as occupancy, labor and benefits, and general administrative costs, have an impact on our operating results, inflation has had minimal net effect on our operating results during the last three years as overall inflation has been offset by increased selling process and cost reduction actions. We cannot assure you, however, that we will not be affected by general inflation in the future.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risks arising from our normal business activities. These market risks principally involve the possibility of changes in interest rates that will adversely affect the value of our financial assets and liabilities or future cash flows and earnings. Market risk is the potential loss arising from adverse changes in market rates and prices.

#### Interest rate risks

We issued floating-rate debt which is subject to fluctuations in interest rates. Our secured credit facilities accrue interest at variable rates and only the 2024 Term B is subject to a floor or a minimum rate. A 100 basis point increase in interest rates over our floor(s) on our debt balances outstanding as of March 31, 2019, under the secured credit facilities would increase our annual interest expense by approximately \$3.4 million. The impact on future interest expense as a result of future changes in interest rates will depend largely on the gross amount of our borrowings at that time.

In December 2015 and December 2018 we entered into interest rate swap agreements which convert a portion of our outstanding variable rate debt to fixed.

The interest rate swap exposes us to credit risk in the event that the counterparty to the swap agreement does not or cannot meet its obligations. The notional amount is used to measure interest to be paid or received and does not represent the amount of exposure to credit loss. The loss would be limited to the amount that would have been received, if any, over the remaining life of the swap. The counterparty to the swap is a major US based financial institution and we expect the counterparty to be able to perform its obligations under the swap. We use derivative financial instruments for hedging purposes only and not for trading or speculative purposes

See Note 5 of the Unaudited Consolidated Condensed Financial Statements for additional information related to the senior secured credit facilities.

#### Foreign exchange risk

We conduct business in certain countries in Latin America. Some of this business is conducted in the countries' local currencies. The resulting foreign currency translation adjustments, from operations for which the functional currency

is other than the U.S. dollar, are reported in accumulated other comprehensive loss in the unaudited consolidated condensed balance sheets, except for highly inflationary environments in which the effects would be included in other operating income in the consolidated condensed statements of income and comprehensive income. At March 31, 2019, the Company had \$19.7 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive loss compared with an unfavorable foreign currency translation adjustment of \$21.6 million at December 31, 2018.

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company, under the direction of the Chief Executive Officer and the Chief Financial Officer, has established disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of March 31, 2019, the Company’s disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rule 13a -15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting. We implemented internal controls to ensure we adequately evaluate and properly assess the impact of the new accounting standard related to leases. There were no significant changes to our internal control over financial reporting due to the adoption of the new standard.

Table of Contents

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

We are defendants in various lawsuits or arbitration proceedings arising in the ordinary course of business. Management believes, based on the opinion of legal counsel and other factors, that the aggregated liabilities, if any, arising from such actions will not have a material adverse effect on the financial condition, results of operations and the cash flows of the Company.

## Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed under Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

The risks described in our Annual Report on Form 10-K for the year ended December 31, 2018 are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes repurchases of the Company's common stock in the three months period ended March 31, 2019:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced program (1)	Approximate dollar value of shares that may yet be purchased under the program
2/1/2019-2/28/2019	103,480	\$ 28.874	103,480	
3/1/2019-3/31/2019	515,093	28.147	515,093	
Total	618,573	\$ 28.269	618,573	\$ 44,859,539

(1) On February 17, 2016, the Company announced that its Board of Directors approved an increase and extension to the current stock repurchase program, authorizing the purchase of up to \$120 million of the Company's common stock and extended the expiration to December 31, 2017. On November 2, 2017 the Company's Board of Directors approved an extension to the expiration date of the current stock repurchase program to December 31, 2020.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

10.1*+	<u>Form of Restricted Stock Unit Award Agreement for grant of restricted stock units to executive officers under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated February 22, 2019, by and between EVERTEC, Inc. and the executive (applicable to Morgan M. Schuessler, Joaquín A. Castrillo, Carlos J. Ramírez, Luis A. Rodríguez, Paola Pérez, Guillermo Rospigliosi, Philip E. Steurer, and Miguel Vizcarrondo.</u>
31.1*	<u>CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1**	<u>CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2**	<u>CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS XBRL**	Instance document
101.SCH XBRL**	Taxonomy Extension Schema
101.CAL XBRL**	Taxonomy Extension Calculation Linkbase
101.DEF XBRL**	Taxonomy Extension Definition Linkbase
101.LAB XBRL**	Taxonomy Extension Label Linkbase
101.PRE XBRL**	Taxonomy Extension Presentation Linkbase

\* Filed herewith.

\*\* Furnished herewith.

+ This exhibit is a management contract or a compensatory plan or arrangement.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

EVERTEC, Inc.  
(Registrant)

Date: May 3, 2019 By: /s/ Morgan Schuessler  
Morgan Schuessler  
Chief Executive Officer

Date: May 3, 2019 By: /s/ Joaquin A. Castrillo-Salgado  
Joaquin A. Castrillo-Salgado  
Chief Financial Officer (Principal Financial and Accounting Officer)