

EVERTEC, Inc.  
Form 10-Q  
August 02, 2018  
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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 June 30, 2018 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer  
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company  
Emerging growth company

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

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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 July 25, 2018, there were 72,717,138 outstanding shares of common stock of EVERTEC, Inc.

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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 our reliance on Banco Popular de Puerto Rico (“Banco Popular”), Popular’s principal banking subsidiary, to grow our merchant acquiring business;
- as a regulated institution, we most likely will be required to obtain regulatory approval before engaging in certain new activities or businesses, whether organically or by acquisition, and may be unable 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;
- 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;
- the risks in connection with 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;
- 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 agreement fails to satisfy its obligations under the agreement
  - 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;
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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 disaster; 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. The Company does not undertake, and specifically disclaims any obligation, to update any of the "forward-looking statements" to reflect occurrences or unanticipated events or circumstances after the date of such statements except as required by the federal securities laws. Investors should refer to the Company's Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K") for a discussion of factors that could cause events to differ from those suggested by the forward-looking statements, including factors set forth in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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

|   | June 30,<br>2018 | December<br>31, 2017 |
|---|------------------|----------------------|
| Assets  |                  |                      |
| Current Assets:   |                  |                      |
| Cash and cash equivalents   | \$59,333         | \$50,423             |
| Restricted cash   | 11,076           | 9,944                |
| Accounts receivable, net  | 82,447           | 83,328               |
| Prepaid expenses and other assets   | 29,444           | 25,011               |
| Total current assets  | 182,300          | 168,706              |
| Investment in equity investee   | 13,335           | 13,073               |
| Property and equipment, net   | 38,336           | 37,924               |
| Goodwill  | 397,221          | 398,575              |
| Other intangible assets, net  | 266,253          | 279,961              |
| Deferred tax asset  | 1,071            | 988                  |
| Other long-term assets  | 5,653            | 3,561                |
| Total assets  | \$904,169        | \$902,788            |
| Liabilities and stockholders' equity  |                  |                      |
| Current Liabilities:  |                  |                      |
| Accrued liabilities   | \$41,822         | \$38,451             |
| Accounts payable  | 34,561           | 41,135               |
| Unearned income   | 9,633            | 7,737                |
| Income tax payable  | 3,892            | 1,406                |
| Current portion of long-term debt   | 21,820           | 46,487               |
| Short-term borrowings   | —                | 12,000               |
| Total current liabilities   | 111,728          | 147,216              |
| Long-term debt  | 547,551          | 557,251              |
| Deferred tax liability  | 12,976           | 13,820               |
| Unearned income - long term   | 24,049           | 23,486               |
| Other long-term liabilities   | 10,502           | 13,039               |
| Total liabilities   | 706,806          | 754,812              |
| 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; 72,717,138 shares issued and outstanding at June 30, 2018 (December 31, 2017 - 72,393,933) | 727              | 723                  |
| Additional paid-in capital  | 10,654           | 5,350                |
| Accumulated earnings  | 192,819          | 148,887              |
| Accumulated other comprehensive loss, net of tax  | (10,858 )        | (10,848 )            |
| Total EVERTEC, Inc. stockholders' equity  | 193,342          | 144,112              |
| Non-controlling interest  | 4,021            | 3,864                |
| Total equity  | 197,363          | 147,976              |
| Total liabilities and equity  | \$904,169        | \$902,788            |

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





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

|   | Three months ended |           | Six months ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | June 30,           |           | June 30,         |           |
|   | 2018               | 2017      | 2018             | 2017      |
| Revenues (affiliates Note 13)   | \$113,347          | \$103,511 | \$223,621        | \$204,791 |
| Operating costs and expenses  |                    |           |                  |           |
| Cost of revenues, exclusive of depreciation and amortization shown below                  | 49,131             | 43,030    | 96,551           | 87,203    |
| Selling, general and administrative expenses  | 17,848             | 14,588    | 31,280           | 25,419    |
| Depreciation and amortization   | 15,728             | 15,899    | 31,595           | 31,583    |
| Total operating costs and expenses  | 82,707             | 73,517    | 159,426          | 144,205   |
| Income from operations  | 30,640             | 29,994    | 64,195           | 60,586    |
| Non-operating income (expenses)   |                    |           |                  |           |
| Interest income   | 164                | 216       | 321              | 401       |
| Interest expense  | (7,665)            | (7,406)   | (15,344)         | (14,442)  |
| Earnings of equity method investment  | 175                | 115       | 374              | 258       |
| Other (expense) income  | (69)               | 1,363     | 748              | 2,637     |
| Total non-operating expenses  | (7,395)            | (5,712)   | (13,901)         | (11,146)  |
| Income before income taxes  | 23,245             | 24,282    | 50,294           | 49,440    |
| Income tax expense  | 3,112              | 4,068     | 7,047            | 6,088     |
| Net income  | 20,133             | 20,214    | 43,247           | 43,352    |
| Less: Net income attributable to non-controlling interest                                 | 81                 | 125       | 173              | 234       |
| Net income attributable to EVERTEC, Inc.'s common stockholders                            | 20,052             | 20,089    | 43,074           | 43,118    |
| Other comprehensive income (loss), net of tax of \$28, \$(18), \$168 and \$19             |                    |           |                  |           |
| Foreign currency translation adjustments  | (4,307)            | (1,956)   | (1,900)          | (2,601)   |
| Gain (loss) on cash flow hedge  | 387                | (242)     | 1,890            | 376       |
| Total comprehensive income attributable to EVERTEC, Inc.'s common stockholders            | \$16,132           | \$17,891  | \$43,064         | \$40,893  |
| Net income per common share - basic attributable to EVERTEC, Inc.'s common stockholders   | \$0.28             | \$0.28    | \$0.59           | \$0.59    |
| Net income per common share - diluted attributable to EVERTEC, Inc.'s common stockholders | \$0.27             | \$0.27    | \$0.58           | \$0.59    |
| Cash dividends declared per share   | \$—                | \$0.10    | \$—              | \$0.20    |

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

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

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|   | Number of<br>Shares of<br>Common<br>Stock | Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Non-Controlling<br>Interest | Total<br>Stockholders'<br>Equity |
|---|---|-----------------|----------------------------------|-------------------------|---|-----------------------------|----------------------------------|
| Balance at December 31, 2017                            | 72,393,933                                | \$ 723          | \$ 5,350                         | \$ 148,887              | \$ (10,848 )                                  | \$ 3,864                    | \$ 147,976                       |
| Cumulative adjustment from<br>implementation of ASC 606 | —   | —               | —                                | 858                     | —   | (16 )                       | 842                              |
| Share-based compensation<br>recognized                  | —   | —               | 7,322                            | —                       | —   | —                           | 7,322                            |
| Restricted stock units delivered,<br>net of cashless    | 323,205                                   | 4               | (2,018 )                         | —                       | —   | —                           | (2,014 )                         |
| Net income  | —   | —               | —                                | 43,074                  | —   | 173                         | 43,247                           |
| Other comprehensive loss                                | —   | —               | —                                | —                       | (10 )   | —                           | (10 )                            |
| Balance at June 30, 2018                                | 72,717,138                                | \$ 727          | \$ 10,654                        | \$ 192,819              | \$ (10,858 )                                  | \$ 4,021                    | \$ 197,363                       |

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)

|   | Six months ended |           |
|---|------------------|-----------|
|   | June 30,         |           |
|   | 2018             | 2017      |
| Cash flows from operating activities  |                  |           |
| Net income  | \$43,247         | \$43,352  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |           |
| Depreciation and amortization   | 31,595           | 31,583    |
| Amortization of debt issue costs and accretion of discount                        | 2,361            | 2,490     |
| Provision for doubtful accounts and sundry losses                                 | 369              | 107       |
| Deferred tax benefit  | (1,113 )         | (1,799 )  |
| Share-based compensation  | 7,322            | 4,189     |
| Loss on disposition of property and equipment and other intangibles               | 11               | 176       |
| Earnings of equity method investment  | (374 )           | (258 )    |
| Dividend received from equity method investment                                   | 390              | —         |
| (Increase) decrease in assets:  |                  |           |
| Accounts receivable, net  | 811              | 953       |
| Prepaid expenses and other assets   | (4,236 )         | (6,067 )  |
| Other long-term assets  | (333 )           | 188       |
| (Decrease) increase in liabilities:   |                  |           |
| Accounts payable and accrued liabilities  | (8,856 )         | (9,215 )  |
| Income tax payable  | 2,487            | 932       |
| Unearned income   | 3,102            | 4,126     |
| Other long-term liabilities   | 73               | 297       |
| Total adjustments   | 33,609           | 27,702    |
| Net cash provided by operating activities   | 76,856           | 71,054    |
| Cash flows from investing activities  |                  |           |
| Additions to software   | (9,015 )         | (9,989 )  |
| Property and equipment acquired   | (6,837 )         | (5,485 )  |
| Proceeds from sales of property and equipment                                     | 14               | 25        |
| Net cash used in investing activities   | (15,838 )        | (15,449 ) |
| Cash flows from financing activities  |                  |           |
| Statutory withholding taxes paid on share-based compensation                      | (2,014 )         | (1,485 )  |
| Net (decrease) increase in short-term borrowings                                  | (12,000 )        | 20,000    |
| Repayment of short-term borrowing for purchase of equipment and software          | (700 )           | (996 )    |
| Dividends paid  | —                | (14,523 ) |
| Repurchase of common stock  | —                | (7,671 )  |
| Repayment of long-term debt   | (36,262 )        | (9,707 )  |
| Net cash used in financing activities   | (50,976 )        | (14,382 ) |
| Net increase in cash, cash equivalents and restricted cash                        | 10,042           | 41,223    |
| Cash, cash equivalents and restricted cash at beginning of the period             | 60,367           | 60,032    |
| Cash, cash equivalents and restricted cash at end of the period                   | \$70,409         | \$101,255 |
| Reconciliation of cash, cash equivalents and restricted cash                      |                  |           |
| Cash and cash equivalents   | \$59,333         | \$93,060  |
| Restricted cash   | 11,076           | 8,195     |
| Cash, cash equivalents and restricted cash  | \$70,409         | \$101,255 |
| Supplemental disclosure of cash flow information:                                 |                  |           |

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|  |          |          |
|--|----------|----------|
| Cash paid for interest                             | \$13,649 | \$12,280 |
| Cash paid for income taxes                         | 4,719    | 5,116    |
| Supplemental disclosure of non-cash activities:    |          |          |
| Payable due to vendor related to software acquired | 360      | 2,360    |

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

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Notes to Unaudited Consolidated Condensed Financial Statements

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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 automated teller machine (“ATM”) and personal identification number (“PIN”) 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.

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, 2017, included in the Company’s 2017 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 issued accounting pronouncements

In June 2018, the Financial Accounting Standards Board (“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 amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity’s adoption date of Topic 606. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

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 without a material impact on the consolidated condensed financial statements. The remaining guidance improvements are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

Accounting pronouncements issued prior to 2018 and not yet adopted

During 2016, the FASB issued updated guidance for financial reporting about leasing transactions. The amendments in this update require a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. In addition, the update requires that both financing and operating leases be recognized on the balance sheet. The guidance also requires disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The Company will adopt the new guidance on January 1, 2019. Based on its initial assessment, Management has identified that the



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main difference between the guidance in ASU 2016-02 and the current GAAP is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current GAAP.

During 2016, the FASB issued updated guidance for the measurement of credit losses on financial instruments. The amendments in this update require 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 is a valuation account that 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 is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The Company expects to adopt this guidance in the fiscal period required by this update and continues to evaluate if the adoption will have an impact on the consolidated financial statements.

In August 2017, the FASB issued updated guidance to improve accounting for hedging activities. The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments in this update require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported and also include certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The Company expects to adopt this guidance in the required period and continues to evaluate if this update will have an impact on the consolidated financial statements.

Note 3 – Property and Equipment, net

Property and equipment, net consists of the following:

| (Dollar amounts in thousands)                    | Useful life<br>in years | June 30,  | December  |
|--|-------------------------|-----------|-----------|
|  |                         | 2018      | 31, 2017  |
| Buildings  | 30                      | \$1,544   | \$1,531   |
| Data processing equipment                        | 3 - 5                   | 110,173   | 103,426   |
| Furniture and equipment                          | 3 - 20                  | 6,878     | 232       |
| Leasehold improvements                           | 5 -10                   | 2,595     | 2,190     |
|  |                         | 121,190   | 107,379   |
| Less - accumulated depreciation and amortization |                         | (84,199 ) | (70,793 ) |
| Depreciable assets, net                          |                         | 36,991    | 36,586    |
| Land   |                         | 1,345     | 1,338     |
| Property and equipment, net                      |                         | \$38,336  | \$37,924  |

Depreciation and amortization expense related to property and equipment for the three and six months ended June 30, 2018 amounted to \$3.5 million and \$7.2 million, respectively, compared to \$3.7 million and \$7.4 million, respectively, for the same periods in 2017.

Note 4 – Goodwill and Other Intangible Assets

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

| (In thousands) | Payment<br>Services -<br>Puerto | Payment<br>Services | Merchant<br>Acquiring, net | Business<br>Solutions | Total |
|----------------|---------------------------------|---------------------|----------------------------|-----------------------|-------|
|                |                                 | -                   |                            |                       |       |

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|  | Rico &<br>Caribbean | Latin<br>America |            |           |           |
|--|---------------------|------------------|------------|-----------|-----------|
| Balance at December 31, 2017             | \$ 160,972          | \$53,659         | \$ 138,121 | \$ 45,823 | \$398,575 |
| Foreign currency translation adjustments | —                   | (1,354 )         | —          | —         | (1,354 )  |
| Balance at June 30, 2018                 | \$ 160,972          | \$52,305         | \$ 138,121 | \$ 45,823 | \$397,221 |

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Goodwill is tested for impairment on an annual basis, or more often if events or changes in circumstances indicate there may be impairment. The Company first assesses qualitative factors to determine whether it is necessary to perform the quantitative impairment test. If determined to be necessary, the quantitative impairment test is used to identify goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any).

There were no triggering events or changes in circumstances that, subsequent to the Company's most recent impairment test, would have required an additional impairment evaluation. No impairment losses were recognized for the six months ended June 30, 2018 or 2017.

The carrying amount of other intangible assets at June 30, 2018 and December 31, 2017 was as follows:

|                               |                      | June 30, 2018 |                          |                     |
|-------------------------------|----------------------|---------------|--------------------------|---------------------|
| (Dollar amounts in thousands) | Useful life in years | Gross amount  | Accumulated amortization | Net carrying amount |
| Customer relationships        | 8 - 14               | \$343,641     | \$ (181,439 )            | \$ 162,202          |
| Trademark                     | 2 - 15               | 41,764        | (27,103 )                | 14,661              |
| Software packages             | 3 - 10               | 206,340       | (144,277 )               | 62,063              |
| Non-compete agreement         | 15                   | 56,539        | (29,212 )                | 27,327              |
| Other intangible assets, net  |                      | \$648,284     | \$ (382,031 )            | \$ 266,253          |

|                               |                      | December 31, 2017 |                          |                     |
|-------------------------------|----------------------|-------------------|--------------------------|---------------------|
| (Dollar amounts in thousands) | Useful life in years | Gross amount      | Accumulated amortization | Net carrying amount |
| Customer relationships        | 8 - 14               | \$344,175         | \$ (168,134 )            | \$ 176,041          |
| Trademark                     | 2 - 15               | 41,594            | (25,241 )                | 16,353              |
| Software packages             | 3 - 10               | 195,262           | (136,907 )               | 58,355              |
| Non-compete agreement         | 15                   | 56,539            | (27,327 )                | 29,212              |
| Other intangible assets, net  |                      | \$637,570         | \$ (357,609 )            | \$ 279,961          |

For the three and six months ended June 30, 2018, the Company recorded amortization expense related to other intangibles of \$12.2 million and \$24.4 million, respectively, compared to \$12.2 million and \$24.2 million for the corresponding 2017 periods.

The estimated amortization expense of the balances outstanding at June 30, 2018 for the next five years is as follows:

| (Dollar amounts in thousands) |          |
|-------------------------------|----------|
| Remaining 2018                | \$23,554 |
| 2019                          | 44,004   |
| 2020                          | 38,834   |
| 2021                          | 34,324   |
| 2022                          | 32,618   |

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## Note 5 – Debt and Short-Term Borrowings

Total debt at June 30, 2018 and December 31, 2017 follows:

| (In thousands)   | June 30,<br>2018 | December<br>31, 2017 |
|--|------------------|----------------------|
| Senior Secured Credit Facility (2018 Term A) due on April 17, 2018 paying interest at a variable interest rate (London InterBank Offered Rate (“LIBOR”) plus applicable margin <sup>(1)(3)</sup> ) | \$—              | \$26,690             |
| Senior Secured Credit Facility (2020 Term A) due on January 17, 2020 paying interest at a variable interest rate (LIBOR plus applicable margin <sup>(3)(4)</sup> )                                 | 193,808          | 200,653              |
| Senior Secured Credit Facility (Term B) due on April 17, 2020 paying interest at a variable interest rate (LIBOR plus applicable margin <sup>(2)(3)</sup> )  | 375,563          | 376,395              |
| Senior Secured Revolving Credit Facility <sup>(6)</sup>  | —                | 12,000               |
| Note Payable due on August 31, 2019 <sup>(5)</sup>   | —                | 584                  |
| Note Payable due on April 30, 2021 <sup>(3)</sup>  | 360              | 418                  |
| Total debt   | \$569,731        | \$616,740            |

(1) Applicable margin of 2.25% at December 31, 2017.

(2) Subject to a minimum rate (“LIBOR floor”) of 0.75% plus applicable margin of 2.50% at June 30, 2018 and December 31, 2017.

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

(4) Applicable margin of 2.50% at June 30, 2018 and December 31, 2017.

(5) Fixed interest rate of 7.50%. The Company prepaid the outstanding principal balance of this note during the second quarter of 2018 without penalties.

(6) Applicable margin of 2.50% at June 30, 2018 and December 31, 2017.

## Senior Secured Credit Facilities

On April 17, 2013, EVERTEC Group entered into a credit agreement (the “2013 Credit Agreement”) governing the senior secured credit facilities, consisting of a \$300.0 million term loan A facility (the “Term A Loan”), a \$400.0 million term loan B facility (the “Term B Loan”, together with the Term A Loan, the “Senior Secured term loans”) and a \$100.0 million revolving credit facility (the “Revolving Facility”). During 2016, the Company entered into two separate amendments to the 2013 Credit Agreement. In the second quarter of 2016, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a second amendment and waiver to the outstanding 2013 Credit Agreement (the “Second Amendment”). In the fourth quarter of 2016, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a third amendment (the “Third Amendment”) to the 2013 Credit Agreement. The Third Amendment extends the maturity of (a) approximately \$219 million of EVERTEC Group’s existing approximately \$250 million of Term A loan facility to January 17, 2020 (the “2020 Term A Loan”) and (b) \$65 million of EVERTEC Group’s existing \$100 million of Revolving Facility to January 17, 2020. The remaining approximately \$30 million of Term A loan (the “2018 Term A Loan”) and the \$35 million of Revolving Facility were not extended and matured as originally scheduled on April 17, 2018. The Term B Loan will remain in place and mature as originally scheduled on April 17, 2020.

The unpaid principal balance at June 30, 2018 of the 2020 Term A Loan and the Term B Loan was \$195.5 million and \$380.0 million, respectively. At June 30, 2018, the 2018 Term A Loan had been fully repaid. The additional borrowing capacity for the Revolving Facility at June 30, 2018 was \$65.0 million.

## Notes payable

In May 2016, EVERTEC Group entered into a non-interest bearing financing agreement amounting to \$0.7 million and in October 2016 entered into an interest bearing agreement of \$1.1 million, to purchase software. As of June 30, 2018 and December 31, 2017, the outstanding principal balance of the notes payable is \$0.4 million and \$1.0 million, respectively. The October 2016 interest bearing note payable outstanding principal balance was prepaid without penalties during the second quarter of 2018. 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.

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## Interest Rate Swap

As of June 30, 2018, the Company has the following interest rate swap agreement converting a portion of the interest rate exposure on the Company's Term B Loan from variable to fixed:

| Effective date | Maturity Date | Notional Amount | Variable Rate | Fixed Rate |
|----------------|---------------|-----------------|---------------|------------|
| January 2017   | April 2020    | \$200 million   | 1-month LIBOR | 1.9225%    |

The Company has accounted for this transaction as a cash flow hedge. The fair value of the Company's derivative instrument is determined using a standard valuation model. The significant inputs used in this model are readily available in public markets, or can be derived from observable market transactions, and therefore have been classified as Level 2 within the fair value hierarchy. Inputs used in this standard valuation model for derivative instruments include the applicable forward rates and discount rates. The discount rates are based on the historical LIBOR Swap rates.

As of June 30, 2018 and December 31, 2017, the carrying amount of the derivative on the Company's balance sheets is as follows:

| (Dollar amounts in thousands) | June<br>30,<br>2018 | December<br>31, 2017 |
|-------------------------------|---------------------|----------------------|
| Other long-term assets        | \$2,304             | \$ 214               |

During the six months ended June 30, 2018, the Company reclassified losses of \$0.2 million from accumulated other comprehensive loss into income through interest expense. Based on current LIBOR rates, the Company expects to reclassify gains of \$0.3 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 and no impact on earnings is expected due to hedge ineffectiveness.

## 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:

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 June 30, 2018 and December 31, 2017 for the asset measured at fair value on a recurring basis:

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| (In thousands)     | Level 1 | Level 2  | Level 3 | Total    |
|--------------------|---------|----------|---------|----------|
| June 30, 2018      |         |          |         |          |
| Financial asset:   |         |          |         |          |
| Interest rate swap | \$      | —\$2,304 | \$      | —\$2,304 |
| December 31, 2017  |         |          |         |          |
| Financial asset:   |         |          |         |          |
| Interest rate swap | \$      | —\$214   | \$      | —\$214   |

The following table presents the carrying value, as applicable, and estimated fair values for financial instruments at June 30, 2018 and December 31, 2017:

| (In thousands)             | June 30, 2018   |            | December 31, 2017 |            |
|----------------------------|-----------------|------------|-------------------|------------|
|                            | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| Financial assets:          |                 |            |                   |            |
| Interest rate swap         | \$2,304         | \$2,304    | \$214             | \$214      |
| Financial liabilities:     |                 |            |                   |            |
| Senior Secured Term B Loan | 375,563         | 378,100    | 376,395           | 370,540    |
| 2018 Term A Loan           | —               | —          | 26,690            | 26,027     |
| 2020 Term A Loan           | 193,808         | 194,494    | 200,653           | 196,584    |

The fair values of the term loans at June 30, 2018 and December 31, 2017 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.

The Senior 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 six months period ended June 30, 2018:

| (In thousands)   | Foreign Currency        |   | Cash Flow Hedge | Total      |
|--|-------------------------|---|-----------------|------------|
|  | Translation Adjustments |   |                 |            |
| Balance - December 31, 2017, net of tax                    | \$ (11,062              | ) | \$ 214          | \$(10,848) |
| Other comprehensive (loss) income before reclassifications | (1,900                  | ) | 1,722           | (178 )     |
| Effective portion reclassified to Net Income               | —                       |   | 168             | 168        |
| Balance - June 30, 2018, net of tax                        | \$ (12,962              | ) | \$ 2,104        | \$(10,858) |

## Note 8 – Share-based Compensation

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



In the first quarter of 2016, 2017 and 2018, the Compensation Committee of the Board of Directors approved grants of restricted stock units (“RSUs”) to executives and certain employees pursuant to the 2016 LTIP, 2017 LTIP and 2018 LTIP, respectively, all under the terms of our 2013 Equity Incentive Plan. Additionally, in the fourth quarter of 2017, a special

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retention grant to certain executives and employees of the Company was approved. 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 19 of each year for the 2016 LTIP, on February 24 of each year for the 2017 LTIP and on February 28 of each year for the 2018 LTIP.

Employees that received awards with market conditions under the 2016 LTIP are entitled to receive a specific number of shares of the Company's common stock on the vesting date if the Company's total shareholder return ("TSR") target relative to a specified group of industry peer companies is achieved. Employees that received awards with performance conditions are entitled to receive a specific number of shares of the Company's common stock on the vesting date if the Cumulative Annual Growth Rate ("CAGR") of Diluted EPS target over one year is achieved for the 2016 LTIP. The shares earned according to the plan are further subject to a two-year service vesting period. For the performance-based awards under the 2017 LTIP and 2018 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 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 19, 2016 for the 2016 LTIP, February 24, 2017 for the 2017 LTIP and February 28, 2018 for the 2018 LTIP. The periods end on February 19, 2019 for the 2016 LTIP, February 24, 2020 for the 2017 LTIP and February 28, 2021 for the 2018 LTIP. 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 six months ended June 30, 2018:

| Nonvested restricted shares and RSUs | Shares    | Weighted-average<br>grant date fair value |
|--------------------------------------|-----------|---|
| Nonvested at December 31, 2017       | 2,340,892 | \$ 15.08                                  |
| Forfeited                            | 146,564   | 20.94                                     |
| Vested                               | 431,961   | 16.18                                     |
| Granted                              | 636,322   | 17.07                                     |
| Nonvested at June 30, 2018           | 2,398,689 | \$ 15.05                                  |

For the three and six months ended June 30, 2018, the Company recognized \$3.7 million and \$7.3 million of share based compensation expense, respectively compared \$2.0 million and \$4.2 million, respectively for the same periods in 2017.

As of June 30, 2018, the maximum unrecognized cost for restricted stock and RSUs was \$25.8 million. The cost is expected to be recognized over a weighted average period of 2.14 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 relative stand-alone selling price. The Company

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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.

### Nature of goods and services

The following is a description of principal revenue generating activities, described by operating segment, from which the Company generates its revenue.

The Payment Services - Puerto Rico & Caribbean segment provides financial institutions, government entities and other issuers services to process credit, debit and prepaid cards; automated teller machines and electronic benefit transfer (“EBT”) card programs (which principally consist of services to the government of Puerto Rico for the delivery of benefits to participants). Revenue is principally derived from fixed fees per transaction and time and material basis billing for professional service provided to enhance the existing hosted platforms. Professional services in these contracts are primarily considered non-distinct from the transactional services and accounted for as a single performance obligation. Revenue for these contracts is recognized over time in the amount in which the Company has right to consideration.

The Payment Services - Latin America segment provides financial institutions, government entities and other issuers services to process credit, debit and prepaid cards, for which revenue is recognized in the same manner as described above, as well as licensed software solutions for risk and fraud management and card payment processing. Licensed software solutions are provided through licensing of software as a service (“SaaS”) and on-premise perpetual licenses. Set-up fees related to SaaS are considered non-distinct from the license and accounted for as a single performance obligation. SaaS revenues are recognized over the time the customer benefits from the software. On-premises perpetual licenses primarily require significant customization and development. Professional services provided for significant customizations and development are non-distinct from the license and accounted for as a single performance obligation, recognized over time during the development of the license. Revenue is recognized based on the Company's efforts or inputs, measured in labor hours expended, relative to the total expected inputs to satisfy the performance obligation. Maintenance or support services are considered distinct and recognized over time.

The Merchant Acquiring segment provides customers with the ability to accept and process debit and credit cards. Revenue is derived from fixed or identifiable fees charged to individual merchants per transaction, set-up fees, monthly membership fees and rental of POS terminals. Set-up fees are considered non-distinct from the transaction processing services and accounted for as a single performance obligation. Revenue for these contracts is recognized over time in the amount in which the Company has right to consideration.

The Business Solutions segment consists of revenues from a full suite of business process management solutions. Revenue derived from core bank processing and other processing and transaction based services are generally recognized over time in the amount in which the Company has right to consideration. Hosting services generally represent a series of distinct months that are substantially the same, and has the same pattern of transfer. Professional services to enhance EVERTEC's platforms are generally considered non-distinct from the hosting service and accounted for as a single performance obligation. Hosting services are generally recognized over time once in production during the remaining term of the contract. Maintenance or support services are considered distinct and recognized over time. Hardware and software sales are recognized at a point in time when the control of the asset is transferred to the customer. Indicators of transfer of control include the Company's right to payment, or as the customer has legal title or physical possession of the asset.

The Company's service contracts may include service level arrangements (“SLA”) generally allowing the customer to receive a credit for part of the service fee when the Company has not provided the agreed level of services. If

triggered, the SLA is deemed a consideration payable that may impact the transaction price of the contract, thus SLA performance is monitored and assessed for compliance with arrangements on a monthly basis, including determination and accounting for its economic impact, if any.

Refer to Note 14 - Segment Information for further information, including revenue by products and services the Company provides and the geographic regions in which the Company operates.

#### Significant Judgments

Contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

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The Company exercises judgment in identifying a suitable method that depicts the entity's performance in transferring control of the performance obligations satisfied over time, on a contract by contract basis. The principal criteria used for determining the measure of progress is the availability of reliable information that can be obtained without incurring undue cost, which usually results in the input method since, in the majority of cases, the outputs used to reasonably measure progress are not directly observable. The input method is applied based on labor hours expended, relative to the total expected labor hours to satisfy the performance obligation.

Judgment is required in determining the stand alone selling price for each distinct performance obligation. Stand-alone selling price is mainly determined based on the price at which the good or service is sold separately. If the good or service is not sold separately, the Company estimates the stand-alone selling price by using the approach of expected cost plus a margin. If the stand-alone selling price is not observable through past transactions, the Company estimates the stand-alone selling price by considering all reasonably available information, including market conditions, trends or other company or customer specific factors.

## Impact of adoption of Topic 606

The tables below present a summary of the impacts of adopting Topic 606 on the Company's consolidated financial statements for the period ended June 30, 2018.

| Balance Sheet                        | June 30, 2018 |             |  |
|--------------------------------------|---------------|-------------|--|
| (Dollar amounts in thousands)        | As reported   | Adjustments | Balances without the adoption of Topic 606 |
| Assets                               | —             |             |  |
| Prepaid expenses and other assets    | \$29,444      | \$ 116      | \$ 29,560                                  |
| Liabilities and stockholders' equity |               |             |  |
| Unearned Income                      | 33,682        | 890         | 34,572                                     |

The total effect of the adjustments to the Consolidated Condensed Statement of Income and Comprehensive Income, Consolidated Condensed Statements of Cash Flows and earnings per share is considered immaterial.

## Disaggregation of revenue

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.

| (In thousands)                                       | Three months ended June 30, 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 | \$67                                       | \$ 37                            | \$ —                    | \$ 1,236           | \$1,340 |
| Products and services transferred over time          | 18,847                                     | 19,199                           | 25,964                  | 47,997             | 112,007 |

\$18,914 \$19,236 \$25,964 \$49,233 \$113,347

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| (In thousands)                                       | Six months ended June 30, 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 | \$ 193                                     | \$ 429                           | \$ —                    | \$ 2,209           | \$ 2,831   |
| Products and services transferred over time          | 37,304                                     | 39,198                           | 49,343                  | 94,945             | 220,790    |
|  | \$ 37,497                                  | \$ 39,627                        | \$ 49,343               | \$ 97,154          | \$ 223,621 |

## Contract balances

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

| (In thousands)                    | Contract Assets |
|-----------------------------------|-----------------|
| Balance at beginning of period    | \$ 1,903        |
| Services transferred to customers | 692             |
| Transfers to accounts receivable  | (997 )          |
| Balance at June 30, 2018          | \$ 1,598        |

Contract assets primarily relate to the Company's right to consideration for work completed but not billed at the reporting date. The contract assets are transferred to accounts receivable when the rights to payment become unconditional. The current portion of these 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 June 30, 2018 amounted to \$82.4 million. Unearned income and Unearned income - Long term, which refer to contract liabilities, at June 30, 2018 amounted to \$9.6 million and \$24.0 million, respectively, and 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 hosting services. During the three and six months ended June 30, 2018, the Company recognized revenue of \$2.0 million and \$5.7 million that was included in unearned income at December 31, 2017.

Revenues from recurring transaction-based and processing services represent the majority of the Company's total revenue as of June 30, 2018. The Company recognizes revenues from recurring transaction-based and processing services over time at the amounts in which the Company has right to invoice, which corresponds directly to the value to the customer of the Company's performance completed to date. Therefore, the Company has elected to apply the practical expedient in paragraph 606-10-50-14. Under this practical expedient, the Company is not required to disclose information about remaining performance obligations if the contract has an original expected duration of one year or less or if the Company recognizes revenue at the amount to which it has a right to invoice.

The Company also applies the practical expedient in paragraph 606-10-50-14A and does not disclose the information about remaining performance obligations for variable consideration when the following condition is met: the variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation in accordance with paragraph 606-10-25-14(b).

The estimated aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at June 30, 2018 is \$237.8 million. This amount primarily consists of professional service fees for



implementation or set up activities related to hosting services and maintenance services, which are typically recognized over the life of the contract which vary from 2 to 5 years, with the exception of one contract which represents the majority of the performance obligations under these professional services with a remaining life of 7 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. This estimate excludes any contracts that are accounted for using the practical expedients noted above.

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## Note 10 – Income Tax

The components of income tax expense for the three and six months ended June 30, 2018 and 2017, respectively, consisted of the following:

|                                | Three months ended |         | Six months ended |          |
|--------------------------------|--------------------|---------|------------------|----------|
|                                | June 30,           |         | June 30,         |          |
| (In thousands)                 | 2018               | 2017    | 2018             | 2017     |
| Current tax provision          | \$3,073            | \$4,380 | \$8,160          | \$7,887  |
| Deferred tax expense (benefit) | 39                 | (312 )  | (1,113 )         | (1,799 ) |
| Income tax expense             | \$3,112            | \$4,068 | \$7,047          | \$6,088  |

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 components of income tax expense for the three and six months ended June 30, 2018 and 2017, respectively, and its segregation based on location of operations:

|                                      | Three months ended |          | Six months ended |            |
|--------------------------------------|--------------------|----------|------------------|------------|
|                                      | June 30,           |          | June 30,         |            |
| (In thousands)                       | 2018               | 2017     | 2018             | 2017       |
| Current tax provision                |                    |          |                  |            |
| Puerto Rico                          | \$1,456            | \$3,054  | \$3,855          | \$4,860    |
| United States                        | 93                 | 386      | 173              | 200        |
| Foreign countries                    | 1,524              | 940      | 4,132            | 2,827      |
| Total current tax provision          | \$3,073            | \$4,380  | \$8,160          | \$7,887    |
| Deferred tax expense (benefit)       |                    |          |                  |            |
| Puerto Rico                          | \$(194 )           | \$(463 ) | \$(1,033 )       | \$(1,052 ) |
| United States                        | (11 )              | 20       | (98 )            | (83 )      |
| Foreign countries                    | 244                | 131      | 18               | (664 )     |
| Total deferred tax expense (benefit) | \$39               | \$(312 ) | \$(1,113 )       | \$(1,799 ) |

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 June 30, 2018, the Company has \$36.4 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 June 30, 2018, the gross deferred tax asset amounted to \$8.2 million and the gross deferred tax liability amounted to \$20.1 million, compared to \$8.3 million and \$21.1 million, respectively, as of December 31, 2017.

Income tax expense differs from the amount computed by applying the Puerto Rico statutory income tax rate to the income before income taxes as a result of the following:

|  | Six months ended |           |
|--|------------------|-----------|
|  | June 30,         |           |
| (In thousands)   | 2018             | 2017      |
| Computed income tax at statutory rates                 | \$19,614         | \$19,281  |
| Differences in tax rates due to multiple jurisdictions | (201 )           | (466 )    |
| Tax benefit due to a change in estimate                | —                | (334 )    |
| Effect of income subject to tax-exemption grant        | (12,902 )        | (12,580 ) |

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|                          |         |         |
|--------------------------|---------|---------|
| Unrecognized tax benefit | 556     | 187     |
| Other benefit            | (20)    | —       |
| Income tax expense       | \$7,047 | \$6,088 |

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## 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 |            | Six months ended |            |
|--|--------------------|------------|------------------|------------|
|  | June 30,           | June 30,   | June 30,         | June 30,   |
|  | 2018               | 2017       | 2018             | 2017       |
| Net income attributable to EVERTEC, Inc.                         | \$20,052           | \$ 20,089  | \$43,074         | \$ 43,118  |
| Less: non-forfeitable dividends on restricted stock              | —                  | 3          | —                | 3          |
| Net income available to EVERTEC, Inc.'s common shareholders      | \$20,052           | \$ 20,086  | \$43,074         | \$ 43,115  |
| Weighted average common shares outstanding                       | 72,637,737         | 72,508,852 | 72,524,222       | 72,572,157 |
| Weighted average potential dilutive common shares <sup>(1)</sup> | 1,751,393          | 1,657,739  | 1,381,462        | 1,523,000  |
| Weighted average common shares outstanding - assuming dilution   | 74,389,130         | 74,166,591 | 73,905,684       | 74,095,157 |
| Net income per common share - basic                              | \$0.28             | \$ 0.28    | \$0.59           | \$ 0.59    |
| Net income per common share - diluted                            | \$0.27             | \$ 0.27    | \$0.58           | \$ 0.59    |

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

## Note 12 – Commitments and Contingencies

Certain lease agreements contain provisions for future rent increases. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is recorded as a deferred rent obligation.

Rent expense of office facilities and real estate for the three months ended June 30, 2018 and 2017 amounted to \$2.2 million and \$1.8 million, respectively, and for the six months ended June 30, 2018 and 2017 amounted \$4.5 million and \$4.0 million, respectively. Rent expense for telecommunications and other equipment for the three months ended June 30, 2018 and 2017 amounted to \$1.7 million and \$1.6 million, respectively, and for the six months ended June 30, 2018 and 2017 amounted to \$3.1 million and \$3.0 million, respectively .

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 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.

## Note 13 – Related Party Transactions

The following table presents the Company's transactions with related parties for the three and six months ended June 30, 2018 and 2017:

| (Dollar amounts in thousands)    | Three months   |                | Six months ended |                |
|----------------------------------|----------------|----------------|------------------|----------------|
|                                  | ended June 30, | ended June 30, | ended June 30,   | ended June 30, |
|                                  | 2018           | 2017           | 2018             | 2017           |
| Total revenues <sup>(1)(2)</sup> | \$47,203       | \$44,942       | \$92,738         | \$89,955       |

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|                                |         |         |         |         |
|--------------------------------|---------|---------|---------|---------|
| Cost of revenues               | \$968   | \$349   | \$1,352 | \$835   |
| Rent and other fees            | \$2,005 | \$1,812 | \$3,968 | \$3,848 |
| Interest earned from affiliate |         |         |         |         |
| Interest income                | \$32    | \$39    | \$64    | \$78    |

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- (1) Total revenues from Popular as a percentage of revenues were 41%, 43%, 41% and 43% for the periods presented above, respectively.
- (2) Includes revenues generated from investee accounted for under the equity method of \$0.4 million, \$0.6 million, \$0.7 million and \$1.1 million for the periods presented above, respectively.

At June 30, 2018 and December 31, 2017, EVERTEC had the following balances arising from transactions with related parties:

| (Dollar amounts in thousands)                        | June 30, 2018 | December 31, 2017 |
|--|---------------|-------------------|
| Cash and restricted cash deposits in affiliated bank | \$21,290      | \$23,227          |
| Other due/to from affiliate                          |               |                   |
| Accounts receivable                                  | \$21,197      | \$18,073          |
| Prepaid expenses and other assets                    | \$1,687       | \$1,216           |
| Other long-term assets                               | \$230         | \$288             |
| Accounts payable                                     | \$5,599       | \$5,827           |
| Unearned income                                      | \$22,193      | \$19,768          |

## Note 14 – Segment Information

The Company operates in four business segments: Payment Services - Puerto Rico & Caribbean, Payment Services - Latin America (collectively "Payment Services segments"), 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 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 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 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), 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 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

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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.

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 the Merger,
- 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 June 30, 2018           |                                  |                         |                    |                                    | Total     |
|--|--|----------------------------------|-------------------------|--------------------|------------------------------------|-----------|
|  | Payment Services - Puerto Rico & Caribbean | Payment Services - Latin America | Merchant Acquiring, net | Business Solutions | Corporate and Other <sup>(1)</sup> |           |
| Revenues                                 | \$28,043                                   | \$ 19,236                        | \$ 25,964               | \$ 49,233          | \$(9,129 )                         | \$113,347 |
| Operating costs and expenses             | 13,130                                     | 18,407                           | 14,112                  | 30,351             | 6,707                              | 82,707    |
| Depreciation and amortization            | 2,409                                      | 2,249                            | 421                     | 3,520              | 7,129                              | 15,728    |
| Non-operating income (expenses)          | 551  | 1,401                            | 4                       | 66                 | (1,916 )                           | 106       |
| EBITDA                                   | 17,873                                     | 4,479                            | 12,277                  | 22,468             | (10,623 )                          | 46,474    |
| Compensation and benefits <sup>(2)</sup> | 485  | 317                              | 360                     | 684                | 2,627                              | 4,473     |



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|  |          |         |           |           |            |          |
|--|----------|---------|-----------|-----------|------------|----------|
| Transaction, refinancing and other fees <sup>(3)</sup> | —        | —       | 1         | —         | 2,820      | 2,821    |
| Adjusted EBITDA  | \$18,358 | \$4,796 | \$ 12,638 | \$ 23,152 | \$(5,176 ) | \$53,768 |

Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the \$9.1 million processing fee from (1) Payments Services - Puerto Rico and Caribbean to Merchant Acquiring and cost transfer fees from Corporate and Other to Payment Services Latin America for leveraged services and management fees.

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

(3) Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement.

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| (In thousands)   | Three months ended June 30, 2017           |                                |                         |                    |                                    |           |
|--|--|--------------------------------|-------------------------|--------------------|------------------------------------|-----------|
|  | Payment Services - Puerto Rico & Caribbean | Payment Services Latin America | Merchant Acquiring, net | Business Solutions | Corporate and Other <sup>(1)</sup> | Total     |
| Revenues   | \$27,144                                   | \$12,973                       | \$23,506                | \$48,672           | \$(8,784)                          | \$103,511 |
| Operating costs and expenses                           | 11,682                                     | 13,603                         | 13,688                  | 29,600             | 4,944                              | 73,517    |
| Depreciation and amortization                          | 2,269                                      | 1,848                          | 596                     | 4,082              | 7,104                              | 15,899    |
| Non-operating income (expenses)                        | 556  | 2,724                          | —                       | 3                  | (1,805)                            | 1,478     |
| EBITDA   | 18,287                                     | 3,942                          | 10,414                  | 23,157             | (8,429)                            | 47,371    |
| Compensation and benefits <sup>(2)</sup>               | 125  | 156                            | 121                     | 286                | 1,439                              | 2,127     |
| Transaction, refinancing and other fees <sup>(3)</sup> | —  | —                              | —                       | —                  | 632                                | 632       |
| Adjusted EBITDA  | \$18,412                                   | \$4,098                        | \$10,535                | \$23,443           | \$(6,358)                          | \$50,130  |

Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the \$8.8 million processing fee from (1) Payments Services - Puerto Rico and Caribbean to Merchant Acquiring and cost transfer fees from Corporate and Other to Payment Services Latin America for leveraged services and management fees.

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

(3) Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement.

| (In thousands)   | Six months ended June 30, 2018             |                                |                         |                    |                                    |           |
|--|--|--------------------------------|-------------------------|--------------------|------------------------------------|-----------|
|  | Payment Services - Puerto Rico & Caribbean | Payment Services Latin America | Merchant Acquiring, net | Business Solutions | Corporate and Other <sup>(1)</sup> | Total     |
| Revenues   | \$55,211                                   | \$39,627                       | \$49,343                | \$97,154           | \$(17,714)                         | \$223,621 |
| Operating costs and expenses                           | 26,063                                     | 36,467                         | 27,253                  | 59,366             | 10,277                             | 159,426   |
| Depreciation and amortization                          | 4,725                                      | 4,698                          | 841                     | 7,039              | 14,292                             | 31,595    |
| Non-operating income (expenses)                        | 1,367                                      | 3,214                          | 8                       | 366                | (3,833)                            | 1,122     |
| EBITDA   | 35,240                                     | 11,072                         | 22,939                  | 45,193             | (17,532)                           | 96,912    |
| Compensation and benefits <sup>(2)</sup>               | 678  | 717                            | 550                     | 1,124              | 5,233                              | 8,302     |
| Transaction, refinancing and other fees <sup>(3)</sup> | (250)                                      | —                              | 1                       | —                  | 2,771                              | 2,522     |
| Adjusted EBITDA  | \$35,668                                   | \$11,789                       | \$23,490                | \$46,317           | \$(9,528)                          | \$107,736 |

Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the \$17.7 million processing fee from (1) Payments Services - Puerto Rico and Caribbean to Merchant Acquiring and cost transfer fees from Corporate and Other to Payment Services Latin America for leveraged services and management fees.

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

(3) Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement.



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| (In thousands)   | Six months ended June 30, 2017             |                                |                         |                    |                                    | Total     |
|--|--|--------------------------------|-------------------------|--------------------|------------------------------------|-----------|
|  | Payment Services - Puerto Rico & Caribbean | Payment Services Latin America | Merchant Acquiring, net | Business Solutions | Corporate and Other <sup>(1)</sup> |           |
| Revenues   | \$53,596                                   | \$25,937                       | \$ 45,991               | \$ 96,669          | \$(17,402)                         | \$204,791 |
| Operating costs and expenses                           | 23,484                                     | 25,869                         | 27,101                  | 59,365             | 8,386                              | 144,205   |
| Depreciation and amortization                          | 4,418                                      | 3,719                          | 1,195                   | 8,096              | 14,155                             | 31,583    |
| Non-operating income (expenses)                        | 1,109                                      | 5,455                          | 1                       | 3                  | (3,673 )                           | 2,895     |
| EBITDA   | 35,639                                     | 9,242                          | 20,086                  | 45,403             | (15,306 )                          | 95,064    |
| Compensation and benefits <sup>(2)</sup>               | 224  | 307                            | 216                     | 512                | 2,944                              | 4,203     |
| Transaction, refinancing and other fees <sup>(3)</sup> | (660 )                                     | —                              | —                       | —                  | 682                                | 22        |
| Adjusted EBITDA  | \$35,203                                   | \$ 9,549                       | \$ 20,302               | \$ 45,915          | \$(11,680)                         | \$99,289  |

Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the \$17.4 million processing fee from (1) Payments Services - Puerto Rico and Caribbean to Merchant Acquiring and cost transfer fees from Corporate and Other to Payment Services Latin America for leveraged services and management fees.

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

(3) Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement.

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

| (In thousands)                | Three months ended June 30, |          | Six months ended June 30, |          |
|-------------------------------|-----------------------------|----------|---------------------------|----------|
|                               | 2018                        | 2017     | 2018                      | 2017     |
| Total EBITDA                  | \$46,474                    | \$47,371 | \$96,912                  | \$95,064 |
| Less:                         |                             |          |                           |          |
| Income tax expense            | 3,112                       | 4,068    | 7,047                     | 6,088    |
| Interest expense, net         | 7,501                       | 7,190    | 15,023                    | 14,041   |
| Depreciation and amortization | 15,728                      | 15,899   | 31,595                    | 31,583   |
| Net Income                    | \$20,133                    | \$20,214 | \$43,247                  | \$43,352 |

## Note 15 – Subsequent Events

On July 26, 2018, the Company's Board of Directors voted to reinstate a quarterly dividend on the Company's common stock and 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 September 7, 2018 to stockholders of record as of the close of business on August 6, 2018. The Board anticipates declaring this dividend in future quarters on a regular basis; however future declarations of dividends are subject to board of directors' approval and may be adjusted as business needs or market conditions change.

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### 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 and six months ended June 30, 2018 and 2017 and (ii) the financial condition as of June 30, 2018. 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, 2017, included in the Company’s 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, Tecnopago SpA, EFT Group SpA, EFT Global Services, SpA, EFT Group S.A., Tecnopago España SL, EFT Servicios Profesionales SpA, Paytrue S.A., Caleidon, S.A., Paytrue Solutions Informatica Ltda., EVERTEC Panamá, S.A., EVERTEC Costa Rica, S.A. (“EVERTEC CR”), EVERTEC Guatemala, S.A., Processa, SAS (“Processa”), 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 2017 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 personal identification number (“PIN”) 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 best in class 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 integrated 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, 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

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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 are also building a variety of indirect sales channels that enable us to leverage the distribution capabilities of partners in adjacent markets, including value-added resellers. 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. (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 region 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.

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



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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 the aftermath of the 2017 hurricanes, economic activity and consumer spending in Puerto Rico and the Virgin Islands has been erratic. In the first half of 2018, we experienced elevated sales volumes as consumers and businesses spent on hurricane recovery and rebuilding activities. This spending increased our merchant acquiring revenues and we believe our elevated sales volume was in large part driven by a stimulus of relief funding and private insurance proceeds received by consumers and businesses. We believe that this pattern will likely continue through the remainder of the year as incremental insurance and relief funds are projected to be received by consumers and businesses.

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 \$2 million to \$4 million for previously disclosed migrations anticipated in 2018. 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 June 30, 2018 and 2017

| Dollar amounts in thousands  | Three months ended<br>June 30, |           | Variance 2018<br>vs. 2017 |      |
|--|--------------------------------|-----------|---------------------------|------|
|  | 2018                           | 2017      |                           |      |
| Revenues   | \$113,347                      | \$103,511 | \$9,836                   | 10 % |
| Operating costs and expenses   |                                |           |                           |      |
| Cost of revenues, exclusive of depreciation and amortization shown below | 49,131                         | 43,030    | 6,101                     | 14 % |
| Selling, general and administrative expenses                             | 17,848                         | 14,588    | 3,260                     | 22 % |

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|                                    |          |          |        |       |
|------------------------------------|----------|----------|--------|-------|
| Depreciation and amortization      | 15,728   | 15,899   | (171 ) | (1 )% |
| Total operating costs and expenses | 82,707   | 73,517   | 9,190  | 13 %  |
| Income from operations             | \$30,640 | \$29,994 | \$646  | 2 %   |

Revenues

Total revenues in the second quarter of 2018 increased by \$9.8 million or 10% to \$113.3 million. Revenue growth in the quarter reflected the impact of the acquisition of PayGroup as well as elevated sales volumes in Puerto Rico driven by post-hurricane recovery activity, federal relief and benefit programs and insurance proceeds.

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## Cost of revenues

Cost of revenues amounted to \$49.1 million, an increase of \$6.1 million or 14% when compared with the prior year period. The increase is primarily driven by an increase in salaries and benefits in connection with the PayGroup acquisition coupled with an increase in equipment maintenance expense.

## Selling, general and administrative

Selling, general and administrative expenses in the second quarter of 2018 increased by \$3.3 million or 22% to \$17.8 million when compared with the second quarter of 2017. The increase is primarily related to an increase in share based compensation expenses coupled with an increase in salaries and benefits as a result of the PayGroup acquisition and an increase in professional fees in connection with due diligence for a potential transaction which the Company decided not to pursue.

## Depreciation and amortization

Depreciation and amortization expense amounted to \$15.7 million, relatively flat when compared with the prior year period.

## Non-operating income (expenses)

| Dollar amounts in thousands          | Three months<br>ended June 30, |           | Variance 2018<br>vs. 2017 |
|--------------------------------------|--------------------------------|-----------|---------------------------|
|                                      | 2018                           | 2017      |                           |
| Interest income                      | \$164                          | \$216     | \$(52) (24)%              |
| Interest expense                     | (7,665)                        | (7,406)   | (259) 3%                  |
| Earnings of equity method investment | 175                            | 115       | 60 52%                    |
| Other (expense) income               | (69)                           | 1,363     | (1,432) (105)%            |
| Total non-operating expenses         | \$(7,395)                      | \$(5,712) | (1,683) 29%               |

Non-operating expenses increased by \$1.7 million to \$7.4 million when compared with the prior year period. The increase is mainly related to a \$1.4 million decrease in Other (expense) income due to a decrease in foreign exchange gains coupled with an increase in interest expense of \$0.3 million.

## Income tax expense

| Dollar amounts in thousands | Three months<br>ended June 30, |         | Variance<br>2018 vs.<br>2017 |
|-----------------------------|--------------------------------|---------|------------------------------|
|                             | 2018                           | 2017    |                              |
| Income tax expense          | \$3,112                        | \$4,068 | (956) (24)%                  |

Income tax expense amounted to \$3.1 million a decrease of \$1.0 million when compared with the prior year period. The decrease is primarily related to prior year income tax expense recognized in connection with a one-time dividend declared to repatriate foreign earnings in order to fund the acquisition of PayGroup. The effective tax rate for the quarter of 13.4% reflects increased foreign taxes.



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Comparison of the six months ended June 30, 2018 and 2017

| Dollar amounts in thousands  | Six months ended<br>June 30, |           | Variance<br>2018 vs. 2017 |      |
|--|------------------------------|-----------|---------------------------|------|
|  | 2018                         | 2017      |                           |      |
| Revenues   | \$223,621                    | \$204,791 | \$18,830                  | 9 %  |
| Operating costs and expenses   |                              |           |                           |      |
| Cost of revenues, exclusive of depreciation and amortization shown below | 96,551                       | 87,203    | 9,348                     | 11 % |
| Selling, general and administrative expenses                             | 31,280                       | 25,419    | 5,861                     | 23 % |
| Depreciation and amortization  | 31,595                       | 31,583    | 12                        | —%   |
| Total operating costs and expenses                                       | 159,426                      | 144,205   | 15,221                    | 11 % |
| Income from operations   | \$64,195                     | \$60,586  | \$3,609                   | 6 %  |

## Revenues

Total revenues for the six months ended June 30, 2018 amounted to \$223.6 million, an increase of \$18.8 million or 9%. The increase in revenues was primarily driven by added revenues from the acquisition of PayGroup as well as strong sales volumes in Puerto Rico related to post-hurricanes recovery.

## Cost of revenues

Cost of revenues amounted to \$96.6 million, an increase of \$9.3 million or 11% when compared with the prior year period. The increase is primarily driven by an increase in salaries and benefits in connection with the PayGroup acquisition and higher equipment maintenance expenses.

## Selling, general and administrative

Selling, general and administrative expenses in the six months ended June 30, 2018 increased by \$5.9 million or 23% to \$31.3 million when compared with the same period in 2017. The increase is mainly driven by an increase in share based compensation expense coupled with expenses related to the PayGroup acquisition and an increase in professional fees for the same reason explained above for the quarter.

## Depreciation and amortization

Depreciation and amortization expense amounted to \$31.6 million, flat when compared with the prior year.

## Non-operating income (expenses)

| Dollar amounts in thousands          | Six months ended<br>June 30, |            | Variance<br>2018 vs.<br>2017 |       |
|--------------------------------------|------------------------------|------------|------------------------------|-------|
|                                      | 2018                         | 2017       |                              |       |
| Interest income                      | \$321                        | \$401      | \$(80)                       | (20)% |
| Interest expense                     | (15,344)                     | (14,442)   | (902)                        | 6 %   |
| Earnings of equity method investment | 374                          | 258        | 116                          | 45 %  |
| Other income                         | 748                          | 2,637      | (1,889)                      | (72)% |
| Total non-operating expenses         | \$(13,901)                   | \$(11,146) | (2,755)                      | 25 %  |

Non-operating expenses increased by \$2.8 million to \$13.9 million when compared with the prior year period. The increase is mainly related to an increase in interest expense of \$0.9 million coupled with a \$1.9 million decrease in Other income, net due to a decrease in foreign exchange gains.

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## Income tax expense

|                             | Six months<br>ended June 30, |         | Variance         |
|-----------------------------|------------------------------|---------|------------------|
| Dollar amounts in thousands | 2018                         | 2017    | 2018 vs.<br>2017 |
| Income tax expense          | \$7,047                      | \$6,088 | 959 16%          |

Income tax expense amounted to \$7.0 million an increase of \$1.0 million when compared with the prior year period and an effective tax rate of 14.0% . The increase in tax expense is driven by an increase in foreign taxes.

## Segment Results of Operations

The Company operates in four business segments: Payment Services - Puerto Rico & Caribbean, Payment Services - Latin America (collectively "Payment Services segments"), 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 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 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), 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



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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 the Merger,
- 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.

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 June 30, 2018 and 2017

Payment Services - Puerto Rico & Caribbean

|                             | Three months<br>ended June 30, |          |
|-----------------------------|--------------------------------|----------|
| Dollar amounts in thousands | 2018                           | 2017     |
| Revenues                    | \$28,043                       | \$27,144 |
| Adjusted EBITDA             | 18,358                         | 18,412   |

Payment services - Puerto Rico & Caribbean revenues increased by \$0.9 million to \$28.0 million when compared with the 2017 period. The increase in revenues was driven by higher POS volumes coupled with new transaction fees. Adjusted EBITDA remained flat when compared with the prior year.

Payment Services - Latin America

|                             | Three months<br>ended June 30, |          |
|-----------------------------|--------------------------------|----------|
| Dollar amounts in thousands | 2018                           | 2017     |
| Revenues                    | \$19,236                       | \$12,973 |
| Adjusted EBITDA             | 4,796                          | 4,098    |

Payment services - Latin America revenue increased \$6.3 million to \$19.2 million driven by added revenues in connection with the PayGroup acquisition. Adjusted EBITDA increased \$0.7 million when compared to the prior year period reflecting the increased revenue from the PayGroup acquisition at a lower margin.

Merchant Acquiring

|                             | Three months<br>ended June 30, |          |
|-----------------------------|--------------------------------|----------|
| Dollar amounts in thousands | 2018                           | 2017     |
| Revenues                    | \$25,964                       | \$23,506 |
| Adjusted EBITDA             | 12,638                         | 10,535   |

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Merchant acquiring revenues increased \$2.5 million to \$26.0 million due to an increase in sales volume driven by a higher average ticket which contributed to a higher net revenue margin. Adjusted EBITDA increased \$2.1 million mainly due to the increase in revenues and the improved margin contribution from the increased average ticket.

## Business Solutions

|                             | Three months<br>ended June 30, |          |
|-----------------------------|--------------------------------|----------|
| Dollar amounts in thousands | 2018                           | 2017     |
| Revenues                    | \$49,233                       | \$48,672 |
| Adjusted EBITDA             | 23,152                         | 23,443   |

Business solutions revenue increased \$0.6 million driven by an increase in revenues from Popular, partially offset by lower printing revenue. Adjusted EBITDA decreased \$0.3 million to \$23.2 million when compared with the prior year as a result of increased expenses for the segment.

## Comparison of the six months ended June 30, 2018 and 2017

## Payment Services - Puerto Rico &amp; Caribbean

|                             | Six months<br>ended June 30, |          |
|-----------------------------|------------------------------|----------|
| Dollar amounts in thousands | 2018                         | 2017     |
| Revenues                    | \$55,211                     | \$53,596 |
| Adjusted EBITDA             | 35,668                       | 35,203   |

Payment services - Puerto Rico & Caribbean revenues increased by \$1.6 million to \$55.2 million when compared with the 2017 period. The increase in revenues was driven by an increase in volumes, pricing initiatives and new transaction fees. Adjusted EBITDA increased \$0.5 million mainly as a result of the increase in revenues.

## Payment Services - Latin America

|                             | Six months<br>ended June 30, |          |
|-----------------------------|------------------------------|----------|
| Dollar amounts in thousands | 2018                         | 2017     |
| Revenues                    | \$39,627                     | \$25,937 |
| Adjusted EBITDA             | 11,789                       | 9,549    |

Payment services - Latin America revenue increased \$13.7 million to \$39.6 million driven by added revenues in connection with PayGroup acquisition coupled with increased revenues from transaction processing. Adjusted EBITDA increased \$2.2 million when compared to the prior year period as a result of the same reason explained above for the June ending quarter.

## Merchant Acquiring

|                             | Six months<br>ended June 30, |          |
|-----------------------------|------------------------------|----------|
| Dollar amounts in thousands | 2018                         | 2017     |
| Revenues                    | \$49,343                     | \$45,991 |
| Adjusted EBITDA             | 23,490                       | 20,302   |

Merchant acquiring revenues increased \$3.4 million to \$49.3 million driven by the same reasons above explained for the quarter coupled with an increase in non-transactional fees. Adjusted EBITDA increased \$3.2 million for the same

reasons as the June ending quarter.

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## Business Solutions

|                             | Six months<br>ended June 30, |          |
|-----------------------------|------------------------------|----------|
| Dollar amounts in thousands | 2018                         | 2017     |
| Revenues                    | \$97,154                     | \$96,669 |
| Adjusted EBITDA             | 46,317                       | 45,915   |

Business solutions revenue increased \$0.5 million to \$97.2 million when compared with the prior year for the same reasons as in the June ending quarter, while Adjusted EBITDA increased \$0.4 million mainly related to the increase in revenues.

## 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 \$65.0 million Revolving Facility, of which \$65.0 million was available as of June 30, 2018.

At June 30, 2018, we had cash and cash equivalents of \$59.3 million, of which \$37.5 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 such 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.

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

Based on our current level of operations, we believe our cash flows from operations and the available senior 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.

|  | Six months ended<br>June 30, |           |
|--|------------------------------|-----------|
| (Dollar amounts in thousands)                          | 2018                         | 2017      |
| Cash provided by operating activities                  | \$76,856                     | \$71,054  |
| Cash used in investing activities                      | (15,838 )                    | (15,449 ) |
| Cash used in financing activities                      | (50,976 )                    | (14,382 ) |
| Increase in cash, cash equivalents and restricted cash | \$10,042                     | \$41,223  |

Net cash provided by operating activities for the six months ended June 30, 2018 was \$76.9 million compared with cash provided by operating activities of \$71.1 million for the corresponding 2017 period. The \$5.8 million increase in

cash provided by operating activities is primarily driven by less cash used to pay down accounts payable and accrued liabilities, less cash used to prepay maintenance contracts and less cash used to pay income taxes.

Net cash used in investing activities for the six months ended June 30, 2018 was \$15.8 million compared with \$15.4 million for the corresponding period in 2017. The \$0.4 million increase reflects an increase in capital expenditures when compared to the prior year.

Net cash used in financing activities for the six months ended June 30, 2018 was \$51.0 million as compared with \$14.4 million for the corresponding 2017 period. Cash used in financing activities was primarily related to cash used for repayments of the revolving credit facility and principal repayments on long-term debt, including the repayment at maturity of the 2018 Term A loan.

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### 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 \$15.9 million and \$15.5 million for the six months ended June 30, 2018 and 2017, 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 \$35 million to \$40 million in 2018.

On April 17, 2018, the Company paid the outstanding balance of the 2018 Term A Loan which amounted to \$26.1 million, as scheduled. In addition, on the same date, \$35 million of the Revolving Facility expired.

### Dividend Payments

Historically, we have paid a regular quarterly dividend on our common stock, subject to the declaration thereof by our Board each quarter. On November 2, 2017, the Board voted to temporarily suspend the quarterly dividend on the Company's common stock due to the difficult operating environment in Puerto Rico. On July 26, 2018, the Board voted to reinstate a quarterly dividend on the Company's common stock and 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 September 7, 2018 to stockholders of record as of the close of business on August 6, 2018. The Board anticipates declaring this dividend in future quarters on a regular basis; however future declarations of dividends are subject to board of directors' approval and may be adjusted as business needs or market conditions change.

### Financial Obligations

#### Senior Secured Credit Facilities

On April 17, 2013, EVERTEC Group entered into a credit agreement (the "2013 Credit Agreement") governing the senior secured credit facilities, consisting of a \$300.0 million term loan A facility (the "Term A Loan"), a \$400.0 million term loan B facility (the "Term B Loan", together with the Term A Loan, the "Senior Secured term loans") and a \$100.0 million revolving credit facility (the "Revolving Facility"). During 2016, the Company entered into two separate amendments to the 2013 Credit Agreement. In the second quarter of 2016, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a second amendment and waiver to the outstanding 2013 Credit Agreement (the "Second Amendment"). In the fourth quarter of 2016, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a third amendment (the "Third Amendment") to the 2013 Credit Agreement. The Third Amendment extends the maturity of (a) approximately \$219 million of EVERTEC Group's existing approximately \$250 million of Term A loan facility to January 17, 2020 (the "2020 Term A Loan") and (b) \$65 million of EVERTEC Group's existing \$100 million of Revolving Facility to January 17, 2020. The remaining approximately \$30 million of Term A loan (the "2018 Term A Loan") and the \$35 million of Revolving Facility were not extended and matured as originally scheduled on April 17, 2018. The Term B Loan will remain in place and mature as originally scheduled on April 17, 2020. All loans may be prepaid without premium or penalty.

The unpaid principal balance at June 30, 2018 of the 2020 Term A Loan and the Term B Loan was \$195.5 million and \$380.0 million, respectively. The additional borrowing capacity for the Revolving Facility at June 30, 2018 was \$65.0 million. On April 17, 2018, the Company paid the outstanding principal balance of the 2018 Term A loan which matured as scheduled. In addition, \$35 million of the Revolving Facility expired on the same date, our borrowing capacity under the Revolving Facility is \$65 million.

Notes payable

In May 2016, EVERTEC Group entered into a non-interest bearing financing agreement amounting to \$0.7 million and in October 2016 entered into an interest bearing agreement of \$1.1 million, to purchase software. As of June 30, 2018 and December 31, 2017, the outstanding principal balance of the notes payable is \$0.4 million and \$1.0 million, respectively. 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.



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## Interest Rate Swap

As of June 30, 2018, the Company has the following interest rate swap agreement converting a portion of the interest rate exposure on the Company's Term B Loan from variable to fixed:

| Effective date | Maturity Date | Notional Amount | Variable Rate | Fixed Rate |
|----------------|---------------|-----------------|---------------|------------|
| January 2017   | April 2020    | \$200 million   | 1-month LIBOR | 1.9225%    |

The Company has accounted for this transaction as a cash flow hedge. The fair value of the Company's derivative instrument is determined using a standard valuation model. The significant inputs used in this model are readily available in public markets, or can be derived from observable market transactions, and therefore have been classified as Level 2 in the fair value hierarchy. Inputs used in this standard valuation model for derivative instruments include the applicable forward rates and discount rates. The discount rates are based on the historical LIBOR Swap rates.

As of June 30, 2018 and December 31, 2017, the carrying amount of the derivative on the Company's balance sheets is as follows:

|                               | June<br>30,<br>2018 | December<br>31, 2017 |
|-------------------------------|---------------------|----------------------|
| (Dollar amounts in thousands) |                     |                      |
| Other long-term assets        | \$2,304             | \$ 214               |

During the six months ended June 30, 2018, the Company reclassified losses of \$0.2 million from accumulated other comprehensive loss into income through interest expense. Based on current LIBOR rates, the Company expects to reclassify gains of \$0.3 million from accumulated other comprehensive loss into income through interest expense over the next 12 months.

The cash flow hedge is considered highly effective and no impact on earnings is expected due to hedge ineffectiveness.

## Covenant Compliance

The credit facilities contain various restrictive covenants. The Term A Loan and the Revolving Facility (subject to certain exceptions) require EVERTEC Group to maintain on a quarterly basis a specified maximum senior secured leverage ratio of up to 4.75 to 1.00 as defined in the Third Amendment (total first lien senior secured debt to Adjusted EBITDA per the 2013 Credit Agreement) until September 30, 2018 and 4.25 to 1.00 for any fiscal quarter ending thereafter. In addition, the 2013 Credit Agreement, among other things: (a) limits EVERTEC Group's ability and the ability of its subsidiaries to incur additional indebtedness, incur liens, pay dividends or make certain other restricted payments and enter into certain transactions with affiliates; (b) restricts EVERTEC Group's ability to enter into agreements that would restrict the ability of its subsidiaries to pay dividends or make certain payments to its parent company; and (c) places restrictions on EVERTEC Group's ability and the ability of its subsidiaries to merge or consolidate with any other person or sell, assign, transfer, convey or otherwise dispose of all or substantially all of their assets. However, all of the covenants in these agreements are subject to significant exceptions. As of June 30, 2018, the senior secured leverage ratio was 2.93 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

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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.

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:

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| (Dollar amounts in thousands)                                | Three months ended |               | Six months ended |               | Twelve months ended |
|--|--------------------|---------------|------------------|---------------|---------------------|
|  | June 30, 2018      | June 30, 2017 | June 30, 2018    | June 30, 2017 | June 30, 2018       |
| Net income   | \$20,133           | \$ 20,214     | \$43,247         | \$ 43,352     | \$55,338            |
| Income tax expense   | 3,112              | 4,068         | 7,047            | 6,088         | 3,824               |
| Interest expense, net  | 7,501              | 7,190         | 15,023           | 14,041        | 29,456              |
| Depreciation and amortization                                | 15,728             | 15,899        | 31,595           | 31,583        | 64,079              |
| EBITDA   | 46,474             | 47,371        | 96,912           | 95,064        | 152,697             |
| Equity income <sup>(1)</sup>                                 | 258                | (115 )        | 59               | (258 )        | (231 )              |
| Compensation and benefits <sup>(2)</sup>                     | 4,473              | 2,127         | 8,302            | 4,203         | 12,101              |
| Transaction, refinancing and other fees <sup>(3)</sup>       | 2,563              | 747           | 2,463            | 280           | 4,316               |
| Exit activity <sup>(4)</sup>                                 | —                  | —             | —                | —             | 12,783              |
| Adjusted EBITDA  | 53,768             | 50,130        | 107,736          | 99,289        | 181,666             |
| Operating depreciation and amortization <sup>(5)</sup>       | (7,223 )           | (7,696 )      | (14,544 )        | (15,157 )     | (30,112 )           |
| Cash interest expense, net <sup>(6)</sup>                    | (6,555 )           | (6,036 )      | (12,923 )        | (11,738 )     | (25,179 )           |
| Income tax expense <sup>(7)</sup>                            | (5,367 )           | (4,072 )      | (10,934 )        | (6,969 )      | (16,395 )           |
| Non-controlling interest <sup>(8)</sup>                      | (126 )             | (170 )        | (264 )           | (325 )        | (537 )              |
| Adjusted net income  | \$34,497           | \$ 32,156     | \$69,071         | \$ 65,100     | \$109,443           |
| Net income per common share (GAAP):                          |                    |               |                  |               |                     |
| Diluted  | \$0.27             | \$ 0.27       | \$0.58           | \$ 0.59       |                     |
| Adjusted Earnings per common share (Non-GAAP):               |                    |               |                  |               |                     |
| Diluted  | \$0.46             | \$ 0.44       | \$0.93           | \$ 0.89       |                     |
| Shares used in computing adjusted earnings per common share: |                    |               |                  |               |                     |
| Diluted  | 74,389,126         | 73,074,591    | 73,905,690       | 73,087,387    |                     |

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.

Primarily represents share-based compensation and other compensation expense of \$3.7 million and \$2.2 million for the quarters ended June 30, 2018 and 2017 and severance payments of \$0.8 million for the quarter ended June 30, 2018. Primarily represents share-based compensation and other compensation expense of \$7.3 million and \$4.2 million for the six months ended ended June 30, 2018 and 2017 and severance payments of \$1.0 million and \$0.1 million for the same periods, respectively.

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) Impairment charge and contractual fee accrual for a third party software solution that was determined to be commercially unviable.

5) Represents operating depreciation and amortization expense, which excludes amounts generated as a result of the Merger and other from purchase accounting intangibles generated from acquisitions.

6) 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.

7) Represents income tax expense calculated on adjusted pre-tax income using the applicable GAAP tax rate.

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

## Off Balance Sheet Arrangements

In the ordinary course of business the Company may enter into commercial commitments. As of June 30, 2018, the Company did not have any off balance sheet items.

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### 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 senior secured credit facilities accrue interest at variable rates and only the Term B Loan is subject to floors or minimum rates. A 100 basis point increase in interest rates over our floor(s) on our debt balances outstanding as of June 30, 2018, after considering our interest rate swap, under the senior secured credit facilities would increase our annual interest expense by approximately \$3.8 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, we entered into an interest rate swap agreement with a notional amount of \$200 million. Under this agreement, commencing on January 1, 2017, we began to receive a rate equal to the LIBOR applicable to our Term B loan, and pay a fixed rate equal to 1.9225%. The net effect of the swap agreement is to fix the interest rate on \$200 million of our Term B loan at 4.4225%, beginning January 1, 2017 and ending when the Term B Loan matures, in April 2020.

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 United States 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 June 30, 2018, the Company had \$13.0 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive loss compared with an unfavorable foreign currency translation adjustment of \$11.1 million at December 31, 2017.

#### 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

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Act”). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of June 30, 2018, 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 June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.



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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 2017 Form 10-K.

The risks described in our 2017 Form 10-k 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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

|                |  |
|----------------|--|
| 10.1*+         | <u>Form of Restricted Stock Award Agreement for grant of restricted stock to directors under the EVERTEC, Inc. 2013 Equity Incentive Plan, date as of May 24, 2018, by and between EVERTEC, Inc. and the director (applicable to Frank G. D'Angelo, Thomas W. Swidarski, Jorge A. Junquera, Alan H. Schumacher, Olga Botero, Brian J. Smith, and Teresita Loubriel).</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.

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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: August 2, 2018 By: /s/ Morgan Schuessler  
Morgan Schuessler  
Chief Executive Officer

Date: August 2, 2018 By: /s/ Peter J.S. Smith  
Peter J.S. Smith  
Chief Financial Officer (Principal Financial and Accounting Officer)