



ACI Worldwide, Inc. Reports Financial Results for the Quarter Ended June 30, 2018

August 2, 2018

HIGHLIGHTS

- Cash flows from operating activities of \$26 million, up from \$13 million in Q2 2017
- Repurchased 1 million shares for \$23 million
- Reiterating full year 2018 guidance

NAPLES, Fla.--(BUSINESS WIRE)--Aug. 2, 2018-- [ACI Worldwide](#) (NASDAQ: ACIW), a leading global provider of real-time [electronic payment and banking solutions](#), today announced financial results for the quarter ended June 30, 2018.

"ACI signed several exciting contracts in the quarter, including the largest credit card company in Japan, a top US grocery chain, and 14 Immediate Payments deals. New bookings so far in 2018 are up 52% over the first half of 2017 and the pipeline remains substantial," commented Phil Heasley, President and CEO, ACI Worldwide. "Financial results in Q2 were in line with our expectations and we remain confident in achieving our full year guidance."

Q2 2018 FINANCIAL SUMMARY

In Q2, new bookings were \$127 million, which was down 7% compared to Q2 2017. Year-to-date, new bookings are up 52%.

Effective January 1, 2018, the company adopted Accounting Standards Codification Topic 606, Revenue from Contracts with Customers ("ASC 606"), which supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition ("ASC 605").

Under ASC 606, revenue in Q2 2018 was \$235 million. Under ASC 605, Q2 2018 revenue was \$241 million, up slightly from Q2 2017.

In Q2 2018, revenue from ACI's On Demand segment was \$114 million. On a constant GAAP basis, ACI's On Demand segment revenue was \$113 million, versus \$113 million last year, and segment net adjusted EBITDA margin decreased from last year. On Demand segment net adjusted EBITDA margins are adjusted for pass through interchange revenue of \$46 million, for both Q2 2018 and 2017. ACI On Premise segment revenue was \$121 million on a reported basis. On a constant GAAP basis, ACI's On Premise segment revenue was \$128 million, versus \$127 million last year, and segment adjusted EBITDA margin was 48% versus 49% in Q2 2017.

ACI ended Q2 2018 with a 12-month backlog of \$837 million and a 60-month backlog of \$4.3 billion. After adjusting for foreign currency fluctuations, our 12-month backlog increased \$13 million and our 60-month backlog decreased \$28 million from Q1 2018.

Cash flows from operating activities in Q2 were \$26 million, up from \$13 million in Q2 2017. Adjusted operating free cash flow in Q2 was \$13 million, up from \$2 million in Q2 2017. ACI ended Q2 2018 with \$59 million in cash on hand and a debt balance of \$687 million, both down slightly from Q1 2018. In the quarter ACI repurchased 1 million shares for \$23 million, or an average price of \$23.38 per share. Year-to-date, ACI has repurchased 2.3 million shares for \$54 million, or an average price of \$23.21 per share. The company has \$176.6 million remaining on its share repurchase authorization.

REITERATING GUIDANCE

The company expects the adoption of ASC 606 to impact the timing and amount of revenue recognition for its on-premise licensing arrangements. The company does not expect the adoption of ASC 606 to have a significant impact on its other revenue streams or cash flows from operations. The company has provided its full year and second quarter outlook under both ASC 606 and ASC 605 in order to provide additional transparency. The company will continue to provide actual results under both ASC 606 and ASC 605 throughout 2018.

For the full year 2018 under ASC 606, the company expects revenue to be between \$1.03 billion and \$1.055 billion and adjusted EBITDA to be in a range of \$255 million to \$270 million, which excludes approximately \$7 million in significant transaction-related expenses. We expect between \$230 million and \$240 million of revenue under ASC 606 in the third quarter.

For the full year 2018 under ASC 605, the company expects revenue to be between \$1.05 billion and \$1.075 billion, which represents 3-5% growth over 2017 on a comparable GAAP basis. Adjusted EBITDA is expected to be in a range of \$270 million to \$285 million, which excludes approximately \$7 million in significant transaction-related expenses. We expect between \$235 million and \$245 million of revenue under ASC 605 in the third quarter. We expect full year 2018 new bookings growth to be in the low double digits.

CONFERENCE CALL TO DISCUSS FINANCIAL RESULTS AND OUTLOOK

Management will host a conference call at 8:30 am ET to discuss these results as well as 2018 guidance. Interested persons may access a real-time audio broadcast of the teleconference at <http://investor.aciworldwide.com/> or use the following numbers for dial-in participation: US/Canada: (866) 914-7436, international: +1 (817) 385-9117. Please provide your name, the conference name ACI Worldwide, Inc. and conference code 6897328. There will be a replay of the call available for two weeks on (855) 859-2056 for US/Canada callers and +1 (404) 537-3406 for international participants.

About ACI Worldwide

ACI Worldwide, the [Universal Payments](#) (UP) company, powers [electronic payments](#) for more than 5,100 organizations around the world. More than 1,000 of the largest financial institutions and intermediaries, as well as thousands of global merchants, rely on ACI to execute \$14 trillion each day in payments and securities. In addition, myriad organizations utilize our [electronic bill presentment and payment](#) services. Through our comprehensive suite of software solutions delivered on customers' premises or through ACI's [private cloud](#), we provide real-time, [immediate payments](#) capabilities

and enable the industry's most complete [omni-channel payments](#) experience. To learn more about ACI, please visit www.aciworldwide.com. You can also find us on Twitter [@ACI_Worldwide](#).

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Product roadmaps are for informational purposes only and may not be incorporated into a contract or agreement. The development release and timing of future product releases remains at ACI's sole discretion. ACI is providing the following information in accordance with ACI's standard product communication policies. Any resulting features, functionality, and enhancements or timing of release of such features, functionality, and enhancements are at the sole discretion of ACI and may be modified without notice. All product roadmap or other similar information does not represent a commitment to deliver any material, code, or functionality, and should not be relied upon in making a purchasing decision.

To supplement our financial results presented on a GAAP basis, we use the non-GAAP measures indicated in the tables, which exclude significant transaction-related expenses, as well as other significant non-cash expenses such as depreciation, amortization and stock-based compensation, that we believe are helpful in understanding our past financial performance and our future results. The presentation of these non-GAAP financial measures should be considered in addition to our GAAP results and are not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP. Management generally compensates for limitations in the use of non-GAAP financial measures by relying on comparable GAAP financial measures and providing investors with a reconciliation of non-GAAP financial measures only in addition to and in conjunction with results presented in accordance with GAAP. We believe that these non-GAAP financial measures reflect an additional way to view aspects of our operations that, when viewed with our GAAP results, provide a more complete understanding of factors and trends affecting our business. Certain non-GAAP measures include:

- Adjusted EBITDA: net income plus income tax expense (benefit), net interest income (expense), net other income (expense), depreciation, amortization and stock-based compensation, as well as significant transaction-related expenses. Adjusted EBITDA should be considered in addition to, rather than as a substitute for, net income.

ACI is also presenting adjusted operating free cash flow, which is defined as net cash provided by operating activities and net after-tax payments associated with significant transaction-related expenses, less capital expenditures. Adjusted operating free cash flow is considered a non-GAAP financial measure as defined by SEC Regulation G. We utilize this non-GAAP financial measure, and believe it is useful to investors, as an indicator of cash flow available for debt repayment and other investing activities, such as capital investments and acquisitions. We utilize adjusted operating free cash flow as a further indicator of operating performance and for planning investment activities. Adjusted operating free cash flow should be considered in addition to, rather than as a substitute for, net cash provided by operating activities. A limitation of adjusted operating free cash flow is that it does not represent the total increase or decrease in the cash balance for the period. This measure also does not exclude mandatory debt service obligations and, therefore, does not represent the residual cash flow available for discretionary expenditures. We believe that adjusted operating free cash flow is useful to investors to provide disclosures of our operating results on the same basis as that used by our management.

ACI backlog includes estimates for SaaS and PaaS, license, maintenance, and services specified in executed contracts but excluded from contracted revenue that will be recognized in future periods, as well as revenue from assumed contract renewals to the extent that we believe recognition of the related revenue will occur within the corresponding backlog period. We have historically included assumed renewals in backlog estimates based upon automatic renewal provisions in the executed contract and our historic experience with customer renewal rates.

Backlog is considered a non-GAAP financial measure as defined by SEC Regulation G. Our 60-month backlog estimates are derived using the following key assumptions:

- License arrangements are assumed to renew at the end of their committed term or under the renewal option stated in the contract at a rate consistent with historical experience. If the license arrangement includes extended payment terms, the renewal estimate is adjusted for the effects of a significant financing component.
- Maintenance fees are assumed to exist for the duration of the license term for those contracts in which the committed maintenance term is less than the committed license term.
- SaaS and PaaS arrangements are assumed to renew at the end of their committed term at a rate consistent with our historical experiences.
- Foreign currency exchange rates are assumed to remain constant over the 60-month backlog period for those contracts stated in currencies other than the U.S. dollar.
- Our pricing policies and practices are assumed to remain constant over the 60-month backlog period.

Estimates of future financial results are inherently unreliable. Our backlog estimates require substantial judgment and are based on a number of assumptions as described above. These assumptions may turn out to be inaccurate or wrong, including, but not limited to, reasons outside of management's control. For example, our customers may attempt to renegotiate or terminate their contracts for a number of reasons, including mergers, changes in their financial condition, or general changes in economic conditions in the customer's industry or geographic location, or we may experience delays in the development or delivery of products or services specified in customer contracts which may cause the actual renewal rates and amounts to differ from historical experiences. Changes in foreign currency exchange rates may also impact the amount of revenue actually recognized in future periods. Accordingly, there can be no assurance that contracts included in backlog estimates will actually generate the specified revenue or that the actual revenue will be generated within the corresponding 60-month period.

Backlog estimates should be considered in addition to, rather than as a substitute for, reported revenue and contracted but not recognized revenue (including deferred revenue).

Forward-Looking Statements

This press release contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts and may include words or phrases such as “believes,” “will,” “expects,” “anticipates,” “intends,” and words and phrases of similar impact. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements in this press release include, but are not limited to, statements regarding: (i) our belief that our pipeline is substantial; (ii) our confidence in achieving our full year guidance; (iii) expectations regarding revenue, adjusted EBITDA, and new bookings growth in 2018; and (iv) expectations regarding revenue in the third quarter of 2018.

All of the foregoing forward-looking statements are expressly qualified by the risk factors discussed in our filings with the Securities and Exchange Commission. Such factors include, but are not limited to, increased competition, the success of our Universal Payments strategy, demand for our products, restrictions and other financial covenants in our credit facility, consolidations and failures in the financial services industry, customer reluctance to switch to a new vendor, the accuracy of management’s backlog estimates, the maturity of certain products, our strategy to migrate customers to our next generation products, failure to obtain renewals of customer contracts or to obtain such renewals on favorable terms, delay or cancellation of customer projects or inaccurate project completion estimates, volatility and disruption of the capital and credit markets and adverse changes in the global economy, our existing levels of debt, impairment of our goodwill or intangible assets, litigation, future acquisitions, strategic partnerships and investments, the complexity of our products and services and the risk that they may contain hidden defects or be subjected to security breaches or viruses, compliance of our products with applicable legislation, governmental regulations and industry standards, our ability to protect customer information from security breaches or attacks, our compliance with privacy regulations, our ability to adequately defend our intellectual property, exposure to credit or operating risks arising from certain payment funding methods, the cyclical nature of our revenue and earnings and the accuracy of forecasts due to the concentration of revenue-generating activity during the final weeks of each quarter, business interruptions or failure of our information technology and communication systems, our offshore software development activities, risks from operating internationally, including fluctuations in currency exchange rates, exposure to unknown tax liabilities, volatility in our stock price, and potential claims associated with our sale and transition of our CFS assets and liabilities. For a detailed discussion of these risk factors, parties that are relying on the forward-looking statements should review our filings with the Securities and Exchange Commission, including our most recently filed Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q.

ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited and in thousands)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 59,033	\$ 69,710
Receivables, net of allowances	273,192	262,845
Recoverable income taxes	7,903	7,921
Prepaid expenses	28,370	23,219
Other current assets	21,488	58,126
Total current assets	389,986	421,821
Noncurrent assets		
Accrued receivables, net	180,197	-
Property and equipment, net	78,813	80,228
Software, net	144,665	155,386
Goodwill	909,691	909,691
Intangible assets, net	179,572	191,281
Deferred income taxes, net	25,181	66,749
Other noncurrent assets	57,631	36,483
TOTAL ASSETS	\$ 1,965,736	\$ 1,861,639
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 30,830	\$ 34,718
Employee compensation	42,514	48,933
Current portion of long-term debt	22,988	17,786
Deferred revenue	102,333	107,543
Income taxes payable	3,137	9,898
Other current liabilities	58,615	102,904
Total current liabilities	260,417	321,782
Noncurrent liabilities		

Deferred revenue	50,904	51,967
Long-term debt	654,811	667,943
Deferred income taxes, net	25,171	16,910
Other noncurrent liabilities	33,718	38,440
Total liabilities	1,025,021	1,097,042

Commitments and contingencies

Stockholders' equity

Preferred stock	-	-
Common stock	702	702
Additional paid-in capital	624,851	610,345
Retained earnings	760,845	550,866
Treasury stock	(361,079)	(319,960)
Accumulated other comprehensive loss	(84,604)	(77,356)
Total stockholders' equity	940,715	764,597
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,965,736	\$ 1,861,639

ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Software as a service and platform as a service	\$ 113,600	\$ 113,469	\$ 217,880	\$ 212,916
License	45,555	54,180	73,601	113,561
Maintenance	55,048	56,009	111,707	110,480
Services	20,792	16,941	41,117	35,104
Total revenues	234,995	240,599	444,305	472,061
Operating expenses				
Cost of revenue (1)	116,261	120,357	223,597	228,900
Research and development	37,862	34,969	74,653	72,254
Selling and marketing	33,160	28,817	65,053	55,954
General and administrative	28,837	72,527	57,486	105,030
Depreciation and amortization	21,033	22,372	42,378	44,743
Total operating expenses	237,153	279,042	463,167	506,881
Operating loss	(2,158)	(38,443)	(18,862)	(34,820)
Other income (expense)				
Interest expense	(9,717)	(10,664)	(19,082)	(20,824)
Interest income	2,742	150	5,486	256
Other, net	(1,677)	(1,766)	(1,732)	(1,117)
Total other income (expense)	(8,652)	(12,280)	(15,328)	(21,685)
Loss before income taxes	(10,810)	(50,723)	(34,190)	(56,505)
Income tax expense (benefit)	3,764	(20,914)	(188)	(25,088)
Net loss	\$ (14,574)	\$ (29,809)	\$ (34,002)	\$ (31,417)
Loss per common share				
Basic	\$ (0.13)	\$ (0.25)	\$ (0.29)	\$ (0.27)
Diluted	\$ (0.13)	\$ (0.25)	\$ (0.29)	\$ (0.27)

Weighted average common shares outstanding

Basic	115,548	117,149	115,595	116,881
Diluted	115,548	117,149	115,595	116,881

(1) The cost of revenue excludes charges for depreciation but includes amortization of purchased and developed software for resale.

ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Cash flows from operating activities:				
Net loss	\$ (14,574)	\$ (29,809)	\$ (34,002)	\$ (31,417)
Adjustments to reconcile net loss to net cash flows from operating activities:				
Depreciation	5,949	6,299	11,875	12,573
Amortization	18,402	19,282	37,469	38,646
Amortization of deferred debt issuance costs	746	1,026	1,445	2,760
Deferred income taxes	1,783	(24,202)	(3,044)	(30,121)
Stock-based compensation expense	7,705	8,343	14,067	14,640
Other	415	(95)	(248)	443
Changes in operating assets and liabilities				
Receivables	(1,052)	(13,469)	67,689	70,564
Accounts payable	(1,047)	(240)	(3,658)	(3,929)
Accrued employee compensation	8,938	8,161	(5,805)	(4,260)
Current income taxes	(3,674)	(6,253)	(7,243)	(9,592)
Deferred revenue	(1,184)	(8,208)	10,142	841
Other current and noncurrent assets and liabilities	3,568	52,576	(17,576)	37,949
Net cash flows from operating activities	25,975	13,411	71,111	99,097
Cash flows from investing activities:				
Purchases of property and equipment	(5,171)	(5,243)	(11,108)	(11,809)
Purchases of software and distribution rights	(10,124)	(8,587)	(16,776)	(14,426)
Other	(1,467)	-	(1,467)	-
Net cash flows from investing activities	(16,762)	(13,830)	(29,351)	(26,235)
Cash flows from financing activities:				
Proceeds from issuance of common stock	811	748	1,564	1,441
Proceeds from exercises of stock options	5,788	914	14,906	7,949
Repurchase of restricted stock for tax withholdings	(1,674)	(1,615)	(2,588)	(4,770)
Repurchases of common stock	(23,414)	-	(54,527)	-
Proceeds from revolving credit facility	37,000	-	85,000	12,000
Repayment of revolving credit facility	(34,000)	-	(84,000)	(100,000)
Proceeds from term portion of credit agreement	-	-	-	415,000
Repayment of term portion of credit agreement	(5,188)	(5,188)	(10,375)	(375,665)
Payment of debt issuance costs	-	-	-	(5,340)
Payments on other debt and capital leases	(1,198)	(1,392)	(1,550)	(6,021)
Net cash flows from financing activities	(21,875)	(6,533)	(51,570)	(55,406)
Effect of exchange rate fluctuations on cash	(2,586)	2,565	(867)	2,148
Net increase (decrease) in cash and cash equivalents	(15,248)	(4,387)	(10,677)	19,604
Cash and cash equivalents, beginning of period	74,281	99,744	69,710	75,753
Cash and cash equivalents, end of period	\$ 59,033	\$ 95,357	\$ 59,033	\$ 95,357

ACI Worldwide, Inc.

Reconciliation of Selected GAAP Measures to Non-GAAP Measures

(unaudited and in millions, except per share data)

Adjusted EBITDA (millions)	Quarter Ended June 30,		
	2018	2018	2017
	As Reported	Under	
	ASC 606	ASC 605	
Net loss	\$ (14.6)	\$ (9.9)	\$ (29.8)
Plus:			
Income tax expense (benefit)	3.8	4.6	(20.9)
Net interest expense	7.0	9.5	10.5
Net other expense (income)	1.7	0.6	1.8
Depreciation expense	5.9	5.9	6.3
Amortization expense	18.4	18.4	19.3
Non-cash compensation expense	7.7	7.7	8.3
Adjusted EBITDA before significant transaction related expenses	\$ 29.9	\$ 36.8	\$ (4.5)
Legal judgment	-	-	46.7
Significant transaction related expenses	0.6	0.6	1.6
Adjusted EBITDA	\$ 30.5	\$ 37.4	\$ 43.8

Segment Information (millions)	Quarter Ended June 30,		
	2018	2018	2017
	As Reported	Under	
	ASC 606	ASC 605	
Revenue			
ACI On Premise	\$ 121.4	\$ 127.8	\$ 127.2
ACI On Demand	113.6	112.9	113.4
Total	\$ 235.0	\$ 240.7	\$ 240.6
Segment Adjusted EBITDA			
ACI On Premise	\$ 54.8	\$ 61.1	\$ 62.5
ACI On Demand	(3.4)	(3.3)	(0.5)

Reconciliation of Adjusted Operating Free Cash Flow (millions)	Quarter Ended	
	June 30,	
	2018	2017
Net cash flows provided by operating activities	\$ 26.0	\$ 13.4
Net after-tax payments associated with significant transaction related expenses	2.2	2.2
Less capital expenditures	(15.3)	(13.8)
Adjusted Operating Free Cash Flow	\$ 12.9	\$ 1.8

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Source: ACI Worldwide

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