

EVERTEC, Inc.  
Form 10-K  
February 26, 2019  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018  
or  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934  
Commission File Number 001-35872

EVERTEC, Inc.  
(Exact name of registrant as specified in its charter)

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

Cupey Center Building, Road 176, Kilometer 1.3,  
San Juan, Puerto Rico 00926  
(Address of principal executive offices) (Zip Code)  
(787) 759-9999

(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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 by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the common stock held by non-affiliates of EVERTEC, Inc. was approximately \$1,088,117,961 based on the closing price of \$21.85 as of the close of business on June 29, 2018.

As of February 15, 2019, there were 72,378,710 outstanding shares of common stock of EVERTEC, Inc.

Documents Incorporated by Reference:

Part III incorporates certain information by reference to the Proxy Statement for the 2019 Annual Meeting of Shareholders

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Forward-Looking Statements

This Annual Report on Form 10-K, or Report, 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 negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and may involve significant risks and uncertainties, and that actual results may vary materially from those in the forward-looking statements as a result of various factors. Among the factors that significantly impact our business and could impact our business in the future are:

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

operating an international business in Latin America and the Caribbean, in jurisdictions with potential political and economic instability;

- our ability to execute our geographic expansion and acquisition strategies, including challenges in successfully acquiring new businesses and integrating and growing acquired businesses;
- our ability to protect our intellectual property rights against infringement and to defend ourselves against claims of infringement brought by third parties;
- our ability to recruit and retain the qualified personnel necessary to operate our business;
- our ability to comply with U.S. federal, state, local and foreign regulatory requirements;
- evolving industry standards and adverse changes in global economic, political and other conditions;
- our high level of indebtedness and restrictions contained in our debt agreements, including the senior secured credit facilities, as well as debt that could be incurred in the future;
- our ability to prevent a cybersecurity attack or breach in our information security;
- our ability to generate sufficient cash to service our indebtedness and to generate future profits;
- our ability to refinance our debt;
- the possibility that we could lose our preferential tax rate in Puerto Rico;
- the risk that the counterparty to our interest rate swap agreements fail to satisfy its obligations under the agreement;
- 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 disasters;

the nature, timing and amount of any restatement; and

other risks and uncertainties detailed in Part I, Item IA "Risk Factors" in this Report.

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should, therefore, be considered in light of various factors, including those set forth under "Item 1A. Risk Factors," in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Report. These forward-looking statements speak only as of the date of this Report, and we do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Report or to reflect the occurrence of unanticipated events.

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**INDUSTRY AND MARKET DATA**

This Form 10-K includes industry data that we obtained from periodic industry publications, including the August 2018 Nilson Report and the 2018 World Payments Report. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable. This Form 10-K also includes market share and industry data that were prepared primarily based on management’s knowledge of the industry and industry data. Unless otherwise noted, statements as to our market share and market position relative to our competitors are approximated and based on management estimates using the above-mentioned latest-available third-party data and our internal analysis and estimates. While we are not aware of any misstatements regarding any industry data presented herein, our estimates, in particular as they relate to market share and our general expectations, involve risks and uncertainties and are subject to change based on various factors, including those discussed under “Risk Factors,” “Forward-Looking Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Form 10-K.

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Part I

Item 1. Business

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

Company Overview

EVERTEC is a leading full-service transaction processing business in Latin America and the Caribbean, providing a broad range of merchant acquiring, payment services and business process management services. According to the August 2018 Nilson Report, we are one of the largest merchant acquirers in Latin America based on total number of transactions and we believe we are the largest merchant acquirer in the Caribbean and Central America. We serve 26 countries in the region from our base in Puerto Rico. We manage a system of electronic payment networks that process more than two billion transactions annually, and offer a comprehensive suite of services for core bank processing, cash processing and technology outsourcing. In addition, we own and operate the ATH network, one of the leading 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 competitive products;
- Our ability to provide in one package a range of services that traditionally had to be sourced from different vendors;



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

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

Our broad suite of services spans the entire transaction processing value chain and includes a range of front-end customer-facing solutions such as the electronic capture and authorization of transactions at the point-of-sale, as well as back-end support services such as the clearing and settlement of transactions and account reconciliation for card issuers. These include: (i) merchant acquiring services, which enable point of sales (“POS”) and e-commerce merchants to accept and process electronic methods of payment such as debit, credit, prepaid and electronic benefit transfer (“EBT”) cards; (ii) payment processing services, which enable financial institutions and other issuers to manage, support and facilitate the processing for credit, debit, prepaid, automated teller machines (“ATM”) and EBT card programs; and (iii) business process management solutions, which provide “mission-critical” technology solutions such as core bank processing, as well as IT outsourcing and cash management services to financial institutions, corporations and governments. We provide these services through scalable, end-to-end technology platforms that we manage and operate in-house and that generate significant operating efficiencies that enable us to maximize profitability.

We sell and distribute our services primarily through a proprietary direct sales force with established customer relationships. We continue to pursue joint ventures and merchant acquiring alliances. We benefit from an attractive business model, the hallmarks of which are recurring revenue, scalability, significant operating margins and moderate capital expenditure

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requirements. Our revenue is predominantly recurring in nature because of the mission-critical and embedded nature of the services we provide. In addition, we generally negotiate multi-year contracts with our customers. We believe our business model should enable us to continue to grow our business organically in the primary markets we serve without significant incremental capital expenditures.

### Corporate Background

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

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

### History

We have over a 25 year operating history in the transaction processing industry. Prior to the Merger, EVERTEC Group was 100% owned by Popular, the largest financial institution in the Caribbean, and operated substantially as an independent entity within Popular. As mentioned above, following the Merger, Apollo owned a 51% interest in us and shortly thereafter, we began the transition to a separate, stand-alone entity. As a stand-alone company, we have made substantial investments in our technology and infrastructure, recruited various senior executives with significant transaction processing experience in Latin America, enhanced our profitability through targeted productivity and cost savings actions and broadened our footprint beyond the markets historically served.

We continue to benefit from our relationship with Popular. Popular is our largest customer, acts as one of our largest merchant referral partners and sponsors us with the card associations (such as Visa or MasterCard), enabling merchants to accept these card associations' credit card transactions. Popular also provides merchant sponsorship as one of the participants of the ATH network, enabling merchants to connect to the ATH network and accept ATH debit card transactions. We provide a number of critical products and services to Popular, which are governed by a 15-year Amended and Restated Master Services Agreement (the "Master Services Agreement") that runs through 2025.

On April 17, 2013, the Company completed its initial public offering of 28,789,943 shares of common stock at a price to the public of \$20.00 per share. On September 18, 2013 and December 13, 2013, the Company completed public offerings of 23,000,000 and 15,233,273 shares, respectively, of the Company's common stock by Apollo, Popular, and current and former employees. Popular owned approximately 11.7 million shares of EVERTEC's common stock, or 16.1% as of December 31, 2018, and Apollo no longer owns any of the Company's common stock.

#### Principal Stockholder

Popular, Inc. (NASDAQ: BPOP), whose principal banking subsidiary's history dates back to 1893, is the No. 1 bank holding company by both assets and deposits based in Puerto Rico, and, as of September 30, 2018, ranks 46 by assets among U.S. bank holding companies. As of December 31, 2018, Popular owned approximately 16.1% of our common stock.

#### Industry Trends

##### Shift to Electronic Payments

The ongoing migration from cash, check and other paper methods of payment to electronic payments continues to benefit the transaction processing industry globally. This migration is driven by factors including customer convenience, marketing efforts by financial institutions, card issuer rewards and the development of new forms of payment. We believe that the penetration of

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electronic payments in the markets where we principally operate is significantly lower relative to more mature U.S. and European markets and that this ongoing shift will continue to generate important growth opportunities for our business. In addition, in an effort to better capture taxes over generated revenue, legislation in Puerto Rico has required most licensed professionals to provide an electronic payment option to their customers, and that all consumer businesses that generate revenues in excess of \$50,000 provide an electronic payment option, with the exception of certain businesses, further expanding the need for an electronic payment network in Puerto Rico.

### Fast Growing Latin American and Caribbean Financial Services and Payments Markets

Currently, the penetration of banking products, including electronic payments, in the Latin American and Caribbean region is lower relative to the mature U.S. and European markets. As these markets continue to grow, and financial inclusion increases, the emergence of a larger and more sophisticated consumer base will influence and drive an increase in card (e.g., debit, credit, prepayment, and EBT) and electronic payments usage. According to the 2018 World Payments Report, non-cash payment volumes in Latin America recorded an accelerated growth rate of 16.5% in 2016, driven by financial inclusion efforts and the adoption of mobile payments and are projected to grow 21.6% through 2021, fueled by a change in mindset of payment users from cash-to-mobile payments. As economic conditions in Latin America improve, revised positive GDP forecasts may drive growth in non-cash transactions. With increasing awareness and penetration of smartphones, digital payments in Latin America might directly leapfrog into e-wallets instead of following the traditional route of increased card transactions. In North America, non-cash payments grew by 5.7% in 2016, are projected to grow 5.6% through 2021 and North America is expected to cede the position as the region with the largest number of non-cash transactions to emerging Asia by 2021. We continue to believe that the attractive characteristics of our markets and our position across multiple services and sectors will continue to drive growth and profitability in our businesses.

### Ongoing Technology Outsourcing Trends

Financial institutions globally are facing significant challenges including the entrance of non-traditional competitors, the compression of margins on traditional products, significant channel proliferation and increasing regulation that could potentially curb profitability. Many of these institutions have traditionally fulfilled their IT needs through legacy computer systems, operated by the institution itself. Legacy systems are generally highly proprietary, inflexible and costly to operate and maintain and we believe the trend to outsource in-house technology systems and processes by financial institutions will continue.

### Industry Innovation

The electronic payments industry experiences ongoing technology innovation. Emerging payment technologies such as prepaid cards, contactless payments, payroll cards, mobile commerce, mobile “wallets” and innovative POS devices continue to drive the shift away from cash, check and other paper methods of payment. The increasing demand for new and flexible payment options catering to a wider range of consumer segments is driving growth in the electronic payment processing sector.

## Our Competitive Strengths

### Market Leadership in Latin America and the Caribbean

We believe we have an inherent competitive advantage relative to U.S. competitors based on our first-hand knowledge of the Latin American and Caribbean markets and technological needs, language and culture. We have built leadership positions across the transaction processing value chain in the key geographic markets that we serve, which we believe will enable us to continue to penetrate our core markets and provide advantages to enter new markets. According to the August 2018 Nilson Report, we are one of the largest merchant acquirers in Latin America based on total number of transactions and we believe we are the largest merchant acquirer in the Caribbean and Central America. We own and operate the ATH network, one of the leading ATM and PIN debit networks in Latin America. EVERTEC processed approximately two billion transactions in 2018, which, according to management's estimates, makes ATH branded products the most frequently used electronic method of payment in Puerto Rico. We offer compelling value to our merchants, as noted in the most recent report published by the Federal Reserve Board regarding debit network fees, which ranked the ATH network as one of the most economical networks for merchants. Given our scale and customer base of top tier financial institutions and government entities, we believe we are the leading card issuer and core bank processor in the Caribbean and the only non-bank provider of cash processing services to the U.S. Federal Reserve in the Caribbean. We believe our competitive position and brand recognition increases card acceptance, driving usage of our proprietary network, and presents opportunities for future strategic relationships.

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### Broad and Deep Customer Relationships and Recurring Revenue Business Model

We have built a strong and long-standing portfolio of financial institution, merchant, corporate and government customers across Latin America and the Caribbean, which provides us with a reliable, recurring revenue base and powerful references that have helped us expand into new channels and geographic markets. Our Payment Services - Puerto Rico & Caribbean, Payment Services - Latin America and Merchant Acquiring segments, as well as certain business lines representing the majority of our business solutions segment, generate recurring revenues that collectively accounted for approximately 95% of our total revenues in 2018. We receive recurring revenues from services based on our customers' on-going daily commercial activity such as processing loans, hosting accounts and information on our servers, and processing everyday payments at grocery stores, gas stations and similar establishments. We generally provide these services under one to five year contracts, often with automatic renewals. We also provide a few project-based services that generate non-recurring revenues in our business solutions segment such as IT consulting for a specific project or integration. Additionally, we entered into a 15-year Master Services Agreement with Popular on September 30, 2010. We provide a number of critical payment services and business solutions products and services to Popular and benefit from the bank's distribution network and continued support. Through our long-standing and diverse customer relationships, we are able to gain valuable insight into trends in the marketplace that allows us to identify new market opportunities. In addition, we believe the recurring nature of our business model provides us with revenue and earnings stability.

### Highly Scalable, End-to-End Technology Platform

Our diversified business model is supported by our scalable, end-to-end technology platforms that allow us to provide a broad range of transaction processing services and develop and deploy technology solutions to our customers at low incremental costs and increasing operating efficiencies. We have spent over \$185 million over the last five years on technology investments, including POS, to continue to build the capacity and functionality of our platforms and we have been able to achieve attractive economies of scale with flexible product development capabilities. We believe that our platforms will allow us to provide differentiated services to our customers and facilitate further expansion into new sales channels and geographic markets.

### Experienced Management Team with a Strong Track Record of Execution

We have grown our revenue organically by introducing new products and services and expanding our geographic footprint throughout Latin America. We have a proven track record of creating value from operational and technology improvements and capitalizing on cross-selling opportunities. We have combined new leadership at EVERTEC, bringing many years of industry experience, with long-standing leadership at the operating business level. Collectively, our management team benefits from an average of over 20 years of industry experience and we believe they are well positioned to continue to drive growth across business lines and regions.

### Our Growth Strategy

We intend to grow our business by continuing to execute on the following business strategies:

Continue Cross-Sales to Existing Customers

We seek to grow revenue by continuing to sell additional products and services to our existing merchant, financial institution, corporate and government customers. We intend to broaden and deepen our customer relationships by leveraging our full suite of end-to-end technology solutions. For example, we believe that there is significant opportunity to cross-sell our network services, ATM point-of-sale processing and card issuer processing services as well as our risk management products to our over 180 existing financial institution customers, particularly in markets outside of Puerto Rico. We will also seek to continue to cross-sell value added services into our existing merchant base.

Leverage Our Franchise to Attract New Customers in the Markets We Currently Serve

We intend to attract new customers by leveraging our comprehensive product and services offering, the strength of our brand and our leading end-to-end technology platform. Furthermore, we believe we are well positioned to develop new products and services to take advantage of our access to and position in markets we currently serve. For example, in markets we serve outside of Puerto Rico, we believe there is a significant opportunity to penetrate small to medium financial institutions with our products and services.

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### Expand in the Latin American Region

We believe there is substantial opportunity to expand our businesses in the Latin American region. We believe that we have a competitive advantage relative to U.S. competitors based on our first-hand knowledge of the Latin American and Caribbean markets and their technological needs, language and culture. We believe significant growth opportunities exist in a number of large markets such as Colombia, México, and Chile, among others. We also believe that there is an opportunity to provide our services to existing financial institution customers in other regions where they operate. Additionally, we continually evaluate our strategic plans for geographic expansion, which can be achieved through joint ventures, partnerships, alliances or strategic acquisitions. For a description of risks associated with obtaining regulatory approvals and other risks associated with strategic transactions, see “Item 1A. Risk Factors—Risks Related to Our Business—Our expansion and selective acquisition strategy exposes us to risks, including the risk that we may not be able to successfully integrate acquired businesses.”

### Develop New Products and Services

Our experience with our customers provides us with insight into their needs and enables us to continuously develop new transaction processing services. We plan to continue growing our merchant, financial institution, corporate and government customer base by developing and offering additional value-added products and services to cross-sell along with our core offerings. We intend to continue to focus on these and other new product opportunities in order to take advantage of our leadership position in the transaction processing industry in the Latin American and Caribbean region.

### Our Business

We offer our customers end-to-end products and solutions across the transaction processing value chain from a single source across numerous channels and geographic markets, as further described below.

### Merchant Acquiring

According to the August 2018 Nilson Report, we are one of the largest merchant acquirers in Latin America based on total number of transactions and we believe we are the largest merchant acquirer in the Caribbean and Central America. Our merchant acquiring business provides services to merchants that allow them to accept electronic methods of payment such as debit, credit, prepaid and EBT cards carrying the ATH, Visa, MasterCard, Discover and American Express brands. Our full suite of merchant acquiring services includes, but is not limited to, the underwriting of each merchant’s contract, the deployment and rental of POS devices and other equipment necessary to capture merchant transactions, the processing of transactions at the point-of-sale, the settlement of funds with the participating financial institution, detailed sales reports and customer support. In 2018, our merchant acquiring business processed over 400 million transactions.

### Payment Services



We believe we are the largest card processor and card network service provider in the Caribbean. We provide a diversified suite of payment processing products and services to blue chip regional and global corporate customers, government agencies, and financial institutions across Latin America and the Caribbean. These services provide the infrastructure technology necessary to facilitate the processing and routing of payments across the transaction processing value chain.

At the point-of-sale, we sell transaction processing technology solutions, similar to the services in our merchant acquiring business, to other merchant acquirers to enable them to service their own merchant customers. We also offer terminal driving solutions to merchants, merchant acquirers (including our merchant acquiring business) and financial institutions, which provide the technology to securely operate, manage and monitor POS terminals and ATMs. We also rent POS devices to financial institution customers who seek to deploy them across their own businesses.

To connect the POS terminals to card issuers, we own and operate the ATH network, one of the leading ATM and PIN debit networks in Latin America. The ATH network connects the merchant or merchant acquirer to the card issuer and enables transactions to be routed or “switched” across the transaction processing value chain. The ATH network offers the technology, communications standards, rules and procedures, security and encryption, funds settlement and common branding that allow consumers, merchants, merchant acquirers, ATMs, card issuer processors and card issuers to conduct commerce seamlessly, across a variety of channels, similar to the services provided by Visa and MasterCard. The ATH network and processing businesses processed approximately two billion transactions in 2018.

To enable financial institutions, governments and other businesses to issue and operate a range of payment products and services, we offer an array of card processing and other payment technology services, such as internet and mobile banking

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software services, bill payment systems and EBT solutions. Financial institutions and certain retailers outsource to us certain card processing services such as card issuance, processing card applications, cardholder account maintenance, transaction authorization and posting, high volume payment processing fraud and risk management services, and settlement. Our payment products include electronic check processing, automated clearing house (“ACH”), lockbox, online, interactive voice response and web-based payments through personalized websites, among others.

We have been the main provider of EBT services to the Puerto Rican government since 1998. Our EBT application allows certain agencies to deliver government benefits to participants through a magnetic card system and serves approximately 800,000 active participants.

### Business Solutions

We provide our financial institutions, corporate and government customers with a wide suite of business process management solutions including specifically core bank processing, network hosting and management, IT consulting, business process outsourcing, item and cash processing, and fulfillment. In addition, we believe we are the only non-bank provider of cash processing services to the U.S. Federal Reserve in the Caribbean.

### Competition

Competitive factors impacting the success of our services include the quality of the technology-based application or service, application features and functions, ease of delivery and integration, ability of the provider to maintain, enhance and support the applications or services, and price. We believe that we compete well in each of these categories. In addition, we believe that our relationship with Popular, scale and expertise, and financial institution industry expertise, combined with our ability to offer multiple applications, services and integrated solutions to individual customers, enhances our competitiveness against companies with more limited offerings and helps us compete with large global competitors with similar assets to ours.

In merchant acquiring, we compete with several other service providers and financial institutions, including Worldpay, Inc., First Data Corporation, Global Payments, Inc., Elavon, Inc., EVO Payments, Inc., independent sales organizations and some local banks. Also, the card associations and payment networks are increasingly offering products and services that compete with ours. The main competitive factors are price, brand awareness, strength of the relationship with financial institutions, system functionality, integration service capabilities and innovation. Our business is also impacted by the expansion of new payments methods and devices, card association business model expansion, and bank consolidation.

In payment services, we compete with several other third party card processors and debit networks, including First Data Corporation, TecnoCom Telecomunicaciones y Energía, S.A., Fidelity National Information Services, Inc., Fiserv, Inc., Total System Services, Inc., Worldpay, Inc., MasterCard, Visa, American Express, Discover and Global Payments, Inc. Also, card associations and payment networks are increasingly offering products and services that compete with our products and services. The main competitive factors are price, system performance and reliability,

system functionality, security, service capabilities and disaster recovery and business continuity capabilities.

In business solutions, our main competition includes internal technology departments within financial institutions, retailers, data processing or software development departments of large companies and/or large technology and consulting companies, such as Fidelity National Information Services, Inc. and Fiserv, Inc. The main competitive factors are price, system performance and reliability, system functionality, security, service capabilities, and disaster recovery and business continuity capabilities.

#### Intellectual Property

We own numerous registrations for several trademarks in different jurisdictions and own or have licenses to use certain software and technology, which are critical to our business and future success. For example, we own the ATH and EVERTEC trademarks in several jurisdictions, which are associated by the public, financial institutions and merchants with high quality and reliable electronic commerce, payments, and debit network solutions and services. Such goodwill allows us to be competitive, retain our customers and expand our business. Further, we also use a combination of (i) proprietary software, and (ii) duly licensed third party software to operate our business and deliver secure and reliable products and services to our customers. The licensed software is subject to terms and conditions that we considered within the industry standards. Most are perpetual licenses and the rest are term licenses with renewable terms. In addition, we monitor these license agreements and maintain close contact with our suppliers to ensure their continuity of service.

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We seek to protect our intellectual property rights by securing appropriate statutory intellectual property protection in the relevant jurisdictions. We also protect proprietary know-how and trade secrets through company confidentiality policies, licenses, programs and contractual agreements.

### Employees

As of December 31, 2018, we had approximately 2,100 employees across 11 countries in the United States, Latin America and the Caribbean. In Brazil, we have one unionized employee covered by the terms of industry-specific collective agreements. None of our other employees are otherwise represented by any labor organization. We consider our relationships with our employees to be good. We have not experienced any work stoppages in connection with employee matters.

### Government Regulation and Payment Network Rules

#### Federal Reserve Regulations

Popular is a bank holding company that has elected to be treated as a financial holding company under the provisions of the Gramm-Leach-Bliley Act of 1999. To the extent that we are deemed to be a “subsidiary” of Popular for purposes of the Bank Holding Company (“BHC”) Act, we will be subject to regulation and oversight by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) and our activities will be subject to several related significant restrictions, the more significant of which are discussed below.

#### Transactions with Affiliates

To the extent that we are deemed to be an affiliate of Popular for purpose of the affiliate transaction rules found in Section 23A and 23B of the Federal Reserve Act and Regulation W of the Federal Reserve Board, we will be subject to various restrictions on our ability to borrow from, and engage in certain other transactions with Popular’s bank subsidiaries, Banco Popular and Banco Popular North America (“BPNA”). In general these rules require that any “covered transaction” that we enter into with Banco Popular or BPNA (or any of their respective operating subsidiaries), as the case may be, must be secured by designated amounts of specified collateral and must be limited to 10% of Banco Popular’s or BPNA’s, as the case may be, capital stock and surplus. In addition, all “covered transactions” between Banco Popular or BPNA, on the one hand, and Popular and all of its subsidiaries and affiliates on the other hand, must be limited to 20% of Banco Popular’s or BPNA’s, as the case may be, capital stock and surplus. “Covered transactions” are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve Board) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, Section 23B and Regulation W require that to the extent that we are deemed an affiliate of Banco Popular or BPNA, all transactions between us and either Banco Popular or BPNA be on terms and conditions, including credit

standards, that are substantially the same or at least as favorable to Banco Popular or BPNA, as the case may be, as those prevailing at the time for comparable transactions involving other non-affiliated companies or, in the absence of comparable transactions, on terms and conditions, including credit standards, that in good faith would be offered by Banco Popular or BPNA to, or would apply to, non-affiliated companies.

#### Permissible Activities

To the extent that we are deemed to be controlled by Popular for bank regulatory purposes, we may conduct only those activities that are authorized for a bank holding company or a financial holding company under the BHC Act, the Federal Reserve Board's Regulation K and other relevant U.S. federal banking laws. These activities generally include activities that are related to banking, financial in nature or incidental to financial activities. In addition, restrictions placed on Popular as a result of supervisory or enforcement actions may restrict us or our activities in certain circumstances, even if these actions are unrelated to our conduct or business. To the extent that we are deemed to be a foreign subsidiary of a bank holding company under the Federal Reserve Board's regulations, we will rely on the authority granted under the Federal Reserve Board's Regulation K to conduct our data processing, management consulting and related activities outside the United States. The Federal Reserve Board's Regulation K generally limits activities of a bank holding company outside the United States that are not banking or financial in nature, specifically permitted under Regulation K to foreign subsidiaries or necessary to carry on such activities that are not otherwise permissible for a foreign subsidiary under the banking regulations. We continue to engage in certain activities outside the scope of such permissible activities pursuant to authority under the Federal Reserve Board's Regulation K, which allows a bank holding company to retain, in the context of an acquisition of a going concern, such

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otherwise impermissible activities if they account for not more than 5% of either the consolidated assets or consolidated revenues of the acquired organization.

New lines of business, other new activities, divestitures or acquisitions that we may wish to commence in the future may not be permissible for us under the BHC Act, the Federal Reserve Board's Regulation K or other applicable U.S. federal banking laws. Further, as a result of being subject to regulation and supervision by the Federal Reserve Board, we may be required to obtain the approval of the Federal Reserve Board before engaging in certain new activities or businesses, whether organically or by acquisition, unless such activities are considered financial in nature. If we are unable to obtain any such approval on a timely basis, are delayed in receiving approval, are approved subject to regulatory conditions or do not receive approval, this may make transactions more expensive or may make us less attractive to potential sellers.

### Examinations

As a technology service provider to financial institutions, we are also subject to regulatory oversight and examination by the Federal Financial Institutions Examination Council (the "FFIEC"), an interagency body of federal financial regulators that includes the Federal Reserve Board. The office of the Commissioner of Financial Institutions of Puerto Rico also participates in such examinations by the FFIEC. In addition, independent auditors annually review several of our operations to provide reports on internal controls for our clients' auditors and regulators.

### Regulatory Reform and Other Legislative Initiatives

The payment card industry has come under increased scrutiny from lawmakers and regulators. The Dodd-Frank Wall Street Reform and Protection Act (the "Dodd-Frank Act") set forth significant structural and other changes to the regulation of the financial services industry, including the establishment of the Consumer Financial Protection Bureau (the "CFPB"). The CFPB has broad supervisory, enforcement and rulemaking authority over consumer financial products and services (including many offered by us and by our clients) and certain bank and non-bank providers of such products and services. In addition, Section 1075 of the Dodd-Frank Act (commonly referred to as the "Durbin Amendment") imposed new restrictions on card networks and debit card issuers. More specifically, the Durbin Amendment provides that the interchange transaction fees that a card issuer or payment network may receive or charge for an electronic debit transaction must be "reasonable and proportional" to the cost incurred by the card issuer in authorizing, clearing and settling the transaction.

The Federal Reserve's regulations (a) limit debit transaction interchange fees to \$.21 + (5 bps times the value of the transactions) + \$.01 (as a fraud adjustment for issuers that have in place policies and measures to address fraud); (b) require that issuers enable at least two unaffiliated payment card networks on their debit cards without regard to authentication method; and (c) prohibit card issuers and payment card networks from entering into exclusivity arrangements for debit card processing and restrict card issuers and payment networks from inhibiting the ability of merchants to direct the routing of debit card transactions over networks of their choice. The Dodd-Frank Act also allows merchants to set minimum dollar amounts (currently, not to exceed \$10) for the acceptance of a credit card and

provide discounts or incentives to entice consumers to pay with various payment methods, such as cash, checks, debit cards or credit cards, as the merchant prefers.

The CFPB is responsible for many of the regulatory functions with respect to consumer financial products and services. In addition to rulemaking authority over several enumerated federal consumer financial protection laws, the CFPB is authorized to issue rules prohibiting unfair, deceptive or abusive acts or practices in connection with the offering of a consumer financial product or service or any transaction with a consumer for such product or service. The CFPB also has authority to examine supervised entities for compliance with, and to enforce violations of, consumer financial protection laws.

To the extent that we are deemed an affiliate of Banco Popular-an insured depository institution with greater than \$10 billion in total consolidated assets-and as a service provider to other insured depository institutions with \$10 billion or more in total consolidated assets, as well as larger participants in markets for consumer financial products and services, as determined by the CFPB, we are subject to the supervision, enforcement and rulemaking authority of the CFPB. CFPB rules, examinations and enforcement actions may require us to adjust our activities and may increase our compliance costs.

In 2017, the former Director of the CFPB resigned and was replaced by a Director. This change in leadership, although the subject of ongoing litigation, may result in certain changes to CFPB policies and supervision, enforcement and rulemaking priorities. In addition, various legislative proposals to restructure or limit the authority of the CFPB, or to modify certain consumer financial protection laws or CFPB regulations, have been considered by Congress. It is unclear whether or to what extent any such change would affect the manner in which we engage in consumer product and service activities.

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From time to time, various legislative initiatives are introduced in Congress and state legislatures, and changes in regulations or agency policies, or in the interpretation of such regulations and policies, are proposed by regulatory agencies. Such initiatives may include proposals to modify the powers of bank holding companies and their affiliates. Such legislation or changes in regulation could affect our operating environment in substantial and unpredictable ways. If adopted, such legislation or changes in regulation could increase the cost of doing business or limit permissible activities. We cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations or related policies and guidance, would have on our financial condition or results of operations.

### Other Government Regulations

Our services are also subject to a broad range of complex federal, state, Puerto Rico and foreign regulation, including privacy laws, international trade regulations, the Bank Secrecy Act and other anti-money laundering laws, anti-trust and competition laws, the U.S. Internal Revenue Code, the PR Code, the Employee Retirement Income Security Act, the Health Insurance Portability and Accountability Act and other Puerto Rico laws and regulations. Failure of our services to comply with applicable laws and regulations could result in restrictions on our ability to provide such services, as well as the imposition of civil fines and/or criminal penalties. The principal areas of regulation (in addition to oversight by the Federal Reserve Board) that impact our business are described below.

### Privacy

We and our financial institution clients are required to comply with various U.S. state, federal and foreign privacy laws and regulations, including those imposed under the Gramm-Leach-Bliley Act of 1999 which applies directly to a broad range of financial institutions and to companies that provide services to financial institutions. These laws and regulations place restrictions on the collection, processing, storage, use and disclosure of certain personal information, require disclosure to individuals of detailed privacy practices and provide them with certain rights to prevent the use and disclosure of protected information. The regulations, however, permit financial institutions to share information with non-affiliated parties who perform services for the financial institutions. These laws also impose requirements for safeguarding personal information through the issuance of data security standards or guidelines. Certain state laws impose similar privacy obligations, as well as, in certain circumstances, obligations to provide notification to affected individuals, states officers and consumer reporting agencies, as well as businesses and governmental agencies that own data, of security breaches of computer databases that contain personal information. In addition, U.S. state and federal government agencies have been contemplating or developing new initiatives to safeguard privacy and enhance data security. Some foreign privacy laws are stricter than those applicable under U.S. federal, state or Puerto Rican law. As a provider of services to financial institutions, we are required to comply with the privacy regulations and are bound by the same limitations on disclosure of the information received from our customers as apply to the financial institutions themselves. See “Item 1A. Risk Factors-Risks Related to Our Business-Security breaches or our own failure to comply with privacy regulations and industry security requirements imposed on providers of services to financial institutions and card processing services could harm our business by disrupting our delivery of services and damaging our reputation.”



### Anti-Money Laundering and Office of Foreign Assets Control Regulation

Since we provide data processing services to both foreign and domestic financial institutions, we are required to comply with certain anti-money laundering and terrorist financing laws and economic sanctions imposed on designated foreign countries, nationals and others. Specifically, we must adhere to the requirements of the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001 (collectively, the “BSA”) regarding processing and facilitation of financial transactions, as well as other state, local and foreign laws relating to money laundering. Furthermore, as a data processing company that provides services to foreign parties and facilitates financial transactions between foreign parties, we are obligated to screen transactions for compliance with the sanctions programs administered by the U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”). These regulations prohibit us from entering into or facilitating a transaction to or from or dealings with specified countries, their governments and, in certain circumstances, their nationals and others, such as narcotics traffickers and terrorists or terrorist organizations designated by the U.S. Government under one or more sanctions regimes.

A major focus of governmental policy in recent years has been aimed at combating money laundering and terrorist financing. Preventing and detecting money laundering and other related suspicious activities at their earliest stages warrants careful monitoring. The BSA, along with a number of other anti-money laundering laws, imposes various reporting and record-keeping requirements concerning currency and other types of monetary instruments. Similar anti-money laundering, counter-terrorist financing and proceeds of crime laws apply to movements of currency and payments through electronic transactions and to dealings with persons specified on lists maintained by organizations similar to OFAC in several other countries and which may impose specific data retention obligations or prohibitions on intermediaries in the payment process. These laws and regulations

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impose obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for us.

### Federal Trade Commission Act and Other Laws Impacting our Customers' Business

All persons engaged in commerce, including, but not limited to, us and our merchant and financial institution customers are subject to Section 5 of the Federal Trade Commission Act prohibiting Unfair or Deceptive Acts or Practices (“UDAP”). In addition, there are other laws, rules and/or regulations, including the Telemarketing Sales Act, that may directly impact the activities of our merchant customers and in some cases may subject us, as the merchant's payment processor, to investigations, fees, fines and disgorgement of funds in the event we are deemed to have aided and abetted or otherwise provided the means and instrumentalities to facilitate the illegal activities of the merchant through our payment processing services. Federal and state regulatory enforcement agencies including the Federal Trade Commission, or FTC, and the states' attorneys general have authority to take action against nonbanks that engage in UDAP or violate other laws, rules and regulations. To the extent we process payments for a merchant that may be in violation of these laws, rules and regulations, we may be subject to enforcement actions and as a result may incur losses and liabilities that may impact our business.

### Anti-trust and Competition Laws

We are required to comply with various federal, local and foreign competition and anti-trust laws, including the Sherman Act, Clayton Act, Hart-Scott-Rodino Antitrust Improvements Act, Robinson-Patman Act, Federal Trade Commission Act and Puerto Rico Anti-Monopoly Act. In general, competition laws are designed to protect businesses and consumers from anti-competitive behavior. Competition and anti-trust law investigations can be lengthy and violations are subject to civil and/or criminal fines and other sanctions for both corporations and individuals that participate in the prohibited conduct. Class action civil anti-trust lawsuits can result in significant judgments, including in some cases, payment of treble damages and/or attorneys' fees to the successful plaintiff. See “Item 1A. Risk Factors-Risks Related to Our Business-Failure to comply with U.S. state and federal antitrust requirements, or the Puerto Rico Anti-Monopoly Act, and government investigations into our compliance, could adversely affect our business.”

### Foreign Corrupt Practices Act (“FCPA”), Export Administration and Other

As a data processing company that services both foreign and domestic clients, our business activities in foreign countries, and in particular our transactions with foreign governmental entities, subject us to the anti-bribery provisions of the FCPA, as well as the laws and regulations of the foreign jurisdiction where we operate. Pursuant to applicable anti-bribery laws, our transactions with foreign government officials and political candidates are subject to certain limitations. Finally, in the course of business with foreign clients and subsidiaries, we export certain software and hardware that is regulated by the Export Administration Regulations from the United States to the foreign parties.

Together, these regulations place restrictions on who we can transact with, what transactions may be facilitated, how we may operate in foreign jurisdictions and what we may export to foreign countries.

The preceding list of laws and regulations is not exhaustive, and the regulatory framework governing our operations changes continuously. The enactment of new laws and regulations may increasingly affect directly and indirectly the operation of our business, which could result in substantial regulatory compliance costs, litigation expense, loss of revenue, decreased profitability and/or adverse publicity.

#### Association and Network Rules

Several of our subsidiaries are registered with or certified by card associations and payment networks, including the ATH network, MasterCard, Visa, American Express, Discover and numerous debit and EBT networks as members or as service providers for member institutions in connection with the services we provide to our customers. As such, we are subject to applicable card association and network rules, which could subject us to a variety of fines or penalties that may be levied by the card associations or networks for certain acts and/or omissions by us, our acquirer customers, processing customers and/or merchants. For example, "EMV" is a credit and debit card authentication methodology that the card associations are mandating to processors, issuers and acquirers in the payment industry. Compliance deadlines for EMV mandates vary by country and by payment network. We have invested significant resources and man-hours to develop and implement this methodology in all our payment related platforms. However, we are not certain if or when our financial institution customers will use or accept the methodology and the time it will take for this technology to be rolled-out to all customer ATM and POS devices connected to our platforms or adopted by our card issuing clients. Non-compliance with EMV mandates could result in lost business or

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financial losses from fraud or fines from network operators. We are also subject to network operating rules promulgated by the National Automated Clearing House Association relating to payment transactions processed by us using the Automated Clearing House Network and to various government laws regarding such operations, including laws pertaining to EBT.

Geographic Concentration

Our revenue composition by geographical area is based in Latin America and the Caribbean. Latin America includes, among others, Costa Rica, México, Guatemala, Colombia, Chile, Uruguay, Brazil and Panamá. The Caribbean primarily represents Puerto Rico, the Dominican Republic and the Virgin Islands. See Note 23 of Audited Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for additional information related to geographic areas.

Seasonality

Our payment businesses generally experience increased activity during the traditional holiday shopping periods and around other nationally recognized holidays.

Available Information

EVERTEC's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to such reports (if applicable) filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") are available free of charge, through our website, <http://www.evertecinc.com>, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. In addition, we make available on our website under the heading of "Corporate Information" our: (i) Code of Ethics; (ii) Code of Ethics for Service Providers; (iii) Corporate Governance Guidelines; (iv) the charters of the Audit, Compensation and Nominating and Corporate Governance committees, and also we intend to disclose any amendments to the Code of Ethics. The aforementioned reports and materials can also be obtained free of charge upon written request or telephoning to the following address or telephone number:

EVERTEC, Inc.  
Cupey Center Building  
Road, 176, Kilometer 1.3  
San Juan, Puerto Rico 00926  
(787) 759-9999

Our filings with the SEC are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at <http://www.sec.gov>.

Item 1A. Risk Factors

Readers should carefully consider, in connection with other information disclosed in this Annual Report on Form 10-K, the risks and uncertainties described below. The following discussion sets forth risks that we believe are material to our stockholders and prospective stockholders. The occurrence of any of the following risks might cause our stockholders to lose all or a part of their investment in our Company. We cannot assure you that the risk factors described below or elsewhere in this document are a complete set of all potential risks we may face; additional risks and uncertainties not presently known to us or not believed by us to be material may also affect our business results, financial condition, results of operations, cash flows, and the trading price of our common stock. Some statements in this report, including statements in the following risk factors section, constitute forward-looking statements. Please also refer to the section titled “Forward Looking Statements” at the beginning of this Annual Report on Form 10-K.

#### Risks Related to Our Business

We expect to continue to derive a significant portion of our revenue from Popular.

Our services to Popular account for a significant portion of our revenues, and we expect that our services to Popular will continue to represent a significant portion of our revenues for the foreseeable future. In 2018, products and services billed to Popular accounted for approximately 41% of our total revenues. The majority of Popular’s business is presented in the Business Solutions segment. If Popular were to terminate, fail to perform under (in whole or in part), or fail to renew the Master Services Agreement (“MSA”), which currently expires in 2025, or our other material agreements with Popular, our revenues could be materially reduced and our profitability and cash flows could also be materially reduced, all of which would have a material adverse impact on our financial condition and results of operations.

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We depend, in part, on our merchant relationships and our alliance with Banco Popular, a wholly-owned subsidiary of Popular, to grow our merchant acquiring business. If we are unable to maintain these relationships and this alliance, our business may be adversely affected.

Growth in our merchant acquiring business is derived primarily from acquiring new merchant relationships, new and enhanced product and service offerings, cross selling products and services into existing relationships, the shift of consumer spending to increased usage of electronic forms of payment, and the strength of our relationship with Banco Popular. A substantial portion of our business is generated from our Independent Sales Organization Sponsorship and Services Agreement (the “ISO Agreement”) with Banco Popular, which expires in 2025.

Banco Popular acts as a merchant referral source and provides sponsorship into the ATH, Visa, Discover and MasterCard networks for merchants, as well as card association sponsorship, clearing and settlement services. We provide transaction processing and related functions. Both we and Popular as alliance partners may provide management, sales, marketing, and other administrative services to merchants. We rely on the continuing growth of our merchant relationships, which in turn is dependent upon our alliance with Banco Popular and other distribution channels. There can be no guarantee that this growth will continue and the loss or deterioration of these relationships, whether due to the termination of the ISO Agreement or otherwise, could negatively impact our business and result in a reduction of our revenue and income.

Our MSA with Popular, our ISO Agreement with Banco Popular and our ATH Network Participation Agreement and ATH Support Agreement with Banco Popular (the “BPPR ATH Agreements”) have initial terms ending in 2025. If Popular or Banco Popular decide not to renew one or more of these agreements, or if we are unable to negotiate extensions, or if we must provide significant concessions to Popular or Banco Popular to secure extensions or otherwise, our results of operations, financial condition and trading price of our common stock may be materially adversely affected, and it could also potentially limit our ability to renegotiate our debt.

Our MSA with Popular has an initial term that ends in 2025. For 2018, we derived approximately 41% of our revenue from such contract, which makes the MSA our most significant client contract. We expect that we will enter into a negotiation with Popular prior to the expiration of the initial term of the MSA. We cannot be certain that we will be able to negotiate an extension to the MSA. In addition, even if we are able to negotiate an extension of the MSA, any new master services agreement may be materially different from the existing MSA. Further, the anticipated negotiation of the MSA extension may result in Popular obtaining significant concessions from us with respect to pricing and other key terms, both in respect of the current term and any extension of the MSA, particularly as we approach 2025. Any such events may materially negatively impact our financial condition, results of operations and trading price of our common stock, as well as potentially limit our ability to renegotiate our debt.

Pursuant to our ISO Agreement with Banco Popular, Banco Popular sponsors us as an independent sales organization with respect to certain credit card associations and is required to exclusively refer to us any merchant that inquires about, requests or otherwise evidences interest in merchant and other services. If the ISO Agreement is not renewed,

we will have to seek other card association sponsors, we will not benefit from Banco Popular referral of merchants and we may experience the loss of some merchants if Banco Popular itself enters the merchant acquiring business or agrees to sponsor another independent sales organization. Any of these may negatively impact our financial condition and results of operations.

Similarly, the BPPR ATH Agreements have initial terms ending in 2025. Under such agreements, among other things, we provide Banco Popular certain ATM and POS services in connection with our ATH network; we grant a license to use the ATH logo, word mark and associated trademarks; and Banco Popular agrees to support, promote and market the ATH network and brand and to issue debit cards bearing the symbol of the ATH network. If one or both of the BPPR ATH Agreements are not extended, our ATH brand and network could be negatively impacted and our financial conditions and results of operations adversely affected.

A protracted government shutdown could negatively affect our financial condition.

During any protracted federal government shutdown, the federal government may reduce or cut funding for certain welfare and disaster relief programs. Beneficiaries of certain federal programs, such as the Supplemental Nutrition Assistance Program (SNAP), obtain their benefits through electronic benefits transfer (EBT) accounts. A temporary or permanent reduction in federal welfare and relief programs could lead to a decrease in electronic benefit card volume. The effect of a protracted government shutdown now or in the future may affect our revenues, profitability and cash flows.

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If we are unable to renew client contracts on favorable terms or at all, our results of operations and financial condition may be adversely affected.

Failure to achieve favorable renewals of client contracts could negatively impact our business. Our contracts with private clients generally run for a period of one to five years, except for our Master Services Agreement with Popular. Our government contracts generally run for one year and do not include automatic renewal periods due to government procurement rules and related fiscal funding requirements. Our standard merchant contract has an initial term of up to three years, with automatic one-year renewal periods. At the end of the contract term, clients can renew or renegotiate their contracts with us, but may also consider whether to engage one of our competitors to provide products and services. If we are not successful in achieving high renewal rates and/or contract terms that are favorable to us, our results of operations and financial condition may be adversely affected.

Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under our notes and senior secured credit facilities.

We are highly leveraged. As of December 31, 2018, the total principal amount of our indebtedness was approximately \$545.3 million. Our high degree of leverage could have a significant impact on us, including:

- increasing our vulnerability to adverse economic, industry or competitive developments;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow for other purposes, including for our operations, capital expenditures and future business opportunities;
- exposing us to the risk of increases in interest rates because our borrowings are predominantly at variable rates of interest;
- making it difficult for us to satisfy our obligations with respect to our indebtedness generally, including complying with restrictive covenants and borrowing conditions, our noncompliance with which could result in an event of default under the agreements setting forth the terms such of other indebtedness;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional debt or equity financing for working capital, capital expenditures, business development, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting our flexibility in planning for, or reacting to, changes in our business or market conditions and placing us at a competitive disadvantage compared to competitors who may be less highly leveraged and who therefore, may be able to take advantage of opportunities that our leverage prevents us from exploiting.

We rely on our systems, employees and certain counterparties, and certain failures could materially adversely affect our operations.

Many of our services are based on sophisticated software, technology and computing systems, and we may encounter delays when developing new technology solutions and services. Further, the technology solutions underlying our



services have occasionally contained, and may in the future contain, undetected errors or defects when first introduced or when new versions are released. In addition, we may experience difficulties in installing or integrating our technologies on platforms used by our customers.

Our businesses are dependent on our ability to reliably process, record and monitor a large number of transactions. For example, we settle funds on behalf of financial institutions, other businesses and consumers and process funds transactions from clients, card issuers, payment networks and consumers on a daily basis for a variety of transaction types. Transactions facilitated by us include debit card, credit card, electronic bill payment transactions, ACH payments, electronic benefits transfer transactions and check clearing that supports consumers, financial institutions and other businesses. These payment activities rely upon the technology infrastructure that facilitates the verification of activity with counterparties, the facilitation of the payment and, in some cases, the detection or prevention of fraudulent payments. If any of our financial, accounting, or other data processing systems or applications fail or experience other significant shortcomings or limitations, our ability to serve our clients and accordingly our results of operations could be materially adversely affected. Such failures or shortcomings could be the result of events that are wholly or partially beyond our control, which may include, for example, computer viruses, fires, electrical or telecommunications outages, natural disasters, disease pandemics, terrorist acts or other unanticipated damage to property or physical assets. Any such failure or shortcoming could also damage our reputation, require us to expend significant resources to correct the defect, and may result in liability to third parties, especially since some of our contractual agreements with financial institutions require the crediting of certain fees if our systems do not meet certain specified service levels.

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Although we have taken steps to protect against data loss and system failures, there is still risk that we may lose critical data or experience system failures. We perform the vast majority of disaster recovery operations ourselves, though we utilize select third parties for some aspects of recovery. To the extent we outsource our disaster recovery, we are at risk of the vendor's unresponsiveness in the event of breakdowns in our systems. Furthermore, our property and business interruption insurance may not be adequate to compensate us for all losses or failures that may occur.

We are similarly dependent on our employees. Our operations could be materially adversely affected if one of one or more employees causes a significant operational breakdown or failure, either intentionally or as a result of human error. Third parties with which we do business could also be sources of operational risk to us, including relating to breakdowns or failures of such parties' own systems or employees. Any of these occurrences could diminish our ability to operate one or more of our businesses, or result in potential liability to clients, reputational damage and regulatory intervention or fines, any of which could materially adversely affect our financial condition or results of operations.

If our amortizable intangible assets or goodwill become impaired, it may adversely affect our financial condition and operating results.

If our amortizable intangible assets or goodwill were to become impaired, we may be required to record a significant charge to earnings. Under U.S. generally accepted accounting principles ("GAAP"), definitive useful life intangibles are evaluated periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill is tested for impairment at least annually. The goodwill impairment evaluation process requires us to make estimates and assumptions with regards to the fair value of our reporting units. Actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact our results of operations and the reporting unit where the goodwill is recorded.

Our risk management procedures may not be fully effective in identifying or helping us mitigate our risk exposure against all types of risks.

We operate in a rapidly changing industry, and we have experienced significant change in the past ten years, including our separation from Popular following the Merger, our initial public offering in April 2013 and our listing on the New York Stock Exchange ("NYSE"). Accordingly, we may not be fully effective in identifying, monitoring and managing our risks. In some cases, the information we use to perform our risk assessments may not be accurate, complete or up-to-date. In other cases, our risk assessments may depend upon information that we may not have or cannot obtain. If we are not fully effective or we are not always successful in identifying all risks to which we are or may be exposed, we could be subject to losses, penalties, litigation or regulatory actions that could harm our reputation or have a material adverse effect on our business, financial conditions and results of operations.

We are subject to security breaches or other confidential data theft from our systems, which can adversely affect our reputation and business.

As part of our business, we electronically receive, process, store and transmit a wide range of confidential information, including sensitive customer information and personal consumer data, such as names and addresses, social security numbers, driver's license numbers, cardholder data and payment history records. We also operate payment, cash access and electronic card systems. Attacks on information technology systems continue to grow in frequency, complexity and sophistication, a trend we expect will continue. The objectives of these attacks include, among other things, gaining unauthorized access to systems to facilitate financial fraud, disrupt operations, cause denial of service events, corrupt data, and steal non-public information. Such attacks have become a point of focus for individuals, businesses and governmental entities.

Despite the safeguards we have in place, unauthorized access to our computer systems or databases could result in the theft or publication of confidential information, the deletion or modification of records or could otherwise cause interruptions in the successful operations of our businesses. These risks are increased when we transmit information over the Internet as our visibility in the global payments industry may attract hackers to conduct attacks on our systems. Our security measures may also be breached due to the mishandling or misuse of information; for example, if such information were erroneously provided to parties who are not permitted to have the information, either by employees acting contrary to our policies or as a result of a fault in our systems.

Actual or perceived vulnerabilities or data breaches may lead to claims against us, which may require us to spend significant additional resources to remediate by addressing problems caused by breaches remediate and further protect against security or privacy breaches. Additionally, while we maintain insurance policies specifically for cyber-attacks, our current insurance

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policies may not be adequate to reimburse us for losses caused by security breaches, and we may not be able to collect fully, if at all, under these insurance policies. A significant security breach, such as loss of credit card numbers and related information, could have a material adverse effect on our reputation and could result in a loss of customers. We cannot assure you that our security measures will prevent security breaches or that failure to prevent them will not have a material adverse effect on our business, results of operations and financial condition.

The ability to adopt technology to changing industry and customer needs or trends may affect our competitiveness or demand for our products, which may adversely affect our operating results.

Changes in technology may limit the competitiveness of and demand for our services. Our businesses operate in industries that are subject to technological advancements, developing industry standards and changing customer needs and preferences. Also, our customers continue to adopt new technology for business and personal uses. We must anticipate and respond to these industry and customer changes in order to remain competitive within our relative markets. Our inability to respond to new competitors and technological advancements could impact all of our businesses. For example, the ability to adopt technological advancements surrounding POS technology available to merchants could have an impact on our merchant acquiring business.

Consolidations in the banking and financial services industry could adversely affect our revenues by eliminating existing or potential clients and making us more dependent on a more limited number of clients.

In recent years, there have been a number of mergers and consolidations in the banking and financial services industry. Mergers and consolidations of financial institutions reduce the number of our clients and potential clients, which could adversely affect our revenues. Further, if our clients fail or merge with or are acquired by other entities that are not our clients, or that use fewer of our services, they may discontinue or reduce their use of our services. It is also possible that the larger banks or financial institutions resulting from mergers or consolidations would have greater leverage to negotiate terms less favorable to us or could decide to perform in-house some or all of the services which we currently provide or could provide. Any of these developments could have a material adverse effect on our business, financial condition and results of operations.

We are subject to the credit risk that our merchants will be unable to satisfy obligations for which we may also be liable.

We are subject to the credit risk of our merchants being unable to satisfy obligations for which we also may be liable. For example, as the merchant acquirer, we are contingently liable for transactions originally acquired by us that are disputed by the cardholder and charged back to the merchants. For certain merchants, if we are unable to collect amounts paid to cardholders in the form of refunds or chargebacks from the merchant, we bear the loss for those amounts. Notwithstanding our adherence to industry standards with regards to the acceptance of new merchants and certain steps to screen for merchant credit risk, a default on payment obligations by one or more of our merchants could have a material adverse effect on our business.

We depend on our payment processing clients to comply with their contractual obligations, as well as any applicable laws, regulatory requirements and credit card associations rules or standards.

Our contracts with our payment processing clients generally require that they comply with all applicable laws and regulatory requirements, as well as any applicable credit card associations rules or standards. A client's failure to comply with any such laws or requirements could force us to declare a breach of contract and terminate the client relationship. The termination of such contracts or relationships, as well as any inability to collect any damages caused, could have a material adverse effect on our business, financial condition and results of operations.

Additionally, any such failure by clients to comply could also result in fines, penalties or obligations imputed to EVERTEC, which could also have a material adverse effect on our business.

Increased competition could adversely affect our business.

A decline in the market for our services as a result of increased competition could have a material adverse effect on our business. We may face increased competition in the future as new companies enter the market and existing competitors expand their services. Some of these competitors could have greater overall financial, technical and marketing resources than us, which could enhance their ability to finance acquisitions, fund internal growth and respond more quickly to professional and technological changes. Some competitors could have or may develop a lower cost structure. New competitors or alliances among competitors could emerge, resulting in a loss of business for us and a corresponding decline in revenues and profit margin.

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Changes in consumer spending or payment preferences could adversely affect our business.

A decline in the market for our services, either as a result of continued migration of Puerto Ricans to the U.S. mainland, a further deterioration in the Puerto Rico economy, a decrease in consumer spending or a shift in consumer payment preferences, could have a material adverse effect on our business. If consumer confidence decreases in a way that adversely affects consumer spending, whether in conjunction with a global economic downturn or otherwise, we could experience a reduction in the volume of transactions we process. In addition, if we fail to respond to changes in technology or consumer payment preferences, we could lose business.

Changes in credit card association or other network rules or standards could adversely affect our business.

In order to provide our transaction processing services, several of our subsidiaries are registered with or certified by Visa, Discover and MasterCard and other networks as members or as service providers for member institutions. As such, we and many of our customers are subject to card association and network rules that could subject us or our customers to a variety of fines or penalties that may be levied by the card associations or networks for certain acts or omissions by us, acquirer customers, processing customers and merchants. Visa, Discover, MasterCard and other networks, some of which are our competitors, set the standards with which we must comply. The termination of Banco Popular's or our subsidiaries' member registration or our subsidiaries' status as a certified service provider, or any changes in card association or other network rules or standards, including interpretation and implementation of the rules or standards, that increase the cost of doing business or limit our ability to provide transaction processing services to or through our customers, could have an adverse effect on our business, operating results and financial condition.

Changes in interchange fees or other fees charged by card associations and debit networks could increase our costs or otherwise adversely affect our business.

From time to time, card associations and debit networks change interchange, processing and other fees, which could impact our merchant acquiring and payment services businesses. Competitive pressures could result in our merchant acquiring and payment services businesses absorbing a portion of such increases in the future, which would increase our operating costs, reduce our profit margin and adversely affect our business, operating results and financial condition.

For purposes of the Bank Holding Company Act of 1956 (the "BHC Act"), to the extent that we are deemed to be controlled by Popular, we will be subject to regulation, supervision and examination by the U.S. Federal Reserve Board, and our activities will be limited to those permissible under the BHC Act and related regulations. We may be required to obtain regulatory approval before engaging in certain new activities or businesses, whether organically or by acquisition.

To the extent that we are deemed to be controlled by Popular pursuant to regulation and guidance under the BHC Act, we will be subject to regulation, supervision and examination by the Federal Reserve Board. The BHC Act defines

“control” differently than GAAP, and “control” can be found based on a variety of facts and circumstances.

New lines of business, other new activities and acquisitions that we may wish to commence or undertake in the future, including the manner in which we conduct our business or may undertake such activities or acquisitions, may not be permissible for us under the BHC Act, the Federal Reserve Board’s Regulation K or other applicable U.S. federal banking laws or may require the approval of the Federal Reserve Board or another applicable U.S. federal banking regulator. In addition, potential acquisitions may take longer, be more costly, or make us less attractive as a buyer. There can be no assurance that any required regulatory approvals will be obtained, or that they will be obtained without regulatory conditions. Additional regulatory requirements may be imposed on our activities or acquisitions to the extent we are controlled by Popular and Popular is subject to any supervisory or enforcement action, even if the supervisory actions are unrelated to us or to our business.

Furthermore, as a technology service provider to regulated financial institutions, we are subject to additional regulatory oversight and examination.

In general, financial institution regulators require their supervised institutions to cause their service providers to agree to certain terms and to agree to supervision and oversight by applicable financial regulators, primarily to protect the safety and soundness of the financial institution. We have agreed to such terms and provisions in many of our service agreements with financial institutions. In particular, we are subject to regulatory oversight and examination by applicable U.S. federal regulators as a technology service provider to regulated U.S. financial institutions, including Banco Popular.

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Changes in laws, regulations and enforcement activities may adversely affect the products and services we provide and markets in which we operate.

We and our customers are subject to U.S. federal, Puerto Rico and other countries' laws, rules and regulations that affect the electronic payments industry. Our customers are subject to numerous laws, rules and regulations applicable to banks, financial institutions, processors and card issuers in the United States and abroad. We are subject to regulation because of our activities in the countries where we carry them out and because of our relationship with Popular, and at times we are also affected by the laws, rules and regulations to which our customers are subject. Failure to comply with any of these laws, rules and regulations may result in the suspension or revocation of licenses or registrations, the limitation, suspension or termination of one or more of the services we provide, and/or the imposition of civil and criminal penalties, including fines, all of which could have an adverse effect on our financial condition. In addition, even an inadvertent failure by us to comply with laws, rules and regulations, as well as rapidly evolving social expectations of corporate fairness, could damage our reputation or brands.

Regulation of the electronic payment card industry, including regulations applicable to us and our customers, has increased significantly in recent years. There is also continued scrutiny by the U.S. Congress of the manner in which payment card networks and card issuers set various fees, from which some of our customers derive significant revenue. Further, banking regulators have been strengthening their examination guidelines with respect to relationships between banks and their third-party service providers, such as us. Any such heightened supervision of our relationship with Popular could have an effect on our contractual relationship with Popular as well as on the standards applied in the evaluation of our services. See "Item 1. Business-Government Regulation and Payment Network Rules-Regulatory Reform and Other Legislative Initiatives."

Further changes to laws, rules and regulations, or interpretation or enforcement thereof, could have a negative financial effect on us.

The Government of Puerto Rico's fiscal crisis continues. The expiration of the automatic stay on litigation to collect claims against the Government on May 1, 2017, the initiation of creditor litigation promptly thereafter and the Government's filing for bankruptcy protection on May 3, 2017, are all expected to further slow the Puerto Rico economy, increase emigration from Puerto Rico, increase the risk of non-payment of Government obligations and negatively affect the economy and consumer spending, which could have a material adverse effect on our business and the trading price of our common stock.

For the years ended December 31, 2018 and 2017, approximately 79% and 81%, respectively, of our total revenues were generated from our operations in Puerto Rico. In addition, some revenues that are generated from our operations outside Puerto Rico are dependent upon our operations in Puerto Rico. As a result, our financial condition and results of operations are highly dependent on the economic and political conditions in Puerto Rico, and could be significantly adversely impacted by adverse economic or political developments in Puerto Rico. Puerto Rico has been in economic recession since 2006. In August 2015, Puerto Rico defaulted for the first time on the Public Finance Corporation bonds. In April 2016, the Puerto Rico governor signed a debt moratorium law that gave the governor emergency



powers to deal with the fiscal crisis, including the ability to declare a moratorium on any debt payment. On June 30, 2016, the U.S. President signed into law the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). PROMESA establishes a fiscal oversight and management board (the “Oversight Board”) comprised of seven voting members appointed by the President. PROMESA also imposed 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 and creditors of the Puerto Rico government filed various lawsuits involving defaults on more than \$70 billion of bonds issued by Puerto Rico. On May 3, 2017, Puerto Rico filed for bankruptcy-like protection under Title III of PROMESA.

While the Title III filing does not foreclose negotiations between creditors and the Puerto Rico government toward a consensual restructuring agreement, there can be no assurance that meaningful negotiations will occur or that any consensual agreement will be reached or by what date. Importantly, there also can be no assurance as to the financial outcome or timing of the completion of the Title III processes. There also can be no assurance as to any favorable intervention by the U.S. Congress or the U.S. President.

The invocation of Title III is expected to potentially deepen Puerto Rico’s economic recession, and to further curtail the ability of the Commonwealth and its instrumentalities, subject to the oversight of the Oversight Board (collectively, the “Government”), to access capital markets to place new debt or roll future maturities. Additionally, potential Government actions such as further reductions in spending or the imposition of new taxes may further deepen the current economic crisis, lead to an increase in unemployment rates, and result in a continued decline in population and in the economy.

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Consequently, such recent events could potentially adversely impact the trading price of our common stock, adversely impact our customer base, depress general consumer spending and delay the Government's payments thus increasing our Government accounts receivables, and potentially impair the collectability of those accounts receivable, all of which, individually or in the aggregate, could potentially have a material adverse effect on our business, financial condition and results of operations. As of December 31, 2018, we had net receivables of \$9.4 million from Puerto Rico and certain public corporations.

Hurricanes Irma and Maria and their aftermaths and any similar natural disasters in the future could have a prolonged negative impact on the countries in which we operate and a material adverse effect on our business and results of operations.

Puerto Rico's location in the Caribbean exposes the island to increased risk of hurricanes and other severe tropical weather conditions and natural disasters. Hurricanes Irma and Maria and their aftermaths, including the widespread power outage in Puerto Rico, the damage to infrastructure and communications networks, and the temporary cessation and slow pace of reestablishment of regular day-to-day commerce, have severely impacted the economies of Puerto Rico and the Caribbean. It is unknown how long it will take for the business communities, resident populations and the economies to recover. Puerto Rico's current situation following Hurricane Maria could further accelerate the ongoing emigration trend of Puerto Rico residents to the United States. A prolonged delay in the repairs to the islands' infrastructures, decline in business volume and any other economic declines due to Hurricanes Irma and Maria and their aftermaths may impact demand for our services and could have a material adverse effect on our business and results of operations.

Our presence in international markets includes operations in several Latin American and Caribbean countries. Although we have contingency plans in effect for natural disasters or other catastrophic events, the occurrence of a natural disaster such as, but not limited to, earthquakes, landslides, hurricanes, tornadoes, tsunamis, volcanic activity, droughts and floods, could still disrupt our operations outside the United States and Puerto Rico. For example, we conduct business in Chile, a country that is particularly susceptible to earthquakes. Any natural disaster or catastrophic event in the countries in which we do business could adversely affect our business, results of operations and financial condition.

We are exposed to risks associated with our presence in international markets, including political or economic instability.

Our financial performance may be significantly affected by general economic, political and social conditions in the emerging markets where we operate. Many countries in Latin America have suffered significant economic, political and social crises in the past, and these events may occur again in the future. Instability in Latin America has been caused by many different factors, including:

- exposure to foreign exchange variation
- significant governmental influence over local economies;

- substantial fluctuations in economic growth;
- high levels of inflation;
- exchange controls or restrictions on expatriation of earnings;
- high domestic interest rates;
- wage and price controls;
- changes in governmental economic or tax policies;
- imposition of trade barriers;
- unexpected changes in regulation which may restrict the movement of funds or result in the deprivation of contract rights or the taking of property without fair compensation
- Terrorist attacks and other acts of violence or war; and
- overall political, social and economic instability.

Adverse economic, political and social conditions in the Latin America markets where we operate may create uncertainty regarding our operating environment, which could have a material adverse effect on our results of operations.

Our business in countries outside the United States and transactions with foreign governments increase our compliance risks and exposes us to business risks.

Our operations outside the United States could expose us to trade and economic sanctions or other restrictions imposed by the United States or other local governments or organizations. In foreign countries in which we have operations, a risk exists that our associates, contractors or agents could, in contravention of our policies, engage in business practices prohibited by U.S. laws and regulations applicable to us, such as the Foreign Corrupt Practices Act ("FCPA"). We have existing safeguards in place designed to ensure compliance with these laws and regulations. Nevertheless, we remain subject to the risk that one or

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more of our associates, contractors or agents, including those based in or from countries where practices that violate such U.S. laws and regulations or the laws and regulations of other countries may be customary, will engage in business practices that are prohibited by our policies and, by doing so, violate such laws and regulations. Any such violations, even if prohibited by our internal policies, could adversely affect our business, operating results, financial condition and reputation and result in severe criminal or civil sanctions. In addition, we are also subject to compliance with local government regulations.

We are also subject to the Export Administration Regulations (“EAR”), which regulates the export, re-export and re-transfer abroad of covered items made or originating in the United States as well as the transfer of covered U.S.-origin technology abroad. We have adopted a compliance program to make sure our goods and technologies are exported in compliance with the requirements of the EAR. However, there can be no assurance that we have not violated the EAR in past transactions or that our new policies and procedures will prevent us from violating the EAR in every transaction in which we engage. Any such violations of the EAR could result in fines, penalties or other sanctions being imposed on us, which could negatively affect our business, operating results and financial condition.

Moreover, some financial institutions refuse, even in the absence of a regulatory requirement, to provide services to companies operating in certain countries or engaging in certain practices because of concerns that the compliance efforts perceived to be necessary may outweigh the usefulness of the service relationship. Our operations outside the United States make it more likely that financial institutions may refuse to conduct business with us for this type of reason. Any such refusal could negatively affect our business, operating results and financial condition.

We and our subsidiaries conduct business with financial institutions and/or card payment networks operating in countries whose nationals, including some of our customers’ customers, engage in transactions in countries that are the targets of U.S. economic sanctions and embargoes. If we are found to have failed to comply with applicable U.S. sanctions laws and regulations in these instances, we and our subsidiaries could be exposed to fines, sanctions and other penalties or other governmental investigations.

We and our subsidiaries conduct business with financial institutions and/or card payment networks operating in countries whose nationals, including some of our customers’ customers, engage in transactions in countries that are the target of U.S. economic sanctions and embargoes, including Cuba. As a U.S.-based entity, we and our subsidiaries are obligated to comply with the economic sanctions regulations administered by OFAC. These regulations prohibit U.S.-based entities from entering into or facilitating unlicensed transactions with, for the benefit of, or in some cases involving the property and property interests of, persons, governments, or countries designated by the U.S. government under one or more sanctions regimes. Failure to comply with these sanctions and embargoes may result in material fines, sanctions or other penalties being imposed on us or other governmental investigations. In addition, various state and municipal governments, universities and other investors maintain prohibitions or restrictions on investments in companies that do business involving sanctioned countries or entities.

For these reasons, we have established risk-based policies and procedures designed to assist us and our personnel in complying with applicable U.S. laws and regulations and have in the past voluntarily submitted disclosures to OFAC

in compliance with those policies and procedures when we have identified a potential violation. Our policies and procedures include the use of software to screen transactions we process for evidence of sanctioned-country and persons involvement. Consistent with a risk-based approach and the difficulties of identifying all transactions of our customers' customers that may involve a sanctioned country, there can be no assurance that our policies and procedures will prevent us from violating applicable U.S. laws and regulations in every transaction in which we engage, and such violations could adversely affect our reputation, business, financial condition and results of operations.

Because we process transactions on behalf of the aforementioned financial institutions through the aforementioned payment networks, we have processed a limited number of transactions potentially involving sanctioned countries and there can be no assurances that, in the future, we will not inadvertently process such transactions. Due to a variety of factors, including technical failures and limitations of our transaction screening process, conflicts between U.S. and local laws, political or other concerns in certain countries in which we and our subsidiaries operate, and/or failures in our ability effectively to control employees operating in certain non-U.S. subsidiaries, we have not rejected every transaction originating from or otherwise involving sanctioned countries, or persons and there can be no assurances that, in the future, we will not inadvertently fail to reject such transactions.

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Our expansion and selective acquisition strategy exposes us to risks, including the risk that we may not be able to successfully integrate acquired businesses.

As part of our growth strategy, we evaluate opportunities for acquiring complementary businesses that may supplement our internal growth. However, there can be no assurance that we will be able to identify and purchase suitable operations. To the extent that we are deemed to be controlled by Popular for purposes of the BHC Act, we may conduct only activities authorized under the BHC Act and the Federal Reserve Board's Regulation K and other related regulations for a bank holding company or a financial holding company. These restrictions may limit our ability to acquire other businesses or enter into other strategic transactions. In addition, in connection with any acquisitions, we must comply with U.S. federal and other antitrust and/or competition law requirements.

Further, the success of any acquisition depends in part on our ability to integrate the acquired company, which may involve unforeseen difficulties and may require a disproportionate amount of our management's attention and our financial and other resources. Although we conduct due diligence investigations prior to each acquisition, there can be no assurance that we will discover all operational deficiencies or material liabilities of an acquired business for which we may be responsible as a successor owner or operator. The failure to successfully integrate these acquired businesses or to discover such liabilities could adversely affect our operating results.

Failure to protect our intellectual property rights and defend ourselves from potential intellectual property infringement claims may diminish our competitive advantages or restrict us from delivering our services.

Our trademarks, proprietary software, and other intellectual property, including technology/software licenses, are important to our future success. Limitations or restrictions on our ability to use such marks or a diminution in the perceived quality associated therewith could have an adverse impact on the growth of our businesses. We also rely on proprietary software and technology, including third party software that is used under licenses. It is possible that others will independently develop the same or similar software or technology, which would permit them to compete with us more efficiently. Furthermore, if any of the third party software or technology licenses are terminated or otherwise determined to be unenforceable, then we would have to obtain a comparable license, which may involve increased license fees and other costs.

Despite our efforts to protect our proprietary or confidential business know-how and other intellectual property rights, unauthorized parties may attempt to copy or misappropriate certain aspects of our services, infringe upon our rights, or to obtain and use information that we regard as proprietary. Policing such unauthorized use of our proprietary rights is often very difficult, and therefore, we are unable to guarantee that the steps we have taken will prevent misappropriation of our proprietary software/technology or that the agreements entered into for that purpose will be effective or enforceable in all instances. Misappropriation of our intellectual property or potential litigation concerning such matters could have a material adverse effect on our results of operations or financial condition. Our registrations and/or applications for trademarks, copyrights, and patents could be challenged, invalidated or circumvented by others and may not be of sufficient scope or strength to provide us with maximum protection or meaningful advantage. Managing any such challenges, even if they lack merit, could: (i) be expensive and time-consuming to defend;

(ii) cause us to cease making, licensing or using software or applications that incorporate the challenged intellectual property; (iii) require us to redesign our software or applications, if feasible; (iv) divert management's attention and resources; and (v) require us to enter into royalty or licensing agreements in order to obtain the right to use necessary technologies. Furthermore, the laws of certain foreign countries in which we do business or contemplate doing business in the future may not protect intellectual property rights to the same extent as do the laws of the United States or Puerto Rico. Adverse determinations in judicial or administrative proceedings related to intellectual property or licenses could prevent us from selling our services and products, or prevent us from preventing others from selling competing services, impose liability costs on us, or result in a non-favorable settlement, all of which could result in a material adverse effect on our business, financial condition and results of operations.

The ability to recruit, retain and develop qualified personnel is critical to our success and growth.

All of our businesses function at the intersection of rapidly changing technological, social, economic and regulatory developments that require a wide ranging set of expertise and intellectual capital. For us to successfully compete and grow, we must retain, recruit and develop the necessary personnel who can provide the needed expertise across the entire spectrum of our intellectual capital needs. In addition, we must develop our personnel to provide succession plans capable of maintaining continuity in the midst of the inevitable unpredictability of human capital. However, the market for qualified personnel is competitive and we may not succeed in recruiting additional personnel or may fail to effectively replace current personnel who depart with qualified or effective successors. Recruiting and retaining qualified personnel in Puerto Rico is particularly challenging, given the poor state of the Puerto Rican economy and the increased emigration of Puerto Ricans following Hurricanes Irma and Maria. Our effort to retain and develop personnel may also result in significant additional expenses, which

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could adversely affect our profitability. We cannot assure you that key personnel, including executive officers, will continue to be employed or that we will be able to attract and retain qualified personnel in the future. Failure to retain or attract key personnel could have a material adverse effect on us.

Failure to comply with U.S. state and federal antitrust requirements, or the Puerto Rico Anti-Monopoly Act, and government investigations into our compliance, could adversely affect our business.

Due to our ownership of the ATH network and our merchant acquiring and payment services business in Puerto Rico, we are involved in a significant percentage of the debit and credit card transactions conducted in Puerto Rico each day. We have in the past been subject to regulatory investigations and any future regulatory scrutiny of, or regulatory enforcement action in connection with, compliance with U.S. state and federal antitrust requirements could potentially have a material adverse effect on our reputation and business.

Our subsidiary, EVERTEC Group, benefits from a preferential tax exemption grant from the Puerto Rico Government under the Tax Incentive Act No. 73 of 2008 that imposes certain commitments, conditions and representations on EVERTEC Group. If EVERTEC Group does not comply with the terms of the grant, EVERTEC Group may be subject to reduction of the benefits of the grant, tax penalties, other payment obligations or full revocation of the grant, which could have a material adverse effect on our financial condition, results of operations and our stock price.

EVERTEC Group has a tax exemption grant under the Tax Incentive Act No. 73 of 2008 from the Government of Puerto Rico. Under this grant, EVERTEC Group will benefit from a preferential income tax rate of 4% on industrial development income, as well as from tax exemptions with respect to its municipal and property tax obligations for certain activities derived from its data processing operations in Puerto Rico. The grant has a term of 15 years effective as of January 1, 2012 with respect to income tax obligations and July 1, 2013 and January 1, 2013 with respect to municipal and property tax obligations, respectively.

The grant contains customary commitments, conditions and representations that EVERTEC Group is required to comply with in order to maintain the grant. The more significant commitments include: (i) maintaining at least 750 employees in EVERTEC Group's Puerto Rico data processing operations during 2012 and at least 700 employees for the remaining years of the grant, (ii) investing at least \$200.0 million in building, machinery, equipment or computer programs to be used in Puerto Rico during the effective term of the grant (to be made over four year capital investment cycles in \$50.0 million increments), (iii) an additional best efforts capital investments requirement of \$75.0 million by December 31, 2026 (to be made over four year capital investment cycles in \$20.0 million the first three increments and \$15.0 million the last increment); and (iv) 80% of EVERTEC Group employees must be residents of Puerto Rico. Failure to meet the requirements could result, among other things, in reductions in the benefits of the grant, tax penalties, other payment obligations or revocation of the grant in its entirety, which could have a material adverse effect on our financial condition and results of operations.

Risks Related to Our Structure, Governance and Stock Exchange Listing



We are a holding company and rely on dividends and other payments, advances and transfers of funds from our subsidiaries to meet our obligations and pay any dividends.

We have no direct operations or significant assets other than the ownership of 100% of the membership interest of Holdings, which in turn has no significant assets other than ownership of 100% of the membership interest of EVERTEC Group. Because we conduct our operations through our subsidiaries, we depend on those entities for dividends and other payments to generate the funds necessary to meet our financial obligations, and to pay any dividends with respect to our common stock. Legal and contractual restrictions in our existing senior secured credit facilities and other agreements which may govern future indebtedness of our subsidiaries, as well as the financial condition and operating requirements of our subsidiaries, may limit our ability to obtain cash from our subsidiaries. We are prohibited from paying any cash dividend on our common stock unless we satisfy certain conditions. The senior secured credit facilities also include limitations on the ability of our subsidiaries to pay dividends to us. The earnings from, or other available assets of, our subsidiaries may not be sufficient to pay dividends or make distributions or loans or enable us to pay any dividends on our common stock or other obligations.

As a publicly traded company, we are exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley Act”), the Dodd-Frank Act, and related regulations implemented by the SEC, have substantially increased legal and financial compliance costs. We expect that our ongoing compliance with applicable laws and regulations,

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including the Exchange Act, the Dodd-Frank Act, and the Sarbanes-Oxley Act, will involve significant and potentially increasing costs. In particular, we must annually evaluate our internal controls systems to allow management to report on our internal controls. We must perform the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and, when applicable, auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If we are not able to continue to satisfy the requirements of the Exchange Act, the Dodd-Frank Act, and the Sarbanes-Oxley Act, we may default on our credit facility and be subject to sanctions or investigation by regulatory authorities, including the SEC. Any action of this type could adversely affect our financial condition, results of operations, and investors' confidence in our company, and could cause our stock price to decline.

The price of our common stock may fluctuate significantly and you could lose all or part of your investment.

Volatility in the market price of our common stock may prevent you from being able to sell your common stock at or above the price you paid for your common stock. The market price for our common stock could fluctuate significantly for various reasons, including:

- our operating and financial performance and prospects;
- changes in earnings estimates or recommendations by securities analysts who track our common stock or industry;
- market perception of our success, or lack thereof, in pursuing our growth strategy;
- market perception of the challenges of operating a company in Puerto Rico; and
- sales of common stock by us, our stockholders, Popular or members of our management team.

In addition, the stock market has experienced significant price and volume fluctuations historically and particularly in late 2018 and early 2019. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industries. The changes frequently appear to occur without regard to the operating performance of the affected companies. Hence, the price of our common stock could fluctuate based upon factors that have little or nothing to do with us, and these fluctuations could materially reduce our share price.

Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of shares of our common stock.

We may sell additional shares of common stock in subsequent public offerings or otherwise, including financing acquisitions. Our amended and restated certificate of incorporation authorizes us to issue 206,000,000 shares of common stock, of which 72,378,710 are outstanding as of December 31, 2018. All of these shares, other than the 11,654,803 shares held by Popular and the shares held by our officers and directors, are freely transferable without restriction or further registration under the Securities Act.

In addition, we have filed a Form S-8 under the Securities Act covering 12,089,382 shares of our common stock reserved for issuance under our Carib Holdings, Inc. 2010 Equity Incentive Plan (the "2010 Plan"), and our EVERTEC, Inc. 2013 Equity Incentive plan (the "2013 Plan") and certain options and restricted stock granted outside of these plans (which we refer to as the Equity Plans), but subject to the terms and conditions of the 2010 Plan. Accordingly, shares of our common stock registered under such registration statement may become available for sale in the open market upon grants under the Equity Incentive Plans, subject to vesting restrictions and Rule 144 limitations applicable to our affiliates.

We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including any shares issued in connection with an acquisition), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

If securities analysts stop publishing research or reports about our company, or if they issue unfavorable commentary about us or our industry or downgrade our common stock, the price of our common stock could decline.

The trading market for our common stock will depend in part on the research and reports that third party securities analysts publish about our company and our industry. One or more analysts could downgrade our common stock or issue other negative commentary about our company or our industry. In addition, we may be unable or slow to attract research coverage. Alternatively, if one or more of these analysts cease coverage of our company, we could lose visibility in the market. As a result of one or more of these factors, the trading price of our common stock could decline.

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The interests of Popular may conflict with or differ from your interests as a stockholder.

Popular has the right to nominate two members of our Board and, therefore, may be able to influence our decisions. The interests of Popular could conflict with your interests as a holder of our common stock. For example, the concentration of ownership held by Popular, the terms of the Stockholder Agreement and our organizational documents (including Popular's quorum rights and consent rights over amendments to our bylaws) and Popular's right to terminate certain of its agreements with us in certain situations upon a change of control of EVERTEC Group, could delay, defer or prevent certain significant corporate actions that you as a stockholder may otherwise view favorably, including a change of control of us (whether by merger, takeover or other business combination). See "Certain Relationships and Related Party Transactions" in EVERTEC's proxy statement for a description of the circumstances under which Popular may terminate certain of its agreements with us. A sale of a substantial number of shares of stock in the future by Popular could cause our stock price to decline.

Our organizational documents and Stockholder Agreement may impede or discourage a takeover, which could deprive our investors of the opportunity to receive a premium for their shares.

Provisions of our amended and restated certificate of incorporation, amended and restated bylaws and the Stockholder Agreement may make it more difficult for, or prevent a third party from, acquiring control of us without the approval of our Board and/or Popular. These provisions include:

- a voting agreement pursuant to which Popular agreed to vote its shares in favor of the Popular director nominees (which, constitute the right to appoint two of our nine directors), directors nominated by a committee of our Board in accordance with the Stockholder Agreement and the management director and to remove and replace any such directors in accordance with the terms of the Stockholder Agreement and applicable law and an agreement by us to take all actions within our control necessary and desirable to cause the election, removal and replacement of such directors in accordance with the Stockholder Agreement and applicable law;
- requiring that a quorum for the transaction of business at any meeting of the Board (other than a reconvened meeting with the same agenda as the originally adjourned meeting) consist of (1) a majority of the total number of directors then serving on the Board and (2) at least one director nominated by Popular, for so long as it owns, together with its affiliates, 5% or more of our outstanding common stock;
- prohibiting cumulative voting in the election of directors;
- authorizing the issuance of "blank check" preferred stock without any need for action by stockholders other than Popular (as further described below);
- prohibiting stockholders from acting by written consent unless the action is taken by unanimous written consent;
- establishing advance notice requirements for nominations for election to our Board or for proposing matters that can be acted on by stockholders at stockholder meetings, which advance notice requirements are not applicable to any directors nominated in accordance with the terms of the Stockholder Agreement.

Our issuance of shares of preferred stock could delay or prevent a change in control of us. Our Board has authority to issue shares of preferred stock, subject to the approval of at least one director nominated by Popular for so long as

Popular, together with its respective affiliates, owns at least 10% of our outstanding common stock. Our Board may issue preferred stock in one or more series, designate the number of shares constituting any series, and fix the rights, preferences, privileges and restrictions thereof, including dividend rights, voting rights, rights and terms of redemption, redemption price or prices and liquidation preferences of such series. In addition, Popular, under and subject to the Stockholder Agreement and our organizational documents, will retain significant influence over matters requiring board or stockholder approval, including the election of directors. Together, our amended and restated certificate of incorporation, bylaws and Stockholder Agreement could make the removal of management more difficult and may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our common stock. Furthermore, the existence of the foregoing provisions, as well as the significant common stock owned by Popular and its individual right to nominate a specified number of directors in certain circumstances, could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of us, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

#### Risks Related to Our Indebtedness

Despite our high indebtedness level, we and our subsidiaries still may be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, some of which may be secured. Although the agreement setting forth the terms of our senior secured credit facilities contain restrictions on the incurrence of

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additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. In addition to the \$97.9 million which was available for borrowing under our revolving credit facility as of December 31, 2018, the terms of the senior secured credit facilities enable us to increase the amount available under the term loan and/or revolving credit facilities if we are able to obtain loan commitments from banks and satisfy certain other conditions. If new debt is added to our and our subsidiaries' existing debt levels, the related risks that we face would increase.

If we are unable to comply with covenants in our debt instruments that limit our flexibility in operating our business, or obligate us to take action such as deliver financial reports, we may default under our debt instruments and our indebtedness may become due.

The agreement setting forth the terms of the senior secured credit facilities contain, and any future indebtedness we incur may contain, various covenants that limit our ability to engage in specified types of transactions. These covenants limit our and our restricted subsidiaries' ability to, among other things:

- incur additional indebtedness or issue certain preferred shares;
- pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;
- make certain investments;
- sell certain assets;
- grant liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with our affiliates; and
- designate our subsidiaries as unrestricted subsidiaries.

As a result of these covenants, we are limited in the manner in which we conduct our business and we may be unable to engage in favorable business activities or finance future operations or capital needs. In addition, the covenants in the senior secured credit facilities require us to maintain a maximum total secured net leverage ratio and also limit our capital expenditures. A breach of any of these covenants could result in a default under one or more of these agreements, including as a result of cross default provisions and, in the case of our revolving credit facility, permit the lenders to cease making loans to us. Upon the occurrence of an event of default under the senior secured credit facilities, the lenders could elect to declare all amounts outstanding under the senior secured credit facilities to be immediately due and payable and terminate all commitments to extend further credit. Such actions by those lenders could cause cross defaults under our other indebtedness. If we were unable to repay those amounts, the lenders under our senior secured credit facilities could proceed against the collateral granted to them to secure that indebtedness. We have pledged a significant portion of our assets as collateral under the senior secured credit facilities. If the lenders under the senior secured credit facilities accelerate the repayment of borrowings, the proceeds from the sale or foreclosure upon such assets will first be used to repay debt under our senior secured credit facilities and we may not have sufficient assets to repay our unsecured indebtedness thereafter. As a result, our common stock could become worthless.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

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The risks referenced above 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.

Discontinuation, reform or replacement of LIBOR and other benchmark rates, or uncertainty related to the potential for any of the foregoing, may adversely affect our business.

The U.K. Financial Conduct Authority announced in 2017 that it intends to phase out LIBOR by the end of 2021. In addition, other regulators have suggested reforming or replacing other benchmark rates. The discontinuation, reform or replacement of LIBOR or any other benchmark rates may have an unpredictable impact on contractual mechanics in the credit markets or cause disruption to the broader financial markets. Uncertainty as to the nature of such potential discontinuation, reform or replacement may negatively impact the volatility of LIBOR rates, liquidity, our access to funding required to operate our business, our ability to hedge our interest rate risk, or the trading market for our existing senior secured credit facilities.

At December 31, 2018, we had \$545.0 million of borrowings under our senior secured credit facilities that bore interest at LIBOR plus an applicable margin. Together with the administrative agent for those facilities, we may replace LIBOR with a comparable or successor rate in a manner that gives due consideration to any evolving or then existing convention for similar U.S. dollar denominated syndicated credit facilities. The replacement of LIBOR with a comparable or successor rate could cause the amount of interest payable on our senior secured credit facilities to be materially different than expected. We may choose in the future to pursue amendments to our senior secured credit facilities to provide for a comparable or successor rate, but we can give no assurance that we will be able to reach agreement with our lenders on any such amendments.

At December 31, 2018, we also had two interest rate swap agreements which are designed to protect us from changes in interest rates. If LIBOR becomes unavailable and market quotations for specified inter-bank lending are not available, it is unclear how payments under such agreements would be calculated, which could cause these agreements to no longer offer us the protection we expect. Relevant industry groups are seeking to create a standard protocol addressing the expected discontinuation of LIBOR, to which parties to then-existing swaps will be able to adhere. There can be no assurance that such a protocol will be developed or that our swap counterparties will adhere to it. It is uncertain whether amending our then-existing swap agreements may provide us with effective protection from changes in the then-applicable interest rate on our senior secured credit facility indebtedness or other indebtedness. Similarly, while industry groups have announced that they anticipate amending standard documentation to facilitate a market in swaps on one or more successor rates to LIBOR, it is uncertain whether and to what extent a market for interest rate swaps on the successor rate selected for our senior secured credit facility indebtedness or other indebtedness will develop, which may affect our ability to effectively hedge our interest rate exposure.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties



Our principal operations are conducted in Puerto Rico. Our principal executive offices are leased and located at Cupey Center Building, Road 176, Kilometer 1.3, San Juan, Puerto Rico 00926.

We own one property in Costa Rica, in the province of San Jose, which is used by our Costa Rican subsidiary for its payment services business. We also lease space in 12 other locations across Latin America and the Caribbean, including various data centers and office facilities to meet our sales and operating needs. We believe that our properties are in good operating condition and adequately serve our current business operations. We also anticipate that suitable additional or alternative space, including those under lease options, will be available at commercially reasonable terms for future expansion.

#### Item 3. 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 4. Mine Safety Disclosures

Not applicable.

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## Part II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock trades on the NYSE under the symbol "EVTC".

## Dividends

On July 26, 2018, the Company's Board of Directors ("Board") voted to reinstate a quarterly dividend on the Company's common stock, which had been suspended since November of 2017. Any declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board and will depend on many factors, including our financial condition, earnings, available cash, business opportunities, legal requirements, restrictions in our debt agreements and other contracts, capital requirements, level of indebtedness and other factors that our Board deems relevant. The covenants of our senior secured credit facilities may limit our ability to pay dividends on our common stock and limit the ability of our subsidiaries to pay dividends to us if we do not meet required performance metrics contained in our debt agreements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Obligations."

We are a holding company and have no direct operations. We will only be able to pay dividends from our available cash on hand and funds received from our subsidiaries, Holdings and EVERTEC Group, whose ability to make any payments to us will depend upon many factors, including their operating results and cash flows. In addition, the senior secured credit facilities limit EVERTEC Group's ability to pay distributions on its equity interests. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Obligations."

## Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced program <sup>(1)</sup>	Approximate dollar value of shares that may yet be purchased under the program
11/1/2018-11/30/2018	89,439	\$ 26.833	89,439	
12/1/2018-12/31/2018	277,964	27.341	277,964	
Total	367,403	\$ 27.217	367,403	\$ 62,345,700

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

## Securities Authorized for Issuance under Equity Compensation Plans

On September 30, 2010, the board of directors of Holdings adopted the 2010 Plan. Holdings reserved 5,843,208 shares of its Class B Non-Voting Common Stock for issuance upon exercise and grants of stock options, restricted stock and other equity awards under the Plan. On April 17, 2012, in connection with the Reorganization, the Company assumed the 2010 Plan and all of the outstanding equity awards issued thereunder or subject thereto. As a

result, each of the then outstanding stock options to purchase shares of Holdings' Class B Non-Voting Common Stock became a stock option to purchase the same number and class of shares of the Company's Class B Non-Voting Common Stock, in each case on the same terms (including exercise price) as the original stock option. In connection with our initial public offering in April 2013, all of the outstanding shares of the Company's Class B Non-Voting Common Stock and stock options to purchase shares of the Company's Class B Non-Voting Common Stock were converted into and deemed exercisable for, respectively, shares of our common stock on a one-to-one basis. Similarly, each of the then outstanding shares of restricted stock of Holdings was converted into the same number of shares of restricted stock of the Company.

In connection with our initial public offering, we adopted the 2013 Plan and reserved 5,956,882 shares of our Common Stock for issuance upon exercise and grants of stock options, restricted stock and other equity awards. We have filed a Form S-8 under the Securities Act covering 12,089,382 shares of our common stock reserved for issuance under the Equity Plans and certain options and restricted stock granted outside of the Equity Plans but subject to the terms and conditions of the 2010 Plan.

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The following table summarizes equity compensation plans approved by security holders and equity compensation plans that were not approved by security holders as of December 31, 2018:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (A)	Weighted-average exercise price of outstanding options, warrants and rights (B)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A)) (C)
Equity compensation plans approved by security holders <sup>(1)</sup>	2,036,163	\$0.00	5,904,356
Equity compensation plans not approved by security holders	N/A	N/A	N/A

(1) The Company's equity plans were approved by the two sole stockholder's prior to the Company's initial public offering, Apollo and Popular.

#### Stock Performance Graph

The following Performance Graph shall not be deemed incorporated by reference and shall not constitute soliciting material or otherwise considered filed under the Securities Act of 1933 or the Exchange Act.

The following graph shows a comparison from April 12, 2013 (the date our common stock commenced trading on the NYSE) through December 31, 2018 of the cumulative total return for our common stock, the S&P 500 Index and the S&P Technology Index. The graph assumes that \$100 was invested on April 12, 2013 in our common stock and each index and that all dividends were reinvested.

Note that historical stock price performance is not necessarily indicative of future stock price performance.

Comparison of sixty-nine months cumulative total return of EVERTEC Inc.

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## Item 6. Selected Financial Data

The following table sets forth our selected historical consolidated financial data as of the dates and for the periods indicated. The selected consolidated financial data as of and for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 have been derived from the audited consolidated financial statements of EVERTEC, included in our Annual Reports on Form 10-K.

The results of operations for any period are not necessarily indicative of the results to be expected for any future period. The selected historical consolidated financial data set forth below should be read in conjunction with, and are qualified by reference to, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes thereto appearing elsewhere in this Annual Report on Form 10-K.

(Dollar amounts in thousands, except per share data)	Year ended December 31,				
	2018	2017	2016	2015	2014
Statements of Income Data:					
Revenues	\$453,869	\$407,144	\$389,507	\$373,528	\$361,788
Operating costs and expenses					
Cost of revenues, exclusive of depreciation and amortization shown below	196,957	200,650	175,809	167,916	157,537
Selling, general and administrative expenses	68,717	56,161	46,986	37,278	41,276
Depreciation and amortization	63,067	64,250	59,567	64,974	65,988
Total operating costs and expenses	328,741	321,061	282,362	270,168	264,801
Income from operations	125,128	86,083	107,145	103,360	96,987
Interest income	787	716	377	495	328
Interest expense	(30,044 )	(29,861 )	(24,617 )	(24,266 )	(25,772 )
Earnings (losses) of equity method investment	692	604	(52 )	147	1,140
Other income, net	2,602	2,657	544	2,306	2,375
Income before income taxes	99,165	60,199	83,397	82,042	75,058
Income tax expense (benefit)	12,596	4,780	8,271	(3,335 )	8,901
Net income	86,569	55,419	75,126	85,377	66,157
Less: Net income attributable to non-controlling interest	299	365	90	—	—
Net income attributable to EVERTEC, Inc.’s common stockholders	\$86,270	\$55,054	\$75,036	\$85,377	\$66,157
Net income per common share—basic	\$1.19	\$0.76	\$1.01	\$1.11	\$0.84
Net income per common share—diluted	\$1.16	\$0.76	\$1.01	\$1.11	\$0.84
Cash dividends declared per common share	\$0.10	\$0.30	\$0.40	\$0.40	\$0.40

	December 31,				
	2018	2017	2016	2015	2014
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$69,973	\$50,423	\$51,920	\$28,747	\$32,114
Total assets	927,292	902,788	885,662	863,654	885,321
Total long-term liabilities	574,981	607,596	648,324	662,939	691,085
Total debt	538,606	616,740	650,759	662,699	681,240
Total equity	215,606	147,976	108,175	98,214	94,840

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) covers: (i) the results of operations for the years ended December 31, 2018, 2017 and 2016 and (ii) the financial condition as of December 31, 2018 and 2017. See Note 1 of the Notes to Audited Consolidated Financial Statements for additional information about the Company and the basis of presentation of our financial statements. You should read the following discussion and analysis in conjunction with the 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.

Overview

EVERTEC is a leading full-service transaction processing business in Latin America and the Caribbean, providing a broad range of merchant acquiring, payment services and business process management services. According to the August 2018 Nilson Report, we are one of the largest merchant acquirers in Latin America based on total number of transactions and we believe we are the largest merchant acquirer in the Caribbean and Central America. We serve 26 countries in the region from our base in Puerto Rico. We manage a system of electronic payment networks that process more than two billion transactions annually, and offer a comprehensive suite of services for core bank processing, cash processing and technology outsourcing. In addition, we own and operate the ATH network, one of the leading 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 competitive products;
- Our ability to provide in one package a range of services that traditionally had to be sourced from different vendors;
- Our ability to serve customers with disparate operations in several geographies with technology solutions that enable them to manage their business as one enterprise; and
- Our ability to capture and analyze data across the transaction processing value chain and use that data to provide value-added services that are differentiated from those offered by pure-play vendors that serve only one portion of the transaction processing value chain (such as only merchant acquiring or payment services).

Our broad suite of services spans the entire transaction processing value chain and includes a range of front-end customer-facing solutions such as the electronic capture and authorization of transactions at the point-of-sale, as well

as back-end support services such as the clearing and settlement of transactions and account reconciliation for card issuers. These include: (i) merchant acquiring services, which enable point of sales (“POS”) and e-commerce merchants to accept and process electronic methods of payment such as debit, credit, prepaid and electronic benefit transfer (“EBT”) cards; (ii) payment processing services, which enable financial institutions and other issuers to manage, support and facilitate the processing for credit, debit, prepaid, automated teller machines (“ATM”) and EBT card programs; and (iii) business process management solutions, which provide “mission-critical” technology solutions such as core bank processing, as well as IT outsourcing and cash management services to financial institutions, corporations and governments. We provide these services through scalable, end-to-end technology platforms that we manage and operate in-house and that generates significant operating efficiencies that enable us to maximize profitability.

We sell and distribute our services primarily through a proprietary direct sales force with established customer relationships. We continue to pursue joint ventures and merchant acquiring alliances.

We benefit from an attractive business model, the hallmarks of which are recurring revenue, scalability, significant operating margins and moderate capital expenditure requirements. Our revenue is predominantly recurring in nature because of the mission-critical and embedded nature of the services we provide. In addition, we generally negotiate multi-year contracts with our customers. We believe our business model should enable us to continue to grow our business organically in the primary markets we serve without significant incremental capital expenditures.



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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 approximately 49% 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, and several related agreements with Popular. Under the terms of the Master Services Agreement, Popular agreed to continue to use EVERTEC services on an ongoing 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 Master Services Agreement. As of December 31, 2018, Popular retained a 16.1% interest in EVERTEC.

Our MSA with Popular has an initial term that ends in 2025. For 2018, we derived approximately 41% of our revenue from such contract, which makes the MSA our most significant client contract. We anticipate that we will enter into a negotiation with Popular prior to the expiration of the initial term of the MSA. We cannot be certain that we will be able to negotiate an extension to the MSA. In addition, even if we are able to negotiate an extension of the MSA, any new master services agreement may be materially different from the existing MSA. Further, the anticipated negotiation of the MSA extension may result in Popular obtaining significant concessions from us with respect to pricing and other key terms, both in respect of the current term and any extension of the MSA, particularly as we approach 2025. See "Item 1A. Risk Factors—Risks Related to Our Business—We expect to continue to derive a significant portion of our revenue from Popular."

2018 Developments

On July 26, 2018, the Company's Board of Directors ("Board") voted to reinstate a quarterly dividend on the Company's common stock, which had been suspended since November of 2017, and declared a regular quarterly cash dividend of \$0.05 per share on the Company's outstanding shares of common stock. The Board also declared a dividend on October 25, 2018. The Board anticipates declaring this dividend in future quarters on a regular basis; however future declarations of dividends are subject to the Board's approval and may be adjusted as business needs or market conditions change.

On November 27, 2018, EVERTEC and EVERTEC Group, entered into a credit agreement setting forth the terms of the senior secured credit facilities, consisting of a \$220.0 million term loan A facility that matures on November 27, 2023, a \$325.0 million term loan B facility that matures on November 27, 2024 and a \$125.0 million revolving credit facility that matures on November 27, 2023, with a syndicate of lenders and Bank of America, N.A., as administrative agent, collateral agent, swingline lender and line of credit issuer. The net proceeds received from this transaction, together with other cash available to EVERTEC Group, were used, among other things, to refinance EVERTEC Group's previous senior secured credit facilities, which consisted of a \$191.4 million term A loan facility and a \$379.0 million term B loan facility.

## 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 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 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 has 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

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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. For the year ended December 31, 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 2019 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 \$3 million to \$5 million for previously disclosed migrations anticipated in 2019. Clients' decision to migrate, which were made prior to 2015, were driven by a variety of historical factors, including primarily a desire to enhance customer service experience. Management believes that these customer decisions are unlikely to change; however, the timing of the migration is subject to change based on each customer's conversion schedule.

#### Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with GAAP. In connection with the preparation of our financial statements, we are required to make estimates and assumptions about future events, and apply judgments that affect the reported amounts of certain assets and liabilities, and in some instances, the reported amounts of revenues and expenses during the period.

We base our assumptions, estimates, and judgments on historical experience, current events and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. However, because future events are inherently uncertain and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material. A summary of significant accounting policies is included in Note 1 of the Notes to Audited Consolidated Financial Statements appearing elsewhere in this Annual Report on Form 10-K. We believe that the following accounting estimates are the most critical; require the most difficult, subjective or complex judgments; and thus result in estimates that are inherently uncertain.

#### Revenue recognition

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

The Company recognizes revenue when (or as) control of goods or services are transferred to a customer. The transfer of control occurs when the customer can direct the use of and receive substantially all the benefits from the transferred good or service. Therefore, revenue is recognized over time (typically for services) or at a point in time (typically for goods).

The assessment of revenue recognition is performed by the Company based on the five-step model established in Topic 606, as follows: Step 1: Identify the contract with customer; Step 2: Identify the performance obligations in the contract; Step 3: Determine the transaction price; Step 4: Allocate the transaction price to the performance obligations in the contract; and Step 5: Recognize revenue when or as the entity satisfies a performance obligation.

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At contract inception, the Company evaluates whether the contract (i) is legally enforceable; (ii) approved by both parties; (iii) properly defines rights and obligations of the parties, including payment terms; (iv) has commercial substance; and (v) collection of substantially all consideration entitled is probable, before proceeding with the assessment of revenue recognition. If any of these requirements is not met, the contract does not exist for purposes of the model and any consideration received is recorded as a liability. A reassessment may be performed in a later date upon change in facts and circumstances. The Company also evaluates within this step if contracts issued within a period of 6 months with the same customer should be accounted for as a single contract. The Company's contracts with customers may be modified through amendments, change requests and waivers. Upon receipt, modifications of contracts with customers are evaluated to determine if must be accounted for: (i) as a separate contract, (ii) a cumulative catch-up, or (iii) as a termination and creation of a new contract. Contract modifications must also comply with the requirements to determine if a contract with a customer exists for accounting purposes.

To identify performance obligations within contracts with customers, the Company first identifies all the promises in the contract (i.e., explicit and implicit). This includes the customer's options to acquire additional goods or services for free or at a discount in exchange for an upfront payment. Then, the Company proceeds to exclude the immaterial promises from the assessment of identifying performance obligations; and to evaluate if customer's options to acquire additional goods or services represent a material right based on corporate's defined thresholds (i.e., equal or lower than 20%), to determine if they must be included in the assessment. The Company may exclude as immaterial promises, the promises with a transaction price equal or lower than 10 percent of the total contract value.

After excluding immaterial promises and options not considered a material right, the Company assesses if each material good or service (or bundle of goods or services) is distinct in nature (i.e., the customer can benefit from the good or service on its own or together with other readily available resources), and is capable of being distinct in the context of the contract (i.e., the promise to transfer the good or service is separately identifiable from other promises in the contract). A distinct good or service (or bundle of goods or services) constitutes a performance obligation. The Company also applies the series guidance to distinct goods or services (either with a specified quantity of goods or services or a stand-ready service), with an over time revenue recognition, to determine whether they should be accounted for as a single performance obligation. These distinct goods or services are recognized as a single performance obligation when their nature and timely increments are substantially the same and have the same pattern of transfer to the customer (i.e., the distinct goods or services within the series use the same method to measure progress towards complete satisfaction). To determine if a performance obligation should be recognized over time, one or more of the following criteria must be met: (1) the customer simultaneously receives and consumes the benefits as the Company performs (i.e., routine or recurring services); (2) the customer controls the asset as the entity creates or enhances it (i.e., asset on customer's site); or (3) the Company's performance does not create an asset for which the Company has an alternative use and there is a right to payment for performance to date (i.e., asset built to order). Performance obligations that do not meet the over time criteria are recognized at a point in time.

In addition, in Step 2 of the model, the Company evaluates whether the practical expedient of right-to-invoice applies. If this practical expedient is applicable, steps 3, 4 and 5 are waived. For this practical expedient to apply, the right to consideration must correspond directly with the value received by the customer for the Company's performance to date, no significant up-front payments or retroactive adjustments must exist, and specified minimums must be deemed non-substantive at the contract level. If the contract with the customer has multiple performance obligations and the

practical expedient of right-to-invoice does not apply, the Company proceeds to determine the transaction price and allocate it on a stand-alone selling price basis among the different performance obligations identified in the Step 2. The Company generally applies the expected cost-plus margin approach to determine the stand-alone selling price at the performance obligation level. In addition, for performance obligations that are satisfied over time and the right to invoice practical expedient is not available, the Company determines a method to measure progress (i.e., input or output method) based on current facts and circumstances. When these performance obligations have variable consideration within its transaction price and are part of a series, the Company allocates the variable consideration to each time increment.

As part of the revenue recognition analysis, when another party is involved in providing goods or services to a customer, the Company evaluates, for each performance obligation, whether is providing the goods or services itself (i.e., as principal), or if it is only arranging on behalf of the other party. The Company acts as principal if it controls the specified good or service before that good or service is transferred to a customer. To determine if the Company acts as an agent, the Company considers indicators, such as: (i) the responsibility to fulfill a promise; (ii) the inventory risk; and (iii) the price determination.

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### Goodwill and other intangible assets

Goodwill represents the excess of the purchase price and related costs over the value assigned to net assets acquired. Goodwill is not amortized, but is tested for impairment at least annually, or more often if events or 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 shall be used to identify goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any). The Company may assess qualitative factors to determine whether it is more likely than not, that is, a likelihood of more than 50 percent that the fair value of the reporting unit is less than its carrying amount, including goodwill. The Company has an unconditional option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the quantitative goodwill impairment test. The Company may resume performing the qualitative assessment in any subsequent period. With the early adoption in December 2017 of the accounting standards update that simplifies the goodwill impairment test, the quantitative goodwill impairment test, used to identify both the existence of impairment and the amount of impairment loss, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the Company determines to perform a quantitative impairment test, a third-party valuator may be engaged to prepare an independent valuation of each reporting unit. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Additionally, the Company shall consider the income tax effect from any tax-deductible goodwill on the carrying amount of the reporting unit, if applicable, when measuring the goodwill impairment loss. For the years ended December 31, 2018, 2017 and 2016, no impairment losses associated with goodwill were recognized.

Other identifiable intangible assets with definitive useful lives are amortized using the straight-line method or accelerated methods. These intangibles are evaluated periodically for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Other identifiable intangible assets with definitive useful lives include customer relationships, trademarks, software packages and a non-compete agreement. Customer relationships were valued using the excess earnings method under the income approach. Trademark assets were valued using the relief-from-royalty method under the income approach. Internally developed software packages, which include capitalized software development costs, are recorded at cost, while software packages acquired as part of a business combination were valued using the relief-from-royalty method under the income approach. The non-compete agreement was valued based on the estimated impact that theoretical competition would have on revenues and expenses.

### Income Tax

Income taxes are accounted for under the asset and liability method. A temporary difference refers to a difference between the tax basis of an asset or liability, determined based on recognition and measurement requirements for tax positions, and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively. Deferred tax assets and liabilities represent the future effects on income taxes that result from temporary differences and carryforwards that exist at the end of a period. Deferred tax assets and liabilities are measured using enacted tax rates and provisions of the enacted tax law and are not discounted to reflect the time-value of money. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of income and comprehensive income in the period that includes the enactment date. A deferred tax valuation allowance is established if it is considered more likely than not that all or a portion of the deferred tax asset will not be realized.

The Company recognizes the benefit of uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement or disposition of the underlying issue with the taxing authority. Accordingly, the amount of benefit recognized in the consolidated financial statements may differ from the amount taken or expected to be taken in the tax return resulting in unrecognized tax benefits (“UTBs”). The Company recognizes the interest and penalties associated with UTBs as part of the provision for income taxes on its consolidated statements of income and comprehensive income. Accrued interest and penalties are included on the related tax liability line in the consolidated balance sheets.

All companies within EVERTEC are legal entities which file separate income tax returns.



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## Recent Accounting Pronouncements

For a description of recent accounting standards, see Note 2 of the Notes to Audited Consolidated Financial Statements included in this Annual Report on Form 10-K.

## Non-GAAP Financial Measures

EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share, as presented in this Annual Report on Form 10-K, are supplemental measures of our performance that are not required by, or presented in accordance with GAAP. They are not measurements of our financial performance under GAAP and should not be considered as alternatives to total revenues, net income or any other performance measures derived in accordance with GAAP or as alternatives to cash flows from operating activities as measures of our liquidity. Adjusted EBITDA at the segment level 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.

For more information regarding EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share, including a quantitative reconciliation of EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share to the most directly comparable GAAP financial performance measure, which is net income, see “—Net Income Reconciliation to EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share” and “—Covenant Compliance” below.

## Results of Operations

(In thousands)	Year ended December 31,			Variance 2018		Variance 2017	
	2018	2017	2016	vs. 2017		vs. 2016	
Revenues	\$453,869	\$407,144	\$389,507	\$46,725	11 %	\$17,637	5 %
Operating costs and expenses							
Cost of revenues, exclusive of depreciation and amortization shown below	196,957	200,650	175,809	(3,693 )	(2 )%	24,841	14 %
Selling, general and administrative expenses	68,717	56,161	46,986	12,556	22 %	9,175	20 %
Depreciation and amortization	63,067	64,250	59,567	(1,183 )	(2 )%	4,683	8 %
Total operating costs and expenses	328,741	321,061	282,362	7,680	2 %	38,699	14 %
Income from operations	\$125,128	\$86,083	\$107,145	\$39,045	45 %	\$(21,062)	(20)%

## Revenues

Total revenues in 2018 increased by \$46.7 million or 11% when compared with the prior year. The increase in revenues is attributable, in part, to the negative impact of the two hurricanes on 2017 results. The increase was driven by increases in ATH debit network transaction volumes and card processing volumes, a full year of revenue generated from the acquisition in the third quarter of 2017 of a business in Latin America, formerly known as PayGroup, increased volumes in our merchant acquiring business and an increase in network revenue.

Total revenues in 2017 increased by \$17.6 million or 5% when compared with the prior year. The increase in revenues was driven by increases in ATH debit network transaction volumes and card processing volumes, revenue generated from the PayGroup acquisition, increased revenue from the acquisition of a printing business in the fourth quarter of 2016 and an increase in core banking revenue. Revenues in 2017 were negatively impacted by the two hurricanes that made landfall in Puerto Rico and the Caribbean in September of 2017.

Cost of revenues

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Cost of revenues in 2018 decreased \$3.7 million or 2% when compared with the prior year. The decrease in cost of revenue is primarily related to the impact in the prior year of charges taken for the exit activity and the impairment loss, described below. These decreases were partially offset by an increase salaries and benefits mainly related to increased headcount in connection with the acquisition of the business formerly known as PayGroup and an increase in cost of sales.

Cost of revenues in 2017 increased \$24.8 million or 14% when compared with the prior year. The increase in cost of revenue is primarily related to \$12.8 million in charges taken in connection with an exit activity for a third party software solution that was no longer commercially viable and a \$5.0 million impairment loss related to a software asset under development. The remaining increase was primarily attributable to the acquisition of the business formerly known as PayGroup.

## Selling, general and administrative

Selling, general and administrative expenses in 2018 increased \$12.6 million or 22% when compared with 2017. The increase is mainly driven by an increase in share based compensation expense, added salaries from the acquisition of the business formerly known as PayGroup, \$3.5 million in expenses incurred in connection with the Company's refinancing of outstanding long-term debt and an increase in professional fees.

Selling, general and administrative expenses in 2017 increased \$9.2 million when compared with 2016. The increase is primarily related to an increase in share based compensation, expenses related to the PayGroup acquisition and an increase in payroll and other taxes in our Latin America operations.

## Depreciation and amortization

Depreciation and amortization expense decreased by \$1.2 million in 2018 compared to 2017 primarily driven by lower amortization from software packages related to software that became fully amortized during the year.

Depreciation and amortization expense increased by \$4.7 million in 2017 compared to 2016 mainly related to an increase in amortization expense related to intangible assets acquired as part of business combinations completed in the prior and current year.

## Non-operating income (expenses)

(In thousands)	Year ended December 31,			Variance 2018 vs. 2017	Variance 2017 vs. 2016
	2018	2017	2016		
Interest income	\$787	\$716	\$377	\$71 10 %	\$339 90 %
Interest expense	(30,044 )	(29,861 )	(24,617 )	(183) 1 %	(5,244) 21 %

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Earnings (losses) of equity method investment	692	604	(52 )	88	15 %	656	(1,262)%
Other income, net	2,602	2,657	544	(55 )	(2 )%	2,113	388 %
Total non-operating expenses	\$(25,963)	\$(25,884)	\$(23,748)	(79 )	— %	(2,136)	9 %

Total non-operating expenses in 2018 remained relatively flat at \$26.0 million when compared to 2017 . Other income, net is comprised of \$2.7 million in foreign currency transaction gains, \$1.8 million from federal relief funds received in connection with wages paid in the aftermath of hurricane Maria, partially offset by a \$2.6 million loss on extinguishment of debt.

Total non-operating expenses in 2017 increased \$2.1 million or 9% when compared to 2016 . Interest expense increased by \$5.2 million primarily as a result of an amendment to the Company's outstanding credit agreement in 2017 which was completed in the fourth quarter of 2016 coupled with an increased LIBOR and increased interest expense from the commencement of the fixed interest rate swap. This increase was partially offset by an increase in foreign exchange gains and an increase in earnings from our equity method investment.

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## Income tax expense

(In thousands)	Year ended December 31,			Variance 2018 vs. 2017	Variance 2017 vs. 2016
	2018	2017	2016		
Income tax expense	\$12,596	\$4,780	\$8,271	7,816 164%	(3,491) (42)%

Income tax expense in 2018 increased by \$7.8 million to \$12.6 million. The effective tax rate in 2018 was approximately 13%. The increase in income tax expense was mainly due to the impact on the prior year of the reversal of a tax liability related to an uncertain tax position for which the statute of limitations expired and an increase in taxable income from our Latin America operations, including the impact of a full year of taxable income from the acquisition of the business formerly known as PayGroup.

Income tax expense in 2017 decreased by \$3.5 million to \$4.8 million. The effective tax rate in 2017 was approximately 8%. The decrease in income tax expense was mainly due to the reversal of a tax liability related to an uncertain tax position for which the statute of limitations expired during the third quarter of 2017.

## 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 EBT (which principally consist of services to the government of Puerto Rico for the delivery of benefits to participants). For ATH debit network and processing services, revenues are primarily driven by the number of transactions processed. Revenues are derived primarily from network fees, transaction switching and processing fees, and the leasing of POS devices. For card issuer processing, revenues are primarily dependent upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed and other processing services. For EBT services, revenues are primarily derived from the number of beneficiaries on file.

The Payment Services - Latin America segment revenues consist of revenues related to providing access to the ATH network and other card networks to financial institutions, including related services such as authorization, processing, management and recording of ATM and POS transactions, and ATM management and monitoring. The segment revenues also include revenues from card processing services (such as credit and debit card processing, authorization

and settlement and fraud monitoring and control to debit or credit issuers), payment processing services (such as payment and billing products for merchants, businesses and financial institutions), as well as, licensed software solutions for risk and fraud management and card payment processing. For ATH debit network and processing services, revenues are primarily driven by the number of transactions processed. Revenues are derived primarily from network fees, transaction switching and processing fees, and the leasing of POS devices. For card issuer processing, revenues are primarily dependent upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed and other processing services.

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

The Business Solutions segment consists of revenues from a full suite of business process management solutions in various product areas such as core bank processing, network 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 areas could neither be concluded as operating segments nor could they be combined with any other operating segments. Therefore, these areas are aggregated and presented as "Corporate and Other" category in the financial statements alongside the operating segments. The Corporate and other category consists of corporate overhead expenses, intersegment eliminations, certain leveraged activities and other non-operating and miscellaneous expenses that are not included in the operating segments. The overhead and leveraged costs relate to activities such as:

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

See Note 23 of the Audited Consolidated Financial Statements appearing elsewhere in this Annual Report on Form 10-K for the reconciliation of EBITDA to consolidated net income.

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

Payment Services - Puerto Rico & Caribbean  
Year ended December 31,

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(In thousands)	2018	2017	2016
Revenues	\$114,119	\$101,687	\$99,680
Adjusted EBITDA	75,104	58,534	63,086

Payment Services - Puerto Rico & Caribbean revenues in 2018 increased \$12.4 million when compared with 2017. The increase in revenues primarily reflects revenue growth over the hurricane impacted results in the prior year, driven mainly by increased volumes. Adjusted EBITDA increased \$16.6 million, primarily as a result of the higher revenue, as well as the impact in the prior year of an impairment charge of a software asset under development.

Payment Services - Puerto Rico & Caribbean revenues in 2017 increased \$2.0 million when compared with 2016. Revenue growth reflected increases in ATH debit network transaction volumes and card processing volumes. Adjusted EBITDA decreased \$4.6 million, mainly a result of the impairment charge taken related to a software asset under development and reduced revenues related to the hurricanes.

Payment Services - Latin America



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	Year ended December 31,		
(In thousands)	2018	2017	2016
Revenues	\$80,899	\$62,702	\$47,162
Adjusted EBITDA	27,727	17,558	15,354

Payment Services - Latin America revenues increased \$18.2 million in 2018 driven by a full year of revenues from the acquisition of the business formerly known as PayGroup coupled with increased revenues from card products. Revenues from this segment also includes intercompany software sale and developments from Payment Services-Latin America to Payment Services- Puerto Rico & Caribbean. Adjusted EBITDA increased \$10.2 million mainly driven by revenue contribution from the acquisition of the business formerly known as PayGroup at a lower margin, as well as, the previously mentioned intercompany software sales and developments.

Payment Services - Latin America revenues in 2017 increased \$15.5 million driven mainly by added revenues from the PayGroup acquisition. Adjusted EBITDA increased \$2.2 million mainly driven by increased transaction growth as well as contribution from our PayGroup acquisition at a lower margin, both of which were partially offset by customer attrition.

## Merchant Acquiring

	Year ended December 31,		
(In thousands)	2018	2017	2016
Revenues	\$99,655	\$85,778	\$91,248
Adjusted EBITDA	46,516	37,497	41,629

Merchant acquiring segment revenue increased \$13.9 million to \$99.7 million in 2018. The primary growth drivers in 2018 were increased volumes favorably impacted by higher spending related to post-hurricane recovery activities. Adjusted EBITDA increased by \$9.0 million mainly due to the factors above described for revenues coupled with a favorable revenue mix that improved margins.

Merchant acquiring segment revenue in 2017 decreased \$5.5 million. Merchant sales volume and revenue were negatively impacted by Hurricanes Irma and Maria in September 2017. The decrease was also impacted by the shift of revenue from Merchant Acquiring related to a client contract change in the second quarter of 2016. Adjusted EBITDA decreased by \$4.1 million mainly due to the factors above described for revenues coupled with a less favorable merchant mix and a lower average ticket, both of which reduced margins.

## Business Solutions

	Year ended December 31,		
(In thousands)	2018	2017	2016
Revenues	\$197,602	\$189,077	\$184,276
Adjusted EBITDA	87,813	86,790	89,239

Business solutions revenue was \$197.6 million in 2018, an increase of \$8.5 million when compared with the prior year, mainly driven by higher revenues from Popular coupled with increased hardware sales and increased revenues from our printing business. Adjusted EBITDA increased by \$1.0 million mainly due to increases in lower margin revenue.

Business solutions revenue in 2017 increased to \$189.1 million primarily reflecting increased revenue from our Accuprint printing business acquisition and an increase in core banking revenue. Adjusted EBITDA decreased to \$86.8 million mainly as a result of higher internal charges related to higher support and maintenance hours for Business Solution applications, primarily for Banco Popular coupled with higher expenses related to infrastructure supporting the Business Solutions segment as we replaced obsolete assets.

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## Liquidity and Capital Resources

## Liquidity

Our principal source of liquidity is cash generated from operations, and our primary liquidity requirements are the funding of capital expenditures and working capital needs. We also have a \$125.0 million revolving credit facility, of which \$97.9 million was available as of December 31, 2018. The Company issues letters of credit against our revolving credit facility which reduce our availability of funds to be drawn.

At December 31, 2018, we had cash and cash equivalents of \$70.0 million, of which \$50.3 million resides in our subsidiaries located outside of Puerto Rico for purposes of (i) funding the respective subsidiary's current business operations and (ii) funding potential future investment outside of Puerto Rico. We intend to indefinitely reinvest these funds outside of Puerto Rico and, based on our liquidity forecast, we will not need to repatriate this cash to fund the Puerto Rico operations or to meet debt-service obligations. However, if in the future we determine that we no longer need to maintain cash balances within our foreign subsidiaries, we may elect to distribute such cash to the Company in Puerto Rico. Distributions from the foreign subsidiaries to Puerto Rico may be subject to tax withholding and other tax consequences. Additionally, our credit agreement imposes certain restrictions on the distribution of dividends from subsidiaries, refer to "Financial Obligations" section for further details.

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

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

## Comparison of the years ended December 31, 2018 and 2017

The following table presents our cash flows from operations for the years ended December 31, 2018 and 2017:

(In thousands)	Years ended December 31,	
	2018	2017
Cash provided by operating activities	\$ 172,734	\$ 145,786
Cash used in investing activities	(41,300 )	(76,268 )
Cash used in financing activities	(105,055 )	(69,183 )
Increase in cash, cash equivalents and restricted cash	\$ 26,379	\$ 335

Net cash provided by operating activities for the year ended December 31, 2018 was \$172.7 million, an increase of \$26.9 million compared with 2017. The increase in cash provided by operating activities was primarily driven by the increase in net income.

Net cash used in investing activities decreased by \$35.0 million to \$41.3 million. The decrease was mainly attributable to the completion in the prior year of the purchase of the business formerly known as PayGroup. Capital expenditures in 2018 amounted to \$41.3 million compared with \$33.5 million in 2017.

Net cash used in financing activities for the year ended December 31, 2018 amounted to \$105.1 million, an increase of \$35.9 million when compared with the prior year. The increase is mainly a result of the repayment of long-term debt concurrent with the issuance of new debt under the 2018 Credit Agreement, which was partially offset by lower dividends paid.

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## Comparison of the years ended December 31, 2017 and 2016

The following table presents our cash flows from operations for the years ended December 31, 2017 and 2016:

(In thousands)	Years ended December 31,	
	2017	2016
Cash provided by operating activities	\$ 145,786	\$ 168,054
Cash used in investing activities	(76,268 )	(57,788 )
Cash used in financing activities	(69,183 )	(90,798 )
Increase in cash, cash equivalents and restricted cash	\$ 335	\$ 19,468

Net cash provided by operating activities for the year ended December 31, 2017 was \$145.8 million, a decrease of \$22.3 million compared with 2016. The decrease in cash provided by operating activities was primarily driven by a decrease in net income.

Net cash used in investing activities increased by \$18.5 million to \$76.3 million. The increase was mainly attributable to the completion of the purchase of PayGroup during the third quarter of 2017.

Net cash used in financing activities for the year ended December 31, 2017 amounted to \$69.2 million, a decrease of \$21.6 million when compared with the prior year. The decrease is driven by less cash used for stock repurchases and dividend payments.

## Capital Resources

Our principal capital expenditures are for hardware and computer software (purchased and internally developed), additions to property and equipment and acquisitions. We invested approximately \$41.3 million, \$33.5 million, and \$42.3 million on capital expenditures for hardware and computer software and property and equipment for the years ended December 31, 2018, 2017 and 2016, respectively. In terms of acquisitions, in 2017, we completed the purchase of PayGroup for \$42.8 million, while in 2016, we completed the purchase of Processa for \$5.9 million and Accuprint for \$9.7 million. Capital expenditures are expected to be funded by cash flow from operations and, if necessary, borrowings under our revolving credit facility.

## Dividend Payments

On July 26, 2018, the Company's Board voted to reinstate a quarterly dividend on the Company's common stock, which had been suspended since November of 2017. Any declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board and will depend on many factors, including our financial condition, earnings, available cash, business opportunities, legal requirements, restrictions in our debt agreements and other contracts, capital requirements, level of indebtedness and other factors that our Board deems relevant. Refer to the table below for details regarding our dividends in 2018 and 2017:

Declaration Date	Record Date	Payment Date	Dividend per share
February 17, 2017	March 1, 2017	March 20, 2017	0.10
April 27, 2017	May 8, 2017	June 9, 2017	0.10
July 25, 2017	August 7, 2017	September 8, 2017	0.10

July 26, 2018	August 6, 2018	September 7, 2018	0.05
October 25, 2018	November 5, 2018	December 7, 2018	0.05

#### Stock Repurchase

During 2018, the Company repurchased 367,403 shares of the Company's common stock at a cost of \$10.0 million. The Company funded such repurchase with cash on hand and borrowings under the existing revolving credit facility.

During 2017, the Company repurchased 465,240 shares of the Company's common stock at a cost of \$7.7 million. The Company funded such repurchase with cash on hand and borrowings under the existing revolving credit facility.

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During 2016, the Company repurchased 2,504,427 shares of the Company's common stock at a cost of \$39.9 million. The Company funded the repurchase with cash on hand and borrowings under the existing revolving credit facility.

Repurchases may be accomplished through open market transactions, privately negotiated transactions, accelerated share repurchase programs and other means.

### Financial Obligations

#### 2018 Senior Secured Credit Facilities

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

#### Scheduled Amortization Payments

The 2023 Term A provides for amortization in the amount of 1.25% of the original principal amount of the 2023 Term A during each of the first twelve quarters starting from the quarter ending March 31, 2019, 1.875% during each of the four subsequent quarters and 2.50% during each of the final three quarters, with the balance payable on the final maturity date.

The 2024 Term B provides for quarterly amortization payments totaling 1.00% per annum of the original principal amount of the 2024 Term B, with the balance payable on the final maturity date.

#### Voluntary Prepayments and Reduction and Termination of Commitments

The terms of the 2018 senior secured credit facilities allow EVERTEC Group to prepay loans and permanently reduce the loan commitments under the senior secured credit facilities at any time, subject to the payment of customary LIBOR breakage costs, if any, provided that, in connection with certain refinancing or repricing of the 2024 Term B on or prior to the date which is six months after the closing date of the 2018 Credit Agreement, a prepayment premium of 1.00% will be required.

Additionally, the terms of the facilities require mandatory repayment of outstanding principal balances based on a percentage of excess cash flow provided that no such prepayment shall be due if the resulting amount of the excess cash flow times the applicable percentage is less than \$10 million.

## Interest

The interest rates under the 2023 Term A and revolving credit facility are based on, at EVERTEC Group's option, (a) adjusted LIBOR plus an interest margin of 2.25% or (b) the greater of (i) Bank of America's "prime rate," (ii) the Federal Funds Effective Rate plus 0.5% and (iii) adjusted LIBOR plus 1.0% ("ABR") plus an interest margin of 1.25%. The interest rates under the 2024 Term B are based on, at EVERTEC Group's option, (a) adjusted LIBOR plus an interest margin of 3.50% or (b) ABR plus an interest margin of 2.50%. The interest margins under the 2023 Term A and Revolving Facility are subject to reduction based on achievement of specified total secured net leverage ratio.

## Guarantees and Collateral

EVERTEC Group's obligations under the senior secured credit facilities and under any cash management, interest rate protection or other hedging arrangements entered into with a lender or any affiliate thereof are guaranteed by EVERTEC and each of EVERTEC's existing wholly-owned subsidiaries (other than EVERTEC Group) and subsequently acquired or organized subsidiaries, subject to certain exceptions.

Subject to certain exceptions, the senior secured credit facilities are secured to the extent legally permissible by substantially all of the assets of (1) EVERTEC, including a perfected pledge of all of the limited liability company interests of EVERTEC Intermediate Holdings, LLC ("Holdings"), (2) Holdings, including a perfected pledge of all of the limited liability company interests of EVERTEC Group and (3) EVERTEC Group and the subsidiary guarantors, including but not limited to: (a) a pledge of substantially all capital stock held by EVERTEC Group or any guarantor and (b) a perfected security interest in substantially all tangible and intangible assets of EVERTEC Group and each guarantor.



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Covenants

The senior secured credit facilities contain affirmative and negative covenants that the Company believes are usual and customary for a senior secured credit agreement. The negative covenants in the senior secured credit facilities include, among other things, limitations (subject to exceptions) on the ability of EVERTEC and its restricted subsidiaries to:

- declare dividends and make other distributions;
- redeem or repurchase capital stock;
- grant liens;
- make loans or investments (including acquisitions);
- merge or enter into acquisitions;
- sell assets;
- enter into any sale or lease-back transactions;
- incur additional indebtedness;
- prepay, redeem or repurchase certain indebtedness;
- modify the terms of certain debt;
- restrict dividends from subsidiaries;
- change the business of EVERTEC or its subsidiaries; and
- enter into transactions with their affiliates.

In addition, the 2023 Term A and the Revolving Credit Facility require EVERTEC to maintain a maximum total secured net leverage ratio of 4.25 to 1.00 for any quarter ending on or prior to September 30, 2020 and for fiscal quarters ending thereafter, 4.00 to 1.00.

Concurrently with the execution of the 2018 Credit Agreement, the Company terminated the 2013 Credit Agreement. The net proceeds received by EVERTEC Group from the senior secured credit facilities under the 2018 Credit Agreement, together with other cash available to EVERTEC Group, were used, among other things, to refinance EVERTEC Group's previous senior secured credit facilities, which consisted of a \$191.4 million 2020 Term A and a \$379.0 million Term B, under the credit agreement, dated as of April 17, 2013 and as subsequently amended, among EVERTEC Intermediate Holdings, LLC, EVERTEC Group, JPMorgan Chase Bank, N.A., as administrative agent, collateral agent, swingline lender and line of credit issuer, and the lenders party thereto. In connection with this transaction the Company recognized a loss on extinguishment of \$2.6 million.

The unpaid principal balance at December 31, 2018 of the 2023 Term A Loan and the 2024 Term B Loan was \$220.0 million, and \$325.0 million, respectively. The additional borrowing capacity for the Revolving Facility loan at December 31, 2018 was \$97.9 million. The Company issues letters of credit against the revolving credit facility which reduce the additional borrowing capacity of the revolving credit facility.

#### Events of Default

The events of default under the senior secured credit facilities include, without limitation, nonpayment, material misrepresentation, breach of covenants, insolvency, bankruptcy, certain judgments, change of control (as defined in the 2018 Credit Agreement) and cross-events of default on material indebtedness.

#### 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 December 31, 2018 and 2017, the outstanding principal balance of the notes payable is \$0.3 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.

#### Interest Rate Swaps

At December 31, 2018, the Company had two interest rate swap agreements, entered into in December 2015 and December 2018, which convert a portion of the interest rate payments on the Company's 2023 Term B Loan from variable to fixed:

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

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

At December 31, 2018 and 2017, the carrying amount of the derivatives on the Company's balance sheets is as follows:

(In thousands)	December 31, 2018	December 31, 2017
Other long-term assets	\$ 1,683	\$ 214
Other long-term liabilities	4,059	—

As of December 31, 2018, the Company recognized gains related to hedging activities on the Statement of Income and Comprehensive Income that offset the Company's interest expense as follows:

(In thousands)	December 31, 2018
Interest expense	\$ 104

During the year ended December 31, 2018, the Company reclassified gains of \$0.1 million from accumulated other comprehensive loss into income through interest expense. Based on current LIBOR rates, the Company expects to reclassify \$1.0 million from accumulated other comprehensive loss into income through interest expense over the next 12 months. Refer to Note 13 for tabular disclosure of the fair value of the derivative and to Note 15 for tabular disclosure of gains (losses) recorded on cash flow hedging activities.

The cash flow hedges are considered highly effective.

#### Covenant Compliance

As of December 31, 2018, the total secured net leverage ratio was 2.30 to 1.00. As of the date of filing of this Form 10-K, no event has occurred that constitutes an Event of Default or Default.

In this Annual Report on Form 10-K, we refer to the term "Adjusted EBITDA" to mean EBITDA as so defined and calculated for purposes of determining compliance with the total secured net leverage ratio based on the financial information for the last twelve months at the end of each quarter.

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

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

We present EBITDA and Adjusted EBITDA because we consider them important supplemental measures of our performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of ourselves and other companies in our industry. In addition, our presentation of Adjusted EBITDA is substantially consistent with the equivalent measurements that are contained in the senior secured credit facilities in testing EVERTEC Group’s compliance with covenants therein such as the total secured net leverage ratio. We use Adjusted Net Income to measure our overall profitability because we believe it 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.

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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:

	Year Ended December 31, 2018
(Dollar amounts in thousands)	
Net income	\$ 86,569
Income tax expense	12,596
Interest expense, net	29,257
Depreciation and amortization	63,067
EBITDA	191,489
Equity income <sup>(1)</sup>	(259 )
Compensation and benefits <sup>(2)</sup>	13,659
Transaction, refinancing and other fees <sup>(3)</sup>	7,570
Adjusted EBITDA	212,459
Operating depreciation and amortization <sup>(4)</sup>	(29,208 )

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Cash interest expense, net <sup>(5)</sup>	(26,103 )
Income tax expense <sup>(6)</sup>	(19,514 )
Non-controlling interest <sup>(7)</sup>	(472 )
Adjusted net income	\$ 137,162
Net income per common share (GAAP):	
Diluted	\$ 1.16
Adjusted Earnings per common share (Non-GAAP):	
Diluted	\$ 1.84
Shares used in computing adjusted earnings per common share:	
Diluted	74,420,110

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

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2) Primarily represents share-based compensation and other compensation expense.

Primarily represents fees and expenses associated with corporate transactions as defined in the 2018 Credit

3) Agreement, recorded as part of selling, general and administrative expense and cost of revenues, as well as relief contributions related to the 2017 hurricanes.

4) 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.

Represents interest expense, less interest income, as they appear on our consolidated statements of income and

5) comprehensive income, adjusted to exclude non-cash amortization of the debt issue costs, premium and accretion of discount.

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

7) Represents the 35% non-controlling equity interest in Evertec Colombia (formerly referred to as Processa), net of amortization for intangibles created as part of the purchase.

## Contractual Obligations

The Company's contractual obligations as of December 31, 2018 are as follows:

(In thousands)	Payment due by periods				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt <sup>(1)</sup>	\$546,499	\$ 14,550	\$49,171	\$482,778	\$ —
Operating leases <sup>(2)</sup>	8,463	6,924	1,539	—	—
Other long-term liabilities	317	136	181	—	—
Total	\$555,279	\$ 21,610	\$ 50,891	\$482,778	\$ —

Long-term debt includes principal balance of \$546.0 million and the payments of cash interest (based on interest rates as of December 31, 2018 for variable rate debt) of the senior secured term loan facilities, as well as

(1) commitments fees related to the unused portion of our senior secured revolving credit facility, as required under the terms of the long-term debt agreements.

(2) Includes certain facilities and equipment under operating leases. See Note 22 of the Notes to Audited Consolidated Financial Statements for additional information regarding operating lease obligations.

## Off Balance Sheet Arrangements

In the ordinary course of business the Company may enter into commercial commitments. As of December 31, 2018, the Company did not have any off balance sheet items.

## Seasonality

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

#### Effect of Inflation

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

#### Item 7A. 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 change in interest rates that will adversely affect the value of our financial assets and liabilities or future cash flows and earnings, and foreign exchange risk that may result in unfavorable foreign currency translation adjustments. Market risk is the potential loss arising from adverse changes in market rates and prices.



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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 December 31, 2018, under the senior secured credit facilities would increase our annual interest expense by approximately \$3.5 million. The impact on future interest expense as a result of future changes in interest rates will depend largely on the gross amount of our borrowings at that time.

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

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

See Note 12 of the Notes to Audited Consolidated Financial Statements appearing elsewhere in this Annual Report on Form 10-K for additional information related to the senior secured credit facilities.

Foreign currency 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 audited consolidated balance sheet, except for highly inflationary environments in which the effects would be included in other operating income in the consolidated statements of income and comprehensive income. At December 31, 2018, the Company had \$21.6 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive loss compared to an unfavorable foreign currency translation adjustment of \$11.1 million at December 31, 2017.

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## Item 8. Financial Statements and Supplementary Data

The Audited Consolidated Financial Statements, together with EVERTEC's independent registered public accounting firms reports, are included herein beginning on page F-1 of this Annual Report on Form 10-K.

## Selected Quarterly Financial Data

(Dollar amounts in thousands, except per share data)	Quarters ended,			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Revenues	\$110,274	\$ 113,347	\$ 112,017	\$ 118,231
Operating costs and expenses	76,719	82,707	79,656	89,659
Income from operations	33,555	30,640	32,361	28,572
Non-operating expenses	(6,506 )	(7,395 )	(5,984 )	(6,078 )
Income before income taxes	27,049	23,245	26,377	22,494
Income tax expense	3,935	3,112	3,302	2,247
Net income	\$23,114	\$ 20,133	\$ 23,075	\$ 20,247
Net income attributable to EVERTEC, Inc.'s common stockholders	\$23,022	\$ 20,052	\$ 22,997	\$ 20,199
Net income per common share - basic	\$0.32	\$ 0.28	\$ 0.32	\$ 0.27
Net income per common share - diluted	\$0.31	\$ 0.27	\$ 0.31	\$ 0.27

(Dollar amounts in thousands, except per share data)	Quarters ended,			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Revenues	\$101,280	\$ 103,511	\$ 102,725	\$ 99,628
Operating costs and expenses	70,688	73,517	93,917	82,939
Income from operations	30,592	29,994	8,808	16,689
Non-operating expenses	(5,434 )	(5,712 )	(7,506 )	(7,232 )
Income before income taxes	25,158	24,282	1,302	