



breaking **new ground**

company profile

EVERTEC, Inc. (NYSE: EVTC) is a leading full service transaction processing company in Puerto Rico, the Caribbean and Latin America focused on simplifying commerce for merchants, financial institutions, government agencies and consumers.

We provide mission critical technology solutions that enable our customers to issue, process and accept transactions securely. We provide these end-to-end transaction-processing solutions across several channels and geographic markets.

With 31 years of experience in the transaction processing industry, we employ over 2,300 professionals, operate in 11 countries and serve customers with diverse businesses across 26 countries.

perfil de la empresa

EVERTEC, Inc. (NYSE: EVTC), es una compañía líder que ofrece servicios de procesamiento de transacciones en Puerto Rico, el Caribe y América Latina enfocada en simplificar el comercio para negocios, instituciones financieras, agencias de gobierno y consumidores.

Ofrecemos soluciones tecnológicas críticas que le permiten a nuestros clientes emitir, procesar y aceptar transacciones de manera segura. Brindamos estas soluciones completas a través de numerosos canales y mercados geográficos.

Con 31 años de experiencia en la industria de procesamiento de transacciones, empleamos más de 2,300 profesionales, operamos en 11 países y servimos a clientes con operaciones diversas en 26 países.

Evertec®, ATH®, ATH Móvil®, ATH Móvil Business® and pvt by Evertec™ are trademarks of Evertec, Inc. or its subsidiaries in the United States of America and/or other countries.



31 years of experience
años de experiencia

2,300 professionals
profesionales

operations in 11 countries
operaciones en países

serving clients in 26 countries
dando servicio en países



breaking new ground



to our valued shareholders

2019 was a year of progress as we continued to execute on our strategic initiatives for long-term growth and shareholder returns with new value-added services, innovative product offerings, and expanded reach through significant new contracts and an acquisition in Latin America. We delivered strong financial results including total revenue and adjusted earnings per share growth of 7%. We are proud of our many accomplishments in 2019 that served to support our growth strategy and allowed us to contribute to the communities in which we operate, but we are only getting started. As we look to 2020 and beyond, we believe Evertec can become the partner of choice for digital payments and transaction processing across Latin America.

Latin American growth

It was a 'break out' year in 2019 as we entered into an agreement with Banco Santander Chile, which allows us to provide merchant processing as they become one of the first organizations to separate from the local payment monopoly, Transbank, and provide merchant acquiring in Chile. Towards the end of the second quarter of 2019, we announced other significant agreements, such as the expansion of our regional collection and payment platform with Citibank as well as a new agreement with Citibanamex in Mexico. In addition, we also completed our acquisition of PlacetoPay, a Colombian based gateway and payment service provider that operates in Colombia and Ecuador. Latin America segment revenues in 2019 grew to \$84.4 million and adjusted EBITDA was \$30.7 million, up from revenue and adjusted EBITDA in 2015 of \$37.5 million and \$11.8 million, respectively. There is significant opportunity for payments technology in Latin America given the low penetration of card volumes as well as a growing middle class. We continue to see positive trends in cash-to-card conversion and an increasing online presence and smart phone usage in Latin America, which should continue to fuel growth of mobile and e-payments. Although many Latin American countries are still dominated by monopolies

a nuestros estimados accionistas

El año 2019 fue uno de progreso a medida que continuamos implementando nuestras iniciativas estratégicas de crecimiento a largo plazo y generando ganancias para nuestros accionistas, con nuevos servicios de valor añadido, ofrecimiento de productos innovadores y un mayor alcance mediante nuevos contratos importantes y una adquisición en América Latina. Hemos logrado excelentes resultados financieros, incluyendo un crecimiento de 7% en ingresos totales y ganancias ajustadas por acción. Estamos orgullosos de nuestros múltiples logros en 2019 que sirvieron para apoyar nuestra estrategia de crecimiento y nos permitieron contribuir a las comunidades que servimos. Pero esto es solo el comienzo. A medida que miramos hacia el 2020 y años futuros, creemos que Evertec puede convertirse en el socio de negocio de preferencia para pagos digitales y procesamiento de transacciones en toda América Latina.

crecimiento en América Latina

El 2019 fue un año de 'romper esquemas', ya que establecimos un acuerdo con Banco Santander Chile que nos permite proporcionar el procesamiento para comercios a medida que se convierten en una de las primeras organizaciones en separarse de Transbank, el monopolio de pagos a nivel local, y facilitar la adquirencia de comerciantes en Chile. A finales de nuestro segundo trimestre de 2019, anunciamos otros acuerdos significativos, tales como la expansión de nuestra plataforma regional de pago y recaudación con Citibank y un contrato nuevo con Citibanamex en México. Además, también completamos nuestra adquisición de PlacetoPay, un proveedor de servicios y pasarela de pagos con sede en Colombia y operaciones en Colombia y Ecuador. Los ingresos del segmento de América Latina en 2019 aumentaron a \$84.4 millones y el EBITDA ajustado fue \$30.7 millones, un aumento en ingresos y EBITDA ajustado del 2015, que fueron \$37.5 millones y \$11.8 millones, respectivamente. Existe una oportunidad significativa para tecnologías de pago en América Latina dada a la baja penetración de volúmenes de uso de tarjetas y el crecimiento de la clase media. Continuamos observando tendencias positivas en la conversión de efectivo a tarjeta y una creciente presencia en línea y uso de teléfonos móviles inteligentes en América Latina, lo cual debería continuar impulsando el crecimiento de los pagos móviles y electrónicos. Aunque varios países en América Latina continúan bajo el dominio de monopolios o duopolios, el 2019 demostró que los cambios en regulaciones, las presiones de la competencia y la evolución de tecnologías para pagos están obligando a que se

2019

or duopolies, as 2019 demonstrated, regulatory changes, the competitive pressures, and the evolving technologies in the payment space are pressuring the environment to change. Through our existing presence, our new partnerships and new acquisition completed in 2019, we believe Evertec is in a strong position to gain from the market opportunity in Latin America and capitalize on this growth engine for years to come.

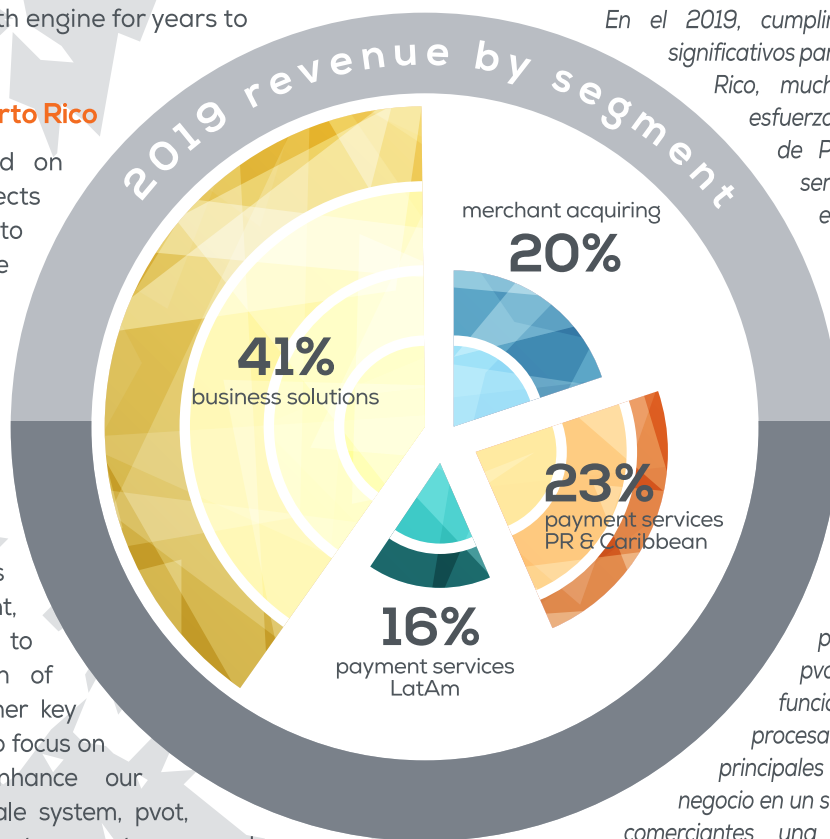
achievements in Puerto Rico

In 2019, we delivered on several significant projects for our clients in Puerto Rico, some of which were multi-year efforts. The government of Puerto Rico uses our services for Electronic Benefit Transfer (EBT) and we implemented a significant upgrade this year. Additionally, we completed several projects for our largest client, Banco Popular, related to their recent acquisition of Reliable, as well as other key systems. We continue to focus on innovation as we enhance our cloud-based point-of-sale system, pvot, that integrates payment acceptance and processing functionalities with key business management tools in a single system, giving merchants an integrated solution to help manage and expand their businesses. We also continue to improve our ATH Móvil and ATH Móvil Business payment applications and expect these solutions will continue to support our growth in 2020 and beyond. We will continue to look for opportunities to leverage our payment and technological capabilities such as the recently launched solution for Medicare benefit providers that allows for distribution of supplemental services to beneficiaries

suscite un cambio en el ambiente. Gracias a nuestra presencia actual y las nuevas alianzas y adquisiciones completadas en el 2019, entendemos que Evertec está en una posición sólida para beneficiarse de las oportunidades del mercado en América Latina y capitalizar de este crecimiento en los años por venir.

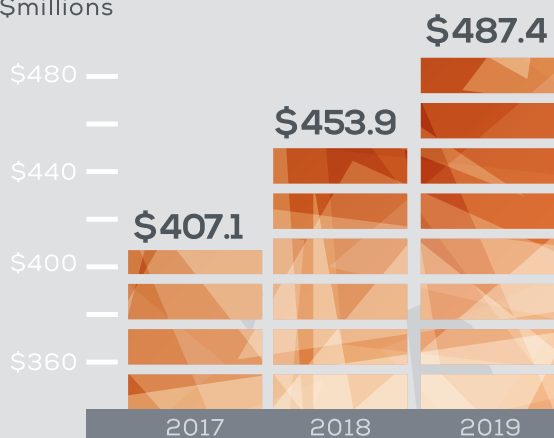
logros en Puerto Rico

En el 2019, cumplimos con varios proyectos significativos para nuestros clientes en Puerto Rico, muchos de los cuales fueron esfuerzos de varios años. El gobierno de Puerto Rico utiliza nuestros servicios de EBT (transferencia electrónica de beneficios) e implementamos una actualización significativa este año. Además, completamos varios proyectos para nuestro cliente más grande, Banco Popular, relacionado a su reciente adquisición de Reliable, al igual que con otros sistemas clave. Continuamos enfocados en la innovación según mejoramos nuestro sistema de punto de ventas en la nube, pvot, el cual integra las funcionalidades de aceptación y procesamiento de pagos con las principales herramientas de manejo de negocio en un solo sistema, brindándole a los comerciantes una solución integrada para ayudarles a administrar y expandir sus negocios. Continuaremos mejorando nuestras aplicaciones de pago ATH Móvil y ATH Móvil Business, y esperamos que estas soluciones continúen sustentando nuestro crecimiento en el 2020 y más allá. Continuaremos con la búsqueda de oportunidades para aprovechar nuestras capacidades tecnológicas y de pago, tal como la solución recién lanzada para proveedores de beneficios de Medicare, que permite la distribución de servicios suplementarios a los beneficiarios mediante una tarjeta de beneficios que pueden usar en los comercios a través de nuestra Red ATH. Este es un servicio nuevo con más de 100,000 tarjetas emitidas al presente.



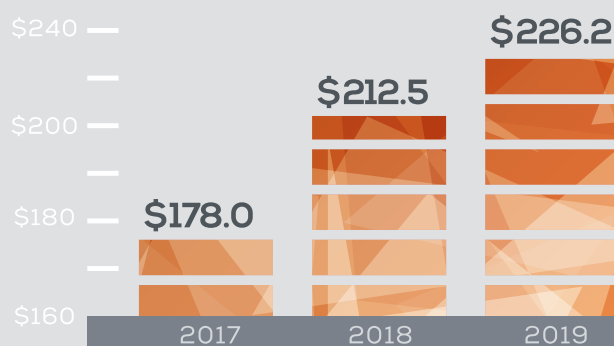
revenue

\$millions



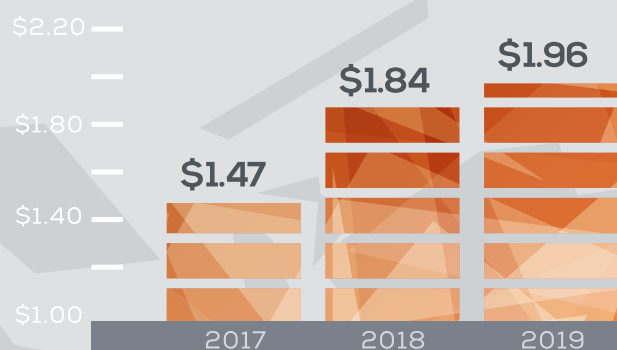
adjusted EBITDA¹

\$millions



¹Adjusted EBITDA and adjusted earnings per share are supplemental measures of the Company's performance and are not required by, or presented in accordance with, accounting principles generally accepted in the United States of America ("GAAP"). These supplemental measures are not measurements of the Company's financial performance under GAAP and should not be considered as alternatives to total revenue, net income or any other performance measures derived in accordance with GAAP or as alternatives to cash flows from operating activities, as an indicator of cash flows or as a measure of the Company's liquidity. In addition to GAAP measures, management uses these non-GAAP measures to focus on the factors the Company believes are pertinent to the daily management of the Company's operations and believe these supplemental measures are frequently used by securities analysts, investors and other interested parties to evaluate companies in the industry. For a reconciliation of adjusted EBITDA and adjusted earnings per share, including a quantitative reconciliation of adjusted net income to the most directly comparable GAAP financial performance measure, refer to the chart shown below.

adjusted earnings per share¹



reconciliation of gaap to non-gaap operating results

(Dollar amounts in thousands, except per share data)

Years ended December 31

¹Represents the elimination of non-cash equity earnings from the Company's 19.99% equity investment in Dominican Republic, Consorcio de Tarjetas Dominicanas, S.A. ("CONTADO"), net of dividends received. ²Primarily represents share-based compensation and severance payments. ³Represents fees and expenses associated with corporate transactions as defined in the Credit Agreement, recorded as part of selling, general and administrative expense and cost of revenues. ⁴Impairment charge and contractual fees accrual for a third party software solution that was determined to be commercially unviable. ⁵Represents operating depreciation and amortization expense, which excludes amounts generated as a result of merger and acquisition activity. ⁶Represents interest expense, less interest income, as they appear on the consolidated statements of income and comprehensive income, adjusted to exclude non-cash amortization of the debt issue costs, premium and accretion of discount. ⁷Represents income tax expense calculated on adjusted pre-tax income using the applicable GAAP tax rate, adjusted for certain discreet items. ⁸Represents the 35% non-controlling equity interest in Evertec Colombia, net of amortization for intangibles created as part of the purchase.

	2017	2018	2019
Net income	\$ 55,419	\$ 86,569	\$ 103,700
Income tax expense (benefit)	4,780	12,596	12,975
Interest expense, net	29,145	29,257	27,594
Depreciation and amortization	64,250	63,067	68,082
EBITDA	153,594	191,489	212,351
Equity (income) ¹	(604)	(259)	(451)
Compensation and benefits ²	9,755	13,659	13,798
Transaction, refinancing and other fees ³	2,500	7,570	498
Exit activity ⁴	12,783	-	-
Adjusted EBITDA	178,028	212,459	226,196
Operating depreciation and amortization ⁵	(30,585)	(29,208)	(34,880)
Cash interest expense, net ⁶	(24,660)	(26,103)	(27,016)
Income tax expense ⁷	(15,100)	(19,514)	(20,239)
Non-controlling interest ⁸	(581)	(472)	(347)
Adjusted Net Income	\$ 107,102	\$ 137,162	\$ 143,714
Net income per common share (GAAP) diluted	\$ 0.76	\$ 1.16	\$ 1.41
Adjusted earnings per common share (Non-GAAP)	\$ 1.47	\$ 1.84	\$ 1.96
Shares used in computing adjusted earnings per common share	72,872,188	74,420,110	73,475,763

through a benefit card they can use at merchants via our ATH network. This is a new service with over 100,000 cards issued to date.

In 2020, we will continue to seek opportunities in Puerto Rico to leverage our technology platforms and operating scale to deliver value-added solutions and excellent service to our customers and partners.

commitment to our community our people and our environment

Evertec views being responsible community members as a multipronged commitment. We are not only dedicated to supporting charities within the communities we operate, but we also want to embrace the most environmentally conscious practices and foster a healthy community within our corporation. For these reasons we are proud of three recent accomplishments that highlight our undertakings as responsible community members: aiding in relief efforts at home and abroad, adopting a new Environmental, Social, and Governance initiative, and again being included in Bloomberg Gender Equality Index.

As in years past, we remain committed to helping communities devastated by natural disasters. In the third quarter, we donated \$100,000 to relief aid to the Bahamas after Hurricane Dorian. We thought it especially important because through our experience with Hurricane Maria, we are uniquely aware of the challenges these communities face and are committed to helping our neighbors with their recovery. Additionally, we donated \$50,000 to the Puerto Rico Earthquake Relief Fund, used to support a host of programs aimed at relief and rebuilding initiatives on the Island. We are also proud of our new environmental, social and governance (ESG) policy and initiative. In 2019, we created an ESG cross-functional group consisting of internal employees and external advisors to identify and evaluate ESG factors that are most relevant to our business, with a focus on our long-term sustainability and financial performance. We are committed to developing strong ESG practices that are essential for generating long-term value for all of our stakeholders. Finally, at Evertec, one of our core commitments is to both diversity and the development of our employees. We were honored again this year to see this commitment acknowledged by our inclusion in

En el 2020, continuaremos buscando oportunidades en Puerto Rico para apalancar nuestras plataformas tecnológicas y escala de operaciones para brindar soluciones de valor añadido y servicios de excelencia a nuestros clientes y socios.

compromiso con nuestra comunidad, nuestra gente y nuestro medioambiente

Evertec considera que ser miembros responsables de la comunidad es un compromiso multidimensional. No solo apoyamos organizaciones benéficas en las comunidades donde operamos, sino que también queremos adoptar las prácticas de mayor conciencia ambiental y fomentar una comunidad saludable dentro de nuestra empresa. Por tales razones, nos sentimos orgullosos de tres logros recientes que destacan nuestro compromiso como miembros responsables de la comunidad: ayudamos en los esfuerzos de recuperación local y en el extranjero; adoptamos una nueva iniciativa ambiental, social y de buena gobernanza; y volvimos a figurar en el Índice de Igualdad de Género de Bloomberg.

Al igual que en años anteriores, permanecemos comprometidos a ayudar a las comunidades devastadas por desastres naturales. En el tercer trimestre, donamos \$100,000 como ayuda de emergencia a las Bahamas luego del paso del huracán Dorian. Consideramos esta ayuda especialmente importante ya que, debido a nuestra experiencia con el huracán María, contamos con un entendimiento excepcional de los retos que estas comunidades enfrentan y nos comprometimos a ayudar a nuestros vecinos con su recuperación. Además, donamos \$50,000 al Puerto Rico Earthquake Relief Fund, el cual se utiliza para apoyar una serie de programas de recuperación e iniciativas de reconstrucción en la Isla. También nos enorgullece nuestra política e iniciativa ambiental, social y de buena gobernanza (ESG, por sus siglas en inglés). En el 2019, creamos un grupo interdisciplinario de ESG, que consiste en empleados internos y asesores externos, para identificar y evaluar los factores ESG más relevantes a nuestro negocio, con un enfoque en la sostenibilidad a largo plazo y rendimiento financiero. Estamos comprometidos a desarrollar buenas prácticas ESG que son esenciales para generar valor a largo plazo para todos nuestros accionistas. Por último, en Evertec, uno de nuestros principales compromisos es tanto con la diversidad como con el desarrollo de nuestros empleados. Nos sentimos honrados de nuevo este año al ver que este compromiso ha sido reconocido mediante nuestra inclusión en el Índice de Igualdad de Género de Bloomberg, el cual destaca las empresas comprometidas con la transparencia en los informes sobre género y la promoción de la igualdad para la mujer.



women leaders at Evertec

mujeres líderes en Evertec

From left to right / De izquierda a derecha: Karla Chamorro, Elena Manrara, Kay L. Sharpton, Alba Campos, Sylvette Ramos, Diana I. Rivera, María Gois, Karla Cruz, Olga Rivera, Odette Rivera, Alexandra López, Andrea Vázquez and Pilar Bazterrica. Sitting in the front / Sentadas al frente: Paola Pérez, Olga Botero and Nydia Torres.

the Bloomberg Gender Equality Index, which distinguishes companies committed to transparency in gender reporting and advancing women's equality.

strong 2019 financial performance

Looking back on 2019, we are pleased to deliver another year of strong financial results. Total revenue was \$487 million, an increase of 7% from 2018. Adjusted EBITDA for the year was \$226 million, representing an increase of 6% year over year and Adjusted EBITDA margin of 46%. Adjusted earnings per diluted share for 2019 was \$1.96, an increase of 7% year-over-year. Our operating cash flow generation was significant at \$180 million, which allowed for continued investment in innovation and our growth strategies and return of capital to our shareholders through share repurchase and dividends of \$46 million. At December 31, 2019, our balance sheet remained strong with \$111 million of unrestricted cash and \$533 million of debt, representing a net debt to trailing twelve month adjusted EBITDA ratio of 2.1-times down from 2.3-times at the end of 2018.

sólidos resultados financieros en 2019

Mirando hacia atrás al año 2019, nos complace presentar otro año de resultados financieros sólidos. El ingreso total fue \$487 millones, un crecimiento de 7% desde el 2018. El EBITDA ajustado para el año fue \$226 millones, lo cual representa un aumento de 6% anual y un margen de EBITDA ajustado de 46%. El ingreso ajustado por acción diluida en 2019 fue \$1.96, un aumento anual de 7%. Nuestra generación de flujo de efectivo operacional fue significativa, con \$180 millones, lo cual permitió una inversión continua en innovación y en nuestras estrategias de crecimiento y la devolución de capital a nuestros accionistas a través de la recompra de acciones y dividendos por \$46 millones. Al 31 de diciembre de 2019, nuestro estado de situación se mantuvo fuerte con \$111 millones en efectivo y \$533 millones en deuda. Esto representa una razón de 2.1 de deuda neta a EBITDA ajustada para los últimos doce meses – una reducción en comparación con la misma razón de 2.3 para finales del 2018.

in conclusion

I am proud of what we accomplished in 2019 and believe our strategy, solutions, service and team of over 2,300 talented employees comprise the foundation for Evertec's long-term success. As we look ahead to 2020, we are confident in our ability to drive innovation and meet the growing market demand for our services in existing and new geographies, all of which will provide us with the ability to deliver profitable growth and return value to our shareholders. On behalf of the Evertec Board of Directors, I would like to thank our clients and shareholders for their ongoing support. I would also like to extend my sincere thanks to our team members who consistently deliver value to our clients.

Sincerely,

en conclusión

Me enorgullece lo que hemos logrado en el 2019 y creo que nuestra estrategia, soluciones, servicio y equipo de más de 2,300 empleados talentosos constituyen la base para el éxito a largo plazo de Evertec. Según miramos hacia el futuro en el 2020, estamos confiados en nuestra capacidad para impulsar la innovación y satisfacer la creciente demanda del mercado por nuestros servicios en regiones geográficas nuevas y existentes. Todo esto nos proporcionará la capacidad de fomentar un crecimiento rentable y poder devolver mayor valor a nuestros accionistas. En nombre de la Junta de Directores de Evertec, quiero agradecer a nuestros clientes y accionistas por su apoyo continuo. También me gustaría expresar mi más sincero agradecimiento a los miembros de nuestro equipo, que constantemente aportan valor a nuestros clientes.

Atentamente,

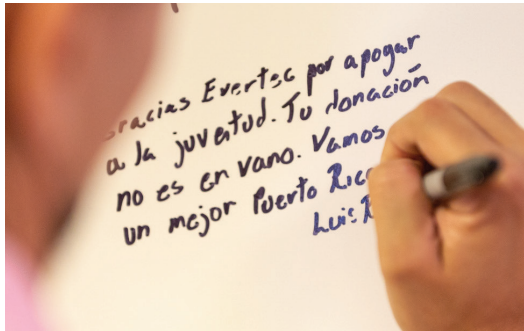


Mac Schuessler

President and Chief Executive Officer
Presidente y Principal Oficial Ejecutivo



social responsibility





environmental, social, governance

Environmental, social and governance (ESG) is woven into our culture and values. We believe it is not only possible but our responsibility to deliver business success while at the same time doing what is best for our employees, customers, communities and the world around us. We are focused on making continuous progress on our ESG priorities, making a real difference and increasing transparency with all stakeholders.

In 2019, we created an ESG cross-functional group consisting of internal employees and external advisors to identify and evaluate ESG factors that are most relevant to our business, with a focus on our long-term sustainability and finance performance. Our framework was informed by the views of our shareholders, ESG reporting frameworks, and other stakeholders. Among the ESG reporting frameworks, we were primarily guided by the Sustainability Accounting Standard Board's (SASB) standards for the Technology & Communications sector.

Our disclosures will evolve over time as our business continues to grow. At Evertec, our board of directors, management and ESG working group are committed to developing strong ESG practices that are essential for generating long-term value for all our stakeholders.

our commitment...

At Evertec, we take our corporate social responsibility (CSR) commitment very seriously. Day after day, we ensure that our operations make a positive contribution to our environment, employees, customers, and the well-being and economic development of our communities.

Evertec's CSR Program has been continuous, advancing hand-in-hand with our company's growth and transformation. In 2019, we focused our efforts under the banner "*Evertec as an enabler of a social impact strategy*" and we further defined our CSR Program pillars, as follows:

- Empowering the **communities** we serve to enable their sustainable development

medio ambiente, social, gobernanza

El medio ambiente, la gestión social y gobernanza (ESG) están entrelazados en nuestros valores y cultura. Creemos que no sólo es posible, sino que también es nuestra responsabilidad lograr el éxito empresarial, al mismo tiempo que hacemos lo mejor para nuestros empleados, clientes, comunidades y el mundo que nos rodea. Estamos enfocados en progresar de forma continua nuestras prioridades de ESG, en hacer una diferencia real y aumentar la transparencia con todas las partes interesadas.

En el 2019, creamos un grupo interdepartamental de ESG compuesto por empleados internos y asesores externos para identificar y evaluar los factores de ESG más relevantes para nuestro negocio, con un enfoque en nuestra sostenibilidad a largo plazo y rendimiento financiero. Nuestra estructura de ESG fue basada en las opiniones de nuestros accionistas, los marcos de información existentes y otras partes interesadas. Analizando las opciones para reportar ESG en el mercado, nos dejamos llevar primordialmente por la guía creada por la Junta de Sostenibilidad de Estándares de Contabilidad (SASB, por sus siglas en inglés), para compañías en el sector de Tecnología y Comunicaciones.

Nuestras divulgaciones evolucionarán con el tiempo a medida que nuestro negocio continúe creciendo. En Evertec, nuestra junta de directores, equipo ejecutivo y el grupo de trabajo de ESG están comprometidos a desarrollar prácticas de ESG de alto calibre esenciales para el valor a largo plazo de todas las partes interesadas.

nuestro compromiso...

En Evertec, tomamos muy en serio nuestra responsabilidad social corporativa (RSC por sus siglas). Por tal razón, día a día, nos mantenemos enfocados en asegurar que nuestras operaciones contribuyan de forma positiva al medio ambiente, empleados, clientes y al bienestar y desarrollo económico de las sociedades en donde operamos.

El desarrollo del Programa de RSC en Evertec ha sido progresivo, avanzando de forma paralela al crecimiento y transformación de nuestra empresa. En el 2019 nos enfocamos como facilitador de una estrategia de impacto social y le dimos mayor definición a nuestros pilares del Programa de RSC resultando en los siguientes:

- Empoderar a las comunidades que servimos para su desarrollo sostenible

- Serving as a driver of **education** to help create a more diverse workforce
- Leveraging technology as the key to **protect the environment**
- **Unlocking the potential of businesses**, an essential element of economic prosperity.

- *Servir como motor para impulsar la educación ayudando a crear una fuerza laboral mas diversa*
- *Apalancarnos de la tecnología como clave para la protección del ambiente*
- *Desatar el potencial de los negocios, pieza clave en el crecimiento económico de un país*

from commitment to practice...

In 2019, we engaged in multiple corporate initiatives, which we have outlined below:

- **Volunteer Day** – Summit event to empower the communities we serve. This event was held in September and yielded great results, such as the participation of 680 volunteers (including employees and their families), who offered a total of 3,640 hours of volunteer service to support 24 non-profit institutions in 10 of the different countries where we operate.
- **Scholarship Program** – As part of our interest to serve as a driving force to promote diversity, inclusivity and an equal opportunity for education, in 2019, we granted 135 scholarships to outstanding students in Chile, Colombia, Costa Rica, Mexico, Puerto Rico, Dominican Republic, and Uruguay, with a total investment of over \$160,000. Additionally, as part of our efforts to foster gender diversity in Puerto Rico, we established a partnership with women leaders in the technology and science industry. We worked with them to create a plan focused on increasing gender diversity by raising the amount of applications from young women to our Scholarship Program in 2020.

del compromiso a la práctica...

En el 2019 realizamos múltiples iniciativas corporativas las cuales resumimos a continuación:

- **Día del Voluntariado** – Evento cumbre asociado a empoderar las comunidades que servimos. Fue realizado en el mes de septiembre y obtuvo muy buenos resultados tales como: la participación de 680 voluntarios -incluyendo empleados y sus familiares - quienes brindaron sobre 3,640 horas de servicio voluntario en apoyo a 24 instituciones sin fines de lucro, establecidas en 10 de los países donde operamos.
- **Programa de Becas** – En nuestro interés de servir como motor para impulsar la educación inclusiva y equitativa en los países donde operamos, en el 2019 otorgamos 135 becas a estudiantes sobresalientes de Chile, Colombia, Costa Rica, México, Puerto Rico, República Dominicana y Uruguay, para una inversión total de sobre \$160,000. Además, como parte de nuestros esfuerzos para fomentar la diversidad de género en Puerto Rico, establecimos una alianza con mujeres líderes en la industria de tecnología y las ciencias. Junto a ellas se estableció un plan de trabajo enfocado en aumentar la diversidad de género aumentando la cantidad de solicitudes hechas por mujeres para nuestro Programa de Becas en el 2020.
- **Revolución Naranja** – Se trata de nuestro programa de voluntariado que responde a nuestro interés de proteger el ambiente. Creado en el 2007, el programa Revolución Naranja está dirigido por



- **Revolución Naranja** – This is our volunteer program that manages our environmental protection initiatives within Evertec. Created in 2007, the Revolución Naranja program is led by volunteer employees in Puerto Rico and Latin America that carry out strategic and educational activities aiming to promote environmental awareness, sustainability and waste reduction. In 2019, we managed not only to grow the team by recruiting more than 100 employees from our offices throughout the Caribbean and Latin American, but also expanded our environmental impact efforts to champion the cause in these locations.
- **Corporate Contributions** – In 2019, our financial contributions in the form of sponsorships and donations exceeded \$800,000. These funds were granted to organizations whose missions are solely focused on the promoting the well-being of our communities, education, the environment, and the arts, among others.

We have invested more than \$3.7 million dollars through sponsorships and donations in partnerships with community-based organization over the last 5 years throughout the region.

initiative for diversity and equal opportunities

At Evertec, we have an explicit commitment to drive equal opportunity in the workplace, which we have put in practice through our initiative for diversity and inclusivity at Evertec. Diversity is a key element and our formula for innovation. As part of this focus, we have managed to establish strategic partnerships with Piloto 151 and its Womentechover series in Puerto Rico, and also with Latinity in Costa Rica.

In addition, our efforts for diversity have led us to receive important awards, such as *Women Who Lead Company*, *20-20 Women on Boards*, and the *Bloomberg Gender-Equality Index*, for which we have been selected for the last two years, distinguishing Evertec for its commitment to transparency in reporting on gender diversity within the organization and promoting women equality.

All these results achieved in 2019 through our Corporate Social Responsibility Program are proof of us living our values and of our continued progress towards creating a better world for future generations. We thank our employees; whose efforts and commendable work are key for all our achievements.

empleados voluntarios en Puerto Rico y América Latina que llevan a cabo actividades estratégicas y educativas con el objetivo de promover la conciencia ambiental, la sostenibilidad y la reducción de desechos. En el 2019, no solo logramos crecer el equipo al reclutar sobre 100 empleados de nuestras oficinas en el Caribe y América Latina, sino que también logramos expandir nuestros esfuerzos de impacto ambiental para liderar la causa en estos países.

- **Contribuciones corporativas** – *En el 2019 nuestra aportación económica sobrepasó los \$800,000 que fueron otorgados a través de auspicios y donativos a organizaciones cuyas misiones están enfocadas en promover el bienestar de nuestras comunidades, la educación, el medio ambiente y las artes, entre otras.*

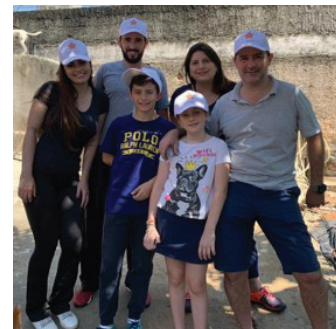
En los últimos 5 años, hemos invertido más de \$ 3.7 millones de dólares a través de auspicios y donativos en alianzas con organizaciones de base comunitarias, en toda la región.

gestión de la diversidad e igualdad de oportunidades

En Evertec, tenemos un compromiso explícito a favor de la igualdad de oportunidades en el área de trabajo y lo hemos puesto en práctica a través de nuestra gestión de diversidad e inclusión. De hecho, la diversidad es un elemento clave y nuestra fórmula de innovación. Como parte de ello, hemos logrado establecer alianzas estratégicas tanto en Puerto Rico con Piloto 151 y su serie Womentechover; como con Latinity en Costa Rica.

Además, nuestros esfuerzos de diversidad nos han llevado a obtener importantes reconocimientos tales como: Women Who Lead Company, 20-20 Women on Boards y el Bloomberg Gender-Equality Index el cual hemos recibido por los últimos dos años y que distingue a Evertec por estar comprometida con la transparencia en los informes sobre diversidad de género y la promoción de la igualdad femenina.

Todos estos resultados obtenidos en el 2019 a través de nuestro Programa de RSC demuestran nuestros valores y nuestro avance continuo de lograr un mundo más próspero para las futuras generaciones. Agradecemos a nuestros empleados cuyo esfuerzo y admirable labor fue clave para todo lo alcanzado.



**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, 2019

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

(Address of principal executive offices)

00926

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

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 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.

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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 \$1,451,933,072 based on the closing price of \$32.70 as of the close of business on June 30, 2019.

As of February 19, 2020, there were 72,000,261 outstanding shares of common stock of EVERTEC, Inc.

Documents Incorporated by Reference:

Specifically identified portions of the Proxy Statement for the 2020 Annual Meeting of Shareholders are incorporated by reference in Part III.

[This page intentionally left blank]

EVERTEC, Inc.
2019 Annual Report on Form 10-K

TABLE OF CONTENTS

	<u>Page</u>
Part I	
Item 1—Business	4
Item 1A—Risk Factors	14
Item 1B—Unresolved Staff Comments	29
Item 2—Properties	29
Item 3—Legal Proceedings	29
Item 4—Mine Safety Disclosures	29
Part II	
Item 5—Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	30
Item 6—Selected Financial Data	32
Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations	33
Item 7A—Quantitative and Qualitative Disclosures About Market Risks	48
Item 8—Financial Statements and Supplementary Data	50
Item 9—Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	50
Item 9A—Controls and Procedures	50
Item 9B—Other Information	51
Part III	
Item 10—Directors, Executive Officers and Corporate Governance	52
Item 11—Executive Compensation	52
Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	52
Item 13—Certain Relationships and Related Transactions and Director Independence	52
Item 14—Principal Accounting Fees and Services	52
Part IV	
Signatures	52

[This page intentionally left blank]

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

- our reliance on our relationship with Popular, Inc. (“Popular”) for a significant portion of our revenues pursuant to our master services agreement with them and to grow our merchant acquiring business;
- as a regulated institution, the likelihood we will be required to obtain regulatory approval before engaging in certain new activities or businesses, whether organically or by acquisition, and our potential inability to obtain such approval on a timely basis or at all, which may make transactions more expensive or impossible to complete, or make us less attractive to potential sellers;
- our ability to renew our client contracts on terms favorable to us, including our contract with Popular, and any significant concessions we may have to grant to Popular with respect to pricing, services or other key terms in anticipation of the negotiation of the terms of the MSA and the services we provide thereunder to Popular, 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 effects of legislative initiatives or proposals, statutory changes, governmental or other applicable regulations or changes in industry requirements, including privacy and cybersecurity laws and regulations;
- 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, political changes and civil unrest;
- 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;
- adverse developments with respect to the payment card industry, including change in use of card as a payment mechanism;
- 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 fails to satisfy its obligations under the agreement;
- uncertainty of the pending debt restructuring process under Title III of the Puerto Rico Oversight, Management and Economic Stability Act (“PROMESA”), as well as actions taken by the Puerto Rico government or by the PROMESA Board to address the Puerto Rico fiscal crisis;
- uncertainty related to Hurricanes Irma and Maria as well as recent earthquakes and other natural disasters and their impact on the economies of Puerto Rico and the Caribbean;
- the possibility of future catastrophic hurricanes and other potential natural disasters affecting Latin America and the Caribbean;
- the nature, timing and amount of any restatement; and
- other risks and uncertainties detailed in Part I, Item 1A “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.

INDUSTRY AND MARKET DATA

This Form 10-K includes industry data that we obtained from periodic industry publications, including the September 2019 Nilson Report and the 2019 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.

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., Caleidon, S.A., Evertec Brasil Solutions Informática Ltda. (formerly known as Paytrue Solutions Informática Ltda.), EVERTEC Panamá, S.A., EVERTEC Costa Rica, S.A. (“EVERTEC CR”), EVERTEC Guatemala, S.A., Evertec Colombia, SAS (formerly known as Processa, SAS), EVERTEC USA, LLC, EGM Ingeniería sin Fronteras, S.A.S. (“PlacetoPay”) 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 September 2019 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 out of 11 offices, including our headquarters 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 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, our largest customer. Popular 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.

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, 2019, ranks 47 by assets among U.S. bank holding companies. As of December 31, 2019, Popular owned approximately 16.2% 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 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 2019 World Payments Report, non-cash payment volumes in Latin America increased to 43.1 billion in 2017 from 39.8 billion in 2016, representing a growth rate of 8%. A growing base of young and Internet-savvy customers and e-commerce growth are defining the Latin America payments landscape with credit card penetration, digital wallets, and other value-added offerings. Debit card transactions in Latin America grew 14% in 2017. Latin American non-cash markets continued to be poised for growth despite recovering economies, as non-cash transactions are expected to grow 6% through 2022. The region's FinTech sector is driving change via new financial inclusion initiatives and mobile payment platforms that are becoming popular alternatives to cash payments. In North America, non-cash payments grew by 5.1% in 2017, are projected to grow 4.7% through 2022 and North America is expected to cede the position as the region with the largest number of non-cash transactions to emerging Asia by 2020. 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 September 2019 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 2.4 billion transactions in 2019. According to management's estimates, ATH branded products are 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 processor 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.

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 94% of our total revenues in 2019. 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 and our Payment Services - Latin America segment, such as IT consulting for a specific project or integration or one-time license sales. 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 \$214 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 card issuing and card acquiring platforms and services, network services, and ATM point-of-sale processing, 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 and 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 good opportunity to penetrate small to medium and some larger financial institutions with our products and services.

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, our physical presence in the region, 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 strategic acquisitions, joint ventures, partnerships, or alliances. 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 September 2019 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 2019, our merchant acquiring business processed over 440 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 payment processing businesses processed approximately 2.0 billion transactions in 2019.

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 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 740,000 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 Fidelity National Information Services, Inc., Fiserv, Inc., 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, debit networks, and financial technology start-ups, including TecnoCom Telecomunicaciones y Energía, S.A., Fidelity National Information Services, Inc., Fiserv, Inc., Total System Services, 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, large technology and consulting companies, and/or financial technology start-ups, 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.

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, 2019, we had approximately 2,300 employees across 11 countries in the United States, Latin America and the Caribbean. In Brazil, we have two unionized employees 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

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 \text{ 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.

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 and Information Security Regulations

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 and information 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 applicable privacy and cybersecurity 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-We are subject to security breaches or other confidential data theft from our systems, which can adversely affect our reputation and business."

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 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. We may also be subject to enforcement actions and as a result may incur losses and liabilities that may impact our business.

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 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 to 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 2019, products and services billed to Popular accounted for approximately 43% 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.

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 2019, we derived approximately 43% of our revenue from such contract, which makes the MSA our most significant client contract. We regularly discuss with Popular the terms of the MSA and the services we provide thereunder to Popular. 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, Popular may require significant concessions from us with respect to pricing, services 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 condition 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.

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, and, if we incur additional amounts of debt, it could exacerbate the risks associated with our substantial indebtedness.

We are highly leveraged. As of December 31, 2019, the total principal amount of our indebtedness was approximately \$530.9 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 suppliers and 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.

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 or more employees cause a significant operational breakdown or failure, either intentionally or as a result of human error. Suppliers and 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.

In December 2019, a strain of coronavirus surfaced in Wuhan, China and resulted in an outbreak with infections throughout China and abroad, which has affected operations and global supply chains. During the first months of 2020, we were notified of potential delays in the delivery of POS devices from suppliers whose operations have been affected by the coronavirus. At this time, the coronavirus has not caused major disruptions to our operations, nor has it affected our employees or client base. However, if the coronavirus outbreak continues to spread and becomes a global pandemic, it may affect our employees, our clients and our suppliers in ways which could materially adversely affect our financial condition or results of operations.

Laws and regulations regarding the handling of personal data and information may impede our services or result in increased costs, legal claims, or fines against us.

Our business relies on the processing of data in multiple jurisdictions and the movement of data across national borders. Legal requirements relating to the collection, storage, handling, use, disclosure, transfer, and security of personal data continues to evolve, and regulatory scrutiny in this area is increasing around the world. Significant uncertainty exists as privacy and data protection laws may differ from country to country and may create inconsistent or conflicting requirements. Our ongoing efforts to comply with privacy, cybersecurity, and data protection laws may entail expenses, may divert resources from other initiatives and projects, and could limit the services we are able to offer. Enforcement actions and investigations by regulatory authorities related to data security incidents and privacy actions or investigations could damage our reputation and impact us through increased costs or restrictions on our business, and noncompliance could result in regulatory penalties and significant legal liability.

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 and further protect against security or privacy breaches. Additionally, while we maintain insurance policies specifically for cyber-attacks, our current insurance 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 throughout the years. Some of our systems have experienced past security breaches and, although they did not have a material adverse effect on our operating results or reputation, there can be no assurance of a similar result in the future. 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, financial condition and reputation. In addition, any breaches of network or data security at our customers, partners or vendors could have similar negative effects.

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.

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.

There may be a change in the use of cards as a payment mechanism or adverse developments with respect to card industry in general.

If the number of electronic and digital payment transactions of the type we process does not continue to grow or if businesses or consumers do not continue to adopt our services, it could have a material adverse effect on the profitability of our business, financial position and results of operations. We believe future growth in the use of credit, debit and other electronic and digital payments will be driven by the cost, ease-to-use, and quality of products and services offered to customers and businesses. In order to consistently increase and maintain our profitability, businesses and consumers must continue to use electronic and digital payment methods that we process, including credit and debit cards.

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.

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.

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, 2019 and 2018, approximately 81% and 79%, 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 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 imposed by PROMESA 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.

Over the past several months, the Oversight Board released and has been working on a restructuring plan intended to reduce Puerto Rico's debt to sustainable levels and provide a path for Puerto Rico to exit the bankruptcy-like protections under PROMESA. This was an important milestone, but the most recent version of the plan is facing legal and political challenges from various sectors. The final plan will require the approval from the judge overseeing the case. At this point, it is uncertain if or when a restructuring plan will get approved or when Puerto Rico will resolve its current debt situation.

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, 2019, we had net receivables of \$8.9 million from Puerto Rico and certain public corporations.

Puerto Rico's economy, including its governmental financial crisis and the continuing effects of Hurricanes Irma and Maria and other natural disasters including recent earthquakes 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 other natural disasters including the recent earthquakes, and their aftermaths, such as 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 fully 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.

As a result of Puerto Rico's governmental financial crisis and the impacts of natural disasters, businesses may be reluctant to establish or expand their operations in Puerto Rico and the Caribbean, or might consider closing operations currently in such locations. The damage resulting from the hurricanes or other natural disasters to the operating conditions of our clients, and insufficient federal recovery and rebuilding assistance may cause lasting and severe damage to the island's economic base. The high cost of electricity, combined with Puerto Rico's high level of debt, may make Puerto Rico a less attractive place to expand existing operations or commence new business activities. In the event that companies in the financial services and related industries decide not to commence new operations or not to expand their existing operations in Puerto Rico, or consider closing operations in Puerto Rico, the demand for our services could be negatively affected.

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 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 financial institutions through the 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 to effectively 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.

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 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, 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 72,000,261 are outstanding as of December 31, 2019. 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.

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.

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 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 \$116.9 million which was available for borrowing under our revolving credit facility as of December 31, 2019, 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 ability 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.

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, 2019, we had \$530.8 million of borrowings under our senior secured credit facilities bearing 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, 2019, 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 14 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.

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

The Company has a history of paying cash dividends. 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 Inc.’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 ⁽¹⁾	Approximate dollar value of shares that may yet be purchased under the program
10/1/2019-10/31/2019	21,720	\$ 30.644	21,720	
11/1/2019-11/30/2019	76,283	30.543	76,283	
12/1/2019-12/31/2019	11,400	30.914	11,400	
Total	109,403	\$ 30.602	109,403	\$ 30,550,139

(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. 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, 2019:

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 ⁽¹⁾	1,592,755	\$0.00	3,380,212
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 stockholders prior to the Company's initial public offering, Apollo and Popular.

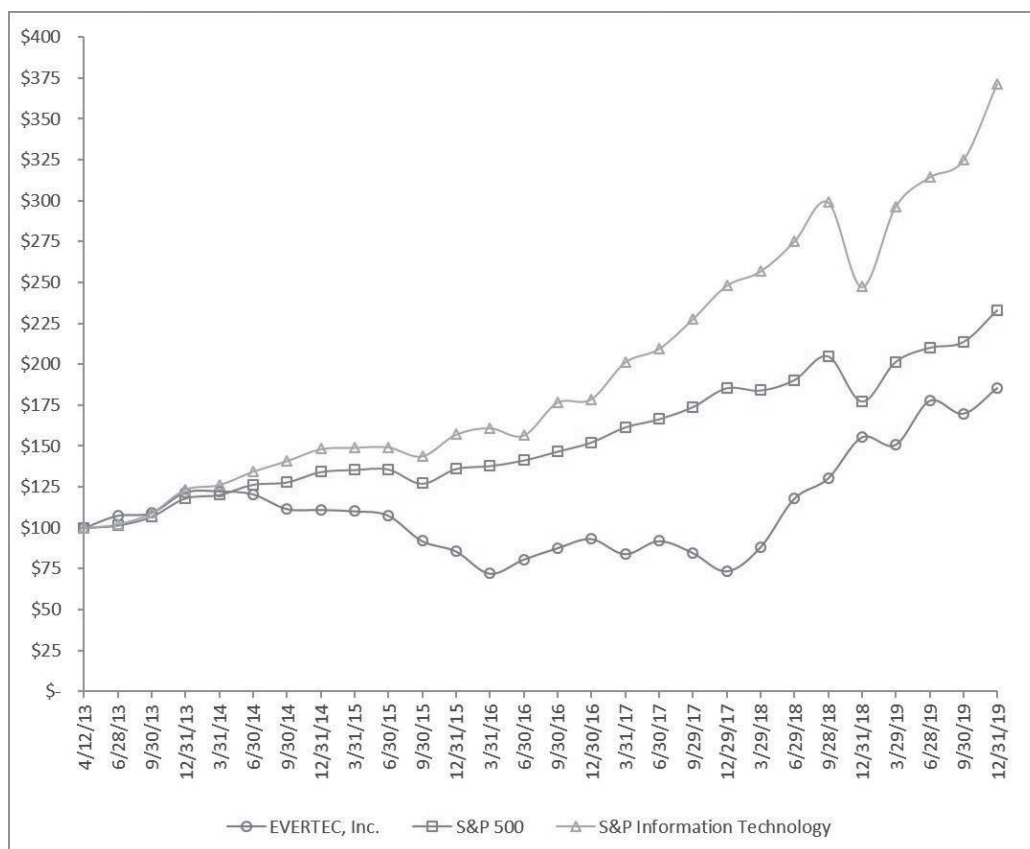
Stock Performance Graph

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, 2019 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 eighty-one months cumulative total return of EVERTEC Inc.



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, 2019, 2018, 2017, 2016 and 2015 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.

	Year ended December 31,				
<i>(Dollar amounts in thousands, except per share data)</i>	2019	2018	2017	2016	2015
Statements of Income Data:					
Revenues	\$ 487,374	\$ 453,869	\$ 407,144	\$ 389,507	\$ 373,528
Operating costs and expenses					
Cost of revenues, exclusive of depreciation and amortization shown below	213,379	196,957	200,650	175,809	167,916
Selling, general and administrative expenses	61,411	68,717	56,161	46,986	37,278
Depreciation and amortization	68,082	63,067	64,250	59,567	64,974
Total operating costs and expenses	342,872	328,741	321,061	282,362	270,168
Income from operations	144,502	125,128	86,083	107,145	103,360
Interest income	1,217	787	716	377	495
Interest expense	(28,811)	(30,044)	(29,861)	(24,617)	(24,266)
Earnings (losses) of equity method investment	936	692	604	(52)	147
Other (expenses) income	(1,169)	2,602	2,657	544	2,306
Income before income taxes	116,675	99,165	60,199	83,397	82,042
Income tax expense (benefit)	12,975	12,596	4,780	8,271	(3,335)
Net income	103,700	86,569	55,419	75,126	85,377
Less: Net income attributable to non-controlling interest	231	299	365	90	—
Net income attributable to EVERTEC, Inc.’s common stockholders	\$ 103,469	\$ 86,270	\$ 55,054	\$ 75,036	\$ 85,377
Net income per common share—basic	\$ 1.44	\$ 1.19	\$ 0.76	\$ 1.01	\$ 1.11
Net income per common share—diluted	\$ 1.41	\$ 1.16	\$ 0.76	\$ 1.01	\$ 1.11

	December 31,				
	2019	2018	2017	2016	2015
Balance Sheet Data:					
Cash and cash equivalents	\$111,030	\$69,973	\$50,423	\$51,920	\$28,747
Total assets	1,011,676	927,292	902,788	885,662	863,654
Total long-term liabilities	595,739	574,981	607,596	648,324	662,939
Total debt	527,603	538,606	616,740	650,759	662,699
Total equity	271,623	215,606	147,976	108,175	98,214

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, 2019, 2018 and 2017 and (ii) the financial condition as of December 31, 2019 and 2018. 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 September 2019 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 out of 11 offices, including our headquarters 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.

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, 2019, Popular retained a 16.2% interest in EVERTEC.

Our MSA with Popular has an initial term that ends in 2025. For 2019, we derived approximately 43% 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."

2019 Developments

The Company's Board of Directors approved regular quarterly dividends of \$0.05 per common share in February, April, July and October of 2019. The Board anticipates declaring this dividend in future quarters on a regular basis; however future declarations of dividends are subject to the Board's approval and may be adjusted as business needs or market conditions change.

On December 2, 2019, the Company completed the acquisition of 100% of the shares of capital stock of EGM Ingeniería Sin Fronteras, S.A.S., commercially known as PlacetoPay. PlacetoPay is a gateway and payment service provider based in Medellin, Colombia.

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 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.

Over the past several months, the Oversight Board released and has been working on a restructuring plan intended to reduce Puerto Rico's debt to sustainable levels and provide a path for Puerto Rico to exit the bankruptcy-like protections under PROMESA. This was an important milestone, but the most recent version of the plan is facing legal and political challenges from various sectors. The final plan will require the approval from the judge overseeing the case. At this point, it is uncertain if or when a restructuring plan will get approved or when Puerto Rico will resolve its current debt situation.

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.

The hurricanes that impacted Puerto Rico in 2017 led to an influx of funds for recovery efforts, primarily from private insurance companies and federal agencies and programs, that impacted the economy through 2018 and 2019. These funds have had a positive impact on Puerto Rico's economy and our business. Post hurricane recovery expectations by the local government and the Oversight Board consider a significant amount of disaster recovery funding that will impact the island and the economy over the next years. However, the actual amounts to be deployed, the timing in which they will become available and the impact to the Puerto Rico economy remain unclear. We will continue to monitor progress on these funds but remain cautious as to the amount and impact they will have in our business.

In addition to the macroeconomic trends described above, management currently estimates that we will continue to experience revenue attrition in Latin America of approximately \$3 million to \$5 million for previously disclosed migrations anticipated in 2020. 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 Policies

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 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.

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 these 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. The Company then 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 it 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.

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 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, 2019, 2018 and 2017, 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.

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

	Year ended December 31,			Variance 2019 vs. 2018		Variance 2018 vs. 2017	
	2019	2018	2017				
<i>(In thousands)</i>							
Revenues	<u>\$487,374</u>	<u>\$453,869</u>	<u>\$407,144</u>	\$ 33,505	7 %	\$ 46,725	11 %
Operating costs and expenses							
Cost of revenues, exclusive of depreciation and amortization shown below	213,379	196,957	200,650	16,422	8 %	(3,693)	(2)%
Selling, general and administrative expenses	61,411	68,717	56,161	(7,306)	(11)%	12,556	22 %
Depreciation and amortization	68,082	63,067	64,250	5,015	8 %	(1,183)	(2)%
Total operating costs and expenses	<u>342,872</u>	<u>328,741</u>	<u>321,061</u>	14,131	4 %	7,680	2 %
Income from operations	<u>\$144,502</u>	<u>\$125,128</u>	<u>\$ 86,083</u>	\$ 19,374	15 %	\$ 39,045	45 %

Revenues

Total revenues in 2019 increased by \$33.5 million or 7% when compared with the prior year. The increase in revenues primarily reflects growth driven in ATH debit network transaction volumes, value added solutions, new managed services, pricing actions, as well as a one-time revenue related to an electronic benefits services contract of approximately \$2.7 million and other completed projects.

Cost of revenues

Cost of revenues in 2019 increased \$16.4 million or 8% when compared with the prior year. The increase is primarily related to an increase in professional fees driven by higher programming services, an increase in equipment expenses, cloud related expenses, and an increase in cost of sales associated with new managed services, and hardware and software sales.

Selling, general and administrative

Selling, general and administrative expenses in 2019 decreased \$7.3 million or 11% when compared with 2018. The decrease is mainly driven by lower professional services as the prior year included fees in connection with due diligence for a potential transaction that the Company decided not to pursue, expenses incurred in the prior year in connection with the Company's debt refinancing that did not recur, a decrease in equipment expenses and a decrease in other operating taxes.

Depreciation and amortization

Depreciation and amortization expense increased by \$5.0 million in 2019 compared to 2018. The increase is related to higher depreciation and amortization mainly driven by purchases of data processing equipment and development projects going into production.

Non-operating income (expenses)

(In thousands)	Year ended December 31,			Variance 2019 vs. 2018	Variance 2018 vs. 2017		
	2019	2018	2017				
Interest income	\$ 1,217	\$ 787	\$ 716	\$ 430	55 %	\$ 71	10 %
Interest expense	(28,811)	(30,044)	(29,861)	1,233	(4)%	(183)	1 %
Earnings of equity method investment	936	692	604	244	35 %	88	15 %
Other (expenses) income	(1,169)	2,602	2,657	(3,771)	(145)%	(55)	(2)%
Total non-operating expenses	<u>\$ (27,827)</u>	<u>\$ (25,963)</u>	<u>\$ (25,884)</u>	\$ (1,864)	7 %	\$ (79)	— %

Total non-operating expenses in 2019 increased by \$1.9 million or 7% to \$27.8 million when compared to 2018. The increase is mainly driven by higher Other (expenses) income by \$3.8 million, mainly due to increased foreign exchange losses, partially offset by a decrease in interest expense resulting from improved rates from the debt refinancing completed in the fourth quarter of the prior year.

Income tax expense

(In thousands)	Year ended December 31,			Variance 2019 vs. 2018	Variance 2018 vs. 2017		
	2019	2018	2017				
Income tax expense	<u>\$ 12,975</u>	<u>\$ 12,596</u>	<u>\$ 4,780</u>	\$ 379	3%	\$ 7,816	164%

Income tax expense in 2019 increased by \$0.4 million to \$13.0 million. The effective tax rate for the period was 11% compared with 13% in the prior year. The decrease in the effective tax rate is mainly the result of tax deductions related to equity compensation and the impact from additional deductions related to withholdings.

Segment Results of Operations

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

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

The Payment Services - Latin America segment revenues consist of revenues related to providing access to the ATH network of ATMs 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 network and processing services, revenues are primarily driven by the number of transactions processed. Revenues are derived primarily from network fees, transaction switching and processing fees, and the leasing of POS devices. For card issuer processing, revenues are primarily dependent upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed, and other processing services.

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

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

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

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

<i>(In thousands)</i>	Year ended December 31,		
	2019	2018	2017
Revenues	\$125,544	\$114,119	\$101,687
Adjusted EBITDA	78,609	75,104	58,534
Adjusted EBITDA margin	62.6%	65.8%	57.6%

Payment Services - Puerto Rico & Caribbean revenues in 2019 increased \$11.4 million when compared with 2018. The increase in revenues was primarily driven by higher transaction volumes, new transaction fees, as well as \$2.7 million one-time revenue from the electronic benefits contract. Adjusted EBITDA increased by \$3.5 million mainly as a result of the increase in revenues, partially offset by higher operating expenses for specific projects that went into production throughout the year.

Payment Services - Latin America

<i>(In thousands)</i>	Year ended December 31,		
	2019	2018	2017
Revenues	\$84,453	\$80,899	\$62,702
Adjusted EBITDA	30,679	27,727	17,558
Adjusted EBITDA margin	36.3%	34.3%	28.0%

Payment Services - Latin America revenues increased \$3.6 million in 2019 driven mainly by higher intercompany software sales and development revenues from the Payment Services - Latin America segment to the Payment Services - Puerto Rico & Caribbean segment, partially offset by anticipated client attrition. Adjusted EBITDA increased \$3.0 million when compared to the prior year period, primarily due to the revenue associated to intercompany services and sales, partially offset by the impact of foreign exchange losses.

Merchant Acquiring

<i>(In thousands)</i>	Year ended December 31,		
	2019	2018	2017
Revenues	\$106,388	\$99,655	\$85,778
Adjusted EBITDA	47,156	46,516	37,497
Adjusted EBITDA margin	44.3%	46.7%	43.7%

Merchant acquiring segment revenue increased \$6.7 million to \$106.4 million in 2019 driven primarily by higher sales volume, as well as pricing actions impacting both spread and non-transactional revenue. Adjusted EBITDA increased by \$0.6 million as a result of the increased revenues, partially offset by higher internal processing costs resulting from a declining average ticket.

Business Solutions

<i>(In thousands)</i>	Year ended December 31,		
	2019	2018	2017
Revenues	\$216,662	\$197,602	\$189,077
Adjusted EBITDA	97,421	87,813	86,790
Adjusted EBITDA margin	45.0%	44.4%	45.9%

Business solutions revenue was \$216.7 million in 2019, an increase of \$19.1 million when compared with the prior year. Revenue growth in the segment was driven by increased volumes and new services to Popular and the Government of Puerto Rico, in addition to increases in hardware and software sales completed during the year. Adjusted EBITDA increased by \$9.6

million when compared with the prior year as a result of the higher revenues, partially offset by an increase in operating expenses, including increased cost of sales.

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 \$116.9 million was available as of December 31, 2019. The Company issues letters of credit against our revolving credit facility which reduce our availability of funds to be drawn.

At December 31, 2019, we had cash and cash equivalents of \$111.0 million, of which \$57.8 million resides in our subsidiaries located outside of Puerto Rico for purposes of (i) funding the respective subsidiary's current business operations and (ii) funding potential future investment outside of Puerto Rico. We intend to indefinitely reinvest these funds outside of Puerto Rico, and based on our liquidity forecast, we will not need to repatriate this cash to fund the Puerto Rico operations or to meet debt-service obligations. However, if in the future we determine that we no longer need to maintain cash balances within our foreign subsidiaries, we may elect to distribute such cash to the Company in Puerto Rico. Distributions from the foreign subsidiaries to Puerto Rico may be subject to tax withholding and other tax consequences. Additionally, our credit agreement imposes certain restrictions on the distribution of dividends from subsidiaries.

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

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

Comparison of the years ended December 31, 2019 and 2018

The following table presents our cash flows from operations for the years ended December 31, 2019 and 2018:

<i>(In thousands)</i>	Years ended December 31,	
	2019	2018
Cash provided by operating activities	\$ 179,949	\$ 172,734
Cash used in investing activities	(65,347)	(41,300)
Cash used in financing activities	(70,227)	(105,055)
Increase in cash, cash equivalents and restricted cash	\$ 44,375	\$ 26,379

Net cash provided by operating activities for the year ended December 31, 2019 was \$179.9 million, an increase of \$7.2 million compared with 2018. The increase in cash provided by operating activities was primarily driven by the increase in net income coupled with more cash received from accounts receivable, partially offset by cash used to pay down accounts payable and accrued liabilities.

Net cash used in investing activities increased by \$24.0 million to \$65.3 million. The increase is mainly related to increased capital expenditures of \$18.6 million. In 2019, capital expenditures amounted to \$59.9 million, compared with \$41.3 million in 2018. In addition, in the fourth quarter of 2019, the Company used \$5.6 million in the acquisition of PlacetoPay, net of cash received.

Net cash used in financing activities for the year ended December 31, 2019 amounted to \$70.2 million, a decrease of \$34.8 million when compared with the prior year. The decrease is mainly a result of the prior year repayment of long-term debt concurrent with the issuance of new debt under the 2018 Credit Agreement. The decrease was partially offset by more cash

used for repurchases of common stock of \$21.8 million, for cash dividends of \$7.1 million and for withholding taxes on restricted stock compensation of \$6.7 million, all when compared with amounts incurred in the prior year.

Capital Resources

Our principal use of capital resources include capital expenditures such as hardware and computer software (purchased and internally developed), additions to property and equipment and acquisitions. We invested approximately \$59.9 million, \$41.3 million, and \$33.5 million on capital expenditures for hardware and computer software and property and equipment for the years ended December 31, 2019, 2018 and 2017, respectively. In terms of acquisitions, in 2019, we completed the purchase of PlacetoPay for \$6.3 million, while in 2017, we completed the purchase of EVERTEC Chile for \$42.8 million. Capital expenditures are expected to be funded by cash flow from operations and, if necessary, borrowings under our revolving credit facility.

Dividend Payments

The Company pays a regular quarterly dividend on common stock, subject to the declaration thereof by our Board each quarter. 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 2019 and 2018:

Declaration Date	Record Date	Payment Date	Dividend per share
July 26, 2018	August 6, 2018	September 7, 2018	\$ 0.05
October 25, 2018	November 5, 2018	December 7, 2018	0.05
February 15, 2019	February 26, 2019	March 22, 2019	0.05
April 25, 2019	May 6, 2019	June 7, 2019	0.05
July 25, 2019	August 5, 2019	September 6, 2019	0.05
October 23, 2019	November 4, 2019	December 6, 2019	0.05

Stock Repurchase

During 2019, the Company repurchased 1,104,389 shares of the Company's common stock at a cost of \$31.8 million. The Company funded such repurchase with cash on hand and borrowings under the existing revolving credit facility.

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.

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

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 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 existing senior secured credit facilities. 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 L/C 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, 2019 of the 2023 Term A Loan and the 2024 Term B Loan was \$209.0 million, and \$321.8 million, respectively. The additional borrowing capacity for the Revolving Facility loan at December 31, 2019 was \$116.9 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 to purchase software. As of December 31, 2019 and December 31, 2018, the outstanding principal balance of the note payable was \$0.2 million and \$0.3 million, respectively. The current portion of this note is recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

In December 2019, EVERTEC Group entered into two non-interest bearing financing agreements amounting to \$2.4 million to purchase software and maintenance. As of December 31, 2019, the outstanding principal balance of the notes payable was \$2.4 million, recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

Interest Rate Swaps

At December 31, 2019, 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:

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

<i>(In thousands)</i>	December 31, 2019	December 31, 2018
Other long-term assets	\$ —	\$ 1,683
Other long-term liabilities	14,452	4,059

For the year ended December 31, 2019, 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:

<i>(In thousands)</i>	December 31, 2019
Interest expense	\$ 677

During the year ended December 31, 2019, the Company reclassified gains of \$0.7 million from accumulated other comprehensive loss into income through interest expense. Based on current LIBOR rates, the Company expects to reclassify losses of \$2.2 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, 2019, the total secured net leverage ratio was 2.07 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.

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:

	<u>Year Ended December 31, 2019</u>
<i>(Dollar amounts in thousands)</i>	
Net income	\$ 103,700
Income tax expense	12,975
Interest expense, net	27,594
Depreciation and amortization	68,082
EBITDA	<u>212,351</u>
Equity income ⁽¹⁾	(451)
Compensation and benefits ⁽²⁾	13,798
Transaction, refinancing and other fees ⁽³⁾	498
Adjusted EBITDA	<u>226,196</u>
Operating depreciation and amortization ⁽⁴⁾	(34,880)
Cash interest expense, net ⁽⁵⁾	(27,016)
Income tax expense ⁽⁶⁾	(20,239)
Non-controlling interest ⁽⁷⁾	(347)
Adjusted net income	<u>\$ 143,714</u>
Net income per common share (GAAP):	
Diluted	\$ 1.41
Adjusted Earnings per common share (Non-GAAP):	
Diluted	\$ 1.96
Shares used in computing adjusted earnings per common share:	
Diluted	73,475,763

- 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.
- 2) Primarily represents share-based compensation and severance payments.
- 3) Represents fees and expenses associated with corporate transactions as defined in the Credit Agreement, recorded as part of selling, general and administrative expenses and cost of revenues.
- 4) Represents operating depreciation and amortization expense, which excludes amounts generated as a result of the Merger and from purchase accounting intangibles generated from acquisitions.
- 5) Represents interest expense, less interest income, as they appear on our consolidated statements of income and comprehensive income, adjusted to exclude non-cash amortization of the debt issue costs, premium and accretion of discount.
- 6) Represents income tax expense calculated on adjusted pre-tax income using the applicable GAAP tax rate, adjusted for certain discreet items.
- 7) Represents the 35% non-controlling equity interest in Evertec Colombia, net of amortization for intangibles created as part of the purchase.

Contractual Obligations

The Company's contractual obligations as of December 31, 2019 are as follows:

<i>(In thousands)</i>	Payment due by periods				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt ⁽¹⁾	\$ 642,869	\$ 39,728	\$ 279,355	\$ 323,786	\$ —
Operating leases ⁽²⁾	34,669	6,574	16,803	8,927	2,365
Other long-term liabilities	2,622	1,061	1,561	—	—
Total	<u>\$ 680,160</u>	<u>\$ 47,363</u>	<u>\$ 297,719</u>	<u>\$ 332,713</u>	<u>\$ 2,365</u>

- (1) Long-term debt includes principal balance of \$530.8 million and the payments of cash interest (based on interest rates as of December 31, 2019 for variable rate debt) of the senior secured term loan facilities, as well as 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. With the exception of the letters of credit issued against the Revolving Facility which reduce the additional borrowing capacity of the Revolving Facility, as of December 31, 2019, the Company did not have any off balance sheet items.

Seasonality

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

Effect of Inflation

While inflationary increases in certain input costs, such as occupancy, labor and benefits, and general administrative costs, have an impact on our operating results, inflation has had minimal net 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.

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, 2019, under the senior secured credit facilities would increase our annual interest expense by approximately \$3.3 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, 2019, the Company had \$16.9 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive loss compared to an unfavorable foreign currency translation adjustment of \$21.6 million at December 31, 2018.

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

<i>(Dollar amounts in thousands, except per share data)</i>	Quarters ended,			
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Revenues	\$ 118,836	\$ 122,548	\$ 118,804	\$ 127,186
Operating costs and expenses	81,431	84,860	84,002	92,579
Income from operations	37,405	37,688	34,802	34,607
Non-operating expenses	(6,862)	(8,062)	(6,296)	(6,607)
Income before income taxes	30,543	29,626	28,506	28,000
Income tax expense	3,809	2,489	3,720	2,957
Net income	\$ 26,734	\$ 27,137	\$ 24,786	\$ 25,043
Net income attributable to EVERTEC, Inc.'s common stockholders	\$ 26,644	\$ 27,058	\$ 24,754	\$ 25,013
Net income per common share - basic	\$ 0.37	\$ 0.38	\$ 0.34	\$ 0.35
Net income per common share - diluted	\$ 0.36	\$ 0.37	\$ 0.34	\$ 0.34

<i>(Dollar amounts in thousands, except per share data)</i>	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

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of our Chief Executive Officer and Chief Financial Officer and effected by the Company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the firm; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the firm's assets that could have a material effect on our financial statements.

The Company's management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria established in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2019 was effective.

Deloitte & Touche, LLP, an independent registered public accounting firm, has audited the consolidated financial statements as of and for the year ended December 31, 2019, included in this Form 10-K and, as part of the audit, has issued a report, included as part of Item 8 of this Form 10-K, on the effectiveness of our internal control over financial reporting as of December 31, 2019.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 will be included in EVERTEC's proxy statement, to be filed pursuant to Regulation 14 A within 120 days after the end of the 2019 fiscal year, and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by Item 11 will be included in EVERTEC's proxy statement, to be filed pursuant to Regulation 14 A within 120 days after the end of the 2019 fiscal year, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 will be included in EVERTEC's proxy statement, to be filed pursuant to Regulation 14 A within 120 days after the end of the 2019 fiscal year, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Party Transactions and Director Independence

The information required by Item 13 will be included in EVERTEC's proxy statement, to be filed pursuant to Regulation 14 A within 120 days after the end of the 2019 fiscal year, and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 will be included in EVERTEC's proxy statement, to be filed pursuant to Regulation 14 A within 120 days after the end of the 2019 fiscal year, and is incorporated herein by reference.

Part IV SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized,

EVERTEC, Inc.

Date: February 27, 2020

By: /s/ Morgan M. Schuessler, Jr.
Morgan M. Schuessler, Jr.
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Morgan M. Schuessler, Jr.</u> Morgan M. Schuessler, Jr.	Chief Executive Officer (Principal Executive Officer)	February 27, 2020
<u>/s/ Joaquin A. Castrillo-Salgado</u> Joaquin A. Castrillo-Salgado	Chief Financial Officer (Principal Financial and Accounting Officer)	February 27, 2020
<u>/s/ Frank G. D'Angelo</u> Frank G. D'Angelo	Chairman of the Board	February 27, 2020
<u>/s/ Iván Pagán</u> Iván Pagán	Director	February 27, 2020
<u>/s/ Alan H. Schumacher</u> Alan H. Schumacher	Director	February 27, 2020
<u>/s/ Thomas W. Swidarski</u> Thomas W. Swidarski	Director	February 27, 2020
<u>/s/ Jorge A. Junquera</u> Jorge A. Junquera	Director	February 27, 2020
<u>/s/ Aldo Polak</u> Aldo Polak	Director	February 27, 2020
<u>/s/ Olga M. Botero</u> Olga M. Botero	Director	February 27, 2020
<u>/s/ Brian J. Smith</u> Brian J. Smith	Director	February 27, 2020

[This page intentionally left blank]

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Audited Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firm	F - 2
Consolidated Balance Sheets as of December 31, 2019 and 2018	F - 5
Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2019, 2018 and 2017	F - 6
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017	F - 7
Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017	F - 8
Notes to Audited Consolidated Financial Statements	F - 9
Schedule I	F - 43

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of EVERTEC, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of EVERTEC, Inc. and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill - Refer to Notes 1 and 9 to the financial statements

Critical Audit Matter Description

Goodwill is tested for impairment on an annual basis as of August 31, or more often if events or changes in circumstances indicate there may be impairment. The Company's annual goodwill impairment assessment at August 31, 2019 was performed using a qualitative approach by assessing changes in relevant events and circumstances, since the most recent fair value calculation, that affect the fair value or carrying amount of each reporting unit to determine whether it was more likely than not that the fair value of a reporting unit was less than its carrying amount. The Company's goodwill was \$399.5 million as of December 31, 2019, of which \$54.6 million was allocated to the Payment Services - Latin America reporting unit. Based on the qualitative assessment performed, the Company concluded that it was not more likely than not that the fair value of each reporting unit was less than its carrying amount.

The Company's most recent quantitative annual goodwill impairment assessment for the Payment Services - Latin America

reporting unit used the discounted cash flow model to estimate fair value, which required management to make significant estimates and assumptions, including selection of the discount rate.

Our evaluation of the Company's conclusion that it was not more likely than not that the fair value of the Payment Services - Latin America reporting unit was less than its carrying amount included the evaluation of qualitative factors that could change the selected discount rate. Given the difference between the fair value and carrying value of the Payment Services - Latin America reporting unit, performing audit procedures to evaluate the reasonableness of the qualitative factors affecting the discount rate required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the events and circumstances evaluated by management on its qualitative assessment for the discount rate of Payment Services -Latin America included the following, among others:

- We tested the effectiveness of controls over management's goodwill impairment evaluation, including those over the assessment of qualitative factors that affect the discount rate of Payment Services - Latin America.
- With the assistance of our fair value specialists, we developed an expectation of a range of discount rates that a market participant would have used at August 31, 2019, considering any changes in events and circumstances in the Latin America market since the last quantitative assessment performed by the Company.
- Compared the expectation developed above to the discount rate used by management in the last quantitative assessment performed by the Company.

/s/ Deloitte & Touche LLP

San Juan, Puerto Rico
February 27, 2020
Stamp No. E399793
affixed to original.

We have served as the Company's auditor since 2015.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of EVERTEC, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of EVERTEC, Inc. and subsidiaries (the “Company”) as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 27, 2020, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

San Juan, Puerto Rico
February 27, 2020

Stamp No. E399794
affixed to original.

EVERTEC, Inc. Consolidated Balance Sheets
(Dollar amounts in thousands, except share data)

	December 31, 2019	December 31, 2018
Assets		
Current Assets:		
Cash and cash equivalents	\$ 111,030	\$ 69,973
Restricted cash	20,091	16,773
Accounts receivable, net	106,812	100,323
Prepaid expenses and other assets	38,085	29,124
Total current assets	276,018	216,193
Investment in equity investee	12,288	12,149
Property and equipment, net	43,791	36,763
Operating lease right-of-use asset	29,979	—
Goodwill	399,487	394,644
Other intangible assets, net	241,937	259,269
Deferred tax asset	2,131	1,917
Net investment in lease	722	1,060
Other long-term assets	5,323	5,297
Total assets	<u>\$ 1,011,676</u>	<u>\$ 927,292</u>
Liabilities and stockholders' equity		
Current Liabilities:		
Accrued liabilities	\$ 58,160	\$ 57,006
Accounts payable	39,165	47,272
Unearned income	20,668	11,527
Income tax payable	6,298	6,650
Current portion of long-term debt	14,250	14,250
Current portion of operating lease liability	5,773	—
Total current liabilities	144,314	136,705
Long-term debt	510,947	524,056
Deferred tax liability	4,261	9,950
Unearned income - long term	28,437	26,075
Operating lease liability - long-term	24,679	—
Other long-term liabilities	27,415	14,900
Total liabilities	740,053	711,686
Commitments and contingencies (Note 22)		
Stockholders' equity		
Preferred stock, par value \$0.01; 2,000,000 shares authorized; none issued	—	—
Common stock, par value \$0.01; 206,000,000 shares authorized; 72,000,261 shares issued and outstanding at December 31, 2019 (December 31, 2018 - 72,378,710)	720	723
Additional paid-in capital	—	5,783
Accumulated earnings	296,476	228,742
Accumulated other comprehensive loss, net of tax	(30,009)	(23,789)
Total EVERTEC, Inc. stockholders' equity	267,187	211,459
Non-controlling interest	4,436	4,147
Total equity	271,623	215,606
Total liabilities and equity	<u>\$ 1,011,676</u>	<u>\$ 927,292</u>

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

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

	Years ended December 31,		
	2019	2018	2017
Revenues (affiliates Note 21)	\$ 487,374	\$ 453,869	\$ 407,144
Operating costs and expenses			
Cost of revenues, exclusive of depreciation and amortization shown below	213,379	196,957	200,650
Selling, general and administrative expenses	61,411	68,717	56,161
Depreciation and amortization	68,082	63,067	64,250
Total operating costs and expenses	342,872	328,741	321,061
Income from operations	144,502	125,128	86,083
Non-operating income (expenses)			
Interest income	1,217	787	716
Interest expense	(28,811)	(30,044)	(29,861)
Earnings of equity method investment	936	692	604
Other (expenses) income	(1,169)	2,602	2,657
Total non-operating expenses	(27,827)	(25,963)	(25,884)
Income before income taxes	116,675	99,165	60,199
Income tax expense	12,975	12,596	4,780
Net income	103,700	86,569	55,419
Less: Net income attributable to non-controlling interest	231	299	365
Net income attributable to EVERTEC, Inc.'s common stockholders	103,469	86,270	55,054
Other comprehensive (loss) income, net of tax of \$1,070, \$345 and \$122			
Foreign currency translation adjustments	4,754	(10,564)	(635)
(Loss) gain on cash flow hedges	(10,974)	(2,377)	2,178
Total comprehensive income attributable to EVERTEC, Inc.'s common stockholders	<u>\$ 97,249</u>	<u>\$ 73,329</u>	<u>\$ 56,597</u>
Net income per common share - basic attributable to EVERTEC, Inc.'s common stockholders	<u>\$ 1.44</u>	<u>\$ 1.19</u>	<u>\$ 0.76</u>
Net income per common share - diluted attributable to EVERTEC, Inc.'s common stockholders	<u>\$ 1.41</u>	<u>\$ 1.16</u>	<u>\$ 0.76</u>

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

EVERTEC, Inc. Consolidated Statements of Changes in Stockholders' Equity
(Dollar amounts in thousands, except share data)

	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	Non- Controlling Interest	Total Stockholders' Equity
Balance at December 31, 2016	72,635,032	\$ 726	\$ —	\$ 116,341	\$ (12,391)	\$ 3,499	\$ 108,175
Cumulative adjustment from the implementation of ASU 2016-09				4,203			4,203
Share-based compensation recognized	—	—	9,642	—	—	—	9,642
Repurchase of common stock	(465,240)	(5)	(2,702)	(4,964)	—	—	(7,671)
Stock options exercised, net of cashless exercise	8,798	—	(91)	—	—	—	(91)
Restricted stock grants and units delivered, net of cashless exercise	215,343	2	(1,499)	—	—	—	(1,497)
Net income	—	—	—	55,054	—	365	55,419
Cash dividends declared on common stock, \$0.30 per share	—	—	—	(21,747)	—	—	(21,747)
Other comprehensive income	—	—	—	—	1,543	—	1,543
Balance at December 31, 2017	72,393,933	723	5,350	148,887	(10,848)	3,864	147,976
Cumulative adjustment from the implementation of ASC 606	—	—	—	858	—	(16)	842
Share-based compensation recognized	—	—	12,592	—	—	—	12,592
Repurchase of common stock	(367,403)	(4)	(9,996)	—	—	—	(10,000)
Restricted stock grants and units delivered, net of cashless exercise	352,180	4	(2,163)	—	—	—	(2,159)
Net income	—	—	—	86,270	—	299	86,569
Cash dividends declared on common stock, \$0.10 per share	—	—	—	(7,273)	—	—	(7,273)
Other comprehensive loss	—	—	—	—	(12,941)	—	(12,941)
Balance at December 31, 2018	72,378,710	723	5,783	228,742	(23,789)	4,147	215,606
Share-based compensation recognized	—	—	13,570	—	—	—	13,570
Repurchase of common stock	(1,104,389)	(11)	(10,496)	(21,315)	—	—	(31,822)
Restricted stock units delivered, net of cashless	725,940	8	(8,857)	—	—	—	(8,849)
Net income	—	—	—	103,469	—	231	103,700
Cash dividends declared on common stock, \$0.20 per share	—	—	—	(14,420)	—	—	(14,420)
Other comprehensive loss	—	—	—	—	(6,220)	58	(6,162)
Balance at December 31, 2019	72,000,261	\$ 720	\$ —	\$ 296,476	\$ (30,009)	\$ 4,436	\$ 271,623

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

EVERTEC, Inc. Consolidated Statements of Cash Flows
(In thousands)

	Years ended December 31,		
	2019	2018	2017
Cash flows from operating activities			
Net income	\$ 103,700	\$ 86,569	\$ 55,419
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	68,082	63,067	64,250
Amortization of debt issue costs and accretion of discount	2,988	4,316	5,128
Operating lease amortization	6,161	—	—
Loss on extinguishment of debt	—	2,645	—
Provision for doubtful accounts and sundry losses	3,939	2,112	843
Deferred tax benefit	(6,391)	(4,611)	(4,306)
Share-based compensation	13,570	12,592	9,642
Loss on impairment of software	—	—	11,441
Loss on disposition of property and equipment and other intangibles	893	109	430
Earnings of equity method investment	(936)	(692)	(604)
Dividend received from equity method investment	485	390	—
(Increase) decrease in assets:			
Accounts receivable	(7,851)	(18,181)	(2,099)
Prepaid expenses and other assets	(8,770)	(3,911)	(4,048)
Other long-term assets	(1,750)	(4,432)	1,654
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	(215)	16,057	(870)
Income tax payable	(596)	5,245	(349)
Unearned income	11,504	7,021	8,444
Operating lease liabilities	(6,055)	—	—
Other long-term liabilities	1,191	4,438	811
Total adjustments	<u>76,249</u>	<u>86,165</u>	<u>90,367</u>
Net cash provided by operating activities	<u>179,949</u>	<u>172,734</u>	<u>145,786</u>
Cash flows from investing activities			
Additions to software	(36,871)	(27,386)	(22,174)
Acquisitions, net of cash acquired	(5,585)	—	(42,836)
Property and equipment acquired	(23,002)	(13,933)	(11,290)
Proceeds from sales of property and equipment	111	19	32
Net cash used in investing activities	<u>(65,347)</u>	<u>(41,300)</u>	<u>(76,268)</u>
Cash flows from financing activities			
Proceeds from issuance of long-term debt	—	545,000	—
Debt issuance costs	—	(4,418)	—
Net decrease in short-term borrowings	—	(12,000)	(16,000)
Repayments of borrowings for purchase of equipment and software	(886)	(720)	(2,373)
Dividends paid	(14,420)	(7,273)	(21,762)
Withholding taxes paid on share-based compensation	(8,849)	(2,159)	(1,588)
Repurchase of common stock	(31,822)	(10,000)	(7,671)
Repayment of long-term debt	(14,250)	(613,485)	(19,789)
Net cash used in financing activities	<u>(70,227)</u>	<u>(105,055)</u>	<u>(69,183)</u>
Net increase in cash, cash equivalents and restricted cash	<u>44,375</u>	<u>26,379</u>	<u>335</u>
Cash, cash equivalents and restricted cash at beginning of the period	<u>86,746</u>	<u>60,367</u>	<u>60,032</u>
Cash, cash equivalents and restricted cash at end of the period	<u>\$ 131,121</u>	<u>\$ 86,746</u>	<u>\$ 60,367</u>
Reconciliation of cash, cash equivalents and restricted cash			
Cash and cash equivalents	\$ 111,030	\$ 69,973	\$ 50,423
Restricted cash	20,091	16,773	9,944
Cash, cash equivalents and restricted cash	<u>\$ 131,121</u>	<u>\$ 86,746</u>	<u>\$ 60,367</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	28,233	26,891	25,379
Cash paid for income taxes	18,703	9,750	9,930
Supplemental disclosure of non-cash activities:			
Payable due to vendor related to property and equipment and software acquired	2,622	317	1,037

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

Notes to Audited Consolidated Financial Statements

Note 1 – The Company and Summary of Significant Accounting Policies	F - 10
Note 2 – Recent Accounting Pronouncements	F - 15
Note 3 – Revenues	F - 17
Note 4 – Cash and cash equivalents	F - 20
Note 5 – Accounts Receivable, Net	F - 21
Note 6 – Prepaid Expenses and Other Assets	F - 21
Note 7 – Investment in Equity Investee	F - 21
Note 8 – Property and Equipment, net	F - 22
Note 9 – Goodwill	F - 22
Note 10 – Other Intangible Assets, net	F - 23
Note 11 – Other Long-Term Assets	F - 24
Note 12 – Debt and Short-Term Borrowings	F - 24
Note 13 – Financial Instruments and Fair Value Measurements	F - 27
Note 14 – Other Long-Term Liabilities	F - 28
Note 15 – Equity	F - 28
Note 16 – Share-based Compensation	F - 29
Note 17 – Employee Benefit Plan	F - 30
Note 18 – Total Other Income, net	F - 31
Note 19 – Income Tax	F - 31
Note 20 – Net Income Per Common Share	F - 35
Note 21 – Related Party Transactions	F - 35
Note 22 – Commitments and Contingencies	F - 36
Note 23 – Segment Information	F - 38
Note 24 – Subsequent Events	F - 42

Note 1—The Company and Summary of Significant Accounting Policies

The Company

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

Initial Public Offering and Other Public Offerings

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 Global Management, LLC (“Apollo”) and Popular, Inc. (“Popular”), and current and former employees. As of December 31, 2019, Popular owned approximately 11.7 million shares of EVERTEC’s common stock, or 16.2% and Apollo no longer owns any of the Company’s common stock.

Basis of Presentation

The consolidated financial statements of EVERTEC have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In the opinion of management, the accompanying consolidated financial statements, prepared in accordance with GAAP, contain all adjustments, all of which are normal and recurring in nature, necessary for a fair presentation.

A summary of the most significant accounting policies used in preparing the accompanying consolidated financial statements is as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts and operations of the Company, which are presented in accordance with GAAP. The Company consolidates all entities that are controlled by ownership of a majority voting interest. Intercompany accounts and transactions are eliminated in the consolidated financial statements.

Use of Estimates

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 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.

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 these 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. The Company then 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 it 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.

Investment in Equity Investee

The Company accounts for investments using the equity method of accounting if the investment provides the Company the ability to exercise significant influence, but not control, over an investee. Significant influence is generally deemed to exist if the Company has an ownership interest in the voting stock of an investor of between 20 percent and 50 percent, although other factors are considered in determining whether the equity method of accounting is appropriate. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net income or losses as they occur. The Company's share of investee earnings or losses is recorded, net of taxes, within earnings (losses) of equity method investment caption in the consolidated statements of income and comprehensive income. The Company's consolidated revenues include fees for services provided to an investee accounted for under the equity method. Additionally, the Company's interest in the net assets of its equity method investee is reflected in the consolidated balance sheets. On the acquisition of the investment any difference between the cost of the investment and the amount of the underlying equity in net assets of an investee is required to be accounted as if the investee were a consolidated subsidiary. If the difference is assigned to depreciable or amortizable assets or liabilities, then the difference should be amortized or accreted in connection with the equity earnings based on the Company's proportionate share of the investee's net income or loss. If the investor is unable to relate the difference to specific accounts of the investee, the difference should be considered goodwill.

The Company considers whether the fair value of its equity method investment has declined below its carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considered any such decline to be other than temporary (based on various factors, including historical financial results, product development activities and the overall health of the investee's industry), then the Company would record a write-down to estimated fair value.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method and expensed over their estimated useful lives. Amortization of leasehold improvements is computed over the terms of the respective leases, including renewal options considered by management to be reasonably assured of being exercised, or the estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs which do not improve or extend the life of the respective assets are expensed as incurred.

Impairment of Long-lived Assets

Long-lived assets to be held and used, and long-lived assets to be disposed of, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Capitalization of Software

The Company develops software that is used in providing processing services to customers. Capitalized software includes purchased software and internally-developed software and is recognized as software packages within the other intangible assets line item in the consolidated balance sheets. Capitalization of internally developed software occurs only after the preliminary project stage is complete and technological feasibility has been achieved, and management's estimation that the likelihood of successful development and implementation reaches a provable level. Tasks that are generally capitalized are as follows: (a) system design of a chosen path including software configuration and software interfaces; (b) employee costs directly associated with the internal-use computer software project; (c) software development (coding) and software and system testing and verification; (d) system installation; and (e) enhancements that add function and are considered permanent. These tasks are capitalized and amortized using the straight line method over its estimated useful life, which range from three to ten years and is included in depreciation and amortization in the consolidated statements of income and comprehensive income.

The Company capitalizes interest costs incurred in the development of software. The amount of interest capitalized is an allocation of the interest cost incurred during the period required to substantially complete the asset. The interest rate for capitalization purposes is based on a weighted average rate on the Company's outstanding borrowing. For the years ended December 31, 2019, 2018 and 2017, interest cost capitalized amounted to approximately \$1.1 million, \$1.1 million and \$0.8 million, respectively.

Software and Maintenance Contracts

Software and maintenance contracts are recorded at cost. Amortization of software and maintenance contracts is computed using the straight-line method and expensed over their estimated useful lives which range from one to five years and are recognized in cost of revenues in the consolidated statements of income and comprehensive income.

Software and maintenance contracts are recognized as prepaid expenses and other assets or within other long-term assets depending on their remaining useful lives.

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. 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, 2019, 2018 and 2017, 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.

Derivative Instruments and Hedging Activities

The Company uses derivative financial instruments to enhance its ability to manage its exposure to certain financial and market risks. On the date the derivative instrument contract is entered into, the Company may designate the derivative as (1) a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment ("fair value" hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge), or (3) as a "standalone" derivative instrument, including economic hedges that the Company has not formally documented as a fair value or cash flow hedge. Changes in the fair value of a derivative that qualifies for cash flow hedge accounting are recognized in Other Comprehensive Income (Loss). Amounts accumulated in other comprehensive income (loss) are reclassified to earnings when the related cash outflow affects earnings. Changes in the fair value of a derivative instrument that is highly effective and that is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (including gains or losses on firm commitments), are recorded in current-period earnings. Similarly, the changes in the fair value of stand-alone derivative instruments or derivatives not qualifying or designated for hedge accounting are reported in current-period earnings. The Company recognizes all

derivative financial instruments in the Consolidated Balance Sheets as assets or liabilities at fair value. The Company presents derivative assets and derivative liabilities separately in the Consolidated Balance Sheets. The Company does not enter into derivative financial instruments for speculative purposes.

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.

Cash and cash equivalents

Cash includes cash on hand and in banks and certificates of deposits with original maturities of three months or less.

Restricted Cash

Restricted cash represents cash received on deposits from participating institutions of the ATH network that has been segregated for the development of the ATH brand and cash maintained as collateral for a credit facility with Popular. Also, restricted cash includes certain cash collected from the Ticketpop business and a reserve account for payment and transaction processing services to merchants. The restrictions of these accounts are based on contractual provisions entered into with third parties. This cash is maintained in separate accounts at a financial institution in Puerto Rico.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided for based on the estimated uncollectible amounts of the related receivables. The estimate is primarily based on a review of the current status of specific accounts receivable. Receivables are considered past due if full payment is not received by the contractual date. Past due accounts are generally written off against the allowance for doubtful accounts only after all collection attempts have been exhausted.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated to U.S. dollars using prevailing rates of exchange at the end of the period. Revenues, expenses, gains and losses are translated using weighted average rates for the period. The resulting foreign currency translation adjustment from operations for which the functional currency is other than the U.S. dollar is reported in accumulated other comprehensive loss. Gains and losses on transactions denominated in currencies other than the functional currencies are included in determining net income for the period in which exchange rates change.

Share-based Compensation

The Company estimates the fair value of stock-based awards, on a contemporaneous basis, at the date they are granted using the Monte Carlo simulation analysis for market based restricted stock units ("RSUs") using the following assumptions: (1) stock price; (2) risk-free rate; (3) expected volatility; (4) expected annual dividend yield and (5) expected term. The risk-free rate is based on the U.S. Constant Maturities Treasury Interest Rate as of the grant date or the yield of a 2-year or 3-year Treasury bond, as applicable. The expected volatility is based on a combination of historical volatility and implied volatility from publicly traded companies in the Company's industry. The expected annual dividend yield is based on management's expectations of future dividends as of the grant date and, in certain cases, assumes that those dividends will be reinvested over the performance period. Performance and time based RSUs and restricted stock are valued based on the market price of the Company's stock at the grant date.

Upon restricted stock or RSUs release, participants may elect to "net share settle". Rather than requiring the participant to deliver cash to satisfy the tax withholdings, the Company withholds a sufficient number of shares to cover these amounts and delivers the net shares to the participant.

Net Income Per Common Share

Basic net income per common share is determined by dividing net income by the weighted-average number of common shares outstanding during the period.

Diluted net income per common share assumes the issuance of all potentially dilutive share equivalents using the treasury stock method. For stock options and RSUs it is assumed that the proceeds will be used to buy back shares. For stock options, such proceeds equal the average unrecognized compensation plus exercise price. For unvested restricted share units, the proceeds equal the average unrecognized compensation.

Note 2—Recent Accounting Pronouncements

Recently adopted accounting pronouncements

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

In February 2016, the Financial Accounting Standards Board ("FASB") issued updated guidance for leases, codified as Topic 842, to increase transparency and comparability among organizations by recognizing Right of Use ("ROU") assets and lease liabilities on the balance sheet for all leases, notwithstanding the lease classification. Under the standard, organizations are required to provide disclosures with the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. For lessors, this amended guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. In January 2018, July 2018 and March 2019, the FASB issued Accounting Standards Update ("ASU") 2018-01, 2018-10, 2018-11 and 2019-01, to amend narrow aspects of the standard, to add new and optional transition method for the adoption of the standard and provide lessors with a practical expedient, among others. These standards are effective for public reporting companies for annual periods, and interim periods within annual periods beginning after December 15, 2018 and replaced the leasing guidance of Topic 840. The Company adopted the standard effective January 1, 2019 using the modified retrospective transition approach and the transition provisions provided by ASU 2018-11. In addition, the Company applied all the practical expedients available for transition, except for the practical expedient pertaining to land easements, since it was not applicable to the Company. Accordingly, the Company accounted for its existing leases without reassessing whether (a) the contract contains a lease under Topic 842, (b) the lease classification was different in accordance to Topic 842, and (c) initial direct costs before transition met the definition of the new leasing standard. For the lease terms determination, the Company considered all facts and circumstances from the lease contract inception up to the effective date of Topic 842. The Company, as a lessee, changed the characterization of the asset recognized for capital leases under ASC 840 to a ROU asset, and the obligation to a lease liability. The Company recognized lease liabilities of \$36.2 million, with corresponding ROU assets for the same amount based on the present value of the remaining lease payments of

existing operating leases entered into as a lessee with the implementation of the new leasing standard as of January 1, 2019. As a lessor, the Company changed the characterization of the asset recognized for financing leases to a net investment in lease. Results for reporting periods beginning after January 1, 2019 are presented under the new guidance provided by Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 840.

Refer to Note 22, *Commitments and Contingencies*, for discussions of the implementation of the Topic 842 on the Company's consolidated financial statements.

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

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

Recently issued accounting pronouncements

In December 2019, the FASB issued updated guidance for Topic 740 *Income Taxes* as part of its initiative to reduce complexity in accounting standards. The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption of the amendments is permitted, including adoption in any interim period for public business entities for periods for which financial statements have not yet been issued. An entity that elects to early adopt the amendments in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. Additionally, an entity that elects early adoption must adopt all the amendments in the same period. The Company is currently evaluating the impact, if any, of the adoption of this guidance on the consolidated financial statements.

Accounting pronouncements issued prior to 2019 and not yet adopted

In June 2016, November 2018, April 2019 and May 2019, the FASB issued updated guidance for the measurement of credit losses on financial instruments, which replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The main objective of these updates is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The updates affect trade receivables, debt securities, net investment in leases, and most other financial assets that represent a right to receive cash. Additional disclosures about significant estimates and credit quality are also required. In addition, the updated guidance also clarifies that receivables from operating leases are accounted for using the lease guidance and not as financial instruments. The updates provide an option to irrevocably elect to measure certain individual financial assets at fair value instead of amortized cost. As of January 1, 2020, the Company implemented the updated guidance using a modified retrospective approach through a cumulative-effect adjustment to retained earnings to align the credit loss methodology with the new standard. The Company implemented its new credit loss model and is updating its processes and controls. Based on the Company's assessment, the updates will have an impact on trade receivables, and other assets that represent rights to receive cash. Based on the quantitative impact analysis, the transition adjustment calculation upon adoption of the standard was not material to retained earnings. The Company has implemented appropriate changes to its business processes, systems and controls to support recognition and disclosures under the new standard.

In August 2018, the FASB issued an updated disclosure framework for fair value measurements. The amendments in the issued update remove, modify and add disclosure requirements on fair value measurements in Topic 820 Fair Value Measurements.

The amendments in this update are effective to all entities for the fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments in the update should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented. Early adoption is permitted upon issuance of this update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until their effective date. The Company adopted this guidance effective January 1, 2020, updated disclosures will be included in future filings.

In August 2018, the FASB issued updated guidance for customer's accounting for implementation, set-up and other upfront costs incurred in a cloud computing arrangement that is a service contract. The amendments in this update align the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2019, with early adoption permitted, and interim periods within those fiscal years. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company adopted this guidance prospectively, effective January 1, 2020 and applies the guidance in this update to all implementation costs incurred in a cloud computing arrangement that is a service contract.

In October 2018, the FASB issued updated guidance to improve related party guidance for variable interest entities. The updated guidance requires entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety when determining whether a decision-making fee is a variable interest. The amendments in this update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. These amendments should be applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The Company adopted this guidance effective January 1, 2020. The adoption of this guidance did not have an impact on the consolidated financial statements.

In November 2018, the FASB issued updated guidance to clarify the interaction between the guidance for collaborative arrangements and the updated revenue recognition guidance. The amendments in this update, among other things, provide guidance on how to assess whether certain collaborative arrangement transactions should be accounted for under Topic 606. The amendments in this update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company adopted this guidance effective January 1, 2020. Contracts are evaluated under the updated guidance.

Note 3 – Revenues

Summary of Revenue Recognition Accounting Policy

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

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

Nature of performance obligations

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

The following is a description of the Company's principal revenue generating activities, including the separate performance obligations by operating segment.

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

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

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

The Business Solutions segment consists of revenues from a full suite of business process management solutions. Revenue derived from core bank processing and other processing and transaction-based services are generally recognized over time in the amount in which the Company has right to consideration. Hosting services generally represent a series of distinct monthly increments that are substantially the same and has the same pattern of transfer. Professional services to enhance EVERTEC's platforms are generally considered non-distinct from the hosting service and accounted for as a single performance obligation. Hosting services are generally recognized over time once in production during the remaining term of the contract. Maintenance or support services are usually considered distinct and recognized over time in the amount in which the Company as right to consideration. Hardware and software sales are recognized at a point in time when the control of the asset is transferred to the customer. Indicators of transfer of control include the Company's right to payment, or as the customer has legal title or physical possession of the asset. The Company may also provide professional services to enhance customer's platforms or as IT consulting services by arranging for other parties to transfer the services (i.e., acting as an agent). For these contracts, revenue is recognized on a net basis.

The Company's service contracts may include service level arrangements ("SLA") generally allowing the customer to receive a credit for part of the service fee when the Company has not provided the agreed level of services. If triggered, the SLA is deemed a consideration payable that may impact the transaction price of the contract, thus SLA performance is monitored and assessed for compliance with arrangements on a monthly basis, including determination and accounting for its economic impact, if any.

Refer to Note 23 - Segment Information for further information, including revenue by products and services the Company provides and the geographic regions in which the Company operates.

Significant Judgments

Determining a measure of progress for performance obligations satisfied over time requires management to make judgments that affect the timing of revenue to be recognized. The Company exercises judgment in identifying a suitable method that depicts the entity's performance in transferring control of these performance obligations, on a contract by contract basis. The principal criteria used for determining the measure of progress is the availability of reliable information that can be obtained

EVERTEC, Inc. Notes to Consolidated Financial Statements

without incurring undue cost, which generally results in the application of an input method since, in most cases, the outputs used to reasonably measure progress are not directly observable. Usually, the input method based on labor hours incurred, with respect to total expected labor hours to satisfy the performance obligation is applied. For performance obligations satisfied at a point in time, the Company determines that the customer is able to direct the use of, and obtain substantially all of the benefits from, the products at the time the products are delivered, the customer has legal title of the products or the Company's has the right to payment.

The Company mainly uses the expected cost-plus margin approach to allocate the transaction price in contracts with multiple performance obligations. To determine the stand-alone selling price, the Company periodically performs an assessment to determine the margin of goods or services with the assistance of the different business areas. This assessment is performed considering past transactions and/or reasonably available information, including market conditions, trends or other company or customer specific factors, among others.

Disaggregation of revenue

The Company disaggregates revenue from contract with customers into the primary geographical markets, nature of products and services, and timing of transfer of goods and services. The revenue disaggregated by segment, which includes the nature of the products and services that the Company provides and the primary geographical markets in which the Company operates is discussed in Note 23 - Segment Information. In the following table, revenue is disaggregated by timing of revenue recognition.

	December 31, 2019				
(In thousands)	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Total
Timing of revenue recognition					
Products and services transferred at a point in time	\$ 3,041	\$ 3,811	\$ —	\$ 10,421	\$ 17,273
Products and services transferred over time	82,487	74,985	106,388	206,241	470,101
	<u>\$ 85,528</u>	<u>\$ 78,796</u>	<u>\$ 106,388</u>	<u>\$ 216,662</u>	<u>\$ 487,374</u>

	December 31, 2018				
(In thousands)	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Total
Timing of revenue recognition					
Products and services transferred at a point in time	\$ 293	\$ 2,864	\$ —	\$ 7,329	\$ 10,486
Products and services transferred over time	77,744	75,706	99,655	190,278	443,383
	<u>\$ 78,037</u>	<u>\$ 78,570</u>	<u>\$ 99,655</u>	<u>\$ 197,607</u>	<u>\$ 453,869</u>

Contract balances

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

<i>(In thousands)</i>	Contract Assets
Balance at beginning of period	\$ 996
Services transferred to customers	781
Transfers to accounts receivable	(586)
December 31, 2019	<u>\$ 1,191</u>

Contract assets of the Company arise when the Company has a contract with a customer for which revenue has been recognized (i.e., goods or services have been transferred), but the customer payment is subject to a future event (i.e., satisfaction of additional performance obligations). Contract assets are considered a receivable when the rights to consideration of the Company become unconditional (i.e., the Company has a present right to payment). The current portion of these contract assets is recorded as part of prepaid expenses and other assets and the long-term portion is included in other long-term assets.

Accounts receivable, net at December 31, 2019 amounted to \$106.8 million. Unearned income and Unearned income - Long term, which refer to contract liabilities, at December 31, 2019 amounted to \$20.7 million and \$28.4 million, respectively, and generally arise when consideration is received or due in advance from customers prior to performance. Unearned income is mainly related to upfront fees for implementation or set up activities, including fees charged in pre-production periods in connection with hosting services. During the year ended December 31, 2019, the Company recognized revenue of \$15.6 million that was included in unearned income at December 31, 2018.

Transaction price allocated to the remaining performance obligations

Revenues from recurring transaction-based and processing services represent the majority of the Company's total revenue as of December 31, 2019. The Company recognizes revenues from recurring transaction-based and processing services over time at the amounts in which the Company has right to invoice, which corresponds directly to the value to the customer of the Company's performance completed to date. Therefore, the Company has elected to apply the practical expedient in paragraph 606-10-50-14. Under this practical expedient, the Company is not required to disclose information about remaining performance obligations if the performance obligation is part of a contract with an original expected duration of one year or less or if the Company recognizes revenue at the amount to which it has a right to invoice.

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

For contracts excluded from the application of the practical expedients noted above, the estimated aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at December 31, 2019 is \$305.4 million. This amount primarily consists of professional service fees for implementation or set up activities related to hosting services and maintenance services, typically recognized over the life of the contract which vary from 2 to 5 years. It also includes professional service fees for customizations or development of on-premise licensing agreements, which are recognized over time based on inputs relative to the total expected inputs to satisfy a performance obligation.

Note 4—Cash and cash equivalents

At December 31, 2019 and 2018, the Company's cash and cash equivalents amounted to \$111.0 million and \$70.0 million, respectively, which are deposited in deposit accounts within financial institutions. Of the total cash balance at December 31, 2019 and 2018, \$57.8 million and \$50.3 million, respectively, resides in subsidiaries located outside of Puerto Rico. Cash deposited in an affiliate financial institution amounted to \$51.3 million and \$19.6 million as of December 31, 2019 and 2018, respectively.

Note 5—Accounts Receivable, Net

Accounts receivable, net consisted of the following:

<i>(In thousands)</i>	December 31,	
	2019	2018
Trade	\$ 58,493	\$ 61,082
Due from affiliates, net	39,095	25,703
Settlement assets	12,353	15,118
Other	232	304
Less: allowance for doubtful accounts	(3,361)	(1,884)
Accounts receivable, net	<u>\$ 106,812</u>	<u>\$ 100,323</u>

The Company records settlement assets that result from timing differences in the Company’s settlement processes with merchants, financial institutions, and credit card associations related to merchant and card transaction processing. The amounts are generally collected or paid the following business day.

Note 6—Prepaid Expenses and Other Assets

Prepaid expenses and other assets consisted of the following:

<i>(In thousands)</i>	December 31,	
	2019	2018
Software licenses and maintenance contracts	\$ 11,585	\$ 9,961
Deferred project costs	10,060	4,283
Guarantee deposits	4,899	4,611
Insurance	2,007	1,229
Prepaid income taxes	2,029	1,646
Taxes other than income	2,128	1,710
Postage	1,630	2,150
Other	3,747	3,534
Prepaid expenses and other assets	<u>\$ 38,085</u>	<u>\$ 29,124</u>

Note 7—Investment in Equity Investee

Consorcio de Tarjetas Dominicanas, S.A. (“CONTADO”) is the largest merchant acquirer and ATM network in the Dominican Republic. The Company uses the equity method of accounting to account for its equity interest in CONTADO. As a result of the acquisition in 2011 of CONTADO’s 19.99% equity interest, the Company calculated an excess cost of the investment in CONTADO over the amount of underlying equity in net assets of approximately \$9.0 million, which was mainly attributed to customer relationships, trademark and goodwill intangibles. The Company’s excess basis allocated to amortizable assets is recognized on a straight-line basis over the lives of the appropriate intangibles. Amortization expense for each of the years ended December 31, 2019, 2018 and 2017 amounted to approximately \$0.3 million, \$0.3 million and \$0.2 million, respectively, and was recorded within earnings of equity method investment in the consolidated statements of income and comprehensive income. The Company recognized \$0.9 million, \$0.7 million and \$0.6 million as equity in CONTADO’s net income, net of amortization, in the consolidated statements of income and comprehensive income for the years ended December 31, 2019, 2018 and 2017, respectively. For the years ended December 31, 2019 and 2018, the Company received \$0.5 million and \$0.4 million, respectively, in dividends from CONTADO. No dividends were received during 2017.

CONTADO fiscal year ends December 31 and is reported in the consolidated statements of income and comprehensive income for the period subsequent to the acquisition date on a one month lag. No significant events occurred in CONTADO’s operations subsequent to November 30, 2019 that would have materially affected the Company’s reported results.

Note 8—Property and Equipment, Net

Property and equipment, net consisted of the following:

<i>(Dollar amounts in thousands)</i>	Useful life in years	December 31,	
		2019	2018
Buildings	30	\$ 1,542	\$ 1,440
Data processing equipment	3 - 5	116,950	110,673
Furniture and equipment	3 - 20	6,936	7,761
Leasehold improvements	5 - 10	2,814	2,625
		128,242	122,499
Less—accumulated depreciation and amortization		(85,780)	(86,990)
Depreciable assets, net		42,462	35,509
Land		1,329	1,254
Property and equipment, net		\$ 43,791	\$ 36,763

Depreciation and amortization expense related to property and equipment was \$16.6 million, \$14.5 million and \$14.7 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Note 9—Goodwill

The changes in the carrying amount of goodwill, allocated by reporting unit, were as follows (See Note 23):

<i>(In thousands)</i>	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Total
Balance at December 31, 2017	\$ 160,972	\$ 53,659	\$ 138,121	\$ 45,823	\$ 398,575
Foreign currency translation adjustments	—	(3,931)	—	—	(3,931)
Balance at December 31, 2018	160,972	49,728	138,121	45,823	394,644
Goodwill attributable to acquisition	—	3,719	—	—	3,719
Foreign currency translation adjustments	—	1,124	—	—	1,124
Balance at December 31, 2019	\$ 160,972	\$ 54,571	\$ 138,121	\$ 45,823	\$ 399,487

Goodwill is tested for impairment on an annual basis as of August 31, or more often if events or changes in circumstances indicate there may be impairment. The Company may test for goodwill impairment using a qualitative or a quantitative analysis. In a qualitative assessment, the Company assesses whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount. In the quantitative analysis, the Company compares the estimated fair value of the reporting units to their carrying values, including goodwill.

The estimated fair value of the reporting units is computed using either an income approach, a market approach, or a combination of both. The income approach involves projecting the cash flows that the reporting unit is expected to generate and converting these cash flows into a present value equivalent through discounting. Significant estimates and assumptions used in the cash flow projection include internal projections and discount rates. Internal projections are based on the Company's historical experience and estimated future business performance. The discount rate used is based on the weighted-average cost of capital, which reflects the rate of return expected to be earned by market participants and the estimated cost to obtain long-term debt financing. Valuations using the market approach derive from applying metrics of publicly traded companies or historically completed transactions of comparable businesses. Comparable businesses are selected based on the market in which the reporting units operate, considering size, profitability and growth. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired. If the fair value does not exceed the carrying value, an impairment loss equaling the excess amount is recorded, limited to the recorded balance of goodwill. The Company performed a qualitative analysis as of August 31, 2019 by which the Company concluded that it was not more likely than not that the fair

EVERTEC, Inc. Notes to Consolidated Financial Statements

value of a reporting unit was less than its carrying amount. The quantitative analysis as of August 31, 2018 indicated that the fair values of the reporting units ranged from 57% to 397% in excess of its carrying amount. No impairment losses were recorded in 2019, 2018 or 2017. For details regarding goodwill attributable to acquisition, refer to Note 10-Other Intangible Assets, net.

Note 10—Other Intangible Assets, Net

The carrying amount of other intangible assets consisted of the following:

<i>(In thousands)</i>	Useful life in years	December 31, 2019		
		Gross amount	Accumulated amortization	Net carrying amount
Customer relationships	8 - 14	\$ 344,883	\$ (220,434)	\$ 124,449
Trademark	2 - 15	42,025	(32,456)	9,569
Software packages	3 -10	256,220	(169,974)	86,246
Non-compete agreement	15	56,539	(34,866)	21,673
Other intangible assets, net		<u>\$ 699,667</u>	<u>\$ (457,730)</u>	<u>\$ 241,937</u>

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

Amortization expense related to intangibles, including software packages, was \$51.5 million, \$48.6 million and \$49.5 million for the years ended December 31, 2019, 2018 and 2017, respectively. Amortization expense related to software packages was \$18.3 million, \$14.7 million and \$15.9 million for the years ended December 31, 2019, 2018 and 2017, respectively. The estimated amortization expenses of balances outstanding at December 31, 2019 for the next five years are as follows:

<i>(In thousands)</i>	
2020	\$ 50,894
2021	45,582
2022	40,459
2023	36,883
2024	28,052

On December 2, 2019, the Company completed the acquisition of 100% of the shares of capital stock of EGM Ingeniería Sin Fronteras, S.A.S., commercially known as PlacetoPay, an electronic payment company based in Medellin, Colombia. The acquisition was not significant to the consolidated financial statements. The Company completed the acquisition for a cash payment of \$6.3 million and recognized a customer relationship of \$1.8 million, software packages of \$0.8 million, a tradename of \$0.4 million and goodwill amounting to \$3.7 million. Revenues and earnings from the acquisition were insignificant for the year ended December 31, 2019. Pro forma results of operations have not been presented because the effect of this business combination is not material to the consolidated financial condition and results of operations. The results of operations and financial position of PlacetoPay are included in the consolidated financial statements from and after the date of acquisition.

During the third quarter of 2017, the Company recognized an impairment charge of \$6.5 million through cost of revenues for a third party software solution that is no longer commercially viable. In connection with this exit activity, the Company accrued \$5.3 million for ongoing contractual fees, also through cost of revenues and recognized maintenance expense of \$1.0 million. Both the liability and the impairment charge affected the Company's Merchant Acquiring segment and Payment Services segments. In the fourth quarter of 2017, the Company recognized an impairment loss related to a multi-year software

development project that was impacted by delays caused by the hurricane and projected increased costs with a third party vendor, amounting to \$5.0 million through cost of revenues and is in the Company's Payment Services - Puerto Rico & Caribbean segment. The fair value of the impaired assets was determined using discounted cash flow models.

Note 11—Other Long-Term Assets

As of December 31, 2019, other long-term assets included \$1.4 million related to deferred debt-issuance costs related to the revolving credit facility and \$3.9 million related to the long-term portion of certain software and maintenance contracts.

As of December 31, 2018, other long-term assets included \$1.8 million related to deferred debt-issuance costs related to the revolving credit facility, \$1.8 million related to the long-term portion of certain software and maintenance contracts and a derivative asset of \$1.7 million.

Note 12—Debt and Short-Term Borrowings

Total debt was as follows:

<i>(In thousands)</i>	December 31,	
	2019	2018
Senior Secured Credit Facility (2023 Term A) due on November 27, 2023 paying interest at a variable interest rate (LIBOR plus applicable margin ⁽¹⁾⁽²⁾)	\$ 207,261	\$ 217,791
Senior Secured Credit Facility (2024 Term B) due on November 27, 2024 paying interest at a variable interest rate (LIBOR plus applicable margin ⁽¹⁾⁽³⁾)	317,936	320,515
Senior Secured Revolving Credit Facility ⁽²⁾	—	—
Note Payable due on April 30, 2021 ⁽¹⁾	175	300
Notes Payable due on January 1, 2022 ⁽¹⁾	2,231	—
Total debt	\$ 527,603	\$ 538,606

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

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

(3) Subject to a minimum rate ("LIBOR floor") of 0.0% plus applicable margin of 3.50% at December 31, 2019 and December 31, 2018.

The following table presents contractual principal payments for the next five years:

<i>(In thousands)</i>	
2020	\$ 15,311
2021	15,053
2022	20,508
2023	173,750
2024	308,750

2018 Senior Secured Credit Facilities

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

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;

EVERTEC, Inc. Notes to Consolidated Financial Statements

- 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 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 existing senior secured credit facilities. 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 L/C 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, 2019 of the 2023 Term A Loan and the 2024 Term B Loan was \$209.0 million, and \$321.8 million, respectively. The additional borrowing capacity for the Revolving Facility loan at December 31, 2019 was \$116.9 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 to purchase software. As of December 31, 2019 and 2018, the outstanding principal balance of the note payable was \$0.2 million and \$0.3 million, respectively. The current portion of this note is recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

In December 2019, EVERTEC Group entered into two non-interest bearing financing agreements amounting to \$2.4 million to purchase software and maintenance. As of December 31, 2019, the outstanding principal balance of the notes payable was \$2.4 million, recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

Interest Rate Swaps

At December 31, 2019, 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:

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

(In thousands)	December 31, 2019	December 31, 2018
Other long-term assets	\$ —	\$ 1,683
Other long-term liabilities	14,452	4,059

EVERTEC, Inc. Notes to Consolidated Financial Statements

For the year ended December 31, 2019, 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:

<i>(In thousands)</i>	December 31, 2019	
Interest expense	\$	677

During the year ended December 31, 2019, the Company reclassified gains of \$0.7 million from accumulated other comprehensive loss into income through interest expense. Based on current LIBOR rates, the Company expects to reclassify losses of \$2.2 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.

Note 13—Financial Instruments and Fair Value Measurements

Recurring Fair Value Measurements

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

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

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

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

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

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value estimates are made at a specific point in time based on the type of financial instrument and relevant market information. Many of these estimates involve various assumptions and may vary significantly from amounts that could be realized in actual transactions.

The following table summarizes fair value measurements by level at December 31, 2019 and 2018, for assets and liabilities measured at fair value on a recurring basis:

<i>(In thousands)</i>	Level 1		Level 2		Level 3		Total	
December 31, 2019								
Financial liability:								
Interest rate swap	\$	—	\$	14,452	\$	—	\$	14,452
December 31, 2018								
Financial asset:								
Interest rate swap	\$	—	\$	1,683	\$	—	\$	1,683
Financial liability:								
Interest rate swap	\$	—	\$	4,059	\$	—	\$	4,059

Derivative Instruments

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

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

<i>(In thousands)</i>	December 31,			
	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial asset:				
Interest rate swap	\$ —	\$ —	\$ 1,683	\$ 1,683
Financial liabilities:				
Interest rate swap	14,452	14,452	4,059	4,059
2023 Term A	207,261	206,388	217,791	218,625
2024 Term B	317,936	324,163	320,515	319,517

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

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

There were no transfers in or out of Level 3 during the years ended December 31, 2019, 2018 and 2017.

Note 14—Other Long Term Liabilities

As of December 31, 2019, other long-term liabilities mainly consist of unrecognized tax benefit liabilities and the long-term portion of notes payables of \$13.0 million and a derivative liability of \$14.5 million.

As of December 31, 2018, other long-term liabilities mainly consist of unrecognized tax benefit liabilities and the long-term portion of notes payables of \$10.5 million and a derivative liability of \$4.1 million.

Note 15—Equity

The Company is authorized to issue up to 206,000,000 shares of common stock of \$0.01 par value. At December 31, 2019 and 2018, the Company had 72,000,261 and 72,378,710 shares outstanding, respectively. The Company is also authorized to issue 2,000,000 shares of \$0.01 par value preferred stock. As of December 31, 2019, no shares of preferred stock have been issued.

Stock Repurchase

In 2019, 2018 and 2017, the Company repurchased a total of 1.1 million, 0.4 million, and 0.5 million shares, respectively, at a cost of \$31.8 million, \$10.0 million, and \$7.7 million. The Company funded such repurchases with cash on hand and borrowings to the existing revolving credit facility. As of December 31, 2019, 2018 and 2017, the repurchased shares were permanently retired.

Dividends

The Company pays a regular quarterly dividend on common stock, subject to the declaration thereof by our Board each quarter. 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 Company's dividend activity in 2019 and 2018 was as follows:

Declaration Date	Record Date	Payment Date	Dividend per share	
July 26, 2018	August 6, 2018	September 7, 2018	\$	0.05
October 25, 2018	November 5, 2018	December 7, 2018		0.05
February 15, 2019	February 26, 2019	March 22, 2019		0.05
April 25, 2019	May 6, 2019	June 7, 2019		0.05
July 25, 2019	August 5, 2019	September 6, 2019		0.05
October 23, 2019	November 4, 2019	December 6, 2019		0.05

Accumulated Other Comprehensive loss

The following table provides a summary of the changes in the balances comprising accumulated other comprehensive loss for the years ended December 31, 2019 and 2018:

	Foreign Currency Translation Adjustments	Cash Flow Hedge	Total
Balance - December 31, 2017, net of tax	\$ (11,062)	\$ 214	\$ (10,848)
Other comprehensive loss before reclassifications	(10,564)	(2,273)	(12,837)
Amount reclassified to Net Income	—	(104)	(104)
Balance - December 31, 2018, net of tax	(21,626)	(2,163)	(23,789)
Other comprehensive income (loss) before reclassifications	4,754	(10,297)	(5,543)
Amount reclassified to Net Income	—	(677)	(677)
Balance - December 31, 2019, net of tax	\$ (16,872)	\$ (13,137)	\$ (30,009)

Note 16—Share-based Compensation

Long-term Incentive Plan ("LTIP")

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

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

For the performance-based awards under the 2017 LTIP, 2018 LTIP, and 2019 LTIP, the Compensation Committee established adjusted earnings before income taxes, depreciation and amortization ("Adjusted EBITDA") as the primary performance measure while maintaining focus on total shareholder return through the use of a market-based total shareholder return ("TSR") performance modifier. The TSR modifier adjusts the shares earned based on the core Adjusted EBITDA performance upwards or downwards (+/- 25%) based on the Company's relative TSR at the end of the three-year performance period as compared to

EVERTEC, Inc. Notes to Consolidated Financial Statements

the companies in the Russell 2000 Index. The Adjusted EBITDA performance measure will be calculated for the one-year period commencing on January 1 of the year of the grant and ending on December 31 of the same year, relative to the goals set by the Compensation Committee for this same period. The shares earned will be subject to an additional two-year service vesting period.

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

The following table summarizes the nonvested restricted shares and RSUs activity for the years ended December 31, 2019, 2018 and 2017:

Nonvested restricted shares and RSUs	Shares	Weighted-average grant date fair value
Nonvested at December 31, 2016	1,212,364	\$ 14.88
Granted	1,584,241	15.37
Vested	(315,953)	15.30
Forfeited	(139,760)	16.06
Nonvested at December 31, 2017	2,340,892	15.08
Granted	636,322	17.07
Vested	(468,064)	18.41
Forfeited	(472,987)	16.55
Nonvested at December 31, 2018	2,036,163	15.09
Granted	517,153	30.84
Vested	(931,389)	29.32
Forfeited	(29,172)	16.52
Nonvested at December 31, 2019	1,592,755	\$ —

Share-based compensation recognized was as follows:

<i>(In thousands)</i>	Years ended December 31,		
	2019	2018	2017
Share-based compensation recognized, net			
Stock options	\$ —	\$ —	\$ 6
Restricted shares and RSUs	13,570	12,592	9,636

The maximum unrecognized cost for restricted stock units was \$17.7 million as of December 31, 2019. The cost is expected to be recognized over a weighted average period of 1.95 years.

Note 17—Employee Benefit Plan

EVERTEC, Inc. Puerto Rico Savings and Investment plan (“the EVERTEC Savings Plan”) was established in 2010, as a defined contribution savings plan qualified under section 1165(e) of the Puerto Rico Internal Revenue Code. Investments in the plan are participant directed, and employer matching contributions are determined based on specific provisions of the EVERTEC Savings Plan. Employees are fully vested in the employer’s contributions after five years of service. For the years ended December 31, 2019, 2018 and 2017, the costs incurred under the plan amounted to approximately \$0.8 million, \$0.8 million and \$0.7 million, respectively.

Note 18—Total Other Income (Expenses)

For the year ended December 31, 2019, other income (expenses) is primarily comprised of \$1.7 million in foreign currency transaction losses.

For the year ended December 31, 2018, other income (expenses) is primarily 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, and a \$2.6 million loss on extinguishment of debt.

For the year ended December 31, 2017, other income (expenses) is primarily comprised of \$2.6 million in foreign currency transaction gains.

Note 19—Income Tax

On April 17, 2012, EVERTEC Group and Holdings were converted from a Puerto Rico corporation into Puerto Rico limited liability companies to benefit from changes to the Puerto Rico Income Tax Code allowing limited liability companies to be treated as partnerships that are pass-through entities for Puerto Rico tax purposes. As a result of these conversions and subsequent elections to be treated as partnerships, EVERTEC Group’s and Holding’s taxable income flows through to EVERTEC, Inc.

EVERTEC Group, Holdings and EVERTEC, Inc. entered into a Tax Payment Agreement pursuant to which EVERTEC Group is obligated to make certain payments to Holdings or EVERTEC, Inc. for taxable periods or portions thereof occurring on or after April 17, 2012 (the “Effective Date”). Under the Tax Payment Agreement, EVERTEC Group will make payments with respect to any and all taxes (including estimated taxes) imposed under the laws of Puerto Rico, the United States of America and any other jurisdiction or any political (including municipal) subdivision or authority or agency in Puerto Rico, the United States of America or such other jurisdiction, that would have been imposed on EVERTEC Group if EVERTEC Group had been a corporation for tax purposes of that jurisdiction, together with all interest and penalties with respect thereto (“Taxes”), reduced by taking into account any applicable net operating losses or other tax attributes of Holdings or EVERTEC, Inc. that reduce Holdings’ or EVERTEC, Inc.’s taxes in such period. The Tax Payment Agreement provides that the payments thereunder shall not exceed the net amount of Taxes that Holdings and EVERTEC, Inc. actually owe to the appropriate taxing authority for a taxable period. Further, the Tax Payment Agreement provides that if Holdings or EVERTEC, Inc. receives a tax refund attributable to any taxable period or portion thereof occurring on or after the Effective Date, EVERTEC, Inc. shall be required to recalculate the payment for such period required to be made by EVERTEC Group to Holdings or EVERTEC, Inc. If the payment, as recalculated, is less than the amount of the payment EVERTEC Group already made to Holdings or EVERTEC, Inc. in respect of such period, Holdings or EVERTEC, Inc. shall promptly make a payment to EVERTEC Group in the amount of such difference.

The components of income tax expense consisted of the following:

<i>(In thousands)</i>	Years ended December 31,		
	2019	2018	2017
Current tax provision	\$ 19,366	\$ 17,207	\$ 9,086
Deferred tax benefit	(6,391)	(4,611)	(4,306)
Income tax expense	\$ 12,975	\$ 12,596	\$ 4,780

EVERTEC, Inc. Notes to Consolidated Financial Statements

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

<i>(In thousands)</i>	Years ended December 31,		
	2019	2018	2017
Income before income tax provision			
Puerto Rico	\$ 89,667	\$ 77,176	\$ 47,347
United States	4,047	3,199	3,089
Foreign countries	22,961	18,790	9,763
Total income before income tax provision	<u>\$ 116,675</u>	<u>\$ 99,165</u>	<u>\$ 60,199</u>
Current tax provision			
Puerto Rico	\$ 7,550	\$ 6,841	\$ 1,892
United States	339	599	292
Foreign countries	11,477	9,767	6,902
Total current tax provision	<u>\$ 19,366</u>	<u>\$ 17,207</u>	<u>\$ 9,086</u>
Deferred tax benefit			
Puerto Rico	\$ (4,109)	\$ (2,904)	\$ (3,176)
United States	(216)	(584)	(184)
Foreign countries	(2,066)	(1,123)	(946)
Total deferred tax benefit	<u>\$ (6,391)</u>	<u>\$ (4,611)</u>	<u>\$ (4,306)</u>

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

On December 10, 2018, the Governor of Puerto Rico signed in to law Act 257, which decreased the maximum corporate tax rate from 39% to 37.5%, effective January 1, 2019. This rate decrease is only applicable to the fully taxable operations of EVERTEC in Puerto Rico. As a result of this tax rate decrease, the deferred taxes were reevaluated as of December 31, 2018, the impact of this reevaluation was considered immaterial.

As of December 31, 2019, the Company has \$62.2 million of unremitted earnings from foreign subsidiaries. The Company has not recognized a deferred tax liability on undistributed earnings for the Company's foreign subsidiaries because these earnings are intended to be indefinitely reinvested. The amount of the unrecognized deferred tax liability depends on judgment required to analyze the withholding tax due, the applicable tax law and factual circumstances in effect at the time of any such distributions. EVERTEC believes it is not practicable at this time to reliably determine the amount of unrecognized deferred tax liability related to the Company's undistributed earnings. If circumstances change and it becomes apparent that some or all of the undistributed earnings of a subsidiary will be remitted, and income taxes have not been recognized by the parent entity, the parent entity shall accrue as an expense of the current period income taxes attributable to that remittance.

On October 19, 2012, EVERTEC Group was granted a tax exemption under the Tax Incentive Act No. 73 of 2008. Under this grant, EVERTEC Group will benefit from a preferential income tax rate 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 January 1, 2013 with respect to municipal and property tax obligations. Industrial development income under this grant is subject to a preferential rate of 4%.

The grant contains customary commitments, conditions and representations that EVERTEC Group will be required to comply with in order to maintain the grant. The more significant commitments include: (i) maintaining at least 700 employees in EVERTEC Group's Puerto Rico data processing operations, (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); and (iii) 80% of EVERTEC Group employees must be residents of Puerto Rico. Failure to meet the requirements could result, among other things, in reductions of the benefits of the grant or revocation of the grant in its entirety, which could result in EVERTEC, Inc. paying additional taxes or other payments relative to what would be required to pay to other municipal agencies if the full benefits of the grant are not available.

EVERTEC, Inc. Notes to Consolidated Financial Statements

On October 11, 2011, Evertec Group was granted a tax exemption under Tax Incentive Law No. 73 of 2008, retroactively to December 1, 2009. Under this grant, activities derived from consulting and data processing services provided outside Puerto Rico are subject to a preferred rate that declines gradually from 7% to 4% by December 1, 2013. After this date, the rate remains at 4% until its expiration in November 1, 2024.

In addition, in August 2018, the Puerto Rico Industrial Development Company approved the requested extension of a grant under Tax Incentive Law No. 135 of 1997 for EVERTEC Group. Under this grant, activities derived from certain development and installation service in excess of a determined income are subject to a fixed tax rate of 10% for a 10-year period from January 1, 2018.

The following table presents the components of the Company's deferred tax assets and liabilities:

<i>(In thousands)</i>	December 31,	
	2019	2018
Deferred tax assets ("DTA")		
Allowance for doubtful accounts	\$ 271	\$ 170
Unearned income	6,807	4,394
Investment in equity subsidiary	51	220
Share-based compensation	1,222	1,684
Debt issuance costs	249	309
Accrued liabilities	1,034	1,257
Derivative liability	1,220	351
Accrual of contract maintenance cost	134	157
Impairment of asset	289	289
Other	1,546	1,976
Total gross deferred tax assets	12,823	10,807
Deferred tax liabilities ("DTL")		
Capitalized salaries	1,828	1,756
Derivative asset	—	185
Difference between the assigned values and the tax basis of assets and liabilities recognized in business combinations	12,568	16,240
Other	557	659
Total gross deferred tax liabilities	14,953	18,840
Deferred tax liability, net	\$ (2,130)	\$ (8,033)

Pursuant to the provision of the PR Code, net operating losses ("NOL") can be carried forward for a period of seven, ten or twelve taxable years, depending on the taxable year generated. Act 72 of May 29, 2015, limited the amount of NOLs deduction to 80% for regular tax and 70% for alternative minimum tax ("AMT") for taxable years commencing after December 31, 2014. However, Act 257 of 2018 limits the deduction of NOLs to 90% for regular tax for tax years commencing after December 31, 2019. At December 31, 2019, the Company has \$0.2 million in NOL carryforwards related to Puerto Rico industrial development income, available to offset future eligible income.

The Company recognizes the benefit of uncertain tax positions ("UTPs") 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.

EVERTEC, Inc. Notes to Consolidated Financial Statements

The following is a tabular reconciliation of the total amounts of UTPs:

<i>(In thousands)</i>	Years ended December 31,		
	2019	2018	2017
Balance, beginning of year	\$ 9,238	\$ 9,148	\$ 12,219
Gross increases—tax positions in prior period	—	578	—
Gross decreases—tax positions in prior period	(92)	(488)	—
Lapse of statute of limitations	—	—	(3,071)
Balance, end of year	\$ 9,146	\$ 9,238	\$ 9,148

As of December 31, 2019, 2018 and 2017, approximately \$9.1 million, \$9.2 million and \$9.1 million, respectively, would affect the Company's effective income tax rate, if recognized.

The Company recognizes interest and penalties related to UTB as part of income tax expense. During the years ended December 31, 2019, 2018 and 2017, the Company recognized an income tax expense of \$0.4 million, an income tax expense of \$0.4 million and an income tax benefit of \$0.8 million, respectively, related to interest and penalties. The amount accrued for interest and penalties at December 31, 2019 and 2018 was \$2.0 million, and \$1.6 million, respectively. The Company anticipates changes to the UTBs within the next 12 months to be primarily related to interest. The Company believes it has sufficient accruals for contingent tax liabilities.

In connection with tax return examinations, contingencies can arise that generally result from different interpretations of tax laws and regulations as they pertain to the amount, timing or inclusion of revenues and expenses in taxable income, or the ability to utilize tax credits to reduce income taxes payable. While it is probable, based on the potential outcome of the Company's Puerto Rico and foreign tax examinations or the expiration of the statute of limitations for specific jurisdictions, that the liability for UTBs may increase or decrease within the next twelve months, the Company does not expect any such change would have a material effect on our financial condition, results of operations or cash flow.

The Company and its subsidiaries are subject to Puerto Rico income tax as well as income tax of multiple foreign jurisdictions. A significant majority of the income tax is from Puerto Rico with a statute of limitations of four years after filing the income tax returns; therefore, the income tax returns for 2015, 2016, 2017, and 2018 are currently open for examination.

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

<i>(In thousands)</i>	Years ended December 31,		
	2019	2018	2017
Computed income tax at statutory rates	\$ 43,753	\$ 38,674	\$ 23,477
Benefit of net tax-exempt interest income	(126)	(50)	(56)
Differences in tax rates due to multiple jurisdictions	1,058	(678)	2,353
Tax (benefit) expense due to a change in estimate	(84)	467	(334)
Effect of income subject to tax-exemption grant	(31,424)	(26,260)	(16,832)
Unrecognized tax (benefit) expense	(32)	443	(3,828)
Other	(170)	—	—
Income tax expense	\$ 12,975	\$ 12,596	\$ 4,780

Note 20—Net Income Per Common Share

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

<i>(Dollar amounts in thousands, except share and per share data)</i>	Years ended December 31,		
	2019	2018	2017
Net income attributable to EVERTEC, Inc.'s common stockholders	\$ 103,469	\$ 86,270	\$ 55,054
Less: non-forfeitable dividends on restricted stock	3	4	10
Net income available to common shareholders	\$ 103,466	\$ 86,266	\$ 55,044
Weighted average common shares outstanding	72,099,755	72,607,321	72,479,807
Weighted average potential dilutive common shares ⁽¹⁾	1,376,008	1,812,789	392,381
Weighted average common shares outstanding—assuming dilution	73,475,763	74,420,110	72,872,188
Net income per common share—basic	\$ 1.44	\$ 1.19	\$ 0.76
Net income per common share—diluted	\$ 1.41	\$ 1.16	\$ 0.76

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

Refer to Note 15 for a detail of dividends declared and paid during 2019 and 2018.

Note 21—Related Party Transactions

The following table presents the Company's transactions with related parties for each of the periods presented below:

<i>(Dollar amounts in thousands)</i>	Years ended December 31,		
	2019	2018	2017
Total revenues ⁽¹⁾⁽²⁾	\$ 209,053	\$ 188,060	\$ 177,213
Cost of revenues	\$ 5,094	\$ 3,422	\$ 2,929
Rent and other fees	\$ 8,519	\$ 8,046	\$ 7,803
Interest earned from an affiliate			
Interest income	\$ 161	\$ 147	\$ 154

- (1) Total revenues from Popular as a percentage of revenues were 43%, 41% and 43% for each of the periods presented above.
- (2) Includes revenues generated from investee accounted for under the equity method of \$1.1 million, \$1.3 million and \$1.8 million for the years ended December 31, 2019, 2018 and 2017, respectively.

EVERTEC, Inc. Notes to Consolidated Financial Statements

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

(In thousands)	December 31,	
	2019	2018
Cash and restricted cash deposits in affiliated bank	\$ 64,724	\$ 29,136
Other due/to from affiliate		
Accounts receivable	\$ 39,095	\$ 25,714
Prepaid expenses and other assets	\$ 4,211	\$ 2,796
Operating lease right-of use assets	\$ 20,617	\$ —
Other long-term assets	\$ 57	\$ 166
Accounts payable	\$ 7,250	\$ 6,344
Unearned income	\$ 35,489	\$ 25,401
Operating lease liabilities	\$ 20,905	\$ —

The balance of cash and restricted cash deposits in an affiliated bank was included within the cash and cash equivalents and restricted cash line items in the accompanying consolidated balance sheets. Due from affiliates mainly included the amounts outstanding related to processing and information technology services billed to Popular subsidiaries according to the terms of the Master Services Agreement (“MSA”) under which EVERTEC Group has a contract to provide such services for at least 15 years on an exclusive basis for the duration of the agreement on commercial terms consistent with historical pricing practices among the parties. This amount was included in the accounts receivable, net in the consolidated balance sheets.

Note 22—Commitments and Contingencies

EVERTEC is a defendant in a number of legal proceedings arising in the ordinary course of business. Based on the opinion of legal counsel, management believes that the final disposition of these matters will not have a material adverse effect on the business, results of operations or financial condition of the Company. The Company has identified certain claims in which a loss may be incurred, but in the aggregate the loss would be minimal. For other claims, where the proceedings are in an initial phase, the Company is unable to estimate the range of possible loss for such legal proceedings. However, the Company at this time believes that any loss related to these latter claims will not be material.

Leases

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

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

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

EVERTEC, Inc. Notes to Consolidated Financial Statements

interest expense and amortization expense. The lease liability of these leases is measured using the interest rate method. The ROU asset from financing leases are amortized on a straight-line basis, and is presented as part of Property and Equipment, net.

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

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

At December 31, 2019, equipment leases classified as finance leases, which are included within Property and Equipment, net, were \$0.6 million, net of accumulated depreciation.

Total lease cost for the twelve months ended December 31, 2019, was as follows:

	Twelve months ended December 31, 2019
<i>(in thousands)</i>	
Operating lease cost	\$ 7,573
Finance lease cost	
Amortization of right-of-use assets	255
Interest on lease liabilities	24
Variable lease cost	2,515
	<u>\$ 10,367</u>

Other information related to leases, at December 31, 2019, was as follows:

<i>(In thousands)</i>	
Right-of-use assets obtained in exchange for operating lease obligations:	\$ 940
Weighted average remaining lease term, in years	
Operating leases	6
Finance leases	1
Weighted Average Discount Rate	
Operating leases	4.7%
Finance leases	4.2%

EVERTEC, Inc. Notes to Consolidated Financial Statements

Future minimum lease payments under leases at December 31, 2019 were as follows:

<i>(In thousands)</i>	Operating Leases	Finance Leases
2020	\$ 6,574	\$ 307
2021	5,824	34
2022	5,483	2
2023	5,496	—
2024	4,995	—
Thereafter	6,297	—
Total future minimum lease payments	34,669	343
Less: imputed interest	(4,217)	(35)
Total	\$ 30,452	\$ 308
Reported as of December 31, 2019		
Accrued liabilities	\$ —	\$ 276
Operating lease liability - current	5,773	—
Operating lease liability - long-term	24,679	—
Other long-term liabilities	—	32
	\$ 30,452	\$ 308

Note 23—Segment Information

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

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

EVERTEC, Inc. Notes to Consolidated Financial Statements

The following tables set forth information about the Company's operations by its four business segments for the periods indicated below. Historical information has been conformed to the updated presentation.

<i>(In thousands)</i>	December 31, 2019					
	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Corporate and Other ⁽¹⁾	Total
Revenues	\$ 125,544	\$ 84,453	\$ 106,388	\$ 216,662	\$ (45,673)	\$ 487,374
Operating costs and expenses	61,396	65,701	62,098	138,224	15,453	342,872
Depreciation and amortization	11,646	9,930	1,814	16,529	28,163	68,082
Non-operating income (expenses)	1,781	286	48	340	(2,688)	(233)
EBITDA	77,575	28,968	46,152	95,307	(35,651)	212,351
Compensation and benefits ⁽²⁾	1,034	1,501	1,004	2,114	8,145	13,798
Transaction, refinancing, and other fees ⁽³⁾	—	210	—	—	(163)	47
Adjusted EBITDA	<u>\$ 78,609</u>	<u>\$ 30,679</u>	<u>\$ 47,156</u>	<u>\$ 97,421</u>	<u>\$ (27,669)</u>	<u>\$ 226,196</u>

- (1) Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the \$39.0 million processing fee from Payments Services - Puerto Rico and Caribbean to Merchant Acquiring, intercompany software sale and developments of \$6.7 million from Payment Services- Latin America to Payment Services- Puerto Rico & Caribbean and cost transfer fees from Corporate and Other to Payment Services Latin America for leveraged services and management fees.
- (2) Primarily represents share-based compensation and other compensation expense and severance payments.
- (3) Primarily represents fees and expenses associated with corporate transactions as defined in the 2018 Credit Agreement and the elimination of non-cash equity earnings from our 19.99% equity investment in Consorcio de Tarjetas Dominicanas S.A., net of cash dividends received.

<i>(In thousands)</i>	December 31, 2018					
	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Corporate and Other ⁽¹⁾	Total
Revenues	\$ 114,119	\$ 80,899	\$ 99,655	\$ 197,602	\$ (38,406)	\$ 453,869
Operating costs and expenses	52,006	75,240	55,778	126,232	19,485	328,741
Depreciation and amortization	9,734	9,284	1,698	13,878	28,473	63,067
Non-operating income (expenses)	2,420	11,750	3	477	(11,356)	3,294
EBITDA	74,267	26,693	45,578	85,725	(40,774)	191,489
Compensation and benefits ⁽²⁾	1,087	1,034	938	2,088	8,512	13,659
Transaction, refinancing, exit activity and other fees ⁽³⁾	(250)	—	—	—	7,561	7,311
Adjusted EBITDA	<u>\$ 75,104</u>	<u>\$ 27,727</u>	<u>\$ 46,516</u>	<u>\$ 87,813</u>	<u>\$ (24,701)</u>	<u>\$ 212,459</u>

- (1) Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the \$36.1 million processing fee from Payments Services - Puerto Rico and Caribbean to Merchant Acquiring, intercompany software sale and developments of \$2.3 million from Payment Services- Latin America to Payment Services- Puerto Rico & Caribbean and cost transfer fees from Corporate and Other to Payment Services Latin America for leveraged services and management fees.
- (2) Primarily represents share-based compensation and other compensation expense and severance payments.

EVERTEC, Inc. Notes to Consolidated Financial Statements

- (3) Primarily represents fees and expenses associated with corporate transactions as defined in the 2018 Credit Agreement, relief contributions related to the 2017 hurricanes and the elimination of non-cash equity earnings from our 19.99% equity investment in Consorcio de Tarjetas Dominicanas S.A., net of cash dividends received.

December 31, 2017						
<i>(In thousands)</i>	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Corporate and Other ⁽¹⁾	Total
Revenues	\$ 101,687	\$ 62,702	\$ 85,778	\$ 189,077	\$ (32,100)	\$ 407,144
Operating costs and expenses	57,463	66,786	57,574	119,761	19,477	321,061
Depreciation and amortization	8,993	8,880	2,254	15,774	28,349	64,250
Non-operating income (expenses)	2,229	8,726	1	13	(7,708)	3,261
EBITDA	55,446	13,522	30,459	85,103	(30,936)	153,594
Compensation and benefits ⁽²⁾	589	816	573	1,687	6,090	9,755
Transaction, refinancing, and other fees ⁽³⁾	2,499	3,220	6,465	—	2,495	14,679
Adjusted EBITDA	<u>\$ 58,534</u>	<u>\$ 17,558</u>	<u>\$ 37,497</u>	<u>\$ 86,790</u>	<u>\$ (22,351)</u>	<u>\$ 178,028</u>

- (1) Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the \$32.1 million processing fee from Payments Services - Puerto Rico and Caribbean to Merchant Acquiring and cost transfer fees from Corporate and Other to Payment Services Latin America for leveraged services and management fees.
- (2) Primarily represents share-based compensation and other compensation expense and severance payments.
- (3) Primarily represents fees and expenses associated with corporate transactions as defined in the 2013 Credit Agreement and consulting, audit and legal expenses incurred as part of the prior year restatement of financial results, certain fees paid to resolve a software maintenance contract matter, a software impairment charge and the elimination of non-cash equity earnings from our 19.99% equity investment in Consorcio de Tarjetas Dominicanas S.A.

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

<i>(In thousands)</i>	Years ended December 31,		
	2019	2018	2017
Total EBITDA	\$ 212,351	\$ 191,489	\$ 153,594
Less:			
Income tax expense	12,975	12,596	4,780
Interest expense, net	27,594	29,257	29,145
Depreciation and amortization	68,082	63,067	64,250
Net Income	<u>\$ 103,700</u>	<u>\$ 86,569</u>	<u>\$ 55,419</u>

The geographic segment information below is classified based on the geographic location of the Company's subsidiaries:

<i>(Dollar amounts in thousands)</i>	Years ended December 31,		
	2019	2018	2017
Revenues ⁽¹⁾			
Puerto Rico	\$ 392,628	\$ 358,436	\$ 329,533
Caribbean	15,950	15,672	14,909
Latin America	78,796	79,761	62,702
Total revenues	<u>\$ 487,374</u>	<u>\$ 453,869</u>	<u>\$ 407,144</u>

- (1) Revenues are based on subsidiaries' country of domicile.

Major customers

For the years ended December 31, 2019, 2018 and 2017, the Company had one major customer which accounted for approximately \$208.0 million or 43%, \$186.8 million or 41%, and \$175.4 million or 43%, respectively, of total revenues. See Note 21.

The Company's next largest customer, the Government of Puerto Rico, consolidating all individual agencies and public corporations, represented 7% of the Company's total revenues for each the years ended December 31, 2019, 2018 and 2017.

Note 24—Subsequent Events

On February 20, 2020, the Board declared a regular quarterly cash dividend of \$0.05 per share on the Company's outstanding shares of common stock. The dividend will be paid on April 3, 2020 to stockholders of record as of the close of business on March 4, 2020. The Board anticipates declaring this dividend in future quarters on a regular basis; however future declarations of dividends are subject to Board of Directors' approval and may be adjusted as business needs or market conditions change.

Schedule I

EVERTEC, Inc. Condensed Financial Statements
Parent Company Only
Condensed Balance Sheets

<i>(In thousands)</i>	December 31,	
	2019	2018
Assets		
Current assets:		
Cash	\$ 1,678	\$ 1,678
Accounts receivable, net	1,290	2,068
Prepaid expenses and other assets	9	41
Total current assets	2,977	3,787
Investment in subsidiaries, at equity	273,759	221,515
Other Intangible Asset	9	—
Total assets	\$ 276,745	\$ 225,302
Liabilities and stockholders' equity		
Current liabilities:		
Accrued liabilities	\$ 260	\$ 226
Income tax payable	1,757	1,660
Total current liabilities	2,017	1,886
Deferred tax liability, net	485	5,665
Other long-term liabilities	7,056	6,292
Total liabilities	9,558	13,843
Stockholders' equity:		
Common stock	720	723
Additional paid-in capital	—	5,783
Accumulated earnings	296,476	228,742
Accumulated other comprehensive loss, net of tax	(30,009)	(23,789)
Total stockholders' equity	267,187	211,459
Total liabilities and stockholders' equity	\$ 276,745	\$ 225,302

Condensed Statements of Income and Comprehensive Income

<i>(In thousands)</i>	Years ended December 31,		
	2019	2018	2017
Non-operating income (expenses)			
Equity in earnings of subsidiaries	\$ 101,078	\$ 84,866	\$ 49,162
Interest income	367	380	301
Other expenses	(1,595)	(1,396)	(1,428)
Income before income taxes	99,850	83,850	48,035
Income tax benefit	(3,619)	(2,420)	(7,019)
Net income	103,469	86,270	55,054
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	4,754	(10,564)	(635)
(Loss) gain on cash flow hedges	(10,974)	(2,377)	2,178
Total comprehensive income	\$ 97,249	\$ 73,329	\$ 56,597

Schedule I**Condensed Statements of Cash Flows**

<i>(In thousands)</i>	Years ended December 31,		
	2019	2018	2017
Cash flows from operating activities	\$ 55,092	\$ 19,431	\$ 29,422
Cash flows from financing activities			
Dividends paid	(14,420)	(7,273)	(21,762)
Repurchase of common stock	(31,822)	(10,000)	(7,671)
Withholding taxes paid on share-based compensation	(8,849)	(2,159)	(1,588)
Net cash used in financing activities	(55,091)	(19,432)	(31,021)
Net (decrease) increase in cash	1	(1)	(1,599)
Cash at beginning of the period	1,678	1,679	3,278
Cash at end of the period	\$ 1,679	\$ 1,678	\$ 1,679

[This page intentionally left blank]

[This page intentionally left blank]

shareholder information

Corporate Headquarters – Puerto Rico
Road #176 km 1.3 Cupey Bajo
Río Piedras, Puerto Rico 00926

PO Box 364527
San Juan, Puerto Rico 00936-4527
t. 787.759.9999 f. 787.250.7356
www.everttecinc.com

form 10-k

Everttec, Inc. has filed with the U.S. Securities and Exchange Commission (SEC) an Annual Report on Form 10-K for the year ended December 31, 2019. The company's Annual Report and other SEC filings may be accessed at www.sec.gov or at www.everttecinc.com, Investor Relations section, SEC Filings link.

investor relations

Kay Sharpton,
Vice President of Investor Relations
t. 787.773.5442
ksharpton@everttecinc.com

annual meeting of stockholders

The Annual Meeting of Stockholders will be held on May 28, 2020 at 9:00 a.m. AST at the corporate headquarters, road #176 km 1.3, Cupey, Puerto Rico, 00926.

independent registered public accounting firm

Deloitte & Touche LLP
350 Chardón Ave., Ste 700
San Juan, Puerto Rico 00918-2140
t. 787.282.5300 – www.deloitte.com

transfer agent and registrar

Computershare
PO Box 43708 – Providence, RI 02940-3078
t. 800.568.3476 – www.computersare.com

common stock listing

The company's common stock is listed on the New York Stock Exchange (NYSE) under the symbol EVTC.

board of directors and board committees

Frank G. D'Angelo,
Chairman of the Board



Morgan M. Schuessler, Jr.,
President and Chief Executive Officer

Olga Botero,
Director



Jorge A. Junquera,
Director



Iván Pagán,
Director



Aldo Polak,
Director



Alan H. Schumacher,
Director



Brian J. Smith,
Director



Thomas W. Swidarski,
Director



executive officers

Morgan M. Schuessler, Jr.,
President and Chief Executive Officer

Joaquín A. Castrillo,
Executive Vice President and Chief Financial Officer

Rodrigo del Castillo,
Executive Vice President – Payment Services for Latin America

Paola Pérez,
Executive Vice President and Chief Administrative Officer

Carlos J. Ramírez,
Executive Vice President – Sales Puerto Rico

Luis A. Rodríguez,
General Counsel and Executive Vice President – Legal, Compliance & Corporate Development

Guillermo Rospigliosi,
Executive Vice President and Chief Product and Innovation Officer

Philip E. Steurer,
Executive Vice President and Chief Operating Officer

Miguel Vizcarrondo,
Executive Vice President – Payment Services, Puerto Rico and Caribbean, Business Solutions and Merchant Acquiring

committee key



audit



compensation



information technology



nominating and corporate governance



denotes committee chair

 evertec® **2019**