

EURONET WORLDWIDE INC  
Form 10-Q  
November 02, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended September 30, 2018  
OR

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

For  
the  
to  
transition  
period

Commission File Number: 001-31648  
EURONET WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)  
Delaware 74-2806888  
(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification No.)

3500 College Boulevard  
Leawood, Kansas 66211  
(Address of principal executive offices) (Zip Code)  
(913) 327-4200  
(Registrant's telephone number, including area code)

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 and post such files). Yes  No

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

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

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

On October 31, 2018, Euronet Worldwide, Inc. had 51,560,331 shares of Common Stock outstanding.



EURONET WORLDWIDE, INC. AND SUBSIDIARIES

Table of Contents

|   | Page      |
|---|-----------|
| <b><u>PART I—FINANCIAL INFORMATION</u></b>  |           |
| Item 1. <u>Financial Statements (unaudited)</u>   | <u>3</u>  |
| <u>Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017</u>                                   | <u>3</u>  |
| <u>Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2018 and 2017</u>            | <u>4</u>  |
| <u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September, 2018 and 2017</u> | <u>5</u>  |
| <u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017</u>                  | <u>6</u>  |
| <u>Notes to the Unaudited Consolidated Financial Statements</u>   | <u>7</u>  |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                | <u>21</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>39</u> |
| Item 4. <u>Controls and Procedures</u>  | <u>40</u> |
| <b><u>PART II—OTHER INFORMATION</u></b>   |           |
| Item 1. <u>Legal Proceedings</u>  | <u>40</u> |
| Item 1A. <u>Risk Factors</u>  | <u>41</u> |
| Item 6. <u>Exhibits</u>   | <u>42</u> |
| <u>Signatures</u>   | <u>43</u> |

---

Table of Contents

## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

EURONET WORLDWIDE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

|  | As of<br>September 30,<br>2018<br>(unaudited) | December 31,<br>2017 |
|--|---|----------------------|
| <b>ASSETS</b>  |   |                      |
| Current assets:  |   |                      |
| Cash and cash equivalents  | \$1,129,272                                   | \$ 819,144           |
| Restricted cash  | 73,453  | 81,374               |
| Trade accounts receivable, net of allowances for doubtful accounts of \$23,426 at September 30, 2018 and \$20,958 at December 31, 2017           | 813,759                                       | 744,879              |
| Prepaid expenses and other current assets  | 200,004                                       | 244,789              |
| Total current assets   | 2,216,488                                     | 1,890,186            |
| Property and equipment, net of accumulated depreciation of \$365,708 at September 30, 2018 and \$340,128 at December 31, 2017                    | 283,167                                       | 268,303              |
| Goodwill   | 715,745                                       | 717,386              |
| Acquired intangible assets, net of accumulated amortization of \$191,256 at September 30, 2018 and \$179,142 at December 31, 2017                | 128,586                                       | 150,543              |
| Other assets, net of accumulated amortization of \$49,010 at September 30, 2018 and \$44,469 at December 31, 2017                                | 116,800                                       | 113,611              |
| Total assets   | \$3,460,786                                   | \$ 3,140,029         |
| <b>LIABILITIES AND EQUITY</b>  |   |                      |
| Current liabilities:   |   |                      |
| Trade accounts payable   | \$405,683                                     | \$ 494,841           |
| Accrued expenses and other current liabilities   | 752,295                                       | 759,789              |
| Current portion of capital lease obligations   | 5,396   | 5,369                |
| Short-term debt obligations and current maturities of long-term debt obligations   | 233,074                                       | 41,288               |
| Income taxes payable   | 64,200  | 54,437               |
| Deferred revenue   | 53,059  | 51,996               |
| Total current liabilities  | 1,513,707                                     | 1,407,720            |
| Debt obligations, net of current portion   | 641,388                                       | 404,012              |
| Capital lease obligations, net of current portion  | 8,750   | 9,753                |
| Deferred income taxes  | 52,707  | 54,969               |
| Other long-term liabilities  | 65,113  | 64,097               |
| Total liabilities  | 2,281,665                                     | 1,940,551            |
| Equity:  |   |                      |
| Euronet Worldwide, Inc. stockholders' equity:  |   |                      |
| Preferred Stock, \$0.02 par value. 10,000,000 shares authorized; none issued   | —   | —                    |
| Common Stock, \$0.02 par value. 90,000,000 shares authorized; 59,554,968 issued at September 30, 2018 and 58,892,744 issued at December 31, 2017 | 1,191   | 1,178                |
| Additional paid-in-capital   | 1,094,531                                     | 1,072,005            |
| Treasury stock, at cost, 8,096,314 shares at September 30, 2018 and 6,084,586 shares at December 31, 2017  | (392,095 )                                    | (217,161 )           |

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|  |             |             |
|--|-------------|-------------|
| Retained earnings                                  | 609,813     | 436,954     |
| Accumulated other comprehensive loss               | (134,605 )  | (94,458 )   |
| Total Euronet Worldwide, Inc. stockholders' equity | 1,178,835   | 1,198,518   |
| Noncontrolling interests                           | 286         | 960         |
| Total equity                                       | 1,179,121   | 1,199,478   |
| Total liabilities and equity                       | \$3,460,786 | \$3,140,029 |

See accompanying notes to the unaudited consolidated financial statements.

3

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Table of Contents

EURONET WORLDWIDE, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF INCOME  
 (Unaudited, in thousands, except share and per share data)

|  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |             |
|--|-------------------------------------|------------|------------------------------------|-------------|
|  | 2018                                | 2017       | 2018                               | 2017        |
| Revenues   | \$714,505                           | \$637,834  | \$1,887,244                        | \$1,647,777 |
| Operating expenses:  |                                     |            |                                    |             |
| Direct operating costs   | 388,236                             | 364,815    | 1,093,072                          | 978,768     |
| Salaries and benefits  | 93,108                              | 82,134     | 270,537                            | 232,617     |
| Selling, general and administrative                                      | 55,787                              | 49,279     | 158,156                            | 139,708     |
| Acquired intangible assets impairment                                    | —                                   | —          | —                                  | 2,286       |
| Depreciation and amortization  | 26,461                              | 24,705     | 78,726                             | 69,520      |
| Total operating expenses   | 563,592                             | 520,933    | 1,600,491                          | 1,422,899   |
| Operating income   | 150,913                             | 116,901    | 286,753                            | 224,878     |
| Other income (expense):  |                                     |            |                                    |             |
| Interest income  | 288                                 | 380        | 1,000                              | 2,009       |
| Interest expense   | (11,269 )                           | (9,534 )   | (28,936 )                          | (25,058 )   |
| Loss from unconsolidated affiliates                                      | —                                   | —          | (117 )                             | —           |
| Foreign currency exchange (loss) gain, net                               | (2,704 )                            | 8,179      | (21,459 )                          | 21,035      |
| Other (loss) gains   | (34 )                               | —          | 26                                 | 35          |
| Other expense, net   | (13,719 )                           | (975 )     | (49,486 )                          | (1,979 )    |
| Income before income taxes   | 137,194                             | 115,926    | 237,267                            | 222,899     |
| Income tax expense   | (34,937 )                           | (15,573 )  | (65,031 )                          | (43,130 )   |
| Net income   | 102,257                             | 100,353    | 172,236                            | 179,769     |
| Net loss (income) attributable to noncontrolling interests               | 466                                 | (63 )      | 623                                | 9           |
| Net income attributable to Euronet Worldwide, Inc.                       | \$102,723                           | \$100,290  | \$172,859                          | \$179,778   |
| Earnings per share attributable to Euronet Worldwide, Inc. stockholders: |                                     |            |                                    |             |
| Basic  | \$2.01                              | \$1.91     | \$3.36                             | \$3.43      |
| Diluted  | \$1.89                              | \$1.80     | \$3.17                             | \$3.23      |
| Weighted average shares outstanding:                                     |                                     |            |                                    |             |
| Basic  | 51,182,502                          | 52,590,837 | 51,436,228                         | 52,463,511  |
| Diluted  | 54,263,892                          | 55,784,485 | 54,521,262                         | 55,582,583  |

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

EURONET WORLDWIDE, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited, in thousands)

|  | Three Months Ended |           | Nine Months Ended |           |
|--|--------------------|-----------|-------------------|-----------|
|  | September 30,      |           | September 30,     |           |
|  | 2018               | 2017      | 2018              | 2017      |
| Net income   | \$102,257          | \$100,353 | \$172,236         | \$179,769 |
| Translation adjustment   | (4,613 )           | 26,703    | (40,198 )         | 97,311    |
| Comprehensive income   | 97,644             | 127,056   | 132,038           | 277,080   |
| Comprehensive loss (income) attributable to noncontrolling interests | 480                | (113 )    | 674               | (163 )    |
| Comprehensive income attributable to Euronet Worldwide, Inc.         | \$98,124           | \$126,943 | \$132,712         | \$276,917 |

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

EURONET WORLDWIDE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited, in thousands)

|   | Nine Months Ended<br>September 30, |              |
|---|------------------------------------|--------------|
|   | 2018                               | 2017         |
| Net income  | \$ 172,236                         | \$ 179,769   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |              |
| Depreciation and amortization   | 78,726                             | 69,520       |
| Share-based compensation  | 12,597                             | 11,817       |
| Unrealized foreign exchange loss (gain), net                                      | 21,459                             | (21,035 )    |
| Deferred income taxes   | (1,208 )                           | (14,856 )    |
| Loss from unconsolidated affiliates   | 117                                | —            |
| Accretion of convertible debt discount and amortization of debt issuance costs    | 10,582                             | 10,068       |
| Non-cash impairment of acquired intangible assets                                 | —                                  | 2,286        |
| Changes in working capital, net of amounts acquired:                              |                                    |              |
| Income taxes payable, net   | 10,022                             | 10,924       |
| Trade accounts receivable   | (87,237 )                          | (7,861 )     |
| Prepaid expenses and other current assets   | 42,552                             | 77,538       |
| Trade accounts payable  | (81,149 )                          | (118,677 )   |
| Deferred revenue  | 2,525                              | (2,497 )     |
| Accrued expenses and other current liabilities                                    | 9,877                              | 54,233       |
| Changes in noncurrent assets and liabilities                                      | 1,474                              | 6,455        |
| Net cash provided by operating activities   | 192,573                            | 257,684      |
| Cash flows from investing activities:   |                                    |              |
| Acquisitions, net of cash acquired  | (12,854 )                          | —            |
| Purchases of property and equipment   | (82,129 )                          | (70,871 )    |
| Purchases of other long-term assets   | (5,787 )                           | (4,651 )     |
| Other, net  | 1,401                              | 1,499        |
| Net cash used in investing activities   | (99,369 )                          | (74,023 )    |
| Cash flows from financing activities:   |                                    |              |
| Proceeds from issuance of shares  | 11,757                             | 8,328        |
| Repurchase of shares  | (177,163 )                         | (2,310 )     |
| Borrowings from revolving credit agreements                                       | 4,267,881                          | 1,839,963    |
| Repayments of revolving credit agreements   | (4,003,662 )                       | (1,808,695 ) |
| Repayments of long-term debt obligations  | (51,199 )                          | (6,563 )     |
| Repayments of capital lease obligations   | (4,739 )                           | (3,473 )     |
| Borrowings from short-term debt obligations, net                                  | 204,211                            | 99,081       |
| Other, net  | 1                                  | 284          |
| Net cash provided by financing activities   | 247,087                            | 126,615      |
| Effect of exchange rate changes on cash and cash equivalents and restricted cash  | (38,084 )                          | 53,494       |
| Increase in cash and cash equivalents and restricted cash                         | 302,207                            | 363,770      |
| Cash and cash equivalents and restricted cash at beginning of period              | 900,518                            | 812,088      |
| Cash and cash equivalents and restricted cash at end of period                    | \$ 1,202,725                       | \$ 1,175,858 |
| Supplemental disclosure of cash flow information:                                 |                                    |              |
| Interest paid during the period   | \$ 19,243                          | \$ 17,359    |
| Income taxes paid during the period   | \$ 55,338                          | \$ 34,769    |



See accompanying notes to the unaudited consolidated financial statements.

6

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Table of Contents

EURONET WORLDWIDE, INC. AND SUBSIDIARIES  
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) GENERAL

Organization

Euronet Worldwide, Inc. (together with its subsidiaries, the “Company” or “Euronet”) is a leading electronic payments provider. Euronet offers payment and transaction processing and distribution solutions to financial institutions, retailers, service providers and individual consumers. Euronet's primary product offerings include comprehensive automated teller machine (“ATM”), point-of-sale (“POS”), card outsourcing, card issuing and merchant acquiring services, software solutions, electronic distribution of prepaid mobile airtime and other electronic payment products, foreign currency exchange services and global money transfer services.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared from the records of the Company, in conformity with accounting principles generally accepted in the U.S. (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, such unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to fairly present the consolidated financial position and the results of operations, comprehensive income and cash flows for the interim periods. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2017, including the notes thereto, set forth in the Company’s 2017 Annual Report on Form 10-K. Certain amounts in prior years have been reclassified to conform to the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Significant items subject to such estimates and assumptions include computing income taxes, estimating the useful lives and potential impairment of long-lived assets and goodwill, as well as allocating the purchase price to assets acquired and liabilities assumed in acquisitions and revenue recognition. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2018.

Seasonality

Euronet’s EFT Processing Segment experiences its heaviest demand for dynamic currency conversion (“DCC”) services during the third quarter of the fiscal year, coinciding with the tourism season followed by lower transaction levels during the fourth quarter. Additionally, the epay Segments is impacted by seasonality during the fourth quarter and the first quarter of each year due to higher transaction levels during the holiday season and lower levels following the holiday season. Seasonality in the Money Transfer Segment varies by regions of the world. In most markets, Euronet usually experiences increased demand for money transfer services from the month of May through the fourth quarter of each year, coinciding with the increase in worker migration patterns and various holidays, and experiences its lowest transaction levels during the first quarter of each year.

(2) RECENTLY ISSUED AND ADOPTED ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“Topic 606”), and subsequently modified the standard with several ASUs. The Company adopted the standard on January 1, 2018 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with historic accounting under Topic 605.

The Company completed its review of customer contracts relative to the requirements of Topic 606 and concluded that revenues from certain customer contracts in the epay Segment should be recorded differently under the principal

versus agent guidance of Topic 606. With respect to those contracts, the Company concluded that it earns a commission from content providers for distributing and processing their prepaid mobile airtime and other electronic payment products, but it is not the principal for the products themselves. As a result, the impact of the change in accounting principle was a reduction of \$16.4 million and \$53.3 million in both revenues and direct operating expenses for the three and nine months ended September 30, 2018, respectively, with no impact on reported net income.

## Table of Contents

### Contract Balances

The new standard requires the deferral of incremental costs to obtain customer contracts, known as contract assets, which are then amortized to expense as part of selling, general and administrative expense over the respective periods of expected benefit. The Company completed its review of such costs and concluded that a transition adjustment was not necessary related to contract assets. However, the Company has implemented processes and controls to record such costs on an ongoing basis and will disclose them if they become material.

The Company records deferred revenues when cash payments are received or due in advance of its performance. The increase in the deferred revenue balance for the first nine months of 2018 is primarily driven by \$36.0 million of cash payments received in the current year for which we have not yet satisfied the performance obligations, that were offset by \$35.0 million of revenues recognized that were included in the deferred revenue balance as of December 31, 2017.

### Variable Consideration

Within the EFT segment, outsourcing services are generally billed on the basis of a fixed fee per ATM, plus a transaction-based fee. Transaction-based fees are recognized at the time the transactions are processed and outsourcing management fees are recognized ratably over the contract period. These fees can be variable based on transaction volume tiered discounts; however, as all tiered discounts are calculated monthly, the actual discount is recorded on a monthly basis. In addition, the epay segment generates commissions from the distribution of electronic content. It is common for these long-term contracts to contain award fees, incentive fees, or other provisions that can either increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics or program milestones and can be based upon customer discretion.

Transaction fees, as well as any tiered volume discounts or incentive fees, are calculated and billed monthly in accordance with the terms established in the contract. The Company estimates variable consideration at the most likely amount to which it expects to be entitled. The Company includes estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of Euronet's anticipated performance and all information (historical, current and forecast) that is reasonably available.

### Arrangements with Multiple Performance Obligations

The Company's most significant revenues are generated from transaction fees for which there are no remaining performance obligations left to fulfill after revenue is recognized. An insignificant amount of revenues are generated from contracts with customers which may include multiple performance obligations. For such arrangements, Euronet allocates revenues to each performance obligation based on its relative standalone selling price.

### Disaggregation of Revenues

Revenues are recognized when control of the promised goods or services is transferred to Euronet's customers, in an amount that reflects the consideration it expects to be entitled to in exchange for goods or services.

The following table presents the Company's revenues disaggregated by segment and region. Sales and usage-based taxes are excluded from revenues. The Company believes disaggregation by segment and region best depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. The disaggregation of revenues by segment and region is based on management's assessment of segment performance together with allocation of financial resources, both capital and operating support costs, on a segment and regional level. Both segments and regions benefit from synergies achieved through concentration of operations and are influenced by macro-economic, regulatory and political factors in the respective segment and region.



Table of Contents

|                | For the Three Months Ended September 30, 2018 |           |                |           | For the Nine Months Ended September 30, 2018 |           |                |             |
|----------------|---|-----------|----------------|-----------|--|-----------|----------------|-------------|
| (in thousands) | EFT Processing                                | epay      | Money Transfer | Total     | EFT Processing                               | epay      | Money Transfer | Total       |
| North America  | \$7,613                                       | \$41,346  | \$147,830      | \$196,789 | \$23,956                                     | \$124,667 | \$420,568      | \$569,191   |
| Europe         | 226,531                                       | 123,386   | 84,492         | 434,409   | 485,030                                      | 340,180   | 240,266        | 1,065,476   |
| Asia Pacific   | 27,570  | 17,505    | 31,195         | 76,270    | 83,310                                       | 52,116    | 95,049         | 230,475     |
| Other          | 22  | 3,194     | 4,774          | 7,990     | 37   | 11,776    | 13,060         | 24,873      |
| Eliminations   | —   | —         | —              | (953)     | —  | —         | —              | (2,771)     |
| Total          | \$261,736                                     | \$185,431 | \$268,291      | \$714,505 | \$592,333                                    | \$528,739 | \$768,943      | \$1,887,244 |

|                | For the Three Months Ended September 30, 2017 |           |                |           | For the Nine Months Ended September 30, 2017 |           |                |             |
|----------------|---|-----------|----------------|-----------|--|-----------|----------------|-------------|
| (in thousands) | EFT Processing                                | epay      | Money Transfer | Total     | EFT Processing                               | epay      | Money Transfer | Total       |
| North America  | \$8,065                                       | \$15,633  | \$131,615      | \$155,313 | \$23,065                                     | \$48,440  | \$379,620      | \$451,125   |
| Europe         | 192,147                                       | 141,561   | 69,802         | 403,510   | 391,213                                      | 382,316   | 190,080        | 963,609     |
| Asia Pacific   | 25,977  | 22,556    | 24,101         | 72,634    | 73,614                                       | 68,291    | 72,744         | 214,649     |
| Other          | 132   | 4,484     | 2,587          | 7,203     | 138  | 13,484    | 6,761          | 20,383      |
| Eliminations   | —   | —         | —              | (826)     | —  | —         | —              | (1,989)     |
| Total          | \$226,321                                     | \$184,234 | \$228,105      | \$637,834 | \$488,030                                    | \$512,531 | \$649,205      | \$1,647,777 |

As noted above, prior period amounts have not been adjusted under the modified retrospective method.

In March 2016, the FASB issued ASU 2016-04, Recognition of Breakage for Certain Prepaid Stored-Value Products. The new standard specifies that liabilities within its scope are considered to be financial liabilities, and amends the guidance in ASC 405-20, Extinguishments of Liabilities, by directing entities to derecognize prepaid stored-value product liabilities based on expected breakage in proportion to the pattern of rights expected to be exercised by the consumer. Derecognition for breakage is permitted only to the extent that it is probable that a significant reversal of recognized breakage will not subsequently occur. The new standard is consistent with the breakage guidance in Topic 606. The Company adopted this ASU as of January 1, 2018 along with Topic 606. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements and related disclosures.

In August 2016, the FASB issued an accounting standard classified under FASB ASC Topic 230, "Statement of Cash Flows". This accounting standard provides guidance on eight specific cash flow issues. Subsequently, the FASB issued amendments to this accounting standard that required companies to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the statement of cash flows.

The Company adopted these standards as of January 1, 2018. The adoption of these accounting standards resulted in an increase in net cash provided by operating activities of \$27.2 million for the nine months ended September, 2017. As of September 30, 2018, the Company had \$73.5 million of restricted cash consisting of restricted cash held in trust and/or cash held on behalf of others and cash collateral on bank credit arrangements. Cash held in trust and/or cash held on behalf of others is in connection with the administration of the customer collection and vendor remittance activities by certain subsidiaries within the Company's epay and EFT Processing Segments. Amounts collected on behalf of certain mobile phone operators and/or merchants are deposited into a restricted cash account. The bank credit arrangements primarily represent cash collateral on deposit with commercial banks to cover guarantees.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which will update the existing guidance on accounting for leases and require new qualitative and quantitative disclosures about the Company's leasing activities. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to

Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. The new standard requires lessees to account for all leases on the balance sheet, except for certain short-term leases that have a maximum possible lease term of 12 months. The accounting for lessors is largely unchanged from the previous accounting guidance, except for leverage lease accounting which is not permitted for leases entered into or modified after the effective date of the new standard.

Table of Contents

The new standard is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods, with early adoption permitted. A modified retrospective approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. The Company expects to adopt the new standard on January 1, 2019 and use the effective date as the date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The new standard provides a number of optional practical expedients in transition. The Company expects to elect the "package of practical expedients", which permits the Company not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. The Company does not expect to elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to it. The Company currently anticipates this standard will have a material impact on its consolidated balance sheets but will not have a material impact on its consolidated income statements. The Company currently expects the most significant impact will be the recognition of right-of-use assets and lease liabilities for operating leases. The Company currently expects its accounting for capital leases to remain substantially unchanged. The Company is continuing to assess the potential impacts of the standard.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently in the process of evaluating the effect of the adoption of ASU 2016-13 on its consolidated financial statements.

**(3) STOCKHOLDERS' EQUITY****Earnings Per Share**

Basic earnings per share has been computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding during the respective periods. Diluted earnings per share has been computed by dividing earnings available to common stockholders by the weighted average shares outstanding during the respective period, after adjusting for any potential dilution from options to purchase the Company's common stock, assumed vesting of restricted stock and the assumed conversion of the Company's convertible debentures. The following table provides the computation of diluted weighted average number of common shares outstanding:

|   | Three Months Ended<br>September 30,<br>2018 |            | Nine Months Ended<br>September 30,<br>2018 |            |
|---|---|------------|--|------------|
|   | 2017  | 2018       | 2017                                       | 2018       |
| Computation of diluted weighted average shares outstanding:                               |   |            |  |            |
| Basic weighted average shares outstanding   | 51,182,502                                  | 52,590,837 | 51,436,228                                 | 52,463,511 |
| Incremental shares from assumed exercise of stock options and vesting of restricted stock | 1,521,560                                   | 1,863,883  | 1,525,204                                  | 1,789,307  |
| Incremental shares from assumed conversion of convertible notes                           | 1,559,830                                   | 1,329,765  | 1,559,830                                  | 1,329,765  |
| Diluted weighted average shares outstanding   | 54,263,892                                  | 55,784,485 | 54,521,262                                 | 55,582,583 |

The table includes the impact of all stock options and restricted stock that are dilutive to the Company's weighted average common shares outstanding during the three and nine months ended September 30, 2018 and 2017. The calculation of diluted earnings per share excludes stock options or shares of restricted stock that are anti-dilutive to the Company's weighted average common shares outstanding of approximately 436,000 and 792,000 for the three and nine months ended September 30, 2018, respectively, and approximately 458,000 and 884,000 for the three and nine months ended September 30, 2017, respectively.

The Company's convertible notes have settlement features requiring the Company upon conversion to settle the principal amount of the debt and the conversion value in excess of the principal value ("conversion premium") for



cash or shares of the Company's common stock or a combination thereof, at the Company's option. At issuance, the Company stated its intent to settle any conversion of these notes by paying cash for the principal value and issuing common stock for any conversion premium. Accordingly, the convertible notes are included in the calculation of diluted earnings per share if their inclusion is dilutive. The convertible notes would only have a dilutive effect if the market price per share of common stock exceeds the conversion price of \$72.18 per share and the dilutive effect increases the more the market price exceeds the conversion price.

Table of Contents

As of September 30, 2018 and 2017, the stock price exceeded the conversion price and these notes were dilutive to earnings per share. Further, as a result of the share price increasing from \$94.79 at September 30, 2017 to \$100.22 at September 30, 2018, there was an increase in shares from the assumed conversion of convertible notes.

Share repurchases

The Company's Board of Directors has authorized a stock repurchase program ("Repurchase Program") allowing Euronet to repurchase up to \$375 million in value or 10.0 million shares of stock through March 31, 2020.

Repurchases under the Repurchase Program may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan. For the first nine months of 2018, the Company repurchased \$175.0 million, in value of Euronet common stock under the Repurchase Program.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists entirely of foreign currency translation adjustments. The Company recorded foreign currency translation losses of \$4.6 million and \$40.2 million for the three and nine months ended September 30, 2018, respectively, and gains of \$26.7 million and \$97.3 million for the three and nine months ended September 30, 2017, respectively. There were no reclassifications of foreign currency translation into the consolidated statements of income for the three and nine months ended September 30, 2018 and 2017.

(4) GOODWILL AND ACQUIRED INTANGIBLE ASSETS, NET

A summary of acquired intangible assets and goodwill activity for the nine months ended September 30, 2018 is presented below:

| (in thousands)   | Acquired<br>Intangible<br>Assets | Goodwill   | Total<br>Intangible<br>Assets |
|--|----------------------------------|------------|-------------------------------|
| Balance as of December 31, 2017                              | \$ 150,543                       | \$ 717,386 | \$ 867,929                    |
| Increases (decreases):                                       |                                  |            |                               |
| Acquisitions   | —                                | 20,742     | 20,742                        |
| Amortization   | (17,179 )                        | —          | (17,179 )                     |
| Other (primarily changes in foreign currency exchange rates) | (4,778 )                         | (22,383 )  | (27,161 )                     |
| Balance as of September 30, 2018                             | \$ 128,586                       | \$ 715,745 | \$ 844,331                    |

Estimated amortization expense on intangible assets with finite lives, before income taxes, as of September 30, 2018, is expected to total \$5.4 million for the remainder of 2018, \$21.2 million for 2019, \$20.4 million for 2020, \$19.5 million for 2021, \$18.5 million for 2022 and \$13.7 million for 2023.

The Company completed the acquisitions of two small European businesses for an immaterial amount of cash consideration, completing one acquisition in the first quarter of 2018 and completing the other acquisition in the second quarter of 2018. The acquisitions have been accounted for as business combinations in accordance with U.S. GAAP and the results of operations have been included from the respective dates of acquisition in the EFT Processing Segment.

The Company's annual goodwill impairment test is performed during the fourth quarter of its fiscal year. The annual impairment test for the year ended December 31, 2017 resulted in impairment charges of \$31.8 million.

Determining the fair value of reporting units requires significant management judgment in estimating future cash flows and assessing potential market and economic conditions. It is reasonably possible that the Company's operations will not perform as expected, or that the estimates or assumptions included in the 2017 annual impairment test could change, which may result in the Company recording material non-cash impairment charges during the year in which these changes take place.

Table of Contents

## (5) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

| (in thousands)  | As of              |                   |
|---|--------------------|-------------------|
|   | September 30, 2018 | December 31, 2017 |
| Accrued expenses  | \$305,969          | \$ 301,390        |
| Money transfer settlement obligations                               | 341,073            | 343,613           |
| Accrued amounts due to mobile operators and other content providers | 79,155             | 92,291            |
| Derivative liabilities  | 25,829             | 22,495            |
| Total   | \$752,295          | \$ 759,789        |

## (6) DEBT OBLIGATIONS

Debt obligations consist of the following:

| (in thousands)   | As of<br>September 30, 2018 | December 31, 2017 |
|--|-----------------------------|-------------------|
| Credit Facility:   |                             |                   |
| Term loan, due 2019 \$   | —                           | \$ 51,094         |
| Revolving credit agreements, due 2019  | 266,738                     | 3,000             |
|  | 266,738                     | 54,094            |
| Convertible Debt:  |                             |                   |
| 1.50% convertible notes, unsecured, due 2044                                     | 377,863                     | 369,259           |
| ATM credit facility  | 200,000                     | —                 |
| Other obligations  | 33,696                      | 27,763            |
| Total debt obligations   | 878,297                     | 451,116           |
| Unamortized debt issuance costs  | (3,835)                     | (5,816)           |
| Carrying value of debt   | 874,462                     | 445,300           |
| Short-term debt obligations and current maturities of long-term debt obligations | (233,074)                   | (41,288)          |
| Long-term debt obligations   | \$ 641,388                  | \$ 404,012        |

## Credit Facility

As of September 30, 2018, the Company had a \$675 million senior secured credit facility (the "Credit Facility") consisting of a \$600 million revolving credit agreement and a \$75 million term loan, which was retired early during the third quarter of 2018. The Credit Facility was subsequently replaced by a new credit agreement on October 17, 2018, which resulted in long-term debt obligation classification for the Credit Facility as of September 30, 2018. See

Note 13, Subsequent Event, for further details.

Interest on borrowings under the revolving credit facility varies based upon the Company's consolidated total leverage ratio, as defined in the Company's credit agreement, and is based on a margin over the London Inter-Bank Offered Rate ("LIBOR") or a margin over a base rate, as selected by the Company, with the applicable margin ranging from 1.375% to 2.375% for LIBOR loans or 0.375% to 1.375% for base rate loans. Accordingly, the weighted average interest rate for borrowings outstanding under the Company's revolving credit facility was 3.58% as of September 30, 2018.

#### Convertible Debt

The Convertible Senior Notes ("Convertible Notes") had a principal amount outstanding of \$402.5 million as of September 30, 2018. The Convertible Notes mature in October 2044 unless repurchased or converted prior to such date, and are convertible into shares of Euronet Common Stock at a conversion price of approximately \$72.18 per share. Holders of the Convertible

Table of Contents

Notes have the option to require the Company to purchase their notes at par on October 1, 2020, and have additional options to require the Company to purchase their notes at par on October 1, 2024, 2029, 2034, and 2039, or upon a change in control of the Company.

Holders may convert all or any portion of their Convertible Notes at their option at any time prior to October 1, 2044 only under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter), if the closing sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than 130% of the conversion price on each applicable trading day; (2) during the five consecutive business day period after any ten consecutive trading day period (the measurement period) in which the trading price for the Convertible Notes for each trading day of the measurement period was less than 98% of the product of the closing sale price of the Company's common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. If the holders exercise their option to convert, the Company is required to deliver cash or shares of the Company's common stock, at the Company's option, to satisfy the principal amount and the conversion premium. As of September 30, 2018, the conversion threshold in clause (1) of the preceding sentence had been met and the Convertible Notes became convertible at the holders' option during the fourth quarter of 2018.

Contractual interest expense for the Convertible Notes was \$1.5 million and \$4.5 million for the three and nine months ended September 30, 2018 and 2017, respectively. Accretion expense was \$2.9 million and \$8.6 million for the three and nine months ended September 30, 2018, respectively, and \$2.8 million and \$8.2 million for the three and nine months ended September 30, 2017, respectively. The effective interest rate was 4.7% for the three and nine months ended September 30, 2018. As of September 30, 2018, the unamortized discount was \$24.6 million, and will be amortized through October 1, 2020.

**ATM Credit Facility**

On May 11, 2018, the Company entered into a short-term credit facility in the amount of \$300 million for the sole purpose of providing cash for its ATM network. Interest is charged on this financing on an annual basis at the Overnight LIBOR rate plus 1.75%. The facility expires on November 30, 2018. The Company repaid \$100 million of the facility during the third quarter of 2018. The weighted average interest rate for borrowings under the ATM credit facility was 3.7% and 3.6% for the three and nine months ended September 30, 2018.

**(7) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Company is exposed to foreign currency exchange risk resulting from (i) the collection of funds or the settlement of money transfer transactions in currencies other than the U.S. Dollar, (ii) derivative contracts written to its customers in connection with providing cross-currency money transfer services and (iii) short-term borrowings that are payable in currencies other than the U.S. dollar. The Company enters into foreign currency derivative contracts, primarily foreign currency forwards and cross-currency swaps, to minimize its exposure related to fluctuations in foreign currency exchange rates. As a matter of Company policy, the derivative instruments used in these activities are economic hedges and are not designated as hedges under ASC Topic 815, Derivatives and Hedging ("ASC Topic 815"), primarily due to either the relatively short duration of the contract term or the effects of fluctuations in currency exchange rates being reflected concurrently in earnings for both the derivative instrument and the hedged transaction and having an offsetting effect.

**Foreign currency exchange contracts - Ria Operations and Corporate**

In the United States, the Company's Ria operations use short-duration foreign currency forward contracts, generally with maturities up to 14 days, to offset the fluctuation in foreign currency exchange rates on the collection of money transfer funds between initiation of a transaction and its settlement. Due to the short duration of these contracts and the Company's credit profile, the Company is generally not required to post collateral with respect to these foreign currency forward contracts. Most derivative contracts executed with counterparties in the U.S. are governed by an International Swaps and Derivatives Association agreement that includes standard netting arrangements; therefore, asset and liability positions from forward contracts and all other foreign exchange transactions with the same counterparty are net settled upon maturity. As of September 30, 2018, the Company held in its Ria operations foreign currency forward contracts outstanding in the U.S. with a notional value of \$328 million, primarily in Australian dollars, Canadian dollars, British pounds, euros and Mexican pesos.

In addition, the Company uses forward contracts, typically with maturities from a few days to less than one year, to offset foreign exchange rate fluctuations on certain foreign currency denominated other asset and liability positions. As of September 30, 2018, the Company had foreign currency forward contracts outstanding with a notional value of \$275 million, primarily in euros and Polish zloty.

Foreign currency exchange contracts - HiFX Operations

HiFX writes derivative instruments, primarily foreign currency forward contracts and cross-currency swaps, mostly with counterparties comprised of individuals and small-to-medium size businesses and derives a currency margin from this activity

Table of Contents

as part of its operations. HiFX aggregates its foreign currency exposures arising from customer contracts and may hedge some or all of the resulting net currency risks by entering into offsetting contracts with established financial institution counterparties. Foreign exchange revenues from HiFX's total portfolio of positions were \$16.8 million and \$52.5 million for the three and nine months ended September 30, 2018, respectively, and \$16.7 million and \$48.4 million for the three and nine months ended September 30, 2017, respectively. All of the derivative contracts used in the Company's HiFX operations are economic hedges and are not designated as hedges under ASC Topic 815. The duration of these derivative contracts is generally less than one year.

The fair value of HiFX's total portfolio of positions can change significantly from period to period based on, among other factors, market movements and changes in customer contract positions. HiFX manages counterparty credit risk (the risk that counterparties will default and not make payments according to the terms of the agreements) on an individual counterparty basis. It mitigates this risk by entering into contracts with collateral posting requirements and/or by performing financial assessments prior to contract execution, conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualified counterparties. HiFX does not expect any significant losses from counterparty defaults.

The aggregate equivalent U.S. dollar notional amounts of foreign currency derivative customer contracts held by the Company in its HiFX operations as of September 30, 2018 was approximately \$1.2 billion. The majority of customer contracts are written in major currencies such as the U.S. dollar, euro, New Zealand dollar, British pound, and Australian dollar.

**Balance Sheet Presentation**

The following table summarizes the fair value of the derivative instruments as recorded in the Consolidated Balance Sheets as of the dates below:

| (in thousands)                                    | Asset Derivatives                        |                                  | Liability Derivatives           |  |                                  |                                 |
|---|--|----------------------------------|---------------------------------|--|----------------------------------|---------------------------------|
|   | Balance Sheet Location                   | Fair Value<br>September 30, 2018 | Fair Value<br>December 31, 2017 | Balance Sheet Location                         | Fair Value<br>September 30, 2018 | Fair Value<br>December 31, 2017 |
| Derivatives not designated as hedging instruments |  |                                  |                                 |  |                                  |                                 |
| Foreign currency exchange contracts               | Prepaid expense and other current assets | \$41,399                         | \$ 36,574                       | Accrued expenses and other current liabilities | \$(25,829)                       | \$(22,495 )                     |

Table of Contents

The following tables summarize the gross and net fair value of derivative assets and liabilities as of September 30, 2018 and December 31, 2017 (in thousands):

## Offsetting of Derivative Assets

|  |  |  |   | Gross Amounts Not<br>Offset in the<br>Consolidated<br>Balance Sheet |                                |                |  |
|--|--|--|---|---|--------------------------------|----------------|--|
|  | Gross<br>Amounts<br>of<br>Recognized<br>Assets | Gross<br>Amounts<br>Offset in<br>the<br>Consolidated<br>Balance<br>Sheet | Net<br>Amounts<br>Presented in<br>the<br>Consolidated<br>Balance<br>Sheet | Financial<br>Instruments  | Cash<br>Collateral<br>Received | Net<br>Amounts |  |
| As of September 30, 2018   |  |  |   |   |                                |                |  |
| Derivatives subject to a master netting arrangement or similar agreement | \$ 41,399                                      | \$   | —\$ 41,399  | \$(15,915)  | \$(4,515)                      | \$ 20,969      |  |
| As of December 31, 2017  |  |  |   |   |                                |                |  |
| Derivatives subject to a master netting arrangement or similar agreement | \$ 36,574                                      | \$   | —\$ 36,574  | \$(15,050)  | \$(7,603)                      | \$ 13,921      |  |

## Offsetting of Derivative Liabilities

|  |  |  |   | Gross Amounts<br>Not Offset in the<br>Consolidated<br>Balance Sheet |                            |                |  |
|--|--|--|---|---|----------------------------|----------------|--|
|  | Gross<br>Amounts of<br>Recognized<br>Liabilities | Gross<br>Amounts<br>Offset in<br>the<br>Consolidated<br>Balance<br>Sheet | Net<br>Amounts<br>Presented in<br>the<br>Consolidated<br>Balance<br>Sheet | Financial<br>Instruments  | Cash<br>Collateral<br>Paid | Net<br>Amounts |  |
| As of September 30, 2018   |  |  |   |   |                            |                |  |
| Derivatives subject to a master netting arrangement or similar agreement | \$(25,829)                                       | \$   | —\$(25,829)   | \$ 15,915   | \$ 1,004                   | \$(8,910)      |  |
| As of December 31, 2017  |  |  |   |   |                            |                |  |
| Derivatives subject to a master netting arrangement or similar agreement | \$(22,495)                                       | \$   | —\$(22,495)   | \$ 15,050   | \$ 2,716                   | \$(4,729)      |  |

See Note 8, Fair Value Measurements, for the determination of the fair values of derivatives.

## Income Statement Presentation

The following table summarizes the location and amount of gains and losses on derivatives in the Consolidated Statements of Income for the three and nine months ended September 30, 2018 and 2017:

| Location of Gain (Loss) Recognized in Income on<br>Derivative Contracts | Amount of Gain (Loss)<br>Recognized in Income on<br>Derivative Contracts (a) |                                       |
|---|--|---------------------------------------|
|   | Three Months<br>Ended<br>September 30,                                       | Nine Months<br>Ended<br>September 30, |



| (in thousands)                      |  | 2018    | 2017    | 2018     | 2017      |
|-------------------------------------|--|---------|---------|----------|-----------|
| Foreign currency exchange contracts | Foreign currency exchange gain (loss), net | \$2,058 | \$3,062 | \$10,438 | \$(3,007) |

(a) The Company enters into derivative contracts such as foreign currency exchange forwards and cross-currency swaps as part of its HiFX operations. These derivative contracts are excluded from this table as they are part of the broader disclosure of foreign currency exchange revenues for this business discussed above.

#### (8) FAIR VALUE MEASUREMENTS

Fair value measurements used in the unaudited consolidated financial statements are based upon 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. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data

Table of Contents

obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the inputs that market participants would use in pricing.

The following table details financial assets and liabilities measured and recorded at fair value on a recurring basis:

|                                     |                              | As of September 30, 2018 |            |         |            |
|-------------------------------------|------------------------------|--------------------------|------------|---------|------------|
| (in thousands)                      | Balance Sheet Classification | Level 1                  | Level 2    | Level 3 | Total      |
| Assets                              |                              |                          |            |         |            |
| Foreign currency exchange contracts | Other current assets         | \$—                      | \$41,399   | \$—     | \$41,399   |
| Liabilities                         |                              |                          |            |         |            |
| Foreign currency exchange contracts | Other current liabilities    | \$—                      | \$(25,829) | \$—     | \$(25,829) |
|                                     |                              | As of December 31, 2017  |            |         |            |
| (in thousands)                      | Balance Sheet Classification | Level 1                  | Level 2    | Level 3 | Total      |
| Assets                              |                              |                          |            |         |            |
| Foreign currency exchange contracts | Other current assets         | \$—                      | \$36,574   | \$—     | \$36,574   |
| Liabilities                         |                              |                          |            |         |            |
| Foreign currency exchange contracts | Other current liabilities    | \$—                      | \$(22,495) | \$—     | \$(22,495) |

#### Other Fair Value Disclosures

The carrying amounts of cash and cash equivalents, accounts receivable, trade accounts payable, accrued expenses and other current obligations approximate their fair values because of the relatively short-term maturities of these financial instruments. The carrying values of the Company's long-term debt (other than the Convertible Notes), including the current portion, approximate fair value because interest is primarily based on LIBOR, which resets at various intervals of less than one year. The Company estimates the fair value of the Convertible Notes using quoted prices in inactive markets for identical liabilities (Level 2). As of September 30, 2018 and December 31, 2017, the fair values of the Convertible Notes were \$562.6 million and \$503.7 million, respectively, with carrying values of \$377.9 million and \$369.3 million, respectively.

#### (9) SEGMENT INFORMATION

The Company's reportable operating segments have been determined in accordance with ASC Topic 280, Segment Reporting. The Company currently operates in the following three reportable operating segments:

1) Through the EFT Processing Segment, the Company processes transactions for a network of ATMs and POS terminals across Europe, the Middle East and Asia Pacific and the United States. The Company provides comprehensive electronic payment solutions consisting of ATM cash withdrawal services, ATM network participation, outsourced ATM and POS management solutions, credit and debit card outsourcing, dynamic currency conversion and other value added services. Through this segment, the Company also offers a suite of integrated electronic financial transaction software solutions for electronic payment and transaction delivery systems.

2) Through the epay Segment, the Company provides distribution, processing and collection services for prepaid mobile airtime and other electronic payment products in Europe, the Middle East, Asia Pacific, the United States and South America.



Table of Contents

Through the Money Transfer Segment, the Company provides global money transfer services under the brand names Ria, HiFX, IME and xe. Ria and IME provide global consumer-to-consumer money transfer services through a network of sending agents, Company-owned stores and Company-owned websites, disbursing money transfers through a worldwide correspondent network. HiFX offers account-to-account international payment services to 3)high-income individuals and small-to-medium sized businesses. xe is a provider of foreign currency exchange information and offers money transfers on its currency data websites. The Company also offers customers bill payment services, payment alternatives such as money orders and prepaid debit cards, comprehensive check cashing services, foreign currency exchange services and mobile top-up. The Company provides cash management solutions and foreign currency risk management services to small-to-medium sized businesses under the brand name HiFM.

In addition, the Company accounts for non-operating activity, most share-based compensation expense, certain intersegment eliminations and the costs of providing corporate and other administrative services in its administrative division, "Corporate Services, Eliminations and Other." These services are not directly identifiable with the Company's reportable operating segments.

The following tables present the Company's reportable segment results for the three and nine months ended September 30, 2018 and 2017:

| (in thousands)                      | For the Three Months Ended September 30, 2018 |           |                |  |              |
|-------------------------------------|---|-----------|----------------|--|--------------|
|                                     | EFT Processing                                | epay      | Money Transfer | Corporate Services, Eliminations and Other | Consolidated |
| Total revenues                      | \$261,736                                     | \$185,431 | \$268,291      | \$ (953 )                                  | \$ 714,505   |
| Operating expenses:                 |   |           |                |  |              |
| Direct operating costs              | 101,763                                       | 142,665   | 144,758        | (950 )                                     | 388,236      |
| Salaries and benefits               | 21,653  | 14,491    | 48,945         | 8,019                                      | 93,108       |
| Selling, general and administrative | 11,227  | 9,968     | 32,483         | 2,109                                      | 55,787       |
| Depreciation and amortization       | 16,694  | 1,881     | 7,854          | 32   | 26,461       |
| Total operating expenses            | 151,337                                       | 169,005   | 234,040        | 9,210                                      | 563,592      |
| Operating income (expense)          | \$110,399                                     | \$16,426  | \$34,251       | \$ (10,163 )                               | \$ 150,913   |

| (in thousands)                      | For the Three Months Ended September 30, 2017 |           |                |  |              |
|-------------------------------------|---|-----------|----------------|--|--------------|
|                                     | EFT Processing                                | epay      | Money Transfer | Corporate Services, Eliminations and Other | Consolidated |
| Total revenues                      | \$226,321                                     | \$184,234 | \$228,105      | \$ (826 )                                  | \$ 637,834   |
| Operating expenses:                 |   |           |                |  |              |
| Direct operating costs              | 99,024  | 143,023   | 123,588        | (820 )                                     | 364,815      |
| Salaries and benefits               | 16,817  | 13,955    | 44,110         | 7,252                                      | 82,134       |
| Selling, general and administrative | 8,878   | 9,145     | 28,648         | 2,608                                      | 49,279       |
| Depreciation and amortization       | 14,805  | 2,461     | 7,403          | 36   | 24,705       |
| Total operating expenses            | 139,524                                       | 168,584   | 203,749        | 9,076                                      | 520,933      |
| Operating income (expense)          | \$86,797                                      | \$15,650  | \$24,356       | \$ (9,902 )                                | \$ 116,901   |

Table of Contents

| For the Nine Months Ended September 30, 2018 |                |           |                |  |              |
|--|----------------|-----------|----------------|--|--------------|
| (in thousands)                               | EFT Processing | epay      | Money Transfer | Corporate Services, Eliminations and Other | Consolidated |
| Total revenues                               | \$592,333      | \$528,739 | \$768,943      | \$ (2,771 )                                | \$ 1,887,244 |
| Operating expenses:                          |                |           |                |  |              |
| Direct operating costs                       | 279,927        | 403,010   | 412,895        | (2,760 )                                   | 1,093,072    |
| Salaries and benefits                        | 57,704         | 43,235    | 145,420        | 24,178                                     | 270,537      |
| Selling, general and administrative          | 30,557         | 27,191    | 93,610         | 6,798                                      | 158,156      |
| Depreciation and amortization                | 49,277         | 5,653     | 23,702         | 94   | 78,726       |
| Total operating expenses                     | 417,465        | 479,089   | 675,627        | 28,310                                     | 1,600,491    |
| Operating income (expense)                   | \$174,868      | \$49,650  | \$93,316       | \$ (31,081 )                               | \$ 286,753   |
| For the Nine Months Ended September 30, 2017 |                |           |                |  |              |
| (in thousands)                               | EFT Processing | epay      | Money Transfer | Corporate Services, Eliminations and Other | Consolidated |
| Total revenues                               | \$488,030      | \$512,531 | \$649,205      | \$ (1,989 )                                | \$ 1,647,777 |
| Operating expenses:                          |                |           |                |  |              |
| Direct operating costs                       | 238,753        | 393,269   | 348,724        | (1,978 )                                   | 978,768      |
| Salaries and benefits                        | 46,125         | 39,606    | 125,273        | 21,613                                     | 232,617      |
| Selling, general and administrative          | 23,960         | 27,628    | 77,912         | 10,208                                     | 139,708      |
| Acquired intangible assets impairment        | 2,286          | —         | —              | —  | 2,286        |
| Depreciation and amortization                | 39,816         | 7,667     | 21,941         | 96   | 69,520       |
| Total operating expenses                     | 350,940        | 468,170   | 573,850        | 29,939                                     | 1,422,899    |
| Operating income (expense)                   | \$137,090      | \$44,361  | \$75,355       | \$ (31,928 )                               | \$ 224,878   |

The following table presents the Company's property and equipment and total assets by reportable segment:

| (in thousands)                             | Property and Equipment, net as of |                   | Total Assets as of |                   |
|--|-----------------------------------|-------------------|--------------------|-------------------|
|  | September 30, 2018                | December 31, 2017 | September 30, 2018 | December 31, 2017 |
| EFT Processing                             | \$209,912                         | \$ 196,451        | \$1,460,848        | \$ 1,040,135      |
| epay                                       | 29,496                            | 28,135            | 616,406            | 695,990           |
| Money Transfer                             | 43,684                            | 43,564            | 1,366,298          | 1,255,765         |
| Corporate Services, Eliminations and Other | 75                                | 153               | 17,234             | 148,139           |
| Total                                      | \$283,167                         | \$ 268,303        | \$3,460,786        | \$ 3,140,029      |

**(10) INCOME TAXES**

The Company's effective income tax rate was 25.5% and 27.4% for the three and nine months ended September 30, 2018, respectively, compared to 13.4% and 19.3% for the three and nine months ended September 30, 2017, respectively. The Company's effective income tax rate for the three and nine months ended September 30, 2017 was less than the applicable statutory rate of 35% primarily due to the release of a \$16.3 million valuation allowance against certain foreign deferred tax assets and, to a lesser extent, the Company's U.S. tax position. In 2017, the significant year-over-year and year-to-date profitability of ATMs under management in Europe allowed the release of

the valuation allowance as the Company believes that certain foreign deferred assets, including net operating loss carryforwards, will more likely than not be realized in future periods. In addition, the Company had significant U.S. federal tax net operating loss carryforwards with no recent history of significant U.S. taxable income; therefore, the Company had recorded a valuation allowance against its net U.S. deferred tax assets. Accordingly, in instances when the Company generated pre-tax U.S. GAAP income, no income tax expense was recognized to the extent there were net operating loss carryforwards to offset the pre-tax U.S. GAAP income.

The Company's effective income tax rate for the three and nine months ended September 30, 2018 was higher than the applicable statutory income tax rate of 21% as a result of the enactment into law of what is commonly known as the Tax Cuts and Jobs Act of 2017 (the "Act") and the Act's impact on the Company's U.S. income tax positions at the end of 2017. The most significant provisions of the Act are the transition tax on previously undistributed foreign earnings of foreign subsidiaries, the reduction in the U.S. corporate statutory income tax rate from 35% to 21% beginning on January 1, 2018, and new taxes on certain foreign sourced earnings. As stated above, the Company had recorded a valuation allowance against its net U.S. deferred tax assets. Upon enactment of the Act, the Company expected to utilize its historic U.S. federal tax net operating losses to partially offset the transition tax and released the associated valuation allowance in the fourth quarter of 2017. This

Table of Contents

change has created additional U.S. tax expense as the Company now recognizes income tax expense on its pre-tax U.S. GAAP income. In addition, the Act's global intangible low-taxed income ("GILTI") provision has subjected the Company's foreign earnings to additional U.S. tax expense.

The SEC staff issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the tax effects of the Act. SAB 118 provides a measurement period of up to one year from the Act's enactment date for companies to complete their accounting. In accordance with SAB 118, the Company provided provisional amounts where appropriate which it believes represent a reasonable estimate based on available information and its interpretations of the Act. Further, the Company is allowed to either recognize deferred taxes for temporary differences expected to reverse as GILTI in future years or recognize such taxes as current period expenses when incurred. Due to the complexity of calculating GILTI, the Company has not determined which method it will apply. The Company will continue to evaluate the Act and adjust the provisional amounts as additional information becomes available.

(11) COMMITMENTS

As of September 30, 2018, the Company had \$74.3 million of stand-by letters of credit/bank guarantees issued on its behalf, of which \$47.9 million are outstanding under the Credit Facility. The remaining stand-by letters of credit/bank guarantees are collateralized by \$3.7 million of cash deposits held by the respective issuing banks.

Under certain circumstances, Euronet grants guarantees in support of obligations of subsidiaries. As of September 30, 2018, the Company had granted off balance sheet guarantees for cash in various ATM networks amounting to \$23.2 million over the terms of the cash supply agreements and performance guarantees amounting to approximately \$29.4 million over the terms of agreements with the customers.

From time to time, the Company enters into agreements with commercial counterparties that contain indemnification provisions, the terms of which may vary depending on the negotiated terms of each respective agreement. The amount of such potential obligations is generally not stated in the agreements. Euronet's liability under such indemnification provisions may be mitigated by relevant insurance coverage and may be subject to time and materiality limitations, monetary caps and other conditions and defenses. Such indemnification obligations include the following:

In connection with contracts with financial institutions in the EFT Processing Segment, the Company is responsible for damage to ATMs and theft of ATM network cash that, generally, is not recorded on the Company's Consolidated Balance Sheets. As of September 30, 2018, the balance of cash used in the Company's ATM networks for which the Company was responsible was approximately \$318 million. The Company maintains insurance policies to mitigate this exposure;

In connection with contracts with financial institutions in the EFT Processing Segment, the Company is responsible for losses suffered by its customers and other parties as a result of the breach of its computer systems, including in particular, losses arising from fraudulent transactions made using information stolen through its processing systems. The Company maintains systems of internal controls and insurance policies to mitigate this exposure;

In connection with the license of proprietary systems to customers, the Company provides certain warranties and infringement indemnities to the licensee, which generally warrant that such systems do not infringe on intellectual property owned by third parties and that the systems will perform in accordance with their specifications;

Euronet has entered into purchase and service agreements with vendors and consulting agreements with providers of consulting services, pursuant to which the Company has agreed to indemnify certain of such vendors and consultants, respectively, against third-party claims arising from the Company's use of the vendor's product or the services of the vendor or consultant;

In connection with acquisitions and dispositions of subsidiaries, operating units and business assets, the Company has entered into agreements containing indemnification provisions, which can be generally described as follows: (i) in connection with acquisitions of operating units or assets made by Euronet, the Company has agreed to indemnify the seller against third-party claims made against the seller relating to the operating unit or asset and arising after the closing of the transaction, and (ii) in connection with dispositions made by Euronet, Euronet has agreed to indemnify the buyer against damages incurred by the buyer due to the buyer's reliance on representations and warranties relating to the subject subsidiary, operating unit or business assets in the disposition agreement if such representations or warranties were untrue when made; and





Table of Contents

Euronet has entered into agreements with certain third parties, including banks that provide fiduciary and other services to Euronet or to the Company's benefit plans. Under such agreements, the Company has agreed to indemnify such service providers for third-party claims relating to carrying out their respective duties under such agreements. The Company is also required to meet minimum capitalization and cash requirements of various regulatory authorities in the jurisdictions in which the Company has money transfer operations. The Company has obtained surety bonds in compliance with money transfer licensing requirements of the applicable governmental authorities.

To date, the Company is not aware of any significant claims made by the indemnified parties or third parties to guarantee agreements with the Company and, accordingly, no liabilities were recorded as of September 30, 2018 or December 31, 2017.

(12) LITIGATION AND CONTINGENCIES

From time to time, the Company is a party to legal or regulatory proceedings arising in the ordinary course of its business. Currently, there are no legal proceedings or regulatory findings that management believes, either individually or in the aggregate, would have a material adverse effect on the Company's consolidated financial condition or results of operations. In accordance with U.S. GAAP, the Company records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case.

(13) SUBSEQUENT EVENT

On October 17, 2018, the Company entered into a new unsecured revolving credit agreement for \$1.0 billion that expires on October 17, 2023. Interest on borrowings varies based upon the Company's corporate credit rating and on a margin over LIBOR or a margin over the base rate, as selected by the Company, with the applicable margin ranging from 1.125% to 2.0% or 0.175% to 1.0% for base rate loans. The new credit facility replaced the \$675 million senior secured credit facility that was due to expire on April 9, 2019.

Once each of Euronet's domestic subsidiaries reaches a certain size, it is required under the unsecured revolving credit agreement to provide a guarantee of all the outstanding obligations under the credit agreement.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The terms "Euronet," the "Company," "we" and "us" as used herein refer to Euronet Worldwide, Inc. and its subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements that constitute forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934 ("Exchange Act"). Generally, the words "believe," "expect," "anticipate," "intend," "estimate," "will" and similar expressions identify forward-looking statements. However, the absence of these words or similar expressions does not mean the statement is not forward-looking. All statements other than statements of historical facts included in this document are forward-looking statements, including, but not limited to, statements regarding the following:

- our business plans and financing plans and requirements;
- trends affecting our business plans and financing plans and requirements;
- trends affecting our business;
- the adequacy of capital to meet our capital requirements and expansion plans;
- the assumptions underlying our business plans;
- our ability to repay indebtedness;
- our estimated capital expenditures;
- the potential outcome of loss contingencies;
- our expectations regarding the closing of any pending acquisitions;
- business strategy;
- government regulatory action;
- the expected effects of changes in laws or accounting standards;
- technological advances; and
- projected costs and revenues.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be correct.

Investors are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may materially differ from those in the forward-looking statements as a result of various factors, including, but not limited to, conditions in world financial markets and general economic conditions, including the effects in Europe of the Brexit vote, and economic conditions in specific countries and regions; the effects of demonetization in India; technological developments affecting the market for our products and services; our ability to successfully introduce new products and services; foreign currency exchange rate fluctuations; the effects of any breach of our computer systems or those of our customers or vendors, including our financial processing networks or those of other third parties; interruptions in any of our systems or those of our vendors or other third parties; our ability to renew existing contracts at profitable rates; changes in fees payable for transactions performed for cards bearing international logos or over switching networks such as card transactions on ATMs; Visa's announced rule change to allow our ATMs to provide DCC beginning mid-April of next year; our ability to comply with increasingly stringent regulatory requirements, including anti-money laundering, anti-terrorism, anti-bribery, consumer and data protection requirements, and the E.U. General Data Protection Regulation, or GDPR, and Payment Services Directive 2, or PSD2, requirements; changes in laws and regulations affecting our business, including tax and immigration laws and any laws regulating payments, including DCC transactions; changes in our relationships with, or in fees charged by, our business partners; competition; the outcome of claims and other loss contingencies affecting Euronet; and those factors referred to above and as set forth and more fully described in Part I, Item 1A — Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2017 and in Part II, Item 1A-Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018. Our Annual Report on Form 10-K and

Quarterly Reports on Form 10-Q are available on the SEC's EDGAR website at [www.sec.gov](http://www.sec.gov), and copies may also be obtained by contacting the Company. Any forward-looking statements made in this Form 10-Q speak only as of the date of this report. Except as required by law, we do not intend, and do not undertake any obligation, to update any forward-looking statements to reflect future events or circumstances after the date of such statements.

## Table of Contents

### OVERVIEW

#### COMPANY OVERVIEW, GEOGRAPHIC LOCATIONS AND PRINCIPAL PRODUCTS AND SERVICES

Euronet is a leading electronic payments provider. We offer payment and transaction processing and distribution solutions to financial institutions, retailers, service providers and individual consumers. Our primary product offerings include comprehensive automated teller machine (“ATM”), point-of-sale (“POS”), card outsourcing, card issuing and merchant acquiring services, software solutions, electronic distribution of prepaid mobile airtime and other electronic payment products, foreign currency exchange services and global money transfer services. We operate in the following three segments:

The EFT Processing Segment, which processes transactions for a network of 41,902 ATMs and approximately 279,000 POS terminals across Europe, the Middle East and Asia Pacific and the United States. We provide comprehensive electronic payment solutions consisting of ATM cash withdrawal and deposit services, ATM network participation, outsourced ATM and POS management solutions, credit and debit card outsourcing, dynamic currency conversion (“DCC”), and other value added services. Through this segment, we also offer a suite of integrated electronic financial transaction software solutions for electronic payment and transaction delivery systems.

The epay Segment, which provides distribution, processing and collection services for prepaid mobile airtime and other electronic payment products. We operate a network of approximately 687,000 POS terminals providing electronic processing of prepaid mobile airtime top-up services and other electronic payment products in Europe, the Middle East, Asia Pacific, the United States and South America. We also provide vouchers and physical gift fulfillment services in Europe.

The Money Transfer Segment, which provides global consumer-to-consumer money transfer services, primarily under the brand names Ria, IME and xe, and global account-to-account money transfer services under the brand name HiFX. We offer services under the brand names Ria and IME through a network of sending agents, Company-owned stores (primarily in North America, Europe and Malaysia) and Ria branded websites (riamoneytransfer.com and imeremit.com), disbursing money transfers through a worldwide correspondent network that includes approximately 361,000 locations. xe is a provider of foreign currency exchange information and offers money transfer services on its currency data websites (xe.com and x-rates.com). We offer services under the brand name HiFX through HiFX branded websites and HiFX customer service representatives. In addition to money transfers, we also offer customers bill payment services (primarily in the U.S.), payment alternatives such as money orders and prepaid debit cards, comprehensive check cashing services for a wide variety of issued checks, along with competitive foreign currency exchange services and prepaid mobile top-up. Through our HiFM brand, we offer cash management solutions and foreign currency risk management services to small-to-medium sized businesses.

We have six processing centers in Europe, five in Asia Pacific and two in North America. We have 36 principal offices in Europe, 11 in Asia Pacific, nine in North America, three in the Middle East, two in South America and one in Africa. Our executive offices are located in Leawood, Kansas, USA. With approximately 72% of our revenues denominated in currencies other than the U.S. dollar, any significant changes in foreign currency exchange rates will likely have a significant impact on our results of operations.

#### SOURCES OF REVENUES AND CASH FLOW

Euronet primarily earns revenues and income from ATM management fees, transaction fees, commissions and foreign currency exchange margin. Each operating segment’s sources of revenues are described below.

EFT Processing Segment — Revenues in the EFT Processing Segment, which represented approximately 37% and 31% of total consolidated revenues for the third quarter and first nine months of 2018, respectively, are primarily derived from fees charged for transactions made by cardholders on our proprietary network of ATMs, fixed management fees and transaction fees we charge to customers for operating ATMs and processing debit and credit cards under outsourcing and cross-border acquiring agreements, foreign currency exchange margin on DCC transactions, domestic and international surcharge, foreign currency dispensing, and other value added services such as advertising, prepaid telecommunication recharges, bill payment, and money transfers provided over ATMs. Revenues in this segment are also derived from license fees, professional services and maintenance fees for proprietary application software and sales of related hardware.



## Table of Contents

epay Segment — Revenues in the epay Segment, which represented approximately 26% and 28% of total consolidated revenues for the third quarter and first nine months of 2018, respectively, are derived from commissions or processing fees received from mobile phone operators for the processing and distribution of prepaid mobile airtime and commissions earned from the distribution of other electronic payment products, vouchers, and physical gifts. The proportion of epay Segment revenues earned from the distribution of prepaid mobile phone time as compared with other electronic products has decreased over time, and non-mobile content now produces approximately 60% of epay Segment revenues. Other electronic payment products offered by this segment include digital content such as music, games and software, as well as other products, including prepaid long distance calling card plans, prepaid Internet plans, prepaid debit cards, gift cards, vouchers, transport payments, lottery payments, bill payment, and money transfer.

Money Transfer Segment — Revenues in the Money Transfer Segment, which represented approximately 37% and 41% of total consolidated revenues for the third quarter and first nine months of 2018, respectively, are primarily derived from transaction fees, as well as the margin earned from purchasing foreign currency at wholesale exchange rates and selling the foreign currency to customers at retail exchange rates. We have a sending agent network in place comprised of agents, customer service representatives, Company-owned stores, primarily in North America, Europe, and Malaysia, and Ria, xe and HiFX branded websites, along with a worldwide network of correspondent agents, consisting primarily of financial institutions in the transfer destination countries. Sending and correspondent agents each earn fees for cash collection and distribution services, which are recognized as direct operating costs at the time of sale.

The Company offers a money transfer product called Walmart-2-Walmart Money Transfer Service which allows customers to transfer money to and from Walmart stores in the U.S. Our Ria business executes the transfers with Walmart serving as both the sending agent and payout correspondent. Ria earns a lower margin from these transactions than its traditional money transfers; however, the arrangement has added a significant number of transactions to Ria's business. The agreement with Walmart establishes Ria as the only party through which Walmart will sell U.S. domestic money transfers branded with Walmart marks. The agreement is effective until April 2020. Thereafter, it will automatically renew for subsequent one year terms unless either party provides notice to the contrary. The agreement imposes certain obligations on each party, the most significant being service level requirements by Ria and money transfer compliance requirements by Walmart. Any violation of these requirements by Ria could result in an obligation to indemnify Walmart or termination of the contract by Walmart. However, the agreement allows the parties to resolve disputes by mutual agreement without termination of the agreement.

Corporate Services, Eliminations and Other - In addition to operating in our principal operating segments described above, our "Corporate Services, Eliminations and Other" category includes non-operating activity, certain inter-segment eliminations and the cost of providing corporate and other administrative services to the operating segments, including most share-based compensation expense. These services are not directly identifiable with our reportable operating segments.

## OPPORTUNITIES AND CHALLENGES

Our expansion plans and opportunities are focused on eight primary areas:

- increasing the number of ATMs and cash deposit terminals in our independent networks;
- increasing transactions processed on our network of owned and operated ATMs and POS devices;
- signing new outsourced ATM and POS terminal management contracts;
- expanding value added services and other products offered by our EFT Processing Segment, including the sale of DCC, acquiring and other prepaid card services to banks and retailers;
- expanding our epay processing network and portfolio of digital content;
- expanding our money transfer services, cross-currency payment products and bill payment network;
- expanding our cash management solutions and foreign currency risk management services; and
- developing our credit and debit card outsourcing business.

EFT Processing Segment — The continued expansion and development of our EFT Processing Segment business will depend on various factors including, but not necessarily limited to, the following:

- the impact of competition by banks and other ATM operators and service providers in our current target markets;
- the demand for our ATM outsourcing services in our current target markets;
- our ability to develop products or services, including value added services, to drive increases in transactions and revenues;
- the expansion of our various business lines in markets where we operate and in new markets;

Table of Contents

- our entry into additional card acceptance and ATM management agreements with banks;
- our ability to obtain required licenses in markets we intend to enter or expand services;
- our ability to enter into and renew ATM network cash supply agreements with financial institutions;
- the availability of financing for expansion;
- our ability efficiently to install ATMs contracted under newly awarded outsourcing agreements;
- our ability to renew existing contracts at profitable rates;
- our ability to maintain pricing at current levels or mitigate price reductions in certain markets;
- the impact of changes in rules imposed by international card organizations such as Visa and Mastercard on card transactions on ATMs, including reductions in ATM interchange fees, restrictions on the ability to apply direct access fees, the ability to offer DCC transactions on ATMs, and increases in fees charged on DCC transactions;
- the impact of changes in laws and regulations affecting the profitability of our services, including regulation of DCC transactions by the E.U.;
- our ability to expand and sign additional customers for the cross-border merchant processing and acquiring business; and
- the continued development and implementation of our software products and their ability to interact with other leading products.

We consistently evaluate and add prospects to our list of potential ATM outsource customers. However, we cannot predict the increase or decrease in the number of ATMs we manage under outsourcing agreements because this depends largely on the willingness of banks to enter into outsourcing contracts with us. Due to the thorough internal reviews and extensive negotiations conducted by existing and prospective banking customers in choosing outsource vendors, the process of entering into or renewing outsourcing agreements can take several months. The process is further complicated by the legal and regulatory considerations of local countries. These agreements tend to cover large numbers of ATMs, so significant increases and decreases in our pool of managed ATMs could result from the acquisition or termination of one or more of these management contracts. Therefore, the timing of both current and new contract revenues is uncertain and unpredictable.

Software products are an integral part of our product lines, and our investment in research, development, delivery and customer support reflects our ongoing commitment to an expanded customer base.

epay Segment — The continued expansion and development of the epay Segment business will depend on various factors, including, but not necessarily limited to, the following:

- our ability to maintain and renew existing agreements, and to negotiate new agreements in additional markets with mobile operators, digital content providers, agent financial institutions and retailers;
- our ability to use existing expertise and relationships with mobile operators, digital content providers and retailers to our advantage;
- the continued use of third-party providers such as ourselves to supply electronic processing solutions for existing and additional digital content;
- the development of mobile phone networks in the markets in which we do business and the increase in the number of mobile phone users;
- the overall pace of growth in the prepaid mobile phone and digital content market, including consumer shifts between prepaid and postpaid services;
- our market share of the retail distribution capacity;
- the development of new technologies that may compete with POS distribution of prepaid mobile airtime and other products;
- the level of commission that is paid to the various intermediaries in the electronic payment distribution chain;
- our ability to fully recover monies collected by retailers;
- our ability to add new and differentiated products in addition to those offered by mobile operators;
- our ability to develop and effectively market additional value added services;





Table of Contents

our ability to take advantage of cross-selling opportunities with our EFT Processing and Money Transfer Segments, including providing money transfer services through our distribution network; and  
the availability of financing for further expansion.

In all of the markets in which we operate, we are experiencing significant competition which will impact the rate at which we may be able to grow organically. Competition among prepaid mobile airtime and digital content distributors results in the increase of commissions paid to retailers and increases in retailer attrition rates. To grow, we must capture market share from other prepaid mobile airtime and digital content distributors, offer a superior product offering and demonstrate the value of a global network. In certain markets in which we operate, many of the factors that may contribute to rapid growth (growth in electronic payment products, expansion of our network of retailers and access to products of mobile operators and other content providers) remain present.

Money Transfer Segment — The continued expansion and development of our Money Transfer Segment business will depend on various factors, including, but not necessarily limited to, the following:

- the continued growth in worker migration and employment opportunities;
- the mitigation of economic and political factors that have had an adverse impact on money transfer volumes, such as changes in the economic sectors in which immigrants work and the developments in immigration policies in the countries in which we operate;
- the continuation of the trend of increased use of electronic money transfer and bill payment services among high-income individuals, immigrant workers and the unbanked population in our markets;
- our ability to maintain our agent and correspondent networks;
- our ability to offer our products and services or develop new products and services at competitive prices to drive increases in transactions;
  - the development of new technologies that may compete with our money transfer network, and our ability to acquire, develop and implement new technologies;
- the expansion of our services in markets where we operate and in new markets;
- our ability to strengthen our brands;
- our ability to fund working capital requirements;
- our ability to recover from agents funds collected from customers and our ability to recover advances made to correspondents;
- our ability to maintain compliance with the regulatory requirements of the jurisdictions in which we operate or plan to operate;
- our ability to take advantage of cross-selling opportunities with the epay Segment, including providing prepaid services through our stores and agents worldwide;
- our ability to leverage our banking and merchant/retailer relationships to expand money transfer corridors to Europe, Asia and Africa, including high growth corridors to Central and Eastern European countries;
- the availability of financing for further expansion;
- the ability to maintain banking relationships necessary for us to service our customers;
- our ability to successfully expand our agent network in Europe using our payment institution licenses under the Second Payment Services Directive ("PSD2") and using our various licenses in the United States;
- our ability to provide additional value-added products under the xe brand, and;
- the considerations regarding the use of our various trade names within the money transfer business.

For all segments, our continued expansion may involve additional acquisitions that could divert our resources and management time and require integration of new assets with our existing networks and services. Our ability to effectively manage our growth has required us to expand our operating systems and employee base, particularly at the management level, which has added incremental operating costs. An inability to continue to effectively manage expansion could have a material adverse effect on our business, growth, financial condition or results of operations. Inadequate technology and resources would impair



Table of Contents

our ability to maintain current processing technology and efficiencies, as well as deliver new and innovative services to compete in the marketplace.

## SEGMENT SUMMARY RESULTS OF OPERATIONS

Revenues and operating income by segment for the three and nine months ended September 30, 2018 and 2017 are summarized in the tables below:

| (dollar amounts in thousands)              | Revenues for the Three Months Ended September 30,                   |           | Year-over-Year Change      |                  | Revenues for the Nine Months Ended September 30,                   |             | Year-over-Year Change      |                             |
|--|---|-----------|----------------------------|------------------|--|-------------|----------------------------|-----------------------------|
|  | 2018  | 2017      | Increase (Decrease) Amount | Increase Percent | 2018   | 2017        | Increase (Decrease) Amount | Increase Percent            |
| EFT Processing                             | \$261,736   | \$226,321 | \$35,415                   | 16 %             | \$592,333  | \$488,030   | \$104,303                  | 21 %                        |
| epay                                       | 185,431   | 184,234   | 1,197                      | 1 %              | 528,739  | 512,531     | 16,208                     | 3 %                         |
| Money Transfer                             | 268,291   | 228,105   | 40,186                     | 18 %             | 768,943  | 649,205     | 119,738                    | 18 %                        |
| Total                                      | 715,458   | 638,660   | 76,798                     | 12 %             | 1,890,015  | 1,649,766   | 240,249                    | 15 %                        |
| Corporate services, eliminations and other | (953 )  | (826 )    | (127 )                     | 15 %             | (2,771 )   | (1,989 )    | (782 )                     | 39 %                        |
| Total                                      | \$714,505   | \$637,834 | \$76,671                   | 12 %             | \$1,887,244  | \$1,647,777 | \$239,467                  | 15 %                        |
| (dollar amounts in thousands)              | Operating Income (Expense) for the Three Months Ended September 30, |           | Year-over-Year Change      |                  | Operating Income (Expense) for the Nine Months Ended September 30, |             | Year-over-Year Change      |                             |
|  | 2018  | 2017      | Increase (Decrease) Amount | Increase Percent | 2018   | 2017        | Increase (Decrease) Amount | Increase (Decrease) Percent |
| EFT Processing                             | \$110,399   | \$86,797  | \$23,602                   | 27 %             | \$174,868  | \$137,090   | \$37,778                   | 28 %                        |
| epay                                       | 16,426  | 15,650    | 776                        | 5 %              | 49,650   | 44,361      | 5,289                      | 12 %                        |
| Money Transfer                             | 34,251  | 24,356    | 9,895                      | 41 %             | 93,316   | 75,355      | 17,961                     | 24 %                        |
| Total                                      | 161,076   | 126,803   | 34,273                     | 27 %             | 317,834  | 256,806     | 61,028                     | 24 %                        |
| Corporate services, eliminations and other | (10,163 )   | (9,902 )  | (261 )                     | 3 %              | (31,081 )  | (31,928 )   | 847                        | (3 )%                       |
| Total                                      | \$150,913   | \$116,901 | \$34,012                   | 29 %             | \$286,753  | \$224,878   | \$61,875                   | 28 %                        |

Table of Contents

## Impact of changes in foreign currency exchange rates

Our revenues and local expenses are recorded in the functional currencies of our operating entities and translated into U.S. dollars for financial reporting purposes; therefore, amounts we earn outside the U.S. are negatively impacted by a stronger U.S. dollar and positively impacted by a weaker U.S. dollar. Considering the results by country and the associated functional currency, we estimate that our reported consolidated operating income for the third quarter and first nine months of 2018 was 1% less and 3% more, respectively, due to the changes in foreign currency exchange rates when compared to the same periods of 2017.

To provide further perspective on the impact of foreign currency exchange rates, the following table shows the changes in values relative to the U.S. dollar of the currencies of the countries in which we have our most significant operations:

| Currency (dollars per foreign currency) | Average Translation Rate<br>Three Months<br>Ended September<br>30, |          |     | Increase<br>(Decrease)<br>Percent | Average Translation Rate<br>Nine Months<br>Ended September<br>30, |          |     | Increase<br>(Decrease)<br>Percent |
|---|--|----------|-----|-----------------------------------|---|----------|-----|-----------------------------------|
|   | 2018   | 2017     |     |                                   | 2018  | 2017     |     |                                   |
| Australian dollar                       | \$0.7311   | \$0.7896 | (7) | %                                 | \$0.7579  | \$0.7661 | (1) | %                                 |
| British pound                           | \$1.3027   | \$1.3091 | —   | %                                 | \$1.3516  | \$1.2756 | 6   | %                                 |
| euro                                    | \$1.1624   | \$1.1754 | (1) | %                                 | \$1.1944  | \$1.1136 | 7   | %                                 |
| Hungarian forint                        | \$0.0036   | \$0.0038 | (5) | %                                 | \$0.0038  | \$0.0036 | 6   | %                                 |
| Indian rupee                            | \$0.0143   | \$0.0156 | (8) | %                                 | \$0.0149  | \$0.0153 | (3) | %                                 |
| Malaysian ringgit                       | \$0.2444   | \$0.2347 | 4   | %                                 | \$0.2509  | \$0.2302 | 9   | %                                 |
| New Zealand dollar                      | \$0.6684   | \$0.7309 | (9) | %                                 | \$0.6999  | \$0.7156 | (2) | %                                 |
| Polish zloty                            | \$0.2702   | \$0.2762 | (2) | %                                 | \$0.2814  | \$0.2613 | 8   | %                                 |

Table of Contents

## COMPARISON OF OPERATING RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

## EFT PROCESSING SEGMENT

The following table presents the results of operations for the three and nine months ended September 30, 2018 and 2017 for our EFT Processing Segment:

| (dollar amounts in thousands)         | Three Months Ended September 30, |           | Year-over-Year Change |                  |  | Nine Months Ended September 30, |           | Year-over-Year Change      |                  |  |
|---------------------------------------|----------------------------------|-----------|-----------------------|------------------|--|---------------------------------|-----------|----------------------------|------------------|--|
|                                       | 2018                             | 2017      | Increase Amount       | Increase Percent |  | 2018                            | 2017      | Increase (Decrease) Amount | Increase Percent |  |
| Total revenues                        | \$261,736                        | \$226,321 | \$35,415              | 16 %             |  | \$592,333                       | \$488,030 | \$104,303                  | 21 %             |  |
| Operating expenses:                   |                                  |           |                       |                  |  |                                 |           |                            |                  |  |
| Direct operating costs                | 101,763                          | 99,024    | 2,739                 | 3 %              |  | 279,927                         | 238,753   | 41,174                     | 17 %             |  |
| Salaries and benefits                 | 21,653                           | 16,817    | 4,836                 | 29 %             |  | 57,704                          | 46,125    | 11,579                     | 25 %             |  |
| Selling, general and administrative   | 11,227                           | 8,878     | 2,349                 | 26 %             |  | 30,557                          | 23,960    | 6,597                      | 28 %             |  |
| Acquired intangible assets impairment | —                                | —         | —                     | n/m              |  | —                               | 2,286     | (2,286)                    | n/m              |  |
| Depreciation and amortization         | 16,694                           | 14,805    | 1,889                 | 13 %             |  | 49,277                          | 39,816    | 9,461                      | 24 %             |  |
| Total operating expenses              | 151,337                          | 139,524   | 11,813                | 8 %              |  | 417,465                         | 350,940   | 66,525                     | 19 %             |  |
| Operating income                      | \$110,399                        | \$86,797  | \$23,602              | 27 %             |  | \$174,868                       | \$137,090 | \$37,778                   | 28 %             |  |
| Transactions processed (millions)     | 711                              | 615       | 96                    | 16 %             |  | 2,010                           | 1,726     | 284                        | 16 %             |  |
| ATMs as of September 30,              | 41,902                           | 38,105    | 3,797                 | 10 %             |  | 41,902                          | 38,105    | 3,797                      | 10 %             |  |
| Average ATMs                          | 41,761                           | 38,123    | 3,638                 | 10 %             |  | 39,975                          | 36,524    | 3,451                      | 9 %              |  |

## Revenues

EFT Processing Segment total revenues for the three and nine months ended September 30, 2018 were \$261.7 million and \$592.3 million, respectively, an increase of \$35.4 million or 16% and \$104.3 million or 21% as compared to the same periods in 2017. The increase in total revenues for the three and nine months ended September 30, 2018 were primarily due to an increase in the number of ATMs under management in Europe. Specifically, the increase in the number of ATMs contributed to increases in the number of transactions processed. The transaction growth includes an increase in value-added transactions on the ATMs and point-of-sale terminals, including dynamic currency conversion, domestic and international surcharge, and foreign currency dispensing. The increases for the first nine months of 2018 were also impacted by the recovery from a cash shortage in India due to the demonetization initiated in the fourth quarter of 2016, which carried over into the first half of 2017. In the second half of 2017, the India cash supply returned to near pre-demonetization levels. Foreign currency exchange rate movements increased total revenues by approximately \$20.3 million for the first nine months of 2018 as compared to the same period in 2017 and decreased total revenues by approximately \$4.8 million for the third quarter of 2018 as compared to the same period in 2017.

Average monthly revenues per ATM were \$2,089 and \$1,646 for the three and nine months ended September 30, 2018, respectively, compared to \$1,979 and \$1,485 for the three and nine months ended September 30, 2017, respectively. Revenues per transaction were \$0.37 for the third quarter and \$0.29 for the first nine months of 2018, respectively, compared to \$0.37 for the third quarter and \$0.28 for the first nine months of 2017, respectively. The increase in average monthly revenues per ATM for the first nine months of 2018 was primarily the result of the impact of the weakening of the U.S. dollar against key foreign currencies.

## Direct operating costs

EFT Processing Segment direct operating costs were \$101.8 million and \$279.9 million for the three and nine months ended September 30, 2018, respectively, an increase of \$2.7 million or 3% and \$41.2 million or 17% as compared to the same periods in 2017. Direct operating costs in the EFT Processing Segment consist primarily of site rental fees,

cash delivery costs, cash supply costs, maintenance, insurance, telecommunications, data center operations-related personnel, as well as the processing centers' facility-related costs and other processing center-related expenses and commissions paid to retail merchants, banks and card processors involved with POS DCC transactions. The increases in direct operating costs for the three and nine months

Table of Contents

ended September 30, 2018 were primarily due to an increase in the number of ATMs under management, particularly our independent ATM network which has more seasonal revenue generation.

**Gross profit**

Gross profit, which is calculated as revenues less direct operating costs, was \$160.0 million and \$312.4 million for the three and nine months ended September 30, 2018, respectively, compared to \$127.3 million and \$249.3 million for the three and nine months ended September 30, 2017, respectively. The increases in gross profit were primarily due to the growth in revenues from the increases in ATMs under management, DCC transactions, domestic and international surcharge, and foreign currency dispensing. The net impact of the U.S. dollar weakening against key foreign currencies also contributed to the increase in gross profit for the first nine months of 2018. Gross profit as a percentage of revenues (“gross margin”) was 61.1% and 52.7% for the three and nine months ended September 30, 2018, respectively, as compared to 56.2% and 51.1% for the three and nine months ended September 30, 2017. For the three and nine months ended September 30, 2018, the increases in gross margins were attributable to the increases in DCC transactions, domestic and international surcharge, foreign currency dispensing, and also a higher volume of sales of POS devices in Greece on which we earned a lower margin in the third quarter of 2017 which did not occur in the current period.

**Salaries and benefits**

Salaries and benefits expense increased \$4.8 million or 29% and \$11.6 million or 25% for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. The increases in salaries and benefits were primarily attributable to higher bonus expense resulting from operating income growth and additional headcount to support an increase in the number of ATMs and POS devices under management. As a percentage of revenues, these costs increased to 8.3% and 9.7% for the third quarter and first nine months of 2018, respectively, compared to 7.4% and 9.5% for the third quarter and first nine months of 2017, respectively. The increases were primarily due to additional headcount to support an increase in the number of ATMs and POS devices under management.

**Selling, general and administrative**

Selling, general and administrative expenses for the three and nine months ended September 30, 2018 were \$11.2 million and \$30.6 million, respectively, an increase of \$2.3 million or 26% and \$6.6 million or 28% as compared to the same periods in 2017. The increases in selling, general and administrative expenses were primarily due to an increase in costs to support the growth in the business. As a percentage of revenues, selling, general and administrative expenses were 4.3% and 5.2% for the three and nine months ended September 30, 2018, respectively, compared to 3.9% and 4.9% for the three and nine months ended September 30, 2017, respectively.

**Depreciation and amortization**

Depreciation and amortization expense increased \$1.9 million and \$9.5 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. The increases were primarily attributable to the deployment of additional ATMs under management and software assets. As a percentage of revenues, depreciation and amortization expense was 6.4% and 8.3% for the third quarter and first nine months of 2018, respectively, as compared to 6.5% and 8.2% for the same periods of 2017.

**Operating income**

EFT Processing Segment operating income for the three and nine months ended September 30, 2018 was \$110.4 million and \$174.9 million, respectively, an increase of \$23.6 million or 27% and \$37.8 million or 28% as compared to the same periods in 2017. EFT Processing Segment operating income for the three and nine months ended September 30, 2018 increased primarily due to the increases in the number of DCC transactions, domestic and international surcharge, and foreign currency dispensing as a result of the increased number of ATMs.

Operating income as a percentage of revenues (“operating margin”) was 42.2% for the third quarter and 29.5% for the first nine months of 2018 compared to 38.4% for the third quarter and 28.1% for the first nine months of 2017. The increases in operating margins were primarily due to higher operating revenues partially offset by expenses incurred to support the increased revenues and additional ATMs under management. Operating income per transaction was \$0.16 for the third quarter and \$0.09 for the first nine months of 2018 as compared to \$0.14 and \$0.08 for the same periods of 2017.





Table of Contents

## EPAY SEGMENT

The following table presents the results of operations for the three and nine months ended September 30, 2018 and 2017 for our epay Segment:

| (dollar amounts in thousands)       | Three Months Ended September 30, |           | Year-over-Year Change      |                             |  | Nine Months Ended September 30, |           | Year-over-Year Change      |                             |  |
|-------------------------------------|----------------------------------|-----------|----------------------------|-----------------------------|--|---------------------------------|-----------|----------------------------|-----------------------------|--|
|                                     | 2018                             | 2017      | Increase (Decrease) Amount | Increase (Decrease) Percent |  | 2018                            | 2017      | Increase (Decrease) Amount | Increase (Decrease) Percent |  |
| Total revenues                      | \$185,431                        | \$184,234 | \$1,197                    | 1 %                         |  | \$528,739                       | \$512,531 | \$16,208                   | 3 %                         |  |
| Operating expenses:                 |                                  |           |                            |                             |  |                                 |           |                            |                             |  |
| Direct operating costs              | 142,665                          | 143,023   | (358)                      | — %                         |  | 403,010                         | 393,269   | 9,741                      | 2 %                         |  |
| Salaries and benefits               | 14,491                           | 13,955    | 536                        | 4 %                         |  | 43,235                          | 39,606    | 3,629                      | 9 %                         |  |
| Selling, general and administrative | 9,968                            | 9,145     | 823                        | 9 %                         |  | 27,191                          | 27,628    | (437)                      | (2) %                       |  |
| Depreciation and amortization       | 1,881                            | 2,461     | (580)                      | (24) %                      |  | 5,653                           | 7,667     | (2,014)                    | (26) %                      |  |
| Total operating expenses            | 169,005                          | 168,584   | 421                        | — %                         |  | 479,089                         | 468,170   | 10,919                     | 2 %                         |  |
| Operating income                    | \$16,426                         | \$15,650  | \$776                      | 5 %                         |  | \$49,650                        | \$44,361  | \$5,289                    | 12 %                        |  |
| Transactions processed (millions)   | 284                              | 293       | (9)                        | (3) %                       |  | 805                             | 901       | (96)                       | (11) %                      |  |

## Revenues

epay Segment total revenues for the three and nine months ended September 30, 2018 were \$185.4 million and \$528.7 million, respectively, an increase of \$1.2 million or 1% and \$16.2 million or 3% as compared to the same periods in 2017. The total revenues for the third quarter of 2018 was consistent with the same period in 2017. The increases in total revenues for the first nine months of 2018 was primarily due to an increase in the number of non-mobile transactions and the impact of the U.S. dollar weakening against key foreign currencies. The increase in total revenues was partially offset by the ASC 606 adjustment and a decrease in prepaid mobile transactions processed in the U.S., the U.K. and Australia due to competitive pressures on prepaid mobile carriers. Foreign currency exchange rate movements decreased total revenues by approximately \$3.8 million for the third quarter of 2018 and increased total revenues by \$18.2 million for the first nine months of 2018, compared to the same periods in 2017.

Revenues per transaction were \$0.65 for the third quarter and \$0.66 for the first nine months of 2018 compared to \$0.63 and \$0.57 for the same periods in 2017. The increases in revenues per transaction were primarily driven by the revenue growth from non-mobile transactions processed, for which we generally earn higher revenues per transaction than mobile transactions.

## Direct operating costs

epay Segment direct operating costs were \$142.7 million and \$403.0 million for the three and nine months ended September 30, 2018, respectively, a decrease of \$0.4 million and an increase of \$9.7 million as compared to the same periods in 2017. Direct operating costs in our epay Segment include the commissions we pay to retail merchants for the distribution and sale of prepaid mobile airtime and other prepaid products, expenses incurred to operate POS terminals and the cost of vouchers sold and physical gifts fulfilled. The increase in direct operating costs for the first nine months of 2018 was primarily due to the ASC 606 adjustment and net impact of the U.S. dollar weakening against key foreign currencies.

## Gross profit

Gross profit was \$42.8 million and \$125.7 million for the three and nine months ended September 30, 2018, respectively, as compared to \$41.2 million and \$119.3 million for the three and nine months ended September 30, 2017, respectively. The increases were primarily due to the growth in non-mobile transactions processed, partly offset by a decrease in prepaid mobile transactions processed in certain markets.

During the three and nine months ended September 30, 2018, the gross margin was essentially flat compared to the same periods in the prior year. Gross margin was 23.1% and 23.8% for the three and nine months ended September 30, 2018, respectively, as compared to 22.4% and 23.3% for the same periods in 2017.

Table of Contents

Salaries and benefits

Salaries and benefits expense increased \$0.5 million or 4% and \$3.6 million or 9% for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. The increases were mainly driven by the higher headcount in an effort to grow the segment. As a percentage of revenues, salaries and benefits were 7.8% and 8.2% for the three and nine months ended September 30, 2018, respectively, as compared to 7.6% and 7.7% for the same periods in 2017.

Selling, general and administrative

Selling, general and administrative expenses were \$10.0 million and \$27.2 million for the three and nine months ended September 30, 2018, an increase of 9% and a decrease of 2% as compared to the same periods in 2017. The increase for the third quarter of 2018 was mainly due to increased promotional cost for our non-mobile products. The decrease in selling, general and administrative expenses first nine months of 2018 for the was mainly due to cost control efforts. As a percentage of revenues, selling, general and administrative expenses were 5.4% and 5.1% for the three and nine months ended September 30, 2018 compared to 5.0% and 5.4% for the same periods in 2017.

Depreciation and amortization

Depreciation and amortization expense primarily represents depreciation of POS terminals we place in retail stores and the amortization of acquired intangible assets. Depreciation and amortization expense was \$1.9 million and \$5.7 million for the three and nine months ended September 30, 2018, respectively, a decrease of 24% and 26% as compared to the same periods in 2017. The decreases were largely due to certain intangible assets becoming fully amortized for the three and nine months ended September 30, 2017. As a percentage of revenues, depreciation and amortization expense was 1.0% and 1.1% for the three and nine months ended September 30, 2018, respectively, and 1.3% and 1.5% for both the three and nine months ended September 30, 2017, respectively.

Operating income

epay Segment operating income for the three and nine months ended September 30, 2018 was \$16.4 million and \$49.7 million, respectively, an increase of \$0.8 million and \$5.3 million as compared to the same periods in 2017. Operating income for the three and nine months ended September 30, 2018 improved as a result of the increased gross profit from the distribution of more non-mobile products, along with operating cost controls.

Operating margin increased to 8.9% and 9.4% for the three and nine months ended September 30, 2018, respectively, from 8.5% and 8.7% for the same periods in 2017, respectively. The increases were mainly due to an increase in the percentage of revenues from non-mobile products which earn a higher margin than mobile transactions. Operating income per transaction increased to \$0.06 for both the three and nine months ended September 30, 2018 from \$0.05 for the same periods in 2017. The increases were primarily due to the loss of a high-volume, low-margin customer in the Middle East.

Table of Contents

## MONEY TRANSFER SEGMENT

The following table presents the results of operations for the three and nine months ended September 30, 2018 and 2017 for the Money Transfer Segment:

| (dollar amounts in thousands)       | Three Months Ended September 30, |           | Year-over-Year Change |                  | Nine Months Ended September 30, |           | Year-over-Year Change |                  |
|-------------------------------------|----------------------------------|-----------|-----------------------|------------------|---------------------------------|-----------|-----------------------|------------------|
|                                     | 2018                             | 2017      | Increase Amount       | Increase Percent | 2018                            | 2017      | Increase Amount       | Increase Percent |
| Total revenues                      | \$268,291                        | \$228,105 | \$40,186              | 18 %             | \$768,943                       | \$649,205 | \$119,738             | 18 %             |
| Operating expenses:                 |                                  |           |                       |                  |                                 |           |                       |                  |
| Direct operating costs              | 144,758                          | 123,588   | 21,170                | 17 %             | 412,895                         | 348,724   | 64,171                | 18 %             |
| Salaries and benefits               | 48,945                           | 44,110    | 4,835                 | 11 %             | 145,420                         | 125,273   | 20,147                | 16 %             |
| Selling, general and administrative | 32,483                           | 28,648    | 3,835                 | 13 %             | 93,610                          | 77,912    | 15,698                | 20 %             |
| Depreciation and amortization       | 7,854                            | 7,403     | 451                   | 6 %              | 23,702                          | 21,941    | 1,761                 | 8 %              |
| Total operating expenses            | 234,040                          | 203,749   | 30,291                | 15 %             | 675,627                         | 573,850   | 101,777               | 18 %             |
| Operating income                    | \$34,251                         | \$24,356  | \$9,895               | 41 %             | \$93,316                        | \$75,355  | \$17,961              | 24 %             |
| Transactions processed (millions)   | 27.8                             | 23.9      | 3.9                   | 16 %             | 79.0                            | 67.4      | 11.6                  | 17 %             |

## Revenues

Money Transfer Segment total revenues for the three and nine months ended September 30, 2018 were \$268.3 million and \$768.9 million, respectively, an increase of \$40.2 million or 18% and \$119.7 million or 18% as compared to the same periods in 2017. The increases in total revenues for the three and nine months ended September 30, 2018 were primarily due to increases in the number of money transfers processed, driven by growth in the U.S. and foreign agent and correspondent payout networks.

Revenues per transaction increased slightly compared to the same periods in the prior year. Revenues per transaction increased to \$9.65 and \$9.73 for the third quarter and first nine months of 2018, respectively, from \$9.54 and \$9.63 for the same periods in 2017.

## Direct operating costs

Money Transfer Segment direct operating costs were \$144.8 million and \$412.9 million for the three and nine months ended September 30, 2018, respectively, an increase of \$21.2 million or 17% and \$64.2 million or 18% as compared to the same periods in 2017. Direct operating costs in the Money Transfer Segment primarily consist of commissions paid to agents who originate money transfers on our behalf and correspondent agents who disburse funds to the customers' destination beneficiaries, together with less significant costs, such as bank depository fees. The increases in direct operating costs for the three and nine months of 2018 were primarily due to growth in the number of money transfer transactions processed in both the U.S. and foreign markets.

## Gross profit

Gross profit was \$123.5 million and \$356.0 million for the three and nine months ended September 30, 2018, respectively, as compared to \$104.5 million and \$300.5 million for the three and nine months ended September 30, 2017, respectively. The increases in gross profit were primarily due to growth in the number of money transfer transactions processed in both the U.S. and foreign markets.

During the three and nine months ended September 30, 2018, gross margin remained flat at 46.0% and 46.3%, respectively, as compared to 45.8% and 46.3% for the three and nine months ended September 30, 2017, respectively.

## Salaries and benefits

Salaries and benefits expense increased \$4.8 million or 11% and \$20.1 million or 16% for the three and nine months ended September 30, 2018, respectively, as compared to the same periods in 2017. The increases in salaries and benefits were primarily due to the expansion of our operations in the U.S. and foreign markets. As a percentage of revenues, salaries and benefits were 18.2% and 18.9% for the three and nine months ended September 30, 2018, respectively, as compared to 19.3% for the same periods in 2017.



Table of Contents

Selling, general, and administrative

Selling, general and administrative expenses for the three and nine months ended September 30, 2018 were \$32.5 million and \$93.6 million, respectively, an increase of \$3.8 million or 13%, and \$15.7 million or 20% as compared to the same periods in 2017. The increases were primarily due to expenses incurred to support the growth of our money transfer services in both the U.S. and foreign markets.

As a percentage of revenues, selling, general and administrative expenses were 12.1% and 12.2% for the three and nine months ended September 30, 2018, respectively, as compared to 12.6% and 12.0% for the same periods in 2017. For the third quarter of 2018, this was primarily due to increases in the number of money transfers processed, which did not require similar increases in support costs. For the first nine months of 2018, the increase in selling, general and administrative expenses as a percentage of revenues was primarily attributable to the increased support costs to expand the business.

Depreciation and amortization

Depreciation and amortization primarily represents amortization of acquired intangible assets and depreciation of money transfer terminals, computers and software, leasehold improvements and office equipment. Depreciation and amortization expense increased \$0.5 million or 6% and \$1.8 million or 8%, for the three and nine months ended September 30, 2018, respectively, as compared to the same periods in 2017, largely due to the increased capital additions as a result of business growth.

As a percentage of revenues, depreciation and amortization expense was 2.9% for the third quarter and 3.1% for the first nine months of 2018 as compared to 3.2% and 3.4% for the same periods of 2017. The decreases were primarily due to certain intangible assets becoming fully amortized.

Operating income

Money Transfer Segment operating income for the three and nine months ended September 30, 2018 was \$34.3 million and \$93.3 million, respectively, an increase of \$9.9 million or 41% and \$18.0 million or 24% as compared to the same periods of 2017. Operating income for the three and nine months ended September 30, 2018 increased primarily due to the growth in the number of money transfers processed partly offset by the additional salaries and benefits and other costs incurred.

As a percentage of revenues, operating margin was 12.8% and 12.1% for the three and nine months ended September 30, 2018, respectively, as compared to 10.7% and 11.6% for the same periods in 2017. Operating income per transaction increased to \$1.23 and \$1.18 for the three and nine months ended September 30, 2018, respectively, from \$1.02 and \$1.12 for the same periods in 2017. The increases in operating margin and operating income per transaction were primarily due to the growth in the number of money transfers processed which did not require similar increases in support costs.

Table of Contents

## CORPORATE SERVICES

The following table presents the operating expenses for the three and nine months ended September 30, 2018 and 2017 for Corporate Services:

| (dollar amounts in thousands)       | Three Months Ended September 30, |         | Year-over-Year Change      |                             | Nine Months Ended September 30, |          | Year-over-Year Change      |                             |
|-------------------------------------|----------------------------------|---------|----------------------------|-----------------------------|---------------------------------|----------|----------------------------|-----------------------------|
|                                     | 2018                             | 2017    | Increase (Decrease) Amount | Increase (Decrease) Percent | 2018                            | 2017     | Increase (Decrease) Amount | Increase (Decrease) Percent |
|                                     |                                  |         |                            |                             |                                 |          |                            |                             |
| Salaries and benefits               | \$8,019                          | \$7,252 | \$767                      | 11 %                        | \$24,178                        | \$21,613 | \$2,565                    | 12 %                        |
| Selling, general and administrative | 2,112                            | 2,614   | (502 )                     | (19 )%                      | 6,809                           | 10,219   | (3,410 )                   | (33 )%                      |
| Depreciation and amortization       | 32                               | 36      | (4 )                       | (11 )%                      | 94                              | 96       | (2 )                       | (2 )%                       |
| Total operating expenses            | \$10,163                         | \$9,902 | \$261                      | 3 %                         | \$31,081                        | \$31,928 | \$(847 )                   | (3 )%                       |
| Corporate operating expenses        |                                  |         |                            |                             |                                 |          |                            |                             |

Overall, operating expenses for Corporate Services were \$10.2 million and \$31.1 million for the three and nine months ended September 30, 2018, respectively, an increase of 3% and a decrease of 3% as compared to the same periods in 2017. The operating expenses for the three months ended September 30, 2018 increased primarily due to an increase in bonus expenses resulting from our improved operating results partly offset by a decrease in professional services fees. The operating expenses for the first nine months of 2018 decreased primarily due to a decrease in professional services fees and other costs incurred in connection with the proposed acquisition of MoneyGram International Inc. that occurred in the prior year but not in the current period.

## OTHER INCOME (EXPENSE), NET

| (dollar amounts in thousands)              | Three Months Ended September 30, |         | Year-over-Year Change      |                             | Nine Months Ended September 30, |           | Year-over-Year Change      |                             |
|--|----------------------------------|---------|----------------------------|-----------------------------|---------------------------------|-----------|----------------------------|-----------------------------|
|  | 2018                             | 2017    | Increase (Decrease) Amount | Increase (Decrease) Percent | 2018                            | 2017      | Increase (Decrease) Amount | Increase (Decrease) Percent |
|  |                                  |         |                            |                             |                                 |           |                            |                             |
| Interest income                            | \$288                            | \$380   | \$(92 )                    | (24 )%                      | 1,000                           | 2,009     | (1,009 )                   | (50 )%                      |
| Interest expense                           | (11,269 )                        | (9,534) | (1,735 )                   | 18 %                        | (28,936 )                       | (25,058)  | (3,878 )                   | 15 %                        |
| Loss from unconsolidated affiliates        | —                                | —       | —                          | n/m                         | (117 )                          | —         | (117 )                     | n/m                         |
| Foreign currency exchange (loss) gain, net | (2,704 )                         | 8,179   | (10,883 )                  | n/m                         | (21,459 )                       | 21,035    | (42,494 )                  | n/m                         |
| Other (loss) gains                         | (34 )                            | —       | (34 )                      | n/m                         | 26                              | 35        | (9 )                       | n/m                         |
| Other expense, net                         | \$(13,719)                       | \$(975) | \$(12,744)                 | n/m                         | \$(49,486)                      | \$(1,979) | \$(47,507)                 | n/m                         |

n/m — Not meaningful

## Interest income

The decrease in interest income for the first nine months of September 30, 2018 compared to the same period in 2017 was primarily due to the interest earned on a tax refund received in India in the first quarter of 2017 which did not occur in the current period.

## Interest expense

The increases in interest expense for the three and nine months ended September 30, 2018 compared to the same periods in 2017 were primarily related to additional borrowings throughout the third quarter of 2018 to fund the operating cash for our Independent ATM Deployed (“IAD”) networks and higher interest rates as compared to the same periods in 2017.





Table of Contents

Foreign currency exchange (loss) gain, net

Foreign currency exchange activity includes gains and losses on certain foreign currency exchange derivative contracts and the impact of remeasurement of assets and liabilities denominated in foreign currencies. Assets and liabilities denominated in currencies other than the local currency of each of our subsidiaries give rise to foreign currency exchange gains and losses. Foreign currency exchange gains and losses that result from remeasurement of these assets and liabilities are recorded in net income. The majority of our foreign currency exchange gains or losses are due to the remeasurement of intercompany loans which are not considered a long-term investment in nature and are in a currency other than the functional currency of one of the parties to the loan. For example, we make intercompany loans based in euros from our corporate division, which is composed of U.S. dollar functional currency entities, to certain European entities that use the euro as the functional currency. As the U.S. dollar strengthens against the euro, foreign currency exchange losses are recognized by our corporate entities because the number of euros to be received in settlement of the loans decreases in U.S. dollar terms. Conversely, in this example, in periods where the U.S. dollar weakens, our corporate entities will record foreign currency exchange gains.

We recorded net foreign currency exchange losses of \$2.7 million and \$21.5 million for the three and nine months ended September 30, 2018, respectively, as compared to net foreign currency exchange gains of \$8.2 million and \$21.0 million for the same periods in 2017. These realized and unrealized foreign currency exchange losses and gains reflect the fluctuation in the value of the U.S. dollar against the currencies of the countries in which we operated during the respective periods.

**INCOME TAX EXPENSE**

The Company's effective income tax rate was 25.5% and 27.4% for the three and nine months ended September 30, 2018, respectively, as compared to 13.4% and 19.3% for the same periods in 2017. The Company's effective income tax rate for the three and nine months ended September 30, 2017 was less than the applicable statutory income tax rate of 35% primarily due to the release of a \$16.3 million valuation allowance against certain foreign deferred tax assets and, to a lesser extent, the Company's U.S. tax position. In 2017, the significant year-over-year and year-to-date profitability of ATMs under management in Europe allowed the release of the valuation allowance as the Company believes that certain foreign deferred assets, including net operating loss carryforwards, will more likely than not be realized in future periods. In addition, the Company had significant U.S. federal tax net operating loss carryforwards with no recent history of significant U.S. taxable income; therefore, the Company had recorded a valuation allowance against its net U.S. deferred tax assets. Accordingly, in instances when the Company generated pre-tax U.S. GAAP income, no income tax expense was recognized to the extent there were net operating loss carryforwards to offset the income. The Company's effective income tax rate for the three and nine months ended September 30, 2018 was higher than the applicable statutory income tax rate of 21% as a result of the enactment of the Tax Cuts and Jobs Act of 2017 (the "Act") and its impact on the Company's U.S. income tax positions at the end of 2017. The most significant provisions of the Act are the transition tax on previously undistributed foreign earnings of foreign subsidiaries, the reduction in the U.S. corporate statutory income tax rate from 35% to 21% beginning on January 1, 2018, and new taxes on certain foreign sourced earnings. As stated above, the Company had recorded a valuation allowance against its net U.S. deferred tax assets. After enactment of the Act, the Company expected to utilize its U.S. federal net operating losses to partially offset the transition tax and released the associated valuation allowance in the prior year. This change has created additional U.S. tax expense as the Company will now recognize income tax expense on its pre-tax U.S. GAAP income. In addition, the Act's GILTI provision has created additional U.S. tax expense on foreign earnings. The increase in the effective tax rate for the first nine months of 2018 compared to the same period in 2017 is largely due to the 2017 release of valuation allowance and to a certain extent, the Act's impact on the Company's U.S. income tax positions. See Note 10 to the financial statements included in Part I, Item 1 of this report for additional information related to income taxes.

**NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS**

Noncontrolling interests represents the elimination of net income or loss attributable to the minority shareholders' portion of the following consolidated subsidiaries that are not wholly owned:

| Subsidiary                   | Percent Owned | Segment - Country |
|------------------------------|---------------|-------------------|
| Movilcarga                   | 95%           | epay - Spain      |
| Euronet China                | 85%           | EFT - China       |
| Euronet Pakistan             | 70%           | EFT - Pakistan    |
| Euronet Infinitium Solutions | 65%           | EFT - India       |

35

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Table of Contents

## NET INCOME ATTRIBUTABLE TO EURONET

Net income attributable to Euronet was \$102.7 million and \$172.9 million for the three and nine months ended September 30, 2018, respectively, an increase of \$2.4 million and a decrease of \$6.9 million as compared to the same periods in 2017. The decrease in net income for the first nine months of 2018 was primarily due to a \$42.5 million increase in net foreign currency exchange loss, a \$21.9 million increase in income tax expense, a decrease in interest income of \$1.0 million and an increase in interest expense of \$3.9 million, partly offset by an increase in operating income of \$61.9 million and a \$0.6 million increase in losses attributable to noncontrolling interests.

## LIQUIDITY AND CAPITAL RESOURCES

## Working capital

As of September 30, 2018 and December 31, 2017, we had working capital, which is calculated as the difference between total current assets and total current liabilities, of \$702.8 million and \$482.5 million, respectively. Our ratio of current assets to current liabilities at September 30, 2018 and December 31, 2017 was 1.46 and 1.34, respectively. We require substantial working capital to finance operations. In the Money Transfer Segment, we fund the payout of the majority of our consumer-to-consumer money transfer services before receiving the benefit of amounts collected from customers by agents. Working capital needs increase due to weekends and international banking holidays. As a result, we may report more or less working capital for the Money Transfer Segment based solely upon the day on which the reporting period ends. The epay Segment produces positive working capital, but much of it is restricted in connection with the administration of its customer collection and vendor remittance activities. In our EFT Processing Segment, we obtain a significant portion of the cash required to operate our ATMs through various cash supply arrangements, the amount of which is not recorded on Euronet's Consolidated Balance Sheets. However, in certain countries, we fund the cash required to operate our ATM network from borrowings under our revolving credit facilities and cash flows from operations. As of September 30, 2018, we had approximately \$640 million of our own cash in use or designated for use in our ATM network, which is recorded in cash and cash equivalents and trade accounts receivable, for ATM withdrawals pending settlement, on the Consolidated Balance Sheet.

We had cash and cash equivalents of \$1,129.3 million at September 30, 2018, of which \$941.5 million was held outside of the United States and is expected to be indefinitely reinvested for continued use in foreign operations. Repatriation of these assets to the U.S. could have negative tax consequences.

The following table identifies cash and cash equivalents provided by/(used in) our operating, investing and financing activities for the nine month periods ended September 30, 2018 and 2017 (in thousands):

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2018                               | 2017      |
| Liquidity   |                                    |           |
| Cash and cash equivalents and restricted cash provided by (used in):                              |                                    |           |
| Operating activities  | \$192,573                          | \$257,684 |
| Investing activities  | (99,369 )                          | (74,023 ) |
| Financing activities  | 247,087                            | 126,615   |
| Effect of foreign currency exchange rate changes on cash and cash equivalents and restricted cash | (38,084 )                          | 53,494    |
| Increase in cash and cash equivalents and restricted cash   | \$302,207                          | \$363,770 |

## Operating activity cash flow

Cash flows provided by operating activities were \$192.6 million for the first nine months of 2018 compared to \$257.7 million for the first nine months of 2017. The decrease is primarily due to fluctuations in working capital mainly associated with the timing of the settlement processes with content providers in the epay Segment and with correspondents in the Money Transfer Segment, partly offset by improved operating results.

## Investing activity cash flow

Cash flows used in investing activities were \$99.4 million for the first nine months of 2018 compared to \$74.0 million for the first nine months of 2017. The increase is primarily due to acquisitions and increased capital expenditures

mainly related to our ATM network expansion. During the first nine months of 2018, we used \$12.9 million for business acquisitions. During the first nine months of 2018, we used \$82.1 million for purchases of property and equipment compared to \$70.9 million during the

Table of Contents

first nine months of 2017. Cash used for software development and other investing activities totaled \$4.4 million and \$3.2 million for the first nine months of 2018 and 2017, respectively.

Financing activity cash flow

Cash flows provided by financing activities were \$247.1 million for the first nine months of 2018 compared to \$126.6 million for the first nine months of 2017. Our financing activities for the first nine months of 2018 consisted of net borrowings of \$417.2 million compared to net borrowings of \$123.8 million for the first nine months of 2017. The increase in net borrowings for the first nine months of 2018 compared to the same period of 2017 was the result of additional borrowings under the credit facilities to fund the operating cash of our IAD networks. Additionally, we used \$4.7 million and \$3.5 million during the first nine months of 2018 and 2017, respectively, for capital lease repayments. We repurchased \$177.2 million and \$2.3 million of our stock during the first nine months of 2018 and 2017, respectively. During the first nine months of 2018, we repurchased \$175.0 million of our shares and paid \$2.2 million for the amount of payroll taxes represented by the common stock withheld on restricted stock vestings and stock option exercises compared to \$2.3 million for the same period of 2017. We received proceeds from stock option exercises of \$11.8 million and \$8.3 million for the first nine months of 2018 and 2017, respectively.

Other sources of capital

Credit Facility - As of September 30, 2018, we had a \$675 million senior secured credit facility that matures on April 9, 2019 (the "Credit Facility") consisting of a \$590 million revolving credit facility, a \$10 million India revolving credit facility and a \$75 million term loan which was retired early during the third quarter of 2018. On October 17, 2018, the Credit Facility was subsequently replaced with a new \$1.0 billion unsecured revolving credit agreement that expires on October 17, 2023.

We use the revolving credit facility primarily to fund working capital requirements which are expected to increase as we expand the Money Transfer business and our independent ATM network. Based on our current projected working capital requirements, we anticipate that our revolving credit facility will be sufficient to fund our short-term working capital needs.

As of September 30, 2018, fees and interest on borrowings varied based upon the Company's consolidated total leverage ratio (as defined in the Credit Facility) and are based, in the case of letter of credit fees, on a margin, and in the case of interest, on a margin over LIBOR or a margin over the base rate, as selected by us, with the applicable margin ranging from 1.375% to 2.375% for LIBOR loans and 0.375% to 1.375% for base rate loans.

As of September 30, 2018, we had \$266.7 million of borrowings and \$47.9 million of stand-by letters of credit outstanding under the revolving credit facility. The remaining \$285.4 million under the revolving credit facility was available for borrowing based upon the borrowing base and financial covenants in our Credit Facility. As of September 30, 2018, the weighted average interest rate under the revolving credit facility was 3.58%, excluding amortization of deferred financing costs.

Convertible debt - We have \$402.5 million in principal amount of Convertible Senior Notes due 2044 ("Convertible Notes"). The Convertible Notes have an interest rate of 1.5% per annum payable semi-annually in April and October, and are convertible into shares of Euronet Common Stock at a conversion price of approximately \$72.18 per share if certain conditions are met (relating to the closing prices of Euronet Common Stock exceeding certain thresholds for specified periods).

Although the Convertible Notes will be convertible during the fourth quarter of 2018, we believe holders are unlikely to exercise their conversion rights, primarily due to the fair value of the Convertible Notes exceeding their conversion value. As of September 30, 2018, the fair value of the Convertible Notes was \$562.6 million and their conversion value was \$558.8 million. However, should any holders exercise their conversion rights, we believe our capital resources are sufficient to satisfy any conversion.

Additionally, holders of the Convertible Notes have the option to require us to purchase their notes at par on October 1, 2020, and have additional options to require us to purchase their notes at par on October 1, 2024, 2029, 2034, and 2039, or upon a change in control of the Company. In connection with the issuance of the Convertible Notes, we recorded \$10.7 million in debt issuance costs, which are being amortized through October 1, 2020.

ATM Facility - On May 11, 2018, we entered into a short-term credit facility for the sole purpose of providing cash for our ATM network in the amount of \$300 million, which as of September 30, 2018, we had outstanding borrowings

of \$200.0 million. Interest is charged on this financing on an annual basis at the Overnight LIBOR rate plus 1.75%. The facility expires on November 30, 2018. We repaid \$100.0 million of this credit facility during the third quarter of 2018. The weighted average interest rate for borrowings under the ATM credit facility was 3.7% for the third quarter of 2018.

Other debt obligations - Certain of our subsidiaries also have available credit lines and overdraft facilities to generally supplement short-term working capital requirements. As of September 30, 2018, there was \$33.7 million outstanding under these other obligation arrangements. Short-term debt obligations, as of September 30, 2018 were primarily comprised of \$200.0 million in principal outstanding under the ATM facility and \$33.1 million of other obligation arrangements payments due in the next twelve months.

Table of Contents

Other uses of capital

Capital expenditures and needs - Total capital expenditures, including capital lease expenditures, for the first nine months of 2018 were \$86.9 million. These capital expenditures were made primarily for the purchase of ATMs to expand our independent ATM network in Europe, the purchase and installation of ATMs in key under-penetrated markets, the purchase of POS terminals for the epay and Money Transfer Segments, and office, data center and company store computer equipment and software. Total capital expenditures for 2018 are currently estimated to range from approximately \$120 million to \$130 million.

At current and projected cash flow levels, we anticipate that cash generated from operations, together with cash on hand and amounts available under our revolving credit facility and other existing and potential future financing sources, will be sufficient to meet our debt, leasing and capital expenditure obligations. If our capital resources are not sufficient to meet these obligations, we will seek to refinance our debt and/or issue additional equity under terms acceptable to us. However, we can offer no assurances that we will be able to obtain favorable terms for the refinancing of any of our debt or other obligations or for the issuance of additional equity.

Inflation and functional currencies

Generally, the countries in which we operate have experienced low and stable inflation in recent years. Therefore, the local currency in each of these markets is the functional currency. Currently, we do not believe that inflation will have a significant effect on our results of operations or financial position. We continually review inflation and the functional currency in each of the countries where we operate.

OFF BALANCE SHEET ARRANGEMENTS

On occasion, we grant guarantees of the obligations of our subsidiaries and we sometimes enter into agreements with unaffiliated third parties that contain indemnification provisions, the terms of which may vary depending on the negotiated terms of each respective agreement. Our liability under such indemnification provisions may be subject to time and materiality limitations, monetary caps and other conditions and defenses. As of September 30, 2018, there were no material changes from the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2017. To date, we are not aware of any significant claims made by the indemnified parties or parties to whom we have provided guarantees on behalf of our subsidiaries and, accordingly, no liabilities have been recorded as of September 30, 2018. See also Note 11, Commitments, to the unaudited consolidated financial statements included elsewhere in this report.

CONTRACTUAL OBLIGATIONS

As of September 30, 2018, there have been no material changes outside the ordinary course of business in our future contractual obligations from the amounts reported within our Annual Report on Form 10-K for the year ended December 31, 2017, other than those resulting from changes in the amount of outstanding debt discussed in the Liquidity and Capital Resources section.



Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk

As of September 30, 2018, our total debt outstanding was \$878.3 million. Of this amount, \$377.9 million, net of debt discounts, or 43% of our total debt obligations, relates to our Convertible Notes that have a fixed coupon rate. Our \$402.5 million principal amount of Convertible Notes, issued in October 2014, accrue cash interest at a rate of 1.5% of the principal amount per annum. Based on quoted market prices, as of September 30, 2018, the fair value of our fixed rate Convertible Notes was \$562.6 million, compared to a carrying value of \$377.9 million. Interest expense for these notes, including accretion and amortization of deferred debt issuance costs, has a weighted average interest rate of 4.7% annually. Additionally, \$466.7 million, or 53% of our total debt obligations, relates to debt borrowings under our Credit Facility and ATM facility. If we were to maximize the potential borrowings available under the new revolving credit facility we entered into on October 17, 2018 and maintain these borrowings for one year, a 1% (100 basis points) increase in the applicable interest rate would result in additional annual interest expense to the Company of approximately \$9.5 million.

The remaining \$33.7 million, or 4%, of our total debt obligations, is related to borrowings by certain subsidiaries to fund, from time to time, working capital requirements. These arrangements generally are due within one year and accrue interest at variable rates.

Additionally, as of September 30, 2018, we had approximately \$14.1 million of capitalized leases with fixed payment and interest terms that expire between 2018 and 2022.

Our excess cash is invested in instruments with original maturities of three months or less or in certificates of deposit that may be withdrawn at any time without penalty; therefore, as investments mature and are reinvested, the amount we earn will increase or decrease with changes in the underlying short-term interest rates.

Foreign currency exchange rate risk

For the first nine months of 2018, approximately 72% of our revenues were generated in non-U.S. dollar countries and we expect to continue generating a significant portion of our revenues in countries with currencies other than the U.S. dollar.

We are particularly vulnerable to fluctuations in exchange rates of the U.S. dollar to the currencies of countries in which we have significant operations, primarily the euro, British pound, Australian dollar, Polish zloty, Indian rupee, New Zealand dollar, Malaysian ringgit and Hungarian forint. As of September 30, 2018, we estimate that a 10% fluctuation in these foreign currency exchange rates would have the combined annualized effect on reported net income and working capital of approximately \$150 million to \$155 million. This effect is estimated by applying a 10% adjustment factor to our non-U.S. dollar results from operations, intercompany loans that generate foreign currency exchange gains or losses and working capital balances that require translation from the respective functional currency to the U.S. dollar reporting currency.

Additionally, we have other non-current, non-U.S. dollar assets and liabilities on our balance sheet that are translated to the U.S. dollar during consolidation. These items primarily represent goodwill and intangible assets recorded in connection with acquisitions in countries other than the U.S. We estimate that a 10% fluctuation in foreign currency exchange rates would have a non-cash impact on total comprehensive income of approximately \$100 million to \$105 million as a result of the change in value of these items during translation to the U.S. dollar. For the fluctuations described above, a strengthening U.S. dollar produces a financial loss, while a weakening U.S. dollar produces a financial gain.

We believe this quantitative measure has inherent limitations and does not take into account any governmental actions or changes in either customer purchasing patterns or our financing or operating strategies. Because a majority of our revenues and expenses is incurred in the functional currencies of our international operating entities, the profits we earn in foreign currencies are positively impacted by a weakening of the U.S. dollar and negatively impacted by a strengthening of the U.S. dollar. Additionally, our debt obligations are primarily in U.S. dollars; therefore, as foreign currency exchange rates fluctuate, the amount available for repayment of debt will also increase or decrease.

We use derivatives to minimize our exposures related to changes in foreign currency exchange rates and to facilitate foreign currency risk management services by writing derivatives to customers. Derivatives are used to manage the overall market risk associated with foreign currency exchange rates; however, we do not perform the extensive

record-keeping required to account for the derivative transactions as hedges. Due to the relatively short duration of the derivative contracts, we use the derivatives primarily as economic hedges. Since we do not designate foreign currency derivatives as hedging instruments pursuant to the accounting standards, we record gains and losses on foreign exchange derivatives in earnings in the period of change.

## Table of Contents

A majority of our consumer-to-consumer money transfer operations involves receiving and disbursing different currencies, in which we earn a foreign currency spread based on the difference between buying currency at wholesale exchange rates and selling the currency to consumers at retail exchange rates. We enter into foreign currency forward and cross-currency swap contracts to minimize exposure related to fluctuations in foreign currency exchange rates. The changes in fair value related to these contracts are recorded in Foreign currency exchange (loss) gain, net on the Consolidated Statements of Income. As of September 30, 2018, we had foreign currency derivative contracts outstanding with a notional value of \$328 million, primarily in Australian dollars, British pounds, Canadian dollars, euros and Mexican pesos, that were not designated as hedges and mature within a few days.

For derivative instruments our HiFX operations write for customers, we aggregate the foreign currency exposure arising from customer contracts, and hedge the resulting net currency risks by entering into offsetting contracts with established financial institution counterparties as part of a broader foreign currency portfolio. The changes in fair value related to the total portfolio of positions are recorded in Revenues on the Consolidated Statements of Income. As of September 30, 2018, we held foreign currency derivative contracts outstanding with a notional value of \$1.2 billion, primarily in U.S. dollars, euros, British pounds, Australian dollars and New Zealand dollars, that were not designated as hedges and for which the majority mature within the next twelve months.

We use longer-term foreign currency forward contracts to mitigate risks associated with changes in foreign currency exchange rates on certain foreign currency denominated other asset and liability positions. As of September 30, 2018, the Company had foreign currency forward contracts outstanding with a notional value of \$275 million, primarily in euros and Polish zloty.

See Note 7, Derivative Instruments and Hedging Activities, to our Consolidated Financial Statements for additional information.

### ITEM 4. CONTROLS AND PROCEDURES

Our executive management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Exchange Act as of September 30, 2018. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the design and operation of these disclosure controls and procedures were effective as of such date to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

#### Change in Internal Controls

There have not been any changes in internal control over financial reporting during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company is, from time to time, a party to legal or regulatory proceedings arising in the ordinary course of its business.

The discussion regarding contingencies in Part I, Item 1 — Financial Statements (unaudited), Note 12, Litigation and Contingencies, to the unaudited consolidated financial statements in this report is incorporated herein by reference. Currently, there are no legal or regulatory proceedings that management believes, either individually or in the aggregate, would have a material adverse effect on the Company's consolidated financial condition or results of operations. In accordance with U.S. GAAP, we record a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These liabilities are reviewed at least quarterly and

adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case or proceeding.

40

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Table of Contents

ITEM 1A. RISK FACTORS

Except as otherwise described herein, there were no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC.

Tightening of regulations may adversely affect our results.

The evolving regulatory environment may change the competitive landscape across various jurisdictions and adversely affect our financial results. If governments implement new laws or regulations, or organizations such as Visa and MasterCard issue new rules, that effectively limit our ability to provide DCC or set fees and/or foreign currency exchange spreads, then our business, financial condition and results of operations could be materially and adversely affected. In addition, changes in regulatory interpretations or practices could increase the risk of regulatory enforcement actions, fines and penalties and such changes may be replicated across multiple jurisdictions.

In March, 2018, the E.U. began a legislative process for amending certain existing legislation applying to cross border payment practices, which includes a proposal for new regulations on DCC transactions. As part of that process, in March 2018, the E.U. Commission proposed certain regulations regarding DCC and in June 2018, the E.U. Council adopted its own version of the proposed regulations. The E.U. Parliament began consideration of the proposal by the E.U. Commission in June 2018 and will vote on certain draft regulations on November 5, 2018. Following that vote, the versions of the regulations adopted by the E.U. Commission, the E.U. Council and the E.U. Parliament will be reconciled in a “trilogue” process that may be completed by the end of 2018 or in the first quarter of 2019. The reconciled regulations could enter into force shortly after that. The time frame imposed for actual implementation of the final regulations by industry players is currently uncertain, and will depend on the complexity of any new requirements, but the implementation period is expected to be from one to three years.

Although the regulations proposed by the E.U. Commission include a cap on DCC fees, the regulations proposed by the E.U. Council and those currently under consideration by the Parliament do not include a cap. All three versions include requirements for reinforced consumer disclosure (“transparency”) and consumer choice in DCC transactions.

Any regulation of DCC that may be adopted, including a cap on fees and reinforced transparency or consumer choice in DCC transactions, could materially and adversely impact our financial results, by reducing the number of DCC transactions performed over our networks and the level of profit we generate from such transactions.

The E.U. has passed a new regulation called the GDPR that establishes stringent requirements for the collection, handling and processing of personal information of individuals within the E.U. The GDPR creates certain rights of individuals regarding their own personal information processed by companies as well as requirements for information security, and imposes significant fines that may be revenue-based for violation of its requirements. The GDPR came into effect across the E.U. on May 25, 2018. The GDPR applies outside of Europe to certain personal information of E.U. persons that is held or processed by foreign based companies, including U.S. companies. Any failure on our part to comply with the requirements of the GDPR could result in the imposition of fines and penalties that could materially and adversely affect our financial results.



Table of Contents

ITEM 6. EXHIBITS

Exhibit Description

- 10.1\* Credit agreement dated as of October 17, 2018 among Euronet WorldWide, Inc. and certain subsidiaries, as borrowers, certain subsidiaries, as guarantors, the lenders party thereto, Bank of America, N.A., as administrative agent, Wells Fargo Bank, National Association and U.S. Bank National Association, as co-syndication agents, et al.
- 12.1\* Computation of Ratio of Earnings to Fixed Charges
- 31.1\* Section 302 — Certification of Chief Executive Officer
- 31.2\* Section 302 — Certification of Chief Financial Officer
- 32.1\*\* Section 906 — Certification of Chief Executive Officer
- 32.2\*\* Section 906 — Certification of Chief Financial Officer
- 101\* The following materials from Euronet Worldwide, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at September 30, 2018 (unaudited) and December 31, 2017, (ii) Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2018 and 2017, (iii) Consolidated Statements of Comprehensive Income (Loss) (unaudited) for the three and nine months ended September 30, 2018 and 2017, (iv) Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2018 and 2017, and (v) Notes to the Unaudited Consolidated Financial Statements.

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\* Filed herewith.

\*\* Pursuant to Item 601(b)(32) of Regulation S-K, this Exhibit is furnished rather than filed with this Form 10-Q.

PLEASE NOTE: Pursuant to the rules and regulations of the Securities and Exchange Commission, we have filed or incorporated by reference the agreements referenced above as exhibits to this Quarterly Report on Form 10-Q. The agreements have been filed to provide investors with information regarding their respective terms. The agreements are not intended to provide any other factual information about the Company or its business or operations. In particular, the assertions embodied in any representations, warranties and covenants contained in the agreements may be subject to qualifications with respect to knowledge and materiality different from those applicable to investors and may be qualified by information in confidential disclosure schedules not included with the exhibits. These disclosure schedules may contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants set forth in the agreements. Moreover, certain representations, warranties and covenants in the agreements may have been used for the purpose of allocating risk between the parties, rather than establishing matters as facts. In addition, information concerning the subject matter of the representations, warranties and covenants may have changed after the date of the respective agreement, which subsequent information may or may not be fully reflected in the Company's public disclosures. Accordingly, investors should not rely on the representations, warranties and covenants in the agreements as characterizations of the actual state of facts about the Company or its business or operations on the date hereof.

Table of Contents

SIGNATURES

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

November 1, 2018

Euronet Worldwide, Inc.

By: /s/ MICHAEL J. BROWN

Michael J. Brown

Chief Executive Officer

By: /s/ RICK L. WELLER

Rick L. Weller

Chief Financial Officer