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EVERTEC, Inc. (EVTC)

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. My name is Elaine, and I will be your conference operator for today. At this time, I would like to welcome everyone to EVERTEC's Second Quarter 2026 Earnings. I'd like to remind everyone that all lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I will now turn the call over to Lily Arteaga. Please go ahead.

Lily Arteaga

Investor Contact, EVERTEC, Inc.

Thank you, and good afternoon. With me today are Mac Schuessler, our President and Chief Executive Officer; and Karla Cruz-Jusino, Chief Financial Officer.

Before we begin, I would like to remind everyone that this call may contain forward-looking statements and should be considered in conjunction with cautionary statements contained in our earnings release and the company's most recent periodic SEC report. During today's call, management will provide certain information that will constitute non-GAAP financial measures under SEC rules, such as constant currency revenue, Adjusted EBITDA, adjusted net income, and adjusted earnings per common share. Reconciliations to GAAP measures and certain additional information are also included in today's earnings release and related supplemental slides, which are available in the Investor Relations section of our company's website at www.evertecinc.com.

I will now hand the call over to Mac.

Morgan M. Schuessler

President, Chief Executive Officer & Director, EVERTEC, Inc.

Thanks, Lily, and good afternoon, everyone. Before we begin, I'd like to officially welcome Lily Arteaga to EVERTEC. For those of you who have not yet had the opportunity to connect with her, we're excited to have Lily leading our Investor Relations function and look forward to working with her as we continue to strengthen our engagement with investors and the analyst community.

With that, let me turn to our second quarter performance. Our results reflect solid execution across the business and progress on our long-term strategy. Starting on slide 4, our priorities remain clear and consistent. We continue to strengthen EVERTEC's position as a leading financial technology and transaction processing company across Latin America and the Caribbean, through a balanced approach of organic growth, strategic acquisitions, and disciplined capital allocation. We remain focused on deepening client relationships, expanding our capabilities, and increasing our presence in attractive markets across the region. The momentum we are seeing across the business, together with strategic investments and actions we have taken over the past several years, reinforces our confidence in our ability to deliver sustainable growth and long-term value for our shareholders.

Before turning to our quarterly performance, I would like to address the cybersecurity incident we disclosed in June. We responded immediately, activated our incident response protocols, engaging external cybersecurity experts, and working closely with affected clients and authorities. Based on our response efforts and findings to date, we believe our incident response procedures operated as intended. Importantly, the incident did not disrupt our operations or our ability to serve our clients. While our remediation measures are ongoing, we're focused on supporting those affected, strengthening our environment, and maintaining security and resilience of the critical infrastructure we operate.

With that, let me turn to our second quarter performance. I will begin on slide 5 with an update on organic growth, which continues to be an important driver of value creation. During the quarter, we announced a strategic agreement with Transbank, Chile's leading payment solutions provider and one of the largest acquirers in Latin America. Under this multi-year agreement, which has an initial term of at least five years, EVERTEC will operate Transbank's transactional processing environment and selected technology platforms and services. The engagement represents one of the most significant commercial wins in our history. Beyond the revenue opportunity, this agreement deepens our strategic relevance in one of Latin America's most important markets and creates a foundation for continued growth with a key client over time. It also demonstrates the strength of our technology capabilities and the success of the investments we have made to build a scaled, trusted payment and technology platform across the region.

We are also building momentum in Mexico. Recently, we signed a contract with Clip, one of Mexico's leading financial ecosystem providers serving nearly 1 million merchants. This agreement represents an early milestone in acquiring services business in the country and serves as a strong proof point of our ability to compete and win in Mexico, one of the region's most important payments market. We are also continuing to leverage capabilities across our platform to expand into new customer segment and use cases in Puerto Rico. Earlier this year, we signed agreements with MetroPistas, a toll road operator and subsidiary of Abertis Infrastructure, to support both card-present and card-not-present transactions. These relationships highlight our ability to bring together capabilities across the organization, including solutions acquired through prior strategic investments such as Placetopay. Transbank, Clip, MetroPistas and other recent wins demonstrate our ability to secure important organic growth opportunities and expand and fortify our presence across Latin America and the Caribbean.

Turning to M&A, our approach remains disciplined and consistent. We continue to focus on businesses with scalable technology, strong market positions, recurring revenue streams, and opportunities to create value through integration, cross-selling, and expanded client relationships.

Turning to slide 6. During the quarter, we completed the acquisition of Dimensa. Strategically, Dimensa strengthens our software capabilities for financial institutions, expands our addressable market, and increases our relevance within the Brazilian financial services ecosystem. While the integration remains in its early stages, we are encouraged by the progress made since closing. Our teams are working closely together and we remain focused on executing our integration plans, capturing commercial opportunities, and delivering value through expanded client relationships, cross-selling initiatives, and operational efficiencies. We believe Dimensa can contribute meaningfully over time through an expanded product portfolio, increased scale, and broader customer reach.

Turning now to slide 7. We also completed the acquisition of BBChain, a provider of blockchain infrastructure, tokenization, digital custody, and digital asset solutions for financial institutions in Brazil. BBChain strategically expands our platform beyond traditional payments and banking technology into next-generation digital financial infrastructure. Beyond its financial contribution, although modest from a near-term revenue perspective, the acquisition broadens our ability to serve financial institutions across investment funds, fixed income lending, and digital assets, and reinforces our commitment to innovation and creates opportunities to extend these capabilities to clients across Latin America over time.

Together, our recent acquisitions of Sinqia, Tecnobank, Dimensa and BBChain represent an important step in our strategy to build a larger, more diversified financial technology platform. By expanding our portfolio and broadening the range of solutions we can deliver, these businesses enhance our ability to serve clients across multiple product areas while creating additional opportunities for growth over time.

Before turning to our quarterly results, I would like to briefly touch on our AI initiatives on slide 8. Earlier this year, we introduced the governance framework and strategic approach that are guiding our adoption of AI across the organization. Since then, we have continued to advance those initiatives with a focus on three priorities: driving greater efficiency, fostering innovation, and further enhancing the service we deliver to our clients. We're deploying AI across a broad range of use cases, including accelerating software development, improving incident management and service quality, enhancing fraud detection and risk monitoring capabilities, and supporting the development of new client-facing solutions. Several of these initiatives are already generating encouraging results through improved productivity, enhanced quality, and faster delivery. While our efforts today remain focused on operational efficiency and execution excellence, we also see longer-term opportunities to enhance existing solutions, expand capabilities, and develop new offerings that create additional value for our clients. We believe AI will become an increasingly important enabler of how we operate, innovate, and serve our clients. Over time, we expect these capabilities to create opportunities to enhance both revenue growth and profitability. As these initiatives continue to mature, we expect to gain greater visibility into their impact and anticipate starting to incorporate these benefits into our financial outlook starting in 2027.

Now turning to slide 9, I'll cover key highlights from our second quarter results. Revenue for the quarter was approximately $275 million, an increase of 20% compared to the prior year. Growth was driven by continued organic performance, contributions from recent acquisitions, and favorable foreign currency movements, reflecting the benefits of our balanced growth strategy and increasingly diversified business model. On a constant currency basis, revenue grew approximately 16% year-over-year. Adjusted EBITDA for the quarter was approximately $109 million, up 18% year-over-year, while Adjusted EBITDA margin was 39.8%. This performance reflects the scalability of our business model and our ability to translate revenue growth into earnings while continuing to invest in strategic initiatives to support the business in the long-term.

Adjusted EPS increased to $1.05 from $0.89 in the prior year. The increase was driven primarily by higher earnings and also benefited from the reduced share count resulting from share repurchase activity over the past several quarters. From a capital allocation perspective, we continue to execute against all three pillars of our strategy during the quarter. We invested in organic growth initiatives and completed the acquisition of Dimensa, while continuing to return capital to shareholders through our quarterly dividends and share repurchase program. During the quarter, we repurchased approximately 2 million shares for a total of $47 million and paid $3 million in dividends. At quarter-end, approximately $83 million remained under our share repurchase authorization. And last week the board replenished this authorization to $150 million. Our liquidity remains strong at approximately $420 million at quarter-end, providing financial flexibility to invest in growth, support ongoing integration activities and allocate capital toward the opportunities we believe will generate highest long-term returns for shareholders.

Let me now provide an update on Puerto Rico, now beginning on slide 10. Our Puerto Rico business delivered another strong quarter and continues to provide a resilient foundation for EVERTEC. Merchant acquiring revenue grew 11% year-over-year, reflecting strong organic growth driven primarily by higher sales volume, non-transactional revenues, and an improvement in spread. Payment Service revenue increased 8% year-over-year, driven by higher POS transaction volumes. The continued momentum in ATH Movil, particularly ATH Movil Business, and a non-recurring volume-based benefit recognized during the quarter. As expected, Business Solutions reflected the previously discussed reset in year-over-year comparisons resulting from the 10% contractual discount provided to Popular. More broadly, economic conditions in Puerto Rico remain favorable. Employment trends remain positive, while consumer spending and tourism activity continue to provide a stable backdrop for our business. During the quarter, the Puerto Rico government also authorized a $554 million tax relief program for eligible workers. This environment continues to support Puerto Rico's role as a stable source of recurring cash flow and earnings for the company.

Turning to slide 11, Latin America, once again, was a meaningful contributor to growth. Revenue increased 52% year-over-year on a reported basis, benefiting from the contribution of recent acquisitions and continued organic growth across the region. Results also benefited from the favorable foreign currency movements, which contributed approximately $9 million during the quarter. On a constant currency basis, our Latin America business grew 42% compared to the prior year. In summary, we're pleased with our second quarter performance and the continued progress we're making in executing our strategic priorities. Transbank, Clip, MetroPistas and other recent wins demonstrate our ability to win important organic growth opportunities and expand and fortify our presence across Latin America and the Caribbean, while Dimensa and BBChain broaden our capabilities and strengthen our platform offering. Collectively, we believe these actions enhance our ability to serve clients across the region, expand our opportunities to grow alongside them, and reinforce our position as a trusted service provider of critical financial infrastructure. At the same time, our disciplined capital allocation framework allows us to invest in strategic initiatives while continuing to return capital to shareholders.

With that, I will turn the call over to Karla.

Karla M. Cruz-Jusino

Executive Vice President & Chief Financial Officer, EVERTEC, Inc.

Thank you, Max, and good afternoon, everyone. Turning to slide 13, I'll begin by reviewing EVERTEC's second quarter results. Total revenue for the quarter was $275 million, an increase of approximately 20% compared to the prior year quarter, driven by organic growth across most of our segments, contributions from our recent Tecnobank and Dimensa acquisitions, and favorable foreign currency movements, primarily in Brazil. On a constant currency basis, revenue growth was approximately 16%. Adjusted EBITDA increased 18% year-over-year to $109 million, driven by the strong revenue growth. Adjusted EBITDA margin was 39.8% compared to 40.3% in the prior year. The modest decline primarily reflects the increasing contribution from Latin America, where we are capturing growth opportunities in markets with a different margin profile.

Adjusted net income increased 12% year-over-year to $55 million, reflecting strong Adjusted EBITDA performance. This was partially offset by higher adjusted effective tax rate, higher depreciation and amortization expense, and the non-controlling interest associated with the Tecnobank acquisition completed in the fourth quarter of 2025. The higher adjusted effective tax rate primarily reflects the greater proportion of taxable income generated in higher tax foreign jurisdictions. Adjusted EPS was $1.05, an increase of 18% from the prior year, reflecting adjusted net income growth and the benefit of a lower share count resulting from repurchases completed during the current and prior periods.

Before I turn to the discussion by segment, I would like to address several non-recurring items that were reflected in our GAAP results this quarter. First, there were a number of acquisition related impacts primarily associated with the Dimensa and Tecnobank acquisitions. These included higher depreciation and amortization expenses related to acquired intangible assets and increased interest expense resulting from the financing used to complete those acquisitions. Also, GAAP tax expense was impacted by discrete tax items, including taxes associated with a dividend distribution from a foreign subsidiary that was used to partially fund the Dimensa acquisition. Second, we recorded impairment charges associated with our decision to exit our participation in a JV focused on developing payment services solutions in Latin America. This decision reflects our disciplined approach to capital allocation and our continued focus on deploying capital toward opportunities that are most closely aligned with our long-term strategic priorities.

And finally, we incurred costs related to a response and remediation of the cyber incident disclosed in June. While these non-recurring items affected our reported results, our underlying operating performance remained strong as reflected in our revenue growth, adjusted earnings, and the increased full year outlook.

With that, I will turn to slide 14, to cover our second quarter results by segment beginning with Merchant Acquiring. Net revenue increased 11% year-over-year to $52 million driven by broad-based growth across multiple revenue drivers. Sales volume and transactions grew approximately 7% and 6% respectively, reflecting both the onboarding of new high-volume merchants, as well as growth within our existing customer base. Revenue growth also benefited from a favorable transaction mix, which contributed to higher spread, as well as pricing initiatives implemented during the current and prior year that drove higher non-transactional revenues. Results also reflected healthy consumer spending trends in Puerto Rico, including the benefit of the tax relief initiatives implemented by the Puerto Rico government during the quarter.

Importantly, growth was driven by both volume expansion and spread improvements, reflecting the [ph] help (00:17:26) of our merchant acquiring business and the effectiveness of our pricing initiatives. Adjusted EBITDA for the segment was $22 million, with an Adjusted EBITDA margin of 41.7%, down approximately 60 basis points from the prior year. The decline primarily reflects higher processing costs associated with CPI-related increases within our Payments Puerto Rico segment. Overall results continue to reflect stable demand and healthy underlying transaction activity.

Turning to slide 15. Payment Services revenue increased 8% year-over-year to $61 million. Growth was driven by continued momentum across our payment solutions, including ATH Movil, particularly ATH Movil Business, which continued to deliver double-digit growth in both volumes and transactions. We also benefited from approximately 12% year-over-year growth in POS transactions, reflecting healthy consumer activity across Puerto Rico as well from a non-recurring volume-based benefit recognized during the quarter. Adjusted EBITDA increased 12% year-over-year to $37 million, while Adjusted EBITDA margin expanded approximately 210 basis points to 60.6%. Margin expansion was driven by the favorable contribution of the non-recurring volume-based benefit, which was highly accretive during the quarter. More broadly, the segment continues to benefit from growing transactions and volume activity and the scalability of our platforms, positioning us well for long-term growth opportunities.

Turning to slide 15, Latin America Payments and Solutions was once again the largest contributor to our revenue and EBITDA growth during the quarter. Revenue increased 52% year-over-year to $131 million. Approximately $9 million of this growth was attributable to foreign currency movements, primarily reflecting the appreciation of the Brazilian reais compared to the prior year. On a constant currency basis, revenue grew approximately 42%. Growth was driven by the contributions from the Dimensa and Tecnobank acquisitions, including Tecnobank's expansion into two additional states in Brazil. Underlying organic performance was supported by business outsourcing services, licensing and platform revenues, and higher transaction volume across our digital solutions in Brazil. We also saw continued strength in payments, software. and data solutions throughout the region and increased services provided to Puerto Rico.

On a reported basis, Adjusted EBITDA increased 70% year-over-year to $40 million, while Adjusted EBITDA margin expanded approximately 320 basis points to 30.3%. Margin expansion was in part driven by the contribution from Tecnobank, which carries a higher margin profile, partially offset by the inclusion of Dimensa, which currently operates at lower margins than our existing Latin America business. Results do not yet reflect the benefit of future synergy opportunities that we expect to realize over time. On a constant currency basis, Adjusted EBITDA was $38 million and the margin was 31.5%. Overall, our results continue to demonstrate the benefits of our Latin America strategy, including our ability to scale capabilities across markets, deepen client relationships, and expand our presence in attractive growth segments.

Moving to slide 17 are the results of our Business Solutions segment. Revenue for the quarter was $59 million, a decrease of 9% year-over-year. As expected, the decline was primarily attributable to the 10% discount to Popular that became effective in October of last year. Adjusted EBITDA was $23 million, a decrease of 13% from the prior year, reflecting the impact of the 10% discount to Popular. Adjusted EBITDA margin contracted approximately 200 basis points to 38.3%, also reflecting the impact of the discounts, partially offset by the non-recurrence of project-related expenses recorded in the prior year. Overall, segment performance was in line with our expectations and reflects the underlying stability of the business despite the anticipated impact of the Popular pricing reset.

Turning to slide 18, we have a summary of our corporate and other expenses. Adjusted EBITDA was negative $12 million for the quarter, representing 4.2% of total revenue.

Turning to slide 19, I will now review our cash flow performance. Through the second quarter, we generated $91 million of net cash from operating activities, reflecting continued focus on working capital management and cash conversion. During the period, we deployed capital across multiple priorities, including acquiring Dimensa for approximately $199 million and $73 million returned to shareholders through dividends and share repurchases. Net debt increased by approximately $152 million, primarily reflecting financing activities related to the Dimensa acquisition during the quarter. We ended the quarter with $261 million of unrestricted cash, excluding cash in settlement assets, compared to $306 million at year-end 2025.

Turning to slide 20, our net debt position at quarter end was approximately $1 billion comprised of $1.3 billion in total loan and short-term debt, offset by $261 million of unrestricted cash. Our weighted average interest rate was approximately 6%, a decrease of approximately 57 basis points year-over-year, reflecting the benefit of debt repricing actions executed during the prior year, as well as lower interest rates. Net debt to trailing 12 months Adjusted EBITDA was approximately 2.55 times, compared to 1.95 times a year ago, remaining within our targeted leverage range of 2 times to 3 times. This reflects the successful funding of the Dimensa acquisition while maintaining significant financial flexibility. As of June 30, total liquidity, which excludes restricted cash and includes available borrowing capacity, was approximately $420 million. Overall, our balance sheet remains strong and well-positioned to support both our strategic growth initiatives and ongoing capital return priorities.

Turning now to our outlook for 2026 on slide 21. Based on our second quarter performance and our confidence in our ability to continue delivering strong results, we are increasing our full year expectations. For 2026, we now expect reported revenue to be in the range of $1.85 billion to $1.95 billion representing growth of 16.4% to 17.5% year-over-year. The increase in our outlook reflects continued strength across Merchant Acquiring and Latin America Payments and Solutions. Modestly higher expectation for Dimensa and the benefit of foreign exchange, partially offset by slightly lower expected revenues in Business Solutions.

Specifically, this outlook includes approximately 200 basis points of foreign currency tailwinds, driven primarily by the appreciation of the Brazilian real relatively to the 2025 monthly average exchange rate used in our constant currency calculations. Importantly, a significant portion of this benefit was already realized in the first half of the year and is therefore reflected in our year-to-date results. On a constant currency basis, we now expect revenue growth for 2026 to be between 14.5% to 15.6% compared to our prior outlook of 13.8% to 15%.

Starting with the legacy business, we remain encouraged by the trends we see across our portfolio. Transaction activity remains healthy, particularly across our acquiring and payment businesses, and execution continues to be strong across the organization. These trends, combined with the continued momentum in Latin America, support our confidence in our Puerto Rico businesses, which continue to perform at or modestly above the assumptions embedded in our original outlook. At the segment level for Merchant Acquiring, we now expect high single digit growth in 2026 supported by continued transactional and volume growth, as well as the benefit of the implementation of key merchant relationship. In Payments Puerto Rico and Caribbean, we continue to expect mid-single digit growth driven by continued strength in ATH Movil and POS volumes, including processing services provided to the Latin America segment, partially offset by the impact of the Popular discount.

For Latin America Payments and Solutions, we now expect revenue growth within the low-40s on a reported basis and mid- to high-30s on a constant currency basis, reflecting continued execution across the region and the contributions from Dimensa and Tecnobank.

Finally, in Business Solutions, we now expect revenue to decline in the mid-single digits. The revised outlook reflects the anticipated impact of the Popular contract discount, as well as delays in certain new business wins. As a reminder, the Popular discount anniversary occurs in the fourth quarter, after which the associated segment will no longer impact year-over-year comparisons. Overall, the increase in our outlook reflects the strength of our diversified business model, continued execution of our growth strategy, and the contributions from our recent acquisitions. Our outlook continues to assume an Adjusted EBITDA margin of 39% to 40%, despite the increasing contribution from Latin America and the addition of Dimensa, which currently operates at a lower margin profile. We continue to expect margins to remain within this range, supported by favorable business mix and disciplined cost management across our broader business. Adjusted EPS is now expected to grow between 8.8% and 11.7% from the $3.62 reported for 2025, or between 7.2% and 10% on a constant currency basis. The increase in our outlook reflects stronger operating performance and the benefit from the share repurchases made during the quarter.

From an earnings perspective, our updated guidance continues to assume that Dimensa will be EPS neutral to slightly accretive in 2026. This assumption remains unchanged and reflects the balance between operating contributions, integration timing, and associated financing costs. While stronger operating performance across the business is driving our increased outlook, we continue to expect certain items below Adjusted EBITDA to limit the full translation into earnings growth, including higher interest expense, increased depreciation and amortization expense, higher non-controlling interest related to Tecnobank, and a shift in our tax profile resulting from a greater contribution from Latin America. We continue to expect our effective tax rate to remain within a range of approximately 11% to 12% for the full year.

Capital expenditures are still expected to be $90 million. In addition, we expect to continue returning capital to shareholders through dividends and, when appropriate, share repurchases. Overall, our increased 2026 outlook reflects stronger than expected performance across Merchant Acquiring in Latin America, continued progress integrating our recent acquisitions and favorable underlying business trends. In summary, we delivered a strong second quarter, raised our full year outlook, and remain well-positioned to execute on our strategic priorities. We continue to see meaningful opportunities to drive growth and create long-term value for shareholders.

With that, operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your question comes from the line of Vasu Govil from the KBW. Your line is now open. Please go ahead.

Vasundhara Govil
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you. Thanks for taking my question. Maybe, Mac, first one for you. Congrats on the win with Transbank in Chile. That's a pretty big one. Obviously, investors are....

Morgan M. Schuessler
President, Chief Executive Officer & Director, EVERTEC, Inc.

A

Yeah.

Vasundhara Govil
Analyst, Keefe, Bruyette & Woods, Inc.

Q

...interested in understanding how meaningful this relationship could be economically. Timing of when it could start contributing and how the scope of the agreement is similar or different from the Santander relationship you had? So, maybe if you could just elaborate on that, that would be super helpful.

Morgan M. Schuessler
President, Chief Executive Officer & Director, EVERTEC, Inc.

A

Yeah. So, first, I mean, look, it's one of the most important commercial contracts we have besides Popular. So, it's a milestone for us, and it gives us significant presence in Chile and continues to validate our technology and our capabilities. We're already in the process of going through the implementation, and it'll be a migration of their existing merchant base. So once it is implemented, it'll ramp very quickly because it is a migration. It's a conversion versus just start with one merchant and then add the next. We expect it to start impacting second half of 2027, but really fully ramp in 2028. So, we're incredibly excited with that and also with Clip. We also announced that we're doing a deal with Clip in Mexico, which is not as large as this deal, but from a reputational perspective, we're working with them. They have [ph] MiClip (00:31:53), which is their e-wallet. And it's – we're using our acquiring switching technology to help enable that. And so, we're pretty excited about that as well, because it is a marquee account in Mexico.

Vasundhara Govil
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thank you for that color. And then maybe a quick one for you, Karla. I heard the tax relief initiatives that help Merchant Acquiring in Puerto Rico. Was that a one-time tailwind or is that a benefit that you're expecting will continue? And then I think you also mentioned pricing as a tailwind, could you remind us if this is a new round of pricing actions or some residual benefit from the prior repricing actions? Just any color on that would be helpful.

Karla M. Cruz-Jusino
Executive Vice President & Chief Financial Officer, EVERTEC, Inc.

A

Yeah. So, starting with the tax relief, that is a benefit that we do not necessarily anticipate to recur throughout the second half of the year. It was very specific to a tax relief effort that was approved by the local government specifically for the 2025 tax year. And then, from a pricing initiative perspective, that is mainly attributed to two main pricing [ph] efforts (00:33:00) that we executed, one of them being executed in the second half of 2025 and then the second one more recently, specifically now in Q2.

Vasundhara Govil
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. So, we should expect the benefit to sort of last with us for another four quarters?

Karla M. Cruz-Jusino
Executive Vice President & Chief Financial Officer, EVERTEC, Inc.

A

Correct. For the one that was implemented now in Q2, definitely we will see that benefit throughout the rest of the year.

Vasundhara Govil
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thanks. I'll hop back in queue.

Morgan M. Schuessler
President, Chief Executive Officer & Director, EVERTEC, Inc.

A

Thanks, Vasu.

Operator: Our next question comes from the line of Jamie Friedman from Susquehanna. Your line is now open. Please go ahead.

James E. Friedman
Analyst, Susquehanna Financial Group LLLP

Q

Hi. Thank you. Congratulations on the strong results. I also wanted to ask about Transbank, Mac. Actually, to step back, I want to ask about Chile more broadly. My recollection is that it was a national scheme that had been privatized in Chile. If I got that wrong, I apologize. And if you could give us the [ph] quick notes (00:34:06) on where the banking system is in Chile and how that's evolving and how or if Transbank is participating in that? Thank you.

Morgan M. Schuessler
President, Chief Executive Officer & Director, EVERTEC, Inc.

A

Sure. No, no, a good question. So, Transbank was originally a monopoly that was all of the banks in Chile used to actually create the Merchant Acquiring business, to support the issuing business. Transbank actually own the merchant contracts, and each of the banks had equity ownership in Transbank. One of the first big banks to peel away and leave Transbank was Santander, and that was a deal that we announced some time ago, which is a similar deal. It's a processing deal that we do for Santander, and that was – at the time that was a huge deal for us. And then Banco de Chile has also decided to leave Transbank because they want to build and own their own merchant portfolio. And again, Banco de Chile selected us as well, and we announced that maybe a year or so ago.

Now, Transbank is the remaining company, and there are many banks that still use Transbank for their Merchant Acquiring business. The banks still own Transbank, so it's still owned by all of the banks. And it is still the largest payments and merchant acquirer in Chile. And given the success we've worked with the two largest banks that we've worked with, Transbank has now decided that we have the right technology for them as well.

James E. Friedman
Analyst, Susquehanna Financial Group LLLP

Q

Well, okay, now I get it. That is very cool. And then if you look across LatAm more generally, are there other countries that still have that sort of schema? Or is this – does this – is this unusual down there, meaning like a national charter, or can you templatize this elsewhere?

Morgan M. Schuessler
President, Chief Executive Officer & Director, EVERTEC, Inc.

A

Yeah. So, I mean, look, it is. In most countries – in many countries there's actually two providers. One was typically the legacy MasterCard provider, one was Visa, and they were owned by the banks. And now both of those, like, there are two in Colombia, and both of those now do Visa and MasterCard. So there still are legacy monopoly or duopoly businesses across the region. And ultimately, if we can demonstrate our capabilities through these other countries it could open up those opportunities as well.

James E. Friedman
Analyst, Susquehanna Financial Group LLLP

Q

All right. I'll drop back in the queue. Thank you.

Morgan M. Schuessler
President, Chief Executive Officer & Director, EVERTEC, Inc.

A

All right. Great. Thank you, Jamie.

Operator: Your next question comes from the line of Cris Kennedy from William Blair. Your line is now open. Please go ahead.

Cristopher Kennedy
Analyst, William Blair & Co. LLC

Q

Yeah. Good afternoon and thanks for taking the question. Mac, it's great to hear about the win with Clip in Mexico. Can you just give us an update on EVERTEC's position in Mexico and the opportunity in that market?

Morgan M. Schuessler
President, Chief Executive Officer & Director, EVERTEC, Inc.

A

Yeah. So, first, I mean, Mexico is the second-largest market in the region following Brazil, and it's significantly larger than any of the other markets. Given the size of the market, we're still very, very small. But this is really one of the first – we have some issuing capabilities that will be rolled out with clients in the market. This is really the first client that is meaningful, where we're providing switching services, which is part of our processing capabilities. So number one, it's allowing us to localize that solution more broadly. And secondly, from a reputational perspective, I think it'll give us even further credibility in the market. And frankly, outside, because Clip is one of the most well-known fintechs in all of Latin America.

Cristopher Kennedy
Analyst, William Blair & Co. LLC

Q

Understood. And thank you for that. And then, Karla, you mentioned the different margin profile for the LatAm business. Can you talk about the long-term opportunity for margin expansion within that segment?

Karla M. Cruz-Jusino
Executive Vice President & Chief Financial Officer, EVERTEC, Inc.

A

Yeah. We've discussed in the past, right, and we actually adjusted our guidance in the last call to reduce it, to incorporate the lower margin profile from the acquisition of Dimensa. We also mentioned, and I'll highlight it again, that we do anticipate being able to incorporate certain synergies that are expected to be more meaningful as we enter 2027. And that is a great opportunity for us to, let's say, bring those margins back to a more stable profile compared to what we used to be before some of these acquisitions.

Cristopher Kennedy
Analyst, William Blair & Co. LLC

Q

Okay. Thank you. Appreciate it.

Morgan M. Schuessler
President, Chief Executive Officer & Director, EVERTEC, Inc.

A

Thanks, Cris.

Operator: Your next question comes from the line of Madison Suhr from Raymond James. Your line is now open. Please go ahead.

Madison Suhr
Analyst, Raymond James & Associates, Inc.

Q

Hey. Good afternoon. Thanks for taking the questions. I wanted to start on Dimensa. I know it's only been a quarter here, but maybe just touch on how the integration is going. And, Mac, I know you are pretty optimistic around the potential synergies there. So just as you've had a quarter with the business, maybe just touch on where you see some of the potential for near-term synergies as it relates to that deal?

Morgan M. Schuessler
President, Chief Executive Officer & Director, EVERTEC, Inc.

A

Yeah. So, what I would say is from a forecast perspective, it's actually meeting, slightly exceeding our original expectations. As far as synergies, the thesis still holds, and we're in the process of working through those synergies, realizing those. Those are already in the guidance for 2026, and they'll have a good impact in 2027. But we're pleased with the deal. And even with meeting with customers, they're excited that EVERTEC is now owner of the asset, and they'd like to see us do similar things we do with Sinqia, right? Improve the customer experience and also invest in the platforms. And so, we're pretty excited about the combination of those businesses.

Madison Suhr
Analyst, Raymond James & Associates, Inc. Q

Okay. Awesome. And then I wanted to follow-up on the Merchant Acquiring business as well. So revenue growth accelerated back into the double-digits. You talked about some of the tailwinds you experienced, but I believe you also mentioned 7% and 6% volume and transaction growth, if I heard correctly. So, I guess, just a two-part question. One, is it fair to say that that potentially accelerated modestly, just given the revenue results? And then secondly, and more broadly, can you just touch on what's driving the strong volume and transaction growth and maybe how sustainable you think that is in the second half? Thanks.

Karla M. Cruz-Jusino
Executive Vice President & Chief Financial Officer, EVERTEC, Inc. A

Yeah. So, correct. We did see 7% growth in volume transactions in the quarter. That definitely accelerated compared to what we ended, right, Q2. The main drivers of that volume growth is the organic growth that we've seen in that segment, including recent client wins that we have been able to sign and implement in the recent quarters. We also saw a positive impact from gas prices increasing. That one, we call it out because we didn't necessarily see a negative impact in the rest of the vertical. So we were able to see a resilient consumer spend pattern into the Puerto Rico economy, regardless of that, let's say, increase in gas prices.

And then the third one would be the tax incentive that we called out. That one, we do not necessarily expect it to recur in the near future. For the second half of the year, and that's part of why we raise or confirm, right, the expectation for Merchant Acquiring to grow in high-single digit, is that we do continue to anticipate further contributions from a growth perspective coming from new merchants, some of them announced by Mac in his remarks.

Madison Suhr
Analyst, Raymond James & Associates, Inc. Q

Okay. Awesome. And just to clarify, so the metric that you gave was 7% volume transaction growth, correct?

Karla M. Cruz-Jusino
Executive Vice President & Chief Financial Officer, EVERTEC, Inc. A

Correct.

Madison Suhr
Analyst, Raymond James & Associates, Inc. Q

Okay. Awesome. Thank you so much for taking the questions. I appreciate it.

Karla M. Cruz-Jusino
Executive Vice President & Chief Financial Officer, EVERTEC, Inc. A

Thank you.

Morgan M. Schuessler
President, Chief Executive Officer & Director, EVERTEC, Inc.

A

Thanks, Madison.

Operator: Your next question comes from the line of Nate Svensson from Deutsche Bank. Your line is now open. Please go ahead.

Nate Svensson
Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Thanks for the question. I wanted to ask about the BBChain acquisition. Sounds pretty interesting. Was hoping for a little bit more on the strategic rationale there. Maybe you could talk about what you're hearing from your clients on demand for digital assets in Latin America or maybe across your other regions as well. So, what specific feedback were you receiving that led you to pursue that acquisition, and how do you expect to fold BBChain's offerings into the rest of the company?

Morgan M. Schuessler
President, Chief Executive Officer & Director, EVERTEC, Inc.

A

Yeah. No. Look, we just closed on Friday, and we're pretty excited. It's a very small deal. But the capabilities and the technology that they have, we're very excited about. If you think about our business specifically in Brazil, we provide the ledger and the technology for many of our clients to manage assets, whether it's pension funds, whether it's the consortium business, whether it's the funds business. And as those asset classes become digitized, right, through tokenization, through blockchain, through different technologies, we now have the technology to help our clients do that, whether it's some type of government agency trying to issue bonds, whether it's equities. But as there's this move in Brazil, which there is, the Brazilian government is working on projects specifically to look at can they digitize bonds? We're one of the technology solutions that are part of those initiatives as they evolve. So, it's still early stage, but I would say BBChain is already experimenting with the government, experimenting with some of our clients, our financial service companies in Brazil. And this allows us to extend that we have the platform to help them manage those assets. Now we have the technology to help them digitize those assets.

Nate Svensson
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Super interesting. And then, Karla, maybe one for you. I know you called out the lapping of the Popular headwinds. Just wondering, as we set our model and think about growth in the third quarter versus the fourth quarter, are there any other grow or impacts or factors that we need to incorporate into our numbers? I think last year there was a Bad Bunny residency that may have helped some numbers in 3Q. So just wondering that factor or anything else we should keep in mind as we set our models?

Karla M. Cruz-Jusino
Executive Vice President & Chief Financial Officer, EVERTEC, Inc.

A

From a Business Solutions perspective, you're right, the discount is going to be overlapping now in Q4. And so that's a good consideration from, let's say, Q3 versus Q4 perspective. On the rest of the business, aside from what you just called out also, the Bad Bunny residency that did benefited Q3 of last year, we don't necessarily have anything to call out. In LatAm, we do anniversary also the Tecnobank acquisition in the fourth quarter. So, that's also an important consideration there in that segment.

Nate Svensson
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks very much.

Operator: That concludes the question-and-answer session. And I will now turn the call back over to Mac Schuessler for the closing remarks.

Morgan M. Schuessler
President, Chief Executive Officer & Director, EVERTEC, Inc.

First, thanks to everybody for joining us today for the call. Thank you to my colleagues for a record quarter and for some great both organic and inorganic wins. I look forward to seeing you at future conferences or in future calls. Have a good day.

Operator: Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.