Exela Technologies, Inc. Reports Fourth Quarter and Full Year 2019 Results

Jun 09, 2020

Files Form 10-K for 2019, including restated results for 2017 and 2018, and for the nine months ended September 30, 2019
Achieves revised full year guidance for Revenue and Adjusted EBITDA
Conference Call to Discuss Results Scheduled for June 9, 2020 at 5 PM ET

Fourth Quarter 2019 Highlights:

- Revenue of $393.6 million, a decline of 1.5% on a reported basis and 1.1%(1) on a constant currency basis from Q4 2018
- Operating loss of $249.5 million, including $252.4 million of non-cash impairment charges
- Net loss of $304.1 million
- EBITDA(2) loss of $234.5 million
- Adjusted EBITDA(3) of $53.0 million on a reported basis; $53.2 million on a constant currency basis

Full-Year 2019 Highlights:

- Revenue of $1,562.3 million, a decline of 1.5% on a reported basis and 0.5%(1) on a constant currency basis
- Operating loss of $321.2 million, including $349.6 million of non-cash impairment charges recorded in the third and fourth quarters of 2019
- Net loss of $509.1 million
- EBITDA(2) loss of $237.1 million
- Adjusted EBITDA(3) of $254.8 million on a reported basis; $255.9 million on a constant currency basis
- Achieved expense savings during 2019 totaling $65 million

First Half 2020 Highlights:

- Progress of Debt Reduction and Liquidity Improvement Initiative:

° Completed a 5-year $160.0 million accounts receivable securitization facility in January 2020
° Completed the sale of non-core Tax Benefit Group business for $40.0 million in March 2020

- On April 14, Marc Beilinson and William Transier, independent directors were appointed

to the Company’s board of directors
- On May 15, Shrikant Sortur was promoted to Chief Financial Officer
- Q1 2020 Update:

° Exela expects to report Q1 2020 revenue in the range of $362-$365.0 million
° During Q1 2020, Exela reduced its global headcount to 22,058 FTEs or 3% since the 2019 year-end

- Company adjusted its FTE capacity in Q2 to 19,056 FTEs representing 86% of its pre-COVID-19 levels of 22,058 FTEs

IRVING, Texas, June 09, 2020 (GLOBE NEWSWIRE) -- Exela Technologies, Inc. (“Exela” or the “Company”) (NASDAQ: XELA), a location-agnostic global business process automation (“BPA”) leader across numerous industries, announced today that it has filed its Annual Report on Form 10-K for the year ended December 31, 2019, including the previously announced restatement of prior period results for 2017, 2018 and the nine months ended September 30, 2019. The Form 10-K also includes relevant quarterly financial information for the years ended December 31, 2018 and 2019.

“We are pleased to have achieved our revised full year 2019 guidance, including revenue above the high-end of our guidance range,” said Ronald Cogburn, Chief Executive Officer of Exela. “The COVID-19 pandemic has posed unprecedented challenges and disruption for companies and communities around the world. Our priorities since the onset of the pandemic have been the health and safety of our global team members and their families, and continuing to provide mission-critical services to our customers. In this regard, with our strategic global footprint, “right-shore” model, and 86% of our team members either enabled to work remotely or less impacted by the pandemic, we have delivered virtually uninterrupted service to our customers. I am incredibly proud of all our global team members for their continued hard work and dedication to serving our customers during this time. Notwithstanding the current economic challenges of COVID-19, we believe our business model remains resilient supported by our strong customer base, the mission-critical nature of the services we provide, our leading suite of services and solutions, and our global delivery excellence.”

Mr. Cogburn continued, “Looking to the remainder of 2020 and beyond, we have a plan in place for improved long-term profitable growth and value creation. We will continue to position the Company to focus on growing our base business in core industries such as banking, insurance and healthcare where we provide critical billing and payment solutions. In addition, our strategic priorities include improving our operating income and free cash flow, increasing our liquidity, and reducing our debt. Our previously announced debt reduction and liquidity improvement initiative is an important component of this plan. While we still have work to do, we have made good progress so far in 2020 by closing a new securitized AR facility in January and the divestiture of our Tax Benefit Group business in March, increasing our financial flexibility.”

COVID-19 Positioning
In response to the COVID-19 pandemic, Exela rapidly initiated a plan to protect the health and safety of its global team members, while continuing to serve customers’ needs. Relevant highlights include:

- Favorable employee distribution model with over 60% of the employee base located in Americas and EMEA offers Exela a clear differentiation and edge over competitors
- Minimum volume commitments in many contracts limit the effects of volume reductions
- Rapid response unit set up with an emphasis on solutions that address work-from-home environments such as the Digital Mailroom
- Company adjusted its FTE capacity in Q2 to 19,056 FTEs representing 86% of its pre-COVID-19 levels of 22,058 FTEs

Fourth Quarter 2019 Financial Highlights

- **Revenue:** Revenue was $393.6 million, a decline of 1.5% from $399.6 million in the fourth quarter of 2018. Revenue for the Information and Transaction Processing Solutions (“ITPS”) segment was $306.7 million, a decline of 5.4% year-over-year, driven primarily by the previously announced low margin contract exit (“LMCE”) in the third quarter of 2018 partially offset by growth from existing customers and new wins. Healthcare Solutions (“HS”) revenue was $69.8 million, an increase of 24.0% year-over-year, driven primarily by acquisition, new customer growth and increased volumes with existing customers. Legal and Loss Prevention Services (“LLPS”) revenue was $17.1 million, a decline of approximately $2.0 million, or 10.3% from the fourth quarter of 2018.

  Revenue excluding the previously announced LMCE and pass through revenues from postage and postage handling with either zero or nominal margins (“pass through revenue”) **(4)** was $323.5 million in the fourth quarter of 2019, representing an increase of 1.5% over $318.8 million in the fourth quarter of 2018.

  82% of fourth quarter 2019 revenue was in the Americas, 16% was in Europe, and 2% was in rest of world.

- **Operating income / (loss):** Operating loss for the fourth quarter of 2019 was $249.5 million, compared with operating loss of $40.6 million in the fourth quarter of 2018. The year-over-year increase in operating loss is primarily attributable to non-cash goodwill and trade-name impairment charges of $252.4 million recognized in the fourth quarter of 2019, compared with $48.1 million of impairment charges in the fourth quarter of 2018, along with higher SG&A expenses partially offset by lower depreciation and amortization costs. The non-cash goodwill and trade-name impairment charges incurred in the fourth quarter of 2019 were related to the write-down of the carrying values of the ITPS and LLPS segments.

- **Net Loss:** Net Loss for the fourth quarter of 2019 was $304.1 million, compared with a net loss of $86.5 million in the fourth quarter of 2018.

- **Adjusted EBITDA:** Adjusted EBITDA for the fourth quarter of 2019 was $53.0 million, compared to Adjusted EBITDA of $72.7 million in the fourth quarter of 2018. Adjusted EBITDA margin for the fourth quarter of 2019 was 13.5% compared to Adjusted EBITDA margin of 18.2% in the fourth quarter of 2018. The decrease in fourth quarter 2019 Adjusted EBITDA was mainly driven by lower revenue in the ITPS segment, higher SG&A spend, and losses on derivative instruments, partially offset by continued realization of savings flow-through.

  Adjusted EBITDA margin, based on revenue excluding LMCE and pass through revenue, was 16.4% in the fourth quarter of 2019, compared with 22.8% in the fourth quarter of 2018.

- **Capital Expenditures:** Capital expenditures for the fourth quarter of 2019 were 1.2% of revenue compared to 2.6% of revenue in the fourth quarter of 2018.

- **Common Stock:** As of May 1, 2020, there were 147,511,430 total shares of common stock outstanding and an additional 3,923,385 shares of common stock reserved for issuance for our outstanding preferred shares on an as-converted basis.

- Total employees as of December 31, 2019 were 22,766 as compared to 22,715 as of September 30, 2019.

Full-Year 2019 Financial Highlights

- **Revenue:** Revenue was $1,562.3 million, a decline of 1.5% from $1,586.2 million in 2018. Revenue for the ITPS segment was $1,234.3 million, a decline of 3.1% year-over-year, driven primarily by the previously announced LMCE and adverse currency impacts, partially offset by revenue from acquisitions completed in 2018. HS revenue was $256.7 million, an increase of 12.6% year-over-year, driven primarily by acquisition, new customer growth and increased volume with existing customers. LLPS revenue was $71.3 million, representing a decline of 15.6% from 2018. Results in LLPS are event driven and were impacted primarily by lower revenue from legal claims administration services in 2019.

  Revenue excluding the previously announced LMCE and pass through revenue was $1,284.9 million in 2019, representing an increase of 2.9% over $1,248.1 million in 2018.

Excluding the impact of LMCE and certain other customer exits, full-year 2019 revenue from top-20 customers increased 13% year-over-year, and revenue from top-50 customers increased 11% year-over-year, reflecting the Company's focus on expanding with its largest customers.

82.3% of full-year 2019 revenue was in the Americas, 16.0% was in Europe and 1.7% was in rest of world.

- **Operating income / (loss):** Operating loss in 2019 was $321.2 million, compared with a loss of $10.7 million in 2018. The year-over-year increase in operating loss was primarily driven by non-cash goodwill and trade-name impairment charges of $349.6 million recognized in 2019, compared with $48.1 million of non-cash impairment charges recognized in 2018, as well as lower revenue and higher SG&A expenses, which were partially offset by lower depreciation and amortization costs. The non-cash goodwill and trade-name impairment charges incurred in 2019 were related to the write-down of the carrying values of the ITPS and LLPS segments.

- **Net Loss:** Net Loss for 2019 was $509.1 million, compared with a net loss of $169.8 million in 2018.

- **Adjusted EBITDA:** Adjusted EBITDA in 2019 was $254.8 million, as compared to Adjusted EBITDA of $276.2 million in 2018. Adjusted EBITDA margin for 2019 was 16.3% compared to Adjusted EBITDA margin of 17.4% in 2018. The decrease in 2019 Adjusted EBITDA was mainly driven by lower revenue in the ITPS and LLPS segments and higher SG&A spend, partially offset by continued realization of savings flow-through.

  Adjusted EBITDA margin, based on revenue excluding LMCE and pass through revenue, was 19.8% in 2019, compared with 22.1% in 2018.

- **Capital Expenditures:** Capital expenditures for 2019 were 1.3% of revenue compared to 1.7% of revenue in 2018.

Balance Sheet: At December 31, 2019, Exela's total net debt was $1.509 billion.

Debt Reduction and Liquidity Improvement
On November 12, 2019, Exela announced that its Board of Directors adopted a debt reduction and liquidity improvement initiative ("Initiative"), with the goal of increasing the Company's liquidity to approximately $125.0 to $150.0 million, and repaying debt with a target debt reduction of approximately $150.0 to $200.0 million. In accordance with this Initiative, Exela announced two transactions in the first quarter of 2020.

- On January 15, 2020, Exela announced that it entered into a 5-year, $160.0

million accounts receivable securitization facility to improve liquidity. The facility is for an initial five-year term, may be extended in accordance with its terms, and is incremental to Exela's existing $100.0 million revolving facility maturing in July 2022.

- On March 17, 2020, Exela announced the sale of its Tax Benefit Group ("TBG") business for $40.0 million, or approximately 1.93x 2019 revenue. Net of closing costs and adjustments, this transaction resulted in proceeds of $38.2 million. For full year 2019, TBG generated total revenue of $20.7 million. The Company believes it is on schedule for additional divestitures with expected proceeds in the range of $110.0 million to $160.0 million.

First Quarter 2020 Update and Full Year 2020 Commentary

- As previously disclosed, the Company expects to complete its financial statements for the quarter ended March 31, 2020 by June 24, 2020. For the first quarter of 2020, Exela expects to report revenue in the range of $362.0 - $365.0 million. Although Exela is working diligently to complete its financial statements for the first quarter of 2020 by June 24, 2020 no assurance can be given that they will be filed within such period.

- The depth and duration of the economic impact from COVID-19 on Exela and its customers' businesses remains unknown. Given the uncertainties surrounding COVID-19 and its impacts on visibility, Exela is delaying providing financial guidance for full year 2020.

(1) – Constant currency is a non-GAAP measure. A reconciliation of constant currency is attached to this release.
(2) – EBITDA is a non-GAAP measure. A reconciliation of EBITDA is attached to this release.
(3) – Adjusted EBITDA is a non-GAAP measure. A reconciliation of Adjusted EBITDA is attached to this release.
(4) – Pass through revenue is defined as postage and postage handling revenue with either zero or nominal margins. LMCE is defined as revenue from the low margin contract exit announced in the third quarter of 2018. A reconciliation of revenue net of pass through revenue and LMCE is attached to this release.

Earnings Conference Call and Audio Webcast
Exela will host a conference call to discuss its fourth quarter and year end 2019 financial results at 5 p.m. ET on June 9, 2020. To access this call, dial 833-255-2831 or +412-902-6724 (international). A replay of this conference call will be available through June 16, 2020 at 877-344-7529 or +412-317-0088 (international). The replay passcode is 10144972. A live webcast of this conference call will be available on the "Investors" page of the Company's website (www.exelatech.com). A supplemental slide presentation that accompanies this call and webcast can be found on the investor relations website

(http://investors.exelatech.com/) and will remain available after the call.

About Exela
Exela Technologies, Inc. ("Exela") is a business process automation (BPA) leader, leveraging a global footprint and proprietary technology to provide digital transformation solutions enhancing quality, productivity, and end-user experience. With decades of expertise operating mission-critical processes, Exela serves a growing roster of more than 4,000 customers throughout 50 countries, including over 60% of the Fortune® 100. With foundational technologies spanning information management, workflow automation, and integrated communications, Exela's software and services include multi-industry department solution suites addressing finance and accounting, human capital management, and legal management, as well as industry-specific solutions for banking, healthcare, insurance, and public sectors. Through cloud-enabled platforms, built on a configurable stack of automation modules, and over 22,000 employees operating in 23 countries, Exela rapidly deploys integrated technology and operations as an end-to-end digital journey partner.
Find out more at www.exelatech.com

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About Non-GAAP Financial Measures: This press release includes constant currency, EBITDA and Adjusted EBITDA, each of which is a financial measure that is not prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Exela believes that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial performance, results of operations and liquidity and allows investors to better understand the trends in our business and to better understand and compare our results. Exela's board of directors and management use constant currency, EBITDA and Adjusted EBITDA to assess Exela's financial performance, because it allows them to compare Exela's operating performance on a consistent basis across periods by removing the effects of Exela's capital structure (such as varying levels of debt and interest expense, as well as transaction costs resulting from the combination of Quinpario Acquisition Corp. 2, SourceHOV Holdings, Inc. and Novitex Holdings, Inc. on July 12, 2017 (the "Novitex Business Combination") and capital markets-based activities). Adjusted EBITDA also seeks to remove the effects of integration and related costs to achieve the savings, any expected reduction in operating expenses due to the Novitex Business Combination, asset base (such as depreciation and amortization) and other similar non-routine items outside the control of our management team. Optimization and restructuring expenses and merger adjustments are primarily related to the implementation of strategic actions and initiatives related to the Novitex Business Combination. All of these costs are variable and dependent upon the nature of the actions being implemented and can vary significantly driven by business needs. Accordingly, due to that significant variability, we exclude these charges since we do not believe they truly reflect our past, current or future operating performance. The constant currency presentation excludes the impact of fluctuations in foreign currency exchange rates.

We calculate constant currency revenue and Adjusted EBITDA on a constant currency basis by converting our current-period local currency financial results using the exchange rates from the corresponding prior-period and compare these adjusted amounts to our corresponding prior period reported results. Exela does not consider these non-GAAP measures in isolation or as an alternative to liquidity or financial measures determined in accordance with GAAP. A limitation of these non-GAAP financial measures is that they exclude significant expenses and income that are required by GAAP to be recorded in Exela's financial statements. In addition, they are subject to inherent limitations as they reflect the exercise of judgments by management about which expenses and income are excluded or included in determining these non-GAAP financial measures and therefore the basis of presentation for these measures may not be comparable to similarly-titled measures used by other companies. These non-GAAP financial measures are not required to be uniformly applied, are not audited and should not be considered in isolation or as substitutes for results prepared in accordance with GAAP. Net loss is the GAAP measure most directly comparable to the non-GAAP measures presented here. For reconciliation of the comparable GAAP measures to these non-GAAP financial measures, see the schedules attached to this release.

Restatement: As previously disclosed in the Company's Current Report on Form 8-K filed with the SEC on March 17, 2020, the board of directors of the Company, based on the recommendation of the audit committee and in consultation with management, concluded that, because of errors identified in the Company's previously issued financial statements for the fiscal years ended December 31, 2018 and 2017 and the first three quarters of fiscal 2019, the Company would restate its previously issued financial statements, including the quarterly data for fiscal years 2019 and 2018 and its selected financial data for the relevant periods. The adjustments made as a result of the restatement are more fully discussed in Note 3, Restatement of Previously Issued Financial Statements, of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K filed with the SEC on June 9, 2020. Previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q for the periods affected by the restatement have not been amended. Accordingly, investors should no longer rely upon the Company's previously released financial statements for these periods and any earnings releases, investor presentations or other communications relating to these periods, and, for these periods, investors should rely solely on the financial statements and other financial data for the relevant periods included in the above referenced Annual Report. All amounts in this release affected by the restatement adjustments reflect such amounts as restated.

Forward-Looking Statements: Certain statements included in this press release are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by words such as "may", "should", "would", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "seem", "seek", "continue", "future", "will", "expect", "outlook" or other similar words, phrases or expressions. These forward-looking statements include statements regarding our industry, future events, the estimated or anticipated future results and benefits of the Novitex Business Combination, future opportunities for the combined company, including potential divestitures and other statements that are not historical facts. These statements are based on the current expectations of Exela management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties, including without limitation those discussed under the heading “Risk Factors” in Exela’s most recently filed Annual Report on Form-10-K filed with the Securities and Exchange Commission. In addition, forward-looking statements provide Exela’s expectations, plans or forecasts of future events and views as of the date of this communication. Exela anticipates that subsequent events and developments will cause Exela’s assessments to change. These forward-looking statements should not be relied upon as representing Exela’s assessments as of any date subsequent to the date of this press release.

To view the full press release, including the consolidated financial statements, please download the PDF version here.

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