

Edgar Filing: ExlService Holdings, Inc. - Form 10-Q

ExlService Holdings, Inc.

Form 10-Q

April 30, 2019

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Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER 001-33089

EXLSERVICE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

82-0572194

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(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

**280 PARK AVENUE, 38TH FLOOR,
NEW YORK, NEW YORK**

10017
(Zip code)

(Address of principal executive offices)
(212) 277-7100
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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. (Check one):

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

As of April 26, 2019, there were 34,341,972 shares of the registrant's common stock outstanding, par value \$0.001 per share.

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PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
EXLSERVICE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	As of	
	March 31, 2019	December 31, 2018
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 86,688	\$ 95,881
Short-term investments	216,056	184,489
Restricted cash	5,364	5,608
Accounts receivable, net	176,889	164,752
Prepaid expenses	13,145	11,326
Advance income tax, net	11,334	9,639
Other current assets	26,582	28,240
Total current assets	536,058	499,935
Property and equipment, net	73,447	73,510
Operating lease right-of-use assets	89,835	—
Restricted cash	2,575	2,642
Deferred tax assets, net	4,570	6,602
Intangible assets, net	90,008	95,495
Goodwill	350,239	349,984
Other assets	33,164	31,015
Investment in equity affiliate	2,686	2,753
Total assets	\$ 1,182,582	\$ 1,061,936
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 4,560	\$ 5,653
Current portion of long-term borrowings	20,876	21,423
Deferred revenue	11,132	7,722
Accrued employee costs	31,954	54,893
Accrued expenses and other current liabilities	65,827	64,169
Current portion of operating lease liabilities	22,306	—
Income taxes payable	595	1,012
Current portion of finance lease obligations	283	223
Total current liabilities	157,533	155,095
Long term borrowings	299,765	263,241
Finance lease obligations, less current portion	492	315
Deferred tax liabilities, net	10,103	8,445
Operating lease liabilities, less current portion	77,060	—
Other non-current liabilities	6,794	16,521
Total liabilities	551,747	443,617
Commitments and contingencies (Refer Note 26)		
Preferred stock, \$0.001 par value; 15,000,000 shares authorized, none issued	—	—
ExlService Holdings, Inc. Stockholders' equity:		

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Common stock, \$0.001 par value; 100,000,000 shares authorized, 38,256,036 shares issued and 34,365,437 shares outstanding as of March 31, 2019 and 37,850,544 shares issued and 34,222,476 shares outstanding as of December 31, 2018	38	38
Additional paid-in capital	371,144	364,179
Retained earnings	498,939	484,244
Accumulated other comprehensive loss	(77,212) (83,467)
Total including shares held in treasury	792,909	764,994
Less: 3,890,599 shares as of March 31, 2019 and 3,628,068 shares as of December 31, 2018, held in treasury, at cost	(162,333) (146,925)
Stockholders' equity	630,576	618,069
Non-controlling interest	259	250
Total equity	630,835	618,319
Total liabilities and equity	\$ 1,182,582	\$ 1,061,936

See accompanying notes to unaudited consolidated financial statements.

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EXLSERVICE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In thousands, except share and per share amounts)

	Three months ended March 31,	
	2019	2018
Revenues, net	\$239,573	\$206,973
Cost of revenues ⁽¹⁾	157,240	138,101
Gross profit⁽¹⁾	82,333	68,872
Operating expenses:		
General and administrative expenses	32,531	29,266
Selling and marketing expenses	18,047	13,952
Depreciation and amortization	13,667	10,504
Impairment charges	1,227	—
Total operating expenses	65,472	53,722
Income from operations	16,861	15,150
Foreign exchange gain, net	1,260	615
Interest expense	(3,582) (538
Other income, net	4,423	3,534
Income before income tax expense/(benefit) and earnings from equity affiliates	18,962	18,761
Income tax expense/(benefit)	4,200	(4,453
Income before earnings from equity affiliates	14,762	23,214
Loss from equity-method investment	67	56
Net income attributable to ExlService Holdings, Inc. stockholders	\$14,695	\$23,158
Earnings per share attributable to ExlService Holdings, Inc. stockholders:		
Basic	\$0.43	\$0.67
Diluted	\$0.42	\$0.66
Weighted-average number of shares used in computing earnings per share attributable to ExlService Holdings, Inc. stockholders:		
Basic	34,374,815	34,446,265
Diluted	34,833,435	35,302,926

(1) Exclusive of depreciation and amortization.

See accompanying notes to unaudited consolidated financial statements.

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EXLSERVICE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In thousands)

	Three months ended March 31,		
	2019		2018
Net income	\$	14,695	\$ 23,158
Other comprehensive income/(loss):			
Unrealized gain/(loss) on effective cash flow hedges, net of taxes \$1,189 and (\$800), respectively	4,748		(4,214)
Foreign currency translation gain/(loss)	2,680		(7,811)
Reclassification adjustments			
Gain on cash flow hedges, net of taxes \$354 and (\$776), respectively ⁽¹⁾	(1,025)	(1,895)
Retirement benefits, net of taxes \$109 and \$1, respectively ⁽²⁾	(148)	(40)
Total other comprehensive income/(loss)	\$ 6,255		\$ (13,960)
Total comprehensive income	\$ 20,950		\$ 9,198

⁽¹⁾ These are reclassified to net income and are included either in cost of revenues or operating expenses, as applicable in the unaudited consolidated statements of income. Refer Note 17 to the unaudited consolidated financial statements.

⁽²⁾ These are reclassified to net income and are included in other income, net in the unaudited consolidated statements of income. Refer Note 20 to the unaudited consolidated financial statements.

See accompanying notes to unaudited consolidated financial statements.

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EXLSERVICE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)
(In thousands, except share and per share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Treasury Stock		Non - Controlling Interest	Total Equity
	Shares	Amount				Shares	Amount		
Balance as of January 1, 2019	37,850,544	\$ 38	\$ 364,179	\$ 484,244	\$ (83,467)	(3,628,068)	\$(146,925)	\$ 250	\$ 618,319
Stock issued against stock-based compensation plans	405,492	—	22	—	—	—	—	—	22
Stock-based compensation	—	—	6,956	—	—	—	—	—	6,956
Acquisition of treasury stock	—	—	—	—	—	(262,531)	(15,408)	—	(15,408)
Allocation of equity component related to issuance costs on convertible senior notes	—	—	(13)	—	—	—	—	—	(13)
Non-controlling interest	—	—	—	—	—	—	—	9	9
Other comprehensive income	—	—	—	—	6,255	—	—	—	6,255
Net income	—	—	—	14,695	—	—	—	—	14,695
Balance as of March 31, 2019	38,256,036	\$ 38	\$ 371,144	\$ 498,939	\$ (77,212)	(3,890,599)	\$(162,333)	\$ 259	\$ 630,835

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Non - Controlling Interest	Total Equity
	Shares	Amount				Shares	Amount		
Balance as of December 31, 2017	36,790,751	\$ 37	\$ 322,246	\$ 427,064	\$ (45,710)	(2,902,018)	\$(103,816)	\$ 224	\$ 600,045
Impact of adoption of ASU 2016-09	—	—	—	454	—	—	—	—	454
Balance as of January 1, 2018	36,790,751	\$ 37	\$ 322,246	\$ 427,518	\$ (45,710)	(2,902,018)	\$(103,816)	\$ 224	\$ 600,499
Stock issued against stock-based compensation plans	778,222	1	430	—	—	—	—	—	431
Stock-based compensation	—	—	5,074	—	—	—	—	—	5,074
Acquisition of treasury stock	—	—	—	—	—	(223,993)	(13,504)	—	(13,504)
Non-controlling interest	—	—	—	—	—	—	—	7	7
Other comprehensive loss	—	—	—	—	(13,960)	—	—	—	(13,960)
Net income	—	—	—	23,158	—	—	—	—	23,158
Balance as of March 31, 2018	37,568,973	\$ 38	\$ 327,750	\$ 450,676	\$ (59,670)	(3,126,011)	\$(117,320)	\$ 231	\$ 601,705

See accompanying notes to unaudited consolidated financial statements.

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EXLSERVICE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Three months ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 14,695	\$ 23,158
Adjustments to reconcile net income to net cash provided/(used for) by operating activities:		
Depreciation and amortization	13,724	10,655
Stock-based compensation expense	6,956	5,074
Unrealized gain on short term investments	(3,185)	(2,842)
Unrealized foreign exchange loss/(gain), net	127	(3,319)
Deferred income tax expense	1,049	3,433
Allowance for doubtful accounts receivable	298	(612)
Loss from equity-method investment	67	56
Amortization of non-cash interest expense related to convertible senior notes	600	—
Impairment charges	1,227	—
Others, net	417	28
Change in operating assets and liabilities:		
Accounts receivable	(12,016)	(590)
Prepaid expenses and other current assets	591	(2,164)
Advance income tax, net	(2,099)	(13,906)
Other assets	388	(1,789)
Accounts payable	(1,159)	(1,726)
Deferred revenue	3,262	877
Accrued employee costs	(22,436)	(27,655)
Accrued expenses and other liabilities	5,837	3,317
Net cash provided by/(used for) operating activities	8,343	(8,005)
Cash flows from investing activities:		
Purchase of property and equipment	(10,878)	(12,680)
Business acquisition (net of cash acquired)	—	(380)
Purchase of investments	(