

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): February 13, 2019 (February 13, 2019)



i3 Verticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-38532
(Commission
File Number)

82-4052852
(I.R.S. Employer
Identification No.)

40 Burton Hills Blvd., Suite 415
Nashville, TN
(Address of principal executive offices)

37215
(Zip Code)

(615) 465-4487
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).
Emerging growth company. x

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. o

As provided in General Instruction B.2 of Form 8-K, the information contained in this Current Report on Form 8-K (including the exhibits hereto) shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be deemed to be incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing.

Item 2.02. Results of Operations and Financial Condition.

On February 13, 2019, i3 Verticals, Inc. (the “Company”) issued a press release announcing the results of its operations for the three months ended December 31, 2018. A copy of the press release is furnished as Exhibit 99.1 hereto and is hereby incorporated by reference into this Item 2.02.

Item 7.01. Regulation FD Disclosure.

The Company has also prepared a supplemental presentation (the “Supplemental Presentation”) containing segment financial performance information for the three months ended December 31, 2018. A copy of the Supplemental Presentation is furnished as Exhibit 99.2 hereto and is hereby incorporated by reference into this Item 7.01. A copy of the Supplemental Presentation is also available on the Investors section of the Company’s website.

Item 9.01. Financial Statements and Exhibits.

(d) *Exhibits.*

Exhibit No.	Description
99.1	Press release issued by i3 Verticals, Inc. on February 13, 2019
99.2	Supplemental Presentation

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 hereunto duly authorized.

Date: February 13, 2019

i3 VERTICALS, INC.

By: /s/ Clay Whitson
Name: Clay Whitson
Title: Chief Financial Officer



i3 VERTICALS REPORTS FIRST QUARTER 2019 FINANCIAL RESULTS
Affirms Previously Issued Guidance for Fiscal 2019

NASHVILLE, Tenn. (February 13, 2019) – i3 Verticals, Inc. (Nasdaq: IIIV) (“i3 Verticals” or the “Company”) today reported its financial results for the fiscal first quarter ended December 31, 2018.

Highlights for the fiscal first quarter of 2019 vs. 2018

- Revenue was \$84.9 million, an increase of 10% over the prior year's first quarter.
- Adjusted net revenue¹, which excludes acquisition revenue adjustments and interchange and network fees, was \$29.6 million, an increase of 18% over the prior year's first quarter.
- Net income was \$2.4 million.
- Adjusted EBITDA¹ was \$8.6 million, an increase of 25% over the prior year's first quarter.
- Adjusted EBITDA¹ as a percentage of adjusted net revenue¹ was 29%, compared to 27% in the prior year's first quarter.
- Diluted net income per share available to Class A common stock was \$0.02.
- Pro forma adjusted diluted earnings per share¹, which gives pro forma effect to the Company's going forward effective tax rate following its Up-C reorganization in connection with its initial public offering (“IPO”), was \$0.20.
- Integrated payments² were 46% of payment volume for the three months ended December 31, 2018.
- At December 31, 2018, the ratio of consolidated debt-to-EBITDA, as defined in the Company's Senior Secured Credit Facility, was 1.71x.

1. Represents a non-GAAP financial measure. For additional information (including reconciliation information), see the attached schedules to this release.

2. Integrated payments represents payment transactions that are generated in situations where payment technology is embedded within the Company's own proprietary software, a client's software or critical business process.

Greg Daily, Chairman and CEO of i3 Verticals, commented, “We are pleased with our first quarter performance. We continue to deliver a healthy mix of revenues from acquisitions and organic growth, following the plan we laid out at the time of our IPO. Rick Stanford, our President, remains focused on expanding our revenue base through acquisitions, and our pipeline is very active. We currently have three signed term sheets, two within the Public Sector vertical and another technology acquisition that will fold into the Public Sector. We are optimistic about additional opportunities for complementary acquisitions in that market.

“During the quarter, we also focused on integrating the three acquisitions we previously announced. We are excited about the products and services those acquisitions bring to our current and future customers. Our proprietary technology offerings are expanding, and we are encouraged about the opportunities to integrate our payment solutions into these products,” concluded Daily.

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2019 Outlook

The Company announced that it is maintaining its previously issued guidance as follows:

(in thousands, except per share amounts)

	Outlook Range			
	Fiscal year ending September 30, 2019			
Adjusted net revenue ⁽¹⁾ (non-GAAP)	\$	122,000	-	\$ 128,000
Adjusted EBITDA (non-GAAP)	\$	35,000	-	\$ 36,000
Adjusted diluted earnings per share ⁽²⁾ (non-GAAP)	\$	0.84	-	\$ 0.87

- Under GAAP, companies must adjust, as necessary, beginning balances of acquired deferred revenue to fair value as part of acquisition accounting as defined by GAAP. For the 2019 outlook, the Company has removed the effect of these adjustments to acquisition date fair value from acquisitions that have closed as of the earnings release date.
- Assumes an effective pro forma tax rate of 25.0% (non-GAAP).

With respect to the "2019 Outlook" above, reconciliation of adjusted net revenue, adjusted EBITDA and adjusted diluted earnings per share guidance to the closest corresponding GAAP measure on a forward-looking basis is not available without unreasonable efforts. This inability results from the inherent difficulty in forecasting generally and quantifying certain projected amounts that are necessary for such reconciliations. In particular, sufficient information is not available to calculate certain adjustments required for such reconciliations, including changes in the fair value of contingent consideration, income tax expense of i3 Verticals, Inc. and equity-based compensation expense. The Company expects these adjustments may have a potentially significant impact on future GAAP financial results.

Conference Call

The Company will host a conference call on Thursday, February 14, 2019, at 8:00 a.m. ET, to discuss financial results and operations. To listen to the call live via telephone, participants should dial (323) 794-2588 approximately 10 minutes prior to the start of the call. A telephonic replay will be available from 11:00 a.m. ET on February 14, 2019, through February 21, 2019, by dialing (719) 457-0820 and entering Confirmation Code 3699962.

To listen to the call live via webcast, participants should visit the "Investors" section of the Company's website, www.i3verticals.com, and go to the "Events & Presentations" page approximately 10 minutes prior to the start of the call. The online replay will be available on this page of the Company's website beginning shortly after the conclusion of the call and will remain available for 30 days.

Non-GAAP Measures

This press release contains information prepared in conformity with GAAP as well as non-GAAP information. It is management's intent to provide non-GAAP financial information to enhance understanding of the Company's consolidated financial information as prepared in accordance with GAAP. This non-GAAP information should be considered by the reader in addition to, but not instead of, the financial statements prepared in accordance with GAAP. Each non-GAAP financial measure and the most directly comparable GAAP financial measure are presented so as not to imply that more emphasis should be placed on the non-GAAP measure. The non-GAAP financial information presented may be determined or calculated differently by other companies.

Additional information about non-GAAP financial measures, including, but not limited to, adjusted net revenue, pro forma adjusted net income, adjusted EBITDA and pro forma adjusted diluted EPS, and a reconciliation of those measures to the most directly comparable GAAP measures is included on pages 9 through 11 in the financial schedules of this release.

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About i3 Verticals

Helping drive the convergence of software and payments, i3 Verticals delivers seamlessly integrated payment and software solutions to small- and medium-sized businesses and other organizations in strategic vertical markets, such as education, non-profit, the public sector, property management, and healthcare and to the business-to-business payments market. With a broad suite of payment and software solutions that address the specific needs of its clients in each strategic vertical market, i3 Verticals processed approximately \$11.7 billion in total payment volume for the 12 months ended December 31, 2018.

Forward-Looking Statements

This release contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical fact or relating to present facts or current conditions included in this release are forward-looking statements, including any statements regarding guidance and statements of a general economic or industry specific nature. Forward-looking statements give the Company's current expectations and projections relating to its financial condition, results of operations, guidance, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "anticipate," "estimate," "expect," "project," "plan," "intend," "believe," "may," "will," "should," "could have," "exceed," "significantly," "likely" and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events.

The forward-looking statements contained in this release are based on assumptions that we have made in light of the Company's industry experience and its perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you review and consider information presented herein, you should understand that these statements are not guarantees of future performance or results. They depend upon future events and are subject to risks, uncertainties (many of which are beyond the Company's control) and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect the Company's actual future performance or results and cause them to differ materially from those anticipated in the forward-looking statements. Certain of these factors and other risks are discussed in the Company's filings with the U.S. Securities and Exchange Commission (the "SEC") and include, but are not limited to: (i) the ability to generate revenues sufficient to maintain profitability and positive cash flow; (ii) competition in the Company's industry and the ability to compete effectively; (iii) the dependence on non-exclusive distribution partners to market the Company's products and services; (iv) the ability to keep pace with rapid developments and changes in the Company's industry and provide new products and services; (v) liability and reputation damage from unauthorized disclosure, destruction or modification of data or disruption of the Company's services; (vi) technical, operational and regulatory risks related to the Company's information technology systems and third-party providers' systems; (vii) reliance on third parties for significant services; (viii) exposure to economic conditions and political risks affecting consumer and commercial spending, including the use of credit cards; (ix) the ability to increase the Company's existing vertical markets, expand into new vertical markets and execute the Company's growth strategy; (x) the ability to successfully complete acquisitions and effectively integrate those acquisitions into the Company's services; (xi) degradation of the quality of the Company's products, services and support; (xii) the ability to retain clients, many of which are small- and medium-sized businesses, which can be difficult and costly to retain; (xiii) the Company's ability to successfully manage its intellectual property; (xiv) the ability to attract, recruit, retain and develop key personnel and qualified employees; (xv) risks related to laws, regulations and industry standards; (xvi) the Company's indebtedness and potential increases in its indebtedness; (xvii) operating and financial restrictions imposed by the Company's senior secured credit facility; and (xviii) the risk factors included in the Company's Annual Report on Form 10-K for the year ended September 30, 2018. Should one or more of these risks or uncertainties materialize, or should any of these assumptions prove incorrect, the

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Company's actual results may vary in material respects from those projected in these forward-looking statements.

Any forward-looking statement made by us in this release speaks only as of the date of this release. Factors or events that could cause the Company's actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Contacts:

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i3 Verticals, Inc. Consolidated Statements of Operations
(Unaudited)
(\$ in thousands, except share and per share amounts)

	Three months ended December 31,		
	2018	2017	% Change
Revenue	\$ 84,868	\$ 77,221	10%
Operating expenses			
Interchange and network fees	55,829	52,238	7%
Other costs of services	9,790	9,553	2%
Selling general and administrative	12,516	8,845	42%
Depreciation and amortization	3,552	2,856	24%
Change in fair value of contingent consideration	(349)	382	(191)%
Total operating expenses	81,338	73,874	10%
Income from operations	3,530	3,347	5%
Other expenses			
Interest expense, net	914	2,387	(62)%
Change in fair value of warrant liability	—	1,681	n/m
Total other expenses	914	4,068	(78)%
Income (loss) before income taxes	2,616	(721)	n/m
Provision for (benefit from) income taxes	265	(389)	(168)%
Net income (loss)	2,351	(332)	n/m
Net income attributable to non-controlling interest	2,173	—	n/m
Net income (loss) attributable to i3 Verticals, Inc.	\$ 178	\$ (332)	(154)%
Net income per share available to Class A common stock ⁽¹⁾ :			
Basic	\$ 0.02		
Diluted	\$ 0.02		
Weighted average shares of Class A common stock outstanding ⁽¹⁾ :			
Basic	8,812,630		
Diluted	9,903,168		

1. Basic and diluted net income per Class A common stock are presented only for the period after the Company's Reorganization Transactions.

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i3 Verticals, Inc. Financial Highlights
(Unaudited)
(\$ in thousands, except per share amounts)

	Three months ended December 31,		
	2018	2017	% Change
Net revenue (non-GAAP)	\$ 29,570	\$ 24,983	18%
Adjusted EBITDA (non-GAAP)	8,578	6,849	25%
Pro forma adjusted diluted earnings per share (non-GAAP)	\$ 0.20		

i3 Verticals, Inc. Supplemental Volume Information
(Unaudited)
(\$ in thousands)

	Three months ended December 31,	
	2018	2017
Payment volume ⁽¹⁾	\$ 2,943,849	\$ 2,827,929

1. Payment volume is the net dollar value of both 1) Visa, Mastercard and other payment network transactions processed by the Company's clients and settled to clients by us and 2) ACH transactions processed by the Company's clients and settled to clients by the Company.

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i3 Verticals, Inc. Segment Summary
(Unaudited)
(\$ in thousands)

	As of and for the Three Months Ended December 31, 2018			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	\$ 77,702	\$ 7,166	\$ —	\$ 84,868
Operating expenses				
Interchange and network fees	54,364	1,465	—	55,829
Other costs of services	9,396	394	—	9,790
Selling general and administrative	6,091	2,987	3,438	12,516
Depreciation and amortization	2,782	661	109	3,552
Change in fair value of contingent consideration	(319)	(30)	—	(349)
Income (loss) from operations	\$ 5,388	\$ 1,689	\$ (3,547)	\$ 3,530
Payment volume	\$ 2,804,139	\$ 139,710	\$ —	\$ 2,943,849

	As of and for the Three Months Ended December 31, 2017			
	Merchant Services	Proprietary Software and Payments	Other	Total
Revenue	\$ 72,679	\$ 4,545	\$ (3)	\$ 77,221
Operating expenses				
Interchange and network fees	51,047	1,192	(1)	52,238
Other costs of services	9,143	410	—	9,553
Selling general and administrative	4,886	1,695	2,264	8,845
Depreciation and amortization	2,310	517	29	2,856
Change in fair value of contingent consideration	(125)	507	—	382
Income (loss) from operations	\$ 5,418	\$ 224	\$ (2,295)	\$ 3,347
Payment volume	\$ 2,705,780	\$ 122,149	\$ —	\$ 2,827,929

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i3 Verticals, Inc. Consolidated Balance Sheets
(\$ in thousands, except share and per share amounts)

	December 31, 2018 (unaudited)	September 30, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 887	\$ 572
Accounts receivable, net	10,374	12,500
Settlement assets	930	863
Prepaid expenses and other current assets	3,278	2,630
Total current assets	15,469	16,565
Property and equipment, net	3,111	2,958
Restricted cash	666	665
Capitalized software, net	6,482	3,372
Goodwill	98,486	83,954
Intangible assets, net	71,224	66,023
Other assets	1,754	1,605
Total assets	\$ 197,192	\$ 175,142
Liabilities and equity		
Liabilities		
Current liabilities		
Accounts payable	3,388	4,114
Current portion of long-term debt	5,000	5,000
Accrued expenses and other current liabilities	15,371	11,538
Settlement obligations	930	863
Deferred revenue	4,614	4,927
Total current liabilities	29,303	26,442
Long-term debt, less current portion and debt issuance costs, net	49,009	31,776
Other long-term liabilities	4,314	4,726
Total liabilities	82,626	62,944
Commitments and contingencies		
Stockholders' equity		
Preferred stock, par value \$0.0001 per share, 10,000,000 shares authorized; 0 shares issued and outstanding as of December 31, 2018 and September 30, 2018	—	—
Class A common stock, par value \$0.0001 per share, 150,000,000 shares authorized; 9,108,032 and 9,112,042 shares issued and outstanding as of December 31, 2018 and September 30, 2018, respectively	1	1
Class B common stock, par value \$0.0001 per share, 40,000,000 shares authorized; 17,213,806 shares issued and outstanding as of December 31, 2018 and September 30, 2018	2	2
Additional paid-in-capital	39,513	38,562
Accumulated earnings	914	736
Total Stockholders' equity	40,430	39,301
Non-controlling interest	74,136	72,897
Total equity	114,566	112,198
Total liabilities and stockholders' equity	\$ 197,192	\$ 175,142

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i3 Verticals, Inc. Consolidated Cash Flow Data
(Unaudited)
(\$ in thousands)

	Three months ended December 31,	
	2018	2017
Net cash provided by operating activities	\$ 6,072	\$ 5,868
Net cash used in investing activities	\$ (22,026)	\$ (21,990)
Net cash provided by financing activities	\$ 16,270	\$ 16,603

Reconciliation of GAAP to Non-GAAP Financial Measures

The Company believes that non-GAAP financial measures are important to enable investors to understand and evaluate its ongoing operating results. Accordingly, i3 Verticals includes non-GAAP financial measures when reporting its financial results to shareholders and potential investors in order to provide them with an additional tool to evaluate the Company's ongoing business operations. i3 Verticals believes that the non-GAAP financial measures are representative of comparative financial performance that reflects the economic substance of i3 Verticals' current and ongoing business operations.

Although non-GAAP financial measures are often used to measure the Company's operating results and assess its financial performance, they are not necessarily comparable to similarly titled measures of other companies due to potential inconsistencies in the method of calculation. i3 Verticals believes that its provision of non-GAAP financial measures provides investors with important key financial performance indicators that are utilized by management to assess the Company's operating results, evaluate the business and make operational decisions on a prospective, going-forward basis. Hence, management provides disclosure of non-GAAP financial measures to give shareholders and potential investors an opportunity to see i3 Verticals as viewed by management, to assess i3 Verticals with some of the same tools that management utilizes internally and to be able to compare such information with prior periods. i3 Verticals believes that inclusion of non-GAAP financial measures provides investors with additional information to help them better understand its financial statements just as management utilizes these non-GAAP financial measures to better understand the business, manage budgets and allocate resources.

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i3 Verticals, Inc. Reconciliation of GAAP Net Income to Non-GAAP Pro Forma Adjusted Net Income and Non-GAAP Adjusted EBITDA
(Unaudited)
(\$ in thousands)

	Three months ended December 31,	
	2018	2017
Net income (loss) attributable to i3 Verticals, Inc.	\$ 178	\$ (332)
Net income attributable to non-controlling interest	2,173	—
Non-GAAP Adjustments:		
Provision for (benefit from) income taxes	265	(389)
Non-cash change in fair value of contingent consideration ⁽¹⁾	(349)	382
Non-cash change in fair value of warrant liability ⁽²⁾	—	1,681
Equity-based compensation ⁽³⁾	951	—
Acquisition revenue adjustments ⁽⁴⁾	531	—
Acquisition-related expenses ⁽⁵⁾	360	228
Acquisition intangible amortization ⁽⁶⁾	2,905	2,260
Non-cash interest expense ⁽⁷⁾	233	221
Other taxes ⁽⁸⁾	3	36
Non-GAAP pro forma adjusted income before taxes	7,250	4,087
Pro forma taxes at effective tax rate ⁽⁹⁾	(1,812)	(1,022)
Pro forma adjusted net income⁽¹⁰⁾	\$ 5,438	\$ 3,065
Cash interest expense, net ⁽¹¹⁾	681	2,166
Pro forma taxes at effective tax rate ⁽⁹⁾	1,812	1,022
Depreciation and internally developed software amortization ⁽¹²⁾	647	596
Adjusted EBITDA	\$ 8,578	\$ 6,849

1. Non-cash change in fair value of contingent consideration reflects the changes in management's estimates of future cash consideration to be paid in connection with prior acquisitions from the amount estimated as of the later of the most recent balance sheet date forming the beginning of the income statement period or the original estimates made at the closing of the applicable acquisition.
2. Non-cash change in warrant liability reflects the fair value change in certain warrants for the Company's common units associated with the Company's mezzanine notes in the aggregate principal amount of \$10.5 million. These warrants are accounted for as liabilities on the Company's consolidated balance sheets and were repaid with proceeds from its IPO.
3. Equity-based compensation expense consisted of \$951 related to stock options issued under the Company's 2018 Equity Incentive Plan during the three months ended December 31, 2018.
4. Under GAAP, companies must adjust, as necessary, beginning balances of acquired deferred revenue to fair value as part of acquisition accounting as defined by GAAP. Acquisition revenue adjustments remove the effect of these adjustments to acquisition date fair value from acquisitions that have closed as of the date of this earnings release.
5. Acquisition-related expenses are the professional service and related costs directly related to the Company's acquisitions and are not part of its core performance.
6. Acquisition intangible amortization reflects amortization of intangible assets and software acquired through business combinations, acquired customer portfolios, acquired referral agreements and related asset acquisitions.
7. Non-cash interest expense reflects amortization of deferred financing costs.
8. Other taxes consist of franchise taxes, commercial activity taxes and other non-income based taxes. Taxes related to salaries or employment are not included.
9. Pro forma corporate income tax expense is based on Non-GAAP adjusted income before taxes and is calculated using a tax rate of 25.0% for both 2018 and 2017, based on blended federal and state tax rates, considering the Tax Reform Act for 2018.
10. Pro forma adjusted net income assumes that the effect of the Reorganization Transactions and the Company's IPO occurred prior to the year ended September 30, 2018, and that all net income during that period was available to the Class A common shareholders. Further, pro forma adjusted diluted earnings per share assumes that all Common Units in i3 Verticals, LLC and the associated non-voting Class B common stock were exchanged for Class A common stock at the beginning of the period on a one for one basis.
11. Cash interest expense, net represents all interest expense recorded on the Company's statement of operations other than non-cash interest expense, which represents amortization of deferred financing costs.
12. Depreciation and internally developed software amortization reflects depreciation on the Company's property, plant and equipment, net, and amortization expense on its internally developed capitalized software.

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i3 Verticals, Inc. GAAP Diluted EPS and Non-GAAP Pro Forma Adjusted Diluted EPS

(Unaudited)
(\$ in ones)

	Three months ended December 31, 2018	
Diluted net income available to Class A common stock per share	\$	0.02
Pro forma adjusted diluted earnings per share (non-GAAP) ⁽¹⁾	\$	0.20
Pro forma weighted average shares of adjusted diluted Class A common stock outstanding ⁽²⁾		27,116,974

1. Pro forma adjusted diluted earnings per share is calculated using pro forma adjusted net income and the pro forma weighted average shares of adjusted diluted Class A common stock outstanding.
2. Pro forma weighted average shares of adjusted diluted Class A common stock outstanding include 17,213,806 outstanding shares of Class A common stock issuable upon the exchange of Common Units in i3 Verticals, LLC and 1,090,538 shares of unvested Class A common stock and options for the three months ended December 31, 2018.

i3 Verticals, Inc. Reconciliation of GAAP Revenue to Non-GAAP Adjusted Net Revenue

(Unaudited)
(\$ in thousands)

	Three months ended December 31,			
	2018		2017	
Revenue	\$	84,868	\$	77,221
Acquisition revenue adjustments ⁽¹⁾		531		—
Interchange and network fees		(55,829)		(52,238)
Adjusted Net Revenue	\$	29,570	\$	24,983

1. Under GAAP, companies must adjust, as necessary, beginning balances of acquired deferred revenue to fair value as part of acquisition accounting as defined by GAAP. Acquisition revenue adjustments remove the effect of these adjustments to acquisition date fair value from acquisitions that have closed as of the date of this earnings release.

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Q1 Segment Supplemental Information

Q1 Segment Performance⁽¹⁾

(\$ in thousands)	Three months ended December 31,		Period over period growth
	2018	2017	
Adjusted Net Revenue⁽²⁾			
Merchant Services, excluding Purchased Portfolios	\$ 21,301	\$ 18,788	13%
Purchased Portfolios	2,037	2,844	(28)%
Merchant Services	23,338	21,632	8%
Proprietary Software and Payments	6,232	3,353	86%
Other	—	(2)	nm
Total	\$ 29,570	\$ 24,983	18%
Adjusted EBITDA⁽²⁾			
Merchant Services	\$ 7,851	\$ 7,603	3%
Proprietary Software and Payments	2,851	1,248	128%
Other	(2,124)	(2,002)	(6)%
Total	\$ 8,578	\$ 6,849	25%
Adjusted EBITDA as a percentage of Net Revenue	29%	27%	
Volume			
Merchant Services	2,804,139	2,705,780	4%
Proprietary Software and Payments	139,710	122,149	14%
Total	2,943,849	2,827,929	4%



- i3 Verticals has two segments, "Merchant Services," which includes Purchased Portfolios (a subset of merchant contracts purchased in 2014 and 2017) and "Proprietary Software and Payments." i3 Verticals also has an "Other" category, which includes corporate overhead.
- Adjusted Net Revenue and Adjusted EBITDA are non-GAAP financial measures. Refer to the following slides for the reconciliation of non-GAAP financial measures.

Reconciliation of Non-GAAP Financial Measures

The reconciliation of our revenue to non-GAAP adjusted net revenue is as follows:

(\$ in thousands)	Three Months Ended December 31, 2018			
	Merchant Services ⁽¹⁾	Proprietary Software and Payments	Other	Total
Revenue	\$ 77,702	\$ 7,166	\$ —	\$ 84,868
Acquisition revenue adjustments	—	531	—	531
Interchange and network fees	(54,364)	(1,465)	—	(55,829)
Adjusted Net Revenue	\$ 23,338	\$ 6,232	\$ —	\$ 29,570

(\$ in thousands)	Three Months Ended December 31, 2017			
	Merchant Services ⁽¹⁾	Proprietary Software and Payments	Other	Total
Revenue	\$ 72,679	\$ 4,545	\$ (3)	\$ 77,221
Interchange and network fees	(51,047)	(1,192)	1	(52,238)
Adjusted Net Revenue	\$ 21,632	\$ 3,353	\$ (2)	\$ 24,983



1. Merchant Services includes purchased portfolios which had revenue of \$3,846, acquisition revenue adjustments of \$0 and interchange and network fees of \$1,809 for the three months ended December 31, 2018.
2. Merchant Services includes purchased portfolios which had revenue of \$5,335 and interchange and network fees of \$2,491 for the three months ended December 31, 2017.

Reconciliation of Non-GAAP Financial Measures

The reconciliation of our income (loss) from operations to non-GAAP pro forma adjusted net income and non-GAAP adjusted EBITDA is as follows:

(\$ in thousands)	Three Months Ended December 31, 2018				Three Months Ended December 31, 2017			
	Merchant Services	Proprietary Software and Payments	Other	Total	Merchant Services	Proprietary Software and Payments	Other	Total
Income (loss) from operations	\$ 5,388	\$ 1,689	\$ (3,547)	\$ 3,530	\$ 5,418	\$ 224	\$ (2,295)	\$ 3,347
Interest expense, net	289	—	625	914	225	—	2,162	2,387
Change in fair value of warrant liability	—	—	—	—	—	—	1,681	1,681
Provision for income taxes	247	—	18	265	(372)	—	(17)	(389)
Net income (loss)	4,852	1,689	(4,190)	2,351	5,565	224	(6,121)	(332)
Non-GAAP Adjustments:								
Provision for income taxes	247	—	18	265	(372)	—	(17)	(389)
Non-cash change in fair value of contingent consideration ⁽¹⁾	(319)	(30)	—	(349)	(125)	507	—	382
Non-cash change in fair value of warrant liability ⁽²⁾	—	—	—	—	—	—	1,681	1,681
Equity-based compensation ⁽³⁾	—	—	951	951	—	—	—	—
Acquisition revenue adjustments ⁽⁴⁾	—	531	—	531	—	—	—	—
Acquisition-related expenses ⁽⁵⁾	—	—	360	360	—	—	228	228
Acquisition intangible amortization ⁽⁶⁾	2,623	282	—	2,905	2,178	80	2	2,260
Non-cash interest ⁽⁷⁾	—	—	233	233	—	—	221	221
Other taxes ⁽⁸⁾	—	—	3	3	—	—	36	36
Non-GAAP adjusted income before taxes	7,403	2,472	(2,625)	7,250	7,246	811	(3,970)	4,087
Pro forma taxes at effective tax rate ⁽⁹⁾	(1,850)	(618)	656	(1,812)	(1,812)	(203)	993	(1,022)
Pro forma adjusted net income⁽¹⁰⁾	5,553	1,854	(1,969)	5,438	5,434	608	(2,977)	3,065
Plus:								
Cash interest expense, net ⁽¹¹⁾	289	—	392	681	225	—	1,941	2,166
Pro forma taxes at effective tax rate ⁽⁹⁾	1,850	618	(656)	1,812	1,812	203	(993)	1,022
Depreciation and internally developed software amortization ⁽²⁾	159	379	109	647	132	437	27	596
Adjusted EBITDA	\$ 7,851	\$ 2,851	\$ (2,124)	\$ 8,578	\$ 7,603	\$ 1,248	\$ (2,002)	\$ 6,849



See footnotes continued on the next slide.

Reconciliation of Non-GAAP Financial Measures

1. Non-cash change in fair value of contingent consideration reflects the changes in management's estimates of future cash consideration to be paid in connection with prior acquisitions from the amount estimated as of the later of the most recent balance sheet date forming the beginning of the income statement period or the original estimates made at the closing of the applicable acquisition.
2. Non-cash change in warrant liability reflects the fair value change in certain warrants for our common units associated with our mezzanine notes in the aggregate principal amount of \$10.5 million. These warrants are accounted for as liabilities on our consolidated balance sheets.
3. Equity-based compensation expense consisted of \$951 related to stock options issued under the Company's 2018 Equity Incentive Plan during the three months ended December 31, 2018.
4. Under GAAP, companies must adjust, as necessary, beginning balances of acquired deferred revenue to fair value as part of acquisition accounting as defined by GAAP. Acquisition revenue adjustments remove the effect of these adjustments to acquisition date fair value from acquisitions that have closed as of the date of the earnings release.
5. Acquisition-related expenses are the professional service and related costs directly related to our acquisitions and are not part of our core performance.
6. Acquisition intangible amortization reflects amortization of intangible assets and software acquired through business combinations, acquired customer portfolios, acquired referral agreements and related asset acquisitions.
7. Non-cash interest expense reflects amortization of deferred financing costs.
8. Other taxes consist of franchise taxes, commercial activity taxes and other non-income based taxes. Taxes related to salaries or employment are not included.
9. Pro forma corporate income tax expense is based on Non-GAAP adjusted income before taxes and is calculated using a tax rate of 25.0% for both 2018 and 2017, based on blended federal and state tax rates, considering the Tax Reform Act for 2018.
10. Pro forma adjusted diluted earnings per share assumes that all Common Units in i3 Verticals, LLC and the associated non-voting Class B common stock were exchanged for Class A common stock at the beginning of the period on a one for one basis.
11. Cash interest expense, net represents all interest expense recorded on the Company's statement of operations other than non-cash interest expense, which represents amortization of deferred financing costs.
12. Depreciation and internally developed software amortization reflects depreciation on the Company's property, plant and equipment, net, and amortization expense on its internally developed capitalized software.

