

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CSGS - Q4 2015 CSG Systems International Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 03, 2016 / 10:00PM GMT



CORPORATE PARTICIPANTS

Liz Bauer *CSG Systems International, Inc. - IR*

Bret Griess *CSG Systems International, Inc. - CEO*

Randy Wiese *CSG Systems International, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Howard Smith *First Analysis Securities - Analyst*

Tom Roderick *Stifel Nicolaus - Analyst*

PRESENTATION

Operator

Good day and welcome to the CSG Systems International fourth-quarter and full-year 2015 earnings announcement conference call. Today's call is being recorded.

(Operator Instructions)

At this time, I would like to turn the call over to Liz Bauer. Please go ahead.

Liz Bauer - *CSG Systems International, Inc. - IR*

Thank you Anne, and thanks to everyone for joining us. Today's discussion will contain a number of forward-looking statements. These will include, but are not limited to, statements regarding our projected financial results, our ability to meet our clients needs through our products, services and performance, and our ability to successfully convert the backlog of customer accounts onto our solutions in a timely manner. While these statements reflect our best current judgment, they are subject to risks and uncertainties that could cause our actual results to differ materially.

Please note that these forward-looking statements reflect our opinions only as of the date of this call and we undertake no obligation to revise or publicly release any revisions to these forward-looking statements in light of new or future events. In addition to factors noted during this call, a more comprehensive discussion of our risk factors can be found in today's press release as well as our most recently filed 10-K and 10-Q, which are all available in the investor relations section of our website.

Also, we will discuss certain financial information that is not prepared in accordance with GAAP. We believe that these non-GAAP financial measures when reviewed in conjunction with our GAAP financial measures, provide investors with greater transparency to the information used by our management team and our financial and operational decision making. For more information regarding our use of non-GAAP financial measures, we refer you to today's earnings release and non-GAAP reconciliation tables on our website, which will also be furnished to the SEC on form 8-K.

With me today on the phone are Bret Griess, our Chief Executive Officer; and Randy Wiese, our Chief Financial Officer.

With that, I would now like to turn the call over to Bret.

Bret Griess - *CSG Systems International, Inc. - CEO*

Thank you, Liz, and thank you all for joining us today.



After 19 years of serving in various roles within CSG, I'm honored to be hosting my first conference call as the CEO of this great Company. Today, I'm going to spend the majority of the time outlining what you can expect from me and my management team in both the short and long-term moving forward. But first, let me cover our results for both the fourth-quarter and full-year 2015.

I am pleased to report that we executed well in a challenging environment. Our results fell in line with our expectations, with fourth-quarter revenues of \$197 million and non-GAAP earnings per share of \$0.77. Full-year revenues were \$752 million and non-GAAP earnings per share came at the high end of our guidance at \$2.62.

Let me share some of the key accomplishments that helped us to drive these results. This past quarter, we helped one of the world's largest entertainment brands launch a new membership-based streaming service in the United Kingdom, with our award-winning Ascendon cloud-based platform. This service allows consumers to watch, stream or download an expansive digital library of movies and TV episodes in up to five different languages, as well as stream and download songs and apps. Our Ascendon cloud-based solution provides the content management and monetization solutions, enabling the client to dynamically drive targeted offers to specific consumers.

In addition to this, this past quarter we helped Hutchinson Macau, a legal leading services provider, launch their 4G services using our highly scalable Singleview solution. Our solution enables Hutch Macau to take advantage of the high bandwidth capabilities of its new LTE network by providing wide range of innovative offerings around the mobile data and location-based roaming services. Most impressive about this project was that we were able to get our solution from nothing to up into production in less than 120 days, as a result of the strong teamwork between us and the client. A phenomenal effort in our space and in this part of the business.

As these examples demonstrate, the broader global communications industry is in the early stages of a transformation and helping service providers launch new groundbreaking services. Whether that be 4G services, new streaming services, machine to machine services or the Internet of Things. They are all critical to this industry transformation and I am confident that we have the solutions and the people to enable our clients to be successful in this dynamic and changing landscape.

In looking at our 2015 results, there's another metric that is worthy of calling out. After five year of falling below our target operating margins, we generated 20% operating margins for the full year 2015, which is at the high end of our target range of 18% to 20%.

We accomplished these strong results through a number of activities which include: making improvements in the cost structure of both our domestic and international operations; migrating approximately 2 million new subscriber accounts onto our private cloud-based solution in North America; taking a more critical eye towards evaluating where we place our investment dollars; and the continuing maturation of our international managed services and content monetization offerings. I am very pleased with how our teams have focused on driving value for our shareholders and our clients.

So, what should you expect from me and my leadership team going forward? Over the past several months, we've conducted a comprehensive review of the Company to identify areas where we can improve our performance with our clients, our employees and our shareholders. This has included gathering input from client, competitors, industry and internal experts, conducting a thorough analysis of our historical financials, total shareholder return performance, and our technology road map, as well as stress testing our assumptions about the industry and competitive landscape.

While I'm in the process of finalizing my go-forward plan as a result of this analysis, I can say that CSG's position in this ever-changing ecosystem is as compelling today as ever, if not more so. First, we have unrivaled domain expertise in the cable and video markets. Second, we work with some of the largest and most innovative communication service providers in the world. Third, we have proven technology and well earned reputation for operating our solutions really well. Fourth, we have a financially sound company. And finally and most important, we have incredibly skilled employees who live our values in achieving our mission every day.

Yet I am also confident that we have not yet realized our full potential and that we will be even more successful as we go forward. After this analysis, I'm convinced that we have the right strategy in place. However, I believe that we need to make some adjustments in order to get there.

Over the past several years, our revenues have remained relatively flat. While the markets we have served have grown in the low to mid single-digits, we are pleased with the progress we have made on the bottom line. But the challenges we have faced in growing our revenue is something we need to change. I am focused on what we need to do different to drive better top line results, while still generating solid profits.

With our leadership position in the cable and emerging OTT space, our cloud-based solutions and our deep operational expertise, we should be growing in line, if not growing faster than the markets we serve. In short, we have a solid and steady launching pad to help us to accomplish even more.

In order to drive strong results, we will be focused on five key items. First, we will align our organization to intensify our focus on growing our client relationships. This means moving decision-making closer to our clients, as well as empowering our employees to do what is right for both our clients and our Company. And then holding them accountable for the results.

Second, we will invest to win. Where we see a true point of differentiation that will enable us to grow. For us, that means accelerating the investment in our cloud-based Ascendon solution to get ahead of the market, versus waiting for the market to mature. Third, we will take in a more focused and targeted approach to growing our cable and satellite position globally. And fourth, we will continue to improve the performance of our international business.

Historically and today, the majority of our relationships internationally are more short-term in nature, tied to an implementation of the software solution. We need to continue to leverage our domain expertise in running large scale operations to create longer term, recurring relationships that result in a trusted and valued partnership with our clients. Finally, we need to continue to pursue over-the-top providers in a highly targeted manner with our Ascendon cloud-based solution.

Some of the world's most trusted content -- entertainment companies have turned to CSG to help them drive a more personalized and immersive customer experience anywhere, anytime and on any device. We need to leverage our first mover advantage in this space and continue to target and work with those companies. We have the staying power to grow sustainable businesses over the long haul.

To summarize, we are going to prioritize our efforts in our investments. We're going to align to grow our leadership position in key markets and we are going to adjust how we execute, so that we can realize our full potential. I am confident that these actions will allow us to continue to deliver on the high-quality solutions and services that our clients expect of us, and provide us with a catalyst for growth on both the top and bottom line.

Currently, I am focused on aligning the organization around our strategy. Meeting with our customers around the world to hear what they like and don't like about doing business with CSG, and putting together the leadership team and organizational structure that will expand our leadership position in the marketplace.

We have done a great job of growing the bottom line, but as I said earlier, we have some work to do to better position us for revenue growth in the future. As a result, our financial expectations for 2016 are relatively consistent with our 2015 results. Before I turn it over to Randy to go through our results in more detail, I will close with where we started.

I'm honored and quite frankly just plain old jazzed to lead this company at this exciting time. We have unrivaled domain expertise in the cable and video markets. We work with some of the largest and most innovative communication service providers in the world. We have proven technology and a solid reputation for operating our solutions really well.

Our award-winning Ascendon platform is a game changer for the industry. We have a financially sound company. As those of you on this call know, we kick off lots of cash and we take a balanced approach in allocating our cash to our shareholders and investments back into the business. And most important, I'm in constant awe of the passion, dedication and talent displayed by our employees to solve complex challenges and to help our clients be successful every day.

Thank you for your continued interest in our Company. I truly do believe that the best is yet to come and look forward to updating you on our progress along the way. With that, I will turn the call over to Randy to go through our results in more detail and outline our expectations for 2016.

Randy Wiese - *CSG Systems International, Inc. - CFO*

Thank you Bret, and welcome to all of you on the call today to discuss our financial results for the fourth quarter and full year of 2015, as well as our outlook for 2016. We are pleased with the continued performance improvements we have made in our Business and the expanded reach of our solutions in the markets we serve, which are both reflected in our strong operating results for 2015, especially in light of the challenging business environment.

Now, I'd like to walk you through our financial results in more detail. Total revenues for the fourth quarter were \$197 million, up 2% from the same period last year, which includes a negative impact of \$4 million from foreign currency movements. Sequentially, revenues for the quarter increased approximately 6%. Total revenues for 2015 were \$753 million, relatively unchanged from the prior year. Without the negative impact of \$15 million from foreign currency movements, full-year revenues on a constant currency basis were up 2%.

This growth is primarily from a 3% increase in our processing revenues for the year, which was driven largely by the migration of new customer accounts onto our cloud solutions and the continued growth of our international managed services offering. This strength helped offset some of the challenges we experienced this year in our software and services revenues.

Moving on, our non-GAAP operating income for the fourth quarter was \$44 million with a margin of 22%. It was \$150 million for the full year with a margin of 20%. GAAP operating income for the quarter was \$34 million, or a margin of 17%, and was \$113 million for the full year, or a margin of 15%. Our non-GAAP operating margin for full year puts us at the top of our long-term target range of 18% to 20%.

As Bret previously touched on, we accomplished this mainly as a result of the scale benefits from increasing the number of customer accounts and clients on our various revenue management and content monetization solutions; the benefits of maturity in our business processes related to our international managed services offering; the alignment of investments with our revenue opportunities, including the divestiture of our Invotas cyber business; and finally, several cost structure improvements, including new terms with some of our key technology partners.

Moving on, for the fourth quarter, our non-GAAP adjusted EBITDA was \$51 million, or 26% of total revenues and \$179 million for the full year, or 24% of our total revenues. Our non-GAAP effective income tax rate for the year was 37% which is slightly better than our previous expectations.

Non-GAAP EPS for the fourth quarter was \$0.77, which compares to \$0.61 for the same period last year. Non-GAAP EPS for the full year was \$2.62, which exceeded our expectations for the year and compares to \$2.12 last year. This represents year-over-year non-GAAP EPS growth of over 20%, which is primarily driven by the improvements in our operating performance that I mentioned earlier. GAAP EPS for the fourth quarter was \$0.70 and \$1.87 for the year.

Now onto our balance sheet and cash flows, overall we ended the quarter with \$241 million of cash and short-term investments, an increase of \$41 million from the third quarter, driven mainly by our strong operating cash flows. We generated \$53 million of cash flow from operations for the quarter and free cash flow of \$51 million.

For the full year, we generated \$137 million of cash flow from operations and free cash flow of \$118 million. We substantially beat the top end of our previous full-year operating and free cash flow guidance, mainly due to several unexpected tiny benefits in our working capital that occurred at the end of the year, and lower capital expenditures.

Next, I'd like to update you on the progress we have made on our capital allocation strategy during 2015 and our planned actions going forward. For 2015, our cash dividends were \$23 million and we repurchased \$57 million of stock, of which \$50 million was done through our accelerated stock repurchase program, our ASR program, executed in March.

Our planned capital allocation activities for 2016 are as follows. First, our Board approved a 6% increase in our first-quarter cash dividend, which will increase our annual dividend in 2016 from our current level of \$0.70 per share to \$0.74 per share. At this level, we would expect to pay dividends of around \$24 million for 2016.

Second, we intend to buyback another \$50 million of shares in 2016 through the use of a similar ASR plan that was used in 2015. This marks the second year out of our planned three years of annual share repurchases of \$50 million per year. The strength of our business model, which includes highly recurring annual revenues and profitable operations, resulting in predictable cash flows, allows us to continue on our capital allocation strategy, while still having sufficient capital to invest back into the business.

Let's move onto our discussion of 2016 guidance. But before I provide you with the details, I want to give you some color around our expected financial performance for 2016. We have made great progress in improving the profitability of our business over the last several years. These successes have allowed us to drive improved bottom line results with best in class, non-GAAP operating margins this past year and allowed us to deliver over 20% non-GAAP EPS growth in 2015.

As Bret mentioned earlier, we are intensely focused on aligning our organization and our investments to capitalize on the opportunities that the highly dynamic and evolving global communication market presents to us. Despite the tough business environment and the challenges -- the changes we are implementing and 2016, we expect to maintain top line revenue consistent with that of 2015. In addition, we expect to continue to deliver a high-level of profitabilities and cash flows, a hallmark of our business again this year.

We remain very excited about the long-term growth opportunities we see in front of us. With that backdrop, our 2016 guidance is as follows. We expect revenues of \$735 million to \$760 million. We expect to maintain our full-year non-GAAP operating margin at the high end of our targeted range of approximately 20%.

This implies continued strong operating results benefiting from the sustainability of the improvements we made in our business over the last several years, while also investing in our business for future growth. We expect our full-year 2016 non-GAAP effective income tax rate to remain consistent with 2015's rate of approximately 37%.

Moving on, our 2016 non-GAAP EPS guidance range is \$2.59 to \$2.69. We expect non-GAAP adjusted EBITDA to be in the range of \$177 million to \$182 million, or 24% of expected total revenues. We expect cash flows from operations to fall within the range of \$110 million to \$130 million for the year. We also our capital expenditures to be around \$20 million, which is relatively consistent with our 2015 level.

Overall, we are very pleased with the continued progress we are making to drive bottom line results in a challenging business environment. We are highly focused on furthering our leadership position in the cable and video markets, improving the financial performance of our international business, enabling digital services or communication service providers around the world, and securing long-term relationships with our clients through managed services engagement.

Our continued execution on these opportunities combined with prudent expense management, and effective balance between management of our capital structure and investments in the future of our business, will enable us to continue to deliver strong operating results and cash flows for our shareholders.

With that, I will turn it over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Howard Smith, First Analysis.



Howard Smith - *First Analysis Securities - Analyst*

Good afternoon, Bret. Nice first quarter, nice first conference call. I thank you for laying out some of your strategic initiatives. My first question has to do with a comment made by one of your competitors last night. They were announcing earnings, regarding an uptick in interest in some of the MSOs, Charter, Time Warner, Comcast and looking at updating in earnest their BSS and other systems. I'm just wondering if you are having similar conversations and any light you can shed on that?

Bret Griess - *CSG Systems International, Inc. - CEO*

Thanks, Howard. It's great to hear from you. Yes, there is a lot of excitement in this space right now. There has been for some time and we continue to remain extremely focused on it. We've been in deep conversations with many customers about their platforms and the future for years.

So, it is an area that we see an exciting opportunity for the future as we move forward, as we continue to build upon the platform of the solid company and the solid business model we have. We are in conversations with many of our customers and it's hard to gauge -- we are up this quarter, we're down this quarter, we're excited this quarter, not that quarter. I would tell you that we have a slow, steady consistent desire to support the customers in this market and we will continue focused on delivering it and with our new award-winning Ascendon platform, we are confident we will be able to compete to help our customers solve for their business.

Howard Smith - *First Analysis Securities - Analyst*

Okay, and following up on that, you mentioned a couple times in your prepared remarks about the importance of the Ascendon platform. I don't think that's a diversion. That's more of a product thing, but are there any metrics you can give out or things that we can track the progress on in terms of revenues, number of customers, things like that? That we should be focused on to measure your progress?

Bret Griess - *CSG Systems International, Inc. - CEO*

At this point, we don't report it at that level and I would tell Randy and Liz to hit me over the head if I say anything appropriate along those lines. We don't at this point. I can tell you we do have it in production at client sites and in addition to that, what's happening is we get more and more positive feedback as it goes and not only that, the areas of opportunity to improve it as it progresses forward.

It's a continuation of our current platform and this technology that we got with our international acquisition and our dilution acquisition years ago, that are all coming together to be an incredibly robust platform for the future of this consolidating market space. In the video spot. We will share more as we go forward into the future with it, but right now it's in the early stages, I would say innings two of a baseball game. We're just getting going.

Howard Smith - *First Analysis Securities - Analyst*

Okay, one quick numbers question for Randy and I'll yield the floor. The maintenance revenue this quarter had a little bit of a spike. I usually think of maybe that associated with software spikes, but it seemed particularly strong. Was there any one-time or not sustainable in that maintenance line?

Randy Wiese - *CSG Systems International, Inc. - CFO*

Usually at the end of the year, there is some stragglers on maintenance, kind of the Q3, Q4 timeframe. You may see some shifting between quarters and we really try to get those all nailed down before the end of the fiscal year. So what you have is a little bit of catch-up in the fourth quarter. That's not a sustainable number into Q1.



Howard Smith - *First Analysis Securities - Analyst*

Got it. Thank you, very much.

Bret Griess - *CSG Systems International, Inc. - CEO*

Thanks, Howard.

Operator

(Operator Instructions)

Tom Roderick, Stifel.

Tom Roderick - *Stifel Nicolaus - Analyst*

Good afternoon, Bret. Welcome aboard full-time to your new role here. Congratulations on that.

Bret Griess - *CSG Systems International, Inc. - CEO*

Thanks.

Tom Roderick - *Stifel Nicolaus - Analyst*

You bet. I wanted to dig a little further on some of the initiatives for growth and maybe to work backwards on that as you are kind of guiding both profitability and revenues in the same range for 2016 as you were in 2015. Could you give us a little bit more directional guidance as to how you think about the puts and takes on your cable MSO processing business versus your software business? Are you thinking both are flat? Are you thinking one grows and one declines? I would love to hear that and then I have a follow-up just thinking about profitability as well.

Bret Griess - *CSG Systems International, Inc. - CEO*

I will let Randy get into specifics on it after I give a few words here. One of them is just the fact that in each of the markets, be it the cable or the global marketplace from a telco space and the other markets that we serve, we do believe that we can grow and expand them as we move forward.

There's investments that we're making in the products and in realigning the organization and refocusing the organization, which will position us for many of those takes. But to do that, there is some puts that have to happen along the line, which is the things that you hear about as far as a laser focus on our investments, which means there is some time to do some things like you have all seen in the press.

About Invotas and investments we have made in the past that are now in the hands of folks that are better suited to drive those forward which allows us some time here to get those off of our book and work through the process of focusing ourselves in our true markets that we serve. And we believe that cable market has the opportunity to grow globally as does the telco carrier space as we move forward.

The numbers and the puts and takes is what leads to the steady eddie for 2016, but positions us phenomenally well to take more wins and grow that top line in 2017 and beyond. Randy, anything else you would add?



Randy Wiese - *CSG Systems International, Inc. - CFO*

I think I would add that many of the things we've talked about in the past as key initiatives actually, we saw pretty good growth in 2015 and expect some additional in 2016. And Tom, I'll just point you really to the processing line of our income statement. If you can see for the fourth quarter, quarter over quarter, we actually grew that number almost 4%, which really reflects the additional accounts we've been converting on for Comcast over the last two years.

Also it shows, embedded in there although it's not a big number, there's about 50% growth in the Ascendon platform. And we heard from the last caller, it's still not meaningful but it's growing substantially and it's adding to the processing growth. And also, the managed services, we have made some good progress on that. That grew about 30% this year. Again, it's a small number so the 30% doesn't move the needle a lot, but we are seeing a lot of progress on the things we have been talking about and actually did drive top line revenue on the processing side.

Unfortunately, we will see some good growth on that in 2016 but unfortunately, you still see some pressure points from both foreign currency and then some of the pressure points we've seen on our software and services as we continue to transform that to more of a recurring revenue model. There's kind of a mixed bag is what I would say on the revenues. Some good success on many of the initiatives Bret talked about, but we've still got some headwinds from a tough business environment, foreign currency, and then just a continued transformation of that software service recurring revenue model. So there's some good news, bad news I guess in 2015 and 2016.

Tom Roderick - *Stifel Nicolaus - Analyst*

Got it. Randy, in the context of some things you can't control, particularly the pending merger of two major customers, when you think about the processing line for 2016, what have you done within the context of your guidance to protect or reflect what would likely be some level of a repricing event, should that merger goes through? Is that fully contemplated inside your guidance and is that one of the pressure points?

Randy Wiese - *CSG Systems International, Inc. - CFO*

It is. It is contemplated in our guidance and as you know, the way our business model works is as Charter combines with Time Warner, they essentially have more buying power because of just the more number of subs so they get a better price point. That is built into our top line revenues. Also, we have a little built in there for some foreign currency headwinds that we anticipate. Those are both reflected in the range.

Tom Roderick - *Stifel Nicolaus - Analyst*

Got it. And then with Invotas, I noted that they were fully acquired the other night by FireEye. And you guys had, I guess divested that in September of 2015, but when you are giving your guidance for this year, how much lost revenue year on year would you encourage us to think about being attributed to Invotas?

Randy Wiese - *CSG Systems International, Inc. - CFO*

It's absolutely insignificant. It was pretty much in the start of phase with us and we had secured a very minimal number of contracts, so it's very, very insignificant.

Bret Griess - *CSG Systems International, Inc. - CEO*

But it's holistically contemplated, so what you see in our guidance is what is completely there.



Tom Roderick - *Stifel Nicolaus - Analyst*

Got it. Last question from me, if we think about revenues being flat year on year, with really excellent operating performance in the last couple of quarters, you've seen operating margins in the 21.5%, 22% range and that's up 500 basis points plus year on year, it would sort of reflect to get to the EPS guide I think, that the levels are going to come down from here. I guess that kind of matches, Bret, with your commentary that there are places to invest and ways to build for growth. Where should we think about you investing in this year? And what is the right level of investment on an operational or operating expense type of basis?

Bret Griess - *CSG Systems International, Inc. - CEO*

That's one of those areas that really does get me out of bed in the morning and how exciting this business model is. Because even with the things that we talk about, the headwinds, the challenges, the this that and the other thing, this is a phenomenally solid business on steady ground. And that solid business on steady ground and our model of believing that 18% to 20% margin is the right place to go to, that when we see these opportunities where you see the last quarter and the last two quarters, and how well we do, what that really is doing is it's just feeding the animals to better position us to go after more in the process.

That 18% to 20% margin is what we believe to be a very healthy margin. And the fact that it's such a solid business on steady ground with long-term agreements and commitments in this new Ascendon product family just positions us well as we go into this transformational market.

Tom Roderick - *Stifel Nicolaus - Analyst*

Great, well I will jump back in queue, but thanks for all the details.

Bret Griess - *CSG Systems International, Inc. - CEO*

Thank you.

Operator

(Operator Instructions)

Tom Roderick, Stifel.

Bret Griess - *CSG Systems International, Inc. - CEO*

That was quick.

Tom Roderick - *Stifel Nicolaus - Analyst*

Thanks for another question. We can knock out our call back here right now. I noted that you guys in the press release said you've converted 2 million subs in the year 2015 and I was wondering if you could just refresh us as to what that brings the aggregate total on the conversion to and how many you have left there? Does that sort of match in line with your prior expectations? Are you ahead of pace? The margins and processing revenues sort of suggest that you've done maybe even a better job than expected this year, but wondering how that has matched your our prior expectations and how fast you expect the remaining component to come on here?



Bret Griess - *CSG Systems International, Inc. - CEO*

The reality of it is, talk about puts and takes, there's a lot of back and forth with the customer and with us, but it's pretty close to being online with where we intended to be and I can tell you that the -- probably some of the busiest folks at CSG right now are the conversions folks that are working with the customer. But there are a lot of factors that come into play in that. Randy, from the specifics of the numbers, can you just share where we are at along those lines? It's really a great project for us and progressing and more of the commitment of the customer in the market converting onto the platform.

Randy Wiese - *CSG Systems International, Inc. - CFO*

We have done about 4 million in the first two years, Tom, starting with in the fourth quarter 2014. We have done a little over 2 million in 2014 and just a little less than 2 million this year. Right at 4 million. That's about 40% of the subs that we expect to come on, so there's still about 6 million subs out there. And we were actively planning for additional subs in 2016 probably from a conservative standpoint, we will get at least 1 million but it could be as high as 2 million. So other consistent year of conversions anticipated in 2016, and then we would look to finish those up over the next couple of years.

Tom Roderick - *Stifel Nicolaus - Analyst*

And Randy, relative -- that they had, what of those have been triggered or will be triggered as you've gone through those first 4 million and expect to be at 5 million or 6 million by the end of 2016?

Randy Wiese - *CSG Systems International, Inc. - CFO*

I think right now, they have earned about 1 million of those. They should earn about close to the 1.5 million this year if we get close to 6 million. I think the next strike point is 5.5 million cumulative subs converted, so they can get to essentially to 75% of those. And then the last tranche is really when they bring the balance of the subs to us.

Tom Roderick - *Stifel Nicolaus - Analyst*

Okay, good.

Bret Griess - *CSG Systems International, Inc. - CEO*

Tom, one thing to note, just as you think about modeling, because that's where you are going with this, is that similar to the last two years the conversions typically are quite heavy in the third and the fourth quarters. So they happen on the backside of the year.

Tom Roderick - *Stifel Nicolaus - Analyst*

Perfect, okay. Bret, just a quick follow-up for you on that. I know you been watching those conversions closely and how you guys have managed the conversions. What do you think you have learned from the process of it to the extent that there is an opportunity to do more following the Time Warner, Charter merger itself? Do you think there's replicability in what you've learned in how to convert the Comcast subs and do think that operating performance could continue to roll over as that opportunity presents itself?

Bret Griess - *CSG Systems International, Inc. - CEO*

Absolutely learned from every one of them as we go through it. I hate to get to a point where I would say it's a wash, rinse and repeat. But we're not too far off from that part of the process. We learn, and not only do we not learn how to do them, but then how to automate them in a faster timeframe with higher quality as we go through that cycle.

We are one of few companies in this industry, period, that has had a dedicated conversions team for over 25 years. And what that has done is it allowed us to understand the business, not only of our technology but of the competitive technologies, and then to actually automate a lot of those migrations as we go through. When you ask your question about the warrants, that was the first thought that hit my heart is, I want them to get those warrants because our interests are directly aligned. And the quicker we can get them over, the quicker we can help solve their business issues as we move forward.

The lessons we've learned not only can we, we plan to leverage those as we move forward with ACP, and more importantly our Ascendon platform, moving folks on to that. It's a beautiful model, a great business model that kicks off cash and the technology and we can continue to grow that.

Tom Roderick - *Stifel Nicolaus - Analyst*

Great, thank you guys. I appreciate the help.

Liz Bauer - *CSG Systems International, Inc. - IR*

Thanks.

Operator

I would like to turn the call back over to Bret Griess with any additional or closing remarks.

Bret Griess - *CSG Systems International, Inc. - CEO*

Thank you to everybody that took the time to get on the call and listen today. As I said, I'm jazzed and honored to have my first call in this situation and scenario. We continue to have a phenomenally solid business on steady ground. But it's positioned us well to drive into the future. And I want to thank our employees that are on the call or happen to hear it later, for all you are doing and putting into it to allow us to be successful in the marketplace. Thank you and have a good quarter, everyone.

Operator

This does conclude today's conference, we thank you for your participation.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.