



## Vertex Announces Third Quarter 2024 Financial Results

November 6, 2024

KING OF PRUSSIA, Pa., Nov. 06, 2024 (GLOBE NEWSWIRE) -- Vertex, Inc. (NASDAQ: VERX) ("Vertex" or the "Company"), a leading global provider of indirect tax solutions, today announced financial results for its third quarter ended September 30, 2024.

"The third quarter of 2024 was another great quarter for Vertex", stated David DeStefano, Vertex's President, Chief Executive Officer and Chairperson of the Board. "Revenue was above the high end of our quarterly guidance, with mid-teens organic revenue growth. We were once again GAAP earnings positive with strong Adjusted EBITDA. And we delivered significant cash flow from operating activities as well as free cash flow, demonstrating our high-quality earnings."

DeStefano continued, "In the third quarter we completed our acquisition of Austrian e-invoicing and EDI company, ecosio. We are seeing a great deal of excitement from customers about our new comprehensive global cloud platform, which provides end-to-end workflow for determination, calculation, reporting, and compliance for e-invoicing mandates and Value-Added Tax. We believe that the coming wave of e-invoicing regulations, as well as an expected supercycle of ERP conversions, will be a multi-year tailwind for our business that will drive profitable growth for the foreseeable future."

### Third Quarter 2024 Financial Results

- Total revenues of \$170.4 million, up 17.5% year-over-year.
- Software subscription revenues of \$146.3 million, up 20.6% year-over-year.
- Cloud revenues of \$71.0 million, up 29.9% year-over-year.
- Annual Recurring Revenue ("ARR") was \$576.8 million, up 19.0% year-over-year. This included \$5.9 million added to ARR due to the inclusion of Systax's ARR, as a result of the acquisition of the remaining ownership interests of Systax during the second quarter of 2024, and \$8.1 million added to ARR due to the ecosio acquisition during the third quarter of 2024. Excluding the impact of both Systax and ecosio, the ARR growth rate would have been 16.1%.
- Average Annual Revenue per direct customer ("AARPC") was \$118,800 at September 30, 2024, compared to \$112,690 at September 30, 2023 and \$123,570 at June 30, 2024.
- Net Revenue Retention ("NRR") was 111%, compared to 111% at September 30, 2023, and 110% at June 30, 2024.
- Gross Revenue Retention ("GRR") was 95%, compared to 96% at September 30, 2023, and 95% at June 30, 2024.
- Income (loss) from operations of \$4.9 million, compared to \$(2.0) million for the same period in the prior year.
- Non-GAAP operating income of \$33.4 million, compared to \$22.8 million for the same period in the prior year.
- Net income of \$7.2 million, compared to net loss of \$(3.4) million for the same period in the prior year.
- Net income per basic Class A and Class B shares of \$0.05, and net income per diluted Class A and Class B of \$0.04, compared to net loss per basic and diluted Class A and Class B of \$(0.02) for the same period in the prior year.
- Non-GAAP net income of \$27.1 million and Non-GAAP diluted earnings per share ("EPS") of \$0.16.
- Adjusted EBITDA of \$38.6 million, compared to \$26.6 million for the same period in the prior year. Adjusted EBITDA margin of 22.7%, compared to 18.4% for the same period in the prior year.

Definitions of certain key business metrics and the non-GAAP financial measures used in this press release and reconciliations of such measures to the most directly comparable GAAP financial measures are included below under the headings "Definitions of Certain Key Business Metrics" and "Use and Reconciliation of Non-GAAP Financial Measures."

### Financial Outlook

For the fourth quarter of 2024, the Company currently expects:

- Revenues of \$175 million to \$178 million; and
- Adjusted EBITDA of \$33 million to \$37 million.

For the full-year 2024, the Company currently expects:

- Revenues of \$663.3 million to \$666.3 million;
- Cloud revenue growth of 29%; and
- Adjusted EBITDA of \$146.9 million to \$150.9 million.

John Schwab, Chief Financial Officer added, "We are increasing our 2024 guidance to reflect the strong third quarter financial results, as well as the impact of the ecosio acquisition, which closed at the end of August. We expect ecosio to contribute approximately \$3 million to fourth quarter revenue and to be modestly dilutive to Adjusted EBITDA."

The Company is unable to reconcile forward-looking Adjusted EBITDA to net income (loss), the most directly comparable GAAP financial measure, without unreasonable efforts because the Company is currently unable to predict with a reasonable degree of certainty the type and extent of certain items that would be expected to impact net income (loss) for these periods but would not impact Adjusted EBITDA. Such items may include

stock-based compensation expense, depreciation and amortization of capitalized software costs and acquired intangible assets, severance expense, acquisition contingent consideration, amortization of cloud computing implementation costs in general and administrative expense, adjustments to the settlement value of deferred purchase commitment liabilities, litigation settlements, transaction costs, and other items. The unavailable information could have a significant impact on the Company's net income (loss). The foregoing forward-looking statements reflect the Company's expectations as of today's date. Given the number of risk factors, uncertainties and assumptions discussed below, actual results may differ materially. The Company does not intend to update its financial outlook until its next quarterly results announcement.

Important disclosures in this earnings release about and reconciliations of non-GAAP financial measures to the most directly comparable GAAP financial measures are provided below under "Use and Reconciliation of Non-GAAP Financial Measures."

### **Conference Call and Webcast Information**

Vertex will host a conference call at 8:30 a.m. Eastern Time today, November 6, 2024, to discuss its third quarter 2024 financial results.

Those wishing to participate may do so by dialing 1-412-317-6026 approximately ten minutes prior to start time. A listen-only webcast of the call will also be available through the Company's Investor Relations website at <https://ir.vertexinc.com>.

A conference call replay will be available approximately one hour after the call by dialing 1-412-317-6671 and referencing passcode 10192672 or via the Company's Investor Relations website. The replay will expire on November 20, 2024 at 11:59 p.m. Eastern Time.

### **About Vertex**

Vertex, Inc. is a leading global provider of indirect tax solutions. The Company's mission is to deliver the most trusted tax technology enabling global businesses to transact, comply and grow with confidence. Vertex provides solutions that can be tailored to specific industries for major lines of indirect tax, including sales and consumer use, value added and payroll. Headquartered in North America, and with offices in South America and Europe, Vertex employs over 1,500 professionals and serves companies across the globe.

For more information, visit [www.vertexinc.com](http://www.vertexinc.com) or follow on Twitter and LinkedIn.

### **Forward Looking Statements**

Any statements made in this press release that are not statements of historical fact, including statements about our beliefs and expectations, are forward-looking statements and should be evaluated as such. Forward-looking statements include information concerning possible or assumed future results of operations, including descriptions of our business plan and strategies. Forward-looking statements are based on Vertex management's beliefs, as well as assumptions made by, and information currently available to, them. Because such statements are based on expectations as to future financial and operating results and are not statements of fact, actual results may differ materially from those projected. Factors which may cause actual results to differ materially from current expectations include, but are not limited to: our ability to maintain and grow revenue from existing customers and new customers, and expand their usage of our solutions; our ability to maintain and expand our strategic relationships with third parties; our ability to adapt to technological change and successfully introduce new solutions or provide updates to existing solutions; risks related to failures in information technology or infrastructure; challenges in using and managing use of Artificial Intelligence in our business; incorrect or improper implementation, integration or use of our solutions; failure to attract and retain qualified technical and tax-content personnel; competitive pressures from other tax software and service providers and challenges of convincing businesses using native enterprise resource planning ("ERP") functions to switch to our software; our ability to accurately forecast our revenue and other future results of operations based on recent success; our ability to offer specific software deployment methods based on changes to customers' and partners' software systems; our ability to continue making significant investments in software development and equipment; our ability to sustain and expand revenues, maintain profitability, and to effectively manage our anticipated growth; our ability to successfully diversify our solutions by developing or introducing new solutions or acquiring and integrating additional businesses, products, services, or content; our ability to successfully integrate acquired businesses and to realize the anticipated benefits of such acquisitions; risks related to the fluctuations in our results of operations; risks related to our expanding international operations; our exposure to liability from errors, delays, fraud or system failures, which may not be covered by insurance; our ability to adapt to organizational changes and effectively implement strategic initiatives; risks related to our determinations of customers' transaction tax and tax payments; risks related to changes in tax laws and regulations or their interpretation or enforcement; our ability to manage cybersecurity and data privacy risks; our involvement in material legal proceedings and audits; risks related to undetected errors, bugs or defects in our software; risks related to utilization of open-source software, business processes and information systems; risks related to failures in information technology, infrastructure, and third-party service providers; our ability to effectively protect, maintain, and enhance our brand; changes in application, scope, interpretation or enforcement of laws and regulations; global economic weakness and uncertainties, and disruption in the capital and credit markets; business disruptions related to natural disasters, epidemic outbreaks, including a global endemic or pandemic, terrorist acts, political events, or other events outside of our control; our ability to comply with anti-corruption, anti-bribery, and similar laws; our ability to protect our intellectual property; changes in interest rates, security ratings and market perceptions of the industry in which we operate, or our ability to obtain capital on commercially reasonable terms or at all; our ability to maintain an effective system of disclosure controls and internal control over financial reporting, or ability to remediate any material weakness in our internal controls; risks related to our Class A common stock and controlled company status; risks related to our indebtedness and adherence to the covenants under our debt instruments; our expectations regarding the effects of the Capped Call Transactions and regarding actions of the Option Counterparties and/or their respective affiliates; and the other factors described under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the Securities Exchange Commission ("SEC"), and as supplemented by the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, to be filed with the SEC, and as may be subsequently updated by our other SEC filings. Copies of such filings may be obtained from the Company or the SEC.

All forward-looking statements reflect our beliefs and assumptions only as of the date of this press release. We undertake no obligation to update forward-looking statements to reflect future events or circumstances.

### **Definitions of Certain Key Business Metrics**

#### ***Annual Recurring Revenue ("ARR")***

We derive the vast majority of our revenues from recurring software subscriptions. We believe ARR provides us with visibility to our projected software subscription revenues in order to evaluate the health of our business. Because we recognize subscription revenues ratably, we believe investors can

use ARR to measure our expansion of existing customer revenues, new customer activity, and as an indicator of future software subscription revenues. ARR is based on monthly recurring revenues ("MRR") from software subscriptions for the most recent month at period end, multiplied by twelve. MRR is calculated by dividing the software subscription price, inclusive of discounts, by the number of subscription covered months. MRR only includes direct customers with MRR at the end of the last month of the measurement period. AARPC represents average annual revenue per direct customer and is calculated by dividing ARR by the number of software subscription direct customers at the end of the respective period.

#### **Net Revenue Retention Rate ("NRR")**

We believe that our NRR provides insight into our ability to retain and grow revenues from our direct customers, as well as their potential long-term value to us. We also believe it demonstrates to investors our ability to expand existing customer revenues, which is one of our key growth strategies. Our NRR refers to the ARR expansion during the 12 months of a reporting period for all direct customers who were part of our customer base at the beginning of the reporting period. Our NRR calculation takes into account any revenues lost from departing direct customers or those who have downgraded or reduced usage, as well as any revenue expansion from migrations, new licenses for additional products or contractual and usage-based price changes.

#### **Gross Revenue Retention Rate ("GRR")**

We believe our GRR provides insight into and demonstrates to investors our ability to retain revenues from our existing direct customers. Our GRR refers to how much of our MRR we retain each month after reduction for the effects of revenues lost from departing direct customers or those who have downgraded or reduced usage. GRR does not take into account revenue expansion from migrations, new licenses for additional products or contractual and usage-based price changes. GRR does not include revenue reductions resulting from cancellations of customer subscriptions that are replaced by new subscriptions associated with customer migrations to a newer version of the related software solution.

#### **Customer Count**

The following table shows Vertex's direct customers, as well as indirect small business customers sold and serviced through the company's one-to-many channel strategy. Systax and ecosio added 574 customers to the third quarter direct customer count.

Customers	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
Direct	4,303	4,310	4,309	4,438	4,855
Indirect	373	404	433	460	448
<b>Total</b>	<b>4,676</b>	<b>4,714</b>	<b>4,742</b>	<b>4,898</b>	<b>5,303</b>

#### **Use and Reconciliation of Non-GAAP Financial Measures**

In addition to our results determined in accordance with accounting principles generally accepted in the U.S. ("GAAP") and key business metrics described above, we have calculated non-GAAP cost of revenues, non-GAAP gross profit, non-GAAP gross margin, non-GAAP research and development expense, non-GAAP selling and marketing expense, non-GAAP general and administrative expense, non-GAAP operating income, non-GAAP net income, non-GAAP diluted EPS, Adjusted EBITDA, Adjusted EBITDA margin, free cash flow and free cash flow margin, which are each non-GAAP financial measures. We have provided tabular reconciliations of each of these non-GAAP financial measures to its most directly comparable GAAP financial measure.

Management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, and to evaluate financial performance and liquidity. Our non-GAAP financial measures are presented as supplemental disclosure as we believe they provide useful information to investors and others in understanding and evaluating our results, prospects, and liquidity period-over-period without the impact of certain items that do not directly correlate to our operating performance and that may vary significantly from period to period for reasons unrelated to our operating performance, as well as comparing our financial results to those of other companies. Our definitions of these non-GAAP financial measures may differ from similarly titled measures presented by other companies and therefore comparability may be limited. In addition, other companies may not publish these or similar metrics. Thus, our non-GAAP financial measures should be considered in addition to, not as a substitute for, or in isolation from, the financial information prepared in accordance with GAAP, and should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the SEC and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, to be filed with the SEC.

We calculate these non-GAAP financial measures as follows:

- Non-GAAP cost of revenues, software subscriptions is determined by adding back to GAAP cost of revenues, software subscriptions, the stock-based compensation expense, and depreciation and amortization of capitalized software and acquired intangible assets included in cost of subscription revenues for the respective periods.
- Non-GAAP cost of revenues, services is determined by adding back to GAAP cost of revenues, services, the stock-based compensation expense included in cost of revenues, services for the respective periods.
- Non-GAAP gross profit is determined by adding back to GAAP gross profit the stock-based compensation expense, and depreciation and amortization of capitalized software and acquired intangible assets included in cost of subscription revenues for the respective periods.
- Non-GAAP gross margin is determined by dividing non-GAAP gross profit by total revenues for the respective periods.
- Non-GAAP research and development expense is determined by adding back to GAAP research and development

expense the stock-based compensation expense and transaction costs related to acquired technology included in research and development expense for the respective periods.

- Non-GAAP selling and marketing expense is determined by adding back to GAAP selling and marketing expense the stock-based compensation expense and the amortization of acquired intangible assets included in selling and marketing expense for the respective periods.
- Non-GAAP general and administrative expense is determined by adding back to GAAP general and administrative expense the stock-based compensation expense, amortization of cloud computing implementation costs and severance expense included in general and administrative expense for the respective periods.
- Non-GAAP operating income is determined by adding back to GAAP loss or income from operations the stock-based compensation expense, depreciation and amortization of capitalized software and acquired intangible assets included in cost of subscription revenues, amortization of acquired intangible assets included in selling and marketing expense, amortization of cloud computing implementation costs in general and administrative expense, severance expense, acquisition contingent consideration, litigation settlements, and transaction costs, included in GAAP loss or income from operations for the respective periods.
- Non-GAAP net income is determined by adding back to GAAP net income or loss the income tax benefit or expense, stock-based compensation expense, depreciation and amortization of capitalized software and acquired intangible assets included in cost of subscription revenues, amortization of acquired intangible assets included in selling and marketing expense, amortization of cloud computing implementation costs in general and administrative expense, severance expense, acquisition contingent consideration, adjustments to the settlement value of deferred purchase commitment liabilities recorded as interest expense, litigation settlements, and transaction costs, included in GAAP net income or loss for the respective periods to determine non-GAAP income or loss before income taxes. Non-GAAP income or loss before income taxes is then adjusted for income taxes calculated using the respective statutory tax rates for applicable jurisdictions, which for purposes of this determination were assumed to be 25.5%.
- Non-GAAP net income per diluted share of Class A and Class B common stock ("Non-GAAP diluted EPS") is determined by dividing non-GAAP net income by the weighted average shares outstanding of all classes of common stock, inclusive of the impact of dilutive common stock equivalents to purchase such common stock, including stock options, restricted stock awards, restricted stock units and employee stock purchase plan shares. Additionally, the dilutive effect of shares issuable upon conversion of the senior convertible notes is included in the calculation of Non-GAAP diluted EPS by application of the if-converted method.
- Adjusted EBITDA is determined by adding back to GAAP net income or loss the net interest income or expense (including adjustments to the settlement value of deferred purchase commitment liabilities), income taxes, depreciation and amortization of property and equipment, depreciation and amortization of capitalized software and acquired intangible assets included in cost of subscription revenues, amortization of acquired intangible assets included in selling and marketing expense, amortization of cloud computing implementation costs in general and administrative expense, asset impairments, stock-based compensation expense, severance expense, acquisition contingent consideration, litigation settlements, and transaction costs, included in GAAP net income or loss for the respective periods.
- Adjusted EBITDA margin is determined by dividing Adjusted EBITDA by total revenues for the respective periods.
- Free cash flow is determined by adjusting net cash provided by (used in) operating activities by purchases of property and equipment and capitalized software additions for the respective periods.
- Free cash flow margin is determined by dividing free cash flow by total revenues for the respective periods.

We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure and to view these non-GAAP financial measures in conjunction with the related GAAP financial measures.

**Vertex, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
**(Unaudited)**

As of September 30,      As of December 31,

(In thousands, except per share data)

	<u>2024</u>	<u>2023</u>
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 278,979	\$ 68,175
Funds held for customers	26,407	20,976
Accounts receivable, net of allowance of \$14,273 and \$16,272, respectively	129,908	141,752
Prepaid expenses and other current assets	33,863	26,173
Investment securities available-for-sale, at fair value (amortized cost of \$7,434 and \$9,550, respectively)	7,462	9,545
Total current assets	<u>476,619</u>	<u>266,621</u>
Property and equipment, net of accumulated depreciation	178,578	100,734
Capitalized software, net of accumulated amortization	36,864	38,771
Goodwill and other intangible assets	388,716	260,238
Deferred commissions	22,540	21,237
Deferred income tax asset	61,193	41,708
Operating lease right-of-use assets	12,567	14,605
Other assets	13,763	16,013
Total assets	<u>\$ 1,190,840</u>	<u>\$ 759,927</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ —	\$ 2,500
Accounts payable	29,229	23,596
Accrued expenses	44,643	44,735
Customer funds obligations	23,762	17,731
Accrued salaries and benefits	20,025	12,277
Accrued variable compensation	35,391	34,105
Deferred revenue, current	300,620	290,143
Current portion of operating lease liabilities	3,863	3,717
Current portion of finance lease liabilities	88	74
Purchase commitment and contingent consideration liabilities, current	300	11,901
Total current liabilities	<u>457,921</u>	<u>440,779</u>
Deferred revenue, net of current portion	3,792	2,577
Debt, net of current portion	334,656	44,059
Operating lease liabilities, net of current portion	13,568	16,567
Finance lease liabilities, net of current portion	20	51
Purchase commitment and contingent consideration liabilities, net of current portion	105,000	2,600
Deferred income tax liabilities	16,187	—
Deferred other liabilities	670	313
Total liabilities	<u>931,814</u>	<u>506,946</u>
Stockholders' equity:		
Preferred shares, \$0.001 par value, 30,000 shares authorized; no shares issued and outstanding	—	—
Class A voting common stock, \$0.001 par value, 300,000 shares authorized; 65,722 and 60,989 shares issued and outstanding, respectively	66	61
Class B voting common stock, \$0.001 par value, 150,000 shares authorized; 90,161 and 92,661 shares issued and outstanding, respectively	90	93
Additional paid in capital	264,494	275,155
Retained earnings (Accumulated deficit)	14,483	(586)
Accumulated other comprehensive loss	(20,107)	(21,742)
Total stockholders' equity	<u>259,026</u>	<u>252,981</u>
Total liabilities and stockholders' equity	<u>\$ 1,190,840</u>	<u>\$ 759,927</u>

**Vertex, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income (Loss)**  
**(Unaudited)**

**Three months ended**  
**September 30,**

**Nine months ended**  
**September 30,**

(In thousands, except per share data)

	2024	2023	2024	2023
	(unaudited)		(unaudited)	
Revenues:				
Software subscriptions	\$ 146,254	\$ 121,285	\$ 414,527	\$ 350,135
Services	24,181	23,742	73,793	67,338
Total revenues	<u>170,435</u>	<u>145,027</u>	<u>488,320</u>	<u>417,473</u>
Cost of revenues:				
Software subscriptions	43,641	41,055	131,030	116,974
Services	16,270	15,816	48,286	45,523
Total cost of revenues	<u>59,911</u>	<u>56,871</u>	<u>179,316</u>	<u>162,497</u>
Gross profit	<u>110,524</u>	<u>88,156</u>	<u>309,004</u>	<u>254,976</u>
Operating expenses:				
Research and development	15,621	16,772	47,080	45,314
Selling and marketing	42,111	33,919	123,143	103,196
General and administrative	41,499	35,385	112,915	109,071
Depreciation and amortization	5,214	3,782	15,432	11,401
Other operating expense (income), net	1,183	316	(442)	1,013
Total operating expenses	<u>105,628</u>	<u>90,174</u>	<u>298,128</u>	<u>269,995</u>
Income (loss) from operations	4,896	(2,018)	10,876	(15,019)
Interest expense (income), net	(2,938)	597	(2,471)	142
Income (loss) before income taxes	7,834	(2,615)	13,347	(15,161)
Income tax (benefit) expense	613	784	(1,722)	13,266
Net income (loss)	<u>7,221</u>	<u>(3,399)</u>	<u>15,069</u>	<u>(28,427)</u>
Other comprehensive (income) loss:				
Foreign currency translation adjustments, net of tax	(8,955)	5,311	(1,609)	1,580
Unrealized (gain) on investments, net of tax	(24)	(10)	(26)	(20)
Total other comprehensive (income) loss, net of tax	<u>(8,979)</u>	<u>5,301</u>	<u>(1,635)</u>	<u>1,560</u>
Total comprehensive income (loss)	<u>\$ 16,200</u>	<u>\$ (8,700)</u>	<u>\$ 16,704</u>	<u>\$ (29,987)</u>
Net income (loss) per share of Class A and Class B, basic	<u>\$ 0.05</u>	<u>\$ (0.02)</u>	<u>\$ 0.10</u>	<u>\$ (0.19)</u>
Net income (loss) per share of Class A and Class B, dilutive	<u>\$ 0.04</u>	<u>\$ (0.02)</u>	<u>\$ 0.09</u>	<u>\$ (0.19)</u>

**Vertex, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

(In thousands)	Nine months ended	
	September 30,	
	2024	2023
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$ 15,069	\$ (28,427)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	61,448	52,597
Amortization of cloud computing implementation costs	2,994	1,550
Provision for subscription cancellations and non-renewals	(470)	1,407
Amortization of deferred financing costs	1,345	189
Change in fair value of contingent consideration liabilities	(2,275)	1,349
Change in settlement value of deferred purchase commitment liability	423	—
Write-off of deferred financing costs	276	—
Stock-based compensation expense	36,459	26,228
Deferred income tax benefit	(8,615)	(10,034)
Non-cash operating lease costs	2,038	1,855
Other	(151)	(145)
Changes in operating assets and liabilities:		
Accounts receivable	15,593	(30,760)
Prepaid expenses and other current assets	(10,245)	520

Deferred commissions	(1,302)	(1,632)
Accounts payable	4,535	10,049
Accrued expenses	(851)	9,865
Accrued and deferred compensation	3,032	2,487
Deferred revenue	9,411	(8,977)
Operating lease liabilities	(2,856)	(2,863)
Payments for purchase commitment and contingent consideration liabilities in excess of initial fair value	(4,367)	—
Other	2,197	1,438
Net cash provided by operating activities	<u>123,688</u>	<u>26,696</u>
Cash flows from investing activities:		
Acquisition of businesses and assets, net of cash acquired	(71,755)	—
Property and equipment additions	(47,520)	(35,357)
Capitalized software additions	(16,357)	(14,083)
Purchase of investment securities, available-for-sale	(12,246)	(12,864)
Proceeds from sales and maturities of investment securities, available-for-sale	14,610	16,040
Net cash used in investing activities	<u>(133,268)</u>	<u>(46,264)</u>
Cash flows from financing activities:		
Net increase in customer funds obligations	6,032	16,996
Proceeds from convertible senior notes	345,000	—
Principal payments on long-term debt	(46,875)	(1,563)
Payments on third-party debt	(3,904)	—
Payment for purchase of capped calls	(42,366)	—
Payments for deferred financing costs	(11,374)	—
Proceeds from purchases of stock under ESPP	1,443	1,178
Payments for taxes related to net share settlement of stock-based awards	(19,990)	(9,210)
Proceeds from exercise of stock options	4,689	3,097
Payments for purchase commitment and contingent consideration liabilities	(7,580)	(6,424)
Payments of finance lease liabilities	(70)	(77)
Payments for deferred purchase commitments	—	(10,000)
Net cash provided by (used in) financing activities	<u>225,005</u>	<u>(6,003)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	810	(55)
Net increase (decrease) in cash, cash equivalents and restricted cash	216,235	(25,626)
Cash, cash equivalents and restricted cash, beginning of period	89,151	106,748
Cash, cash equivalents and restricted cash, end of period	<u>\$ 305,386</u>	<u>\$ 81,122</u>
Reconciliation of cash, cash equivalents and restricted cash to the Condensed Consolidated Balance Sheets, end of period:		
Cash and cash equivalents	\$ 278,979	\$ 49,499
Restricted cash—funds held for customers	26,407	31,623
Total cash, cash equivalents and restricted cash, end of period	<u>\$ 305,386</u>	<u>\$ 81,122</u>

**Summary of Non-GAAP Financial Measures  
(Unaudited)**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
<b>(Dollars in thousands, except per share data)</b>	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Non-GAAP cost of revenues, software subscriptions	<u>\$ 28,549</u>	<u>\$ 26,298</u>	<u>\$ 83,470</u>	<u>\$ 75,681</u>
Non-GAAP cost of revenues, services	<u>\$ 15,712</u>	<u>\$ 15,364</u>	<u>\$ 46,157</u>	<u>\$ 44,069</u>
Non-GAAP gross profit	<u>\$ 126,174</u>	<u>\$ 103,365</u>	<u>\$ 358,693</u>	<u>\$ 297,723</u>
Non-GAAP gross margin	<u>74.0 %</u>	<u>71.3 %</u>	<u>73.5 %</u>	<u>71.3 %</u>
Non-GAAP research and development expense	<u>\$ 12,897</u>	<u>\$ 15,374</u>	<u>\$ 39,061</u>	<u>\$ 40,907</u>
Non-GAAP selling and marketing expense	<u>\$ 38,454</u>	<u>\$ 30,998</u>	<u>\$ 111,149</u>	<u>\$ 94,845</u>
Non-GAAP general and administrative expense	<u>\$ 35,837</u>	<u>\$ 30,954</u>	<u>\$ 94,037</u>	<u>\$ 93,499</u>
Non-GAAP operating income	<u>\$ 33,409</u>	<u>\$ 22,841</u>	<u>\$ 98,449</u>	<u>\$ 57,407</u>
Non-GAAP net income	<u>\$ 27,079</u>	<u>\$ 16,572</u>	<u>\$ 75,501</u>	<u>\$ 42,662</u>

Non-GAAP diluted EPS	\$ 0.16	\$ 0.10	\$ 0.46	\$ 0.26
Adjusted EBITDA	\$ 38,623	\$ 26,623	\$ 113,881	\$ 68,808
Adjusted EBITDA margin	22.7 %	18.4 %	23.3 %	16.5 %
Free cash flow	\$ 18,365	\$ 9,055	\$ 59,811	\$ (22,744)
Free cash flow margin	10.8 %	6.2 %	12.2 %	(5.4) %

**Vertex, Inc. and Subsidiaries**  
**Reconciliation of GAAP to Non-GAAP Financial Measures**  
(Unaudited)

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<b>Non-GAAP Cost of Revenues, Software Subscriptions:</b>				
<b>Cost of revenues, software subscriptions</b>	\$ 43,641	\$ 41,055	\$ 131,030	\$ 116,974
Stock-based compensation expense	(894)	(728)	(3,437)	(2,143)
Depreciation and amortization of capitalized software and acquired intangible assets – cost of subscription revenues	(14,198)	(14,029)	(44,123)	(39,150)
<b>Non-GAAP cost of revenues, software subscriptions</b>	<u>\$ 28,549</u>	<u>\$ 26,298</u>	<u>\$ 83,470</u>	<u>\$ 75,681</u>
<b>Non-GAAP Cost of Revenues, Services:</b>				
<b>Cost of revenues, services</b>	\$ 16,270	\$ 15,816	\$ 48,286	\$ 45,523
Stock-based compensation expense	(558)	(452)	(2,129)	(1,454)
<b>Non-GAAP cost of revenues, services</b>	<u>\$ 15,712</u>	<u>\$ 15,364</u>	<u>\$ 46,157</u>	<u>\$ 44,069</u>
<b>Non-GAAP Gross Profit:</b>				
<b>Gross profit</b>	\$ 110,524	\$ 88,156	\$ 309,004	\$ 254,976
Stock-based compensation expense	1,452	1,180	5,566	3,597
Depreciation and amortization of capitalized software and acquired intangible assets – cost of subscription revenues	14,198	14,029	44,123	39,150
<b>Non-GAAP gross profit</b>	<u>\$ 126,174</u>	<u>\$ 103,365</u>	<u>\$ 358,693</u>	<u>\$ 297,723</u>
<b>Non-GAAP Gross Margin:</b>				
Total Revenues	<u>\$ 170,435</u>	<u>\$ 145,027</u>	<u>\$ 488,320</u>	<u>\$ 417,473</u>
<b>Non-GAAP gross margin</b>	<u>74.0 %</u>	<u>71.3 %</u>	<u>73.5 %</u>	<u>71.3 %</u>
<b>Non-GAAP Research and Development Expense:</b>				
<b>Research and development expense</b>	\$ 15,621	\$ 16,772	\$ 47,080	\$ 45,314
Stock-based compensation expense	(2,001)	(1,398)	(7,296)	(4,407)
Transaction costs	(723)	—	(723)	—
<b>Non-GAAP research and development expense</b>	<u>\$ 12,897</u>	<u>\$ 15,374</u>	<u>\$ 39,061</u>	<u>\$ 40,907</u>
<b>Non-GAAP Selling and Marketing Expense:</b>				
<b>Selling and marketing expense</b>	\$ 42,111	\$ 33,919	\$ 123,143	\$ 103,196
Stock-based compensation expense	(2,951)	(2,325)	(10,101)	(6,305)
Amortization of acquired intangible assets – selling and marketing expense	(706)	(596)	(1,893)	(2,046)
<b>Non-GAAP selling and marketing expense</b>	<u>\$ 38,454</u>	<u>\$ 30,998</u>	<u>\$ 111,149</u>	<u>\$ 94,845</u>
<b>Non-GAAP General and Administrative Expense:</b>				
<b>General and administrative expense</b>	\$ 41,499	\$ 35,385	\$ 112,915	\$ 109,071
Stock-based compensation expense	(3,730)	(2,869)	(13,496)	(11,919)
Severance expense	(927)	(643)	(2,388)	(2,103)
Amortization of cloud computing implementation costs – general and administrative	(1,005)	(919)	(2,994)	(1,550)
<b>Non-GAAP general and administrative expense</b>	<u>\$ 35,837</u>	<u>\$ 30,954</u>	<u>\$ 94,037</u>	<u>\$ 93,499</u>



**Vertex, Inc. and Subsidiaries**  
**Reconciliation of GAAP to Non-GAAP Financial Measures (continued)**  
**(Unaudited)**

(In thousands, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<b>Non-GAAP Operating Income:</b>				
<b>Income (loss) from operations</b>	\$ 4,896	\$ (2,018)	\$ 10,876	\$ (15,019)
Stock-based compensation expense	10,134	7,772	36,459	26,228
Depreciation and amortization of capitalized software and acquired intangible assets – cost of subscription revenues	14,198	14,029	44,123	39,150
Amortization of acquired intangible assets – selling and marketing expense	706	596	1,893	2,046
Amortization of cloud computing implementation costs – general and administrative	1,005	919	2,994	1,550
Severance expense	927	643	2,388	2,103
Acquisition contingent consideration	100	900	(2,275)	1,349
Transaction costs	1,443	—	1,991	—
<b>Non-GAAP operating income</b>	<b>\$ 33,409</b>	<b>\$ 22,841</b>	<b>\$ 98,449</b>	<b>\$ 57,407</b>
<b>Non-GAAP Net Income:</b>				
<b>Net income (loss)</b>	\$ 7,221	\$ (3,399)	\$ 15,069	\$ (28,427)
Income tax (benefit) expense	613	784	(1,722)	13,266
Stock-based compensation expense	10,134	7,772	36,459	26,228
Depreciation and amortization of capitalized software and acquired intangible assets – cost of subscription revenues	14,198	14,029	44,123	39,150
Amortization of acquired intangible assets – selling and marketing expense	706	596	1,893	2,046
Amortization of cloud computing implementation costs – general and administrative	1,005	919	2,994	1,550
Severance expense	927	643	2,388	2,103
Acquisition contingent consideration	100	900	(2,275)	1,349
Transaction costs	1,443	—	1,991	—
Change in settlement value of deferred purchase commitment liability – interest expense	—	—	423	—
Non-GAAP income before income taxes	36,347	22,244	101,343	57,265
Income tax adjustment at statutory rate <sup>(1)</sup>	(9,268)	(5,672)	(25,842)	(14,603)
<b>Non-GAAP net income</b>	<b>\$ 27,079</b>	<b>\$ 16,572</b>	<b>\$ 75,501</b>	<b>\$ 42,662</b>
<b>Non-GAAP Diluted EPS:</b>				
Non-GAAP net income	\$ 27,079	\$ 16,572	\$ 75,501	\$ 42,662
Interest expense (net of tax), convertible senior notes <sup>(2)</sup>	923	—	1,524	—
Non-GAAP net income used in dilutive per share computation	<b>\$ 28,002</b>	<b>\$ 16,572</b>	<b>\$ 77,025</b>	<b>\$ 42,662</b>
Weighted average Class A and B common stock, diluted	162,138	162,182	161,387	161,559
Dilutive effect of convertible senior notes <sup>(2)</sup>	8,194	—	5,462	—
Total average Class A and B shares used in dilutive per share computation	<b>170,332</b>	<b>162,182</b>	<b>166,849</b>	<b>161,559</b>
<b>Non-GAAP diluted EPS</b>	<b>\$ 0.16</b>	<b>\$ 0.10</b>	<b>\$ 0.46</b>	<b>\$ 0.26</b>

<sup>(1)</sup> Non-GAAP income (loss) before income taxes is adjusted for income taxes using the respective statutory tax rates for applicable jurisdictions, which for purposes of this determination were assumed to be 25.5%.

<sup>(2)</sup> We use the if-converted method to compute diluted earnings per share with respect to our convertible senior notes. For the three and nine months ended September 30, 2024, interest expense and additional dilutive shares related to the notes were added back to the calculation as their impact was dilutive. In periods when the impact is anti-dilutive there is no add-back of interest expense or additional dilutive shares related to the notes.

**Vertex, Inc. and Subsidiaries**  
**Reconciliation of GAAP to Non-GAAP Financial Measures (continued)**  
**(Unaudited)**

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	<b>Adjusted EBITDA:</b>			
<b>Net income (loss)</b>	\$ 7,221	\$ (3,399)	\$ 15,069	\$ (28,427)
Interest expense (income), net	(2,938)	597	(2,471)	142
Income tax (benefit) expense	613	784	(1,722)	13,266
Depreciation and amortization – property and equipment	5,214	3,782	15,432	11,401
Depreciation and amortization of capitalized software and acquired intangible assets – cost of subscription revenues	14,198	14,029	44,123	39,150
Amortization of acquired intangible assets – selling and marketing expense	706	596	1,893	2,046
Amortization of cloud computing implementation costs – general and administrative	1,005	919	2,994	1,550
Stock-based compensation expense	10,134	7,772	36,459	26,228
Severance expense	927	643	2,388	2,103
Acquisition contingent consideration	100	900	(2,275)	1,349
Transaction costs	1,443	—	1,991	—
<b>Adjusted EBITDA</b>	<b>\$ 38,623</b>	<b>\$ 26,623</b>	<b>\$ 113,881</b>	<b>\$ 68,808</b>
<b>Adjusted EBITDA Margin:</b>				
Total revenues	\$ 170,435	\$ 145,027	\$ 488,320	\$ 417,473
<b>Adjusted EBITDA margin</b>	22.7 %	18.4 %	23.3 %	16.5 %

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	<b>Free Cash Flow:</b>			
<b>Cash provided by (used in) operating activities</b>	\$ 41,396	\$ 27,594	\$ 123,688	\$ 26,696
Property and equipment additions	(17,771)	(13,498)	(47,520)	(35,357)
Capitalized software additions	(5,260)	(5,041)	(16,357)	(14,083)
<b>Free cash flow</b>	<b>\$ 18,365</b>	<b>\$ 9,055</b>	<b>\$ 59,811</b>	<b>\$ (22,744)</b>
<b>Free Cash Flow Margin:</b>				
Total revenues	\$ 170,435	\$ 145,027	\$ 488,320	\$ 417,473
<b>Free cash flow margin</b>	10.8 %	6.2 %	12.2 %	(5.4) %

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