

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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): May 13, 2019

Fidelity National Information Services, Inc.
(Exact name of Registrant as Specified in its Charter)

Georgia
(State or Other Jurisdiction
of Incorporation or Organization)

1-16427
(Commission
File Number)

37-1490331
(IRS Employer
Identification Number)

601 Riverside Avenue
Jacksonville, Florida 32204
(Address of Principal Executive Offices)

(904) 438-6000
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☒ 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 ☐

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. ☐

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	FIS	New York Stock Exchange
0.400% Senior Notes due 2021	FIS21A	New York Stock Exchange
1.700% Senior Notes due 2022	FIS22B	New York Stock Exchange
1.100% Senior Notes due 2024	FIS24A	New York Stock Exchange

Item 8.01 Other Events

As previously announced, on March 17, 2019, Fidelity National Information Services, Inc. (“FIS”) entered into a definitive agreement with Worldpay, Inc. (“Worldpay”), pursuant to which FIS will acquire all of the outstanding shares of Worldpay. The Worldpay transaction is currently expected to close in the third quarter of 2019 and remains subject to approval by FIS shareholders and Worldpay stockholders and customary closing conditions, including competition and regulatory approvals.

FIS is filing (i) as Exhibit 99.1 to this Current Report on Form 8-K, Worldpay’s audited consolidated financial statements for the fiscal years ended December 31, 2018 and 2017 and for each of the years in the three-year period ended December 31, 2018, (ii) as Exhibit 99.2, Worldpay’s interim unaudited consolidated financial statements for the fiscal quarter ended March 31, 2019 and for the three months ended March 31, 2019 and 2018, (iii) as Exhibit 99.3, Management’s Discussion and Analysis of Financial Condition and Results of Operations of Worldpay for the year ended December 31, 2018, (iv) as Exhibit 99.4, Management’s Discussion and Analysis of Financial Condition and Results of Operations of Worldpay for the three months ended March 31, 2019 and 2018, (v) as Exhibit 99.5, information related to Worldpay’s business and operations and information related to certain material regulatory matters related to Worldpay’s business, (vi) as Exhibit 99.6, the unaudited pro forma condensed combined financial statements of FIS and Worldpay (a) as of and for the three months ended March 31, 2019, including the unaudited pro forma condensed combined consolidated statements of income of FIS and Worldpay for the three months ended March 31, 2019 giving effect to the Worldpay transaction as if it had occurred on January 1, 2018, as well as the unaudited pro forma condensed combined consolidated balance sheet data of FIS and Worldpay as of March 31, 2019, which reflects the unaudited pro forma condensed combined consolidated balance sheets of FIS and Worldpay giving effect to the Worldpay transaction as if it had occurred on March 31, 2019 and (b) for the year ended December 31, 2018, which reflects the combined historical consolidated statements of income of FIS and Worldpay giving effect to the Worldpay transaction as if it had occurred on January 1, 2018, and (vii) as Exhibit 23.1, the consent of Deloitte & Touche LLP, independent registered public accounting firm of Worldpay.

Statement Regarding Forward-Looking Information

The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or “Securities Act” and Section 21E of the Securities Exchange Act of 1934, as amended, or “Exchange Act,” including statements regarding our expectations, hopes, intentions, or strategies regarding the future. These statements relate to, among other things, business and market conditions, outlook and our future financial and operating results and debt. In many cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” or “continue,” or the negative of these terms, and other comparable terminology. Actual results could differ materially from those anticipated in these statements as a result of a number of factors, including, but not limited to:

- the risk that the transactions described herein will not be completed or will not provide the expected benefits, or that we will not be able to achieve the cost or revenue synergies anticipated;
- the risk that the integration of FIS and Worldpay will be more difficult, time-consuming or expensive than anticipated;
- the risk of customer loss or other business disruption in connection with the transaction, or of the loss of key employees;
- the possible occurrence of an event, change or other circumstance that would give rise to the termination of the merger agreement;
- the fact that unforeseen liabilities of FIS or Worldpay may exist;
- the risk of doing business internationally;
- changes in general economic, business and political conditions, including the possibility of intensified international hostilities, acts of terrorism, changes in either or both the United States and international lending, capital and financial markets and currency fluctuations;

- the effect of legislative initiatives or proposals, statutory changes, governmental or other applicable regulations and/or changes in industry requirements, including privacy and cybersecurity laws and regulations;
- the risks of reduction in revenue from the elimination of existing and potential customers due to consolidation in, or new laws or regulations affecting, the banking, retail and financial services industries or due to financial failures or other setbacks suffered by firms in those industries;
- changes in the growth rates of the markets for the solutions of FIS and Worldpay;
- failures to adapt such solutions to changes in technology or in the marketplace;
- internal or external security breaches of systems, including those relating to unauthorized access, theft, corruption or loss of personal information and computer viruses and other malware affecting our software or platforms, and the reactions of customers, card associations, government regulators and others to any such events;
- the risk that implementation of software (including software updates) for customers or at customer locations or employee error in monitoring software and platforms may result in the corruption or loss of data or customer information, interruption of business operations, outages, exposure to liability claims or loss of customers;
- the reaction of current and potential customers to communications from us or regulators regarding information security, risk management, internal audit or other matters;
- competitive pressures on pricing related to the decreasing number of community banks in the U.S., the development of new disruptive technologies competing with one or more of our solutions, increasing presence of international competitors in the U.S. market and the entry into the market by global banks and global companies with respect to certain competitive solutions, each of which may have the impact of unbundling individual solutions from a comprehensive suite of solutions we provide to many of our customers;
- the failure to innovate in order to keep up with new emerging technologies, which could impact the merged companies' solutions and ability to attract new, or retain existing, customers;
- the failure to meet financial goals to grow business in Brazil after the unwinding of FIS' Brazilian Venture;
- the risks of reduction in revenue from the loss of existing and/or potential customers in Brazil after the unwinding of FIS' Brazilian Venture;
- an operational or natural disaster at one of our major operations centers; and
- other risks detailed elsewhere in the two companies' annual reports on Form 10-K for the year ended December 31, 2018, in our quarterly report on Form 10-Q for the quarterly period ended March 31, 2019 and in our and their other filings with the Securities and Exchange Commission.

Other unknown or unpredictable factors also could have a material adverse effect on our business, financial condition, results of operations and prospects. Accordingly, readers should not place undue reliance on these forward-looking statements. These forward-looking statements are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. Except as required by applicable law or regulation, we do not undertake (and expressly disclaim) any obligation and do not intend to publicly update or review any of these forward-looking statements, whether as a result of new information, future events or otherwise.

Additional Information and Where to Find It

This communication is being made in respect of the proposed merger transaction between FIS and Worldpay. In connection with the proposed merger, on April 15, 2019, FIS filed with the SEC a registration statement on Form S-4, which includes the joint proxy statement of FIS and Worldpay and a prospectus of FIS, as well as other relevant documents regarding the proposed transaction. A definitive joint proxy statement/prospectus will be sent to FIS shareholders and Worldpay stockholders once the registration statement becomes effective. INVESTORS ARE URGED TO READ THE REGISTRATION STATEMENT AND THE JOINT PROXY STATEMENT/PROSPECTUS REGARDING THE MERGER AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC, AS WELL AS ANY AMENDMENTS OR SUPPLEMENTS TO THOSE DOCUMENTS, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION.

A free copy of the joint proxy statement/prospectus, as well as other filings containing information about FIS and Worldpay, may be obtained at the SEC's website (<http://www.sec.gov>). You will also be able to obtain these documents, free of charge, from FIS at www.investor.fisglobal.com or by emailing info.investorrelations@fisglobal.com or from Worldpay at <http://investors.worldpay.com/> and <http://www.investor.fisglobal.com/investor-overview>.

Participants in the Solicitation

FIS and Worldpay and certain of their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from FIS shareholders and Worldpay stockholders in respect of the transaction described in the joint proxy statement/prospectus. Information regarding FIS' directors and executive officers is contained in FIS' Proxy Statement on Schedule 14A, dated April 12, 2019, which is filed with the SEC. Information regarding Worldpay's directors and executive officers is contained in Worldpay's Proxy Statement on Schedule 14A, dated April 3, 2019, which is filed with the SEC. Additional information regarding the interests of those participants and other persons who may be deemed participants in the transaction may be obtained by reading the joint proxy statement/prospectus regarding the proposed merger when it becomes available. Free copies of this document may be obtained as described in the preceding paragraph.

This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits.

Exhibit No.	Description
23.1	Consent of Deloitte & Touche LLP (with respect to Worldpay, Inc.).
99.1	Audited consolidated financial statements of Worldpay, Inc. as of December 31, 2018 and 2017 and for each of the years in the three-year period ended December 31, 2018.
99.2	Interim unaudited condensed consolidated financial statements of Worldpay, Inc. as of March 31, 2019 and for the three months ended March 31, 2019 and 2018.
99.3	Management's Discussion and Analysis of Financial Condition and Results of Operations of Worldpay, Inc. for the year ended December 31, 2018.
99.4	Management's Discussion and Analysis of Financial Condition and Results of Operations of Worldpay, Inc. for the three months ended March 31, 2019 and 2018.
99.5	Information related to Worldpay, Inc.'s business and operations and information related to certain material regulatory matters related to Worldpay, Inc.'s business.
99.6	Unaudited pro forma condensed combined financial statements (a) as of and for the three months ended March 31, 2019 and (b) for the year ended December 31, 2018.

* * *

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EXHIBIT INDEX

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be filed on its behalf by the undersigned hereunto duly authorized.

Fidelity National Information Services, Inc.

Date: May 13, 2019

By: /s/ Marc M. Mayo

Name: Marc M. Mayo

Title: Corporate Executive Vice President and Chief Legal Officer

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements No. 333-63342, 333-103266, 333-131601, 333-131602, 333-132844, 333-132845, 333-138654, 333-146080, 333-157575, 333-158960, 333-162262, 333-190793, 333-206214, 333-206832, and 333-208266 on Form S-8 and No. 333-131593 and 333-212372 on Form S-3 of Fidelity National Information Services, Inc., of our report dated February 26, 2019, relating to the consolidated financial statements and financial statement schedule of Worldpay, Inc. (which report expresses an unqualified opinion and includes an explanatory paragraph relating to a change in accounting principle for the accounting for revenue from contracts with customers), appearing in this Current Report on Form 8-K of Fidelity National Information Services, Inc.

/s/ DELOITTE & TOUCHE LLP

Cincinnati, Ohio

May 13, 2019

**Audited consolidated financial statements of Worldpay, Inc.
as of December 31, 2018 and 2017 and for each of the years in the three-year period ended December 31, 2018**

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To the Stockholders and the Board of Directors of Worldpay, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Worldpay, Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America .

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2019, expressed an unqualified opinion on the Company’s internal control over financial reporting (not included herein).

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for revenue from contracts with customers in the year ended December 31, 2018 due to the adoption of Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* .

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

Cincinnati, Ohio
February 26, 2019

We have served as the Company’s auditor since 2009.

Worldpay, Inc.
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except share data)

	Year Ended December 31,		
	2018	2017	2016
Revenue	\$ 3,925.4	\$ 4,026.5	\$ 3,579.0
Network fees and other costs ⁽¹⁾	—	1,903.2	1,674.2
Sales and marketing	1,131.7	669.5	582.3
Other operating costs	698.0	318.7	294.2
General and administrative	662.1	295.1	189.7
Depreciation and amortization	1,095.0	318.5	270.1
Income from operations	338.6	521.5	568.5
Interest expense—net	(304.9)	(140.6)	(109.5)
Non-operating (expense) income	(41.8)	432.8	(36.3)
(Loss) income before applicable income taxes	(8.1)	813.7	422.7
Income tax (benefit) expense	(27.7)	631.0	141.8
Net income	19.6	182.7	280.9
Less: Net income attributable to non-controlling interests	(6.8)	(52.6)	(67.7)
Net income attributable to Worldpay, Inc.	\$ 12.8	\$ 130.1	\$ 213.2
Net income per share attributable to Worldpay, Inc. Class A common stock:			
Basic	\$ 0.04	\$ 0.81	\$ 1.37
Diluted	\$ 0.04	\$ 0.80	\$ 1.32
Shares used in computing net income per share of Class A common stock:			
Basic	292,992,892	161,293,062	156,043,636
Diluted	295,214,282	162,807,146	162,115,549

(1) See Note 2—Revenue Recognition, which addresses the change in presentation.

See Notes to Consolidated Financial Statements.

Worldpay, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In millions)

	Year Ended December 31,		
	2018	2017	2016
Net income	\$ 19.6	\$182.7	\$280.9
Other comprehensive (loss) income, net of tax:			
(Loss) gain on foreign currency translation and hedging activities	(759.1)	10.9	4.0
Comprehensive (loss) income	(739.5)	193.6	284.9
Less: Comprehensive loss (income) attributable to non-controlling interests	18.2	(54.4)	(68.7)
Comprehensive (loss) income attributable to Worldpay, Inc.	<u><u>\$ (721.3)</u></u>	<u><u>\$139.2</u></u>	<u><u>\$216.2</u></u>

See Notes to Consolidated Financial Statements.

Worldpay, Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In millions, except share data)

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 196.5	\$ 126.5
Accounts receivable—net	1,694.8	986.6
Settlement assets and merchant float	3,132.3	142.0
Prepaid expenses	80.0	33.5
Other	526.1	84.0
Total current assets	5,629.7	1,372.6
Property, equipment and software—net	1,074.1	473.7
Intangible assets—net	3,127.8	678.5
Goodwill	14,137.9	4,173.0
Deferred taxes	789.9	739.5
Proceeds from senior unsecured notes	—	1,135.2
Other assets	129.1	94.5
Total assets	\$ 24,888.5	\$ 8,667.0
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,188.7	\$ 631.9
Settlement obligations	3,723.6	816.2
Current portion of notes payable	225.7	107.9
Current portion of tax receivable agreement obligations	73.1	245.5
Deferred income	25.1	18.9
Current maturities of capital lease obligations	22.7	8.0
Other	630.3	6.0
Total current liabilities	5,889.2	1,834.4
Long-term liabilities:		
Notes payable	7,622.1	5,586.4
Tax receivable agreement obligations	590.8	535.0
Capital lease obligations	34.3	4.5
Deferred taxes	473.7	65.6
Other	74.4	40.5
Total long-term liabilities	8,795.3	6,232.0
Total liabilities	14,684.5	8,066.4
Commitments and contingencies (See Note 11—Commitments, Contingencies and Guarantees)		
Equity:		
Class A common stock, \$0.00001 par value; 890,000,000 shares authorized; 300,454,590 shares outstanding at December 31, 2018; 162,595,981 shares outstanding at December 31, 2017	—	—
Class B common stock, no par value; 100,000,000 shares authorized; 10,252,826 shares issued and outstanding at December 31, 2018; 15,252,826 shares issued and outstanding at December 31, 2017	—	—
Preferred stock, \$0.00001 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Paid-in capital	10,135.3	55.4
Retained earnings	593.1	558.0
Accumulated other comprehensive (loss) income	(731.2)	2.9
Treasury stock, at cost; 3,574,553 shares at December 31, 2018 and 2,861,671 shares at December 31, 2017	(142.8)	(83.8)
Total Worldpay, Inc. equity	9,854.4	532.5
Non-controlling interests	349.6	68.1
Total equity	10,204.0	600.6
Total liabilities and equity	\$ 24,888.5	\$ 8,667.0

See Notes to Consolidated Financial Statements.

Worldpay, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2018	2017	2016
Operating Activities:			
Net income	\$ 19.6	\$ 182.7	\$ 280.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	1,095.0	318.5	270.1
Amortization of customer incentives	27.4	24.3	25.8
Amortization and write-off of debt issuance costs	69.6	6.0	22.6
Gain on foreign currency forward	(35.9)	(33.1)	—
Share-based compensation expense	124.8	47.9	35.9
Deferred tax (benefit) expense	(91.1)	596.8	79.7
Excess tax benefit from share-based compensation	—	—	(12.2)
Tax receivable agreements non-cash items	(3.0)	(421.7)	(3.9)
Other	20.9	4.0	0.5
Change in operating assets and liabilities:			
Accounts receivable	(172.3)	(38.9)	(212.9)
Net settlement assets and obligations	63.0	25.3	79.7
Prepaid and other assets	(64.7)	(25.7)	(3.0)
Accounts payable and accrued expenses	(141.0)	130.5	91.6
Other liabilities	24.0	(31.8)	(9.7)
Net cash provided by operating activities	<u>936.3</u>	<u>784.8</u>	<u>645.1</u>
Investing Activities:			
Purchases of property and equipment	(304.9)	(110.8)	(118.2)
Acquisition of customer portfolios and related assets and other	(74.4)	(41.8)	(23.6)
Purchase of interest rate caps	(8.1)	—	(21.5)
Proceeds from foreign currency forward	71.5	—	—
Cash acquired (used) in acquisitions, net of cash used	<u>1,389.6</u>	<u>(531.5)</u>	<u>(406.8)</u>
Net cash provided by (used in) investing activities	<u>1,073.7</u>	<u>(684.1)</u>	<u>(570.1)</u>
Financing Activities:			
Proceeds from issuance of long-term debt	2,951.8	1,270.0	3,234.4
Proceeds from issuance of senior unsecured notes	—	1,135.2	—
Borrowings on revolving credit facility	4,076.0	8,442.0	1,250.0
Repayment of revolving credit facility	(4,251.0)	(8,217.0)	(1,250.0)
Repayment of debt and capital lease obligations	(2,835.1)	(143.7)	(3,084.9)
Payment of debt issuance costs	(91.1)	(27.6)	(20.1)
Proceeds from issuance of Class A common stock under employee stock plans	23.8	14.5	15.4
Purchase and cancellation of Class A common stock	—	(1,268.0)	—
Repurchase of Class A common stock (including to satisfy tax withholding obligations)	(176.6)	(10.1)	(87.7)
Settlement of and payments under certain tax receivable agreements	(196.0)	(140.3)	(189.4)
Excess tax benefit from share-based compensation	—	—	12.2
Distribution to non-controlling interests	(10.5)	(22.6)	(12.9)
Net cash (used in) provided by financing activities	<u>(508.7)</u>	<u>1,032.4</u>	<u>(133.0)</u>
Net increase (decrease) in cash and cash equivalents	<u>1,501.3</u>	<u>1,133.1</u>	<u>(58.0)</u>
Cash and cash equivalents—Beginning of period	1,272.2	139.1	197.1
Effect of exchange rate changes on cash	(192.2)	—	—
Cash and cash equivalents—End of period	<u>\$ 2,581.3</u>	<u>\$ 1,272.2</u>	<u>\$ 139.1</u>
Cash Payments:			
Interest	\$ 302.9	\$ 123.1	\$ 102.7
Income taxes	29.4	45.8	51.1
Non-cash Items:			
Issuance of tax receivable agreements to related parties	120.9	647.5	171.2

See Notes to Consolidated Financial Statements.

Worldpay, Inc.
CONSOLIDATED STATEMENT OF EQUITY
(In millions)

	Total Equity	Common Stock				Treasury Stock Shares	Treasury Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interests
		Class A		Class B							
		Shares	Amount	Shares	Amount						
Beginning Balance, January 1, 2018	\$ 600.6	162.6	\$ —	15.3	\$ —	2.9	\$ (83.8)	\$ 55.4	\$ 558.0	\$ 2.9	\$ 68.1
Cumulative effect of accounting change	22.3	—	—	—	—	—	—	—	22.3	—	—
Net income	19.6	—	—	—	—	—	—	—	12.8	—	6.8
Issuance of Class A common stock for acquisition	10,364.8	133.6	—	—	—	0.8	(64.6)	10,429.4	—	—	—
Issuance of Class A common stock under employee benefit trust and employee benefit plans, net of forfeitures	23.8	1.4	—	—	—	(0.4)	32.2	(8.4)	—	—	—
Repurchase of Class A common stock (including to satisfy tax withheld obligation)	(176.6)	(2.1)	—	—	—	0.3	(26.6)	(150.0)	—	—	—
Issuance of Class A common stock and cancellation of Class B common stock in connection with Fifth Third Stock sale	—	5.0	—	(5.0)	—	—	—	—	—	—	—
Settlement of certain tax receivable agreements	29.0	—	—	—	—	—	—	29.0	—	—	—
Issuance of tax receivable agreements	(33.9)	—	—	—	—	—	—	(33.9)	—	—	—
Unrealized loss on hedging activities and foreign currency translation, net of tax	(759.1)	—	—	—	—	—	—	—	—	(734.1)	(25.0)
Distribution to non-controlling interests	(10.5)	—	—	—	—	—	—	—	—	—	(10.5)
Share-based compensation	124.0	—	—	—	—	—	—	119.0	—	—	5.0
Reallocation of non-controlling interests of Worldpay Holding due to change in ownership	—	—	—	—	—	—	—	(305.2)	—	—	305.2
Ending Balance, December 31, 2018	\$10,204.0	300.5	\$ —	10.3	\$ —	3.6	\$(142.8)	\$10,135.3	\$ 593.1	\$ (731.2)	\$ 349.6

See Notes to Consolidated Financial Statements.

Worldpay, Inc.
CONSOLIDATED STATEMENT OF EQUITY
(In millions)

	<u>Total Equity</u>	<u>Common Stock</u>				<u>Treasury Stock</u>		<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Non- Controlling Interests</u>
		<u>Class A</u>		<u>Class B</u>		<u>Shares</u>	<u>Amount</u>				
		<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>						
Beginning Balance, January 1, 2017	\$ 1,607.3	161.1	\$ —	35.0	\$ —	2.7	\$ (73.7)	\$ 706.1	\$ 689.5	\$ (6.2)	\$ 291.6
Cumulative effect of accounting change	0.5	—	—	—	—	—	—	1.3	(0.8)	—	—
Net income	182.7	—	—	—	—	—	—	—	130.1	—	52.6
Issuance of Class A common stock under employee stock plans, net of forfeitures	14.5	1.7	—	—	—	—	—	14.5	—	—	—
Repurchase of Class A common stock (to satisfy tax withholding obligation)	(10.1)	(0.2)	—	—	—	0.2	(10.1)	—	—	—	—
Purchase and cancellation of Class A common stock	(1,270.6)	—	—	(19.7)	—	—	—	(1,009.8)	(260.8)	—	—
Settlement of certain tax receivable agreements	59.8	—	—	—	—	—	—	59.8	—	—	—
Issuance of tax receivable agreements	(19.7)	—	—	—	—	—	—	(19.7)	—	—	—
Unrealized gain on hedging activities, net of tax	10.9	—	—	—	—	—	—	—	—	9.1	1.8
Distribution to non-controlling interests	(22.6)	—	—	—	—	—	—	—	—	—	(22.6)
Share-based compensation	47.9	—	—	—	—	—	—	41.3	—	—	6.6
Reallocation of non-controlling interests of Worldpay Holding due to change in ownership	—	—	—	—	—	—	—	261.9	—	—	(261.9)
Ending Balance, December 31, 2017	\$ 600.6	162.6	\$ —	15.3	\$ —	2.9	\$ (83.8)	\$ 55.4	\$ 558.0	\$ 2.9	\$ 68.1

See Notes to Consolidated Financial Statements.

Worldpay, Inc.
CONSOLIDATED STATEMENT OF EQUITY
(In millions)

	<u>Total Equity</u>	<u>Common Stock</u>				<u>Treasury Stock</u>		<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Non- Controlling Interests</u>
		<u>Class A</u>		<u>Class B</u>		<u>Shares</u>	<u>Amount</u>				
		<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>						
Beginning Balance, January 1, 2016	\$1,225.1	155.5	\$ —	35.0	\$ —	2.6	\$ (67.4)	\$553.1	\$ 476.3	\$ (9.2)	\$ 272.3
Net income	280.9	—	—	—	—	—	—	—	213.2	—	67.7
Issuance of Class A common stock under employee stock plans, net of forfeitures	15.4	1.5	—	—	—	—	—	15.4	—	—	—
Excess tax benefit from employee share-based compensation	12.2	—	—	—	—	—	—	12.2	—	—	—
Repurchase of Class A common stock (including to satisfy tax withholding obligation)	(87.7)	(1.5)	—	—	—	0.1	(6.3)	(81.4)	—	—	—
Exercise of warrant	—	5.6	—	—	—	—	—	25.0	—	—	(25.0)
Termination of certain tax receivable agreements	130.3	—	—	—	—	—	—	130.3	—	—	—
Issuance of tax receivable agreements	4.1	—	—	—	—	—	—	4.1	—	—	—
Unrealized gain on hedging activities and other, net of tax	4.0	—	—	—	—	—	—	—	—	3.0	1.0
Distribution to non-controlling interests	(12.9)	—	—	—	—	—	—	—	—	—	(12.9)
Share-based compensation	35.9	—	—	—	—	—	—	29.4	—	—	6.5
Reallocation of non-controlling interests of Worldpay Holding due to change in ownership	—	—	—	—	—	—	—	18.0	—	—	(18.0)
Ending Balance, December 31, 2016	<u>\$1,607.3</u>	<u>161.1</u>	<u>\$ —</u>	<u>35.0</u>	<u>\$ —</u>	<u>2.7</u>	<u>\$ (73.7)</u>	<u>\$706.1</u>	<u>\$ 689.5</u>	<u>\$ (6.2)</u>	<u>\$ 291.6</u>

See Notes to Consolidated Financial Statements.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Worldpay, Inc., a Delaware corporation, is a holding company that conducts its operations through its majority-owned subsidiary, Worldpay Holding, LLC (“Worldpay Holding”). Worldpay, Inc. and Worldpay Holding are referred to collectively as the “Company,” “Worldpay,” “we,” “us” or “our,” unless the context requires otherwise.

On January 16, 2018, Worldpay completed the acquisition of all of the outstanding shares of Worldpay Group Limited, formerly Worldpay Group plc, a public limited company (“Legacy Worldpay”). Following the acquisition, the Vantiv, Inc. (“Legacy Vantiv”) name was changed to Worldpay, Inc. by amending our Second Amended and Restated Certificate of Incorporation. The effective date of the name change was January 16, 2018.

On January 16, 2018, the Company’s Class A common stock began trading on the New York Stock Exchange under the new symbol “WP” and on the London Stock Exchange via a secondary standard listing under the symbol “WPY.” Legacy Worldpay shares were delisted from the London Stock Exchange on the same day.

Worldpay is a leader in global payments providing a broad range of technology-led solutions to its clients to allow them to accept payments of almost any type, across multiple payment channels nearly anywhere in the world. The Company serves a diverse set of merchants including mobile, online and in-store, offering over 300 payment methods in 126 transaction currencies across 146 countries, while supporting various clients including large enterprises, corporates, small and medium sized businesses and eCommerce businesses. The Company operates in three reportable segments: Technology Solutions, Merchant Solutions and Issuer Solutions. For more information about the Company’s segments, refer to Note 19—Segment Information. The Company markets its services through diverse distribution channels, including multiple referral partners.

Basis of Presentation and Consolidation

The accompanying Consolidated Financial Statements include those of Worldpay, Inc. and all subsidiaries thereof including its majority-owned subsidiary, Worldpay Holding, LLC. The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). All intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Expenses

Set forth below is a brief description of the components of the Company’s expenses:

- *Network fees and other costs* primarily consist of pass through expenses incurred by the Company in connection with providing processing services to the Company’s clients, including Visa and Mastercard network association fees and payment network fees and only relates to the years ended December 31, 2017 and 2016. Following the Company’s adoption of ASC 606 on January 1, 2018, network fees and other costs are presented net within revenue.
- *Sales and marketing* expense primarily consists of salaries, commissions and benefits paid to sales personnel, sales management and other sales and marketing personnel, amortization of capitalized commission fees, payments made to multiple referral partners, and advertising and promotional costs.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

- *Other operating costs* primarily consist of compensation and benefits paid to operational and IT personnel, costs associated with operating the Company's technology platform and data centers, information technology costs for processing transactions, product development costs, software fees and maintenance costs.
- *General and administrative* expenses primarily consist of compensation and benefits paid to executive management and administrative employees, including finance, human resources, product, legal and risk management, share-based compensation costs, office equipment, occupancy costs and consulting costs.

Non-operating income (expense):

- Non-operating expense for the year ended December 31, 2018 primarily consists of expenses relating to the Company's financing arrangements entered into in connection with the Legacy Worldpay acquisition, repricing of the Company's debt and the change in fair value of the Mercury Payment Systems, LLC ("Mercury") Tax Receivable Agreement ("TRA") (see Note 15—Fair Value Measurements), partially offset by a gain on the settlement of a deal contingent forward entered into in connection with the Company's acquisition of Legacy Worldpay.
- Non-operating income for the year ended December 31, 2017 primarily consists of a gain relating to the impact to the TRA liability as a result of the Tax Cuts and Jobs Act ("Tax Reform") signed into law on December 22, 2017 (see note 8—Tax Receivable Agreements), and an unrealized gain relating to the change in the fair value of a deal contingent foreign currency forward entered into in connection with the Legacy Worldpay acquisition (see Note 9—Derivatives and Hedging Activities), partially offset by the change in the fair value of a TRA entered into as part of the acquisition of Mercury (see Note 8—Tax Receivable Agreements).
- Non-operating expense for the year ended December 31, 2016 relates to the change in fair value of the Mercury TRA entered into as part of the acquisition of Mercury (see Note 8—Tax Receivable Agreements) and a charge related to the refinancing of the Company's senior secured credit facilities (see Note 7—Long-Term Debt).

Share-Based Compensation

The Company expenses employee share-based payments under ASC 718, *Compensation—Stock Compensation*, which requires compensation cost for the grant-date fair value of share-based payments to be recognized over the requisite service period. The Company estimates the grant date fair value of the share-based awards issued in the form of options using the Black-Scholes option pricing model. The fair value of shares issued as restricted stock, performance awards and under the employee stock purchase plans is measured based on the market price of the Company's stock on the grant date.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The update simplifies several aspects of the accounting for share-based payment award transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Company adopted this ASU on January 1, 2017. Under previous guidance, excess tax benefits and deficiencies from share-based compensation arrangements were recorded in equity when the awards vested or settled. ASU 2016-09 requires prospective recognition of excess tax benefits and deficiencies in the income statement, which results in the recognition of excess tax benefits in income tax expense, rather than in paid-in capital.

Additionally, under ASU 2016-09, the Company has elected to prospectively apply the cash flow classification guidance, which results in an increase to operating cash flows as a result of excess income tax benefits from share-based compensation arrangements being classified as cash flows from operations rather than as cash flows from financing activities.

As a result of adopting ASU 2016-09, the Company has elected to account for forfeitures as they occur. The cumulative-effect of this change in election resulted in an immaterial impact on the Company's Consolidated Financial Statements at the beginning of 2017.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Earnings per Share

Basic earnings per share is computed by dividing net income attributable to Worldpay, Inc. by the weighted average shares outstanding during the period. Diluted earnings per share is computed by dividing net income attributable to Worldpay, Inc., adjusted as necessary for the impact of potentially dilutive securities, by the weighted-average shares outstanding during the period and the impact of securities that would have a dilutive effect on earnings per share. See Note 16—Net Income Per Share for further discussion.

Dividend Restrictions

The Company does not intend to pay cash dividends on its Class A common stock in the foreseeable future. Worldpay, Inc. is a holding company that does not conduct any business operations of its own. As a result, Worldpay, Inc.'s ability to pay cash dividends on its common stock, if any, is dependent upon cash dividends and distributions and other transfers from Worldpay Holding. The amounts available to Worldpay, Inc. to pay cash dividends are subject to the covenants and distribution restrictions in its subsidiaries' loan agreements. As a result of the restrictions on distributions from Worldpay Holding and its subsidiaries, essentially all of the Company's consolidated net assets are held at the subsidiary level and are restricted as of December 31, 2018.

Income Taxes

Income taxes are computed in accordance with ASC 740, *Income Taxes*, and reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts. The Company has deferred tax assets and liabilities and maintains valuation allowances where it is more likely than not that all or a portion of deferred tax assets will not be realized. To the extent the Company determines that it will not realize the benefit of some or all of its deferred tax assets, such deferred tax assets will be adjusted through the Company's provision for income taxes in the period in which this determination is made. As of December 31, 2018, the Company had recorded valuation allowances against deferred tax assets of \$12.6 million related to net operating losses. As of December 31, 2017, the Company had recorded no valuation allowances against deferred taxes. See Note 14—Income Taxes for further discussion of income taxes.

Cash and Cash Equivalents

Cash on hand and investments with original maturities of three months or less (that are readily convertible to cash) are considered to be cash equivalents. The Company has restricted cash held in money market accounts, which approximate fair value and therefore are a level 1 input in the fair value hierarchy.

Following the adoption of ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, the Company includes restricted cash in the cash and cash equivalents balance reported in the Consolidated Statements of Cash Flows. The reconciliation between cash and cash equivalents in the Consolidated Statements of Financial Position and the Consolidated Statements of Cash Flows is as follows (in millions):

	December 31, 2018	December 31, 2017
Cash and cash equivalents on the Consolidated Statements of Financial Position	\$ 196.5	\$ 126.5
Proceeds from senior unsecured notes—restricted for closing of Worldpay acquisition	—	1,135.2
Other restricted cash (in other current assets)	482.1	10.5
Merchant float (in settlement assets and merchant float)	1,902.7	—
Total cash and cash equivalents per the Consolidated Statements of Cash Flows	<u>\$ 2,581.3</u>	<u>\$ 1,272.2</u>

Property, Equipment and Software—net

Property, equipment and software consists of the Company's facilities, furniture and equipment, software, land and leasehold improvements. Facilities, furniture and equipment and software are depreciated on a straight-line basis over their respective useful lives. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvement or the term of the lease. Also included in property, equipment and software is costs associated with software developed for internal use which has not yet been placed in service as it is still in development.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company capitalizes certain costs related to computer software developed for internal use and amortizes such costs on a straight-line basis over an estimated useful life. Research and development costs incurred prior to establishing technological feasibility are charged to operations as such costs are incurred. Once technological feasibility has been established, costs are capitalized until the software is placed in service. See Note 4—Property, Equipment and Software for additional information.

Goodwill and Intangible Assets

In accordance with ASC 350, *Intangibles—Goodwill and Other*, the Company tests goodwill for impairment for each reporting unit on an annual basis, or when events occur or circumstances indicate the fair value of a reporting unit is below its carrying value. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that implied fair value of the goodwill within the reporting unit is less than its carrying value. The Company performed its most recent annual goodwill impairment test for all reporting units as of July 31, 2018 using market data and discounted cash flow analyses. Based on this analysis, it was determined that the fair value of all reporting units was substantially in excess of the carrying value. There have been no other events or changes in circumstances subsequent to the testing date that would indicate impairment of these reporting units as of December 31, 2018.

Intangible assets consist of acquired customer relationships, trade names, customer portfolios and related assets that are amortized over their estimated useful lives. The Company reviews finite lived intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. As of December 31, 2018, there have been no such events or circumstances that would indicate potential impairment of finite lived intangible assets.

Settlement Processing Assets and Obligations and Merchant Float

Settlement assets and obligations and merchant float represent intermediary balances arising from the settlement process which involves the transferring of funds between card issuers, merchants and Sponsoring Members. Funds are processed under two models, a sponsorship model and a direct member model. In the United States the Company operates under the sponsorship model and outside the United States the Company operates under the direct membership model.

Under the sponsorship model, in order for the Company to provide electronic payment processing services, Visa, MasterCard and other payment networks require sponsorship by a member clearing bank. The Company has an agreement with various banks and financial institutions, (the “Sponsoring Member”) to provide sponsorship services to the Company. Under the sponsorship agreements the Company is registered as a Visa Third-Party Agent and a MasterCard Service Provider. The sponsorship services allow us to route transactions under the Sponsoring Members’ membership to clear card transactions through MasterCard, Visa and other networks. Under this model, the standards of the payment networks restrict us from performing funds settlement and as such require that these funds be in the possession of the Sponsoring Member until the merchant is funded. Accordingly, settlement assets and obligations resulting from the submission of settlement files to the network or cash received from the network in advance of funding the network are the responsibility of the Sponsoring Member and are not recorded on the Company’s Consolidated Statements of Financial Position.

In the United States, settlement assets and obligations are recorded by the Company related to the Issuer Solutions business when funds are transferred from the Company to the Sponsoring Member for settlement prior to receiving funds from the financial institution customer or funds are received from the financial institution customer prior to transferring funds to the Sponsoring Member for settlement. These timing differences result in a settlement asset or obligation. The amounts are generally collected or paid the following business day.

Settlement assets and obligations are also recorded in the United States as result of intermediary balances due to/from the Sponsoring Member. The Company receives funds from certain networks which are owed to the Sponsoring Member for settlement. In other cases the Company transfers funds to the Sponsoring Member for settlement in advance of receiving funds from the network. These timing differences result in a settlement asset or obligation. The amounts are generally collected or paid the following business day. Additionally, U.S. settlement assets and obligations arise related to interchange expenses, merchant reserves and exception items.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Under the direct membership model, the Company is a direct member in Visa, MasterCard and other various payment networks as third party sponsorship to the networks is not required. This results in the Company performing settlement between the networks and the merchant and requiring adherence to the standards of the payment networks in which the Company is a direct member. Settlement assets and obligations result when the Company submits the merchant file to the network or when funds are received by the Company in advance of paying the funds to a different entity or merchant. The amounts are generally collected or paid the following business day.

Merchant float represents surplus cash balances the Company holds on behalf of its merchant customers when the incoming amount from the card networks precedes when the funding to customers falls due. Such funds are held in a fiduciary capacity, and are not available for the Company to use to fund its cash requirements.

Derivatives

The Company accounts for derivatives in accordance with ASC 815, *Derivatives and Hedging*. This guidance establishes accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the Consolidated Statements of Financial Position at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and the hedged item will be recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portion of the change in the fair value of the derivative will be recorded in accumulated other comprehensive income (loss) ("AOCI") and will be recognized in the statement of income when the hedged item affects earnings. Additionally, the effective portion of the Company's net investment hedges, which act as economic hedges of the Company's net investments in its foreign subsidiaries, are recorded in AOCI. The Company does not enter into derivative financial instruments for speculative purposes. See Note 9—Derivatives and Hedging Activities for further discussion.

Visa Europe and Contingent Value Rights

During June 2016, Legacy Worldpay disposed of its ownership interest in Visa Europe to Visa, Inc. In connection with the disposal, the Company agreed to pay the Legacy Worldpay owners 90% of the net-of-tax proceeds from the disposal, pending the resolution of certain historical claims and the finalization of the proceeds from disposal. The proceeds from the disposal (primarily restricted cash) and the related liability to former owners are recorded in other current assets and other current liabilities, respectively, in the Company's Consolidated Statements of Financial Position.

Foreign Currencies

For operations outside the United States that prepare financial statements in currencies other than the U.S. dollar, results of operations and cash flows are translated at average exchange rates during the period and assets and liabilities are translated at spot exchange rates at the end of the period. Foreign currency translation adjustments are included as a separate component of accumulated other comprehensive income (loss) in total equity. The effects of changes in exchange rates between the designated functional currency and the currency in which a transaction is denominated are recorded as foreign currency transaction gains (losses) in the Consolidated Statements of Income and Comprehensive Income and were immaterial for the year ended December 31, 2018.

New Accounting Pronouncements

In August 2018, the SEC issued a final rule amending certain of its disclosure requirements. This rule eliminates or simplifies redundant or outdated disclosure requirements. The rule also requires companies to present changes in shareholders' equity on a quarterly basis for both current and prior year periods. The rule is effective for the Company's 2019 10-Q filings.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which amends and simplifies existing guidance to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. This ASU is effective for the Company in the first quarter of fiscal 2019, with early adoption permitted. The Company will adopt this ASU as of January 1, 2019 with an immaterial impact on the Company's Consolidated Financial Statements.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU presents new methodology for calculating credit losses on financial instruments (e.g. trade receivables) based on expected credit losses and expands the types of information companies must use when calculating expected losses. This ASU is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted. The Company is currently evaluating the impact of this ASU on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU amends the existing guidance by requiring the recognition of all leases, including operating leases, with a term longer than 12 months on the balance sheet as right of use asset and lease liability and disclosing key information about the lease arrangements. The effective date of this update is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The ASU offers an optional modified retrospective transition approach to apply the provisions of the new standard. This approach results in the recognition of lease assets and liabilities in the period of adoption without requiring restatement of the prior period financials presented.

The Company formed a project team to evaluate the potential financial statement impact of the adoption of this ASU on the Company's Consolidated Financial Statements. The project team analyzed existing leases, which primarily consist of real-estate leases for office space and other contracts which may be a lease or contain embedded leases. The Company has evaluated, designed and implemented new processes and controls in order to meet the requirements to identify, report and disclose financial information regarding the Company's leases. In addition, the Company has designed a process to perform the necessary calculations to derive the right of use asset and liabilities associated with each lease in order to support the requirements of the new standard. Further, the Company is implementing a lease software system for accounting and reporting purposes.

As of January 1, 2019, the Company expects to record a right-of-use asset in the range of \$78 million—\$91 million and a lease liability in the range of \$122 million—\$142 million. The Company will adopt this ASU on January 1, 2019 using the modified retrospective approach. The Company plans to apply the package of practical expedients in the guidance which, among other things, includes carrying forward the historical lease classification. The Company plans to make accounting policy elections not to apply the new guidance to leases with a term of less than 12 months as well as to derive the incremental borrowing rate at the January 1, 2019 adoption date based on the remaining lease term as of the adoption date.

2. REVENUE RECOGNITION

In May 2014, the FASB issued ASU 2014-09, *Revenue From Contracts With Customers (Topic 606)* ("ASC 606"). ASC 606 supersedes the revenue recognition requirements in Accounting Standard Codification ("ASC") 605, *Revenue Recognition* ("ASC 605"). The new standard provides a five-step analysis of transactions to determine when and how revenue is recognized, based upon the core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires additional disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Company adopted ASC 606 on January 1, 2018, using the modified retrospective method. The new standard requires the Company to disclose the accounting policies in effect prior to January 1, 2018, as well as the policies it has applied starting January 1, 2018. Revenue is measured based on consideration specified in a contract with a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a service or goods to a customer.

Periods prior to January 1, 2018

The Company has contractual agreements with its customers that set forth the general terms and conditions of the relationship including line item pricing, payment terms and contract duration. Revenues are recognized as earned (i.e., for transaction based fees, when the underlying transaction is processed). ASC 605 established guidance as to when revenue is realized or realizable and earned by using the following criteria: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price is fixed or determinable; and (4) collectibility is reasonably assured.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company followed the guidance provided in ASC 605-45, *Principal Agent Considerations*, which states that the determination of whether a company should recognize revenue based on the gross amount billed to a customer or the net amount retained is a matter of judgment that depends on the facts and circumstances of the arrangement and that certain factors should be considered in the evaluation. The Company recognized processing revenues net of interchange fees, which are assessed to its merchant customers on all processed transactions. Interchange rates are not controlled by the Company, which effectively acts as a clearing house collecting and remitting interchange fee settlement on behalf of issuing banks, debit networks, credit card associations and its processing customers. All other revenue was reported on a gross basis, as the Company contracts directly with the end customer, assumes the risk of loss and has pricing flexibility.

Periods commencing January 1, 2018

The Company has contractual agreements with its customers that set forth the general terms and conditions of the relationship including line item pricing, payment terms and contract duration. Revenue is recognized when the performance obligation under the terms of the Company's contract with its customer is satisfied. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. The Company generates revenue primarily by processing electronic payment transactions. Set forth below is a description of the Company's revenue by segment.

Technology Solutions

Technology Solutions provides merchant acquiring, payment processing and related services to a diverse set of merchants that primarily accept payments through eCommerce and integrated payment solutions.

Merchant Solutions

Merchant Solutions provides merchant acquiring, payment processing and related services to a diverse set of merchants that primarily accept payments through an omni-channel solution including terminal based.

Issuer Solutions

Issuer Solutions provides card issuer processing, payment network processing, fraud protection and card production to a diverse set of financial institutions, including regional banks, community banks, credit unions and regional personal identification number ("PIN") networks.

Performance Obligations

At contract inception, the Company assesses the goods and services promised in its contracts with customers and identifies performance obligations for each promise to transfer to the customer a good or service that is distinct. The Company's performance obligation relating to its payment processing services revenue is to provide continuous access to the Company's system to process as much as its customers require. Since the number or volume of transactions to be processed is not determinable at contract inception, the Company's payment processing services consist of variable consideration under a stand-ready service of distinct days of service that are substantially the same with the same pattern of transfer to the customer. As such, the stand-ready obligation is accounted for as a single-series performance obligation whereby the variability of the transaction value is satisfied daily as the performance obligation is performed.

The Company's payment processing services include all aspects of payment processing, including authorization and settlement, customer service, chargeback and retrieval processing, reporting for electronic payment transactions and network fee and interchange management.

The Company's products and services consists of, but are not limited to, foreign currency management, payment card industry regulatory compliance services, payment security (e.g. tokenization, encryption and fraud services), chargeback resolution, billing statement production (e.g. reporting and analytics), card production, and card-processing equipment sales. An evaluation is performed to determine whether or not these are separate performance obligations from payment processing. Once the performance obligations are identified, the total estimated transaction value is allocated based on a stand-alone selling price. Revenue from products and services is recognized at a point in time or over time depending on the products or services. Chargeback resolution services, card production and equipment sales are generally recognized at a point in time while most other performance obligations are billed and recognized over the contract period as the services are performed.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Beginning in 2018, the Company records certain fees paid to third parties, including network fees and other costs, as a reduction of revenue. These fees were previously recorded on a gross basis. This change in presentation has no impact to income from operations. Under ASC 606, revenue of \$3,925.4 million was reported for the year ended December 31, 2018. Excluding the impact of the adoption of ASC 606, amounts recorded under ASC 605 would include \$6,631.9 million and \$2,706.5 million of revenue and network fees and other costs for the year ended December 31, 2018, respectively. The adoption of ASC 606 did not have a material impact on any other line items of the Company's Consolidated Statements of Income, Statements of Comprehensive (Loss) Income, Statements of Financial Position, Statements of Equity and Statements of Cash Flows.

Disaggregation of Revenue

In the following table, revenue is disaggregated by source of revenue (in millions):

	Year Ended December 31, 2018			
	Technology Solutions	Merchant Solutions	Issuer Solutions	Total
Major Products and Services (1)(2)				
Processing services	\$ 1,087.9	\$ 1,544.4	\$ 199.2	\$2,831.5
Products and services	513.5	431.8	148.6	1,093.9
Total	<u>\$ 1,601.4</u>	<u>\$ 1,976.2</u>	<u>\$ 347.8</u>	<u>\$3,925.4</u>

	Year Ended December 31, 2017			
	Technology Solutions	Merchant Solutions	Issuer Solutions	Total
Major Products and Services (1)(2)				
Processing services	\$ 1,064.5	\$ 2,066.0	\$ 279.9	\$3,410.4
Products and services	200.0	237.1	179.0	616.1
Total	<u>\$ 1,264.5</u>	<u>\$ 2,303.1</u>	<u>\$ 458.9</u>	<u>\$4,026.5</u>

	Year Ended December 31, 2016			
	Technology Solutions	Merchant Solutions	Issuer Solutions	Total
Major Products and Services (1)(2)				
Processing services	\$ 873.3	\$ 1,875.1	\$ 302.3	\$3,050.7
Products and services	118.4	216.2	193.7	528.3
Total	<u>\$ 991.7</u>	<u>\$ 2,091.3</u>	<u>\$ 496.0</u>	<u>\$3,579.0</u>

- (1) Revenue for the years ended December 31, 2017 and 2016 presented in the tables above is prior to the Company's adoption of ASC 606 and therefore network fees and other costs are presented separately and not are netted within revenue.
- (2) Revenue breakdown is based on management's view and certain products and services revenue may be based on the number or volume of transactions.

Processing Services

Processing services revenue is primarily derived from processing credit and debit card transactions comprised of fees charged to businesses for payment processing services. The fees charged consist of a percentage of the transaction value, a specified fee per transaction or a fixed fee, or a combination.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Products and Services

Products and services revenue is primarily derived from ancillary services such as treasury management and foreign exchange, regulatory compliance, chargebacks and fraud services for which the fees charged may or may not be related to the volume or number of transactions.

Costs to Obtain and Fulfill a Contract

ASC 606 requires capitalizing costs of obtaining a contract when those costs are incremental and expected to be recovered. Since incremental commission fees paid to sales teams as a result of obtaining contracts are recoverable, the Company recorded a \$28.8 million (\$22.3 million net of deferred taxes) cumulative catch-up capitalized asset on January 1, 2018. As of December 31, 2018, the amount capitalized as contract costs is \$39.3 million, which is included in other non-current assets.

In order to determine the amortization period for sales commission contract costs, the Company applied the portfolio approach for “like-kind contracts” to which sales compensation earnings can be applied and allocated incentive payments to each portfolio accordingly. The Company evaluated each individual portfolio to determine the proper length of time over which the capitalized incentive should be amortized by analyzing customer attrition rates using historical data and other metrics.

The Company determined that straight-line amortization would best correspond to the transfer of services to customers since services are transferred equally over time and have limited predictable volatility. The amortization periods range from 3 to 10 years and are based on the expected life of a customer. In 2018, the amount of amortization was \$10.3 million, which is recorded in sales and marketing expense. There was no impairment loss in relation to the costs capitalized.

The Company recognizes incremental sales commission costs of obtaining a contract as expense when the amortization period for those assets is one year or less per the practical expedient in ASC 606. These costs are included in sales and marketing expense.

Customer incentives represent signing bonuses paid to customers. Customer incentives are paid in connection with the acquisition or renewal of customer contracts, and are therefore deferred and amortized using the straight-line method based on the expected life of the customer. As of December 31, 2018 and 2017, the Company had \$71.5 million and \$68.4 million, respectively, of customer incentives included in other assets in the Company’s Consolidated Statements of Financial Position. For the years ended December 31, 2018, 2017 and 2016, the Company had \$27.4 million, \$24.3 million and \$25.8 million, respectively, of amortization expense related to these costs recorded as contra-revenue in the Company’s Consolidated Statements of Income.

The Company capitalizes conversion costs associated with enabling customers to receive its processing services. As of December 31, 2018 and 2017, the Company had \$51.7 million and \$21.1 million, respectively, of capitalized conversion costs included in Intangible assets—net in the Company’s Consolidated Statements of Financial Position. For the years ended December 31, 2018 and 2017, the Company has \$6.8 million and \$2.5 million, respectively, of amortization expense related to these costs, which is recorded in depreciation and amortization expense in the Company’s Consolidated Statements of Income. These costs are amortized over the average life of the customer.

Contract Balances

Accounts Receivable-net

Accounts receivable primarily represent processing revenues earned but not collected. For a majority of its customers, the Company has the authority to debit the client’s bank accounts; as such, collectibility is reasonably assured. Aside from debiting a client’s bank account, the Company collects a majority of its revenue via net settlement with the remaining portion collected via billing the customer. The Company records a reserve for doubtful accounts when it is probable that the accounts receivable will not be collected. The Company reviews historical loss experience and the financial position of its customers when estimating the allowance. As of December 31, 2018 and 2017, the allowance for doubtful accounts was not material to the Company’s Consolidated Statements of Financial Position.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Contract Liabilities

Contract liabilities, which relate to advance consideration received from customers (deferred income) before transfer of control occurs and therefore revenue is recognized, is not material to the Company's Consolidated Financial Statements.

Remaining Performance Obligations

ASC 606 requires disclosure of the aggregate amount of the transaction price allocated to unsatisfied performance obligations; however, as permitted by ASC 606, the Company has elected to exclude from this disclosure any contracts with an original duration of one year or less and any variable consideration that meets specified criteria. As discussed above, the Company's core performance obligation consists of variable consideration under a stand-ready series of distinct days of service and revenue from the Company's products and service arrangements are generally billed and recognized as the services are performed. The aggregate fixed consideration portion of customer contracts with an initial contract duration greater than one year is not material.

Changes in Accounting Policies

As noted above, the Company adopted ASC 606, effective January 1, 2018, using the modified retrospective method, applying the standard to contracts that are not complete as of the date of initial application. Therefore, the comparative information has not been adjusted and continues to be reported under ASC 605. The details of the significant changes are set out below.

Under ASC 606, the Company capitalizes commission fees as costs of obtaining a contract when they are incremental and expected to be recovered and expenses commission fees when there is a required ongoing obligation. The Company amortizes these capitalized costs consistently with the pattern of transfer of the good or service to which the asset relates. If the expected amortization period is one year or less, the commission fee is expensed when incurred. The Company previously recognized sales commission fees related to contracts as sales and marketing expenses when incurred. Except for the change in revenue recognition and the recording of network fees and other costs as a reduction of revenue, the Company has consistently applied the accounting policies to all periods presented in these Consolidated Financial Statements.

3. BUSINESS COMBINATIONS

Acquisition of Legacy Worldpay

On January 16, 2018, the Company completed the acquisition of Legacy Worldpay by acquiring 100% of the issued and outstanding shares (the "Acquisition"). The approximately \$11.9 billion purchase price consisted of Legacy Worldpay shareholders receiving a \$1.5 billion cash payment and 133.6 million shares of the Company's Class A common stock. The acquisition-date fair value of the shares of the Company's Class A common stock issued was \$10.4 billion and was determined based on the share price of \$77.60 per share, the opening price of the Company's Class A common stock on the New York Stock Exchange on January 16, 2018 since the acquisition closed before the market opened on January 16, 2018.

The Acquisition creates a leading global payments technology company that is uniquely positioned to address clients' needs with innovative and strategic capabilities.

The Acquisition was accounted for as a business combination under ASC 805, *Business Combinations* ("ASC 805"). The purchase price was allocated to the assets acquired and the liabilities assumed based on the estimated fair value at the date of the Acquisition. The excess of the purchase price over the fair value of the net assets acquired was allocated to goodwill, none of which is deductible for tax purposes. Goodwill, assigned to Technology Solutions, Merchant Solutions and Issuer Solutions, consists primarily of the acquired workforce and growth opportunities, none of which qualify as an intangible asset.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The final purchase price allocation is as follows (in millions):

Cash acquired	\$ 569.9
Current assets (1)	4,113.8
Property, equipment and software	561.1
Intangible assets	3,380.1
Goodwill	10,571.9
Other non-current assets	109.3
Current liabilities (2)	(4,524.8)
Long-term debt (3)	(2,304.7)
Deferred tax liability	(532.8)
Non-current liabilities	(68.3)
Total purchase price	<u>\$11,875.5</u>

(1) Includes \$1,944.9 million of merchant float and \$511.1 million of other restricted cash.

(2) Includes \$118.6 million of dividend payable to reflect the special dividend granted to the shareholders of Legacy Worldpay.

(3) Includes \$1,631.0 million of debt which was paid off subsequent to the completion of acquisition.

Intangible assets primarily consist of customer relationship assets, internal-use software and a trade name with weighted average estimated useful lives of 6.7 years, 6.5 years and 10 years, respectively.

For the years ended December 31, 2018 and 2017, the Company incurred transaction expenses of approximately \$120.9 million and \$36.7 million, respectively, in conjunction with the Acquisition. All transaction costs incurred for the years ended December 31, 2018 and 2017 are included in general and administrative expenses on the accompanying Consolidated Statements of Income.

Under the terms of the Legacy Worldpay transaction agreement, the Company replaced equity awards held by certain employees of Legacy Worldpay. The fair value of the replacement awards was approximately \$82.4 million. The portion of the fair value of the replacement awards related to the services provided prior to the acquisition of approximately \$44.2 million was part of the consideration transferred to acquire Legacy Worldpay. The remaining portion of the fair value is associated with future service and will be recognized as expense over the future service period.

With regard to revenue and earnings of Legacy Worldpay since the Acquisition date, the Company has made significant progress in integrating the acquired Legacy Worldpay operations and has undergone a business transformation which impacts the ability to provide separate reporting for Legacy Worldpay. As a result, the Company believes that disclosure related to amounts of revenues and earnings of Legacy Worldpay since the acquisition date is now impractical.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Unaudited Pro Forma Results Giving Effect to the Legacy Worldpay Acquisition

The following unaudited pro forma combined financial information presents the Company's results of operations for the year ended December 31, 2018 and 2017, as if the Acquisition had occurred on January 1, 2017 (in millions, except share amounts).

	Year Ended December 31,	
	2018 (Pro forma)	2017 (Pro forma)
Total revenue ⁽¹⁾	\$ 3,989.2	\$ 6,171.8
Net (loss) income attributable to Worldpay, Inc.	215.4	(192.6)
Net (loss) income per share attributable to Worldpay, Inc.		
Class A common stock:		
Basic	\$ 0.74	\$ (0.65)
Diluted	\$ 0.73	\$ (0.65)
Shares used in computing net (loss) per share of Class A common stock:		
Basic	292,992,892	295,693,062
Diluted	295,214,282	295,693,062

- (1) Revenue for the year ended December 31, 2017 presented in the tables above is prior to the Company's adoption of ASC 606 and therefore network fees and other costs are presented separately and not netted within revenue.

The unaudited pro forma results include certain pro forma adjustments that were directly attributable to the Acquisition as follows:

- additional amortization expense that would have been recognized relating to the acquired intangible assets; and
- adjustment to interest expense to reflect the additional borrowings of the Company in conjunction with the acquisition and removal of Legacy Worldpay debt.
- a reduction in expenses for the year ended December 31, 2018 and a corresponding increase in the year ended December 31, 2017 for acquisition-related transaction costs and debt refinancing costs incurred by the Company.

Acquisition of Paymetric Holdings, Inc.

On May 25, 2017, the Company completed the acquisition of Paymetric Holdings, Inc. ("Paymetric") by acquiring 100% of the issued and outstanding shares. Paymetric automates business-to-business payment workflows within enterprise systems and tokenizes payments data within these systems in order to enable secure storage of customer information and history. This acquisition helps to further accelerate the Company's growth.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The acquisition was accounted for as a business combination under ASC 805. The purchase price was allocated to the assets acquired and the liabilities assumed based on the estimated fair value at the date of acquisition. The excess of the purchase price over the fair value of the net assets acquired was allocated to goodwill, of which approximately \$7.8 million is deductible for tax purposes. Goodwill, assigned to Technology Solutions, consists primarily of the acquired workforce and growth opportunities, none of which qualify as an intangible asset. The final purchase price allocation is as follows (in millions):

Cash acquired	\$ 11.9
Current assets	6.5
Property, equipment and software	92.1
Intangible assets	47.8
Goodwill	433.8
Other assets	0.1
Current liabilities	(18.3)
Deferred tax liability	(22.0)
Non-current liabilities	(8.5)
Total purchase price	<u>\$543.4</u>

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Intangible assets primarily consist of customer relationship assets with a weighted average estimated useful life of 10 years.

The Company incurred transaction expenses of approximately \$7.1 million during the year ended December 31, 2017 in conjunction with the acquisition of Paymetric, which are included in general and administrative expenses on the accompanying Consolidated Statements of Income. From the acquisition date of May 25, 2017 through December 31, 2017, revenue and net income included in the accompanying Consolidated Statements of Income for the year ended December 31, 2017 attributable to Paymetric is not material.

Under the terms of the Paymetric transaction agreement, the Company replaced employee stock options held by certain employees of Paymetric, which were based on options outstanding at the acquisition date. The fair value of the replacement awards was calculated on the acquisition date using the Black-Scholes option pricing model and was assigned to the pre-acquisition period based on the services provided prior to the acquisition and assigned to the post acquisition period based on the future service period.

The pro forma results of the Company reflecting the acquisition of Paymetric were not material to the Company's financial results and therefore have not been presented.

4. PROPERTY, EQUIPMENT AND SOFTWARE

A summary of the Company's property, equipment and software is as follows (in millions):

	<u>Estimated Useful Life</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Land	N/A	\$ 6.4	\$ 6.4
Building and improvements	15 - 40 years	37.6	34.4
Furniture and equipment	2 - 10 years	287.1	197.5
Software	3 - 8 years	1,114.4	557.5
Leasehold improvements	3 - 10 years	15.6	12.7
Work in progress		153.9	37.3
Accumulated depreciation		(540.9)	(372.1)
Property, equipment and software—net		<u>\$ 1,074.1</u>	<u>\$ 473.7</u>

Depreciation and amortization expense related to property, equipment and software for the years ended December 31, 2018, 2017 and 2016 was \$273.1 million, \$95.9 million and \$70.5 million, respectively.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill, by business segment, are as follows (in millions):

	Technology Solutions	Merchant Solutions	Issuer Solutions	Total
Balance as of December 31, 2016	\$ —	\$ 3,163.7	\$ 574.9	\$ 3,738.6
Goodwill attributable to prior period acquisition ⁽¹⁾	—	0.4	—	0.4
Goodwill attributable to Paymetric acquisition	—	434.0	—	434.0
Balance as of December 31, 2017	<u>\$ —</u>	<u>\$ 3,598.1</u>	<u>\$ 574.9</u>	<u>\$ 4,173.0</u>
Re-allocation of Legacy Vantiv for reorganized reportable segments	2,697.0	(2,697.0)	—	—
Goodwill attributable to prior period acquisition ⁽¹⁾	(0.2)	—	—	(0.2)
Goodwill attributable to Legacy Worldpay acquisition	7,367.7	3,183.9	20.3	10,571.9
Effect of foreign currency translation	(505.4)	(150.7)	—	(656.1)
Other acquisitions	49.3	—	—	49.3
Balance as of December 31, 2018	<u>\$ 9,608.4</u>	<u>\$ 3,934.3</u>	<u>\$ 595.2</u>	<u>\$14,137.9</u>

(1) Amount represents adjustments to goodwill associated with prior period acquisition as a result of the finalization of purchase accounting.

As discussed in Note 19—Segment Information, during the first quarter of 2018, the Company reorganized its reportable segments. In connection with this change, the Company reallocated goodwill to the new reporting units using a relative fair value approach.

Intangible assets consist of acquired customer relationships, trade name and customer portfolios and related assets. The useful lives of customer relationships are determined based on forecasted cash flows, which include estimates for customer attrition associated with the underlying portfolio of customers acquired. The customer relationships acquired in conjunction with acquisitions are amortized based on the pattern of cash flows expected to be realized taking into consideration expected revenues and customer attrition, which are based on historical data and the Company's estimates of future performance. These estimates result in accelerated amortization on certain acquired intangible assets.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of December 31, 2018 and 2017, the Company's finite lived intangible assets consisted of the following (in millions):

	December 31, 2018	December 31, 2017
Customer relationship intangible assets	\$ 4,540.9	\$ 1,712.7
Trade name	348.8	—
Customer portfolios and related assets	323.8	249.8
Patents	2.3	1.6
	<u>5,215.8</u>	<u>1,964.1</u>
Less accumulated amortization on:		
Customer relationship intangible assets	1,865.5	1,156.4
Trade name	35.5	—
Customer portfolios and related assets	187.0	129.2
	<u>2,088.0</u>	<u>1,285.6</u>
Intangible assets, net	<u>\$ 3,127.8</u>	<u>\$ 678.5</u>

Customer portfolios and related assets acquired during the years ended December 31, 2018 and 2017 have weighted-average amortization periods of 4.5 years and 4.8 years, respectively. Amortization expense on intangible assets for the years ended December 31, 2018, 2017 and 2016 was \$821.9 million, \$222.6 million and \$199.6 million, respectively.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The estimated amortization expense of intangible assets for the next five years is as follows (in millions):

2019	\$745.9
2020	600.6
2021	498.2
2022	434.8
2023	272.4

6. CAPITAL LEASES

The Company has various lease agreements for equipment that are classified as capital leases. The cost and accumulated depreciation of equipment under capital leases included in the accompanying Consolidated Statements of Financial Position within property, equipment and software were \$65.8 million and \$30.4 million, respectively, as of December 31, 2018 and \$35.7 million and \$21.4 million, respectively, as of December 31, 2017. Depreciation expense associated with capital leases for the years ended December 31, 2018, 2017, and 2016 was \$15.0 million, \$9.6 million and \$8.3 million, respectively.

The future minimum lease payments required under capital leases and the present value of net minimum lease payments as of December 31, 2018 are as follows (in millions):

	<u>Amount</u>
2019	\$ 24.5
2020	18.4
2021	12.8
2022	5.3
Total minimum lease payments	61.0
Less: Amount representing interest	(4.0)
Present value of minimum lease payments	57.0
Less: Current maturities of capital lease obligations	(22.7)
Long-term capital lease obligations	<u>\$ 34.3</u>

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. LONG-TERM DEBT

As of December 31, 2018 and 2017, the Company's long-term debt consisted of the following (in millions):

	December 31, 2018	December 31, 2017
Term A loan, maturing in January 2023 ⁽¹⁾	\$ 3,271.1	\$ 2,166.7
Term A loan, maturing in January 2023 ⁽²⁾	597.6	—
Term A loan, maturing in October 2021 ⁽³⁾	—	179.2
Term B loan, maturing in October 2023 ⁽⁴⁾	520.1	757.4
Term B loan, maturing in August 2024 ⁽⁵⁾	1,741.8	1,270.0
Senior Unsecured Dollar Notes, maturing in November 2025 ⁽⁶⁾	500.0	500.0
Senior Unsecured Sterling Notes, maturing in November 2025 ⁽⁷⁾	598.5	635.2
Senior Unsecured Euro Note, maturing in November 2022 ⁽⁸⁾	617.5	—
Leasehold mortgage, expiring on August 10, 2021 ⁽⁹⁾	10.0	10.1
Revolving credit facility, expiring in January 2023 ⁽¹⁰⁾	50.0	225.0
Less: Current portion of notes payable	(225.7)	(107.9)
Less: Original issue discount	(6.2)	(3.0)
Less: Debt issuance costs	\$ (52.6)	\$ (46.3)
Notes payable	<u>\$ 7,622.1</u>	<u>\$ 5,586.4</u>

- (1) Interest at a variable base rate (LIBOR) plus a spread rate (150 basis points) (total rate of 3.94% at December 31, 2018) and amortizing on a basis of 1.25% per quarter during each of the first twelve quarters (June 2018 through March 2021), 1.875% per quarter during the next four quarters (June 2021 through March 2022) and 2.50% per quarter during the next three quarters (June 2022 through December 2022) with a balloon payment due at maturity.
- (2) £469 million principal outstanding, translated to U.S. dollars at the spot rate of 1.2734 U.S. dollars per Pound Sterling at December 31, 2018. Interest at a variable base rate (GBP LIBOR) plus a spread rate (150 basis points) (total rate of 2.23% at December 31, 2018) and amortizing on a basis of 1.25% per quarter during each of the first twelve quarters (June 2018 through March 2021), 1.875% per quarter during the next four quarters (June 2021 through March 2022) and 2.50% per quarter during the next three quarters (June 2022 through December 2022) with a balloon payment due at maturity.
- (3) Outstanding principal balance paid down using the proceeds from the GBP Term Loan A financing as part of the June 22, 2018 amendment to the Existing Loan Agreement. See below for more details.
- (4) Interest payable at a variable base rate (LIBOR) plus a spread rate (175 basis points) (total rate of 4.19% at December 31, 2018) and amortizing on a basis of 0.25% per quarter, with a balloon payment due at maturity.
- (5) Interest payable at a variable base rate (LIBOR) plus a spread rate (175 basis points) (total rate of 4.19% at December 31, 2018) and amortizing on a basis of 0.25% per quarter, with a balloon payment due at maturity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

- (6) \$500 million principal senior unsecured notes with interest payable semi-annually at a fixed rate of 4.375% and principal due upon maturity.
- (7) £470 million principal senior unsecured notes with interest payable semi-annually at a fixed rate of 3.875% and principal due upon maturity. The spot rate of 1.2734 U.S. dollars per Pound Sterling at December 31, 2018 was used to translate the Note to U.S. dollars.
- (8) €500 million principal senior unsecured note with interest payable semi-annually at a fixed rate of 3.75% and principal due upon maturity. The spot rate of 1.1432 U.S. dollars per Euro at December 31, 2018 was used to translate the Note to U.S. dollars. Includes remaining unamortized fair value premium of \$45.9 million at December 31, 2018.
- (9) Interest payable monthly at a fixed rate of 6.22%.
- (10) Available revolving credit facility of \$1.25 billion borrowing interest at a variable base rate (total rate of 6.0% at December 31, 2018.)

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

2018 Debt Activity

The closing of the Legacy Worldpay acquisition on January 16, 2018 resulted in the effectiveness of several debt amendments to the Company's Loan Agreement entered into prior to the closing. The resulting incremental funding and availability was as follows:

- \$1,605 million of additional Term A loans maturing in January 2023
- \$535 million of additional Term B loans maturing in August 2024
- \$600 million of additional revolving credit commitments, resulting in total available revolving credit of \$1,250 million
- \$594.5 million backstop (expired on June 15, 2018)

As a result of the closing of the Legacy Worldpay acquisition, the Company expensed approximately \$56.6 million primarily consisting of the write-offs of unamortized deferred financing fees and original issue discount ("OID") and fees related to previously committed unused backstop facilities associated with the component of the debt activity accounted for as a debt extinguishment and certain third party costs incurred in connection with the debt activity. Amounts expensed in connection with the refinancing are recorded as a component of non-operating expenses in the accompanying Consolidated Statements of Income for the year ended December 31, 2018.

On June 22, 2018, the Company amended the Existing Loan Agreement by modifying certain terms of its Term A-5 Loans (January 2023 maturity date), the Term B-3 (October 2023 maturity date) and B-4 Loans (August 2024 maturity date) and Revolving Loans (January 2023 maturity date). The amendment reduced the Company's interest rate spread on the Term B-3 and B-4 Loans by 25 basis points and changed the pricing for the Term A-5 Loans and Revolving Loans, the immediate effect of which was to lower the interest rate spread on the Term A-5 Loans and Revolving Loans by 25 basis points.

Although the Company's total borrowings did not change as a result of the refinancing, the amendment established a new class of Term A-6 Loans of approximately £488 million as a mirror tranche to the Term A-5 Loans under the same terms and pricing. The proceeds of the Term A-6 Loans were used to refinance and replace the existing Term A-3 Loans and certain Term A-5 Loans. In addition, commitments under the Company's Term A-5 Loans increased by \$100 million and the proceeds were used to reduce the existing Term B-3 Loans and Term B-4 Loans, each by \$50 million.

As a result of the repricing, the Company expensed approximately \$11.4 million primarily consisting of the write-offs of unamortized deferred financing fees and OID, and certain third party costs incurred in connection with the repricing. Amounts expensed in connection with the repricing are recorded as a component of non-operating expenses in the accompanying Consolidated Statements of Income for the year ended December 31, 2018.

Additionally, as a result of new debt being issued in connection with the Company's acquisition of Legacy Worldpay in January 2018, and the amendment to reprice the Existing Loan Agreement in June 2018, the Company capitalized approximately \$23.7 million of deferred financing costs for the year ended December 31, 2018.

In July 2018, the Company received the required consent from the Euro Note holders to relieve reporting requirements associated with those notes, which resulted in a payment of approximately \$2.9 million, which is recorded as a component of non-operating expense in the accompanying Consolidated Statements of Income for the year ended December 31, 2018.

On January 15, 2019, the Company paid down the outstanding balance on its Term B-3 Loan in the amount of \$520.1 million.

2017 Debt Activity

On August 7, 2017, the Company funded the Fifth Third share purchase by amending the Second Amended Loan Agreement to permit Worldpay Holding to obtain approximately \$1.27 billion of additional seven-year term B loans. As a result of this borrowing, the Company capitalized approximately \$23.1 million of deferred financing fees during the year ended December 31, 2017.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

In connection with the Legacy Worldpay acquisition on December 7, 2017, the Company priced an offering of \$500 million aggregate principal amount of 4.375% senior unsecured notes due 2025 and £470 million aggregate principal amount of 3.875% senior unsecured notes due 2025, listed in the table above. The spot rate of 1.3515 U.S. dollars per Pound Sterling at December 31, 2017 was used to translate the Senior Unsecured Sterling Notes to U.S. dollars. The proceeds received in the connection with the senior unsecured notes offering were held in escrow and restricted as of December 31, 2017 pending the consummation of the acquisition.

Guarantees and Security

The Company's debt obligations at December 31, 2018 are unconditional and, with the exception of the Euro Note, are guaranteed by Worldpay Holding and certain of Worldpay Holding's existing and subsequently acquired or organized domestic subsidiaries. The refinanced debt and related guarantees are secured on a first-priority basis (subject to liens permitted under the Third Amended and Restated Loan Agreement) by a lien on substantially all the tangible and intangible assets of the Company and the aforementioned subsidiaries, including substantially all the capital stock (subject to a 65% limitation on pledges of capital stock of foreign subsidiaries and domestic holding companies of foreign subsidiaries) and personal property of Worldpay Holding and any obligors under the Third Amended and Restated Loan Agreement as well as any real property in excess of \$25 million in the aggregate held by Worldpay Holding or any obligors (other than Worldpay Holding), subject to certain exceptions. The Euro Note is guaranteed by Worldpay Group Limited. Additionally, the Euro Note is also guaranteed by Worldpay LLC as a result of the successful bond consent in July 2018.

Covenants

There are certain financial and non-financial covenants contained in the Company's Loan Agreement for the refinanced debt, which are tested on a quarterly basis. The financial covenants require maintenance of certain leverage and interest coverage ratios. At December 31, 2018, the Company was in compliance with these financial covenants.

8. TAX RECEIVABLE AGREEMENTS

As of December 31, 2018, the Company is party to two TRAs in which the Company agrees to make payments to various parties of 85% of the federal, state, local and foreign income tax benefits realized by the Company as a result of certain tax deductions. Unless amended as discussed below, payments under the TRAs will be based on the cash savings realized by the Company by comparing the actual income tax liability of the Company to the amount of such taxes the Company would have been required to pay had there been no deductions related to the tax attributes. Under the agreement between the Company and Fifth Third dated August 7, 2017, in certain specified circumstances, the Company may be required to make payments in excess of such cash savings.

Obligations recorded pursuant to the TRAs are based on estimates of future deductions and future tax rates. On an annual basis, the Company evaluates the assumptions underlying the TRA obligations.

On December 22, 2017 the President of the United States signed into law Tax Reform, which amends the Internal Revenue Code to reduce tax rates and modify policies, credits and deductions for businesses. The changes to the federal tax rate and other modifications of the tax code have a material impact on TRA benefits related to the 2018 and future tax years. As a result of Tax Reform, the Company reduced its TRA liability to reflect the impact of the lower rate for tax years beginning after December 31, 2017 by \$418.9 million.

In connection with the acquisition of Mercury in 2014, the Company entered into the Mercury TRA and recorded a liability of \$192.5 million for the Mercury TRA and non-operating expenses of \$8.1 million, \$13.9 million and \$19.5 million related to the change in fair value of the Mercury TRA during the years ended December 31, 2018, 2017 and 2016, respectively.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

From time to time, the Company enters into repurchase addendums providing for the early settlement of certain obligations either through direct purchase or the granting of call and put options. The following table presents the Company's TRA settlements and the impact of these settlements on the Company's Consolidated Statements of Financial Position (in millions):

TRA	Settlement Date	Cash Buyout Payment	Balance Sheet Obligation Prior to Settlement	Deferred Taxes and Other	Net Gain Recorded in Equity
Fifth Third 2018 call/put options	2018	\$ (107.4)	\$ 145.9	\$ 9.5	\$ 29.0
Mercury	June 2018	(38.0)	38.0	—	—
Fifth Third 2017 call/put options	2017	(63.4)	157.6	34.4	59.8
Mercury	June 2017	(38.1)	38.1	—	—
Fifth Third	July 2016	(116.3)	330.7	84.1	130.3
Mercury	June 2016	(41.4)	41.4	—	—

The Company was granted call options (collectively, the "Fifth Third Call Options") pursuant to which certain additional obligations of the Company under the Fifth Third TRA would be terminated and settled in consideration for cash payments. The Company has exercised all available options and has no outstanding Fifth Third Call Options remaining as of December 31, 2018.

During 2015, the Company entered into the Mercury TRA Addendum with each of the pre-acquisition owners of Mercury ("Mercury TRA Holders"). The Company has exercised all previous eligible options. The Company has one remaining option that can be exercised beginning December 1st 2018, and ending June 30th 2019, pursuant to which certain additional obligations of the Company under the Mercury TRA would be terminated in consideration for a cash payment of \$43.0 million. In the unlikely event the Company does not exercise the relevant Mercury Call Option, the Mercury TRA Holders are granted put options to terminate these obligations in consideration for cash payments with similar amounts to the Mercury Call Options.

The Company's President, Integrated Payments, is a Mercury TRA Holder. Pursuant to the payments under the Mercury TRA Addendum, this individual is entitled to receive as much as \$2.8 million.

Except to the extent the Company's obligations under the Mercury TRA and the Fifth Third TRA have been terminated and settled in full in accordance with the terms of the Mercury TRA and Fifth Third TRA Addendums, the Mercury TRA and the Fifth Third TRA will remain in effect, and the parties thereto will continue to have all rights and obligations thereunder.

All TRA obligations are recorded based on the full and undiscounted amount of the expected future payments, except for the Mercury TRA which represents contingent consideration relating to an acquired business, and is recorded at fair value for financial reporting purposes (see Note 15—Fair Value Measurements). The following tables reflect TRA activity and balances for the years ended December 31, 2018, 2017 and 2016 (in millions):

	Balance as of December 31, 2015	2016 TRA Payment	2016 TRA Settlements	2016 Secondary Offering	Change in Value	Balance as of December 31, 2016
TRA with Fifth Third Bank	\$ 833.1	\$ (31.2)	\$ (330.7)	\$ 171.2	\$ —	\$ 642.4
Mercury TRA	191.2	(22.3)	(41.4)	—	19.5	147.0
Total	\$ 1,024.3	\$ (53.5)	\$ (372.1)	\$ 171.2	\$ 19.5	\$ 789.4

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	<u>Balance as of December 31, 2016</u>	<u>2017 TRA Payment</u>	<u>2017 TRA Settlements</u>	<u>2017 Fifth Third Share Purchase</u>	<u>Change in Value (1)</u>	<u>Balance as of December 31, 2017</u>
TRA with Fifth Third Bank	\$ 642.4	\$ (33.4)	\$ (157.6)	\$ 647.5	\$ (418.9)	\$ 680.0
Mercury TRA	147.0	(22.3)	(38.1)	—	13.9	100.5
Total	<u>\$ 789.4</u>	<u>\$ (55.7)</u>	<u>\$ (195.7)</u>	<u>\$ 647.5</u>	<u>\$ (405.0)</u>	<u>\$ 780.5</u>

(1) Change in TRA with Fifth Third bank is due to Tax Reform.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Balance as of December 31, 2017	2018 TRA Payment	2018 TRA Settlements	2018 Fifth Third Share Purchase	Change in Value	Balance as of December 31, 2018
TRA with Fifth Third Bank	\$ 680.0	\$ (44.3)	\$ (145.9)	\$ 120.9	\$ —	\$ 610.7
Mercury TRA	100.5	(17.4)	(38.0)	—	8.1	53.2
Total	\$ 780.5	\$ (61.7)	\$ (183.9)	\$ 120.9	\$ 8.1	\$ 663.9

As a result of a Fifth Third share repurchase, secondary offerings and exchange of units of Worldpay Holding by Fifth Third Bank discussed in Note 10—Capital Stock and Controlling and Non-controlling Interests, the Company recorded the following (in millions):

<u>Share Repurchase and Secondary Offerings by Year</u>	<u>TRA Liability</u>	<u>Deferred Tax Asset</u>	<u>Net Equity</u>
2018	\$ 120.9	\$ 87.0	\$ 33.9
2017	647.5	627.8	19.7
2016	171.2	175.3	(4.1)

The timing and/or amount of aggregate payments due under the TRAs outside of the call/put structures may vary based on a number of factors, including the amount and timing of the taxable income the Company generates in the future and the tax rate then applicable, the use of loss carryovers and amortizable basis. Payments under the TRAs, if necessary, are required to be made no later than January 5th of the second year immediately following the taxable year in which the obligation occurred. The contractually obligated payments under the TRA obligations paid in January 2016, 2017 and 2018 are in the tables above. The Company made a payment under the TRA obligations of approximately \$31.7 million in January 2019. The January 2019 payment is recorded as current portion of tax receivable agreement obligations on the accompanying Consolidated Statements of Financial Position. Unless settled under the terms of the repurchase addenda, the term of the TRAs will continue until all the underlying tax benefits have been utilized or expired.

9. DERIVATIVES AND HEDGING ACTIVITIES

Risk Management Objective of Using Derivatives

The Company enters into derivative financial instruments to manage differences in the amount, timing and duration of its known or expected cash payments related to its variable-rate debt. As of December 31, 2018 and 2017, the Company's interest rate derivative instruments for this purpose consist of interest rate swaps and interest rate cap agreements. The interest rate swaps hedge the variable rate debt by effectively converting floating-rate payments to fixed-rate payments. The interest rate cap agreements cap a portion of the Company's variable rate debt if interest rates rise above the strike rate on the contract.

In May 2018, the Company entered into additional interest rate cap and swap agreements and the Company paid an upfront premium of approximately \$8.1 million for the interest rate caps. As of December 31, 2018, the Company's interest rate cap agreements had a fair value of \$24.3 million, classified within other current and non-current assets on the Company's Consolidated Statements of Financial Position. The interest rate swaps and caps (collectively "interest rate contracts") are designated as cash flow hedges for accounting purposes.

Additionally, during 2017, the Company entered into a deal contingent foreign currency forward contract. The foreign currency forward served as an economic hedge of the pound sterling denominated portion of the purchase price relating to the Legacy Worldpay acquisition. The foreign currency forward was not designated as a hedge for accounting purposes and, as discussed below, was settled in connection with the closing of the Legacy Worldpay acquisition.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Accounting for Derivative Instruments

The Company recognizes derivatives in other current and non-current assets or liabilities in the accompanying Consolidated Statements of Financial Position at their fair values. Refer to Note 15—Fair Value Measurements for a detailed discussion of the fair value of its derivatives. The Company designates its interest rate contracts as cash flow hedges of forecasted interest rate payments related to its variable-rate debt.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company formally documents all relationships between hedging instruments and underlying hedged transactions, as well as its risk management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to forecasted transactions. A formal assessment of hedge effectiveness is performed both at inception of the hedge and on an ongoing basis to determine whether the hedge is highly effective in offsetting changes in cash flows of the underlying hedged item. Hedge effectiveness is assessed using a regression analysis. If it is determined that a derivative ceases to be highly effective during the term of the hedge, the Company will discontinue hedge accounting for such derivative.

The Company's interest rate contracts qualify for hedge accounting under ASC 815, *Derivatives and Hedging*. Therefore, the effective portion of changes in fair value were recorded in AOCI and will be reclassified into earnings in the same period during which the hedged transactions affect earnings.

Cash Flow Hedges of Interest Rate Risk

The following table presents the Company's interest rate swaps and caps designated as cash flow hedges entered into to manage fluctuations in interest rates (in millions):

<u>Derivative</u>	<u>Notional Value</u>	<u>Exposure Periods</u>	<u>Strike Rate</u>
Interest rate swap	\$ 500	January 2018 to January 2019	
Interest rate swap	600	June 2018 to January 2021	
Interest rate swap	500	June 2019 to June 2021	
Total	\$ 1,600		
Interest rate cap	\$ 1,000	January 2017 to January 2020	0.75%
Interest rate cap	600	June 2018 to June 2021	2.25%
Total	\$ 1,600		

The Company does not offset derivative positions in the accompanying Consolidated Financial Statements. The table below presents the fair value of the Company's derivative financial instruments designated as cash flow hedges included within the accompanying Consolidated Statements of Financial Position (in millions):

	<u>Consolidated Statement of Financial Position Location</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Interest rate contracts	Other current assets	\$ 19.3	\$ 9.7
Interest rate contracts	Other long-term assets	5.3	14.7
Interest rate contracts	Other current liabilities	1.8	4.2
Interest rate contracts	Other long-term liabilities	8.2	0.2

Any ineffectiveness associated with such derivative instruments will be recorded immediately as interest expense in the accompanying Consolidated Statements of Income. As of December 31, 2018, the Company estimates that \$5.7 million will be reclassified from accumulated other comprehensive income as a decrease to interest expense during the next 12 months.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The table below presents the pre-tax effect of the Company's interest rate contracts on the accompanying Consolidated Statements of Comprehensive (Loss) Income for the years ended December 31, 2018, 2017 and 2016 (in millions):

	Year Ended December 31,		
	2018	2017	2016
Derivatives in cash flow hedging relationships:			
Amount of loss (gain) recognized in OCI (effective portion) ⁽¹⁾	\$(5.5)	\$ 6.7	\$ (6.9)
Amount of gain (loss) reclassified from OCI into earnings (effective portion)	1.1	(9.4)	(12.7)
Amount of gain (loss) recognized in earnings ⁽²⁾	0.6	(0.6)	—

(1) "OCI" represents other comprehensive income.

(2) Amount represents hedge ineffectiveness.

Credit Risk Related Contingent Features

As of December 31, 2018, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$10.3 million.

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, then the Company could also be declared in default on its derivative obligations. As of December 31, 2018, the Company had not posted any collateral related to these agreements. If the Company had breached any of these provisions at December 31, 2018, it could have been required to settle its obligations under the agreements at their termination value of \$10.3 million.

Deal Contingent Forward

On August 9, 2017, the Company entered into a £1.150 billion notional deal contingent forward to economically hedge a portion of the purchase price relating to the Legacy Worldpay acquisition. The deal contingent forward settled upon the closing of the Legacy Worldpay acquisition in January 2018 and the Company recognized a related realized gain of approximately \$69.0 million, of which approximately \$35.9 million of the gain relates to the year ended December 31, 2018, which is recorded in non-operating expense.

Net Investment Hedges

To help protect the net investment in foreign operations from adverse changes in foreign currency exchange rates, the Company uses non-derivative financial instruments, such as its foreign currency-denominated debt, as economic hedges of its net investments in its Euro and GBP denominated subsidiaries (See Note 7—Long Term Debt for more discussion on the Company's foreign currency-denominated debt). The Company designated a portion of its Euro denominated debt and 100% of its GBP denominated debt as net investment hedges.

The effective portions of the net investment hedges are recorded in other comprehensive income (loss). During the year ended December 31, 2018, the Company recognized in other comprehensive income pre-tax gains of \$71.7 million relating to these net investment hedges. No ineffectiveness was recorded to earnings on the net investment hedges for year ended December 31, 2018.

10. CAPITAL STOCK AND CONTROLLING AND NON-CONTROLLING INTERESTS

Common Stock

Under the Company's amended and restated certificate of incorporation, the Company is authorized to issue 890,000,000 shares of Class A common stock with a par value of \$0.00001 per share and 100,000,000 shares of Class B common stock with no par value per share. The Class A and Class B common stock each provide holders with one vote on all matters submitted to a vote of stockholders. Fifth Third is the holder of the Class B common stock and does not have any of the economic rights (including rights to dividends and distributions upon liquidation) provided to the holders of Class A common stock. Fifth Third holds one share of Class B common stock for each Worldpay Holding Class B unit held. Fifth Third's Class B units of Worldpay Holding may be exchanged for shares of Class A common stock on a one-for-one basis or, at the Company's option, for cash equal to the fair value of the shares tendered for exchange. Upon exchange of Fifth Third's Class B units of Worldpay Holding, an equal number of shares of Class B common stock automatically will be cancelled. The Class A common stock and Class B common stock vote together as a single class.

As of December 31, 2018, 300,454,590 shares of Class A common stock and 10,252,826 shares of Class B common stock were issued and outstanding.

Secondary Offering

In June 2018, Fifth Third exchanged 5 million Class B units in Worldpay Holding for 5 million shares of the Company's Class A common stock and subsequently sold those 5 million shares of Worldpay, Inc. Class A common stock pursuant to Rule 144 promulgated under the Securities Act of 1933 as amended. The Company did not receive any proceeds from the sale.

Warrant Exercise

On November 28, 2016, Fifth Third net exercised the remaining warrant it held to purchase approximately 5.6 million Class C Units of Worldpay Holding. The value of the warrant exercised in the amount of \$25 million was reclassified out of non-controlling interests to additional paid-in capital on the accompanying Consolidated Statements of Financial Position.

Share Repurchases

From time to time the Company repurchases shares of its Class A common stock under share authorization programs approved by its board of directors. During 2018 and 2016, the Company repurchased approximately 1.8 million and 1.4 million shares of its Class A common stock. There were no shares repurchased during 2017. As of December 31, 2018, 2017 and 2016, the Company had \$93 million, \$243 million and \$243 million, respectively, available for repurchase under these programs.

In addition to the board approved share repurchase program, on August 7, 2017, the Company entered into a transaction agreement with Fifth Third pursuant to which Fifth Third agreed to exercise its right to exchange 19,790,000 Class B Units in Worldpay Holding, LLC for 19,790,000 of the Company's Class A common stock and immediately thereafter, the Company purchased those newly issued shares of Class A common stock directly from Fifth Third Bank at a price of \$64.04 per share, the closing share price of the Company's Class A common stock on the New York Stock Exchange on August 4, 2017. The Company's board of directors approved the purchased shares, which were cancelled and are no longer outstanding. Additionally, in November 2016, in connection with Fifth Third's net exercise of the remaining warrant, the Company repurchased approximately 850,000 shares of its Class A common stock from Fifth Third for approximately \$50.8 million, which was approved by a special committee of the Company's board of directors comprised of independent, disinterested directors.

Purchases under the programs may be made from time to time in the open market, in privately negotiated transactions, or otherwise. The manner, timing and amount of any purchases will be determined by management based on an evaluation of market conditions, stock price and other factors. The Company's share repurchase program does not obligate it to acquire any specific number or amount of shares, there is no guarantee as to the exact number or amount of shares that may be repurchased, if any, and the Company may discontinue purchases at any time that it determines additional purchases are not warranted.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Preferred Stock

Under the Company's amended and restated certificate of incorporation, the Company is authorized to issue 10,000,000 shares of preferred stock with a par value of \$0.00001 per share. As of December 31, 2018, there was no preferred stock outstanding.

Dividend Restrictions

The Company does not intend to pay cash dividends on its Class A common stock in the foreseeable future. Worldpay, Inc. is a holding company that does not conduct any business operations of its own. As a result, Worldpay, Inc.'s ability to pay cash dividends on its common stock, if any, is dependent upon cash dividends and distributions and other transfers from Worldpay Holding. The amounts available to Worldpay, Inc. to pay cash dividends are subject to the covenants and distribution restrictions in its subsidiaries' loan agreements. As a result of the restrictions on distributions from Worldpay Holding and its subsidiaries, essentially all of the Company's consolidated net assets are held at the subsidiary level and are restricted as of December 31, 2018.

Controlling and Non-controlling Interests

The Company accounts for non-controlling interests in accordance with ASC 810, *Consolidation*. Worldpay, Inc. owns a controlling interest in Worldpay Holding, and therefore consolidates the financial results of Worldpay Holding and its subsidiaries and records non-controlling interest for the economic interests in Worldpay Holding held by Fifth Third, which primarily represents Fifth Third's minority share of net income or loss of equity in Worldpay Holding. The Exchange Agreement entered into prior to the IPO provides for a 1 to 1 ratio between the units of Worldpay Holding and the common stock of Worldpay, Inc. Net income attributable to non-controlling interests does not include expenses incurred directly by Worldpay, Inc., including income tax expense attributable to Worldpay, Inc. Non-controlling interests are presented as a component of equity in the accompanying Consolidated Statements of Financial Position.

The Company also records non-controlling interest relating to its 51% ownership in a joint venture.

As of December 31, 2018, Worldpay, Inc. and Fifth Third owned interests in Worldpay Holding of 96.70% and 3.30%, respectively. Changes in units and related ownership interest in Worldpay Holding are summarized as follows:

	<u>Worldpay, Inc.</u>	<u>Fifth Third</u>	<u>Total</u>
As of December 31, 2016	161,134,831	35,042,826	196,177,657
% of ownership	82.14%	17.86%	
Fifth Third exchange of Worldpay Holding units for shares of Class A common stock	19,790,000	(19,790,000)	—
Purchase and cancellation of Class A common stock	(19,790,000)	—	(19,790,000)
Equity plan activity(1)	1,461,150	—	1,461,150
As of December 31, 2017	<u>162,595,981</u>	<u>15,252,826</u>	<u>177,848,807</u>
% of ownership	91.42%	8.58%	
Shares issued for acquisition	133,567,146	—	133,567,146
Fifth Third exchange of Worldpay Holding units for shares of Class A common stock	5,000,000	(5,000,000)	—
Share repurchases	(1,791,967)	—	(1,791,967)
Equity plan activity(1)	1,083,430	—	1,083,430
As of December 31, 2018	<u>300,454,590</u>	<u>10,252,826</u>	<u>310,707,416</u>
% of ownership	96.70%	3.30%	

- (1) Includes stock issued under the equity plans less Class A common stock withheld to satisfy employee tax withholding obligations upon vesting or exercise of employee equity awards and forfeitures of restricted Class A common stock awards.

The Company issued 134.4 million shares of Class A common stock and acquired approximately 833,000 treasury shares held in a trust for reissuance, in connection with its acquisition of 100% of the issued and outstanding shares of Legacy Worldpay on January 16, 2018.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

As a result of the changes in ownership interests in Worldpay Holding, periodic adjustments are made in order to reflect the portion of net assets of Worldpay Holding attributable to non-controlling unit holders based on changes in the proportionate ownership interests in Worldpay Holding during those periods.

The table below provides a reconciliation of net income attributable to non-controlling interests based on relative ownership interests as discussed above (in millions):

	Year Ended December 31,		
	2018	2017	2016
Net income	\$19.6	\$182.7	\$280.9
Items not allocable to non-controlling interests:			
Worldpay, Inc. expenses ⁽¹⁾	64.7	215.8	81.0
Worldpay Holding net income	\$84.3	\$398.5	\$361.9
Net income attributable to non-controlling interests of Fifth Third ⁽²⁾	\$ 4.2	\$ 49.9	\$ 65.8
Net income attributable to joint venture non-controlling interest ⁽³⁾	2.6	2.7	1.9
Total net income attributable to non-controlling interests	\$ 6.8	\$ 52.6	\$ 67.7

- (1) Primarily represents income tax expense, acquisition related expenses and TRA revaluation adjustments related to Worldpay, Inc.
- (2) Net income attributable to non-controlling interests of Fifth Third reflects the allocation of Worldpay Holding's net income based on the proportionate ownership interests in Worldpay Holding held by the non-controlling unit holders. The net income attributable to non-controlling unit holders reflects the changes in ownership interests summarized in the table above.
- (3) Reflects net income attributable to the non-controlling interest of the joint venture.

11. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Leases

The Company leases office space under non-cancelable operating leases that expire between February 2019 and December 2045. Future minimum commitments under these leases are as follows (in millions):

Year Ended December 31,	
2019	\$ 27.8
2020	23.2
2021	21.7
2022	19.0
2023	15.6
Thereafter	71.2
Total	<u>\$178.5</u>

Rent expense for the years ended December 31, 2018, 2017 and 2016 was approximately \$33.2 million, \$9.3 million and \$9.4 million, respectively.

Legal Reserve

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. While it is impossible to ascertain the ultimate resolution or range of financial liability with respect to these contingent matters, management believes none of these matters, either individually or in the aggregate, would have a material effect upon the Company's Consolidated Financial Statements, except as described below.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

During 2017, the Company incurred a charge of \$41.5 million by entering into a settlement agreement to settle class action litigation regarding certain legacy business practices of Mercury, acquired by the Company on June 13, 2014. While the settlement agreement contained no admission of wrongdoing and the Company believes it had meritorious defenses to the claims, the Company agreed to the structure of the settlement, in order to save costs and avoid the risks of on-going litigation.

12. EMPLOYEE BENEFIT PLANS

The Company offers a defined contribution benefit plan for U.S. employees and a defined contribution pension plan for international employees. The plan provides for elective, pre-tax or after tax participant contributions and Company matching contributions. Expenses associated with the defined contribution savings plan for the years ended December 31, 2018, 2017 and 2016 were \$41.5 million, \$10.8 million and \$10.1 million, respectively.

13. SHARE-BASED COMPENSATION PLANS

The company accounts for share-based compensation plans in accordance with ASC 718, *Compensation-Stock Compensation*, which requires compensation expense for the grant-date fair value of share-based payments to be recognized over the requisite service period.

2012 Equity Incentive Plan

The 2012 Equity Incentive Plan was adopted by the Company's board of directors in March 2012. The 2012 Equity Incentive Plan provides for grants of stock options, stock appreciation rights, restricted stock and restricted stock units, performance awards and other stock-based awards. The maximum number of shares of Class A common stock available for issuance pursuant to the 2012 Equity Incentive Plan is 35.5 million shares. In 2017, the Compensation Committee of the Company's Board of Directors approved a resolution that new grants of stock options, restricted shares and restricted stock units shall vest or become exercisable in three equal annual installments beginning on the first anniversary of the grant date.

Restricted Stock Awards

The Company granted restricted stock awards to certain employees which vest based on the recipient's continued employment or service to the Company ("Time Awards").

The Company also granted restricted stock awards to certain employees subject to the achievement of certain financial performance measures ("Performance Awards"). These Performance Awards typically vest on the third anniversary of the grant date. Participants have the right to earn 0% to 200% of the target number of shares of the Company's Class A common stock, determined by the level of achievement of the financial performance measures during the performance period.

The grant date fair value of the restricted stock awards was based on the quoted fair market value of our common stock on the grant date. The weighted-average grant date fair value of restricted stock awards granted during the years ended 2017 and 2016 was \$63.86 and \$50.08, respectively. The total fair value of restricted stock awards vested was \$37.9 million, \$8.3 million and \$1.2 million in 2018, 2017 and 2016, respectively.

The following table presents the number and weighted-average grant date fair value of the restricted stock awards for the year ended December 31, 2018:

	Restricted Class A Common Stock - Time Awards	Weighted Average Grant Date Fair Value	Restricted Class A Common Stock - Performance Awards	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2017	236,078	\$ 54.72	736,119	\$ 50.25
Granted	—	—	—	—
Vested	(204,014)	54.90	(255,636)	37.59
Forfeited	(3,394)	51.83	(4,352)	64.34
Non-vested at December 31, 2018	28,670	\$ 53.74	476,131	\$ 56.92

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

During the year ended December 31, 2017, under the terms of the Paymetric transaction agreement, the Company replaced employee stock options held by certain employees of Paymetric with restricted stock awards. The number of replacement awards was based on options outstanding at the acquisition date. The weighted average fair value was calculated on the acquisition date using the Black-Scholes option pricing model. The \$2.1 million of fair value associated with future service was recognized as expense over a one year period.

Restricted Stock Units

The Company issues restricted stock units to directors and certain employees which typically vest on the first anniversary of the grant date (for directors) and in equal annual increments over three years beginning on the first anniversary of the date of grant (for employees). The grant date fair value of the restricted stock units is based on the quoted fair market value of our common stock at the award date. The weighted-average grant date fair value of restricted stock units granted during the years ended 2018, 2017 and 2016 was \$79.74, \$64.16 and \$51.75, respectively. The total fair value of restricted stock units vested was \$64.0 million, \$18.8 million and \$18.3 million in 2018, 2017 and 2016, respectively.

Additionally, associated with the acquisition of Paymetric in May 2017, the Company issued restricted stock units to certain employees subject to the achievement of certain financial and non-financial performance measures through 2020. See Note 3—Business Combinations for additional information.

During 2018, under the terms of the Legacy Worldpay transaction agreement, the Company converted Legacy Worldpay stock awards held by certain employees of Legacy Worldpay to restricted share units. The number of restricted share units outstanding as of December 31, 2018 is included in the table below.

The following table presents the number and weighted-average grant date fair value of the restricted stock units for the year ended December 31, 2018:

	<u>Restricted Stock Units</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested at December 31, 2017	909,294	\$ 50.35
Granted	1,349,046	79.74
Vested	(725,619)	65.44
Forfeited	(140,759)	67.11
Non-vested at December 31, 2018	<u>1,391,962</u>	<u>\$ 69.27</u>

Stock Options

The Company grants stock options to certain key employees. All stock options are non-qualified stock options and expire on the tenth anniversary of the grant date.

The following table summarizes stock option activity for the year ended December 31, 2018:

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value (in millions)</u>
Outstanding options at December 31, 2017	2,423,609	\$ 43.28	7.41	\$ 73.4
Granted	887,401	82.07		
Exercised	(405,764)	37.77		19.0
Forfeited	(165,829)	69.72		
Outstanding options at December 31, 2018	<u>2,739,417</u>	\$ 55.06	7.25	\$ 58.5
Options exercisable at December 31, 2018	1,168,086	\$ 37.05	5.81	\$ 46.0

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the years ended December 31, 2018, 2017, and 2016 the total aggregate intrinsic value of options exercised was \$19.0 million, \$12.5 million, and \$18.4 million, respectively. The weighted-average grant date fair value was estimated by the Company using the Black-Scholes option pricing model with the assumptions below:

	2018	2017	2016
Number of options granted	887,401	604,008	695,666
Weighted average exercise price	\$82.07	\$64.34	\$50.01 - \$52.04
Expected option life at grant (in years)	6	6.25	6.25
Expected volatility	23.00%	23.91%	24.77%
Expected dividend yield	— %	— %	— %
Risk-free interest rate	2.71%	2.02%	1.41% -1.45%
Fair value	\$23.67	\$18.34	\$13.92 - \$14.43

The expected option life represents the period of time the stock options are expected to be outstanding and is based on the “simplified method” allowed under SEC guidance. The Company used the “simplified method” due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. Prior to the 2018 grant, since the Company’s publicly traded stock history was relatively short, expected volatility is based on the Company’s historical volatility and the historical volatility of a group of peer companies. The Company does not intend to pay cash dividends in the foreseeable future. Consequently, the Company used an expected dividend yield of zero. The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of the grant.

Performance Share Units

The Company issues performance share units to certain employees subject to the achievement of certain financial performance measures. These performance share units vest on the third anniversary of the grant date. Participants have the right to earn 0% to 300% of the target number of shares of the Company’s Class A common stock, determined by the level of achievement of the financial performance measures during the three year performance period. In 2015 the Company also issued performance share units to certain employees subject to the achievement of certain financial and non-financial performance measures through 2018.

The grant date fair value of the performance share units is based on the quoted fair market value of our common stock on the grant date. For the years ended December 31, 2018, 2017 and 2016, the weighted-average grant date fair value of performance share units granted was \$81.71, \$63.34, and \$50.04, respectively, and the total fair value of performance share units vested was \$10.8 million, \$19.9 million, and \$17.1 million, respectively.

During 2018, under the terms of the Legacy Worldpay transaction agreement, the Company converted Legacy Worldpay’s performance awards held by certain employees of Legacy Worldpay to performance share units. The converted performance share units are subject to the same achievement of financial performance measures as the Company’s performance share units, except the awards are capped at a maximum of 100% of the target number of units. The number of converted share units outstanding as of December 31, 2018 is included in the table below.

The following table presents the number and weighted-average grant date fair value of the performance share units for the year ended December 31, 2018:

	Performance Share Units	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2017	327,912	\$ 54.21
Granted	1,231,508	81.71
Incremental shares upon completion of performance goals	69,035	37.10
Vested	(138,070)	37.10
Forfeited	(123,594)	77.40
Non-vested at December 31, 2018	1,366,791	\$ 77.76

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The share-based compensation expense related to the performance share units (“PSUs”) is estimated based on target performance and is adjusted as appropriate throughout the performance period based on the shares expected to be earned at that time. The non-vested PSUs presented in the table above are presented at target or 100%. On February 15, 2019, the Compensation Committee of the Company’s Board of Directors certified the achievement of the performance goals for the 2016 PSUs, which had a performance period of January 1, 2016 to December 31, 2018, at the maximum 200% of the target number of shares (57,131 shares incremental to those included in the table above for the 2016 PSUs).

Employee Share Purchase Plans

The Company offers employee stock purchase plans, which allow employees to purchase shares of common stock at a discount through payroll contributions. The expense related to these plans is included in total share-based compensation expense disclosed below.

For the years ended December 31, 2018, 2017 and 2016, total share-based compensation expense was \$124.8 million, \$47.9 million and \$35.9 million, respectively. Related tax benefits recorded in the accompanying Consolidated Statements of Income totaled \$28.0 million in 2018, \$15.6 million in 2017 and \$10.9 million in 2016. At December 31, 2018, there was approximately \$172.2 million of unrecognized share-based compensation expense, which is expected to be recognized over a remaining weighted-average period of approximately 2.5 years.

14. INCOME TAXES

In accordance with ASC Topic 740, *Income Taxes*, (“ASC 740”) income taxes are recognized for the amount of taxes payable for the current year and for the impact of deferred tax liabilities and assets, which represent future tax consequences of events that have been recognized differently in the financial statements than for tax purposes. Deferred tax assets and liabilities are established using the enacted statutory tax rates and are adjusted for any changes in such rates in the period of change.

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

On December 22, 2017, the President of the United States signed into law Tax Reform, which amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Act reduced the corporate federal tax rate from a maximum of 35% to a flat 21% rate. The rate reduction took effect on January 1, 2018. As a result of the reduction in tax rates, the Company recorded a reduction in the value of its deferred tax assets of approximately \$363.6 million in 2017. The Company has completed its analysis of the impact of Tax Reform during the fourth quarter of 2018 and has increased its provision for income taxes for the year ended December 31, 2018 by an immaterial amount related to certain deferred tax assets or liabilities for which the Company has adjusted provisional amounts recorded in the prior year.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following is a summary of applicable income taxes (in millions):

	Year Ended December 31,		
	2018	2017	2016
Current income tax expense:			
U.S. income taxes	\$ 16.9	\$ 27.8	\$ 58.0
State and local income taxes	6.2	6.4	4.1
Foreign income taxes	40.3	—	—
Total current tax expense	63.4	34.2	62.1
Deferred income tax (benefit) expense:			
U.S. income taxes	(27.8)	575.6	70.8
State and local income taxes	(1.0)	21.2	8.9
Foreign income taxes	(62.3)	—	—
Total deferred tax (benefit) expense	(91.1)	596.8	79.7
Applicable income tax (benefit) expense	<u>\$ (27.7)</u>	<u>\$ 631.0</u>	<u>\$ 141.8</u>

Income (loss) before taxes for the year ended December 31, 2018 were comprised of a \$58.2 million loss from domestic operations and \$50.1 million of income from foreign operations. For the years ended December 31, 2017 and 2016 all pre-tax income was related to domestic operations.

A reconciliation of the federal statutory tax and the Company's income tax (benefit) expense for all periods is provided below (in millions):

	Year Ended December 31,		
	2018	2017	2016
Federal statutory tax	\$ (1.7)	\$ 284.8	\$ 148.0
State taxes-net of federal benefit	(2.6)	23.6	11.7
Non-U.S. tax rate differential	(34.6)	—	—
Effect of changes in deferred tax rates	8.3	357.8	0.2
Non-controlling interest	(0.3)	(13.1)	(19.5)
Other-net	6.8	(2.2)	1.4
Excess tax benefit from share-based compensation	(15.2)	(16.9)	—
Acquisition	11.6	(3.0)	—
Applicable income tax (benefit) expense	<u>\$ (27.7)</u>	<u>\$ 631.0</u>	<u>\$ 141.8</u>

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Deferred income tax assets and liabilities are comprised of the following as of December 31, 2018 and 2017 (in millions):

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Deferred tax assets		
Domestic net operating losses	\$ 69.6	\$ 29.4
Foreign net operating losses	12.1	—
Employee benefits	2.4	1.2
Interest expense limitation	22.5	—
Other assets	5.1	2.7
Other accruals and reserves	112.0	59.2
Partnership basis	750.8	733.0
Deferred tax assets	<u>974.5</u>	<u>825.5</u>
Valuation Allowance	(12.6)	—
Realizable deferred tax assets	<u>961.9</u>	<u>825.5</u>
Deferred tax liabilities		
Property and equipment	(2.8)	(31.4)
Goodwill and intangible assets	(642.9)	(120.2)
Deferred tax liability	<u>(645.7)</u>	<u>(151.6)</u>
Deferred tax asset-net	<u>\$ 316.2</u>	<u>\$ 673.9</u>

As part of acquisitions, the Company acquired U.S. federal and state tax loss carryforwards. As of December 31, 2018, the cumulative U.S. federal, state and foreign tax loss carryforwards were approximately \$251.9 million, \$206.8 million and \$73.2 million, respectively. The U.S. federal and state tax loss carryforwards will expire between 2020 and 2037. The foreign tax loss carryforwards will expire between 2019 and 2027.

The partnership basis included in the above table is the result of a difference between the tax basis and book basis of Worldpay, Inc.'s investment in Worldpay Holding. Worldpay Holding, a partnership for tax purposes, has an Internal Revenue Code election in place to adjust the tax basis of partnership property to fair market value related to the portion of the partnership interest transferred, through an exchange of units of Worldpay Holding by its members. Included in partnership basis in the table above are deferred tax assets resulting from the increase in tax basis generated by the exchange of units of Worldpay Holding in connection with the IPO and subsequent secondary offerings. See Note 8—Tax Receivable Agreements for discussion of deferred tax assets as a result of the secondary offerings and exchange of units of Worldpay Holding.

Deferred tax assets are reviewed to determine whether the available evidence allows the Company to recognize the tax benefits. To the extent that a tax asset is not expected to be realized, the Company records a valuation allowance against the deferred tax assets, which was \$12.6 million during the year ended December 31, 2018 relating to net operating losses that are limited or currently unable to be utilized.

A provision for federal, state and local income taxes has been recorded on the Consolidated Statements of Income for the amounts of such taxes the Company is obligated to pay or amounts refundable to the Company. At December 31, 2018 and 2017, the Company had an income tax receivable of approximately \$17.5 million and \$23.1 million, respectively, which is included in other current assets on the Company's Consolidated Statements of Financial Position.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company accounts for uncertainty in income taxes under ASC 740. As of December 31, 2018 and 2017 the Company had no material uncertain tax positions. If a future liability does arise related to uncertainty in income taxes, the Company has elected an accounting policy to classify interest and penalties, if any, as income tax expense.

The Company or one or more of its subsidiaries file income tax returns in the U.S. and various other state and foreign jurisdictions. As of December 31, 2018, the Company is subject to income tax examination by the U.S. federal jurisdiction from 2013 forward. Foreign jurisdictions generally remain subject to examination from 2013 forward.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses the hierarchy prescribed in ASC 820, *Fair Value Measurement*, based upon the available inputs to the valuation and the degree to which they are observable or not observable in the market. The three levels in the hierarchy are as follows:

- *Level 1 Inputs*—Quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible as of the measurement date.
- *Level 2 Inputs*—Inputs other than quoted prices within Level 1 that are observable either directly or indirectly, including but not limited to quoted prices in markets that are not active, quoted prices in active markets for similar assets or liabilities and observable inputs other than quoted prices such as interest rates or yield curves.
- *Level 3 Inputs*—Unobservable inputs reflecting the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017 (in millions):

	December 31, 2018			December 31, 2017		
	Fair Value Measurements Using					
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Interest rate contracts	\$ —	\$ 24.6	\$ —	\$ —	\$ 24.4	\$ —
Deal contingent foreign currency forward	—	—	—	—	33.1	—
Liabilities:						
Interest rate contracts	\$ —	\$ 10.0	\$ —	\$ —	\$ 4.4	\$ —
Mercury TRA	—	53.2	—	—	100.5	—

Interest Rate Contracts

The Company uses interest rate contracts to manage interest rate risk. The fair value of interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. The fair value of the interest rate caps is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected future cash flows of each interest rate cap. This analysis reflects the contractual terms of the interest rate caps, including the period to maturity, and uses observable market inputs including interest rate curves and implied volatilities. In addition, to comply with the provisions of ASC 820, *Fair Value Measurement*, credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, are incorporated in the fair values to account for potential nonperformance risk. In adjusting the fair value of its interest rate contracts for the effect of nonperformance risk, the Company has considered any applicable credit enhancements such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company determined that the majority of the inputs used to value its interest rate contracts fell within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its interest rate contracts utilized Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2018 and 2017, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its interest rate contracts and determined that the credit valuation adjustment was not significant to the overall valuation of its interest rate contracts. As a result, the Company classified its interest rate contract valuations in Level 2 of the fair value hierarchy. See Note 9—Derivatives and Hedging Activities for further discussion of the Company's interest rate contracts.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Deal Contingent Forward

The Company used a foreign currency contract to manage its foreign currency exposure relating to the Worldpay transaction (see Note 9—Derivatives and Hedging Activities). The fair value of the foreign currency forward was determined using the market standard methodology of discounting the projected settlement value of the instrument. The projected settlement value was based on the expectation of future foreign currency rates derived from observed market interest rate curves. In addition, to comply with the provisions of ASC 820, credit valuation adjustments are incorporated in the fair values to account for potential nonperformance risk. In adjusting the fair value of its foreign currency forward contract for the effect of nonperformance risk, the Company has considered any applicable credit enhancements such as collateral postings, thresholds, mutual puts, and guarantees.

Mercury TRA

The Mercury TRA is considered contingent consideration as it is part of the consideration payable to the former owners of Mercury. Such contingent consideration is measured at fair value and is based on estimates of discounted future cash flows associated with the estimated payments to the Mercury TRA Holders. The liability recorded is re-measured at fair value at each reporting period with the change in fair value recognized in earnings as a non-operating expense.

The following table summarizes carrying amounts and estimated fair values for the Company's financial instrument liabilities that are not reported at fair value in our Consolidated Statements of Financial Position as of December 31, 2018 and 2017 (in millions):

	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Liabilities:				
Notes payable	\$7,847.8	\$7,679.6	\$5,694.3	\$5,772.1

We consider that the carrying value of cash and cash equivalents, receivables, accounts payable and accrued expenses approximates fair value (level 1) given the short-term nature of these items. The fair value of the Company's notes payable was estimated based on rates currently available to the Company for bank loans with similar terms and maturities and is classified in Level 2 of the fair value hierarchy.

16. NET INCOME PER SHARE

Basic net income per share is calculated by dividing net income attributable to Worldpay, Inc. by the weighted-average shares of Class A common stock outstanding during the period.

Diluted net income per share is calculated assuming that Worldpay Holding is a wholly-owned subsidiary of Worldpay, Inc., therefore eliminating the impact of Fifth Third's non-controlling interest. Pursuant to the Exchange Agreement, the Class B units of Worldpay Holding ("Class B units"), which are held by Fifth Third and represent the non-controlling interest in Worldpay Holding, are convertible into shares of Class A common stock on a one-for-one basis. Based on this conversion feature, diluted net income per share attributable to Worldpay, Inc. Class A common stock is calculated assuming the conversion of the Class B units on an "if-converted" basis. Due to the Company's structure as a C corporation and Worldpay Holding's structure as a pass-through entity for tax purposes, the numerator in the calculation of diluted net income per share is adjusted accordingly to reflect the Company's income tax expense assuming the conversion of the Fifth Third non-controlling interest into Class A common stock.

During the year ended December 31, 2018, 2017 and 2016, approximately 12.7 million, 27.2 million and 35.0 million, respectively, weighted-average Class B units of Worldpay Holding were excluded in computing diluted net income per share attributable to Worldpay, Inc. Class A common stock because including them would have had an antidilutive effect. As the Class B units of Worldpay Holding were not included, the numerator used in the calculation of diluted net income per share was equal to the numerator used in the calculation of basic net income per share for the year ended December 31, 2018, 2017 and 2016. As of December 31, 2018, 2017 and 2016, there were approximately 10.3 million, 15.3 million and 35.0 million Class B units outstanding, respectively.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

In addition to the Class B units discussed above, potentially dilutive securities during the years ended December 31, 2018, 2017 and 2016 included restricted stock awards, restricted stock units, stock options, performance share awards and employee stock purchase plan purchase rights. Additionally, potentially dilutive securities during the year ended December 31, 2016 also included the warrant held by Fifth Third which allows for the purchase of Class C units of Worldpay Holding. During the year ended December 31, 2018, 2017 and 2016, approximately 1,521,616, 738,520 and 660,204, respectively, performance awards have been excluded as the applicable performance metrics had not been met as of the reporting dates.

The shares of Class B common stock do not share in the earnings or losses of the Company and are therefore not participating securities. Accordingly, basic and diluted net income per share of Class B common stock have not been presented.

The following table sets forth the computation of basic and diluted net income per share (in millions, except share data):

	Year Ended December 31,		
	2018	2017	2016
Basic:			
Net income attributable to Worldpay, Inc.	\$ 12.8	\$ 130.1	\$ 213.2
Shares used in computing basic net income per share:			
Weighted-average Class A common shares	292,992,892	161,293,062	156,043,636
Basic net income per share	<u>\$ 0.04</u>	<u>\$ 0.81</u>	<u>\$ 1.37</u>
Diluted:			
Net income attributable to Worldpay, Inc.	\$ 12.8	\$ 130.1	\$ 213.2
Shares used in computing diluted net income per share:			
Weighted-average Class A common shares	292,992,892	161,293,062	156,043,636
Weighted-average Class B units of Worldpay Holding	—	—	—
Warrant	—	—	4,959,501
Stock options	894,010	729,138	531,165
Restricted stock awards, restricted stock units and employee stock purchase plan	1,208,928	663,663	510,694
Performance awards	118,452	121,283	70,553
Diluted weighted-average shares outstanding	295,214,282	162,807,146	162,115,549
Diluted net income per share	<u>\$ 0.04</u>	<u>\$ 0.80</u>	<u>\$ 1.32</u>

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The activity of the components of accumulated other comprehensive (loss) income related to cash flow hedging and other activities for the years ended December 31, 2018, 2017 and 2016 is presented below (in millions):

	Total Other Comprehensive Income (Loss)						
	AOCI Beginning Balance	Pretax Activity	Tax Effect	Net Activity	Attributable to non-controlling interests	Attributable to Worldpay, Inc.	AOCI Ending Balance
<u>Year Ended December 31, 2018</u>							
Net change in fair value of cash flow hedges recorded in accumulated OCI	\$ (13.8)	\$ (5.5)	\$ 1.3	\$ (4.2)	\$ —	\$ (4.2)	\$ (18.0)
Net realized loss on cash flow hedges reclassified into earnings (1)	16.7	(1.1)	0.3	(0.8)	—	(0.8)	15.9
Translation adjustments on net investment hedge recorded in AOCI (2)	—	71.7	(16.6)	55.1	(2.9)	52.2	52.2
Foreign currency translation adjustments (3)	—	(809.2)	—	(809.2)	27.9	(781.3)	(781.3)
Net change	<u>\$ 2.9</u>	<u>\$ (744.1)</u>	<u>\$ (15.0)</u>	<u>\$ (759.1)</u>	<u>\$ 25.0</u>	<u>\$ (734.1)</u>	<u>\$ (731.2)</u>
<u>Year Ended December 31, 2017</u>							
Net change in fair value of cash flow hedges recorded in accumulated OCI	\$ (17.8)	\$ 6.7	\$ (2.3)	\$ 4.4	\$ (0.4)	\$ 4.0	\$ (13.8)
Net realized loss on cash flow hedges reclassified into earnings (1)	11.6	9.4	(2.9)	6.5	(1.4)	5.1	16.7
Net change	<u>\$ (6.2)</u>	<u>\$ 16.1</u>	<u>\$ (5.2)</u>	<u>\$ 10.9</u>	<u>\$ (1.8)</u>	<u>\$ 9.1</u>	<u>\$ 2.9</u>
<u>Year Ended December 31, 2016</u>							
Net change in fair value of cash flow hedges recorded in accumulated OCI	\$ (14.3)	\$ (6.9)	\$ 2.1	\$ (4.8)	\$ 1.3	\$ (3.5)	\$ (17.8)
Net realized loss on cash flow hedges reclassified into earnings (1)	5.1	12.7	(3.9)	8.8	(2.3)	6.5	11.6
Net change	<u>\$ (9.2)</u>	<u>\$ 5.8</u>	<u>\$ (1.8)</u>	<u>\$ 4.0</u>	<u>\$ (1.0)</u>	<u>\$ 3.0</u>	<u>\$ (6.2)</u>

(1) The reclassification adjustment on cash flow hedge derivatives affected the following lines in the accompanying Consolidated Statements of Income:

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

<u>OCI Component</u>	<u>Affected line in the accompanying consolidated statements of income</u>
Pretax activity ^(a)	Interest expense-net
Tax effect	Income tax expense
OCI attributable to non-controlling interests	Net income attributable to non-controlling interests

- (a) The years ended December 31, 2018, 2017 and 2016, reflect amounts of losses reclassified from AOCI into earnings, representing the effective portion of the hedging relationships, and are recorded in interest expense-net.
- (2) See Note 9—Derivatives and Hedging Activities for more information on net investment hedge activity.
- (3) There is no tax impact on the foreign translation adjustments due to the Tax Reform impact on distributions, enacted in 2017.

18. RELATED PARTY TRANSACTIONS

In connection with the Company's separation from Fifth Third on June 30, 2009, the Company entered into various agreements which provide for services provided to or received from Fifth Third. Subsequent to the separation from Fifth Third, the Company continues to enter into various business agreements with Fifth Third. Transactions under these agreements are discussed below and throughout these notes to the accompanying Consolidated Financial Statements. Fifth Third currently holds 3.30% of the voting interests in Worldpay, Inc. and 3.30% ownership interest in Worldpay Holding.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

As a result of the Company closing the Legacy Worldpay acquisition on January 16, 2018, Fifth Third's ownership percentage in Worldpay Holding decreased below 5% and Fifth Third no longer has board representation, therefore the Company no longer considers Fifth Third a related party. Fifth Third revenue for the period of January 1, 2018 through January 15, 2018 was not material.

Fifth Third related party revenue within the Consolidated Statements of Income for the years ended December 31, 2017 and 2016 was \$66.7 million and \$74.9 million, respectively.

The Fifth Third related party positions within the Consolidated Statements of Financial Position for the period ended December 31, 2017 are as follows (in millions):

Consolidated Statements of Financial Position Location	December 31, 2017
Assets:	
Accounts receivable—net	\$ 0.7
Liabilities:	
Accounts payable and accrued expenses	\$ 9.0
Current portion of notes payable	5.4
Current portion of tax receivable agreement obligations	190.2
Notes payable	158.4
Tax receivable agreement obligations	489.8

Debt Agreements

Fifth Third held \$163.8 million as of December 31, 2017 of the Company's outstanding debt. For the years ended December 31, 2017 and 2016, interest expense associated with these arrangements was \$4.9 million and \$4.2 million, respectively, and commitment fees were \$0.1 million and \$0.1 million, respectively.

Lease Agreement

The Company leases or subleases a number of office and/or data center locations with Fifth Third. For the years ended December 31, 2017 and 2016, related party rent expense was approximately \$3.7 million and \$3.7 million, respectively.

Service Processing and Other Service Agreements

In July 2016, the Company amended and extended its Master Services Agreement with Fifth Third (the "EFT Service Agreement"), through December 2024. The EFT Service Agreement is exclusive and provides Fifth Third and its subsidiary depository institutions with various electronic fund transfer, or EFT, services including debit card processing and ATM terminal driving services. Revenue for the EFT Service Agreement and other services is in the related party revenues for 2017 and 2016 discussed above.

Referral Agreement

In July 2016, the Company amended and extended its exclusive referral arrangement with Fifth Third, through December 2024. Commercial and retail merchant clients of Fifth Third and its subsidiary depository institutions that request merchant (credit or debit card) acceptance services are referred exclusively to us. In return for these referrals and the resulting merchant relationships, we make ongoing incentive payments to Fifth Third. Costs associated with this agreement totaled \$2.1 million and \$0.7 million for the years ended December 31, 2017 and 2016, respectively.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Clearing, Settlement and Sponsorship Agreement and Treasury Management Agreement

Fifth Third is a member of the Visa, Mastercard and other payment network associations. Fifth Third is the Company's primary sponsor into the respective card associations. In July 2016, the Company amended and extended its agreement with Fifth Third, through December 2024. Fifth Third also provides access to certain cash and treasury management services to the Company. For the years ended December 31, 2017 and 2016, the Company paid Fifth Third approximately \$2.3 million and \$2.9 million, respectively, for these services. As discussed in Note 1—Basis of Presentation and Summary of Significant Accounting Policies, the Company holds certain cash and cash equivalents on deposit at Fifth Third. At December 31, 2017, approximately \$81.0 million was held on deposit at Fifth Third. Interest income on deposits held at Fifth Third during the years ended December 31, 2017 and 2016 was immaterial.

Other Non-material Services

The Company received certain other non-material services from Fifth Third. The total expense for other services provided by Fifth Third for the years ended 2017 and 2016 was \$0.2 million and \$0.3 million, respectively.

19. SEGMENT INFORMATION

As a result of changes driven by the Company's acquisition of Legacy Worldpay, the Company's reportable segments have changed and the Company has recast the years ended December 31, 2017 and 2016 segment information to align with the new reportable segments. The new segments are Technology Solutions, Merchant Solutions and Issuer Solutions, which are organized based on the Company's solution offerings. The reorganization consisted of separating the Company's former Merchant segment into two separate segments, Technology Solutions and Merchant Solutions, with the Company's Financial Institutions segment renamed Issuer Solutions. The Company's Chairman of the Board and Chief Executive Officer is the chief operating decision maker ("CODM"), who evaluates the performance and allocates resources based on the operating results of each segment. The Company's reportable segments are the same as the Company's operating segments and there is no aggregation of the Company's operating segments. Below is a summary of each segment:

- *Technology Solutions*—Technology Solutions provides merchant acquiring, payment processing and related services to a diverse set of merchants that primarily accept payments through eCommerce and integrated payment solutions.
- *Merchant Solutions*—Merchant Solutions provides merchant acquiring, payment processing and related services to a diverse set of merchants that primarily accept payments through an omni-channel solution including terminal based.
- *Issuer Solutions*—Issuer Solutions provides card issuer processing, payment network processing, fraud protection and card production to a diverse set of financial institutions, including regional banks, community banks, credit unions and regional PIN networks.

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Segment operating results are presented below (in millions). The results reflect revenues and expenses directly related to each segment. The Company does not evaluate performance or allocate resources based on segment asset data, and therefore such information is not presented.

Segment profit reflects revenue less sales and marketing costs of the segment. The Company's CODM evaluates this metric in analyzing the results of operations for each segment.

	Year Ended December 31, 2018			
	Technology Solutions	Merchant Solutions	Issuer Solutions	Total
Revenue	\$ 1,601.4	\$1,976.2	\$ 347.8	\$3,925.4
Network fees and other costs ⁽¹⁾	—	—	—	—
Sales and marketing	422.9	683.7	25.1	1,131.7
Segment profit	<u>\$ 1,178.5</u>	<u>\$1,292.5</u>	<u>\$ 322.7</u>	<u>\$2,793.7</u>

- ⁽¹⁾ For the year ended December 31, 2018 network fees and other costs are netted within revenue as the result of the Company's adoption of ASC 606 on January 1, 2018.

	Year Ended December 31, 2017			
	Technology Solutions	Merchant Solutions	Issuer Solutions	Total
Revenue	\$ 1,264.5	\$2,303.1	\$ 458.9	\$4,026.5
Network fees and other costs	454.9	1,325.2	123.1	1,903.2
Sales and marketing	277.9	368.6	23.0	669.5
Segment profit	<u>\$ 531.7</u>	<u>\$ 609.3</u>	<u>\$ 312.8</u>	<u>\$1,453.8</u>

	Year Ended December 31, 2016			
	Technology Solutions	Merchant Solutions	Issuer Solutions	Total
Revenue	\$ 991.7	\$2,091.3	\$ 496.0	\$3,579.0
Network fees and other costs	358.6	1,178.4	137.2	1,674.2
Sales and marketing	212.5	345.5	24.3	582.3
Segment profit	<u>\$ 420.6</u>	<u>\$ 567.4</u>	<u>\$ 334.5</u>	<u>\$1,322.5</u>

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

A reconciliation of total segment profit to the Company's income before applicable income taxes is as follows (in millions):

	Year Ended December 31,		
	2018	2017	2016
Total segment profit	\$ 2,793.7	\$1,453.8	\$1,322.5
Less: Other operating costs	(698.0)	(318.7)	(294.2)
Less: General and administrative	(662.1)	(295.1)	(189.7)
Less: Depreciation and amortization	(1,095.0)	(318.5)	(270.1)
Less: Interest expense—net	(304.9)	(140.6)	(109.5)
Less: Non-operating (expense) income	(41.8)	432.8	(36.3)
(Loss) income before applicable income taxes	<u>\$ (8.1)</u>	<u>\$ 813.7</u>	<u>\$ 422.7</u>

Worldpay, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth our unaudited results of operations on a quarterly basis for the years ended December 31, 2018 and 2017 (in millions).

	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017
Revenue	\$1,050.0	\$1,017.9	\$1,006.8	\$850.7	\$1,065.9	\$1,033.7	\$998.7	\$928.2
Network fees and other costs ⁽¹⁾	—	—	—	—	496.9	479.5	468.7	458.1
Net revenue	1,050.0	1,017.9	1,006.8	850.7	569.0	554.2	530.0	470.1
Sales and marketing	286.5	295.8	283.4	266.0	172.4	173.8	168.3	155.0
Other operating costs	182.6	174.8	185.5	155.1	84.4	79.4	79.0	75.9
General and administrative	134.5	140.7	136.8	250.1	105.5	49.6	50.7	89.3
Depreciation and amortization	271.0	328.9	287.9	207.2	81.5	82.5	78.4	76.1
Income from operations	\$ 175.4	\$ 77.7	\$ 113.2	\$ (27.7)	\$ 125.2	\$ 168.9	\$153.6	\$ 73.8
Net income (loss)	\$ 115.8	\$ 3.6	\$ (1.5)	\$ (98.3)	\$ (46.4)	\$ 106.9	\$ 86.9	\$ 35.3
Net income (loss) attributable to Worldpay, Inc.	\$ 110.5	\$ 2.8	\$ (2.9)	\$ (97.6)	\$ (59.7)	\$ 92.1	\$ 68.8	\$ 28.9
Net income (loss) per share attributable to Worldpay, Inc.								
Class A common stock:								
Basic	\$ 0.37	\$ 0.01	\$ (0.01)	\$ (0.36)	\$ (0.37)	\$ 0.57	\$ 0.43	\$ 0.18
Diluted	\$ 0.36	\$ 0.01	\$ (0.01)	\$ (0.36)	\$ (0.37)	\$ 0.57	\$ 0.42	\$ 0.17

(1) For 2018 quarters, network fees and other costs are netted within revenue as the result of the Company's adoption of ASC 606 on January 1, 2018.

Our results of operations are subject to seasonal fluctuations in our revenue as a result of consumer spending patterns. Historically our revenues have been the strongest in the fourth quarter and weakest in our first quarter.

SCHEDULE I—Condensed Financial Information**Worldpay, Inc.**
CONDENSED STATEMENTS OF INCOME (PARENT COMPANY ONLY)
(In millions)

	Year Ended December 31,		
	2018	2017	2016
General and administrative	<u>\$ 1.3</u>	<u>\$ 24.7</u>	<u>\$ 0.3</u>
Loss from operations	(1.3)	(24.7)	(0.3)
Non-operating (expense) income, net	<u>(48.2)</u>	<u>418.9</u>	<u>(0.1)</u>
(Loss) income before income taxes and equity in net income of subsidiaries	(49.5)	394.2	(0.4)
Income tax expense	<u>15.2</u>	<u>610.0</u>	<u>80.6</u>
Loss before equity in net income of subsidiaries	(64.7)	(215.8)	(81.0)
Equity in net income of subsidiaries	<u>77.5</u>	<u>345.9</u>	<u>294.2</u>
Net income attributable to Worldpay, Inc.	<u>\$ 12.8</u>	<u>\$ 130.1</u>	<u>\$213.2</u>

See Notes to Condensed Consolidated Financial Statements (Parent Company only).

SCHEDULE I—Condensed Financial Information**Worldpay, Inc.****CONDENSED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (PARENT COMPANY ONLY)**
(In millions)

	Year Ended December 31,		
	2018	2017	2016
Net income attributable to Worldpay, Inc.	<u>\$ 12.8</u>	<u>\$130.1</u>	<u>\$213.2</u>
(Loss) gain on hedging activities and foreign currency translation	<u>(734.1)</u>	<u>9.1</u>	<u>3.0</u>
Comprehensive (loss) income attributable to Worldpay, Inc.	<u><u>\$(721.3)</u></u>	<u><u>\$139.2</u></u>	<u><u>\$216.2</u></u>

See Notes to Condensed Consolidated Financial Statements (Parent Company only).

SCHEDULE I—Condensed Financial Information

Worldpay, Inc.

CONDENSED STATEMENTS OF FINANCIAL POSITION (PARENT COMPANY ONLY)
(In millions)

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Tax refund receivable	\$ 11.2	\$ 18.4
Total current assets	11.2	18.4
Investment in subsidiaries	9,909.4	549.5
Deferred taxes	786.6	738.3
Total assets	<u>\$ 10,707.2</u>	<u>\$ 1,306.2</u>
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7.5	\$ 23.6
Payable to subsidiaries	234.6	70.1
Current portion of tax receivable agreement obligations to related parties	19.9	190.2
Total current liabilities	262.0	283.9
Long-term liabilities:		
Tax receivable agreement obligations to related parties	590.8	489.8
Total long-term liabilities	590.8	489.8
Total liabilities	852.8	773.7
Equity:		
Total Worldpay, Inc. equity	9,854.4	532.5
Total liabilities and equity	<u>\$ 10,707.2</u>	<u>\$ 1,306.2</u>

See Notes to Condensed Consolidated Financial Statements (Parent Company only).

SCHEDULE I—Condensed Financial Information

Worldpay, Inc.
CONDENSED STATEMENTS OF CASH FLOWS (PARENT COMPANY ONLY)
(In millions)

	Year Ended December 31,		
	2018	2017	2016
Operating Activities:			
Net income attributable to Worldpay, Inc.	\$ 12.8	\$ 130.1	\$ 213.2
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in net income of subsidiaries	(77.5)	(345.9)	(294.2)
Deferred taxes	7.8	621.2	54.5
Tax receivable agreements non-cash items	—	(418.8)	0.1
Distributions from subsidiaries	(82.1)	32.2	84.8
Excess tax benefit from share-based compensation	—	—	(12.2)
Change in operating assets and liabilities, net	56.2	7.8	20.0
Net cash provided by operating activities	(82.8)	26.6	66.2
Investing Activities:			
Proceeds from sale of Class A units in Worldpay Holding	176.6	1,278.1	87.7
Purchase of Class A units in Worldpay Holding	(23.8)	(14.5)	(15.4)
Net cash provided by investing activities	152.8	1,263.6	72.3
Financing Activities:			
Advances from subsidiaries, net	234.5	70.2	70.7
Proceeds from exercise of Class A common stock options	23.8	14.5	15.4
Purchase and cancellation of Class A common stock	—	(1,268.0)	—
Repurchase of Class A common stock (including to satisfy tax withholding obligations)	(176.6)	(10.1)	(87.7)
Settlement of certain tax receivable agreements	(107.4)	(63.4)	(117.9)
Payments under tax receivable agreements	(44.3)	(33.4)	(31.2)
Excess tax benefit from share-based compensation	—	—	12.2
Net cash used in financing activities	(70.0)	(1,290.2)	(138.5)
Net decrease in cash and cash equivalents	—	—	—
Cash and cash equivalents—Beginning of period	—	—	—
Cash and cash equivalents—End of period	\$ —	\$ —	\$ —
Cash Payments:			
Taxes	\$ 0.1	\$ 5.6	\$ 6.8
Non-cash Items:			
Issuance of tax receivable agreements	\$ 120.9	\$ 647.5	\$ 171.2

See Notes to Condensed Consolidated Financial Statements (Parent Company only).

SCHEDULE I—Condensed Financial Information

Worldpay, Inc.

NOTES TO CONDENSED FINANCIAL STATEMENTS (PARENT COMPANY ONLY)

1. BASIS OF PRESENTATION

For Worldpay, Inc.'s presentation (Parent Company only), the investment in subsidiaries is accounted for using the equity method. The condensed parent company financial statements and notes should be read in conjunction with the Consolidated Financial Statements and notes of Worldpay, Inc. appearing in Exhibit 99.1 to this Current Report on Form 8-K.

Worldpay, Inc. is a holding company that does not conduct any business operations of its own and therefore its assets consist primarily of investments in subsidiaries. Worldpay Inc.'s cash inflows are primarily from cash dividends and distributions and other transfers from Worldpay Holding, formerly Vantiv Holding. Worldpay, Inc. may not be able to access cash generated by its subsidiaries in order to fulfill cash commitments or to pay cash dividends on its common stock. The amounts available to Worldpay, Inc. to fulfill cash commitments or to pay cash dividends are also subject to the covenants and distribution restrictions in its subsidiaries' loan agreements. For a discussion on the tax receivable agreements, see Note 8- Tax Receivable Agreements in the Consolidated Financial Statements and notes of Worldpay, Inc. appearing in Exhibit 99.1 to this Current Report on Form 8-K.

**Interim unaudited condensed consolidated financial statements of Worldpay, Inc.
as of March 31, 2019 and for the three months ended March 31, 2019 and 2018**

**Worldpay, Inc.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
Unaudited
(In millions, except share data)**

	Three Months Ended March 31,	
	2019	2018
Revenue	\$ 970.0	\$ 850.7
Sales and marketing	290.9	266.0
Other operating costs	181.0	155.1
General and administrative	127.4	250.1
Depreciation and amortization	264.4	207.2
Income (loss) from operations	106.3	(27.7)
Interest expense—net	(72.1)	(75.2)
Non-operating income (expense)	3.5	(8.6)
Income (loss) before applicable income taxes	37.7	(111.5)
Income tax (benefit)	(0.4)	(13.2)
Net income (loss)	38.1	(98.3)
Less: Net (income) loss attributable to non-controlling interests	(1.7)	0.7
Net income (loss) attributable to Worldpay, Inc.	\$ 36.4	\$ (97.6)
Net income (loss) per share attributable to Worldpay, Inc. Class A common stock:		
Basic	\$ 0.12	\$ (0.36)
Diluted	\$ 0.12	\$ (0.36)
Shares used in computing net income (loss) per share of Class A common stock:		
Basic	302,046,241	274,098,480
Diluted	303,876,967	274,098,480

See Notes to Unaudited Consolidated Financial Statements.

Worldpay, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Unaudited
(In millions)

	Three Months Ended March 31,	
	2019	2018
Net income (loss)	\$ 38.1	\$ (98.3)
Other comprehensive income (loss), net of tax:		
Gain on hedging activities and foreign currency translation	170.3	22.0
Comprehensive income (loss)	208.4	(76.3)
Less: Comprehensive (income) attributable to non-controlling interests	(9.7)	(0.4)
Comprehensive income (loss) attributable to Worldpay, Inc.	<u>\$ 198.7</u>	<u>\$ (76.7)</u>

See Notes to Unaudited Consolidated Financial Statements.

Worldpay, Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Unaudited
(In millions, except share data)

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 107.9	\$ 196.5
Accounts receivable—net	1,710.2	1,694.8
Settlement assets and merchant float	4,964.0	3,132.3
Prepaid expenses	83.1	80.0
Other	538.9	526.1
Total current assets	7,404.1	5,629.7
Property, equipment and software—net	1,093.3	1,074.1
Intangible assets—net	2,983.5	3,127.8
Goodwill	14,302.0	14,137.9
Deferred taxes	1,283.7	789.9
Other assets	220.6	129.1
Total assets	<u>\$ 27,287.2</u>	<u>\$ 24,888.5</u>
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,147.1	\$ 1,188.7
Settlement obligations	5,680.2	3,723.6
Current portion of notes payable	219.3	225.7
Current portion of tax receivable agreement obligations	71.4	73.1
Deferred income	29.5	25.1
Current maturities of finance lease obligations	23.2	22.7
Other	647.4	630.3
Total current liabilities	7,818.1	5,889.2
Long-term liabilities:		
Notes payable	7,269.3	7,622.1
Tax receivable agreement obligations	890.2	590.8
Finance lease obligations	28.4	34.3
Deferred taxes	469.9	473.7
Other	199.4	74.4
Total long-term liabilities	8,857.2	8,795.3
Total liabilities	16,675.3	14,684.5
Commitments and contingencies (See Note 9—Commitments, Contingencies and Guarantees)		
Equity:		
Class A common stock, \$0.00001 par value; 890,000,000 shares authorized; 311,218,093 shares outstanding at March 31, 2019 and 300,454,590 shares outstanding at December 31, 2018	—	—
Class B common stock, no par value; 100,000,000 shares authorized; no shares issued and outstanding at March 31, 2019 and 10,252,826 shares issued and outstanding at December 31, 2018	—	—
Preferred stock, \$0.00001 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Paid-in capital	10,679.6	10,135.3
Retained earnings	629.5	593.1
Accumulated other comprehensive (loss) income	(568.9)	(731.2)
Treasury stock, at cost; 3,573,308 shares at March 31, 2019 and 3,574,553 shares at December 31, 2018	(138.7)	(142.8)
Total Worldpay, Inc. equity	10,601.5	9,854.4
Non-controlling interests	10.4	349.6
Total equity	10,611.9	10,204.0
Total liabilities and equity	<u>\$ 27,287.2</u>	<u>\$ 24,888.5</u>

See Notes to Unaudited Consolidated Financial Statements.

Worldpay, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
(In millions)

	Three Months Ended March 31,	
	2019	2018
Operating Activities:		
Net income (loss)	\$ 38.1	\$ (98.3)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	264.4	207.2
Amortization of customer incentives	7.9	6.2
Amortization and write-off of debt issuance costs	2.1	59.9
Gain on foreign currency forward	—	(35.9)
Share-based compensation expense	33.0	17.2
Deferred tax benefit	(2.5)	(25.3)
Tax receivable agreements non-cash items	(2.0)	(3.6)
Other	23.8	30.4
Change in operating assets and liabilities:		
Accounts receivable	(7.4)	14.0
Net settlement assets and obligations	(136.6)	(12.2)
Prepaid and other assets	4.9	(30.2)
Accounts payable and accrued expenses	(42.0)	(17.1)
Other liabilities	(17.5)	(28.2)
Net cash provided by operating activities	<u>166.2</u>	<u>84.1</u>
Investing Activities:		
Purchases of property and equipment	(83.2)	(34.1)
Acquisition of customer portfolios and related assets and other	(4.8)	(37.1)
Proceeds from foreign currency forward	—	71.5
Cash acquired in acquisitions, net of cash used	—	1,405.8
Net cash (used in) provided by investing activities	<u>(88.0)</u>	<u>1,406.1</u>
Financing Activities:		
Proceeds from issuance of long-term debt	—	2,140.0
Borrowings on revolving credit facility	2,127.0	1,476.0
Repayment of revolving credit facility	(1,931.0)	(1,701.0)
Repayment of debt and finance lease obligations	(582.3)	(1,662.2)
Payment of debt issuance costs	—	(86.8)
Proceeds from issuance of Class A common stock under employee stock plans	7.0	7.6
Repurchase of Class A common stock (to satisfy tax withholding obligations)	(12.8)	(11.2)
Settlement and payments under certain tax receivable agreements	(28.2)	(80.9)
Distributions to non-controlling interests	(2.3)	(5.6)
Net cash (used in) provided by financing activities	<u>(422.6)</u>	<u>75.9</u>
Net (decrease) increase in cash and cash equivalents	(344.4)	1,566.1
Cash and cash equivalents—Beginning of period	2,581.3	1,272.2
Effect of exchange rate changes on cash	10.1	31.1
Cash and cash equivalents—End of period	<u>\$ 2,247.0</u>	<u>\$ 2,869.4</u>
Cash Payments:		
Interest	\$ 59.3	\$ 58.2
Income taxes	13.6	0.6
Non-cash Items:		
Issuance of tax receivable agreements	\$ 327.9	\$ —

See Notes to Unaudited Consolidated Financial Statements.

Worldpay, Inc.
CONSOLIDATED STATEMENT OF EQUITY
Unaudited
(In millions)

	<u>Total Equity</u>	<u>Common Stock</u>				<u>Treasury Stock</u>		<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Non- Controlling Interests</u>
		<u>Class A Shares</u>	<u>Amount</u>	<u>Class B Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
Beginning Balance, January 1, 2019	\$10,204.0	300.5	\$ —	10.3	\$ —	3.6	\$(142.8)	\$10,135.3	\$ 593.1	\$ (731.2)	\$ 349.6
Net income	38.1	—	—	—	—	—	—	—	36.4	—	1.7
Issuance of Class A common stock under employee benefit trust and employee benefit plans, net of forfeitures	7.0	0.6	—	—	—	(0.2)	16.9	(9.9)	—	—	—
Repurchase of Class A common stock (including to satisfy tax withheld obligation)	(12.8)	(0.2)	—	—	—	0.2	(12.8)	—	—	—	—
Issuance of Class A common stock and cancellation of Class B common stock in connection with Fifth Third Stock sale	—	10.3	—	(10.3)	—	—	—	—	—	—	—
Issuance of tax receivable agreements	174.9	—	—	—	—	—	—	174.9	—	—	—
Unrealized gain on hedging activities and foreign currency translation, net of tax	170.3	—	—	—	—	—	—	—	—	162.3	8.0
Distribution to non-controlling interests	(2.3)	—	—	—	—	—	—	—	—	—	(2.3)
Share-based compensation	32.7	—	—	—	—	—	—	31.9	—	—	0.8
Reallocation of non-controlling interests of Worldpay Holding due to change in ownership	—	—	—	—	—	—	—	347.4	—	—	(347.4)
Ending Balance, March 31, 2019	<u>\$10,611.9</u>	<u>311.2</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>3.6</u>	<u>\$(138.7)</u>	<u>\$10,679.6</u>	<u>\$ 629.5</u>	<u>\$ (568.9)</u>	<u>\$ 10.4</u>

See Notes to Unaudited Consolidated Financial Statements.

Worldpay, Inc.
CONSOLIDATED STATEMENT OF EQUITY
Unaudited
(In millions)

	Total Equity	Common Stock				Treasury Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interests
		Class A		Class B		Shares	Amount				
		Shares	Amount	Shares	Amount						
Beginning Balance, January 1, 2018	\$ 600.6	162.6	\$ —	15.3	\$ —	2.9	\$ (83.8)	\$ 55.4	\$ 558.0	\$ 2.9	\$ 68.1
Cumulative effect of accounting change	22.3	—	—	—	—	—	—	—	22.3	—	—
Net loss	(98.3)	—	—	—	—	—	—	—	(97.6)	—	(0.7)
Issuance of Class A common stock for acquisition	10,429.4	134.4	—	—	—	—	—	10,429.4	—	—	—
Issuance of Class A common stock under employee stock plans, net of forfeitures	7.6	0.5	—	—	—	—	—	7.6	—	—	—
Repurchase of Class A common stock including (including to satisfy tax withholding obligation)	(11.2)	(0.1)	—	—	—	0.1	(11.2)	—	—	—	—
Settlement of certain tax receivable agreements	8.2	—	—	—	—	—	—	8.2	—	—	—
Unrealized gain on hedging activities, and foreign currency translation, net of tax	22.0	—	—	—	—	—	—	—	—	20.9	1.1
Distribution to non-controlling interests	(5.6)	—	—	—	—	—	—	—	—	—	(5.6)
Share-based compensation	17.2	—	—	—	—	—	—	16.3	—	—	0.9
Reallocation of non-controlling interests of Worldpay Holding due to change in ownership	—	—	—	—	—	—	—	(486.1)	—	—	486.1
Ending Balance, March 31, 2018	<u>\$10,992.2</u>	<u>297.4</u>	<u>\$ —</u>	<u>15.3</u>	<u>\$ —</u>	<u>3.0</u>	<u>\$ (95.0)</u>	<u>\$10,030.8</u>	<u>\$ 482.7</u>	<u>\$ 23.8</u>	<u>\$ 549.9</u>

See Notes to Unaudited Consolidated Financial Statements.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Worldpay, Inc., a Delaware corporation, is a holding company that conducts its operations through its majority-owned subsidiary, Worldpay Holding, LLC (“Worldpay Holding”). Worldpay, Inc. and Worldpay Holding are referred to collectively as the “Company,” “Worldpay,” “we,” “us” or “our,” unless the context requires otherwise.

On January 16, 2018, the Company completed the acquisition of all of the outstanding shares of Worldpay Group Limited, formerly Worldpay Group plc, a public limited company (“Legacy Worldpay”). Following the acquisition, the Vantiv, Inc. (“Legacy Vantiv”) name was changed to Worldpay, Inc. by amending our Second Amended and Restated Certificate of Incorporation. The effective date of the name change was January 16, 2018.

Worldpay is a leader in global payments providing a broad range of technology-led solutions to its clients to allow them to accept payments of almost any type, across multiple payment channels nearly anywhere in the world. The Company serves a diverse set of merchants including mobile, online and in-store, offering over 300 payment methods in 126 transaction currencies across 146 countries, while supporting various clients including large enterprises, corporates, small and medium sized businesses and eCommerce businesses. The Company operates in three reportable segments: Technology Solutions, Merchant Solutions and Issuer Solutions. For more information about the Company’s segments, refer to Note 13—Segment Information. The Company markets its services through diverse distribution channels, including multiple referral partners.

Merger with Fidelity National Information Services (“FIS”)

On March 18, 2019, Worldpay and Fidelity National Information Services, Inc. (“FIS”) issued a joint press release announcing that Worldpay, FIS and Wrangler Merger Sub, Inc., a wholly-owned subsidiary of FIS (“Merger Sub”), entered into an agreement and plan of merger, dated March 17, 2019 (the “Merger Agreement”), pursuant to which, on the terms and subject to the conditions set forth therein, Merger Sub will merge with and into Worldpay (the “Merger”), with Worldpay being the surviving corporation in the Merger and continuing as a wholly-owned subsidiary of FIS.

At the effective time of the Merger (“Effective Time”), which is expected to occur in the third quarter of 2019, each share of the Class A common stock of Worldpay, par value \$0.00001 per share (“Worldpay Class A Common Stock”), issued and outstanding immediately prior to the Effective Time, except for certain shares of Worldpay Class A Common Stock identified in the Merger Agreement, will be converted into the right to receive 0.9287 shares (the “Exchange Ratio”) of common stock, par value \$0.01 per share, of FIS (“FIS Common Stock” and, such shares, the “Share Consideration”) and \$11.00 in cash (the “Cash Consideration” and, together with the Share Consideration, the “Merger Consideration”). The shares of FIS Common Stock to be issued in the Merger will be listed on The New York Stock Exchange (“NYSE”). Following the consummation of the Merger, FIS shareholders will own approximately 53 percent and Worldpay shareholders will own approximately 47 percent of the combined company. The Merger Consideration (as of the date the Merger Agreement was executed) valued Worldpay at an enterprise value of approximately \$43 billion, including the assumption of Worldpay debt, which FIS expects to refinance.

Completion of the Merger is subject to the satisfaction or waiver of customary closing conditions for both parties, including receipt of required regulatory and shareholder approvals and other customary closing conditions.

In connection with the proposed Merger, on April 12, 2019, FIS filed a preliminary registration statement on Form S-4 with the SEC that became available on the SEC’s Edgar system on April 15, 2019.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements include those of Worldpay, Inc. and all subsidiaries thereof, including its majority-owned subsidiary, Worldpay Holding, LLC. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). All intercompany balances and transactions have been eliminated.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of March 31, 2019, Worldpay, Inc. owned 100% interest in Worldpay Holding (see Note 8—Controlling and Non-Controlling Interests for changes in non-controlling interests) as a result of Fifth Third Bank's ("Fifth Third") sale of its remaining interest in Worldpay Holding discussed below.

Fifth Third Stock Sale

In March 2019, Fifth Third exchanged its remaining 10.3 million Class B units in Worldpay Holding for 10.3 million shares of the Company's Class A common stock and subsequently sold those 10.3 million shares of Worldpay, Inc. Class A common stock pursuant to Rule 144 promulgated under the Securities Act of 1933 as amended ("Fifth Third Stock Sale"). The Company did not receive any proceeds from the sale.

As a result of the March 2019 Fifth Third exchange of units of Worldpay Holding, the Company recorded an estimated additional liability under the Fifth Third Tax Receivable Agreement ("TRA") of \$327.9 million and an estimated additional deferred tax asset of \$502.8 million associated with the increase in the tax basis. The Company recorded an estimated corresponding increase to paid-in-capital of \$174.9 million for the difference in the TRA liability and the related deferred tax asset.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Expenses

Set forth below is a brief description of the components of the Company's expenses:

- Sales and marketing expense primarily consists of compensation, commissions and benefits paid to sales personnel, sales management and other sales and marketing personnel, amortization of capitalized commission fees, payments made to multiple referral partners, and advertising and promotional costs.
- Other operating costs primarily consist of compensation and benefits paid to operational and IT personnel, costs associated with operating the Company's technology platform and data centers, information technology costs for processing transactions, product development costs, software fees, maintenance costs, occupancy costs and consulting costs.
- General and administrative expenses primarily consist of compensation and benefits paid to executive management and administrative employees, including finance, human resources, product, legal and risk management, share-based compensation costs, office equipment, occupancy costs and consulting costs.
- Non-operating income (expense) primarily consists of other income and expense items outside of the Company's operating activities.

Share-Based Compensation

The Company expenses employee share-based payments under ASC 718, Compensation—Stock Compensation, which requires compensation cost for the grant-date fair value of share-based payments to be recognized over the requisite service period. The Company estimates the grant date fair value of the share-based awards issued in the form of options using the Black-Scholes option pricing model. The fair value of shares issued as restricted stock, performance awards and under the Employee Stock Purchase Plan ("ESPP") is measured based on the market price of the Company's stock on the grant date.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three months ended March 31, 2019 and 2018 total share-based compensation expense was \$33.0 million and \$17.2 million, respectively.

Earnings per Share

Basic earnings per share is computed by dividing net income attributable to Worldpay, Inc. by the weighted average shares outstanding during the period. Diluted earnings per share is computed by dividing net income attributable to Worldpay, Inc., adjusted as necessary for the impact of potentially dilutive securities, by the weighted-average shares outstanding during the period and the impact of securities that would have a dilutive effect on earnings per share. See Note 11—Net Income Per Share for further discussion.

Dividend Restrictions

The Company does not intend to pay cash dividends on its Class A common stock in the foreseeable future. Worldpay, Inc. is a holding company that does not conduct any business operations of its own. As a result, Worldpay, Inc.'s ability to pay cash dividends on its common stock, if any, is dependent upon cash dividends and distributions and other transfers from Worldpay Holding. The amounts available to Worldpay, Inc. to pay cash dividends are subject to the covenants and distribution restrictions in its subsidiaries' loan agreements. As a result of the restrictions on distributions from Worldpay Holding and its subsidiaries, essentially all of the Company's consolidated net assets are held at the subsidiary level and are restricted as of March 31, 2019.

Income Taxes

Income taxes are computed in accordance with ASC 740, Income Taxes, and reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts. The Company has deferred tax assets and liabilities and maintains valuation allowances where it is more likely than not that all or a portion of deferred tax assets will not be realized. To the extent the Company determines that it will not realize the benefit of some or all of its deferred tax assets, such deferred tax assets will be adjusted through the Company's provision for income taxes in the period in which this determination is made. As of March 31, 2019 and December 31, 2018, the Company recorded valuation allowances against deferred tax assets of \$12.6 million related to net operating losses.

The Company's consolidated interim effective tax rate is based upon expected annual income before applicable taxes, statutory tax rates and tax laws in the various jurisdictions in which the Company operates. Significant or unusual items, including adjustments to accruals for tax uncertainties, are recognized in the quarter in which the related event occurs.

The Company's global effective tax rates were (1.1)% and 11.8% respectively, for the three months ended March 31, 2019 and 2018 and include the impact of the excess tax benefit relating to share-based compensation being recorded in income tax expense. The global effective tax rate for each period reflects the impact of the Company's non-controlling interests not being taxed at the statutory U.S. corporate tax rates.

Cash and Cash Equivalents

Cash on hand and investments with original maturities of three months or less (that are readily convertible to cash) are considered to be cash equivalents. The Company has restricted cash held in money market accounts, which approximate fair value and are a level 1 input in the fair value hierarchy.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company includes restricted cash in the cash and cash equivalents balance reported in the Consolidated Statements of Cash Flows. The reconciliation between cash and cash equivalents in the Consolidated Statements of Financial Position and the Consolidated Statements of Cash Flows is as follows (in millions):

	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Cash and cash equivalents on Consolidated Statements of Financial Position	\$ 107.9	\$ 459.4
Other restricted cash (other current assets)	474.9	515.7
Merchant float (in settlement assets and merchant float)	<u>1,664.2</u>	<u>1,894.3</u>
Total cash and cash equivalents per the Consolidated Statements of Cash Flows	<u>\$ 2,247.0</u>	<u>\$ 2,869.4</u>

Property, Equipment and Software—net

Property, equipment and software consists of the Company's facilities, furniture and equipment, software, land and leasehold improvements. Facilities, furniture and equipment and software are depreciated on a straight-line basis over their respective useful lives, which are 15 to 40 years for the Company's facilities and related improvements, 2 to 10 years for furniture and equipment and 3 to 8 years for software. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvement which is 3 to 10 years or the term of the lease. Also included in property, equipment and software is work in progress consisting of costs associated with software developed for internal use which has not yet been placed in service. Accumulated depreciation as of March 31, 2019 and December 31, 2018 was \$585.7 million and \$540.9 million, respectively.

The Company capitalizes certain costs related to computer software developed for internal use and amortizes such costs on a straight-line basis over an estimated useful life of 5 to 8 years. Research and development costs incurred prior to establishing technological feasibility are charged to operations as such costs are incurred. Once technological feasibility has been established, costs are capitalized until the software is placed in service.

Goodwill and Intangible Assets

In accordance with ASC 350, Intangibles—Goodwill and Other, the Company tests goodwill for impairment for each reporting unit on an annual basis, or when events occur or circumstances indicate the fair value of a reporting unit is below its carrying value. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that implied fair value of the goodwill within the reporting unit is less than its carrying value. The Company performed its most recent annual goodwill impairment test for all reporting units as of July 31, 2018 using market data and discounted cash flow analyses. Based on this analysis, it was determined that the fair value of all reporting units was substantially in excess of the carrying value. There have been no other events or changes in circumstances subsequent to the testing date that would indicate impairment of these reporting units as of March 31, 2019.

Intangible assets consist of acquired customer relationships, trade names, customer portfolios and related assets that are amortized over their estimated useful lives. The Company reviews finite lived intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. As of March 31, 2019, there have been no such events or circumstances that would indicate potential impairment of finite lived intangible assets.

Settlement Processing Assets and Obligations and Merchant Float

Settlement assets and obligations and merchant float represent intermediary balances arising from the settlement process which involves the transferring of funds between card issuers, merchants and Sponsoring Members. Funds are processed under two models, a sponsorship model and a direct member model. In the United States, the Company operates under the sponsorship model and outside the United States the Company operates under the direct membership model.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Under the sponsorship model, in order for the Company to provide electronic payment processing services, Visa, MasterCard and other payment networks require sponsorship by a member clearing bank. The Company has an agreement with various banks and financial institutions, (the "Sponsoring Member") to provide sponsorship services to the Company. Under the sponsorship agreements, the Company is registered as a Visa Third-Party Agent and a MasterCard Service Provider. The sponsorship services allow us to route transactions under the Sponsoring Members' membership to clear card transactions through MasterCard, Visa and other networks. Under this model, the standards of the payment networks restrict us from performing funds settlement and as such require that these funds be in the possession of the Sponsoring Member until the merchant is funded. Accordingly, settlement assets and obligations resulting from the submission of settlement files to the network or cash received from the network in advance of funding the network are the responsibility of the Sponsoring Member and are not recorded on the Company's Consolidated Statements of Financial Position.

In the United States, settlement assets and obligations are recorded by the Company related to the Issuer Solutions business when funds are transferred from the Company to the Sponsoring Member for settlement prior to receiving funds from the financial institution customer or funds are received from the financial institution customer prior to transferring funds to the Sponsoring Member for settlement. These timing differences result in a settlement asset or obligation. The amounts are generally collected or paid the following business day.

Settlement assets and obligations are also recorded in the United States as result of intermediary balances due to/from the Sponsoring Member. The Company receives funds from certain networks which are owed to the Sponsoring Member for settlement. In other cases the Company transfers funds to the Sponsoring Member for settlement in advance of receiving funds from the network. These timing differences result in a settlement asset or obligation. The amounts are generally collected or paid the following business day. Additionally, U.S. settlement assets and obligations arise related to interchange expenses, merchant reserves and exception items.

Under the direct membership model, the Company is a direct member in Visa, MasterCard and other various payment networks as third party sponsorship to the networks is not required. This results in the Company performing settlement between the networks and the merchant and requiring adherence to the standards of the payment networks in which the Company is a direct member. Settlement assets and obligations result when the Company submits the merchant file to the network or when funds are received by the Company in advance of paying the funds to a different entity or merchant. The amounts are generally collected or paid the following business day.

Merchant float represents surplus cash balances the Company holds on behalf of its merchant customers when the incoming amount from the card networks precedes when the funding to customers falls due. Such funds are held in a fiduciary capacity, and are not available for the Company to use to fund its cash requirements.

Derivatives

The Company accounts for derivatives in accordance with ASC 815, Derivatives and Hedging. This guidance establishes accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the Consolidated Statements of Financial Position at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and the hedged item will be recognized in earnings. If the derivative is designated as a cash flow hedge, the change in the fair value of the derivative will be recorded in accumulated other comprehensive income (loss) ("AOCI") and will be recognized in the statement of income when the hedged item affects earnings. Additionally, the Company's net investment hedges, which act as economic hedges of the Company's net investments in its foreign subsidiaries, are recorded in AOCI. The Company does not enter into derivative financial instruments for speculative purposes. See Note 7—Derivatives and Hedging Activities for further discussion.

Visa Europe and Contingent Value Rights

During June 2016, Legacy Worldpay disposed of its ownership interest in Visa Europe to Visa, Inc. In connection with the disposal, the Company agreed to pay the Legacy Worldpay owners 90% of the net-of-tax proceeds from the disposal, pending the resolution of certain historical claims and the finalization of the proceeds from disposal. The proceeds from the disposal (primarily restricted cash) and the related liability to former owners are recorded in other current assets and other current liabilities, respectively, in the Company's Consolidated Statements of Financial Position.

Foreign Currencies

For operations outside the United States that prepare financial statements in currencies other than the U.S. dollar, results of operations and cash flows are translated at average exchange rates during the period and assets and liabilities are translated at spot exchange rates at the end of the period. Foreign currency translation adjustments are included as a separate component of accumulated other comprehensive income (loss) in total equity. The effects of changes in exchange rates between the designated functional currency and the currency in which a transaction is denominated are recorded as foreign currency transaction gains (losses) in the Consolidated Statements of Income and Comprehensive Income and were immaterial for the three months ended March 31, 2019 and 2018.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, Leases (Topic 842). This ASU amends the existing guidance by requiring the recognition of all leases, including operating leases, on the balance sheet as right of use asset and lease liability and disclosing key information about the lease arrangements. The Company adopted this ASU on January 1, 2019 using the modified retrospective approach with no cumulative effect on retained earnings. See Note 3—Leases for more information.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which amends and simplifies existing guidance to better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The Company adopted this ASU as of January 1, 2019 with an immaterial impact on the Company’s Consolidated Financial Statements. See Note 7—Derivatives and Hedging Activities for more information.

In August 2018, the SEC issued a final rule amending certain of its disclosure requirements. This rule eliminates or simplifies redundant or outdated disclosure requirements. The rule also requires companies to present changes in shareholders’ equity on a quarterly basis for both current and prior year periods.

In August 2018, the FASB issued Accounting Standards Update (“ASU”) 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40), Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This ASU is effective for the annual periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted. The Company is currently evaluating the impact of this ASU on its Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU presents new methodology for calculating credit losses on financial instruments (e.g. trade receivables) based on expected credit losses and expands the types of information companies must use when calculating expected losses. This ASU is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted. The Company is currently evaluating the impact of this ASU on its Consolidated Financial Statements.

2. REVENUE RECOGNITION

In May 2014, the FASB issued ASU 2014-09, Revenue From Contracts With Customers (Topic 606) (“ASC 606”). ASC 606 supersedes the revenue recognition requirements in Accounting Standard Codification (“ASC”) 605, Revenue Recognition (“ASC 605”). The new standard provides a five-step analysis of transactions to determine when and how revenue is recognized, based upon the core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires additional disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company adopted ASC 606 on January 1, 2018, using the modified retrospective method. The new standard requires the Company to disclose the accounting policies in effect prior to January 1, 2018, as well as the policies it has applied starting January 1, 2018. Revenue is measured based on consideration specified in a contract with a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a service or goods to a customer.

Periods commencing January 1, 2018

The Company has contractual agreements with its customers that set forth the general terms and conditions of the relationship including line item pricing, payment terms and contract duration. Revenue is recognized when the performance obligation under the terms of the Company's contract with its customer is satisfied. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. The Company generates revenue primarily by processing electronic payment transactions. Set forth below is a description of the Company's revenue by segment.

Technology Solutions

Technology Solutions provides merchant acquiring, payment processing and related services to a diverse set of merchants that primarily accept payments through eCommerce and integrated payment solutions.

Merchant Solutions

Merchant Solutions provides merchant acquiring, payment processing and related services to a diverse set of merchants that primarily accept payments through an omni-channel solution including terminal based.

Issuer Solutions

Issuer Solutions provides card issuer processing, payment network processing, fraud protection and card production to a diverse set of financial institutions, including regional banks, community banks, credit unions and regional personal identification number ("PIN") networks.

Performance Obligations

At contract inception, the Company assesses the goods and services promised in its contracts with customers and identifies performance obligations for each promise to transfer to the customer a good or service that is distinct. The Company's performance obligation relating to its payment processing services revenue is to provide continuous access to the Company's system to process as much as its customers require. Since the number or volume of transactions to be processed is not determinable at contract inception, the Company's payment processing services consist of variable consideration under a stand ready service of distinct days of service that are substantially the same with the same pattern of transfer to the customer. As such, the stand-ready obligation is accounted for as a single-series performance obligation whereby the variability of the transaction value is satisfied daily as the performance obligation is performed.

The Company's payment processing services include all aspects of payment processing, including authorization and settlement, customer service, chargeback and retrieval processing, reporting for electronic payment transactions and network fee and interchange management.

The Company's products and services consists of, but are not limited to, foreign currency management, payment card industry regulatory compliance services, payment security (e.g. tokenization, encryption and fraud services), chargeback resolution, billing statement production (e.g. reporting and analytics), card production, and card-processing equipment sales. An evaluation is performed to determine whether or not these are separate performance obligations from payment processing. Once the performance obligations are identified, the total estimated transaction value is allocated based on a stand-alone selling price. Revenue from products and services is recognized at a point in time or over time depending on the products or services. Chargeback resolution services, card production and equipment sales are generally recognized at a point in time while most other performance obligations are billed and recognized over the contract period as the services are performed.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As a result of adopting ASC 606, the Company records certain fees paid to third parties, including network fees and other costs, as a reduction of revenue. The adoption of ASC 606 did not have a material impact on any other line items of the Company's Consolidated Statements of Income, Statements of Comprehensive (Loss) Income, Statements of Financial Position, Statements of Equity and Statements of Cash Flows.

Disaggregation of Revenue

In the following table, revenue is disaggregated by source of revenue (in millions):

Three Months Ended March 31, 2019				
	Technology Solutions	Merchant Solutions	Issuer Solutions	Total
Major Products and Services (1)				
Processing services	\$ 284.0	\$ 361.3	\$ 46.2	\$691.5
Products and services	143.3	98.1	37.1	278.5
Total	<u>\$ 427.3</u>	<u>\$ 459.4</u>	<u>\$ 83.3</u>	<u>\$970.0</u>

Three Months Ended March 31, 2018				
	Technology Solutions	Merchant Solutions	Issuer Solutions	Total
Major Products and Services (1)				
Processing services	\$ 230.1	\$ 340.0	\$ 46.8	\$616.9
Products and services	106.3	92.2	35.3	233.8
Total	<u>\$ 336.4</u>	<u>\$ 432.2</u>	<u>\$ 82.1</u>	<u>\$850.7</u>

- (1) Revenue breakdown is based on management's view and certain products and services revenue may be based on the number or volume of transactions.

Processing Services

Processing services revenue is primarily derived from processing credit and debit card transactions comprised of fees charged to businesses for payment processing services. The fees charged consist of a percentage of the transaction value, a specified fee per transaction, a fixed fee, or a combination.

Products and Services

Products and services revenue is primarily derived from ancillary services such as treasury management and foreign exchange, regulatory compliance, chargebacks and fraud services for which the fees charged may or may not be related to the volume or number of transactions.

Costs to Obtain and Fulfill a Contract

ASC 606 requires capitalizing costs of obtaining a contract when those costs are incremental and expected to be recovered. Since incremental commission fees paid to sales teams as a result of obtaining contracts are recoverable, the Company recorded a \$28.8 million (\$22.3 million net of deferred taxes) cumulative catch-up capitalized asset on January 1, 2018. As of March 31, 2019 and December 31, 2018, the amount capitalized as contract costs is \$42.4 million and \$39.3 million, respectively, which is included in other non-current assets.

In order to determine the amortization period for sales commission contract costs, the Company applied the portfolio approach for "like-kind contracts" to which sales compensation earnings can be applied and allocated incentive payments to each portfolio accordingly. The Company evaluated each individual portfolio to determine the proper length of time over which the capitalized incentive should be amortized by analyzing customer attrition rates using historical data and other metrics.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company determined that straight-line amortization would best correspond to the transfer of services to customers since services are transferred equally over time and have limited predictable volatility. The amortization periods range from 3 to 10 years and are based on the expected life of a customer. During the three months ended March 31, 2019 and 2018, the amount of amortization was \$2.6 million and \$2.5 million, respectively, which is recorded in sales and marketing expense. There was no impairment loss in relation to the costs capitalized.

The Company recognizes incremental sales commission costs of obtaining a contract as expense when the amortization period for those assets is one year or less per the practical expedient in ASC 606. These costs are included in sales and marketing expense.

Customer incentives represent signing bonuses paid to customers. Customer incentives are paid in connection with the acquisition or renewal of customer contracts, and are therefore deferred and amortized using the straight-line method based on the expected life of the customer. As of March 31, 2019 and December 31, 2018, the Company had \$75.8 million and \$71.5 million, respectively, of customer incentives included in other assets in the Company's Consolidated Statements of Financial Position. For the three months ended March 31, 2019, and 2018, the Company had \$7.9 million and \$6.2 million, respectively, of amortization expense related to these costs recorded as contra-revenue in the Company's Consolidated Statements of Income.

The Company capitalizes conversion costs associated with enabling customers to receive its processing services. As of March 31, 2019 and December 31, 2018, the Company had \$56.5 million and \$51.7 million, respectively, of capitalized conversion costs included in Intangible assets—net in the Company's Consolidated Statements of Financial Position. For the three months ended March 31, 2019, and 2018, the Company had, \$3.2 million and \$0.9 million, respectively, of amortization expense related to these costs, which is recorded in depreciation and amortization expense in the Company's Consolidated Statements of Income. These costs are amortized over the average life of the customer.

Contract Balances

Accounts Receivable-net

Accounts receivable primarily represent processing revenues earned but not collected. For a majority of its customers, the Company has the authority to debit the client's bank accounts; as such, collectibility is reasonably assured. Aside from debiting a client's bank account, the Company collects a majority of its revenue via net settlement with the remaining portion collected via billing the customer. The Company records a reserve for doubtful accounts when it is probable that the accounts receivable will not be collected. The Company reviews historical loss experience and the financial position of its customers when estimating the allowance. As of March 31, 2019 and December 31, 2018, the allowance for doubtful accounts was not material to the Company's Consolidated Statements of Financial Position.

Contract Liabilities

Contract liabilities, which relate to advance consideration received from customers (deferred income) before transfer of control occurs and therefore revenue is recognized, is not material to the Company's Consolidated Financial Statements.

Remaining Performance Obligations

ASC 606 requires disclosure of the aggregate amount of the transaction price allocated to unsatisfied performance obligations; however, as permitted by ASC 606, the Company has elected to exclude from this disclosure any contracts with an original duration of one year or less and any variable consideration that meets specified criteria. As discussed above, the Company's core performance obligation consists of variable consideration under a stand-ready series of distinct days of service and revenue from the Company's products and service arrangements are generally billed and recognized as the services are performed. The aggregate fixed consideration portion of customer contracts with an initial contract duration greater than one year is not material.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. LEASES

The Company adopted ASU 2016-02, Leases, on January 1, 2019. Accounting Standards Codification Topic 842, Leases (“ASC 842”) amends previous lease guidance under ASC 840 by requiring the recognition of all leases, including operating leases, on the balance sheet as right of use asset (“ROU”) and the present value (“PV”) lease liability, as well as disclosing key information about the lease arrangements. The Company elected to adopt ASC 842 using the modified retrospective transition approach using the effective date method, which results in the recognition of lease assets and liabilities as of the beginning of the period of adoption without requiring restatement of the prior period financials presented, so comparable periods presented in the Consolidated Financial Statements prior to January 1, 2019 continue to be presented under ASC 840.

At adoption, the Company elected the package of practical expedients in the guidance which consists of not reassessing whether any expired or existing contracts contain leases, not reassessing the lease classification for any expired or existing leases and not reassessing initial direct costs for any existing leases. The Company, however, did not elect the separate hindsight practical expedient.

Since most of the Company’s operating lease contracts do not provide an implicit rate, the Company made a policy election to use an incremental borrowing rate applicable to the geographic location of the leased asset and based on the remaining lease term in determining the present value of future minimum lease payments for purposes of recognizing a lease liability and corresponding ROU asset. Additionally, the Company made an accounting policy election to not recognize an ROU asset and lease liability for short-term leases with an initial term of 12 months or less.

The Company has various lease agreements for office space and land which are classified as operating leases and for equipment which is classified as finance leases. The operating lease agreements typically contain lease and non-lease components, which are accounted for separately since the Company is able to easily identify the applicable lease components. Lease terms may include options to extend or terminate the lease, which are factored into the recognition of ROU assets and lease liabilities when it is reasonably certain that the Company will exercise that option. The Company does not have any lease agreements whose payments are variable in nature (i.e. leases based on an index). Lease costs for operating leases, including short-term leases, are recognized over the lease term on a straight-line basis.

On January 1, 2019, the Company recorded both operating lease ROU assets of \$93.2 million and lease liabilities of \$139.2 million. The difference between the asset and liability primarily relates to previously recorded deferred rent, unfavorable acquired lease obligations and lease exit costs. The adoption of ASC 842 had an immaterial impact on the Company’s Consolidated Statements of Income (Loss) and Consolidated Statements of Cash Flows for the three months ended March 31, 2019.

The table below presents the Company’s leased assets and related lease liabilities (in millions):

<u>Leases</u>	<u>Classification</u>	<u>March 31, 2019</u>
Assets		
Operating lease assets	Other long-term assets	\$ 92.1
Finance lease assets	Property, equipment and software-net	32.9
Finance lease assets	Intangible assets	9.8
Liabilities		
Current:		
Operating	Other current liabilities	\$ 19.9
Finance	Current maturities of finance lease obligations	23.2
Non-current:		
Operating	Other non-current liabilities	117.0
Finance	Finance lease obligations	28.4

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The table below presents the costs associated with the leased assets (in millions):

<u>Leases</u>	<u>Classification</u>	<u>Three Months Ended March 31, 2019</u>
Operating lease cost:	General and administrative and Other operating costs	
Short-term		\$ 0.8
Long-term		9.3
Finance lease cost:		
Amortization of leased assets	Depreciation and amortization	3.6
Interest on lease liabilities	Interest expense-net	0.6
Total lease cost		\$ 14.3

The future minimum lease payments required under all leases and the present value of net minimum lease payments as of March 31, 2019 are as follows (in millions):

<u>Maturity of Lease Liabilities</u>	<u>Operating</u>	<u>Finance</u>
Nine months ended December 31, 2019	\$ 18.3	\$ 20.0
2020	23.2	17.3
2021	19.7	12.7
2022	17.4	5.3
2023	15.0	—
Thereafter	69.8	—
Total	\$ 163.4	\$ 55.3
Less: Interest	26.5	3.7
Present value of lease liabilities	\$ 136.9	\$ 51.6

The future minimum lease payments required under operating leases as of December 31, 2018 are as follows (in millions):

<u>Year Ended December 31,</u>	
2019	\$ 27.8
2020	23.2
2021	21.7
2022	19.0
2023	15.6
Thereafter	71.2
Total	\$178.5

The table below summarizes the weighted average remaining lease term and weighted average discount rate used by lease type:

<u>Lease Term and Discount Rate</u>	<u>March 31, 2019</u>
Weighted-average remaining lease term (years):	
Operating leases	9.0
Finance leases	2.6
Weighted-average discount rate:	
Operating leases	3.9%
Finance leases	4.9%

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The table below summarizes the impact to cash flows related to leases (in millions):

	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows used for operating leases	\$ 6.0
Operating cash flows used for finance leases	0.5
Financing cash flows used for finance leases	6.5
Leased assets obtained in exchange for new finance lease liabilities	—
Leased assets obtained in exchange for new operating lease liabilities	0.7

4. BUSINESS COMBINATIONS

Acquisition of Legacy Worldpay

On January 16, 2018, the Company completed the acquisition of Legacy Worldpay by acquiring 100% of the issued and outstanding shares (the “acquisition”). The approximately \$11.9 billion purchase price consisted of Legacy Worldpay shareholders receiving a \$1.5 billion cash payment and 133.6 million shares of the Company’s Class A common stock. The acquisition-date fair value of the shares of the Company’s Class A common stock issued was \$10.4 billion and was determined based on the share price of \$77.60 per share, the opening price of the Company’s Class A common stock on the New York Stock Exchange on January 16, 2018 since the acquisition closed before the market opened on January 16, 2018.

The acquisition creates a leading global payments technology company that is uniquely positioned to address clients’ needs with innovative and strategic capabilities.

The acquisition was accounted for as a business combination under ASC 805, Business Combinations (“ASC 805”). The purchase price was allocated to the assets acquired and the liabilities assumed based on the estimated fair value at the date of acquisition. The excess of the purchase price over the fair value of the net assets acquired was allocated to goodwill, none of which is deductible for tax purposes. Goodwill, assigned to Technology Solutions, Merchant and Issuer Solutions, consists primarily of the acquired workforce and growth opportunities, none of which qualify as an intangible asset.

The final purchase price allocation is as follows (in millions):

Cash acquired	\$ 569.9
Current assets (1)	4,113.8
Property, equipment and software	561.1
Intangible assets	3,380.1
Goodwill	10,571.9
Other non-current assets	109.3
Current liabilities (2)	(4,524.8)
Long-term debt (3)	(2,304.7)
Deferred tax liability	(532.8)
Non-current liabilities	(68.3)
Total purchase price	<u>\$11,875.5</u>

(1) Includes \$1,944.9 million of merchant float and \$511.1 million of other restricted cash.

(2) Includes \$118.6 million of dividend payable to reflect the special dividend granted to the shareholders of Legacy Worldpay.

(3) Includes \$1,631.0 million of debt which was paid off subsequent to the completion of acquisition.

Intangible assets primarily consist of customer relationship assets, internal-use software and a trade name with weighted average estimated useful lives of 6.7 years, 6.5 years and 10 years, respectively.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three months ended March 31, 2018, the Company incurred transaction expenses of approximately \$120.8 million in conjunction with the acquisition of Legacy Worldpay. All transaction costs incurred for the three months ended March 31, 2018 are included in general and administrative expenses on the accompanying Consolidated Statements of Income.

Under the terms of the Legacy Worldpay transaction agreement, the Company replaced equity awards held by certain employees of Legacy Worldpay. The fair value of the replacement awards was approximately \$82.4 million. The portion of the fair value of the replacement awards related to the services provided prior to the acquisition of approximately \$44.2 million was part of the consideration transferred to acquire Legacy Worldpay. The remaining portion of the fair value is associated with future service and will be recognized as expense over the future service period.

Pro Forma Results Giving Effect to the Legacy Worldpay Acquisition

The following pro forma combined financial information presents the Company's results of operations for the three months ended March 31, 2018, as if the acquisition had occurred on January 1, 2017 (in millions, except share amounts).

	Three Months Ended March 31, 2018 (Pro forma)
Total revenue	\$ 914.5
Net income attributable to Worldpay, Inc.	33.6
Net income per share attributable to Worldpay, Inc.	
Class A common stock:	
Basic	\$ 0.11
Diluted	\$ 0.11
Shares used in computing net income per share of Class A common stock:	
Basic	296,498,480
Diluted	298,027,972

The pro forma results include certain pro forma adjustments that were directly attributable to the acquisition as follows:

- additional amortization expense that would have been recognized relating to the acquired intangible assets; and
- adjustment to interest expense to reflect the additional borrowings of the Company in conjunction with the acquisition and removal of Legacy Worldpay debt.
- a reduction in expenses for the three months ended March 31, 2018 relating to acquisition-related transaction costs and debt refinancing costs incurred by the Company, which were applied to the three months ended March 31, 2017.

5. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the three months ended March 31, 2019 are as follows (in millions):

	Technology Solutions	Merchant Solutions	Issuer Solutions	Total
Balance as of December 31, 2018	\$ 9,608.4	\$ 3,934.3	\$ 595.2	\$14,137.9
Effect of foreign currency translation	127.3	36.8	—	164.1
Balance as of March 31, 2019	\$ 9,735.7	\$ 3,971.1	\$ 595.2	\$14,302.0

Intangible assets consist of acquired customer relationships, trade name and customer portfolios and related assets. The useful lives of customer relationships are determined based on forecasted cash flows, which include estimates for customer attrition associated with the underlying portfolio of customers acquired. The customer relationships acquired in conjunction with acquisitions are amortized based on the pattern of cash flows expected to be realized taking into consideration expected revenues and customer attrition, which are based on historical data and the Company's estimates of future performance. These estimates result in accelerated amortization on certain acquired intangible assets.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of March 31, 2019 and December 31, 2018, the Company's finite lived intangible assets consisted of the following (in millions):

	March 31, 2019	December 31, 2018
Customer relationship intangible assets	\$ 4,592.1	\$ 4,540.9
Trade name	355.9	348.8
Customer portfolios and related assets	328.0	323.8
Patents	2.4	2.3
	<u>5,278.4</u>	<u>5,215.8</u>
Less accumulated amortization on:		
Customer relationship intangible assets	2,048.2	1,865.5
Trade name	45.4	35.5
Customer portfolios and related assets	201.3	187.0
	<u>2,294.9</u>	<u>2,088.0</u>
Intangible assets, net	<u>\$ 2,983.5</u>	<u>\$ 3,127.8</u>

Customer portfolios and related assets acquired during the three months ended March 31, 2019 have weighted-average amortization periods of 3.0 years. Amortization expense on intangible assets for the three months ended March 31, 2019 and 2018 was \$197.4 million and \$149.8 million, respectively.

The estimated amortization expense of intangible assets for the remainder of 2019 and the next five years is as follows (in millions):

Nine months ended December 31, 2019	\$ 561.9
2020	609.4
2021	506.5
2022	440.5
2023	276.6
2024	255.4

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. LONG-TERM DEBT

As of March 31, 2019 and December 31, 2018, the Company's long-term debt consisted of the following (in millions):

	March 31, 2019	December 31, 2018
Term A loan, maturing in January 2023 ⁽¹⁾	\$ 3,228.6	\$ 3,271.1
Term A loan, maturing in January 2023 ⁽²⁾	602.9	597.6
Term B loan, maturing in October 2023	—	520.1
Term B loan, maturing in August 2024 ⁽³⁾	1,737.5	1,741.8
Senior Unsecured Dollar Notes, maturing in November 2025 ⁽⁴⁾	500.0	500.0
Senior Unsecured Sterling Notes, maturing in November 2025 ⁽⁵⁾	611.9	598.5
Senior Unsecured Euro Note, maturing in November 2022 ⁽⁶⁾	605.4	617.5
Leasehold mortgage, expiring on August 10, 2021 ⁽⁷⁾	10.0	10.0
Revolving credit facility, expiring in January 2023 ⁽⁸⁾	246.0	50.0
Less: Current portion of notes payable	(219.3)	(225.7)
Less: Original issue discount	(4.7)	(6.2)
Less: Debt issuance costs	(49.0)	(52.6)
Notes payable	<u>\$ 7,269.3</u>	<u>\$ 7,622.1</u>

- (1) Interest at a variable base rate (LIBOR) plus a spread rate (150 basis points) (weighted average rate of 3.95% at March 31, 2019) and amortizing on a basis of 1.25% per quarter during each of the first twelve quarters (June 2018 through March 2021), 1.875% per quarter during the next four quarters (June 2021 through March 2022) and 2.50% per quarter during the next three quarters (June 2022 through December 2022) with a balloon payment due at maturity.
- (2) £463 million principal outstanding, translated to U.S. dollars at the spot rate of 1.3020 U.S. dollars per Pound Sterling at March 31, 2019. Interest at a variable base rate (GBP LIBOR) plus a spread rate (150 basis points) (total rate of 2.23% at March 31, 2019) and amortizing on a basis of 1.25% per quarter during each of the first twelve quarters (June 2018 through March 2021), 1.875% per quarter during the next four quarters (June 2021 through March 2022) and 2.50% per quarter during the next three quarters (June 2022 through December 2022) with a balloon payment due at maturity.
- (3) Interest payable at a variable base rate (LIBOR) plus a spread rate (175 basis points) (weighted average rate of 4.21% at March 31, 2019) and amortizing on a basis of 0.25% per quarter, with a balloon payment due at maturity.
- (4) \$500 million principal senior unsecured notes with interest payable semi-annually at a fixed rate of 4.375% and principal due upon maturity.
- (5) £470 million principal senior unsecured notes with interest payable semi-annually at a fixed rate of 3.875% and principal due upon maturity. The spot rate of 1.3020 U.S. dollars per Pound Sterling at March 31, 2019 was used to translate the Note to U.S. dollars.
- (6) €500 million principal senior unsecured note with interest payable semi-annually at a fixed rate of 3.75% and principal due upon maturity. The spot rate of 1.1229 U.S. dollars per Euro at March 31, 2019 was used to translate the Note to U.S. dollars. Includes remaining unamortized fair value premium of \$43.9 million at March 31, 2019.
- (7) Interest payable monthly at a fixed rate of 6.22%.
- (8) Available revolving credit facility of \$1.25 billion borrowing interest at a variable base rate (total rate of 6.0% at March 31, 2019).

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2018 Debt Activity

The closing of the Legacy Worldpay acquisition on January 16, 2018 resulted in the effectiveness of several debt amendments to the Company's loan agreement entered into prior to the closing. The resulting incremental funding and availability was as follows:

- \$1,605 million of additional Term A loans maturing in January 2023
- \$535 million of additional Term B loans maturing in August 2024
- \$600 million of additional revolving credit commitments, resulting in total available revolving credit of \$1,250 million
- \$594.5 million backstop (expired on June 15, 2018)

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As a result of the closing of the Legacy Worldpay acquisition, the Company expensed approximately \$56.6 million primarily consisting of the write-offs of unamortized deferred financing fees and original issue discount (“OID”) and fees related to previously committed unused backstop facilities associated with the component of the debt activity accounted for as a debt extinguishment and certain third party costs incurred in connection with the debt activity. Amounts expensed in connection with the refinancing are recorded as a component of non-operating expenses in the accompanying consolidated statement of income for the three months ended March 31, 2018.

On June 22, 2018, the Company amended the Existing Loan Agreement by modifying certain terms of its Term A-5 Loans (January 2023 maturity date), the Term B-3 (October 2023 maturity date) and B-4 Loans (August 2024 maturity date) and Revolving Loans (January 2023 maturity date). The amendment reduced the Company’s interest rate spread on the Term B-3 and B-4 Loans by 25 basis points and changed the pricing for the Term A-5 Loans and Revolving Loans, the immediate effect of which was to lower the interest rate spread on the Term A-5 Loans and Revolving Loans by 25 basis points.

Although the Company’s total borrowings did not change as a result of the refinancing, the amendment established a new class of Term A-6 Loans of approximately £488 million as a mirror tranche to the Term A-5 Loans under the same terms and pricing. The proceeds of the Term A-6 Loans were used to refinance and replace the existing Term A-3 Loans and certain Term A-5 Loans. In addition, commitments under the Company’s Term A-5 Loans increased by \$100 million and the proceeds were used to reduce the existing Term B-3 Loans and Term B-4 Loans, each by \$50 million.

Additionally, as a result of new debt being issued in connection with the Company’s acquisition of Legacy Worldpay in January 2018, and the amendment to reprice the Existing Loan Agreement in June 2018, the Company capitalized approximately \$23.7 million of deferred financing costs for the year ended December 31, 2018.

2019 Debt Activity

On January 15, 2019, the Company paid down the outstanding balance on its Term B-3 Loan in the amount of \$520.1 million, which resulted in a write-off of debt issuance costs and original issue discount of approximately \$2.4 million recorded as a component of non-operating expenses in the Company’s accompanying Consolidated Statements of Income for the three months ended March 31, 2019.

Guarantees and Security

The Company’s debt obligations at March 31, 2019 are unconditional and, with the exception of the Euro Note, are guaranteed by Worldpay Holding and certain of Worldpay Holding’s existing and subsequently acquired or organized domestic subsidiaries. The refinanced debt and related guarantees are secured on a first-priority basis (subject to liens permitted under the Third Amended and Restated Loan Agreement) by a lien on substantially all the tangible and intangible assets of the Company and the aforementioned subsidiaries, including substantially all the capital stock (subject to a 65% limitation on pledges of capital stock of foreign subsidiaries and domestic holding companies of foreign subsidiaries) and personal property of Worldpay Holding and any obligors under the Third Amended and Restated Loan Agreement as well as any real property in excess of \$25 million in the aggregate held by Worldpay Holding or any obligors (other than Worldpay Holding), subject to certain exceptions. The Euro Note is guaranteed by Worldpay Group Limited. Additionally, the Euro Note is also guaranteed by Worldpay LLC as a result of the Company receiving the required consent from the Euro Note holders in July 2018 to relieve reporting requirements associated with those notes.

Covenants

There are certain financial and non-financial covenants contained in the Existing Loan Agreement for the refinanced debt, which are tested on a quarterly basis. The financial covenants require maintenance of certain leverage and interest coverage ratios. At March 31, 2019, the Company was in compliance with these financial covenants.

7. DERIVATIVES AND HEDGING ACTIVITIES

Risk Management Objective of Using Derivatives

The Company enters into derivative financial instruments to manage differences in the amount, timing and duration of its known or expected cash payments related to its variable-rate debt. As of March 31, 2019 and December 31, 2018, the Company's interest rate derivative instruments for this purpose consist of interest rate swaps and interest rate cap agreements. The interest rate swaps hedge the variable rate debt by effectively converting floating-rate payments to fixed-rate payments. The interest rate cap agreements cap a portion of the Company's variable rate debt if interest rates rise above the strike rate on the contract.

In May 2018, the Company entered into additional interest rate cap and swap agreements and the Company paid an upfront premium of approximately \$8.1 million for the interest rate caps. As of March 31, 2019, the Company's interest rate caps, including those executed in prior years, had a fair value of \$15.9 million, classified within other current and non-current assets on the Company's consolidated statements of financial position. The interest rate swaps and caps (collectively "interest rate contracts") are designated as cash flow hedges for accounting purposes.

Accounting for Derivative Instruments

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which amends and simplifies existing guidance to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The Company adopted this ASU as of January 1, 2019 with an immaterial impact on the Company's Consolidated Financial Statements.

The Company recognizes derivatives in other current and non-current assets or liabilities in the accompanying Consolidated Statements of Financial Position at their fair values. Refer to Note 10—Fair Value Measurements for a detailed discussion of the fair value of its derivatives. The Company designates its interest rate contracts as cash flow hedges of forecasted interest rate payments related to its variable-rate debt.

The Company formally documents all relationships between hedging instruments and underlying hedged transactions, as well as its risk management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to forecasted transactions. A formal assessment of hedge effectiveness is performed both at inception of the hedge and on an ongoing basis to determine whether the hedge is highly effective in offsetting changes in cash flows of the underlying hedged item. Hedge effectiveness is assessed using a regression analysis. If it is determined that a derivative ceases to be highly effective during the term of the hedge, the Company will discontinue hedge accounting for such derivative.

The Company's interest rate contracts qualify for hedge accounting under ASC 815, Derivatives and Hedging. Therefore, the gain or loss on the derivative is recorded in AOCI and subsequently reclassified into earnings in the same period during which the hedged transactions affect earnings.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Cash Flow Hedges of Interest Rate Risk

The following table presents the Company's interest rate swaps and caps (in millions):

<u>Derivative</u>	<u>Notional Value</u>	<u>Exposure Periods</u>	<u>Strike Rate</u>
Interest rate swap	\$ 600	June 2018 to January 2021	
Interest rate swap	500	June 2019 to June 2021	
Total	\$ 1,100		
Interest rate cap	\$ 1,000	January 2017 to January 2020	0.75%
Interest rate cap	600	June 2018 to June 2021	2.25%
Total	\$ 1,600		

The Company does not offset derivative positions in the accompanying consolidated financial statements. The table below presents the fair value of the Company's derivative financial instruments designated as cash flow hedges included within the accompanying Consolidated Statements of Financial Position (in millions):

	<u>Consolidated Statement of Financial Position Location</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Interest rate contracts	Other current assets	\$ 14.5	\$ 19.3
Interest rate contracts	Other long-term assets	1.5	5.3
Interest rate contracts	Other current liabilities	4.1	1.8
Interest rate contracts	Other long-term liabilities	11.3	8.2

As of March 31, 2019, the Company estimates that \$1.4 million will be reclassified from accumulated other comprehensive income as a decrease to interest expense during the next 12 months.

The table below presents the pre-tax effect of the Company's interest rate contracts on the accompanying Consolidated Statements of Comprehensive Income for the three months ended March 31, 2019 and 2018 (in millions):

	<u>Three Months Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Derivatives in cash flow hedging relationships:		
Amount of (loss) gain recognized in OCI (1)	\$ (9.4)	\$ 6.3
Amount of gain (loss) reclassified from OCI into earnings	2.2	(0.6)
Amount of gain recognized in earnings	—	0.1

(1) "OCI" represents other comprehensive income.

The location and amount of gains or losses recognized in the consolidated results of operations for cash flow hedging relationships for each of the periods, presented on a pretax basis, are as follows (in millions):

	<u>Three Months Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>Interest Expense</u>	<u>Interest Expense</u>
	<u>—Net</u>	<u>—Net</u>
Total amounts of income and expense line items presented in the consolidated results of operations in which effects of cash flow hedges are recorded	\$ 72.1	\$ 75.2
Gain (loss) on cash flow hedging relationships	2.2	(0.6)

Credit Risk Related Contingent Features

As of March 31, 2019, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$15.8 million.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, then the Company could also be declared in default on its derivative obligations. As of March 31, 2019, the Company had not posted any collateral related to these agreements. If the Company had breached any of these provisions at March 31, 2019, it could have been required to settle its obligations under the agreements at their termination value of \$15.8 million.

Deal Contingent Forward

On August 9, 2017, the Company entered into a £1,150 million notional deal contingent forward to economically hedge a portion of the purchase price relating to the Legacy Worldpay acquisition. The deal contingent forward settled upon the closing of the Legacy Worldpay acquisition in January 2018 and the Company recognized a related realized gain of approximately \$69.0 million, of which approximately \$35.9 million of the gain relates to the three months ended March 31, 2018, which is recorded in non-operating expense.

Net Investment Hedges

To help protect the net investment in foreign operations from adverse changes in foreign currency exchange rates, the Company uses non-derivative financial instruments, such as its foreign currency-denominated debt, as economic hedges of its net investments in its Euro and GBP functional subsidiaries (see Note 6—Long-Term Debt for more discussion on the Company's foreign currency-denominated debt). The Company designated 100% of its Euro and GBP denominated debt as net investment hedges.

The Company's net investment hedges are recorded in other comprehensive income (loss). During the three months ended March 31, 2019 and 2018, the Company recognized in other comprehensive income pre-tax losses of \$3.5 million and \$7.5 million, respectively, relating to these net investment hedges. Reclassifications out of OCI would only take place if the Company's subsidiaries were sold or substantially liquidated.

8. CONTROLLING AND NON-CONTROLLING INTERESTS

The Company accounts for non-controlling interests in accordance with ASC 810, Consolidation. Prior to the March 2019 Fifth Third Stock Sale discussed in Note 1- Basis of Presentation and Summary of Significant Accounting Policies, Worldpay, Inc. owned a controlling interest in Worldpay Holding, and therefore consolidated the financial results of Worldpay Holding and its subsidiaries and recorded non-controlling interest for the economic interests in Worldpay Holding held by Fifth Third, which primarily represented Fifth Third's minority share of net income or loss of equity in Worldpay Holding. The Exchange Agreement entered into prior to the IPO provided for a 1 to 1 ratio between the units of Worldpay Holding and the common stock of Worldpay, Inc. Net income attributable to non-controlling interests does not include expenses incurred directly by Worldpay, Inc., including income tax expense attributable to Worldpay, Inc. Non-controlling interests are presented as a component of equity in the accompanying Consolidated Statements of Financial Position.

The Company also records non-controlling interest related to its 51% ownership in a joint venture.

As a result of the Fifth Third Stock Sale (See Note 1—Basis of Presentation and Summary of Significant Accounting Policies for further discussion), Worldpay, Inc. owned 100% interest in Worldpay Holding as of March 31, 2019. Changes in units and related ownership interest in Worldpay Holding are summarized as follows:

	<u>Worldpay, Inc.</u>	<u>Fifth Third</u>	<u>Total</u>
As of December 31, 2018	300,454,590	10,252,826	310,707,416
% of ownership	96.70%	3.30%	
Fifth Third exchange of Worldpay Holding units for shares of Class A common stock	10,252,826	(10,252,826)	—
Equity plan activity ⁽¹⁾	510,677	—	510,677
As of March 31, 2019	<u>311,218,093</u>	<u>—</u>	<u>311,218,093</u>
% of ownership	100.00%	— %	

- (1) Includes stock issued under the equity plans less Class A common stock withheld to satisfy employee tax withholding obligations upon vesting or exercise of employee equity awards and forfeitures of restricted Class A common stock awards.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As a result of the changes in ownership interests in Worldpay Holding, periodic adjustments are made in order to reflect the portion of net assets of Worldpay Holding attributable to non-controlling unit holders based on changes in the proportionate ownership interests in Worldpay Holding during those periods. At March 31, 2019, an adjustment of \$347.4 million was made relating to Fifth Third's conversion of its remaining Class B units in Worldpay Holding.

The table below provides a reconciliation of net income attributable to non-controlling interests based on relative ownership interests as discussed above (in millions):

	<u>Three Months Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Net income (loss)	\$ 38.1	\$ (98.3)
Items not allocable to non-controlling interests:		
Worldpay, Inc. expenses (1)	1.7	30.6
Worldpay Holding net income (loss)	\$ 39.8	\$ (67.7)
Net income (loss) attributable to non-controlling interests of Fifth Third (2)	\$ 1.1	\$ (1.0)
Net income attributable to joint venture non-controlling interest (3)	0.6	0.3
Total net income (loss) attributable to non-controlling interests	\$ 1.7	\$ (0.7)

- (1) Primarily represents income tax expense for the three months ended March 31, 2019. Primarily represents acquisition related expenses for the three months ended March 31, 2018.
- (2) Net income attributable to non-controlling interests of Fifth Third reflects the allocation of Worldpay Holding's net income based on the proportionate ownership interests in Worldpay Holding held by the non-controlling unit holders. The net income attributable to non-controlling unit holders reflects the changes in ownership interests summarized in the table above.
- (3) Reflects net income attributable to the non-controlling interest of the joint venture.

9. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Legal Reserve

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. While it is impossible to ascertain the ultimate resolution or range of financial liability with respect to these contingent matters, management believes none of these matters, either individually or in the aggregate, would have a material effect upon the Company's consolidated financial statements.

10. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses the hierarchy prescribed in ASC 820, Fair Value Measurement, based upon the available inputs to the valuation and the degree to which they are observable or not observable in the market. The three levels in the hierarchy are as follows:

- Level 1 Inputs—Quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible as of the measurement date.
- Level 2 Inputs—Inputs other than quoted prices within Level 1 that are observable either directly or indirectly, including but not limited to quoted prices in markets that are not active, quoted prices in active markets for similar assets or liabilities and observable inputs other than quoted prices such as interest rates or yield curves.
- Level 3 Inputs—Unobservable inputs reflecting the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018 (in millions):

	March 31, 2019			December 31, 2018		
	Fair Value Measurements Using					
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Interest rate contracts	\$ —	\$ 16.0	\$ —	\$ —	\$ 24.6	\$ —
Liabilities:						
Interest rate contracts	\$ —	\$ 15.4	\$ —	\$ —	\$ 10.0	\$ —
Mercury TRA	—	42.9	—	—	53.2	—

Interest Rate Contracts

The Company uses interest rate contracts to manage interest rate risk. The fair value of interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. The fair value of the interest rate caps is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected future cash flows of each interest rate cap. This analysis reflects the contractual terms of the interest rate caps, including the period to maturity, and uses observable market inputs including interest rate curves and implied volatilities. In addition, to comply with the provisions of ASC 820, Fair Value Measurement, credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, are incorporated in the fair values to account for potential nonperformance risk. In adjusting the fair value of its interest rate contracts for the effect of nonperformance risk, the Company has considered any applicable credit enhancements such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company determined that the majority of the inputs used to value its interest rate contracts fell within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its interest rate contracts utilized Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2019 and December 31, 2018, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its interest rate contracts and determined that the credit valuation adjustment was not significant to the overall valuation of its interest rate contracts. As a result, the Company classified its interest rate contract valuations in Level 2 of the fair value hierarchy. See Note 7—Derivatives and Hedging Activities for further discussion of the Company's interest rate contracts.

Mercury TRA

The Mercury TRA is considered contingent consideration as it is part of the consideration payable to the former owners of Mercury. Such contingent consideration is measured at fair value based on estimates of discounted future cash flows associated with the estimated payments to the Mercury TRA Holders. The liability recorded is re-measured at fair value at each reporting period with the change in fair value recognized in earnings as a non-operating expense.

The following table summarizes carrying amounts and estimated fair values for the Company's financial instrument liabilities that are not reported at fair value in our consolidated statements of financial position as of March 31, 2019 and December 31, 2018 (in millions):

	March 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
Notes payable	\$ 7,488.6	\$7,579.0	\$ 7,847.8	\$7,679.6

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

We consider that the carrying value of cash and cash equivalents, receivables, accounts payable and accrued expenses approximates fair value (Level 1) given the short-term nature of these items. The fair value of the Company's notes payable was estimated based on rates currently available to the Company for bank loans with similar terms and maturities and is classified in Level 2 of the fair value hierarchy.

11. NET INCOME PER SHARE

Basic net income per share is calculated by dividing net income (loss) attributable to Worldpay, Inc. by the weighted-average shares of Class A common stock outstanding during the period.

Diluted net income per share is calculated assuming that Worldpay Holding is a wholly-owned subsidiary of Worldpay, Inc., therefore eliminating the impact of Fifth Third's non-controlling interest. Pursuant to the Exchange Agreement, the Class B units of Worldpay Holding ("Class B units"), which are held by Fifth Third and represent the non-controlling interest in Worldpay Holding, are convertible into shares of Class A common stock on a one-for-one basis. Based on this conversion feature, diluted net income per share is calculated assuming the conversion of the Class B units on an "if-converted" basis. Due to the Company's structure as a C corporation and Worldpay Holding's structure as a pass-through entity for tax purposes, the numerator in the calculation of diluted net income per share is adjusted accordingly to reflect the Company's income tax expense assuming the conversion of the Fifth Third non-controlling interest into Class A common stock.

During the three months ended March 31, 2019 and 2018, approximately 8.7 million and 15.3 million weighted-average dilutive Class B units of Worldpay Holding were excluded in computing diluted net income (loss) per share because including them would have an antidilutive effect. As the Class B units of Worldpay Holding were not included, the numerator used in the calculation of diluted net income (loss) per share was equal to the numerator used in the calculation of basic net income (loss) per share for the three months ended March 31, 2019 and 2018. As of March 31, 2019, all Class B units have been converted to Class A common stock and therefore there are no Class B units outstanding. As of March 31, 2018, there were approximately 15.3 million Class B units outstanding.

In addition to the Class B units discussed above, potentially dilutive securities during the three months ended March 31, 2019 and 2018 included restricted stock awards, restricted stock units, stock options, performance share awards and ESPP purchase rights. Due to the net loss for three months ended March 31, 2018, any potentially dilutive securities were also excluded from the denominator in computing dilutive net income per share.

The shares of Class B common stock do not share in the earnings or losses of the Company and are therefore not participating securities. Accordingly, basic and diluted net income per share of Class B common stock have not been presented.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table sets forth the computation of basic and diluted net income (loss) per share (in millions, except share data):

	Three Months Ended March 31,	
	2019	2018
Basic:		
Net income (loss) attributable to Worldpay, Inc.	\$ 36.4	\$ (97.6)
Shares used in computing basic net income (loss) per share:		
Weighted-average Class A common shares	302,046,241	274,098,480
Basic net income (loss) per share	<u>\$ 0.12</u>	<u>\$ (0.36)</u>
Diluted:		
Net income (loss) attributable to Worldpay, Inc.	\$ 36.4	\$ (97.6)
Shares used in computing diluted net income (loss) per share:		
Weighted-average Class A common shares	302,046,241	274,098,480
Weighted-average Class B units of Worldpay Holding	—	—
Stock options	929,755	—
Restricted stock awards, restricted stock units and employee stock purchase plan	889,105	—
Performance awards	11,866	—
Diluted weighted-average shares outstanding	<u>303,876,967</u>	<u>274,098,480</u>
Diluted net income (loss) per share	<u>\$ 0.12</u>	<u>\$ (0.36)</u>

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The activity of the components of accumulated other comprehensive income (loss) ("AOCI") related to hedging and other activities for the three months ended March 31, 2019 and 2018 is presented below (in millions):

	AOCI Beginning Balance	Total Other Comprehensive Income (Loss)					
		Pretax Activity	Tax Effect	Net Activity	Attributable to non-controlling interests	Attributable to Worldpay, Inc.	AOCI Ending Balance
Three Months Ended March 31, 2019							
Net change in fair value of cash flow hedges recorded in accumulated OCI	\$ (18.0)	\$ (9.4)	\$ 2.2	\$ (7.2)	\$ 0.2	\$ (7.0)	\$ (25.0)
Net realized loss on cash flow hedges reclassified into earnings (1)	15.9	(2.2)	0.5	(1.7)	—	(1.7)	14.2
Translation adjustments on net investment hedge recorded in AOCI (2)	52.2	(3.5)	0.7	(2.8)	0.4	(2.4)	49.8
Foreign currency translation adjustments (3)	(781.3)	182.0	—	182.0	(8.6)	173.4	(607.9)
Net change	<u>\$ (731.2)</u>	<u>\$ 166.9</u>	<u>\$ 3.4</u>	<u>\$ 170.3</u>	<u>\$ (8.0)</u>	<u>\$ 162.3</u>	<u>\$ (568.9)</u>
Three Months Ended March 31, 2018							
Net change in fair value of cash flow hedges recorded in accumulated OCI	\$ (13.8)	\$ 6.3	\$ (1.5)	\$ 4.8	\$ (0.4)	\$ 4.4	\$ (9.4)
Net realized loss on cash flow hedges reclassified into earnings (1)	16.7	0.6	(0.1)	0.5	—	0.5	17.2
Translation adjustments on net investment hedge recorded in AOCI (2)	—	(7.5)	2.0	(5.5)	0.4	(5.1)	(5.1)
Foreign currency translation adjustments (3)	—	22.2	—	22.2	(1.1)	21.1	21.1
Net change	<u>\$ 2.9</u>	<u>\$ 21.6</u>	<u>\$ 0.4</u>	<u>\$ 22.0</u>	<u>\$ (1.1)</u>	<u>\$ 20.9</u>	<u>\$ 23.8</u>

(1) The reclassification adjustment on cash flow hedge derivatives affected the following lines in the accompanying consolidated statements of income:

<u>OCI Component</u>	<u>Affected line in the accompanying consolidated statements of income</u>
Pretax activity ^(a)	Interest expense-net
Tax effect	Income tax expense
OCI attributable to non-controlling interests	Net income attributable to non-controlling interests

(a) The three months ended March 31, 2019 and 2018, reflect amounts of losses reclassified from AOCI into earnings, representing the effective portion of the hedging relationships, and are recorded in interest expense-net.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

- (2) See Note 7—Derivatives and Hedging Activities for more information on net investment hedge activity.
- (3) There is no tax impact on the foreign translation adjustments due to the Tax Reform impact on distributions, enacted in 2017.

13. SEGMENT INFORMATION

The Company's segments are Technology Solutions, Merchant Solutions and Issuer Solutions, which are organized based on the Company's solution offerings. The Company's Chairman of the Board and Chief Executive Officer is the chief operating decision maker ("CODM"), who evaluates the performance and allocates resources based on the operating results of each segment. The Company's reportable segments are the same as the Company's operating segments and there is no aggregation of the Company's operating segments. Below is a summary of each segment:

- Technology Solutions—Technology Solutions provides merchant acquiring, payment processing and related services to a diverse set of merchants that primarily accept payments through eCommerce and integrated payment solutions.
- Merchant Solutions—Merchant Solutions provides merchant acquiring, payment processing and related services to a diverse set of merchants that primarily accept payments through an omni-channel solution including terminal based.

Worldpay, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Issuer Solutions—Issuer Solutions provides card issuer processing, payment network processing, fraud protection and card production to a diverse set of financial institutions, including regional banks, community banks, credit unions and regional PIN networks.

Segment operating results are presented below (in millions). The results reflect revenues and expenses directly related to each segment. The Company does not evaluate performance or allocate resources based on segment asset data, and therefore such information is not presented.

Segment profit reflects revenue less sales and marketing costs of the segment. The Company's CODM evaluates this metric in analyzing the results of operations for each segment.

Three Months Ended March 31, 2019				
	Technology Solutions	Merchant Solutions	Issuer Solutions	Total
Revenue	\$ 427.3	\$ 459.4	\$ 83.3	\$970.0
Sales and marketing	118.4	166.0	6.5	290.9
Segment profit	<u>\$ 308.9</u>	<u>\$ 293.4</u>	<u>\$ 76.8</u>	<u>\$679.1</u>

Three Months Ended March 31, 2018				
	Technology Solutions	Merchant Solutions	Issuer Solutions	Total
Revenue	\$ 336.4	\$ 432.2	\$ 82.1	\$850.7
Sales and marketing	95.9	163.8	6.3	266.0
Segment profit	<u>\$ 240.5</u>	<u>\$ 268.4</u>	<u>\$ 75.8</u>	<u>\$584.7</u>

A reconciliation of total segment profit to the Company's income (loss) before applicable income taxes is as follows (in millions):

	Three Months Ended March 31,	
	2019	2018
Total segment profit	\$ 679.1	\$ 584.7
Less: Other operating costs	(181.0)	(155.1)
Less: General and administrative	(127.4)	(250.1)
Less: Depreciation and amortization	(264.4)	(207.2)
Less: Interest expense—net	(72.1)	(75.2)
Less: Non-operating income (expense)	3.5	(8.6)
Income (loss) before applicable income taxes	<u>\$ 37.7</u>	<u>\$ (111.5)</u>

**Management’s Discussion and Analysis of Financial Condition and Results of Operations of Worldpay, Inc.
for the year ended December 31, 2018**

This management’s discussion and analysis provides a review of the results of operations, financial condition and liquidity and capital resources of Worldpay, Inc., formerly Vantiv, Inc. (“Worldpay”, “we”, “us”, “our” or the “company” refer to Worldpay, Inc. and its consolidated subsidiaries) and outlines the factors that have affected recent results, as well as those factors that may affect future results. Our actual results in the future may differ materially from those anticipated in these forward looking statements as a result of many factors, including those set forth under “Risk Factors,” “Forward Looking Statements” and elsewhere in Worldpay’s Annual Report on Form 10-K for the year ended December 31, 2018. The following discussion and analysis should be read in conjunction with Worldpay’s Consolidated Financial Statements and related notes included in Exhibit 99.1 to this Current Report on Form 8-K.

Overview

Worldpay, Inc. is a leading payments technology company. We process over 40 billion transactions annually, supporting more than 300 payment types across 146 countries and 126 currencies. According to the Nilson Report, we are the largest merchant acquirer globally by number of transactions, and the largest PIN debit acquirer by number of transactions in the United States.

We are a payments innovator, differentiated by our global reach, innovative technology and tailored solutions. Our leading competitive position and differentiated solutions have enabled us to achieve unique advantages in fast-growing and strategically-important segments of the payments market, including unrivaled capabilities in global eCommerce, a first-mover advantage in U.S. Integrated Payments, and Enterprise payments and data security solutions in business-to-business (B2B) payments. See Exhibit 99.5 to this Current Report on Form 8-K for a more detailed discussion of the business overview.

Share Repurchase Authorization

In October 2016, our board of directors authorized a program to repurchase up to an additional \$250 million of our Class A common stock. We currently have approximately \$93 million of share repurchase authority remaining as of December 31, 2018 under this authorization. On February 20, 2019, our board of directors authorized a program to repurchase up to an additional \$500 million of our Class A common stock bringing our total share repurchase availability to \$593 million.

Recent Acquisitions

On January 16, 2018, we completed the acquisition of Worldpay Group Limited, formerly Worldpay Group plc, a public limited company (“Legacy Worldpay”) by acquiring 100% of the issued and outstanding shares. The acquisition creates a leading global integrated payment technology and international eCommerce payment provider and will enable us to take advantage of strategic and innovative opportunities to provide differentiated and diversified solutions to address clients’ needs.

On May 25, 2017, we completed the acquisition of Paymetric Holdings, Inc. (“Paymetric”) by acquiring 100% of the issued and outstanding shares. Paymetric automates business-to-business payment workflows within enterprise systems and tokenizes payments data within these systems in order to enable secure storage of customer information and history.

Please see Note 3—Business Combinations in the notes to our audited consolidated financial statements included in Exhibit 99.1 to this Current Report on Form 8-K for more information about these acquisitions.

Our Segments, Revenue and Expenses

Technology Solutions

Technology Solutions provides merchant acquiring, payment processing and related services to a diverse set of merchants that primarily accept payments through eCommerce and integrated payment solutions.

Merchant Solutions

Merchant Solutions provides merchant acquiring, payment processing and related services to a diverse set of merchants that primarily accept payments through an omni-channel solution including terminal based.

Issuer Solutions

Issuer Solutions provides card issuer processing, payment network processing, fraud protection and card production to a diverse set of financial institutions, including regional banks, community banks, credit unions and regional PIN networks.

Revenue

We provide a wide range of electronic payment and related products and services, both online and by mobile, to accept, validate and settle payments in 126 currencies across 146 countries, using any one of over 300 payment methods. Our customers also use our payments technology to maximize the rate at which payments are approved, manage the risk of fraud, and optimize their costs of operating globally.

We generate revenue primarily by providing payment processing as well as related products and services. The segment discussion above provides a description of our revenues by segment.

Network Fees and Other Costs

Network fees and other costs primarily consist of pass through expenses incurred by us in connection with providing processing services to our clients, including Visa and Mastercard network association fees and payment network fees.

Net Revenue

For the year ended December 31, 2018 net revenue is equivalent to gross revenue since network fees and other costs are netted against gross revenue as the result of our adoption of ASC 606 on January 1, 2018. Net revenue is revenue, less network fees and other costs and reflects revenue generated from the services we provide to our clients. Management uses net revenue to assess our operating performance. We believe that net revenue, when reviewed together with revenue, is meaningful to our investors in order to understand our performance.

Expenses

Set forth below is a brief description of the components of our expenses:

- *Network fees and other costs* primarily consist of pass through expenses incurred by us in connection with providing processing services to our clients, including Visa and Mastercard network association fees and payment network fees and only relates to the years ended December 31, 2017 and 2016. Following our adoption of ASC 606 on January 1, 2018, network fees and other costs are presented net within revenue.
- *Sales and marketing expense* primarily consists of salaries, commissions and benefits paid to sales personnel, sales management and other sales and marketing personnel, amortization of capitalized commission fees, payments made to multiple referral partners and advertising and promotional costs.
- *Other operating costs* primarily consist of compensation and benefits paid to operational and IT personnel, costs associated with operating our technology platform and data centers, information technology costs for processing transactions, product development costs, software fees and maintenance costs.
- *General and administrative expenses* primarily consist of compensation and benefits paid to executive management and administrative employees, including finance, human resources, product, legal and risk management, share-based compensation costs, office equipment, occupancy costs and consulting costs.
- *Depreciation and amortization expense* consists of our depreciation expense related to investments in property, equipment and software as well as amortization of intangible assets.
- *Interest expense—net* consists primarily of interest on borrowings less interest income earned on our cash and cash equivalents.
- *Income tax expense (benefit)* represents foreign, federal, state and local taxes based on income/loss.
- *Non-operating income (expense)* primarily consists of other income and expense items outside of the Company's normal operations. See Note 1—Basis of Presentation and Summary of Significant Accounting Policies in the notes to our audited consolidated financial statements included in Exhibit 99.1 to this Current Report on Form 8-K for more details.

Non-Controlling Interest

As a result of the non-controlling ownership interests in Worldpay Holding held by Fifth Third, our results of operations include net income attributable to non-controlling interests. Future sales or redemptions of ownership interests in Worldpay Holding by Fifth Third will continue to reduce the amount recorded as non-controlling interest and increase net earnings attributable to our Class A stockholders. In addition, net income attributable to non-controlling interests includes the non-controlling interest related to a joint venture with a bank partner. See Note 10—Capital Stock and Controlling and Non-controlling Interests in the notes to our audited consolidated financial statements included in Exhibit 99.1 to this Current Report on Form 8-K for more information.

Factors and Trends Impacting Our Business and Results of Operations

The majority of our revenues are generated by services priced as a percentage of the transaction value, a specified fee per transaction or a fixed fee, or a combination. We also generate revenue based on products and specific value-added services that may or may not be related to the volume or number of transactions. These revenues depend upon a number of factors, such as demand for and price of our products and services, the technological competitiveness of our offerings, our reputation for providing timely and reliable products and services, competition within our industry and general economic conditions.

Adjusted Net Income

We use adjusted net income for financial and operational decision making as a means to evaluate period-to-period comparisons of our performance and results of operations. The adjusted net income is also incorporated into performance metrics underlying certain share-based payments and our annual incentive plan. We believe the adjusted net income provides useful information about our performance and operating results, enhances the overall understanding of past financial performance and future prospects and allows for greater transparency with respect to key metrics used by management in its financial and operational decision making.

In calculating the adjusted net income, we make certain non-GAAP adjustments, as well as certain tax adjustments, to adjust our GAAP operating results for the items discussed below. This non-GAAP measure should be considered together with GAAP operating results.

Non-GAAP Adjustments

Transition, Acquisition and Integration Costs

In connection with our acquisitions, we incur costs associated with acquisitions and related integration activities, consisting primarily of consulting fees for advisory, conversion and integration services and related personnel costs. Also included in these expenses are costs related to employee termination benefits and other transition activities. These transition, acquisition and integration costs are included in other operating costs and general and administrative expenses.

Share-Based Compensation

We have granted share-based awards to certain employees and members of our board of directors and intend to continue to grant additional share-based awards in the future. Share-based compensation is included in general and administrative expense.

Intangible Amortization Expense

These expenses represent amortization of intangible assets acquired through business combinations and customer portfolio and related asset acquisitions.

Non-operating Income (Expense)

Non-operating income (expense) primarily consist other income and expense items outside of the Company's normal operations. See Note 1—Basis of Presentation and Summary of Significant Accounting Policies in the notes to our audited consolidated financial statements included in Exhibit 99.1 to this Current Report on Form 8-K for more details.

Tax Adjustments

Income Tax Expense Adjustments

Our effective tax rate reported in our results of operations reflects the impact of our non-controlling interest not being taxed at the statutory corporate tax rate. For purposes of calculating the adjusted net income, income tax expense is adjusted accordingly to reflect an effective tax rate assuming conversion of Fifth Third's non-controlling interests into shares of Class A common stock, including the income tax effect of the non-GAAP adjustments described above. The adjusted effective tax rate for the year ended December 31, 2018 is approximately 19.8% and includes the impact of the Tax Cuts and Jobs Act signed into law on December 22, 2017 ("Tax Reform") on U.S. federal taxes and the inclusion of international jurisdictions due to the acquisition of Legacy Worldpay. The adjusted effective tax rate was 34.0% for the year ended December 31, 2017.

Other Tax Adjustments

In addition to the adjustment described above, income tax expense is also adjusted for the cash tax benefits resulting from certain tax attributes, primarily the amortization of tax intangible assets resulting from or acquired with our acquisitions, the tax basis step up associated with our separation from Fifth Third and the purchase or exchange of units of Worldpay Holding, net of payment obligations under tax receivable agreements ("TRAs"). The estimate of the cash tax benefits is based on the consistent and highly predictable realization of the underlying tax attributes.

The following table provides a schedule of the tax adjustments discussed above which are reflected in the adjusted net income table below (in millions):

	Year Ended December 31,	
	2018 ^(d)	2017
TRA Tax Benefits (a)	\$ 9.2	\$ 5.4
Acquired Tax Benefits (b)	89.8	124.9
Adjusted Tax Benefits (c)	<u>\$ 99.0</u>	<u>\$ 130.3</u>

- (a) Represents the 15% benefit that we retain for the shared tax benefits related to the TRAs.
(b) Represents the tax benefits wholly owned by us, acquired through acquisition or termination of TRAs in which we retain 100% of the benefit.
(c) Represents the net cash tax benefit retained by us from the use of the tax attributes, as reflected in the Tax Adjustments.
(d) The tax benefits for the year ended December 31, 2018 were impacted by the Tax Reform.

The table below provides a reconciliation of GAAP income before applicable income taxes to the adjusted net income for the years ended December 31, 2018 and 2017 (in millions):

	Year Ended December 31,	
	2018	2017
(Loss) income before applicable income taxes	\$ (8.1)	\$ 813.7
Non-GAAP Adjustments:		
Transition, acquisition and integration costs	336.7	130.1
Share-based compensation	124.8	47.9
Intangible amortization	938.4	217.8
Non-operating expenses (income)	41.8	(432.8)
Non-GAAP Adjusted Income Before Applicable Taxes	1,433.6	776.7
Less: Tax Adjustments		
Adjusted tax expense	184.9	133.8
JV non-controlling interest	2.0	1.8
Adjusted Net Income	<u>\$ 1,246.7</u>	<u>\$ 641.1</u>

Results of Operations

The following tables set forth our statements of income in dollars and as a percentage of net revenue for the periods presented (in millions).

	Year Ended December 31,		\$ Change	% Change
	2018	2017		
Revenue	\$ 3,925.4	\$ 4,026.5	\$ (101.1)	NM
Network fees and other costs	—	1,903.2	(1,903.2)	NM
Net revenue ⁽¹⁾	3,925.4	2,123.3	1,802.1	85%
Sales and marketing	1,131.7	669.5	462.2	69
Other operating costs	698.0	318.7	379.3	119
General and administrative	662.1	295.1	367.0	124
Depreciation and amortization	1,095.0	318.5	776.5	244
Income from operations	\$ 338.6	\$ 521.5	\$ (182.9)	(35)%

- (1) For the year ended December 31, 2018 net revenue is equivalent to gross revenue since network fees and other costs are netted against gross revenue as the result of our adoption of ASC 606 on January 1, 2018.

As a Percentage of Net Revenue	Year Ended December 31,	
	2018	2017
Net revenue	100.0%	100.0%
Sales and marketing	28.8	31.5
Other operating costs	17.8	15.0
General and administrative	16.9	13.9
Depreciation and amortization	27.9	15.0
Income from operations	8.6%	24.6%

Fiscal Year Ended December 31, 2018 Compared to Fiscal Year Ended December 31, 2017

The Net Revenue, Sales and Marketing, Other Operating Costs and General and Administrative disclosures below exclude Legacy Worldpay results prior to the January 16, 2018 acquisition date for the year ended December 31, 2018 as well as Legacy Worldpay results for the year ended December 31, 2017.

Net Revenue

Net revenue increased 85% to \$3,925.4 million for the year ended December 31, 2018 from \$2,123.3 million for the year ended December 31, 2017. The prior year period excludes \$1,498.1 million of Legacy Worldpay generated net revenue prior to our acquisition. Additionally, continued strong growth in our Technology Solutions segment also contributed to the increase.

Sales and Marketing

Sales and marketing expense increased 69% to \$1,131.7 million for the year ended December 31, 2018 from \$669.5 million for the year ended December 31, 2017. The prior year period excludes \$377.8 million of Legacy Worldpay generated sales and marketing expense prior to our acquisition. Additionally, higher residual payments to referral partners as a result of increased revenue in both our Technology Solutions and Merchant Solutions segments also contributed to the increase.

Other Operating Costs

Other operating costs increased 119% to \$698.0 million for the year ended December 31, 2018 from \$318.7 million for the year ended December 31, 2017. When excluding transition, acquisition and integration costs, other operating costs increased 104% to \$620.1 million for the year ended December 31, 2018 from \$303.9 million for the year ended December 31, 2017. The prior year period excludes \$272.0 million of Legacy Worldpay generated other operating costs when excluding transition, acquisition and integration costs prior to our acquisition.

General and Administrative

General and administrative expenses increased 124% to \$662.1 million for the year ended December 31, 2018 from \$295.1 million for the year ended December 31, 2017. When excluding transition, acquisition and integration costs, which include a \$41.5 million charge in 2017 related to a settlement agreement stemming from legacy litigation of an acquired company, as well as share-based compensation, general and administrative costs increased 111% to \$278.5 million for the year ended December 31, 2018 from \$131.9 million for the year ended December 31, 2017. The prior year period excludes \$174.2 million of Legacy Worldpay generated general and administrative expenses when excluding transition, acquisition and integration costs prior to our acquisition.

Depreciation and Amortization

Depreciation expense associated with our property, equipment and software increased to \$273.1 million for the year ended December 31, 2018 from \$95.9 million for the year ended December 31, 2017. The increase is primarily attributable to our acquisition of Legacy Worldpay.

Amortization expense associated with intangible assets, which consist primarily of customer relationship intangible assets, increased to \$821.9 million for the year ended December 31, 2018 from \$222.6 million for the year ended December 31, 2017. The increase is primarily attributable to an increase in amortization of customer relationship intangible assets as a result of recent acquisitions.

Income from Operations

Income from operations decreased 35% to \$338.6 million for the year ended December 31, 2018 from \$521.5 million for the year ended December 31, 2017.

Interest Expense—Net

Interest expense—net increased to \$304.9 million for the year ended December 31, 2018 from \$140.6 million for the year ended December 31, 2017. The increase in interest expense—net is primarily attributable to debt issued to fund the acquisition of Legacy Worldpay.

Non-Operating (Expense) Income

Non-operating expense was \$41.8 million for the year ended December 31, 2018, primarily consisting of expenses relating to our financing arrangements entered into in connection with the Legacy Worldpay acquisition, repricing of our debt and the change in fair value of the Mercury Payment Systems, LLC (“Mercury”) TRA, partially offset by a gain on the settlement of a deal contingent forward entered into in connection with our acquisition of Legacy Worldpay. Non-operating income was \$432.8 million for the year ended December 31, 2017, primarily consisting of a gain relating to the impact to the TRA liability as a result of Tax Reform being enacted on December 22, 2017 and an unrealized gain relating to the change in fair value of a deal contingent forward entered into in connection with the acquisition of Legacy Worldpay, partially offset by the change in fair value of the Mercury TRA.

Income Tax (Benefit) Expense

Income tax benefit for the year ended December 31, 2018 was \$27.7 million compared to expense of \$631.0 million for the year ended December 31, 2017. The reduction in tax expense is primarily related to the 2018 impact of reduced pretax income at a lower federal tax rate and the 2017 tax expense related to the impact of Tax Reform.

Segment Results

The following tables provide a summary of the components of segment profit for our three segments for the years ended December 31, 2018 and 2017 (in millions):

The disclosures below exclude Legacy Worldpay results prior to the January 16, 2018 acquisition date for the year ended December 31, 2018 as well as Legacy Worldpay results for the year ended December 31, 2017.

Technology Solutions

	Year Ended December 31,		\$ Change	% Change
	2018	2017		
Revenue	\$ 1,601.4	\$ 1,264.5	\$ 336.9	NM
Network fees and other costs ⁽¹⁾	—	454.9	(454.9)	NM
Net Revenue	1,601.4	809.6	791.8	98%
Sales and marketing	422.9	277.9	145.0	52
Segment profit	\$ 1,178.5	\$ 531.7	\$ 646.8	122%

- (1) For the year ended December 31, 2018 net revenue is equivalent to gross revenue since network fees and other costs are netted against gross revenue as the result of the Company's adoption of ASC 606 on January 1, 2018.

Net Revenue

Net revenue in this segment increased 98% to \$1,601.4 million for the year ended December 31, 2018 from \$809.6 million for the year ended December 31, 2017. The prior year period excludes \$534.7 million of Legacy Worldpay generated net revenue prior to our acquisition. Additionally, strong transaction growth contributed to the increase in net revenue.

Sales and Marketing

Sales and marketing expense increased 52% to \$422.9 million for the year ended December 31, 2018 from \$277.9 million for the year ended December 31, 2017. The prior year period excludes \$77.5 million of Legacy Worldpay generated sales and marketing expense prior to our acquisition. Additionally, higher residual payments to referral partners as a result of increased revenue also contributed to the increase.

Merchant Solutions

	Year Ended December 31,		\$ Change	% Change
	2018	2017		
Revenue	\$ 1,976.2	\$ 2,303.1	\$ (326.9)	NM
Network fees and other costs ⁽¹⁾	—	1,325.2	(1,325.2)	NM
Net Revenue	1,976.2	977.9	998.3	102%
Sales and marketing	683.7	368.6	315.1	85
Segment profit	\$ 1,292.5	\$ 609.3	\$ 683.2	112%

- (1) For the year ended December 31, 2018 net revenue is equivalent to gross revenue since network fees and other costs are netted against gross revenue as the result of the Company's adoption of ASC 606 on January 1, 2018.

Net Revenue

Net revenue in this segment increased 102% to \$1,976.2 million for the year ended December 31, 2018 from \$977.9 million for the year ended December 31, 2017. The prior year period excludes \$956.2 million of Legacy Worldpay generated net revenue prior to our acquisition.

Sales and Marketing

Sales and marketing expense increased 85% to \$683.7 million for the year ended December 31, 2018 from \$368.6 million for the year ended December 31, 2017. The prior year period excludes \$298.3 million of Legacy Worldpay generated sales and marketing expense prior to our acquisition. Additionally, higher residual payments to referral partners as a result of increased revenue also contributed to the increase.

Issuer Solutions

	Year Ended December 31,		\$ Change	% Change
	2018	2017		
Revenue	\$ 347.8	\$ 458.9	\$ (111.1)	NM
Network fees and other costs ⁽¹⁾	—	123.1	(123.1)	NM
Net Revenue	347.8	335.8	12.0	4%
Sales and marketing	25.1	23.0	2.1	9
Segment profit	\$ 322.7	\$ 312.8	\$ 9.9	3%

- (1) For the year ended December 31, 2018 net revenue is equivalent to gross revenue since network fees and other costs are netted against gross revenue as the result of the Company's adoption of ASC 606 on January 1, 2018.

Net Revenue

Net revenue in this segment increased 4% to \$347.8 million for the year ended December 31, 2018 from \$335.8 million for the year ended December 31, 2017.

Sales and Marketing

Sales and marketing expense increased 9% to \$25.1 million for the year ended December 31, 2018 from \$23.0 million for the year ended December 31, 2017.

Fiscal Year Ended December 31, 2017 Compared to Fiscal Year Ended December 31, 2016

The following tables set forth our statements of income in dollars and as a percentage of net revenue for the periods presented (in millions).

	Year Ended December 31,			
	2017	2016	\$ Change	% Change
Revenue	\$ 4,026.5	\$ 3,579.0	\$ 447.5	13%
Network fees and other costs	1,903.2	1,674.2	229.0	14
Net revenue	2,123.3	1,904.8	218.5	11
Sales and marketing	669.5	582.3	87.2	15
Other operating costs	318.7	294.2	24.5	8
General and administrative	295.1	189.7	105.4	56
Depreciation and amortization	318.5	270.1	48.4	18
Income from operations	\$ 521.5	\$ 568.5	\$ (47.0)	(8)%

As a Percentage of Net Revenue

	Year Ended December 31,	
	2017	2016
Net revenue	100.0%	100.0%
Sales and marketing	31.5	30.6
Other operating costs	15.0	15.4
General and administrative	13.9	10.0
Depreciation and amortization	15.0	14.2
Income from operations	24.6%	29.8%

Revenue

Revenue increased 13% to \$4,026.5 million for the year ended December 31, 2017 from \$3,579.0 million for the year ended December 31, 2016. The increase was due primarily to revenue growth in our Technology Solutions and Merchant Solutions segments offset by a slight decrease in revenue in our Issuer Solutions segment.

Network Fees and Other Costs

Network fees and other costs increased 14% to \$1,903.2 million for the year ended December 31, 2017 from \$1,674.2 million for the year ended December 31, 2016. The increase was due to a combination of transaction growth and higher network fees.

Net Revenue

Net revenue, which is revenue less network fees and other costs, increased 11% to \$2,123.3 million for the year ended December 31, 2017 from \$1,904.8 million for the year ended December 31, 2016 due to the factors discussed above.

Sales and Marketing

Sales and marketing expense increased 15% to \$669.5 million for the year ended December 31, 2017 from \$582.3 million for the year ended December 31, 2016. The increase was primarily attributable to higher residual payments to referral partners as a result of increased revenue in our Technology Solutions and Merchant Solutions segments in connection with the continued penetration of small and mid-sized merchants.

Other Operating Costs

Other operating costs increased 8% to \$318.7 million for the year ended December 31, 2017 from \$294.2 million for the year ended December 31, 2016. When excluding transition, acquisition and integration costs, other operating costs increased 6% to \$303.9 million for the year ended December 31, 2017 from \$285.4 million for the year ended December 31, 2016. The increase was primarily attributable to an increase in the information technology and operation costs, in support of our revenue growth as well as \$8.9 million relating to the acquisition of Paymetric.

General and Administrative

General and administrative expenses increased 56% to \$295.1 million for the year ended December 31, 2017 from \$189.7 million for the year ended December 31, 2016. When excluding transition, acquisition and integration costs, which include a \$41.5 million charge related to a settlement agreement stemming from legacy litigation of an acquired company, as well as share-based compensation, general and administrative costs increased 5% to \$131.9 million for the year ended December 31, 2017 from \$125.2 million for the year ended December 31, 2016.

Depreciation and Amortization

Depreciation expense associated with our property, equipment and software increased to \$95.9 million for the year ended December 31, 2017 from \$70.5 million for the year ended December 31, 2016. The increase is primarily attributable to our recent acquisitions.

Amortization expense associated with intangible assets, which consist primarily of customer relationship intangible assets, increased to \$222.6 million for the year ended December 31, 2017 from \$199.6 million for the year ended December 31, 2016. The increase is primarily attributable to an increase in amortization of customer relationship intangible assets as a result of recent acquisitions.

Income from Operations

Income from operations decreased 8% to \$521.5 million for the year ended December 31, 2017 from \$568.5 million for the year ended December 31, 2016.

Interest Expense—Net

Interest expense—net increased to \$140.6 million for the year ended December 31, 2017 from \$109.5 million for the year ended December 31, 2016. The increase in interest expense—net is primarily attributable to our October 2016 debt refinancing, which resulted in an increase in the amount of outstanding debt, our recent incremental Term B loan and an increase in interest rates.

Non-Operating Income (Expense)

Non-operating income was \$432.8 million for the year ended December 31, 2017, primarily consisting of a gain relating to the impact to the TRA liability as a result of Tax Reform being enacted on December 22, 2017 and an unrealized gain relating to the change in the fair value of a deal contingent forward entered into in connection with the Worldpay acquisition, partially offset by the change in fair value of the Mercury TRA. Non-operating expense was \$36.3 million for the year ended December 31, 2016, primarily related to the change in fair value of the Mercury TRA and a charge related to the October 2016 debt refinancing.

Income Tax Expense

Income tax expense for the year ended December 31, 2017 was \$631.0 million compared to \$141.8 million for the year ended December 31, 2016, reflecting effective rates of 77.5% and 33.5%, respectively. The increase in income tax expense was primarily attributable to tax expense of \$363.6 million as a result of an adjustment to deferred taxes for the change in tax rates resulting from Tax Reform being enacted on December 22, 2017.

Segment Results

The following tables provide a summary of the components of segment profit for our three segments for the years ended December 31, 2017 and 2016 (in millions).

Technology Solutions

	Year Ended December 31,		\$ Change	% Change
	2017	2016		
Revenue	\$ 1,264.5	\$ 991.7	\$ 272.8	28%
Network fees and other costs	454.9	358.6	96.3	27
Net revenue	809.6	633.1	176.5	28
Sales and marketing	277.9	212.5	65.4	31
Segment profit	<u>\$ 531.7</u>	<u>\$ 420.6</u>	<u>\$ 111.1</u>	<u>26%</u>

Net Revenue

Net revenue in this segment increased 28% to \$809.6 million for the year ended December 31, 2017 from \$633.1 million for the year ended December 31, 2016. The increase during the year ended December 31, 2017 was primarily associated with our continued penetration of small and mid-sized merchants and \$35.7 million in net revenue from the Paymetric acquisition.

Sales and Marketing

Sales and marketing expense increased 31% to \$277.9 million for the year ended December 31, 2017 from \$212.5 million for the year ended December 31, 2016. The increase was primarily attributable to higher residual payments to referral partners as a result of increased revenue in connection with the continued penetration of small and mid-sized merchants.

Merchant Solutions

	Year Ended December 31,			
	2017	2016	\$ Change	% Change
Revenue	\$ 2,303.1	\$ 2,091.3	\$ 211.8	10%
Network fees and other costs	1,325.2	1,178.4	146.8	12
Net revenue	977.9	912.9	65.0	7
Sales and marketing	368.6	345.5	23.1	7
Segment profit	\$ 609.3	\$ 567.4	\$ 41.9	7%

Net Revenue

Net revenue in this segment increased 7% to \$977.9 million for the year ended December 31, 2017 from \$912.9 million for the year ended December 31, 2016. The increase during the year ended December 31, 2017 was primarily associated with our continued penetration of small and mid-sized merchants.

Sales and Marketing

Sales and marketing expense increased 7% to \$368.6 million for the year ended December 31, 2017 from \$345.5 million for the year ended December 31, 2016. The increase was primarily attributable to higher residual payments to referral partners as a result of increased revenue in connection with the continued penetration of small and mid-sized merchants.

Issuer Solutions

	Year Ended December 31,			
	2017	2016	\$ Change	% Change
Revenue	\$ 458.9	\$ 496.0	\$ (37.1)	(7)%
Network fees and other costs	123.1	137.2	(14.1)	(10)
Net revenue	335.8	358.8	(23.0)	(6)
Sales and marketing	23.0	24.3	(1.3)	(5)
Segment profit	\$ 312.8	\$ 334.5	\$ (21.7)	(6)%

Net Revenue

Net revenue in this segment decreased 6% to \$335.8 million for the year ended December 31, 2017 from \$358.8 million for the year ended December 31, 2016. The decrease during the year ended December 31, 2017 was due to the deconversion of a major client and approximately \$8.1 million relating to compression from the Fifth Third contract renewal.

Sales and Marketing

Sales and marketing expense decreased 5% to \$23.0 million for the year ended December 31, 2017 from \$24.3 million for the year ended December 31, 2016.

Liquidity and Capital Resources

Our liquidity is funded primarily through cash provided by operations, debt and a line of credit, which is generally sufficient to fund our operations, planned capital expenditures, tax distributions made to our non-controlling interest holders, required payments under our TRA agreements, debt service and acquisitions. As of December 31, 2018, our principal sources of liquidity consisted of \$196.5 million of cash and cash equivalents and \$1.20 billion of availability under the revolving portion of our senior secured credit facilities. Our total indebtedness, including capital leases, was \$7.9 billion as of December 31, 2018.

We have approximately \$93 million of share repurchase authority remaining as of December 31, 2018 under a program authorized by the board of directors in October 2016 to repurchase up to an additional \$250 million of our Class A common stock. On February 20, 2019, our board of directors authorized a program to repurchase up to an additional \$500 million of our Class A common stock bringing our total share repurchase availability to \$593 million.

Purchases under the repurchase programs are allowed from time to time in the open market, in privately negotiated transactions, or otherwise. The manner, timing, and amount of any purchases are determined by management based on an evaluation of market conditions, stock price, and other factors. The share repurchase programs have no expiration date and we may discontinue purchases at any time that management determines additional purchases are not warranted.

In connection with our IPO, we entered into the Exchange Agreement with Fifth Third, under which Fifth Third has the right, from time to time, to exchange their units in Worldpay Holding for shares of our Class A common stock or, at our option, cash. If we choose to satisfy the exchange in cash, we anticipate that we will fund such exchange through cash from operations, funds available under the revolving portion of our senior secured credit facilities, equity financings or a combination thereof.

We do not intend to pay cash dividends on our Class A common stock in the foreseeable future. Worldpay, Inc. is a holding company that does not conduct any business operations of its own. As a result, Worldpay, Inc.'s ability to pay cash dividends on its common stock, if any, is dependent upon cash dividends and distributions and other transfers from Worldpay Holding. The amounts available to Worldpay, Inc. to pay cash dividends are subject to the covenants and distribution restrictions in its subsidiaries' loan agreements.

In addition to principal needs for liquidity discussed above, our strategy includes investing in and leveraging our integrated business model and technology platform, broadening and deepening our distribution channels, entry into new geographic markets and development of additional payment processing services. Our near-term priorities for capital allocation include debt reduction, investing in our operations to support organic growth, and share repurchases. Long-term priorities remain unchanged and include investing for growth through strategic acquisitions and returning excess capital to shareholders.

We anticipate that to the extent that we require additional liquidity, it will be funded through the incurrence of other indebtedness, equity financings or a combination thereof. We cannot assure you that we will be able to obtain this additional liquidity on reasonable terms, or at all. Additionally, our liquidity and our ability to meet our obligations and fund our capital requirements are also dependent on our future financial performance, which is subject to general economic, financial and other factors that are beyond our control. Accordingly, we cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available under our credit facilities or otherwise to meet our liquidity needs. If we decide to pursue one or more significant acquisitions, we may incur additional debt or sell additional equity to finance such acquisitions.

Cash Flows

The following table presents a summary of cash flows from operating, investing and financing activities for the years ended December 31, 2018, 2017 and 2016 (in millions). The years ended December 31, 2018 and 2017 reflect restricted cash as a result of the early adoption of a new accounting pronouncement in 2017. Additionally, the year ended December 31, 2016 has been adjusted as a result of the early adoption of a new accounting pronouncement in 2017.

	Year Ended December 31,		
	2018	2017	2016
Net cash provided by operating activities	\$ 936.3	\$ 784.8	\$ 645.1
Net cash provided by (used in) investing activities	1,073.7	(684.1)	(570.1)
Net cash (used in) provided by financing activities	(508.7)	1,032.4	(133.0)

Cash Flow from Operating Activities

Net cash provided by operating activities was \$936.3 million for the year ended December 31, 2018 as compared to \$784.8 million for the year ended December 31, 2017. The increase reflects an adjustment to add back increased depreciation and amortization expense offset by a decrease in earnings and increased net cash outflow due to changes in working capital.

Net cash provided by operating activities was \$784.8 million for the year ended December 31, 2017 as compared to \$645.1 million for the year ended December 31, 2016. The increase is due primarily to changes in accounts receivable and net settlement assets and obligations. Settlement assets and obligations can fluctuate due to seasonality as well as day of the month end.

Cash Flow from Investing Activities

Net cash provided by investing activities was \$1,073.7 million for the year ended December 31, 2018 as compared to net cash used of \$684.1 million for the year ended December 31, 2017. The change is the result of cash acquired relating to the acquisition of Legacy Worldpay.

Net cash used in investing activities was \$684.1 million for the year ended December 31, 2017 as compared to \$570.1 million for the year ended December 31, 2016. The increase was primarily due to the acquisition of Paymetric.

Cash Flow from Financing Activities

Net cash used in financing activities was \$508.7 million for the year ended December 31, 2018 as compared to net cash provided of \$1,032.4 million for the year ended December 31, 2017. Cash used in financing activities during the year ended December 31, 2018 consisted primarily of the repayment of debt and capital leases, settlement and payments related to tax receivable agreements and addendums and payment of debt issuance costs, offset by incremental borrowings.

Net cash provided by financing activities was \$1,032.4 million for the year ended December 31, 2017 as compared to net cash used of \$133.0 million for the year ended December 31, 2016. Cash provided by financing activities during the year ended December 31, 2017 consisted primarily of proceeds from the issuance of additional seven-year term B loans, proceeds from the issuance of senior unsecured notes and borrowings under our revolving credit facility, partially offset by the purchase of Class A common stock from Fifth Third, repayment of debt and capital leases, payments under tax receivable agreements and addendums, and distributions to non-controlling interests.

Credit Facilities

At December 31, 2018, we have \$7,847.8 million of outstanding debt, which includes \$50.0 million of outstanding borrowings under our revolving credit facility. See additional discussion in Note 7—Long-Term Debt in the notes to our audited consolidated financial statements included in Exhibit 99.1 to this Current Report on Form 8-K.

We are required to maintain a leverage ratio no greater than established thresholds (based upon the ratio of total funded debt to consolidated EBITDA, as defined in the loan agreement) and a minimum interest coverage ratio (based upon the ratio of consolidated EBITDA to interest expense), which are tested quarterly based on the last four fiscal quarters. The required financial ratios become more restrictive over time, with the specific ratios required by period set forth in the below table.

<u>Period</u>	<u>Leverage Ratio</u> <u>(must not exceed)</u>	<u>Interest Coverage Ratio</u> <u>(must exceed)</u>
December 31, 2018 to September 30, 2019	5.75 to 1.00	4.00 to 1.00
December 31, 2019 to September 30, 2020	5.00 to 1.00	4.00 to 1.00
December 31, 2020 and thereafter	4.25 to 1.00	4.00 to 1.00

As of December 31, 2018, we were in compliance with these covenants with a leverage ratio of 3.99 to 1.00 and an interest coverage ratio of 6.58 to 1.00.

Interest Rate Swaps and Caps

As of December 31, 2018, we have interest rate swaps and interest rate cap agreements that were designated as cash flow hedges of interest rate risk. The currently effective interest rate swaps and caps hedge \$2.7 billion of our approximately \$6.1 billion of variable rate debt outstanding as of December 31, 2018. The Company also has designated a portion of its Euro denominated debt and 100% of its GBP denominated debt as net investment hedges. See Note 9—Derivatives and Hedging Activities in the notes to our audited consolidated financial statements included in Exhibit 99.1 to this Current Report on Form 8-K for more information about the interest rate swaps and caps.

Tax Receivable Agreements

As of December 31, 2018, we are party to two TRAs in which we agree to make payments to various parties of 85% of the federal, state, local and foreign income tax benefits realized by us as a result of certain tax deductions. The outstanding balance as of December 31, 2018 was \$663.9 million. See additional discussion in Note 8—Tax Receivable Agreements in the notes to our audited consolidated financial statements included in Exhibit 99.1 to this Current Report on Form 8-K.

Contractual Obligations

The following table summarizes our contractual obligations and commitments as of December 31, 2018 (in millions):

	<u>Total</u>	<u>Payments Due By Period</u>			
		<u>Less than 1 year</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>	<u>More than 5 Years</u>
Operating leases	\$ 178.5	\$ 27.8	\$ 44.9	\$ 34.6	\$ 71.2
Capital leases	61.0	24.5	31.2	5.3	—
Borrowings ⁽¹⁾	9,176.9	1,021.4	1,058.8	4,213.8	2,882.9
Purchase commitments ⁽²⁾⁽³⁾	374.5	207.5	117.4	36.8	12.8
Obligations under TRAs ⁽⁴⁾	663.2	74.7	60.6	66.1	461.8
Total	<u>\$10,454.1</u>	<u>\$1,355.9</u>	<u>\$1,312.9</u>	<u>\$4,356.6</u>	<u>\$ 3,428.7</u>

(1) Represents principal and variable interest payments due under our senior unsecured notes, senior secured credit facilities and the loan agreement for our corporate headquarters facility as of December 31, 2018. Interest payments are approximately as follows: \$282.6 million for less than 1 year; \$536.5 million for 1 - 3 years; \$366.8 million for 3 - 5 years and \$130.3 million for more than 5 years. Variable interest payments were calculated using interest rates as of December 31, 2018. The \$520.1 million paydown in January 2019 of the remaining outstanding balance of our Term B-3 Loan, as discussed in Note 7—Long-term Debt in the notes to our audited consolidated financial statements included in Exhibit 99.1 to this Current Report on Form 8-K, has been reflected.

(2) Includes obligations related to software licenses, software maintenance support and telecommunication and network services.

- (3) We have agreements with third-party processors to provide gateway authorization and other processing services. These agreements require us to submit a minimum number of transactions for processing. If we submit a number of transactions that is less than the minimum, we are required to pay the third party processor's fees that they would have received if we had submitted the required minimum number of transactions. Processing services includes amounts due under network sponsorship agreements.
- (4) Represents estimated TRA payments to various parties and cash payments to exercise the call options pursuant to which certain additional obligations of the Company under the Fifth Third and Mercury TRAs would be terminated. See Note 8—Tax Receivable Agreements in the notes to our audited consolidated financial statements included in Exhibit 99.1 to this Current Report on Form 8-K for more details.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our audited Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our critical estimates giving consideration to a combination of factors, including historical experience, current conditions and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Except for the adoption of Accounting Standards Update 2014-09, *Revenue From Contracts With Customers (Topic 606)* on January 1, 2018 as discussed in Note 2—Revenue Recognition in the notes to our audited consolidated financial statements included in Exhibit 99.1 to this Current Report on Form 8-K, we have not adopted any new critical accounting policies, have not changed any critical accounting policies and have not changed the application of any critical accounting policies from the year ended December 31, 2017. The accounting policies we believe to be most critical to understanding our financial results and condition and that require complex and subjective management judgments are discussed below.

Business Combinations

At the date of acquisition, in accordance with ASC 805, *Business Combinations*, we record the assets and liabilities of the acquired companies on the Consolidated Statements of Financial Position at their estimated fair value. The results of operations for acquired companies are included in our Consolidated Statements of Income beginning at the acquisition date. Expenses arising from acquisition activities are recorded in our Consolidated Statements of Income during the period incurred. The difference between the purchase price and the fair value of the net assets acquired (including identified intangibles) is recorded as goodwill.

Goodwill

In accordance with ASC 350, *Intangibles—Goodwill and Other*, we test goodwill for impairment for each reporting unit on an annual basis, or when events occur or circumstances indicate the fair value of a reporting unit is below its carrying value. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that fair value of the goodwill within the reporting unit is less than its carrying value. We performed our most recent annual goodwill impairment test for all reporting units as of July 31, 2018 using market data and discounted cash flow analyses. Based on this analysis, it was determined that the fair value of all reporting units were substantially in excess of the carrying value. There have been no other events or changes in circumstances subsequent to the testing date that would indicate impairment of these reporting units as of December 31, 2018.

Off-Balance Sheet Arrangements

We have no off-balance sheet financing arrangements.

**Management's Discussion and Analysis of Financial Condition and Results of Operations of Worldpay, Inc.
for the three months ended March 31, 2019 and 2018**

This management's discussion and analysis provides a review of the results of operations, financial condition and liquidity and capital resources of Worldpay, Inc. ("Worldpay", "we", "us", "our" or the "company" refer to Worldpay, Inc. and its consolidated subsidiaries) and outlines the factors that affected recent results, as well as factors that may affect future results. Our actual results in the future may differ materially from those anticipated in these forward looking statements as a result of many factors, including those set forth under "Risk Factors," "Forward Looking Statements" and elsewhere in Worldpay's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019. The following discussion should be read in conjunction with Worldpay's unaudited consolidated financial statements and related notes appearing in Exhibit 99.2 to this Current Report on Form 8-K, as well as management's discussion and analysis and consolidated financial statements for the year ended December 31, 2018 included in Exhibits 99.3 and 99.1, respectively, to this Current Report on Form 8-K.

Overview

Worldpay, Inc. is a leading payments technology company. We process over 40 billion transactions annually, supporting more than 300 payment types across 146 countries and 126 currencies. According to the Nilson Report, we are the largest merchant acquirer globally by number of transactions, and the largest PIN debit acquirer by number of transactions in the United States.

We are a payments innovator, differentiated by our global reach, innovative technology and tailored solutions. Our leading competitive position and differentiated solutions have enabled us to achieve unique advantages in fast-growing and strategically-important segments of the payments market, including unrivaled capabilities in global eCommerce, a first-mover advantage in U.S. Integrated Payments, and Enterprise payments and data security solutions in business-to-business (B2B) payments.

Our solutions bring together advanced payments technologies at each stage of the transaction life cycle. We enable acceptance by integrating software and delivering omni-channel solutions that allow merchants to transact online, via mobile and in-store. Our innovative and proprietary suite of payments technology enables our clients to increase their revenue by improving authorization rates while simultaneously lowering transaction costs. We offer numerous dynamic funding options and enable real-time payouts at settlement. We use advanced data analytics and machine learning to continuously evolve our capabilities, and we offer additional value-added services, including prepaid services and gift card solutions, to help our clients operate and manage their businesses more profitably. We also provide security solutions, such as point-to-point encryption, tokenization, and fraud prevention services, at each stage of the transaction lifecycle, in order to help our clients protect their revenue.

Our global reach, innovative technology and tailored solutions create our client value proposition. Our global reach makes it easy for our clients to expand into new markets and to simplify the back-office operations. We employ the most advanced payments technologies to help our clients increase their revenue while minimizing costs. Our flexible and client-centered technology platforms enable our in-country vertical-specific and technical experts to develop tailored solutions that solve our clients' most complex needs.

Merger with Fidelity National Information Services ("FIS")

On March 18, 2019, Worldpay and Fidelity National Information Services, Inc. ("FIS") issued a joint press release announcing that Worldpay, FIS and Wrangler Merger Sub, Inc., a wholly-owned subsidiary of FIS ("Merger Sub"), entered into an agreement and plan of merger, dated March 17, 2019 (the "Merger Agreement"), pursuant to which, on the terms and subject to the conditions set forth therein, Merger Sub will merge with and into Worldpay (the "Merger"), with Worldpay being the surviving corporation in the Merger and continuing as a wholly-owned subsidiary of FIS.

At the effective time of the Merger ("Effective Time"), which is expected to occur in the third quarter of 2019, each share of the Class A common stock of Worldpay, par value \$0.00001 per share ("Worldpay Class A Common Stock"), issued and outstanding immediately prior to the Effective Time, except for certain shares of Worldpay Class A Common Stock identified in the Merger Agreement, will be converted into the right to receive 0.9287 shares (the "Exchange Ratio") of common stock, par value \$0.01 per share, of FIS ("FIS Common Stock" and, such shares, the "Share Consideration") and \$11.00 in cash (the "Cash Consideration" and, together with the Share Consideration, the "Merger Consideration"). The shares of FIS Common Stock to be issued in the Merger will be listed on The New York Stock Exchange ("NYSE"). Following the consummation of the Merger, FIS shareholders will own approximately 53 percent and Worldpay shareholders will own approximately 47 percent of the combined company. The Merger Consideration (as of the date the Merger Agreement was executed) valued Worldpay at an enterprise value of approximately \$43 billion, including the assumption of Worldpay debt, which FIS expects to refinance.

Completion of the Merger is subject to the satisfaction or waiver of customary closing conditions for both parties, including receipt of required regulatory and shareholder approvals and other customary closing conditions.

In connection with the proposed Merger, on April 12, 2019, FIS filed a preliminary registration statement on Form S-4 with the SEC that became available on the SEC's Edgar system on April 15, 2019.

Executive Overview

Revenue for the three months ended March 31, 2019 increased 14% to \$970.0 million from \$850.7 million in 2018.

Income (loss) from operations for the three months ended March 31, 2019 increased to \$106.3 million from a loss of \$27.7 million in 2018.

Net income (loss) for the three months ended March 31, 2019 was \$38.1 million compared to a loss of \$98.3 million in 2018. Net income (loss) attributable to Worldpay, Inc. for the three months ended March 31, 2019 was \$36.4 million compared to a loss of \$97.6 million in 2018. See the "Results of Operations" section of this Management's Discussion and Analysis for a discussion of our financial results.

Recent Acquisitions

On January 16, 2018, we completed the acquisition of Worldpay Group Limited, formerly Worldpay Group plc, a public limited company ("Legacy Worldpay") by acquiring 100% of the issued and outstanding shares. The acquisition created a leading global integrated payment technology and international eCommerce payment provider and will enable us to take advantage of strategic and innovative opportunities to provide differentiated and diversified solutions to address clients' needs.

Please see Note 4—Business Combinations in the notes to our unaudited consolidated financial statements included in Exhibit 99.2 to this Current Report on Form 8-K for more information about the acquisition.

Our Segments, Revenue and Expenses

Technology Solutions

Technology Solutions provides merchant acquiring, payment processing and related services to a diverse set of merchants that primarily accept payments through eCommerce and integrated payment solutions.

Merchant Solutions

Merchant Solutions provides merchant acquiring, payment processing and related services to a diverse set of merchants that primarily accept payments through an omni-channel solution including terminal based.

Issuer Solutions

Issuer Solutions provides card issuer processing, payment network processing, fraud protection and card production to a diverse set of financial institutions, including regional banks, community banks, credit unions and regional PIN networks.

Revenue

We provide a wide range of electronic payment and related products and services, both online and by mobile, to accept, validate and settle payments in 126 currencies across 146 countries, using any one of over 300 payment methods. Our customers also use our payments technology to maximize the rate at which payments are approved, manage the risk of fraud, and optimize their costs of operating globally.

We generate revenue primarily by providing payment processing as well as related products and services. The segment discussion above provides a description of our revenues by segment.

Expenses

Set forth below is a brief description of the components of our expenses:

- Sales and marketing expense primarily consists of compensation, commissions and benefits paid to sales personnel, sales management and other sales and marketing personnel, amortization of capitalized commission fees, residual payments made to multiple referral partners and advertising and promotional costs.

- Other operating costs primarily consist of compensation and benefits paid to operational and IT personnel, costs associated with operating our technology platform and data centers, information technology costs for processing transactions, product development costs, software fees, maintenance costs, occupancy costs and consulting costs.
- General and administrative expenses primarily consist of compensation and benefits paid to executive management and administrative employees, including finance, human resources, product, legal and risk management, share-based compensation costs, office equipment, occupancy costs and consulting costs. The three months ended March 31, 2018 includes a significant amount of transition, acquisition and integration costs related to the Legacy Worldpay acquisition.
- Depreciation and amortization expense consists of our depreciation expense related to investments in property, equipment and software as well as our amortization of intangible assets.
- Interest expense—net consists primarily of interest on borrowings less interest income earned on our cash and cash equivalents.
- Income tax expense (benefit) represents foreign, federal, state and local taxes based on income/loss.
- Non-operating income (expense) primarily consists of other income and expense items outside of the Company’s operating activities.

Non-Controlling Interest

Since Fifth Third had a non-controlling interests in Worldpay Holding through March 2019, our results of operations include net income attributable to non-controlling interests. As a result of the March 2019 Fifth Third Stock Sale discussed in Note 1—Basis of Presentation and Summary of Significant Accounting Policies in the notes to our unaudited consolidated financial statements included in Exhibit 99.2 to this Current Report on Form 8-K, Fifth Third no longer has non-controlling interests in Worldpay Holding. Net income attributable to non-controlling interests continues to include the non-controlling interest related to a joint venture with a bank partner. See Note 8—Controlling and Non-Controlling Interests in the notes to our unaudited consolidated financial statements included in Exhibit 99.2 to this Current Report on Form 8-K for more information.

Factors and Trends Impacting Our Business and Results of Operations

The majority of our revenues are generated by services priced as a percentage of transaction value, a specified fee per transaction, a fixed fee, or a combination. We also generate revenue based on products and specific value-added services that may or may not be related to the volume or number of transactions. These revenues depend upon a number of factors such as demand for and price of our products or services, the technological competitiveness of our offerings, our reputation for providing timely and reliable products and services, competition within our industry and general economic conditions.

Adjusted Net Income

We use adjusted net income for financial and operational decision making as a means to evaluate period-to-period comparisons of our performance and results of operations. The adjusted net income is also incorporated into performance metrics underlying certain share-based payments and our annual incentive plan. We believe the adjusted net income provides useful information about our performance and operating results, enhances the overall understanding of past financial performance and future prospects and allows for greater transparency with respect to key metrics used by management in its financial and operational decision making.

In calculating the adjusted net income, we make certain non-GAAP adjustments, as well as certain tax adjustments, to adjust our GAAP operating results for the items discussed below. This non-GAAP measure should be considered together with GAAP operating results.

Non-GAAP Adjustments

Transition, Acquisition and Integration Costs

In connection with our acquisitions, we incur costs associated with the acquisitions and related integration activities, consisting primarily of consulting fees for advisory, conversion and integration services and related personnel costs. Also included in these expenses are costs related to employee termination benefits and other transition activities. These transition, acquisition and integration costs are included in other operating costs and general and administrative expenses.

Share-Based Compensation

We have granted share-based awards to certain employees and members of our board of directors and intend to continue to grant additional share-based awards in the future. Share-based compensation is included in general and administrative expense.

Intangible Amortization Expense

These expenses represent amortization of intangible assets acquired through business combinations and customer portfolio and related asset acquisitions as well as depreciation of acquired software.

Non-operating Income (Expense)

Non-operating income (expense) primarily consists of other income and expense items outside of the Company's operating activities.

Tax Adjustments

Income Tax Expense Adjustments

Our effective tax rate reported in our results of operations reflects the impact of our non-controlling interests not being taxed at the statutory corporate tax rate. For purposes of calculating the adjusted net income, income tax expense is adjusted accordingly to reflect an effective tax rate assuming conversion of Fifth Third's non-controlling interests into shares of Class A common stock, including the income tax effect of the non-GAAP adjustments described above. The adjusted global effective tax rate for the three months ended March 31, 2019 is approximately 20.1% and is expected to remain at approximately 20.1% for the remainder of 2019. The adjusted global effective tax rate was 19.7% for the three months ended March 31, 2018.

Other Tax Adjustments

In addition to the adjustment described above, income tax expense is also adjusted for the cash tax benefits resulting from certain tax attributes, primarily the amortization of tax intangible assets resulting from or acquired with our acquisitions, the tax basis step up associated with our separation from Fifth Third and the purchase or exchange of units of Worldpay Holding, net of payment obligations under tax receivable agreements ("TRAs"). The estimate of the cash tax benefits is based on the consistent and highly predictable realization of the underlying tax attributes.

The following table provides a schedule of the tax adjustments discussed above which are reflected in the adjusted net income table below (in millions):

	Three Months Ended March 31,	
	2019	2018
TRA Tax Benefits ⁽¹⁾	\$ 1.4	\$ 2.2
Acquired Tax Benefits ⁽²⁾	23.7	22.4
Adjusted Tax Benefits ⁽³⁾	<u>\$ 25.1</u>	<u>\$ 24.6</u>

(1) Represents the 15% benefit that we retain for the shared tax benefits related to the TRAs.

(2) Represents the tax benefits wholly owned by us, acquired through acquisition or termination of TRAs in which we retain 100% of the benefit.

(3) Represents the net cash tax benefit retained by us from the use of the tax attributes, as reflected in the Tax Adjustments.

The table below provides a reconciliation of GAAP income (loss) before applicable income taxes to the adjusted net income for the three months ended March 31, 2019 and 2018 (in millions):

	Three Months Ended March 31,	
	2019	2018
Income (loss) before applicable income taxes	\$ 37.7	\$ (111.5)
Non-GAAP Adjustments:		
Transition, acquisition and integration costs	42.4	177.4
Share-based compensation	33.0	17.2
Intangible amortization	226.2	172.8
Non-operating (income) expenses	(3.5)	8.6
Non-GAAP adjusted income before applicable taxes	335.8	264.5
Less: Adjustments		
Adjusted tax expense	42.4	27.5
JV non-controlling interest	0.4	0.3
Adjusted Net Income	<u>\$ 293.0</u>	<u>\$ 236.7</u>

Results of Operations

The following tables set forth our statements of income in dollars and as a percentage of revenue for the periods presented (in millions):

	Three Months Ended March 31,		\$ Change	% Change
	2019	2018		
Revenue	\$ 970.0	\$ 850.7	\$ 119.3	14%
Sales and marketing	290.9	266.0	24.9	9%
Other operating costs	181.0	155.1	25.9	17%
General and administrative	127.4	250.1	(122.7)	(49)%
Depreciation and amortization	264.4	207.2	57.2	28%
Income from operations	\$ 106.3	\$ (27.7)	\$ 134.0	484%

As a Percentage of Revenue	Three Months Ended March 31,	
	2019	2018
Revenue	100.0%	100.0%
Sales and marketing	30.0%	31.3%
Other operating costs	18.6%	18.2%
General and administrative	13.1%	29.4%
Depreciation and amortization	27.3%	24.4%
Income from operations	11.0%	(3.3)%

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

The Revenue, Sales and Marketing, Other Operating Costs and General and Administrative disclosures below exclude Legacy Worldpay results prior to the January 16, 2018 acquisition date for the three months ended March 31, 2018.

Revenue

Revenue increased 14% to \$970.0 million for the three months ended March 31, 2019 from \$850.7 million for the three months ended March 31, 2018. The prior year period excludes \$63.8 million of Legacy Worldpay generated revenue prior to our acquisition. Additionally, strong growth in our Technology Solutions segment contributed to the increase.

Sales and Marketing

Sales and marketing expense increased 9% to \$290.9 million for the three months ended March 31, 2019 from \$266.0 million for the three months ended March 31, 2018. The prior year period excludes \$12.9 million of Legacy Worldpay sales and marketing expense prior to our acquisition. Higher residual payments to referral partners as a result of increased revenue in both our Technology Solutions and Merchant Solutions segments contributed to the increase.

Other Operating Costs

Other operating costs increased 17% to \$181.0 million for the three months ended March 31, 2019 from \$155.1 million for the three months ended March 31, 2018. The prior year period excludes \$12.3 million of Legacy Worldpay other operating costs prior to our acquisition. When excluding transition, acquisition and integration costs, other operating costs increased to \$160.5 million for the three months ended March 31, 2019 from \$144.9 million for the three months ended March 31, 2018. The prior year period excludes \$12.1 million of Legacy Worldpay other operating costs prior to our acquisition when excluding transition, acquisition and integration costs.

General and Administrative

General and administrative expenses decreased 49% to \$127.4 million for the three months ended March 31, 2019 from \$250.1 million for the three months ended March 31, 2018. The prior year period excludes \$66.2 million of Legacy Worldpay general and administrative expense prior to our acquisition. When excluding transition, acquisition and integration costs, as well as share-based compensation expense, general and administrative expenses increased to \$72.5 million for the three months ended March 31, 2019 from \$65.7 million for the three months ended March 31, 2018. The prior year period excludes \$10.0 million of Legacy Worldpay general and administrative expenses prior to our acquisition when excluding transition, acquisition and integration costs as well as share-based compensation expense. When including the 2018 period prior to our acquisition, the decrease in general and administrative expenses when excluding transition, acquisition and integration costs as well as share-based compensation expense is primarily attributable to corporate overhead efficiencies.

Depreciation and Amortization

Depreciation expense associated with our property, equipment and software increased to \$67.0 million for the three months ended March 31, 2019 from \$57.4 million for the three months ended March 31, 2018. The prior year period excludes \$4.9 million of Legacy Worldpay depreciation expense prior to our acquisition.

Amortization expense associated with intangible assets, which consist primarily of customer relationship intangible assets, increased to \$197.4 million for the three months ended March 31, 2019 from \$149.8 million for the three months ended March 31, 2018. The prior year period excludes \$2.3 million of Legacy Worldpay amortization expense prior to our acquisition. The increase is primarily attributable to an increase in amortization of customer relationship intangible assets as a result of recent acquisitions.

Income from Operations

Income from operations increased to \$106.3 million for the three months ended March 31, 2019 from a loss of \$27.7 million for the three months ended March 31, 2018.

Interest Expense—Net

Interest expense—net decreased to \$72.1 million for the three months ended March 31, 2019 from \$75.2 million for the three months ended March 31, 2018. The prior year period excludes \$2.8 million of Legacy Worldpay interest expense-net prior to our acquisition. The decrease in interest expense-net is primarily related to additional debt paydowns and increased interest income, partially offset by higher interest rates.

Non-Operating Income (Expense)

Non-operating income was \$3.5 million for the three months ended March 31, 2019, primarily relates to foreign currency gains, partially offset by losses associated with the write-off of deferred financing fees in connection with the early paydown of debt and the change in fair value of the Mercury TRA.

Non-operating expense was \$8.6 million for the three months ended March 31, 2018, primarily relating to our financing arrangements entered into in connection with the Legacy Worldpay acquisition and the change in fair value of the Mercury TRA, partially offset by a gain on the settlement of a deal contingent forward entered into in connection with our acquisition of Legacy Worldpay.

Income Tax Expense (Benefit)

Income tax benefits for the three months ended March 31, 2019 and 2018 were \$0.4 million and \$13.2 million, reflecting global effective rates of (1.1)% and 11.8%, respectively. Our global effective tax rates reflect the impact of our non-controlling interests not being taxed at the statutory U.S. corporate tax rates.

Segment Results

The following tables provide a summary of the components of segment profit for our three segments for the three months ended March 31, 2019 and 2018 (in millions):

The disclosures below exclude Legacy Worldpay results prior to the January 16, 2018 acquisition date for the three months ended March 31, 2018.

Technology Solutions

	Three Months Ended March 31,		\$ Change	% Change
	2019	2018		
Revenue	\$ 427.3	\$ 336.4	\$ 90.9	27%
Sales and marketing	118.4	95.9	22.5	23%
Segment profit	<u>\$ 308.9</u>	<u>\$ 240.5</u>	<u>\$ 68.4</u>	<u>28%</u>

Revenue

Revenue in this segment increased 27% to 427.3 million for the three months ended March 31, 2019 from \$336.4 million for the three months ended March 31, 2018. The prior year period excludes \$29.7 million of Legacy Worldpay generated revenue prior to our acquisition. Strong transactional growth contributed to the increase in revenue.

Sales and Marketing

Sales and marketing expense increased 23% to \$118.4 million for the three months ended March 31, 2019 from \$95.9 million for the three months ended March 31, 2018. The prior year period excludes \$3.2 million of Legacy Worldpay sales and marketing expense prior to our acquisition. Higher residual payments to referral partners as a result of increased revenue contributed to the increase.

Merchant Solutions

	Three Months Ended March 31,		\$ Change	% Change
	2019	2018		
Revenue	\$ 459.4	\$ 432.2	\$ 27.2	6%
Sales and marketing	166.0	163.8	2.2	1%
Segment profit	\$ 293.4	\$ 268.4	\$ 25.0	9%

Revenue

Revenue in this segment increased 6% to \$459.4 million for the three months ended March 31, 2019 from \$432.2 million for the three months ended March 31, 2018. The prior year period excludes \$33.9 million of Legacy Worldpay generated revenue prior to our acquisition. When including the 2018 period prior to our acquisition, the decrease in revenue is primarily attributable to unfavorable foreign currency.

Sales and Marketing

Sales and marketing expense increased 1% to \$166.0 million for the three months ended March 31, 2019 from \$163.8 million for the three months ended March 31, 2018. The prior year period excludes \$9.7 million of Legacy Worldpay sales and marketing expense prior to our acquisition. When including the 2018 period prior to our acquisition, the decrease in sales and marketing expense is primarily attributable to sales efficiencies, partially offset by higher residual payments to referral partners.

Issuer Solutions

	Three Months Ended March 31,		\$ Change	% Change
	2019	2018		
Revenue	\$ 83.3	\$ 82.1	\$ 1.2	1%
Sales and marketing	6.5	6.3	0.2	3%
Segment profit	\$ 76.8	\$ 75.8	\$ 1.0	1%

Revenue

Revenue in this segment increased 1% to \$83.3 million for the three months ended March 31, 2019 from \$82.1 million for the three months ended March 31, 2018.

Sales and Marketing

Sales and marketing expense increased 3% to \$6.5 million for the three months ended March 31, 2019 from \$6.3 million for the three months ended March 31, 2018.

Liquidity and Capital Resources

Our liquidity is funded primarily through cash provided by operations, debt and a line of credit, which is generally sufficient to fund our operations, planned capital expenditures, tax distributions made to our non-controlling interest holders, required payments under our TRA agreements, debt service and acquisitions. As of March 31, 2019, our principal sources of liquidity consisted of \$107.9 million of cash and cash equivalents and \$1.0 billion of availability under the revolving portion of our senior secured credit facilities. Our total indebtedness, including finance leases, was \$7.5 billion as of March 31, 2019.

We do not intend to pay cash dividends on our Class A common stock in the foreseeable future. Worldpay, Inc. is a holding company that does not conduct any business operations of its own. As a result, Worldpay, Inc.'s ability to pay cash dividends on its common stock, if any, is dependent upon cash dividends and distributions and other transfers from Worldpay Holding. The amounts available to Worldpay, Inc. to pay cash dividends are subject to the covenants and distribution restrictions in its subsidiaries' loan agreements.

In addition to principal needs for liquidity discussed above, our strategy includes investing in and leveraging our integrated business model and technology platform, broadening and deepening our distribution channels, entry into new geographic markets and development of additional payment processing services. Our near-term priorities for capital allocation include debt reduction, investing in our operations to support organic growth, and share repurchases. Long-term priorities remain unchanged and include investing for growth through strategic acquisitions and returning excess capital to shareholders.

We anticipate that to the extent that we require additional liquidity, it will be funded through the incurrence of other indebtedness, equity financings or a combination thereof. We cannot assure you that we will be able to obtain this additional liquidity on reasonable terms, or at all. Additionally, our liquidity and our ability to meet our obligations and fund our capital requirements are also dependent on our future financial performance, which is subject to general economic, financial and other factors that are beyond our control. Accordingly, we cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available under our credit facilities or otherwise to meet our liquidity needs. If we decide to pursue one or more significant acquisitions, we may incur additional debt or sell additional equity to finance such acquisitions.

However, as a result of the Merger Agreement with FIS, we are precluded from paying dividends, share repurchases, debt issuances and equity financings.

Cash Flows

The following table presents a summary of cash flows from operating, investing and financing activities for the three months ended March 31, 2019 and 2018 (in millions).

	Three Months Ended March 31,	
	2019	2018
Net cash provided by operating activities	\$ 166.2	\$ 84.1
Net cash (used in) provided by investing activities	(88.0)	1,406.1
Net cash (used in) provided by financing activities	(422.6)	75.9

Cash Flow from Operating Activities

Net cash provided by operating activities was \$166.2 million for the three months ended March 31, 2019 as compared to \$84.1 million for the three months ended March 31, 2018. The increase reflects net income compared to a net loss in the prior period and an adjustment to add back increased depreciation and amortization expense, partially offset by increased net cash outflow due to changes in working capital.

Cash Flow from Investing Activities

Net cash used in investing activities was \$88.0 million for the three months ended March 31, 2019 as compared to \$1,406.1 million of cash provided by investing activities for the three months ended March 31, 2018. The prior period includes cash acquired relating to the acquisition of Legacy Worldpay in January 2018.

Cash Flow from Financing Activities

Net cash used in financing activities was \$422.6 million for the three months ended March 31, 2019 as compared to net cash provided by financing activities of \$75.9 million for the three months ended March 31, 2018. Cash used in financing activities during the three months ended March 31, 2019 consisted primarily of the repayment of debt and finance leases, payments relating to tax receivable agreements, partially offset by incremental borrowings. Cash provided by financing activities for the three months ended March 31, 2018 consisted primarily of proceeds from issuance of additional debt, partially offset by the repayment of debt and finance leases, settlement and payments under tax receivable agreements and addendums and distributions to non-controlling interests.

Credit Facilities

At March 31, 2019, we have \$7.5 billion of outstanding debt, which includes \$246 million of outstanding borrowings under our revolving credit facility. See additional discussion in Note 6—Long-Term Debt in the notes to our unaudited consolidated financial statements included in Exhibit 99.2 to this Current Report on Form 8-K.

We are required to maintain a leverage ratio no greater than established thresholds (based upon the ratio of total funded debt to consolidated EBITDA, as defined in the loan agreement) and a minimum interest coverage ratio (based upon the ratio of consolidated EBITDA to interest expense), which are tested quarterly based on the last four fiscal quarters. The required financial ratios become more restrictive over time, with the specific ratios required by period set forth in the table below:

Period	Leverage Ratio (must not exceed)	Interest Coverage Ratio (must exceed)
December 31, 2018 to September 30, 2019	5.75 to 1.00	4.00 to 1.00
December 31, 2019 to September 30, 2020	5.00 to 1.00	4.00 to 1.00
December 31, 2020 and thereafter	4.25 to 1.00	4.00 to 1.00

As of March 31, 2019, we were in compliance with these covenants with a leverage ratio of 3.77 to 1.00 and an interest coverage ratio of 6.69 to 1.00.

Interest Rate Swaps, Caps and Net Investment Hedges

As of March 31, 2019, we have interest rate swap and interest rate cap agreements that were designated as cash flow hedges of interest rate risk. The currently effective interest rate swaps and caps hedge \$2.2 billion of our approximately \$5.6 billion of variable rate debt outstanding as of March 31, 2019. The Company also has designated a portion of its Euro denominated debt and 100% of its GBP denominated debt as net investment hedges. See Note 7—Derivatives and Hedging Activities in the notes to our unaudited consolidated financial statements included in Exhibit 99.2 to this Current Report on Form 8-K for more information about the interest rate swaps, caps and net investment hedges.

Tax Receivable Agreements

As of March 31, 2019, we are party to several TRAs in which we have agreed to make payments to various parties of 85% of the federal, state, local and foreign income tax benefits realized by us as a result of certain tax deductions.

As discussed in Note 1—Basis of Presentation and Summary of Significant Accounting Policies in the notes to our unaudited consolidated financial statements included in Exhibit 99.2 to this Current Report on Form 8-K, Fifth Third exchanged its remaining 10.3 million Class B units of Worldpay Holding for shares of Worldpay, Inc. Class A common stock in March 2019.

As a result of the March 2019 Fifth Third exchange of units of Worldpay Holding, we recorded an estimated additional liability under the Fifth Third TRA of \$327.9 million and an estimated additional deferred tax asset of \$502.8 million associated with the increase in the tax basis. We recorded an estimated corresponding increase to paid-in-capital of \$174.9 million for the difference in the TRA liability and the related deferred tax asset.

For more information on the TRAs, see Note 8—Tax Receivable Agreements in the notes to our audited consolidated financial statements included in Exhibit 99.1 to this Current Report on Form 8-K.

Contractual Obligations

There have been no significant changes to contractual obligations and commitments compared to those disclosed in our Annual Report on Form 10-K as of December 31, 2018 filed with the SEC on February 26, 2019.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our audited consolidated financial statements in our 2018 Form 10-K, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our critical estimates giving consideration to a combination of factors, including historical experience, current conditions and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Except for the adoption of Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842) and ASU 2017-12, Derivatives and Hedging (Topic 815) on January 1, 2019 as discussed in Note 3—Leases and Note 7—Derivatives and Hedging Activities in the notes to our unaudited consolidated financial statements included in Exhibit 99.2 to this Current Report on Form 8-K, we have not adopted any new critical accounting policies, have not changed any critical accounting policies and have not changed the application of any critical accounting policies from the year ended December 31, 2018. Our critical accounting policies and estimates are described fully within Management’s Discussion and Analysis of Financial Condition and Results of Operations included within Exhibit 99.3 to this Current Report on Form 8-K.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

**Information related to Worldpay, Inc.'s business and operations
and information related to certain material regulatory matters related to Worldpay, Inc.'s business**

Worldpay, Inc., formerly Vantiv, Inc., a Delaware corporation, is a holding company that conducts its operations through its majority-owned subsidiary, Worldpay Holding, LLC ("Worldpay Holding"). On January 16, 2018, we completed the previously announced acquisition of all of the outstanding shares of Worldpay Group Limited, formerly Worldpay Group plc, a public limited company and changed our name to Worldpay, Inc. Worldpay, Inc., Worldpay Holding and their subsidiaries are referred to collectively as the "Company," "Worldpay," "we," "us" or "our," unless the context requires otherwise.

Business and Client Description

Worldpay, Inc. is a leading payments technology company. We process over 40 billion transactions annually, supporting more than 300 payment types across 146 countries and 126 currencies. According to the Nilson Report, we are the largest merchant acquirer globally by number of transactions, and the largest PIN debit acquirer by number of transactions in the United States.

We are a payments innovator, differentiated by our global reach, innovative technology and tailored solutions. Our leading competitive position and differentiated solutions have enabled us to achieve unique advantages in fast-growing and strategically-important segments of the payments market, including capabilities in global eCommerce, a first-mover advantage in U.S. Integrated Payments, and Enterprise payments and data security solutions in business-to-business (B2B) payments.

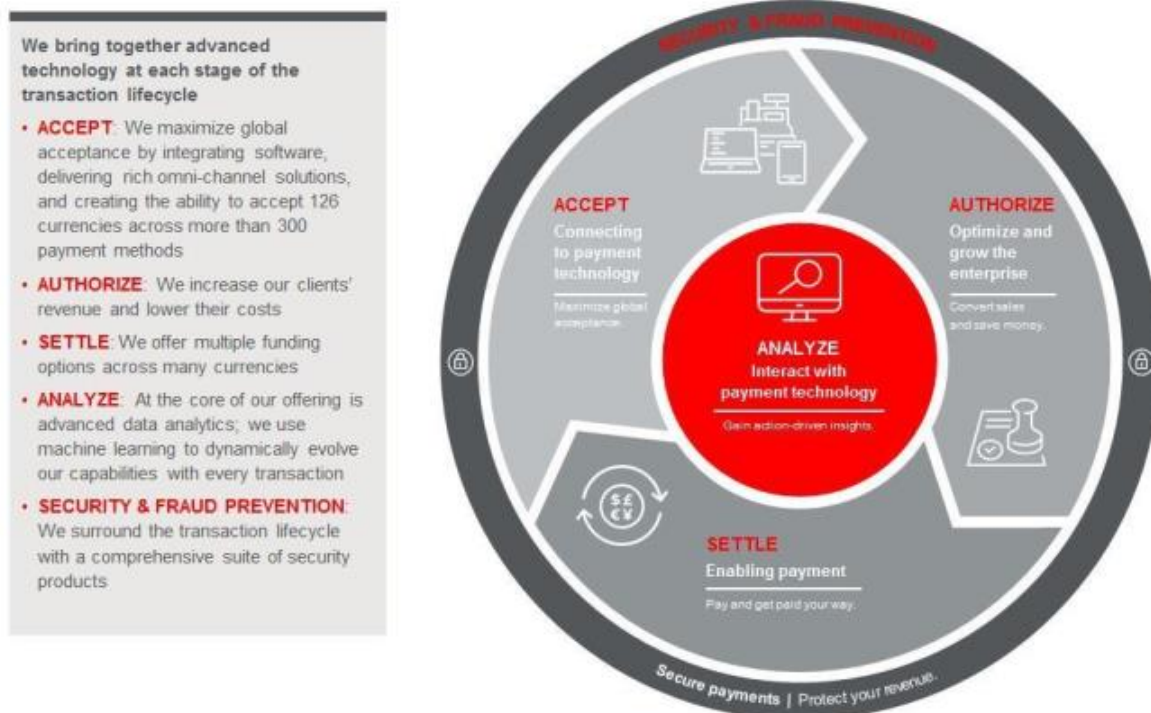
Our solutions bring together advanced payments technologies at each stage of the transaction life cycle. We enable acceptance by integrating software and delivering omni-channel solutions that allow merchants to transact online, via mobile and in-store. Our innovative and proprietary suite of payments technology enables our clients to increase their revenue by improving authorization rates while simultaneously lowering transaction costs. We offer numerous dynamic funding options and enable real-time payouts at settlement. We use advanced data analytics and machine learning to continuously evolve our capabilities, and we offer additional value-added services, including prepaid services and gift card solutions, to help our clients operate and manage their businesses more profitably. We also provide security solutions, such as point-to-point encryption, tokenization, and fraud prevention services, at each stage of the transaction lifecycle, in order to help our clients protect their revenue.

Our global reach, innovative technology and tailored solutions create our client value proposition. Our global reach makes it easy for our clients to expand into new markets and to simplify the back-office operations. We employ the most advanced payments technologies to help our clients increase their revenue while minimizing costs. Our flexible and client-centered technology platforms enable our in-country vertical-specific and technical experts to develop tailored solutions that solve our clients' most complex needs.

Our Segments

Our business is organized into three segments, Technology Solutions, Merchant Solutions and Issuer Solutions. Our Technology Solutions and Merchant Solutions segments provide merchant acquiring, payment processing and related services to a diverse set of merchants worldwide, while our Issuer Solutions segment primarily serves financial institutions, including regional banks, community banks, credit unions and regional personal identification number ("PIN") networks.

Within our Technology Solutions and Merchant Solutions segments, we enable merchants of all sizes to accept electronic payments, including credit, debit and prepaid payments originated at the physical point-of sale-as well as in card-not-present (CNP) eCommerce and mobile environments. Per the chart below, our services include all aspects of payment processing, including authorization and settlement, customer service, chargeback and retrieval processing, reporting for electronic payment transactions and network fee and interchange management. We also provide our merchants with value-added services, such as security and fraud prevention solutions, advanced data analytics and information management solutions, foreign currency management and numerous funding options.



Within our Issuer Solutions segment, we supply payment services to financial institutions, including card issuer processing, payment network processing, fraud protection, card production, prepaid program management, ATM driving, and network gateway and switching services that utilize our proprietary Jeanie PIN debit payment network.

Technology Solutions

Our Technology Solutions segment serves a diverse set of merchants that primarily accept payments through advanced technology-enabled solutions, typically encompassing card-not-present (CNP) eCommerce and mobile solutions, integrated payments, or electronic business-to-business payments solutions. Within this segment, we enable payments to merchants primarily by integrating into their global eCommerce environments or through their enterprise software.

Our Technology Solutions client base is highly diversified with low client concentration and includes global enterprises as well as small to medium sized businesses. Our Technology Solutions segment utilizes broad and varied distribution channels, including direct sales forces as well as multiple referral partner relationships that provide us with a growing and diverse client base.

Merchant Solutions

Our Merchant Solutions segment serves a diverse set of merchants that primarily accept payments in-store within the U.S. and U.K., including complex multi-lane retail environments. Within this segment, we enable payments to merchants primarily through integration into technology environments that include physical terminals.

Our Merchant Solutions client base has low client concentration and is heavily weighted in non-discretionary everyday spend categories, such as grocery and pharmacy, and includes thirteen of the United States' top 25 national retailers by revenue in 2018. Our Merchant Solutions segment utilizes broad and varied distribution channels, including direct sales forces and multiple referral partners.

Issuer Solutions

Our Issuer Solutions segment provides card issuer processing, payment network processing, fraud protection and card production to a diverse set of financial institutions, including regional banks, community banks, credit unions and regional personal identification number ("PIN") networks. We process and service a wide range of credit, debit, ATM and prepaid transactions for our clients, and also provide card and statement production, collections and inbound/outbound call centers. Other services we provide include ATM driving, portfolio optimization, data analytics and card program marketing. We also provide network gateway and switching services that utilize our Jeanie PIN network, which offers real-time electronic payment, network bill payment, single point settlement, shared deposit taking and customer select PINs.

Our Issuer Solutions segment generally focuses on small to mid-sized financial institutions with less than \$15 billion in assets. Smaller financial institutions generally do not have the scale or infrastructure typical of large institutions and are more likely to outsource their payment processing needs. Our Issuer Solutions segment utilizes broad and varied distributions channels, including direct sales forces and multiple referral partners.

Sales and Marketing

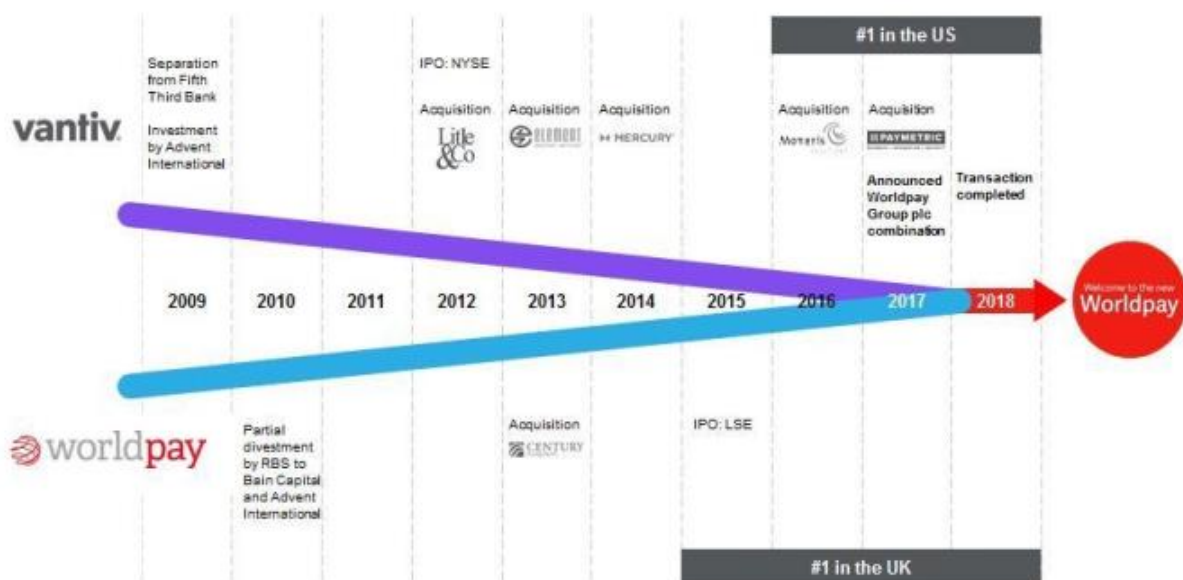
We distribute our services through multiple sales channels that enable us to efficiently and effectively target a growing and diverse client base of merchants and financial institutions. All three segments' sales channels include direct sales forces and referral partners that sell our solutions. In addition, all three segments offer certain services on a white-label basis which enables them to be marketed under our partners' brands. We select referral partners that enhance our distribution and augment our services with complementary offerings. We believe our sales structure provides us with broad geographic coverage and access to various industries and verticals.

Our sales teams in all three segments are paid a combination of base salary and commission. As of December 31, 2018, we had approximately 1,900 full-time employees participating in sales and marketing, including sales support personnel. Commissions paid to our sales force are based upon a portion of revenue from new business and cross-selling to existing clients. Residual payments to our referral partners are based upon a portion of revenues earned from referred business. For the year ended December 31, 2018, combined sales force commissions and residual payments represent approximately 63% of total sales and marketing expenses, or \$715.7 million.

Our History

Worldpay, Inc. was formed on January 16, 2018 through Vantiv, Inc.'s acquisition of Worldpay Group plc. The strategic rationale for the acquisition included creating a leader in global eCommerce as well as to leverage the predecessor companies' core strengths to continue to expand across high-growth segments of the payments market. The heritage companies' technology assets provide a strong, integrated foundation for innovation and growth, enabled by an agile and scalable U.S. platform as well as a flexible, highly advanced global platform. The companies' leading international eCommerce and U.S. eCommerce capabilities combined to establish a leading global eCommerce player. At the same time, the companies' Integrated Payments technological know-how and capabilities in the U.S. combined with Legacy Worldpay's global merchant base enabled the combined company to expand its capabilities into new and high-growth emerging markets.

As a result of the combination, Worldpay is a leader in global eCommerce and serves a diverse set of merchants across a variety of end-markets, sizes and geographies. It has become the leading global payment solutions provider, powering integrated omni-commerce in the U.S. and Europe, the two largest cross-border payments markets. We are one of the few global businesses able to address merchant's global complexities, providing payments capabilities in-store, online or on a mobile device, and granting merchants access to a global payments network through an agile, integrated, secure, reliable and highly scalable proprietary global payments platform.



We have a history of successfully integrating the technology platforms of acquired companies, including winding down legacy environments and consolidating platforms from other acquisitions onto our core processing architecture. Our skills in technology integration represented a unique and significant competitive advantage, enabling quicker product delivery as well as providing scale, resiliency, and an improved customer experience. As a result, Worldpay’s technology capabilities are differentiated from our competitors’, and enable us to efficiently provide a comprehensive suite of services to merchants and financial institutions of all sizes as well as to innovate, develop and deploy new services, while providing us with significant economies of scale.

Competition

We are a leading payments technology company; we compete with financial institutions and well-established payment processing companies, including Chase Paymentech Solutions, Bank of America Merchant Services, First Data Corporation, Global Payments, Inc., Citi Merchant Services, Barclays, Wells Fargo, Elavon Inc. (a subsidiary of U.S. Bancorp), Total System Services, Inc., Adyen, PayPal, Square, and Stripe in our Technology Solutions and Merchant Solutions segments. The most significant competitive factors in this segment are brand, breadth of features and functionality, data security, price, scalability, service capability and system performance.

In our Issuer Solutions segment, competitors include Fidelity National Information Services, Inc., First Data Corporation, Fiserv, Inc., Jack Henry & Associates, Inc., Mastercard, Inc., Total System Services, Inc. and Visa Debit Processing Service. In addition to competition with direct competitors, we also compete with the capabilities of many larger potential clients to conduct their key payment processing applications in-house. The most significant competitive factors in this segment are breadth of services and functionality, data security, flexibility of infrastructure and servicing capability, price, scalability and system performance.

Our Strategy

We are a payments innovator. We develop tailored solutions to solve our client’s most complex problems, and our global reach and innovative technology enable us to create value for our clients across the transaction lifecycle. Together, these create a powerful client value proposition that we will use to grow our business and win market share. We will build on our core strengths to further expand into attractive segments of the market that will have strong secular growth in electronic payments, such as global eCommerce, integrated payments, and business-to-business (B2B) payments.

Following the Worldpay acquisition, we continue to maintain our focus on completing the integration of the two businesses while delivering on our synergy targets. As part of the integration we are now executing a technology strategy, leveraging modular cloud-based technology solutions that provide ease of client connectivity and more quickly enable value-added services. This will allow us to deliver online and offline transactions at significant scale. We are also continuing to invest in our enterprise data capabilities, adding advanced analytics and machine learning, along with other value-added services to drive improved authorization and acceptance for our customers while minimizing fraud.

Industry Background

Electronic Payments

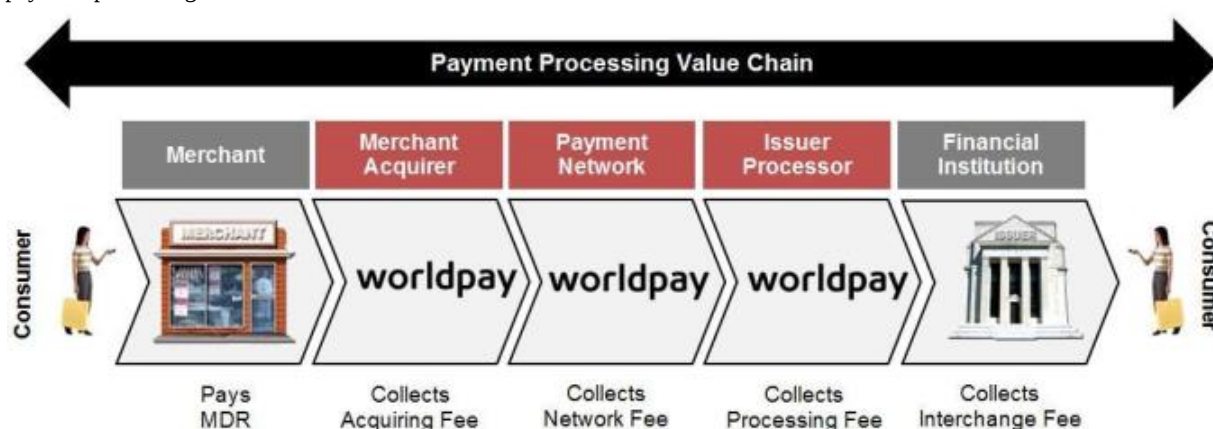
Electronic payments have evolved globally into a large and growing market with favorable secular trends that continue to increase the adoption and use of card-based payment services, such as those for credit, debit and prepaid cards.

This growth is driven by the shift from cash and checks towards card-based and other electronic forms of payment due to their greater convenience, security, enhanced services and rewards and loyalty features. We believe emerging trends, such as the adoption of new technologies and business models, including the growth of card-not-present (CNP) transactions in eCommerce and mobile commerce and prepaid services, will also continue to drive growth in electronic payments.

Payment Processing Industry

The payment processing industry is comprised of various processors that create and manage the technology infrastructure that enables electronic payments. Payment processors help merchants and financial institutions develop and offer electronic payment solutions to their customers, facilitate the routing and processing of electronic payment transactions and manage a range of supporting security, value-added and back office services. In addition, many large banks manage and process their card accounts in-house. This is collectively referred to as the payment processing value chain.

Many payment processors specialize in providing services in discrete areas of the payment processing value chain, which can result in merchants and financial institutions using payment processing services from multiple providers. A limited number of payment processors have capabilities or offer services in multiple parts of the payment processing value chain. We provide solutions across the payment processing value chain as a merchant acquirer, payment network, and as an issuer processor, primarily by utilizing our innovative technology to enable our clients to easily access a broad range of payment processing services as illustrated below:



The payment processing value chain encompasses three key types of processing:

- **Merchant Acquiring Processing.** Merchant acquiring processors sell electronic payment acceptance, processing and supporting services to merchants and third-party resellers. These processors route transactions originated by consumer transactions with the merchant, including in omni-channel environments that span point-of-sale, eCommerce and mobile devices, to the appropriate payment networks for authorization, known as “front-end” processing, and then ensure that each transaction is appropriately cleared and settled into the merchant’s bank account, known as “back-end” processing. Many of these processors also provide specialized reporting, back office support, risk management and other value-added services, such as fraud prevention, to merchants. Merchant acquirers charge merchants based on a percentage of the transaction value, a specified fee per transaction or a fixed fee, or a combination. Merchant acquirers pay the payment network processors a routing fee per transaction and pass through interchange fees to the issuing financial institution.

- *Payment Network Processing.* Payment network processors, such as Visa, Mastercard and PIN debit payment networks, sell electronic payment network routing and support services to financial institutions that issue cards and merchant acquirers that provide transaction processing. Depending on their market position and network capabilities, these providers route credit, debit and prepaid card transactions from merchant acquiring processors to the financial institution that issued the card, and they ensure that the financial institution's authorization approvals are routed back to the merchant acquiring processor and that transactions are appropriately settled between the merchant's bank and the card-issuing financial institution. These providers also provide specialized risk management and other value-added services to financial institutions. Payment networks charge merchant acquiring processors and issuing financial institutions routing fees per transaction and monthly or annual maintenance fees and assessments.
- *Issuer Card Processing.* Issuer card processors sell electronic payment issuing, processing and supporting services to financial institutions. These providers authorize transactions received from the payment networks and ensure that each transaction is appropriately cleared and settled from the originating card account. These companies also provide specialized program management, reporting, outsourced customer service, back office support, risk management and other value-added services to financial institutions. Card processors charge issuing financial institutions fees based on the number of transactions processed and the number of cards that are managed.

Emerging Trends and Opportunities in the Payment Processing Industry

The payment processing industry is adopting new technologies, developing new products and services, evolving new business models and experiencing new market entrants and an evolving regulatory environment. As merchants and financial institutions respond to these changes by seeking services to help them enhance their own offerings to consumers, including the ability to accept card-not-present (CNP) payments in eCommerce and mobile environments as well as contactless cards and mobile wallets at the point-of-sale, we believe that payment processors will seek to develop additional capabilities in order to capture additional revenue streams by offering additional value added services as well as by expanding across the payment processing value chain. In order to facilitate this expansion, we believe that payment processors will need to enhance their technology platforms so that they can deliver these capabilities and differentiate their offerings from other providers.

We believe that payment processors, like Worldpay, that have scalable, integrated business models, provide solutions across the payment processing value chain and utilize broad distribution capabilities will be best positioned to successfully partner with new market entrants by providing processing services for emerging alternative electronic payment technologies. Further, we believe that Worldpay's depth of capabilities and breadth of distribution will further enhance its competitive position as emerging payment technologies are adopted by merchants and other businesses. Worldpay's ability to partner with non-financial institution enterprises, such as mobile payment providers, internet, retail and social media companies, could create attractive growth opportunities as these new entrants seek to become more active participants in the development of alternative electronic payment technologies and to facilitate the convergence of retail, online, mobile and social commerce applications.

Regulation

The financial services regulatory regime affects our operations and costs. The financial services industry is highly regulated under U.S. and foreign law. Federal, state, local and foreign statutes, regulations, policies and guidance are continually under review by governmental authorities. Changes in the regulatory regime, including changes in how they are interpreted, implemented or enforced, could have a material adverse effect on our business. Violations or perceived weaknesses in compliance or internal controls may result in civil or criminal enforcement action; suspension or revocation of licenses or registrations; limitation, suspension or termination of services; civil or criminal penalties, such as fines; and reputational harm. In addition to governmental regulation, certain of our services are subject to rules set by various payment networks, such as Visa and Mastercard. Many of these aspects of the regulatory regime are described in more detail below.

Licensing and Registration in Multiple Jurisdictions

Our regulatory environment varies from jurisdiction to jurisdiction. In some U.S. and foreign jurisdictions, we are required to obtain and maintain various licenses and registrations to conduct our business. For example, in the United States, we are authorized in multiple U.S. states to engage in debt administration and debt collection activities on behalf of some of our card issuing financial institution clients through calls and letters to the debtors in those states. Our international operations and subsidiaries are subject to a range of licensing, registration and regulatory requirements under U.K., Dutch, European Union ("E.U.") and other foreign regulatory regimes. We may seek, or be required to obtain, licenses or registrations in other jurisdictions based on changes in our business or the applicable regulatory regime.

As a licensed or registered provider of financial services, we are subject to the exercise of potentially far-reaching discretionary supervisory, regulatory and enforcement powers by numerous U.S. and foreign regulatory authorities. Licensing and regulatory authorities can require, among other things, the provision of detailed information covering our management, business plan, products and services, compliance, internal controls, ownership structure and financial performance. Regulators and other governmental authorities have a range of enforcement powers in the event that we fail to comply with applicable laws and regulations or do not meet their guidance or supervisory expectations.

Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) made significant structural and other changes to the regulation of the U.S. financial services industry. Those changes included important provisions affecting credit card and debit transactions. For example, the Dodd-Frank Act allows merchants to set minimum dollar amounts (not to exceed \$10) for the acceptance of a credit card (and allows federal governmental entities and institutions of higher education to set maximum amounts for the acceptance of credit cards) and to provide discounts or incentives to entice consumers to pay with cash, checks, debit cards or credit cards, as the merchant prefers.

In addition, the “Durbin Amendment” to the Dodd-Frank Act provided that interchange fees that a card issuer or payment network receives or charges for debit transactions are now regulated by the Federal Reserve and must be “reasonable and proportional” to the cost incurred by the card issuer in authorizing, clearing and settling the transaction. The Durbin Amendment also contains prohibitions on network exclusivity and merchant routing restrictions.

Consumer Protection Laws and the Consumer Financial Protection Bureau

Our business is subject to a wide range of consumer protection laws. For example, we are also subject to the Fair Debt Collection Practices Act and similar state laws in connection with our credit card processing business. In addition, the Dodd-Frank Act established the Consumer Financial Protection Bureau (CFPB) to regulate consumer financial services, including many of the types of services offered by our clients. We are subject to regulation and enforcement by the CFPB because we are a service provider to insured depository institutions with assets of \$10 billion or more in connection with their consumer financial products and to entities that are larger participants in markets for consumer financial products and services such as prepaid cards. CFPB rules, examinations and enforcement actions may require us to adjust our activities and may increase our compliance costs. In addition to rule making authority over several enumerated federal consumer financial protection laws, the CFPB is authorized to issue rules prohibiting unfair, deceptive or abusive acts or practices by persons offering consumer financial products or services and those, such as us, who are service providers to such persons, and has authority to enforce these consumer financial protection laws and CFPB rules.

Banking and Payment Services Regulation

United States

Although we are not a bank, the U.S. bank regulatory regime affects our business because we provide services to banks. Banking regulators are authorized to examine, supervise and bring enforcement action against non-bank companies that perform services for U.S. banks. Because we provide data processing and other services to U.S. banks and financial institutions, we are subject to regular oversight and examination by the Federal Financial Institutions Examination Council (FFIEC). The FFIEC is an inter-agency body of the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve (Federal Reserve), the National Credit Union Administration and the CFPB. We are also subject to review under state laws and rules governing the provision of services to U.S. banks and other financial institutions, including electronic data processing, back-office services, and use of consumer information. In addition, independent auditors annually review several of our operations to provide reports on internal controls for our clients’ auditors and regulators. Our failure to comply with applicable laws and regulations, or to meet supervisory expectations, may result in adverse action against us by regulators or by the financial institutions to which we provide services.

Our business may also be affected by banking regulation because of Fifth Third Bank’s equity ownership in our Company. Fifth Third Bank is a state-chartered bank and a member of the Federal Reserve System. Fifth Third Bank is regulated, examined and supervised by the Ohio Division of Financial Institutions (ODFI) and the Federal Reserve. Fifth Third Bank is an indirect subsidiary of Fifth Third Bancorp, which is a bank holding company regulated, examined and supervised by the Federal Reserve under the Bank Holding Company Act of 1956 (BHC Act). Depending on the facts and circumstances, a company in which a bank or bank holding company owns equity securities may be subject to banking regulation, supervision, examination and enforcement.

Fifth Third Bank is presumed not to “control” us under the statutory terms of the BHC Act based on its current ownership level. Nevertheless, in the future or in connection with other initiatives, the ODFI or Federal Reserve could assert that our relationship with Fifth Third Bank imposes limitations, conditions or approval requirements under banking laws that affect our activities, investments or acquisitions. The imposition of such limitations, conditions or approval requirements could have an adverse impact on our business, such as by preventing us from pursuing an otherwise attractive acquisition or business opportunity.

The framework by which we would address such circumstances is set forth in the Second Amended and Restated Limited Liability Company Agreement of Worldpay Holding, LLC, as amended by that certain Transaction Agreement, dated August 7, 2017, by and among the Company, Worldpay Holding, Fifth Third Bank and Fifth Third Bancorp (the Worldpay Holding LLC Agreement). Among other things, we must notify Fifth Third Bank before we engage in any business activity (by acquisition, investment or organic growth that may reasonably require Fifth Third Bank or an affiliate of Fifth Third Bank to obtain regulatory approval, so that Fifth Third Bank can consider the legal permissibility of the activity and any required regulatory approvals, and we and Fifth Third Bank must use our respective reasonable best efforts to obtain any such regulatory approvals if we determine to pursue the business activity. The Worldpay Holding LLC Agreement also includes provisions to address circumstances where any such required regulatory approval is not obtained.

The United Kingdom

In the U.K., the Payment Services Regulations 2017 require non-bank payment service providers, such as Worldpay, to be authorized as Payment Institutions upon which these regulations impose an on-going system of regulation and control. To comply with these regulations, we have licensed three entities, Worldpay (UK) Limited (WPUKL), Worldpay Limited (WPL) and Worldpay AP Ltd (WPAP), as “Authorized Payment Institutions” and we are authorized to provide certain payment services across the European Economic Area. The FCA has the power to take a range of enforcement actions, including the ability to sanction firms and individuals carrying out functions within the firm. Additionally, WPUKL has a regulated consumer hire business, for which it currently holds the necessary permission under the U.K. Financial Conduct Authority and WPAP is registered with Her Majesty’s Revenue and Customs for the purposes of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. We are also subject to the Regulation of the European Parliament and the Council on interchange fees for card-based payment transactions (IFR). These interchange fees are a major part of the charges paid by merchants to payment service providers. The Payment Systems Regulator is the competent authority for the monitoring and enforcement of compliance with the IFR in the U.K.

The Netherlands

Worldpay BV (WPBV) is incorporated and registered in the Netherlands and holds a license from the Dutch Central Bank (De Nederlandsche Bank or DNB) for providing payment services. The regulatory system in the Netherlands is a comprehensive system based on the Dutch Financial Supervision Act, which sets out rules regarding the conduct of business supervision (exercised by the Netherlands Authority of Financial Markets (Autoriteit Financiële Markten or AFM)) and prudential supervision exercised by DNB on payment services providers. As WPBV provides payment services in the Netherlands, it is both subject to the supervision of the DNB and the AFM, both of which are empowered to intervene in cases of non-compliance with the regulations.

Association and Network Rules

We are subject to the network rules of Visa, Mastercard and other payment networks. The payment networks routinely update and modify their requirements. On occasion, we have received notices of non-compliance and fines, which have typically related to excessive chargebacks by a merchant or data security failures. Although these network rules are not government regulations, our failure to comply with the networks’ requirements or to pay the fines they impose could cause the termination of our registration and require us to stop providing payment processing services.

Privacy and Information Security Regulations

We provide services that may be subject to privacy laws and regulations of a variety of U.S. and foreign jurisdictions, including the European Union General Data Protection Regulation (“GDPR”). These laws and regulations restrict the collection, processing, storage, use and disclosure of personal information, require notice to individuals of privacy practices and provide individuals with certain rights to prevent the use and disclosure of protected information. These laws also impose requirements for safeguarding and proper destruction of personal information through the issuance of data security standards or guidelines. For example, relevant U.S. federal privacy laws include the Gramm-Leach-Bliley Act of 1999, which applies directly to a broad range of financial institutions and indirectly, or in some instances directly, to companies that provide services to financial institutions. In addition, there are state laws restricting the ability to collect and utilize certain types of information such as Social Security and driver’s license numbers. U.S. federal and state and foreign laws also impose privacy and data security requirements, which can include obligations to provide notification of security breaches of computer databases that contain personal information to affected individuals, officers and consumer reporting agencies and businesses and governmental agencies that own data. In addition, we are subject to the GDPR, which is the expanded E.U. regime applicable to all foreign companies processing personal data of E.U. residents. GDPR requires companies to maintain a comprehensive data protection and privacy program to protect the personal and sensitive data of European citizens and residents, and failure to comply with GDPR, including country-specific legislation interpreting GDPR, carries significant penalties.

Anti-Corruption, Anti-Money Laundering, Counter Terrorism and Economic Sanctions

We are subject to anti-corruption laws and regulations, including the U.S. Foreign Corrupt Practices Act (FCPA), the UK Bribery Act, and other laws that generally prohibit the making or offering of improper payments to foreign government officials and political figures for the purpose of obtaining or retaining business or to gain an unfair business advantage. We are also subject to anti-money laundering and counter-terrorism financing laws and regulations, including the U.S. Bank Secrecy Act, as amended by the USA PATRIOT Act and EU AML Directives. In addition, we are obligated to comply with economic and trade sanctions programs administered by the U.S. Department of Treasury's Office of Foreign Assets Control (OFAC). As a result, we do not do business to, from, in or with countries or territories subject to comprehensive OFAC trade sanctions (currently, Cuba, Iran, North Korea, Syria and the region of Crimea). In addition, we do not permit as customers nor otherwise do business with any person or entity that is included on OFAC's list of Specially Designated Nationals and Blocked Persons.

Our regulatory compliance programs and policies are designed to support our compliance with a vast range of laws and regulations. We continually review and enhance our compliance programs to address new and evolving regulations. However, we cannot ensure that our practices will be determined to be compliant by every applicable regulatory authority. In the event our controls fail or we are found to be out of compliance, we could be subject to monetary damages, civil and criminal penalties, litigation, investigations and regulatory proceedings, and damage to our brand and reputation. Furthermore, the evolving and increased regulatory focus on the payments industry could negatively impact or reduce the services we offer and the types of customers who can obtain our services, which could harm our business.

Federal Trade Commission Act and Other Laws Impacting Our and our Customers' Business

All persons engaged in commerce, including, but not limited to, us and our merchant and financial institution customers are subject to Section 5 of the Federal Trade Commission Act prohibiting unfair or deceptive acts or practices, or UDAP. In addition, there are other laws, rules and or regulations, including the Telemarketing Sales Act and the Unlawful Internet Gambling Enforcement Act of 2006, that may directly impact the activities of our merchant customers and in some cases may subject us, as the merchant's payment processor, to litigation, investigations, fees, fines and disgorgement of funds in the event we are deemed to have aided and abetted or otherwise provided the means and instrumentalities to facilitate the illegal activities of the merchant through our payment processing services. Various federal and state regulatory enforcement agencies including the Federal Trade Commission, or FTC, and the states' attorneys general have authority to take action against non-banks that engage in UDAP or violate other laws, rules and regulations.

Prepaid Services

Prepaid card programs managed by us are subject to various federal and state laws and regulations, which may include laws and regulations related to consumer and data protection, licensing, consumer disclosures, escheat, anti-money laundering, banking, trade practices and competition and wage and employment. Furthermore, the Credit Card Accountability Responsibility and Disclosure Act of 2009 and the Federal Reserve's Regulation E impose requirements on general-use prepaid cards, store gift cards and electronic gift certificates. These laws and regulations are sometimes inconsistent and subject to judicial and regulatory challenge and interpretation, and therefore the extent to which these laws and rules have application to, and their impact on, us, financial institutions, merchants or others could change. Prepaid services may also be subject to the rules and regulations of Visa, Mastercard and other payment networks with which we and the card issuers do business. The programs in place to process these products generally may be modified by the payment networks in their discretion and such modifications could also impact us, financial institutions, merchants and others. We are also registered with the Financial Crimes Enforcement Network of the U.S. Department of the Treasury, or FinCEN, as a "money services business-provider of prepaid access."

Other

We are subject to the Housing Assistance Tax Act of 2008, which requires information returns to be made for each calendar year by merchant acquiring entities. In addition, we are subject to U.S. federal and state unclaimed or abandoned property (escheat) laws which require us to turn over to certain government authorities the property of others we hold that has been unclaimed for a specified period of time such as account balances that are due to a merchant following discontinuation of its relationship with us.

The foregoing list of laws and regulations to which we are subject is not exhaustive, and the regulatory framework governing our operations changes continuously. The enactment of new laws and regulations may increasingly affect the operation of our business, directly and indirectly, which could result in substantial regulatory compliance costs, litigation expense, adverse publicity, the loss of revenue and decreased profitability.

Intellectual Property

Intellectual property is a component of our ability to be a leading payment services provider. We rely on a combination of intellectual property laws, confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We have registered, or applied for the registration of, U.S., U.K. and other international trademarks, service marks, and domain names and will continue to seek such protection. Additionally, we own issued patents in the U.S., and have filed patent applications in several countries, including the U.S. and U.K., that cover certain of our proprietary technologies related to payment solutions, transaction processing and other products and services. Over time, we have assembled and continue to assemble a portfolio of patents, trademarks, service marks, copyrights, domain names and trade secrets covering our products and services. We do not believe our technology position is dependent on any single patent. We also believe that the life of our patent portfolio is adequate to cover the expected lives of our products and services. Successful third-party claims of intellectual property infringement, including patent infringement, may limit or disrupt our ability to sell our products and services. As such, we defend third party claims of infringement as necessary.

Employees

As of December 31, 2018, we had 8,186 employees globally, of whom 4,331 were located in the U.S. As of December 31, 2018, total employees included 754 in Technology Solutions employees 1,057 Merchant Solutions employees, 85 Issuer Solutions employees, 4,953 IT and Operations employees, and 1,337 general and administrative employees.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On March 17, 2019, Fidelity National Information Services, Inc. (“FIS”), Wrangler Merger Sub, Inc. (“Merger Sub”), a wholly owned subsidiary of FIS, and Worldpay, Inc. (“Worldpay”) entered into the merger agreement pursuant to which, on the terms and subject to the conditions set forth in the merger agreement, Merger Sub will merge with and into Worldpay, with Worldpay surviving the merger, and becoming a wholly owned subsidiary of FIS (the “merger”).

On the terms and subject to the conditions set forth in the merger agreement, at the effective time of the merger, each share of the Class A common stock of Worldpay (other than excluded shares) will be converted into the right to receive 0.9287 shares of common stock of FIS and \$11.00 in cash.

In addition, each outstanding Worldpay equity award, other than any award granted under the ESPP, or the SAYE Plans, will automatically and without any action on the part of the holder, be converted into an equity award denominated in shares of FIS common stock based on the equity exchange ratio.

FIS intends to borrow up to \$11.1 billion of permanent financing to fund the cash portion of the merger consideration, the repayment of certain outstanding Worldpay bank debt and notes, and costs and expenses of the merger. Concurrently with entering into the merger agreement, FIS entered into a commitment letter with Barclays Bank PLC, Goldman Sachs USA and Goldman Sachs Lending Partners LLC (the “lenders”), pursuant to which the lenders have committed to provide a 364-day senior unsecured bridge term loan facility in an aggregate principal amount of up to \$7.5 billion. In September 2018, FIS established a commercial paper program for the issuance and sale of senior, unsecured commercial paper notes, up to a maximum aggregate amount outstanding at any time of \$4 billion. The commercial paper notes have maturities of up to 397 days from the date of issue. FIS expects to replace the bridge term loan facility prior to the closing of the merger with permanent financing, which FIS currently expects to include the issuance of senior notes denominated in U.S. dollars, Euro and/or Sterling (collectively, the “Senior Notes”), together with additional commercial paper and/or revolving credit borrowings. Depending on market conditions, FIS may choose to leave outstanding Worldpay’s existing senior unsecured notes (“Worldpay Notes”), in an aggregate principal amount of approximately \$1.7 billion as of March 31, 2019, which would reduce the amount of permanent financing FIS would seek to raise. For purposes of these unaudited pro forma condensed combined financial statements, FIS has assumed that the new FIS permanent financing will consist of \$7.5 billion aggregate principal of Senior Notes and \$1.9 billion principal amount of commercial paper, and that the foregoing Worldpay Notes remain outstanding following the merger. For the purposes hereof, the new funds raised are assumed to be used for the cash portion of the merger consideration, the repayment of the outstanding Worldpay bank debt (which is required to be repaid in connection with the merger), and costs and expenses of the merger. The amount and type of permanent financing could be different from that presented in these pro forma condensed combined financial statements. If FIS were to borrow additional amounts and use them to instead repay all of the outstanding Worldpay Notes, make-whole redemption premiums and accrued interest on the Worldpay Notes in the aggregate amount of \$159 million as of March 31, 2019 would also be payable.

Completion of the merger is subject to the satisfaction or waiver of the conditions to the closing, including the approval of the Worldpay merger proposal by the requisite vote of Worldpay stockholders at the Worldpay special meeting and approval of the FIS share issuance proposal by the requisite vote of FIS shareholders at the FIS special meeting.

The following unaudited pro forma condensed combined financial statements give effect to the merger and include adjustments for the following:

- certain reclassifications to conform historical financial statement presentation of FIS and Worldpay;
- the proceeds and uses of the Senior Notes and commercial paper program;
- application of the acquisition method of accounting under the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification, which we refer to as ASC 805, “Business Combinations,” to reflect estimated merger consideration of approximately \$43.3 billion (approximately \$34.1 billion in share consideration based on the closing price of FIS common stock on May 2, 2019, approximately \$3.4 billion of cash consideration and \$5.8 billion in repayment of Worldpay debt required to be repaid in connection with the merger (which includes accrued interest), in exchange for 100% of all outstanding Worldpay Class A common stock (there are no outstanding shares of Worldpay Class B common stock as of May 2, 2019);
- transaction costs in connection with the merger; and
- transaction costs in connection with Worldpay’s acquisition of Worldpay Group plc in January 2018. For purposes of the unaudited pro forma condensed combined statement of earnings for the year ended December 31, 2018, FIS did not include the pro forma effect of Worldpay Group plc from January 1, 2018 through January 15, 2018, as the impact was not considered material to the combined company financial information.

The following unaudited pro forma condensed combined financial statements and related notes are based on and should be read in conjunction with (i) the historical unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2019 and the related notes included in FIS' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019, (ii) the historical unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2019 and the related notes included in Worldpay's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019, which financial statements were filed as Exhibit 99.2 to FIS' current report on Form 8-K filed May 13, 2019 (the "FIS May 8-K") (we refer to (i) and (ii) as the 2019 first quarter financial statements), (iii) the historical audited consolidated financial statements of FIS and the related notes included in FIS' Annual Report on Form 10-K for the year ended December 31, 2018, and (iv) the historical audited consolidated financial statements of Worldpay and the related notes included in Worldpay's Annual Report on Form 10-K for the year ended December 31, 2018, which financial statements were filed as Exhibit 99.1 to the FIS May 8-K (we refer to (iii) and (iv) as the 2018 year-end financial statements).

The unaudited pro forma condensed combined statements of earnings for the three months ended March 31, 2019 and the year ended December 31, 2018 combine the historical consolidated statements of earnings of FIS and Worldpay that are included in the applicable 2019 first quarter financial statements and 2018 year-end financial statements, giving effect to the merger as if it had been completed on January 1, 2018. The accompanying unaudited pro forma condensed combined balance sheet as of March 31, 2019 combines the historical consolidated balance sheets of FIS and Worldpay that are included in the applicable 2019 first quarter financial statements, giving effect to the merger as if it had been completed on March 31, 2019.

The historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that are (i) directly attributable to the merger, (ii) factually supportable and (iii) with respect to the unaudited pro forma condensed combined statement of earnings, expected to have a continuing effect on the combined results of FIS and Worldpay. The unaudited pro forma condensed combined financial statements contained herein do not reflect the costs of any integration activities or benefits that may result from the realization of future cost savings from operating efficiencies, or any other synergies that may result from the merger.

The unaudited pro forma condensed combined financial statements and related notes are being provided for illustrative purposes only and do not purport to represent what the combined company's actual results of operations or financial position would have been had the merger been completed on the dates indicated, nor are they necessarily indicative of the combined company's future results of operations or financial position for any future period.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting under U.S. GAAP. The acquisition method of accounting is dependent upon certain procedures, such as valuations, appraisals, and discussions and input from Worldpay management, which have to be performed to obtain the necessary information to recognize the acquired assets and liabilities at fair value. At this time, these activities have yet to progress to a stage where there is sufficient information for a definitive measurement.

FIS has not identified all adjustments necessary to conform Worldpay's accounting policies to FIS' accounting policies. Upon completion of the merger, or as more information becomes available, FIS will perform a more detailed review of Worldpay's accounting policies. As a result of that review, differences could be identified between the accounting policies of the two companies that, when conformed, could have a material impact on the combined company's financial information. Further, there were no material transactions and balances between FIS and Worldpay as of and for the three months ended March 31, 2019 and the year ended December 31, 2018.

The value of the total merger consideration will be determined based on (i) the closing price of FIS common stock on the closing date and the number of issued and outstanding shares of Worldpay Class A common stock immediately prior to the closing, and (ii) the outstanding debt of Worldpay required to be repaid as of the closing date, which may differ from the amount of debt outstanding as of March 31, 2019.

As a result of the foregoing, the pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information. Differences between these preliminary estimates and the final acquisition accounting will arise, and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial statements and the combined company's future results of operations and financial position.

Upon completion of the merger, a final determination of the fair value of Worldpay's assets acquired and liabilities assumed will be performed. Any changes in the fair values of the net assets or total purchase consideration as compared with the information shown in the unaudited pro forma condensed combined financial statements may change the amount of the total purchase consideration allocated to goodwill and other assets and liabilities and may impact the combined company's statement of earnings. The final purchase consideration allocation may be materially different than the preliminary purchase consideration allocation presented in the unaudited pro forma condensed combined financial statements.

Unaudited Pro Forma Condensed Combined Balance Sheet

As of March 31, 2019

(In millions)

	FIS Historical March 31, 2019	Worldpay Historical (Rounded) March 31, 2019 Note 2	Pro Forma Financing Adjustments	Note 4	Pro Forma Acquisition Adjustments	Note 4	Total FIS Pro Forma Combined
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 576	\$ 108	\$ 9,350	4 (a)	(9,329)	4 (a)	\$ 705
Settlement deposits	666	4,964	—		—		5,630
Trade receivables, net	1,451	1,710	—		—		3,161
Contract assets	123	—	—		—		123
Settlement receivables	346	—	—		—		346
Other receivables	150	—	—		—		150
Prepaid expenses and other current assets	299	622	—		—		921
Total current assets	3,611	7,404	9,350		(9,329)		11,036
Property and equipment, net	556	213	—		—		769
Goodwill	13,544	14,302	—		22,844	4 (c)	50,690
Intangible assets, net	3,019	2,939	—		7,561	4 (b)	13,519
Computer software, net	1,777	880	—		(675)	4 (b)	1,982
Other noncurrent assets	1,028	1,475	—		(1,329)	4 (e)	1,174
Deferred contract costs, net	538	74	—		(74)	4 (b)	538
Total assets	<u>\$24,073</u>	<u>\$ 27,287</u>	<u>\$ 9,350</u>		<u>\$ 18,998</u>		<u>\$ 79,708</u>
LIABILITIES AND EQUITY							
Current liabilities:							
Accounts payable, accrued and other liabilities	\$ 1,068	\$ 1,866	\$ —		\$ (8)	4 (d)	\$ 2,926
Settlement payables	946	5,680	—		—		6,626
Deferred revenue	854	30	—		—		884
Short-term borrowings	600	—	1,900	4(d)	—		2,500
Current portion of long-term debt	53	242	—		(219)	4 (d)	76
Total current liabilities	3,521	7,818	1,900		(227)		13,012
Long-term debt, excluding current portion	8,562	7,298	7,450	4(d)	(5,556)	4 (d)	17,754
Deferred income taxes	1,351	470	—		1,415	4 (e)	3,236
Deferred revenue	681	—	—		—		681
Other long-term liabilities	55	1,089	—		—		1,144
Total liabilities	14,170	16,675	9,350		(4,368)		35,827
Equity:							
Total FIS equity	9,896	—	—		33,968	4 (f)	43,864
Total Worldpay equity	—	10,602	—		(10,602)	4 (f)	—
Noncontrolling interest	7	10	—		—		17
Total equity	9,903	10,612	—		23,366		43,881
Total liabilities and equity	<u>\$24,073</u>	<u>\$ 27,287</u>	<u>\$ 9,350</u>		<u>\$ 18,998</u>		<u>\$ 79,708</u>

See accompanying notes to unaudited pro forma condensed combined financial information.

Unaudited Pro Forma Condensed Combined Statement of Earnings

For The Three Months Ended March 31, 2019

(In millions, except per share amounts)

	FIS Historical For the Three Months Ended March 31, 2019	Worldpay Historical (Rounded) For the Three Months Ended March 31, 2019 Note 2	Pro Forma Financing Adjustments	Note 5	Pro Forma Acquisition Adjustments	Note 5	Total FIS Pro Forma Combined	Note 5
Revenue	\$ 2,057	\$ 970	\$ —		\$ 8	5 (a)	\$ 3,035	
Cost of revenue	1,381	618	—		37	5 (b)	2,036	
Gross profit	676	352	—		(29)		999	
Selling, general and administrative expenses	361	245	—		(18)	5 (b)	588	
Asset impairments	—	—	—		—		—	
Operating income	315	107	—		(11)		411	
Other income (expense):								
Interest expense, net	(75)	(72)	(77)	5 (c)	57	5 (c)	(167)	
Other income (expense), net	(52)	4	—		(32)	5 (b)	(80)	
Total other income (expense), net	(127)	(68)	(77)		25		(247)	
Earnings before income taxes and equity method investment earnings (loss)	188	39	(77)		14		164	
Provision (benefit) for income taxes	32	—	(16)	5 (d)	3	5 (d)	19	
Equity method investment earnings (loss)	(7)	—	—		—		(7)	
Net earnings (loss)	149	39	(61)		11		138	
Less: Net (earnings) loss attributable to non-controlling interests	(1)	(2)	—		1	5 (e)	(2)	
Net earnings (loss) attributable to shareholders	\$ 148	\$ 37	\$ (61)		\$ 12		\$ 136	
Earnings (loss) per common share from continuing operations								
Basic	\$ 0.46						\$ 0.22	
Diluted	\$ 0.45						\$ 0.22	
Weighted average common shares outstanding:								
Basic	323						612	5 (f)
Diluted	326						615	5 (f)

See accompanying notes to unaudited pro forma condensed combined financial information.

Unaudited Pro Forma Condensed Combined Statement of Earnings

For The Year Ended December 31, 2018

(In millions, except per share amounts)

	FIS Historical For the Year Ended December 31, 2018	Worldpay Historical (Rounded) For the Year Ended December 31, 2018	Pro Forma Financing Adjustments	Note 5	Pro Forma Acquisition Adjustments	Note 5	Total FIS Pro Forma Combined	Note 5
		Note 2						
Revenue	\$ 8,423	\$ 3,925	\$ —		\$ 27	5 (a)	\$ 12,375	
Cost of revenue	5,569	2,463	—		129	5 (b)	8,161	
Gross profit	2,854	1,462	—		(102)		4,214	
Selling, general and administrative expenses	1,301	1,123	—		(114)	5 (b)	2,310	
Asset impairments	95	—	—		—		95	
Operating income	1,458	339	—		12		1,809	
Other income (expense):								
Interest income	17	11	—		—		28	
Interest expense	(314)	(316)	(312)	5 (c)	233	5 (c)	(709)	
Other income (expense), net	(57)	(42)	—		—		(99)	
Total other income (expense), net	(354)	(347)	(312)		233		(780)	
Earnings before income taxes and equity method investment earnings (loss)	1,104	(8)	(312)		245		1,029	
Provision (benefit) for income taxes	208	(28)	(66)	5 (d)	51	5 (d)	165	
Equity method investment earnings (loss)	(15)	—	—		—		(15)	
Net earnings (loss)	881	20	(246)		194		849	
Less: Net (earnings) loss attributable to non-controlling interests	(35)	(7)	—		4	5 (e)	(38)	
Net earnings (loss) attributable to shareholders	\$ 846	\$ 13	\$ (246)		\$ 198		\$ 811	
Earnings (loss) per common share from continuing operations								
Basic	\$ 2.58						\$ 1.31	
Diluted	\$ 2.55						\$ 1.31	
Weighted average common shares outstanding:								
Basic	328						617	5 (f)
Diluted	332						621	5 (f)

See accompanying notes to unaudited pro forma condensed combined financial information.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. Basis of pro forma presentation

The accompanying unaudited pro forma condensed combined financial statements and related notes were prepared in accordance with Article 11 of Regulation S-X. The unaudited pro forma condensed combined statements of earnings for the three months ended March 31, 2019 and the year ended December 31, 2018 combine the historical consolidated statements of earnings of FIS and Worldpay included in the applicable 2019 first quarter financial statements and 2018 year-end financial statements, giving effect to the merger as if it had been completed on January 1, 2018. The accompanying unaudited pro forma condensed combined balance sheet as of March 31, 2019 combines the historical consolidated balance sheets of FIS and Worldpay included in the applicable 2019 first quarter financial statements, giving effect to the merger as if it had been completed on March 31, 2019.

FIS' and Worldpay's historical financial statements were prepared in accordance with U.S. GAAP and presented in U.S. dollars. As discussed in Note 2, certain reclassifications were made to align FIS' and Worldpay's financial statement presentation. FIS has not identified all adjustments necessary to conform Worldpay's accounting policies to FIS' accounting policies. Upon completion of the merger, or as more information becomes available, FIS will perform a more detailed review of Worldpay's accounting policies. As a result of that review, differences could be identified between the accounting policies of the two companies that, when conformed, could have a material impact on the combined company's financial information. Further, there were no material transactions and balances between FIS and Worldpay as of and for the three months ended March 31, 2019 and the year ended December 31, 2018.

The accompanying unaudited pro forma condensed combined financial statements and related notes were prepared using the acquisition method of accounting under the provisions of ASC 805, with FIS considered the acquirer of Worldpay. ASC 805 requires, among other things, that the assets acquired and liabilities assumed in a business combination be recognized at their fair values as of the acquisition date. For purposes of the unaudited pro forma condensed combined balance sheet, the purchase consideration has been allocated to the assets acquired and liabilities assumed of Worldpay based upon management's preliminary estimate of their fair values as of March 31, 2019. FIS has not completed the valuation analysis and calculations in sufficient detail necessary to arrive at the required estimates of the fair market value of the Worldpay assets to be acquired or liabilities assumed, other than a preliminary estimate for intangible assets. Accordingly, apart from intangible assets, Worldpay assets and liabilities are presented at their respective carrying amounts and should be treated as preliminary fair values. Any differences between the fair value of the consideration transferred and the fair value of the assets acquired and liabilities assumed will be recorded as goodwill. Accordingly, the purchase price allocation and related adjustments reflected in these unaudited pro forma condensed combined financial statements are preliminary and subject to revision based on a final determination of fair value.

All amounts presented within these Notes to Unaudited Pro Forma Condensed Combined Financial Statements are in millions, except per share data or as denoted otherwise.

2. Worldpay and FIS reclassification adjustments

During the preparation of these unaudited pro forma condensed combined financial statements, management performed a preliminary analysis of Worldpay's financial information to identify differences in accounting policies as compared to those of FIS and differences in financial statement presentation as compared to the presentation of FIS. At the time of preparing these unaudited pro forma condensed combined financial statements, FIS had not identified all adjustments necessary to conform Worldpay's accounting policies to FIS' accounting policies. The below adjustments represent FIS' best estimates based upon the information currently available to FIS and could be subject to change once more detailed information is available.

Refer to the table below for a summary of reclassification adjustments made to present Worldpay's consolidated balance sheet as of March 31, 2019 to conform presentation:

Worldpay Historical Consolidated Statement of Financial Position Line Items (in millions)	FIS Historical Consolidated Balance Sheet Line Items	Worldpay Historical Consolidated Statement of Financial Position	Reclassification (Rounded)		Worldpay Adjusted Historical Consolidated Balance Sheet (Unaudited, Rounded)
Cash and cash equivalents	Cash and cash equivalents	\$ 107.9	\$ —		\$ 108
Accounts receivable—net	Trade receivables, net	1,710.2	—		1,710
Settlement assets and merchant float		4,964.0	(4,964)	(a)	—
	Settlement deposits	—	4,964	(a)	4,964
Prepaid expenses		83.1	(83)	(b)	—
Other		538.9	(539)	(b)	—
	Prepaid expenses and other current assets	—	622	(b)	622
Property, equipment and software—net		1,093.3	(1,093)	(c)	—
	Property and equipment, net	—	213	(c)	213
	Computer software, net	—	880	(c)	880
Intangible assets—net	Intangible assets, net	2,983.5	(44)	(d)	2,939
Goodwill	Goodwill	14,302.0	—		14,302
Deferred taxes		1,283.7	(1,284)	(d)	—
Other assets		220.6	(221)	(d)	—
	Deferred contract costs, net	—	74	(d)	74
	Other noncurrent assets	—	1,475	(d)	1,475
					—
Accounts payable and accrued expenses		1,147.1	(1,147)	(e)	—
Settlement obligations	Settlement payables	5,680.2	—		5,680
Current portion of notes payable		219.3	(219)	(f)	—
Current portion of tax receivable agreement obligations		71.4	(71)	(e)	—
Deferred income	Deferred revenue	29.5	—		30
Current maturities of finance lease obligations		23.2	(23)	(f)	—
Other		647.4	(647)	(e)	—
	Accounts payable, accrued and other liabilities		1,866	(e)	1,866
	Current portion of long-term debt		242	(f)	242
Notes payable	Long-term debt, excluding current portion	7,269.3	28	(h)	7,298
Tax receivable agreement obligations		890.2	(890)	(g)	—
Finance lease obligations		28.4	(28)	(h)	—
Deferred taxes	Deferred income taxes	469.9	—		470
Other		199.4	(199)	(g)	—
	Other long-term liabilities	—	1,089	(g)	1,089
Non-controlling interests	Noncontrolling interest	10.4	—		10
Total Worldpay, Inc. Equity	Total Worldpay Equity	10,601.5	—		10,602

(a) Represents a reclassification of settlement assets and merchant float to conform to FIS presentation.

(b) Represents a reclassification of prepaid expenses and other to conform to FIS presentation.

(c) Represents a reclassification of property, equipment and software—net to conform to FIS presentation.

- (d) Represents a reclassification of deferred taxes, deferred contract costs and other assets to conform to FIS presentation.
- (e) Represents a reclassification of accounts payable and accrued expenses, current portion of tax receivable agreement obligations and other to conform to FIS presentation.*
- (f) Represents a reclassification of current portion of notes payable and current maturities of finance lease obligations to conform to FIS presentation.
- (g) Represents a reclassification of tax receivable agreement obligations and other to conform to FIS presentation.
- (h) Represents a reclassification of finance lease obligations to conform to FIS presentation.
- * Amounts may not sum due to rounding.

Refer to the table below for a summary of reclassification adjustments made to Worldpay's consolidated statement of income for the three months ended March 31, 2019 to conform presentation:

Worldpay Historical Consolidated Statement of Income Line Items (in millions)	FIS Historical Consolidated Statement of Earnings Line Items	Worldpay Historical Consolidated Statement of Income	Reclassification (Rounded)	Worldpay Adjusted Historical Consolidated Statement of Income (Unaudited, Rounded)
Revenue	Revenue	\$ 970.0	\$ —	\$ 970
	Cost of revenue	—	618 (a)	618
Sales and marketing		290.9	(291) (a)	—
Other operating costs		181.0	(181) (a)	—
General and administrative		127.4	(127) (a)	—
Depreciation and amortization		264.4	(264) (a)	—
	Selling, general and administrative expenses	—	245 (a)	245
Interest expense—net	Interest expense, net	(72.1)	—	(72)
Non-operating (expense) income	Other income (expense), net	3.5	—	4
Income tax (benefit) expense	Provision (benefit) for income taxes	(0.4)	—	—
Net income attributable to non-controlling interests	Net (earnings) loss attributable to noncontrolling interest	(1.7)	—	(2)
Net income attributable to Worldpay, Inc.	Net earnings (loss) attributable to shareholders	36.4	—	37

- (a) Represents a reclassification of general and administrative to selling, general and administrative expenses to conform to FIS presentation. In addition, represents a reclassification of sales and marketing, other operating costs and depreciation and amortization to align in proportion to cost of revenue and selling, general and administrative expenses of FIS.

Refer to the table below for a summary of reclassification adjustments made to Worldpay's consolidated statement of income for the year ended December 31, 2018 to conform presentation:

Worldpay Historical Consolidated Statement of Income Line Items (in millions)	FIS Historical Consolidated Statement of Earnings Line Items	Worldpay Historical Consolidated Statement of Income	Reclassification (Rounded)	Worldpay Adjusted Historical Consolidated Statement of Income (Unaudited, Rounded)
Revenue	Revenue	\$ 3,925.4	\$ —	\$ 3,925
	Cost of revenue	—	2,463 (a)	2,463
Sales and marketing		1,131.7	(1,132) (a)	—

Worldpay Historical Consolidated Statement of Income Line Items	FIS Historical Consolidated Statement of Earnings Line Items	Worldpay Historical Consolidated Statement of Income	Reclassification (Rounded)	Worldpay Adjusted Historical Consolidated Statement of Income (Unaudited, Rounded)
<i>(in millions)</i>				
Other operating costs		698.0	(698)	(a) —
General and administrative		662.1	(662)	(a) —
Depreciation and amortization		1,095.0	(1,095)	(a) —
	Selling, general and administrative expenses	—	1,123	(a) 1,123
Interest expense—net		(304.9)	305	(b) —
	Interest income	—	11	(b) 11
	Interest expense	—	(316)	(b) (316)
Non-operating (expense) income	Other income (expense), net	(41.8)	—	(42)
Income tax (benefit) expense	Provision (benefit) for income taxes	(27.7)	—	(28)
Net income attributable to non-controlling interests	Net (earnings) loss attributable to noncontrolling interest	(6.8)	—	(7)
Net income attributable to Worldpay, Inc.	Net earnings (loss) attributable to shareholders	12.8	—	13

(a) Represents a reclassification of general and administrative to selling, general and administrative expenses to conform to FIS presentation. In addition, represents a reclassification of sales and marketing, other operating costs and depreciation and amortization to align in proportion to cost of revenue and selling, general and administrative expenses of FIS.*

(b) Represents a reclassification of interest income and interest expense to conform to FIS presentation.

* Amounts may not sum due to rounding.

3. Preliminary purchase price allocation

Refer to the table below for the preliminary calculation of estimated value of the merger consideration:

Preliminary Calculation of Estimated Value of the Merger Consideration

<i>(in millions except per share amounts)</i>	Note	Amount (Rounded)
Cash consideration:	(i)	
US dollars per share of Worldpay per merger agreement		\$ 11
Shares of Worldpay as of May 2, 2019 of 311,240,008		311
Estimated cash consideration to be paid to Worldpay stockholders pursuant to the merger agreement		\$ 3,424
Share consideration:	(i)	
Shares of Worldpay as of May 2, 2019 of 311,240,008		311
Exchange ratio per merger agreement		0.9287
FIS common shares to be issued		289
Closing share price of FIS on May 2, 2019 of \$117.80 per share		\$117.80
Estimated value of FIS common shares to be issued to Worldpay stockholders pursuant to the merger agreement		34,050
Estimated repayment of Worldpay's debt (including accrued interest)	(ii)	5,823
Preliminary fair value of estimated total merger consideration	(iii)	\$ 43,297

- (i) Under the terms of the merger agreement, at the effective time, Worldpay Class A common stockholders will be entitled to receive 0.9287 shares of FIS common stock, par value \$0.01 per share plus \$11.00 in cash for each outstanding share of Worldpay Class A common stock. For purposes of the unaudited pro forma condensed combined balance sheet, the estimated merger consideration is based on the total Worldpay Class A common stock issued and outstanding as of May 2, 2019 and the closing price per share of FIS common stock on May 2, 2019 as well as cash consideration of \$11.00 per share. A 10% change in the closing price per share of FIS common stock would increase or decrease the estimated fair value of share consideration transferred by approximately \$3.4 billion.
- (ii) Worldpay's existing Term A Loans, Term B Loans and Revolving Credit Facility are required to be repaid in connection with the merger. Based on the amounts of Worldpay debt reflected as outstanding on the Worldpay balance sheet as of March 31, 2019, a total of \$5,815 million aggregate principal amount is to be repaid. In addition, accrued interest of approximately \$8 million associated with the Worldpay debt is to be paid in connection with such repayment. Amounts outstanding under the various Worldpay debt arrangements will change between the date of the Worldpay balance sheet as of March 31, 2019 used for purposes of these unaudited pro forma condensed combined financial statements and the closing date. Accordingly, the amount of Worldpay debt actually repaid on the closing date may differ from the amount to be repaid as of the date of these unaudited pro forma condensed combined financial statements.
- (iii) Pursuant to the merger agreement, each outstanding Worldpay equity award, other than any award granted under the ESPP, or the SAYE Plans, will automatically and without any action on the part of the holder, be converted into an equity award denominated in shares of FIS common stock based on the equity award exchange ratio. FIS has not completed its analysis and calculations related to eligible employees and vesting schedules in sufficient detail necessary to arrive at fair value at this time; however, the impact is not expected to be material in the context of the transaction. Any corresponding adjustment may result in the recognition of an incremental component of purchase consideration transferred, which is not currently reflected in the preliminary estimate of merger consideration.

The preliminary estimated merger consideration as shown in the table above is allocated to the tangible and intangible assets acquired and liabilities assumed of Worldpay based on their preliminary estimated fair values. As mentioned above in Note 1, FIS has not completed the valuation analysis and calculations in sufficient detail necessary to arrive at the required estimates of the fair market value of the Worldpay assets to be acquired or liabilities assumed, other than a preliminary estimate for intangible assets. Accordingly, assets acquired and liabilities assumed are presented at their respective carrying amounts and should be treated as preliminary fair values. The fair value assessments are preliminary and are based upon available information and certain assumptions, which FIS believes are reasonable under the circumstances. Actual results may differ materially from the assumptions within the unaudited pro forma condensed combined financial statements.

The following table sets forth a preliminary allocation of the estimated merger consideration to the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed of Worldpay using Worldpay's unaudited consolidated statement of financial position as of March 31, 2019, with the excess recorded to goodwill:

Description <i>(in millions)</i>	<u>Amount</u>
Preliminary fair value of estimated total merger consideration	\$43,297
Assets	
Cash and cash equivalents	108
Settlement deposits	4,964
Trade receivables, net	1,710
Prepaid expenses and other current assets	622
Property and equipment, net	213
Intangible assets, net	10,500
Computer software, net	205
Other noncurrent assets	146
Total assets	18,468
Liabilities	
Accounts payable and accrued liabilities	1,858
Settlement payables	5,680
Deferred revenue	30
Current portion of long-term debt	23
Long-term debt, excluding current portion	1,742
Deferred income taxes	1,885
Other long-term liabilities	1,089
Total liabilities	12,307
Noncontrolling interest	10
Less: Net assets	6,151
Goodwill	<u>\$37,146</u>

4. Adjustments to the unaudited pro forma condensed combined balance sheet

Refer to the items below for a reconciliation of the pro forma adjustments reflected in the unaudited pro forma condensed combined balance sheet:

- (a) Reflects the sources and uses of funds relating to the merger as follows:

Description <i>(in millions)</i>	Note	Amount
<i>Pro forma financing adjustments:</i>		
Proceeds from Senior Notes	(i)	\$ 7,450
Proceeds from commercial paper program	(i)	1,900
		<u>\$ 9,350</u>
<i>Pro forma acquisition adjustments:</i>		
Cash consideration paid to Worldpay shareholders	(ii)	\$(3,424)
Repayment of Worldpay debt	(iii)	(5,823)
Cash paid for transaction costs	(iv)	(82)
		<u>\$(9,329)</u>

- (i) To fund amounts payable in connection with the merger, FIS has assumed for the purposes hereof that the new FIS permanent financing will include \$7.5 billion aggregate principal of Senior Notes and approximately \$1.9 billion of borrowings under its existing commercial paper program. The proceeds for the Senior Notes above are net of estimated debt issuance costs of approximately \$50 million.
- (ii) At the effective time, Worldpay holders of Class A common stock will be entitled to receive \$11.00 in cash per each outstanding share of Worldpay Class A common stock.
- (iii) Worldpay's existing Term A Loans, Term B Loans and revolving credit facility are required to be repaid in connection with the merger. Based on the amounts of Worldpay debt reflected as outstanding on the Worldpay balance sheet as of March 31, 2019, a total of \$5,815 million aggregate principal amount is to be repaid. In addition, accrued interest of approximately \$8 million associated with the Worldpay debt is to be paid in connection with such repayment. Amounts outstanding under the various Worldpay debt arrangements will change between the date of the Worldpay balance sheet as of March 31, 2019 used for purposes of these unaudited pro forma condensed combined financial statements and the closing date. Accordingly, the amount of Worldpay debt actually repaid on the closing date may differ from the amount to be repaid as of the date of these unaudited pro forma condensed combined financial statements.
- (iv) Reflects estimated cash paid for transaction costs to be incurred by FIS and Worldpay.

- (b) Reflects an adjustment to intangible assets, net based on a preliminary fair value assessment:

Description <i>(in millions)</i>	Note	Amount
Fair value of intangible assets acquired	(i)	\$10,500
Removal of Worldpay historical intangible assets		(2,939)
Pro forma adjustment to intangible assets, net		<u>7,561</u>
Pro forma adjustment to remove Worldpay historical internally developed computer software assets	(i)	(675)
Pro forma adjustment to remove Worldpay historical deferred contract costs	(ii)	(74)

- (i) FIS determined a preliminary fair value estimate of intangible assets based on a review of prior FIS acquisitions and similar acquisitions within the industry. The intangible assets, including customer relationships, technology and trade names, have been amortized based on estimated useful lives ranging from 5 to 10 years. Historical internally developed software is removed from the computer software, net line item as it is included in the fair value of intangible assets in the table above. The fair value estimate for intangible assets may change at the closing date as compared to the estimate used for purposes of these unaudited pro forma condensed combined financial statements. In addition, the fair value of technology assets acquired included within the total intangible value determined as of the closing date will be classified on the consolidated balance sheet as computer software, net, as opposed to the intangible assets, net classification in these unaudited pro forma condensed combined financial statements.
- (ii) This pro forma adjustment represents the removal of various Worldpay historical deferred contract costs, which do not qualify for recognition as assets under the acquisition method of accounting.
- (c) Reflects an adjustment to goodwill based on the preliminary purchase price allocation:

Description <i>(in millions)</i>	Note	Amount
Fair value of consideration transferred in excess of the preliminary fair value of assets acquired and liabilities assumed	(i)	\$ 37,146
Removal of Worldpay's historical goodwill		(14,302)
Pro forma adjustment to goodwill		<u>\$ 22,844</u>

- (i) Goodwill represents the excess of the estimated merger consideration over the preliminary fair value of the underlying assets acquired and liabilities assumed. Refer to the preliminary estimated merger consideration allocation above for more details.
- (d) FIS intends to borrow up to \$11.1 billion of permanent financing to fund the cash portion of the merger consideration, the repayment of certain outstanding Worldpay bank debt and notes, and costs and expenses of the merger. Concurrently with entering into the merger agreement, FIS entered into the commitment letter with the lenders, pursuant to which the lenders have committed to provide a 364-day senior unsecured bridge term loan facility in an aggregate principal amount of up to \$7.5 billion. In addition, in September 2018, FIS established a commercial paper program for the issuance and sale of senior, unsecured commercial paper notes, up to a maximum aggregate amount outstanding at any time of \$4 billion. FIS expects to replace the bridge term loan facility prior to the closing of the merger with permanent financing, which FIS currently expects to include the issuance of the Senior Notes, together with additional commercial paper and/or revolving credit borrowings. Depending on market conditions, FIS may choose to leave outstanding the Worldpay Notes in an aggregate principal amount of approximately \$1.7 billion as of March 31, 2019, which would reduce the amount of permanent financing FIS would seek to raise. For purposes of these unaudited pro forma condensed combined financial statements, FIS has assumed that the new FIS permanent financing will consist of \$7.5 billion aggregate principal of Senior Notes and \$1.9 billion principal amount of commercial paper, and that the foregoing Worldpay Notes remain outstanding following the merger. For the purposes hereof, the new funds raised are assumed to be used for the cash portion of the merger consideration, the repayment of the outstanding Worldpay bank debt (which is required to be repaid in connection with the merger), and costs and expenses of the merger. The amount and type of permanent financing could be different from that presented in these pro forma condensed combined financial statements. If FIS were to borrow additional amounts and use them to instead repay all of the outstanding Worldpay Notes, make-whole redemption premiums and accrued interest on the Worldpay Notes in the aggregate amount of \$159 million as of March 31, 2019 would also be payable. Refer to the table below for a summary of the impact that these assumed financing arrangements would have on the short and long-term debt balances and refer to Note 5 for details on the impact that these assumed financing arrangements would have on the unaudited pro forma condensed combined statement of earnings.

Description <i>(in millions)</i>	Note	Amount
Pro forma financing adjustments:		
Commercial paper program	(i)	\$ 1,900
Pro forma financing adjustment to short-term borrowings		<u>\$ 1,900</u>
Senior Notes	(ii)	\$ 7,500
Less: Capitalized debt issuance costs of Senior Notes	(ii)	(50)
Pro forma financing adjustment to long-term debt, excluding current portion		<u>\$ 7,450</u>
Pro forma acquisition adjustments:		
Repayment of Worldpay debt		
Pro forma acquisition adjustment to accrued interest	(iii)	\$ (8)
Pro forma acquisition adjustment to current portion of long-term debt	(iii)	(219)
Pro forma acquisition adjustment to long-term debt, excluding current portion	(iii)	<u>(5,556)</u>

- (i) For purposes hereof, FIS has assumed that it will utilize \$1.9 billion under the commercial paper program.
- (ii) For purposes hereof, FIS has assumed that it will issue \$7.5 billion in aggregate principal amount of the Senior Notes. There are approximately \$50 million of debt issuance costs expected to be incurred in connection with the \$7.5 billion assumed principal amount of Senior Notes.
- (iii) Worldpay's existing Term A Loans, Term B Loans and Revolving Credit Facility are required to be repaid in connection with the merger. Based on the amounts of Worldpay debt reflected as outstanding on the Worldpay balance sheet as of March 31, 2019, a total of \$5,775 million is therefore removed (\$5,815 million aggregate principal amount outstanding net of \$40 million unamortized debt issuance costs), comprising current portion of long-term debt of \$219 million and noncurrent portion of long-term debt of \$5,556 million. In addition, approximately \$8 million of accrued interest outstanding at March 31, 2019 related to the Worldpay debt is removed.
- (e) Reflects an adjustment to other noncurrent assets and deferred income taxes based on the following:

Description <i>(in millions)</i>	Note	Amount
Removal of Worldpay's deferred tax asset—partnership basis	(i)	<u>\$ (1,253)</u>
Removal of Worldpay's historical customer incentives	(ii)	(76)
Pro forma acquisition adjustment to other noncurrent assets		<u>\$ (1,329)</u>
Deferred income tax liability on fair value step-up of intangible assets	(iii)	\$ 1,415
Pro forma acquisition adjustment to deferred income taxes		<u>\$ 1,415</u>

- (i) A portion of Worldpay's deferred tax assets as of March 31, 2019 is related to a partnership tax basis adjustment created prior to the termination of the partnership in the first quarter of 2019. Upon termination, this tax basis converted to inside tax basis in excess of inside book basis. Post-merger, Worldpay's inside book basis will be in excess of its inside tax basis. Therefore, this pro forma adjustment removes Worldpay's historical deferred tax asset related to the partnership basis of approximately \$1,253 million. FIS will still receive the benefit of this tax basis over time as the related tax asset is amortized.
- (ii) This pro forma adjustment represents the removal of Worldpay historical customer incentives, which do not qualify for recognition as assets under the acquisition method of accounting.
- (iii) Reflects a deferred income tax liability resulting from the preliminary fair value adjustment to intangible assets. The estimate of the deferred tax liability was determined based on the book and tax basis difference using an estimated blended statutory income tax rate of 21%. This estimate of the deferred income tax liability is preliminary and is subject to change based upon FIS' final determination of the fair values of identifiable intangible assets acquired by jurisdiction.

- (f) Reflects an adjustment to FIS and Worldpay equity based on the following:

<u>Description</u> <i>(in millions)</i>	<u>Note</u>	<u>Amount</u>
Fair value of common stock issued to the sellers	(i)	\$ 34,050
Acquisition related transaction costs	(ii)	(82)
Pro forma adjustments to Total FIS equity		<u>\$ 33,968</u>
Pro forma adjustment to remove Worldpay's historical shareholder's equity		<u><u>\$ (10,602)</u></u>

- (i) As disclosed in Note 3 the estimated value of FIS common shares to be issued pursuant to the merger agreement is approximately \$34.0 billion.
- (ii) Represents estimated transaction costs to be incurred by FIS and Worldpay.

5. Adjustments to the unaudited pro forma condensed combined statement of earnings

Refer to the items below for a reconciliation of the adjustments reflected in the unaudited pro forma condensed combined statements of earnings:

- (a) In the unaudited pro forma condensed combined balance sheet, other noncurrent assets specifically related to incentives paid to customers were removed as they do not qualify for recognition as assets under the acquisition method of accounting. Therefore, this adjustment to revenue represents the removal of amortization related to these assets recorded in the historical Worldpay statement of income for the three months ended March 31, 2019 and the year ended December 31, 2018.
- (b) The following tables include adjustments to the unaudited pro forma condensed combined statement of earnings for cost of revenue, selling, general and administrative expenses and other income (expense), net. The newly acquired intangible assets have been amortized based on estimated useful lives ranging from 5 to 10 years. Pro forma amortization expense includes amortization expense for the newly identified intangible assets, including customer relationships, trade names and technology, less the amortization expense on Worldpay's historical intangible assets, including internally developed software and deferred contract costs. FIS is still in the process of evaluating the fair value of the intangible assets. Any resulting change in the fair value would have a direct impact to amortization expense, which could be material. For selling, general and administrative expenses, the one-time transaction costs of approximately \$121 million for the year ended December 31, 2018 related to the acquisition of Worldpay Group plc were also removed. One-time transactions costs of \$13 million incurred by FIS and \$7 million incurred by Worldpay in connection with the merger for the three months ended March 31, 2019 were removed. For other income (expense), net, the one-time transaction cost of approximately \$32 million of financing fees related to the bridge facility commitment letter that were incurred by FIS for the three months ended March 31, 2019 were also removed.

<u>Description</u> <i>(in millions)</i>	<u>Estimated Fair Value</u>	<u>Estimated Useful Life</u>	<u>Three Months Ended March 31, 2019</u>	<u>Year Ended December 31, 2018</u>
Cost of revenue—amortization expense for intangible assets	\$ 10,500	5-10 years	\$ 272	\$ 1,088
Less: Cost of revenue—historical Worldpay intangible amortization			(187)	(778)
Less: Cost of revenue—historical Worldpay internally developed software amortization			(43)	(166)
Less: Cost of revenue—historical Worldpay deferred contract costs amortization			(5)	(15)
Net pro forma amortization adjustment to cost of revenue			<u>\$ 37</u>	<u>\$ 129</u>

<u>Description</u> <i>(in millions)</i>	<u>Estimated Fair Value</u>	<u>Estimated Useful Life</u>	<u>Three Months Ended March 31, 2019</u>	<u>Year Ended December 31, 2018</u>
Selling, general and administrative expenses—amortization expense for intangible assets	\$ 10,500	5-10 years	\$ 15	\$ 62
Less: Selling, general and administrative expenses—historical Worldpay intangible amortization			(11)	(44)
Less: Selling, general and administrative expenses—historical Worldpay internally developed software amortization			(2)	(10)
Less: Selling, general and administrative expenses—historical Worldpay deferred contract costs amortization			—	(1)
Net pro forma adjustment to selling, general, and administrative expenses—amortization			2	7
Less: Worldpay’s acquisition of Worldpay Group plc transaction costs			—	(121)
Less: FIS’ and Worldpay’s transaction costs in connection with the merger			(20)	—
Net pro forma amortization adjustment to selling, general, and administrative expenses			<u>\$ (18)</u>	<u>\$ (114)</u>

(c) Historical interest expense has been adjusted as follows:

Interest expense on Senior Notes—pro forma financing adjustment:

Represents the increased interest expense for the three months ended March 31, 2019 and the year ended December 31, 2018 of approximately \$77 million and \$312 million, respectively. For these unaudited pro forma condensed combined financial statements, FIS assumes the Senior Notes have a weighted average interest rate of 3.32% and the senior, unsecured commercial paper notes under the commercial paper program bear an interest rate of 2.79%. Based on the principal amounts of Senior Notes and commercial paper assumed to be issued, a 1/8% increase (decrease) in the annual interest rates on the debt assumed to be issued would cause the net earnings to (decrease) increase for the three months ended March 31, 2019 by (\$3 million) and \$3 million, respectively, and for the year ended December 31, 2018 by (\$12 million) and \$12 million, respectively.

Elimination of historical Worldpay interest expense—pro forma acquisition adjustment:

Represents the elimination of interest expense on the existing Worldpay Term A Loans, Term B Loans and Revolving Credit Facility, which are required to be extinguished as a part of the merger. The decrease in interest expense for the three months ended March 31, 2019 and the year ended December 31, 2018 was approximately \$57 million and \$233 million, respectively.

- (d) To record the income tax impact of the pro forma adjustments utilizing an estimated blended statutory income tax rate of 21% for the three months ended March 31, 2019 and the year ended December 31, 2018.
- (e) Worldpay historically owned a controlling interest in Worldpay Holding, LLC and therefore consolidated its financial results and recorded a non-controlling interest for the economic interests in Worldpay Holding, LLC held by Fifth Third Bank, which primarily represented Fifth Third's minority share of net earnings or loss of equity in Worldpay Holding, LLC. The Class B units presented on the historical Worldpay financial statements represented the interest in Worldpay Holding, LLC. Pursuant to the merger agreement, the outstanding Class B common stock of Worldpay, if any, and the outstanding Class B units of Worldpay Holding, LLC, if any, will be automatically cancelled. Therefore, any non-controlling interest held would also cease to exist. On March 14, 2019, Fifth Third Bank exchanged all of the Class B units of Worldpay Holdings, LLC for shares of Worldpay Class A common stock pursuant to the exchange agreement. As a result, all of Fifth Third Bank's shares of Worldpay Class B common stock were cancelled. As such, the net income attributable to non-controlling interests of Fifth Third Bank of approximately \$1.1 million and \$4.2 million, as disclosed in the Worldpay 2019 first quarter and 2018 year-end financial statements, respectively, is removed from the unaudited pro forma condensed combined statement of earnings. Worldpay also recorded a non-controlling interest relating to a 51% ownership in a joint venture, which will survive the transaction.
- (f) The pro forma basic and diluted earnings per share calculations are based on the basic and diluted weighted average shares of FIS plus shares issued as part of the merger. The pro forma basic and diluted weighted average shares outstanding are a combination of historic weighted average shares of FIS common stock and the share impact as part of the merger. In connection with the merger, FIS agreed to convert certain equity awards held by Worldpay employees into FIS equity awards. At this time, FIS has not completed its analysis and calculations related to eligible employees and vesting schedules in sufficient detail necessary to arrive at fair value; however, the impact is not expected to be material in the context of the transaction and thus has not been reflected in the diluted weighted average shares. Weighted average shares outstanding are as follows:

	Three Months Ended March 31, 2019	Year Ended December 31, 2018
Pro forma basic weighted average shares (in millions)		
Historical FIS weighted average shares outstanding—basic	323	328
Shares of FIS common stock to be issued to Worldpay stockholders pursuant to the merger	289	289
Pro forma weighted average shares—basic	612	617
Pro forma diluted weighted average shares (in millions)		
Historical FIS weighted average shares outstanding—diluted	326	332
Shares of FIS common stock to be issued to Worldpay stockholders pursuant to the merger	289	289
Pro forma weighted average shares—diluted	615	621