



EPAM Reports Results for First Quarter 2019

First quarter revenues of \$521.3 million, up 22.9% year-over-year

GAAP Diluted EPS of \$1.06 for the first quarter

Non-GAAP Diluted EPS of \$1.25 for the first quarter

Newtown, PA — May 9, 2019 — EPAM Systems, Inc. (NYSE: EPAM), a leading global provider of digital platform engineering and software development services, today announced results for its first quarter ended March 31, 2019.

“Our first quarter 2019 results demonstrate that our value proposition is resonating with our clients,” said Arkadiy Dobkin, CEO & President, EPAM. “Looking ahead, we will continue to deliver solutions across every dimension of transformation, from next gen digital platforms to cloud migration to automation, positioning us well for continued growth.”

First Quarter 2019 Highlights

- Revenues increased to \$521.3 million, a year-over-year increase of \$97.2 million, or 22.9%, and on a constant currency basis, revenues were up 26.3% over the corresponding period last year;
- GAAP income from operations was \$64.7 million, an increase of \$16.0 million, or 32.8%, compared to \$48.7 million in the first quarter of 2018;
- Non-GAAP income from operations was \$89.2 million, an increase of \$21.5 million, or 31.8%, compared to \$67.7 million in the first quarter of 2018;
- Diluted earnings per share (“EPS”) on a GAAP basis was \$1.06, a decrease of \$0.09, or 7.8%, compared to \$1.15 in the first quarter of 2018 based on a weighted average share count of 57.2 million fully diluted shares outstanding. In the first quarter of 2018, GAAP EPS benefited from a net \$22.5 million one-time income tax benefit related to U.S. tax reform; and
- Non-GAAP diluted EPS was \$1.25, an increase of \$0.32, or 34.4%, compared to \$0.93 in the first quarter of 2018.

Cash Flow and Other Metrics

- Cash used in operating activities was \$0.2 million for the first three months of 2019, compared to \$7.3 million provided by operating activities for the first three months of 2018. Cash flows from operating activities in the first quarter are impacted by annual payments of variable compensation related to the prior performance year;
- Cash, cash equivalents and restricted cash totaled \$763.7 million as of March 31, 2019, a decrease of \$8.0 million, or 1.0%, from \$771.7 million as of December 31, 2018; and
- Total headcount was approximately 31,400 as of March 31, 2019. Included in this number were approximately 27,900 delivery professionals, an increase of 17.6% from March 31, 2018.

2019 Outlook - Full Year and Second Quarter

Full Year

- Revenue growth for 2019 will continue to be at least 22%. The Company continues to expect that foreign currency translation will have a 1% unfavorable impact on full year reported revenues. The Company continues to expect revenue growth on a constant currency basis will be at least 23%;
- The Company continues to expect GAAP income from operations to be in the range of 12.5% to 13.5% of revenues and non-GAAP income from operations to be in the range of 16% to 17% of revenues;
- The Company expects its GAAP effective tax rate to now be approximately 12% and its non-GAAP effective tax rate to continue to be approximately 23%; and
- The Company expects GAAP diluted EPS will now be at least \$4.61 for the full year, and non-GAAP diluted EPS will now be at least \$5.19 for the full year. The Company now expects weighted average share count for the year of 58.0 million diluted shares outstanding.

Second Quarter

- Revenues will be at least \$549 million for the second quarter reflecting a year-over-year growth rate of at least 23%. The Company expects foreign currency translation to have a 1% unfavorable impact on year-over-year revenue growth during the quarter. The Company expects year-over-year revenue growth on a constant currency basis to be at least 24%;
- For the second quarter, the Company expects GAAP income from operations to be in the range of 12% to 13% of revenues and non-GAAP income from operations to be in the range of 15.5% to 16.5% of revenues;
- The Company expects its GAAP effective tax rate to be approximately 9% and its non-GAAP effective tax rate to be approximately 23%; and
- The Company expects GAAP diluted EPS will be at least \$1.12 for the quarter, and non-GAAP diluted EPS will be at least \$1.21 for the quarter. The Company expects weighted average share count for the quarter of 57.9 million diluted shares outstanding.

Conference Call Information

EPAM will host a conference call to discuss results on Thursday, May 9, 2019 at 8:00 a.m. Eastern time. The live conference call will be available by dialing +1 (877) 407-0784 or +1 (201) 689-8560 (outside of the U.S.). A webcast of the conference call can be accessed at the Investor Relations section of the Company's website at <http://investors.epam.com>. A replay will be available approximately one hour after the call by dialing +1 (844) 512-2921 or +1 (412) 317-6671 (outside of the U.S.) and entering the conference ID 13689111. The replay will be available until May 23, 2019.

About EPAM Systems

Since 1993, EPAM Systems, Inc. (NYSE: EPAM) has leveraged its software engineering expertise to become a leading global product development, digital platform engineering, and top digital and product design agency. Through its 'Engineering DNA' and innovative strategy, consulting, and design capabilities, EPAM works in collaboration with its customers to deliver next-gen solutions that turn complex business challenges into real business outcomes. EPAM's global teams serve customers in over 25 countries across North America, Europe, Asia and Australia. EPAM is a recognized market leader in multiple categories among top global independent research agencies and was one of only four technology companies to appear on Forbes 25 Fastest Growing Public Tech Companies list every year of publication since 2013. Learn more at <http://www.epam.com/> and follow EPAM on Twitter ([@EPAMSYSTEMS](https://twitter.com/EPAMSYSTEMS)) and [LinkedIn](#).

Non-GAAP Financial Measures

EPAM supplements results reported in accordance with United States generally accepted accounting principles, referred to as GAAP, with non-GAAP financial measures. Management believes these measures help illustrate underlying trends in EPAM's business and uses the measures to establish budgets and operational goals, communicate internally and externally, for managing EPAM's business and evaluating its performance. Management also believes these measures help investors compare EPAM's operating performance with its results in prior periods. EPAM anticipates that it will continue to report both GAAP and certain non-GAAP financial measures in its financial results, including non-GAAP results that exclude stock-based compensation expenses, write-offs and recoveries, acquisition-related costs, amortization of purchased intangible assets, goodwill impairment, certain other one-time charges and benefits, changes in fair value of contingent consideration, foreign exchange gains and losses, the impact of U.S. tax reform, excess tax benefits related to stock-based compensation, and the related effect on income taxes of the pre-tax adjustments. Management also compares operating results on a basis of "constant currency," which is also a non-GAAP financial measure. This measure excludes the effect of foreign currency exchange rate fluctuations by translating the current period revenues and expenses into U.S. dollars at the weighted average exchange rates of the prior period of comparison. Because EPAM's reported non-GAAP financial measures are not calculated in accordance with GAAP, these measures are not comparable to GAAP and may not be comparable to similarly described non-GAAP measures reported by other companies within EPAM's industry. Consequently, EPAM's non-GAAP financial measures should not be evaluated in isolation or supplant comparable GAAP measures, but rather, should be considered together with the information in EPAM's consolidated financial statements, which are prepared in accordance with GAAP.

Forward-Looking Statements

This press release includes statements which may constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the accuracy of which are necessarily subject to risks, uncertainties, and assumptions as to future events that may not prove to be accurate. Factors that could cause actual results to differ materially from those expressed or implied include general economic conditions and the factors discussed in the Company's most recent Annual Report on Form 10-K and other filings with the Securities and Exchange Commission. EPAM undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required under applicable securities law.

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EPAM SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31,	
	2019	2018
Revenues	\$ 521,333	\$ 424,148
Operating expenses:		
Cost of revenues (exclusive of depreciation and amortization)	344,689	277,634
Selling, general and administrative expenses	101,786	89,641
Depreciation and amortization expense	10,200	8,176
Income from operations	64,658	48,697
Interest and other income/(loss), net	3,076	(551)
Foreign exchange loss	(3,484)	(247)
Income before provision for/(benefit from) income taxes	64,250	47,899
Provision for/(benefit from) income taxes	3,496	(16,519)
Net income	\$ 60,754	\$ 64,418
Foreign currency translation adjustments, net of tax	2,943	3,309
Unrealized gain on cash-flow hedging instruments, net of tax	3,100	69
Comprehensive income	\$ 66,797	\$ 67,796
Net income per share:		
Basic	\$ 1.12	\$ 1.21
Diluted	\$ 1.06	\$ 1.15
Shares used in calculation of net income per share:		
Basic	54,245	53,079
Diluted	57,236	56,241

EPAM SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share and per share data)

	As of March 31, 2019	As of December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 762,529	\$ 770,560
Accounts receivable, net of allowance of \$1,415 and \$1,557, respectively	307,202	297,685
Unbilled revenues	144,152	104,652
Prepaid and other current assets	30,864	26,171
Total current assets	1,244,747	1,199,068
Property and equipment, net	105,805	102,646
Operating lease right-of-use assets	173,091	—
Intangible assets, net	50,087	57,065
Goodwill	167,707	166,832
Deferred tax assets	69,345	69,983
Other noncurrent assets	20,653	16,208
Total assets	\$ 1,831,435	\$ 1,611,802
Liabilities		
Current liabilities		
Accounts payable	\$ 4,397	\$ 7,444
Accrued expenses and other current liabilities	72,793	127,937
Due to employees	86,012	49,683
Deferred compensation due to employees	9,673	9,920
Taxes payable, current	69,835	67,845
Operating lease liabilities, current	39,856	—
Total current liabilities	282,566	262,829
Long-term debt	25,000	25,031
Taxes payable, noncurrent	43,679	43,685
Operating lease liabilities, noncurrent	127,935	—
Other noncurrent liabilities	14,030	17,661
Total liabilities	493,210	349,206
Commitments and contingencies		
Stockholders' equity		
Common stock, \$0.001 par value; 160,000,000 authorized; 54,584,243 and 54,099,927 shares issued, 54,564,508 and 54,080,192 shares outstanding at March 31, 2019 and December 31, 2018, respectively	54	54
Additional paid-in capital	553,532	544,700
Retained earnings	820,287	759,533
Treasury stock	(177)	(177)
Accumulated other comprehensive loss	(35,471)	(41,514)
Total stockholders' equity	1,338,225	1,262,596
Total liabilities and stockholders' equity	\$ 1,831,435	\$ 1,611,802

EPAM SYSTEMS, INC. AND SUBSIDIARIES
Reconciliations of Non-GAAP Financial Measures to Comparable GAAP Financial Measures
(Unaudited)
(In thousands, except percent and per share amounts)

Reconciliation of revenue growth at constant currency to revenue growth as reported under GAAP is presented in the table below:

	Three Months Ended March 31, 2019
Revenue growth at constant currency⁽¹⁾	26.3 %
Foreign exchange rates impact	(3.4)%
Revenue growth as reported	22.9 %

(1) Constant currency revenue results are calculated by translating current period revenues in local currency into U.S. dollars at the weighted average exchange rates of the comparable prior period.

Reconciliation of various income statement amounts from GAAP to non-GAAP for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31, 2019		
	GAAP	Adjustments	Non-GAAP
Cost of revenues (exclusive of depreciation and amortization) ⁽²⁾	\$344,689	\$ (12,781)	\$331,908
Selling, general and administrative expenses ⁽³⁾	\$ 101,786	\$ (9,621)	\$ 92,165
Income from operations ⁽⁴⁾	\$ 64,658	\$ 24,540	\$ 89,198
Operating margin	12.4%	4.7%	17.1%
Net income ⁽⁵⁾	\$ 60,754	\$ 10,772	\$ 71,526
Diluted earnings per share	\$ 1.06		\$ 1.25
	Three Months Ended March 31, 2018		
	GAAP	Adjustments	Non-GAAP
Cost of revenues (exclusive of depreciation and amortization) ⁽²⁾	\$277,634	\$ (8,289)	\$269,345
Selling, general and administrative expenses ⁽³⁾	\$ 89,641	\$ (8,927)	\$ 80,714
Income from operations ⁽⁴⁾	\$ 48,697	\$ 18,976	\$ 67,673
Operating margin	11.5%	4.5%	16.0%
Net income ⁽⁵⁾	\$ 64,418	\$ (12,175)	\$ 52,243
Diluted earnings per share	\$ 1.15		\$ 0.93

Items (2) through (5) above are detailed in the table below with the specific cross-reference noted in the appropriate item.

	Three Months Ended March 31,	
	2019	2018
Stock-based compensation expenses	\$ 12,781	\$ 8,289
Total adjustments to GAAP cost of revenues⁽²⁾	12,781	8,289
Stock-based compensation expenses	9,075	8,307
Other acquisition-related expenses	511	377
One-time charges	35	243
Total adjustments to GAAP selling, general and administrative expenses⁽³⁾	9,621	8,927
Amortization of purchased intangible assets	2,138	1,760
Total adjustments to GAAP income from operations⁽⁴⁾	24,540	18,976
Foreign exchange loss	3,484	247
Provision for/(benefit from) income taxes:		
Tax effect on non-GAAP adjustments	(5,739)	(4,231)
Net discrete benefit related to U.S. tax reform	—	(22,477)
Excess tax benefits related to stock-based compensation	(11,513)	(4,690)
Total adjustments to GAAP net income⁽⁵⁾	\$ 10,772	\$ (12,175)

EPAM SYSTEMS, INC. AND SUBSIDIARIES
Reconciliations of Guidance Non-GAAP Measures to Comparable GAAP Measures
(Unaudited)
(In percent, except per share amounts)

The below guidance constitutes forward-looking statements within the meaning of the federal securities laws and is based on a number of assumptions that are subject to change and many of which are outside the control of the Company. Actual results may differ materially from the Company's expectations depending on factors discussed in the Company's filings with the Securities and Exchange Commission.

Reconciliation of projected revenue growth in constant currency is presented in the table below:

	<u>Second Quarter 2019</u>	<u>Full Year 2019</u>
Revenue growth at constant currency (at least) ⁽⁶⁾	24 %	23 %
Foreign exchange rates impact	(1)%	(1)%
Revenue growth (at least)	23 %	22 %

(6) Constant currency revenue results are calculated by translating current period projected revenues in local currency into U.S. dollars at the weighted average exchange rates of the comparable prior period.

Reconciliation of projected GAAP to non-GAAP income from operations as a percentage of revenues is presented in the table below:

	<u>Second Quarter 2019</u>	<u>Full Year 2019</u>
GAAP income from operations as a percentage of revenues	12% to 13%	12.5% to 13.5%
Stock-based compensation expenses	3.0%	3.0%
<i>Included in cost of revenues (exclusive of depreciation and amortization)</i>	<i>1.4%</i>	<i>1.4%</i>
<i>Included in selling, general and administrative expenses</i>	<i>1.6%</i>	<i>1.6%</i>
Other acquisition-related expenses	—%	0.1%
Amortization of purchased intangible assets	0.5%	0.4%
Non-GAAP income from operations as a percentage of revenues	15.5% to 16.5%	16% to 17%

Reconciliation of projected GAAP to non-GAAP effective tax rate is presented in the table below:

	<u>Second Quarter 2019</u>	<u>Full Year 2019</u>
GAAP effective tax rate (approximately)	9%	12%
Tax effect on non-GAAP adjustments	4.2 %	3.9 %
Excess tax benefits related to stock-based compensation	9.8 %	7.1 %
Non-GAAP effective tax rate (approximately)	23%	23%

Reconciliation of projected GAAP to non-GAAP diluted earnings per share is presented in the table below:

	<u>Second Quarter 2019</u>	<u>Full Year 2019</u>
GAAP diluted earnings per share (at least)	\$ 1.12	\$ 4.61
Stock-based compensation expenses	0.28	1.19
<i>Included in cost of revenues (exclusive of depreciation and amortization)</i>	<i>0.13</i>	<i>0.55</i>
<i>Included in selling, general and administrative expenses</i>	<i>0.15</i>	<i>0.64</i>
Other acquisition-related expenses	—	0.01
Amortization of purchased intangible assets	0.04	0.16
Foreign exchange loss	0.02	0.09
Provision for income taxes:		
Tax effect on non-GAAP adjustments	(0.08)	(0.31)
Excess tax benefits related to stock-based compensation	(0.17)	(0.56)
Non-GAAP diluted earnings per share (at least)	\$ 1.21	\$ 5.19