



SS&C Technologies (NASDAQ:SSNC)

Q3 2020 Earnings Results



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SS&C's Response to the COVID-19 Pandemic

Maintaining Business Continuity, Operational capabilities, and Employee Safety

- We have instituted safety measures including work from home, work rotations for essential functions and closing of locations following the recommendations of regulators and health organizations around the world. The primary goal is to ensure our clients' and every SS&C employee's health and safety.
- 99% of our global workforce is working from home at this time.
- 4 international offices have reopened. Plan on reopening more locations in the next several months.

Supporting our Clients through this unprecedented time

- We have been reaching out to our customers offering our assistance, expertise and technological resources. The challenges of COVID-19 are proving the value of our investments in worldwide resiliency. We are providing capability via technology at scale and we are meeting our deliverables.
- Increased inbound interest for cloud hosting and outsourced services as firms in this remote working environment look to us to provide access to production systems, and augment their staff and processing capability.
- SS&C Health is developing a flu vaccine campaign to increase flu vaccine penetration within the market. Ultimately will use this campaign design for similar outreach, including COVID-19 vaccinations.
- Feedback from clients has been overwhelmingly positive, service levels remain very high.

Proven, resilient business model

- 95.3% revenue retention LTM as of September 30, 2020.
- SS&C has high contractually recurring revenue base. Less than 3.0% of 2019 revenues were from perpetual licenses and professional services.
- Cash flow provided by operations was \$755.1 million for the nine months ended September 30, 2020
- Adjusted diluted earnings per share in Q3 2020 were \$1.10 per share, up 18.3%.

COVID-19 Scenario Analysis Assumptions

Economic Decline (Late 2021 Recovery)

- Infection rate escalating from current levels
- Vaccine approval, production and distribution is delayed to mid to late 2021
- Customers remain hesitant about capital expenditures and large scale projects

Baseline (Mid 2021 Recovery)

- Infection rates remain at current levels
- Some reopening and return to work but majority of employees remain at home
- Vaccine process continues but approvals and distribution not expected to commence until early to mid 2021
- Customer appetite and buying behavior consistent with current levels

Economic Improvement (Early 2021 Recovery)

- Infection rate stabilizes and improves from this point starting in Q4
- Continued return to work with 50% of workforce expected back by end of Q1 2021
- Vaccine approved in Q4 and distribution begins with estimates of large scale vaccination for early to mid 2021
- Buying behavior in Q4 improves and customers show increasing willingness to embark on large scale projects.

FY 2020 COVID-19 Scenario Analysis Update

Metric	Economic Decline (Late 2021 Recovery)	Baseline (Mid 2021 Recovery)	Economic Improvement (Early 2021 Recovery)
Adjusted Revenues (\$M)	\$4,600.0	\$4,625.0	\$4,650.0
Adjusted Net Income (\$M)	\$1,110.0	\$1,120.0	\$1,130.0
Diluted Shares Outstanding (M)	265.5	266.3	267.0
Operating Cash Flow (\$M)	\$1,100.0	\$1,115.0	\$1,130.0
Capital Expenditures (% of Revenue)	2.4%	2.4%	2.4%
EBITDA Margin (% of Revenue)	39.3%	39.4%	39.5%

Revenue Assumptions

- Revenue retention remains consistent with historical levels, 95.0% - 96.0%
- Nonrecurring revenue (perpetual license and maintenance) and sales to new customers are impacted in the near term
- Fund services business continues to perform at the lower end of historical ranges
- Large scale outsourcing deals and license sales continue but at lower levels than originally assumed
- Capita and any future acquisitions are not incorporated in our scenarios and would be additive to revenue and earnings

Expense Assumptions

- Incremental expenses are controlled
- Reduced hiring
- Marketing reductions
- Travel and expense remains dormant for remainder of 2020
- Interest rates stay at current levels

Q3 2020 financial highlights

Metric	Q3 2020	Q3 2019	\$ +/-	% +/-
Adjusted Revenues (\$M)	\$1,156.2	\$1,150.8	\$5.4	0.5%
Adjusted Operating Income (\$M)	\$448.8	\$425.6	\$23.2	5.5%
Adjusted Consolidated EBITDA (\$M)	\$466.3	\$445.8	\$20.5	4.6%
Adjusted Net Income (\$M)	\$294.2	\$245.3	\$48.9	19.9%
Adjusted Diluted Earnings Per Share	\$1.10	\$0.93	\$0.17	18.3%
Operating Cash Flow for nine months ended September 30, 2020 (\$M)	\$755.1	\$755.0	\$0.1	0.0%

Note: See appendix for reconciliation of non-GAAP financial measures



Debt review and capital allocation

- Operating cash flow was \$755.1 M for the nine months ended September 30, 2020
- Debt
 - Net leverage ratio is 3.58x LTM consolidated EBITDA, secured net leverage ratio is 2.52x LTM consolidated EBITDA of \$1,876.7 M
- Shareholder Returns
 - Repurchased 3.1 M shares of common stock in Q3 2020, at an average price of \$61.44 per share for \$191.9 M
 - Paid \$35.9 M in dividends in Q3 2020

Organic Growth Calculations 2020



	Q1 2020	Q2 2020	Q3 2020
Total Adjusted Revenues (\$M)	1,178.0	1,140.8	1,156.2
Fx (\$M)	5.5	7.2	(6.5)
Acquisitions (\$M)	(18.3)	(25.1)	(29.8)
Organic Revenues (\$M)	1,165.2	1,122.9	1,119.9
Adjustments (\$M)	16.3 ¹	16.9 ²	14.6 ³
Adjusted Organic Revenues (\$M)	1,181.5	1,139.8	1,134.5
Adjusted Organic Revenue Growth Rate (%)	2.8%	(1.4)%	(1.4)%

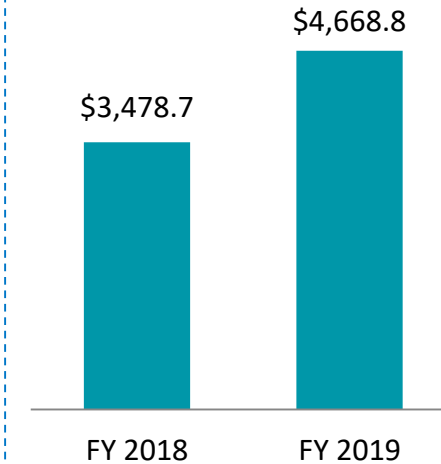
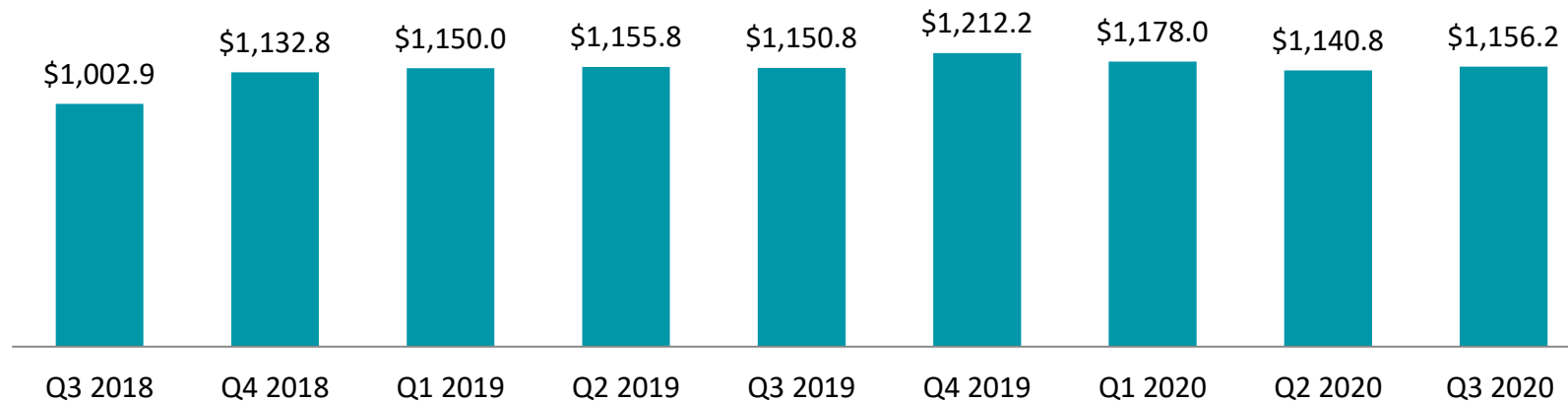
¹Adjustments include \$1.3 M for out-of-pocket expense reimbursements, and \$15.0 M for DST clients that terminated pre-acquisition.

²Adjustments include \$5.7 M for out-of-pocket expense reimbursements, and \$11.2 M for DST clients that terminated pre-acquisition.

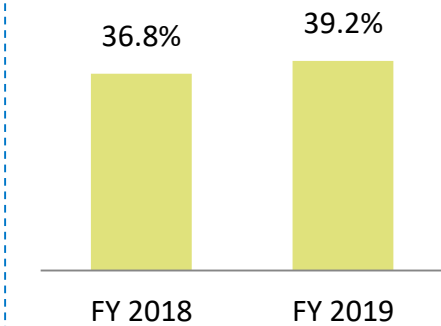
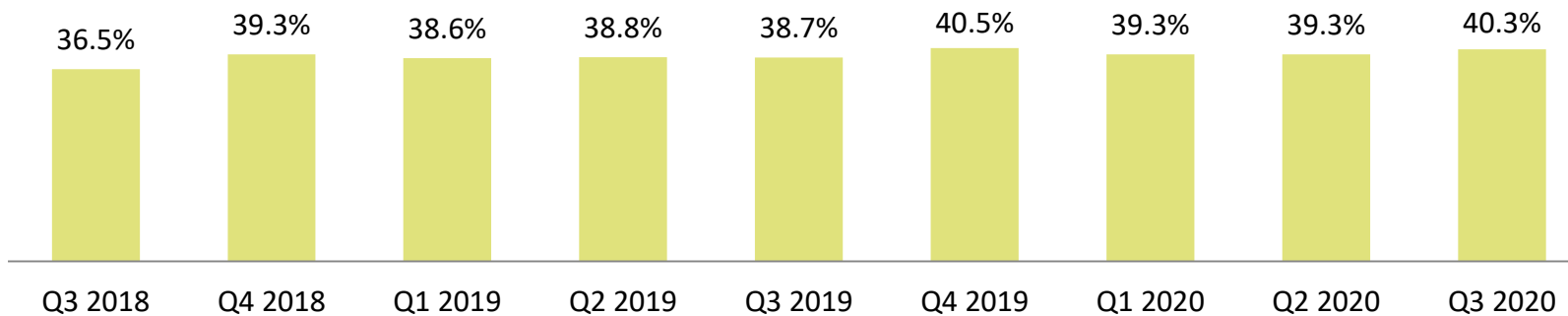
³Adjustments include \$4.6 M for out-of-pocket expense reimbursements, and \$10.0 M for DST clients that terminated pre-acquisition.

Adjusted revenue and margins

Adjusted revenue (\$M)

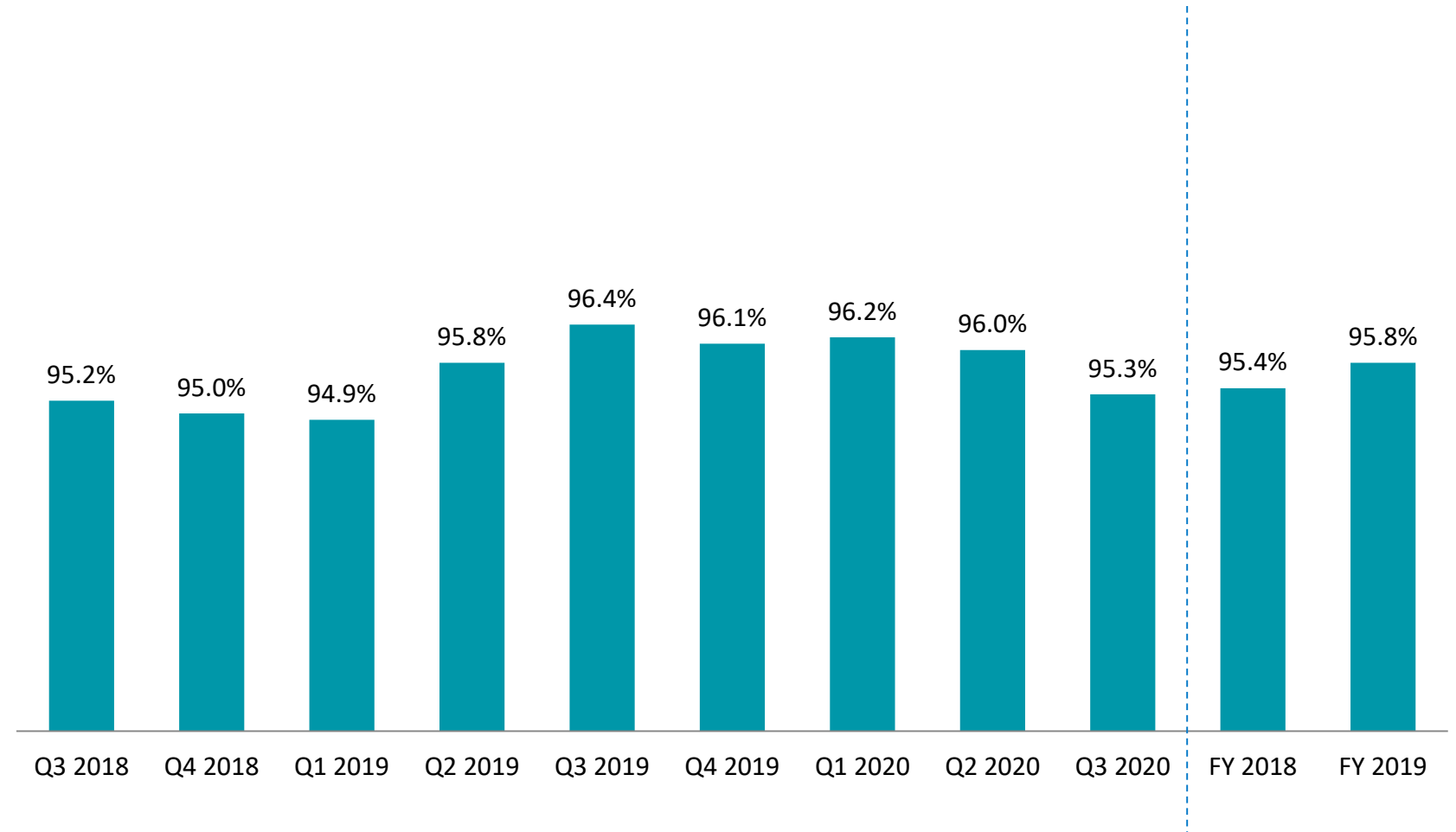


Adjusted consolidated EBITDA margin (%)



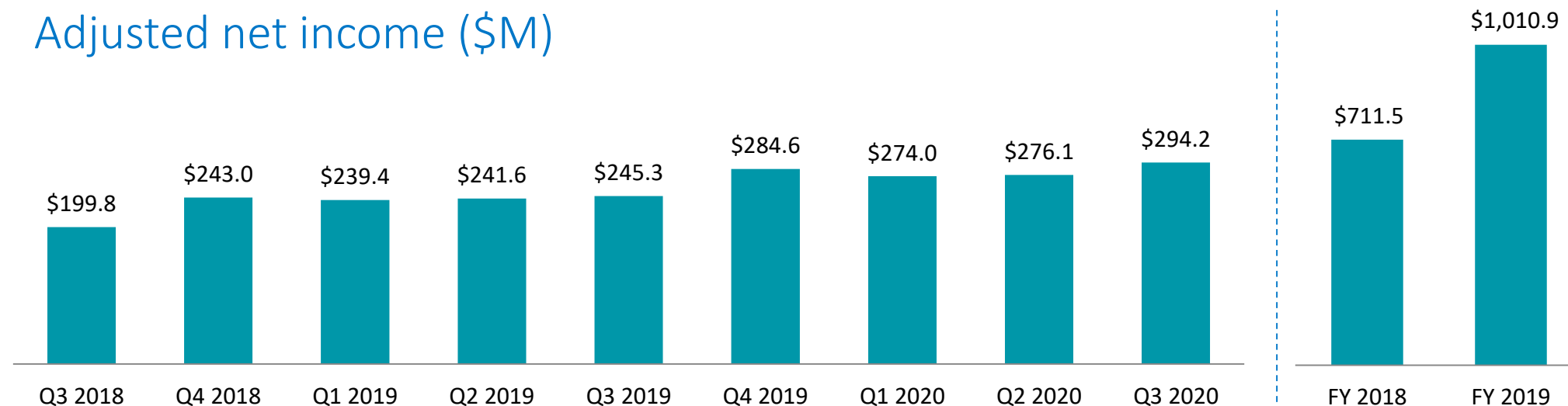
- Quarterly retention rate is based on a rolling prior twelve months.
- Yearly retention is the average of four quarters.
- Acquisitions are not included in retention rate calculation until one year post-acquisition.

Revenue retention rates

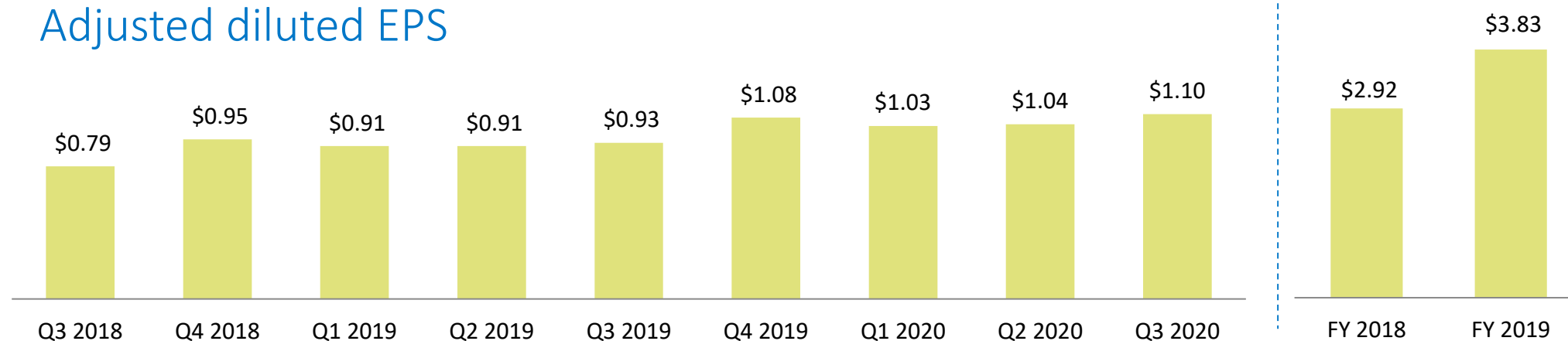


Adjusted net income and adjusted diluted EPS

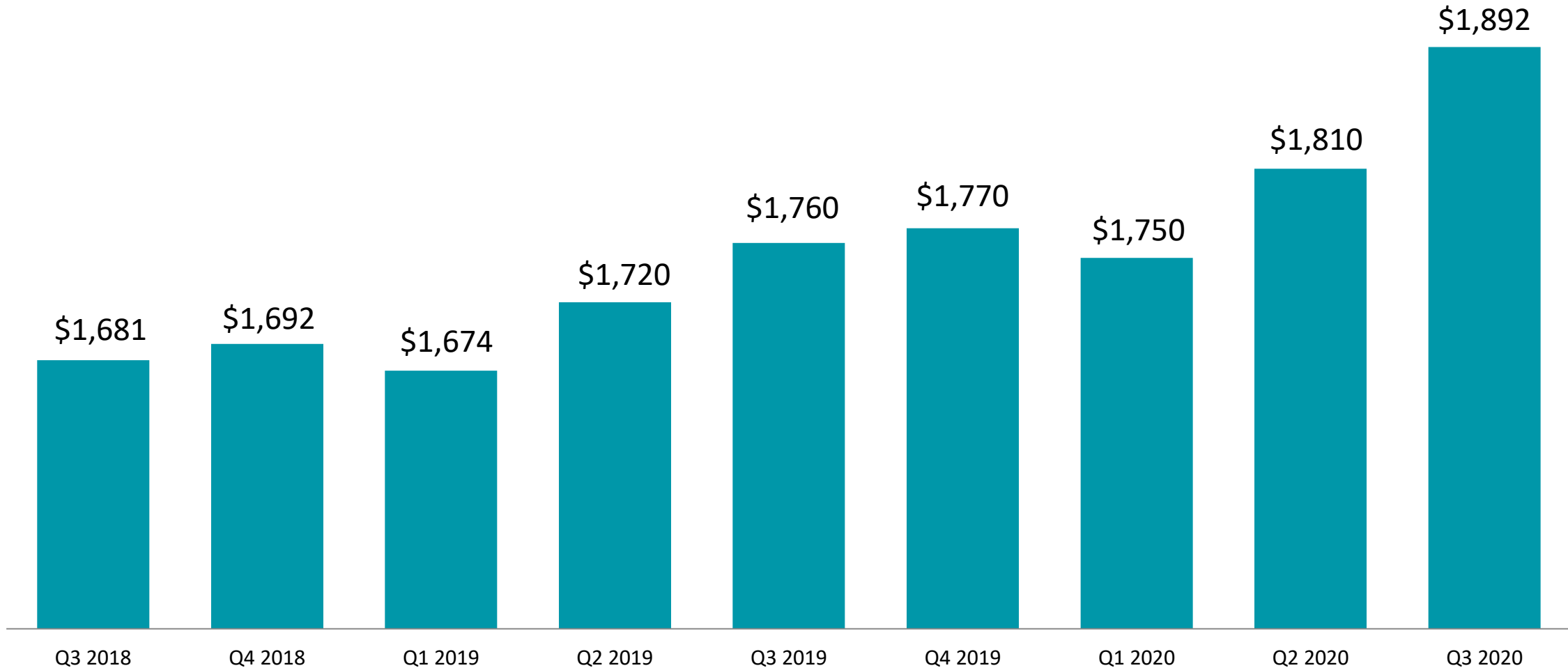
Adjusted net income (\$M)



Adjusted diluted EPS



Alternative Assets under Administration (\$B)



Appendix

Disclosures relating to non-GAAP financial measures



Reconciliation of revenues to adjusted revenues

Adjusted revenues represents revenues adjusted to include a) amounts that would have been recognized if deferred revenue were not adjusted to fair value at the date of acquisition and b) amounts that would have been recognized if not for adjustments to deferred revenue and retained earnings related to the adoption of ASC 606. Adjusted revenues is presented because we use this measure to evaluate performance of our business against prior periods and believe it is a useful indicator of the underlying performance of our business. Adjusted revenues is not a recognized term under generally accepted accounting principles ("GAAP"). Adjusted revenues does not represent revenues, as that term is defined under GAAP, and should not be considered as an alternative to revenues as an indicator of our operating performance. Adjusted revenues as presented herein is not necessarily comparable to similarly titled measures presented by other companies. Below is a reconciliation of adjusted revenues to revenues, the GAAP measure we believe to be most directly comparable to adjusted revenues.

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues	\$ 1,152.8	\$ 1,144.2	\$ 3,464.5	\$ 3,429.4
ASC 606 adoption impact	1.4	4.0	4.2	12.1
Purchase accounting adjustments impact on revenue	2.0	2.6	6.3	15.1
Adjusted revenues	<u>\$ 1,156.2</u>	<u>\$ 1,150.8</u>	<u>\$ 3,475.0</u>	<u>\$ 3,456.6</u>

The following is a breakdown of software-enabled services and license, maintenance and related revenues and adjusted software-enabled services and license, maintenance and related revenues.

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Software-enabled services	\$ 958.4	\$ 960.0	\$ 2,892.9	\$ 2,894.7
License, maintenance and related	194.4	184.2	571.6	534.7
Total revenues	<u>\$ 1,152.8</u>	<u>\$ 1,144.2</u>	<u>\$ 3,464.5</u>	<u>\$ 3,429.4</u>
Software-enabled services	\$ 960.3	\$ 962.8	\$ 2,898.3	\$ 2,910.4
License, maintenance and related	195.9	188.0	576.7	546.2
Total adjusted revenues	<u>\$ 1,156.2</u>	<u>\$ 1,150.8</u>	<u>\$ 3,475.0</u>	<u>\$ 3,456.6</u>

Reconciliation of operating income to adjusted operating income

Adjusted operating income represents operating income adjusted for amortization of intangible assets, stock-based compensation, purchase accounting adjustments for deferred revenue and related costs, ASC 606 adoption impact and other expenses. Adjusted operating income is presented because we use this measure to evaluate performance of our business and believe it is a useful indicator of our underlying performance. Adjusted operating income is not a recognized term under GAAP. Adjusted operating income does not represent operating income, as that term is defined under GAAP, and should not be considered as an alternative to operating income as an indicator of our operating performance. Adjusted operating income as presented herein is not necessarily comparable to similarly titled measures by other companies. The following is a reconciliation between adjusted operating income and operating income, the GAAP measure we believe to be most directly comparable to adjusted operating income.

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating income	\$ 257.0	\$ 227.6	\$ 717.1	\$ 653.1
Amortization of intangible assets	153.9	160.2	463.9	489.8
Stock-based compensation	21.3	17.1	65.9	55.7
Purchase accounting adjustments (1)	10.2	11.4	30.1	41.0
ASC 606 adoption impact	1.5	4.1	4.4	12.3
Other (2)	4.9	5.2	41.7	20.8
Adjusted operating income	<u>\$ 448.8</u>	<u>\$ 425.6</u>	<u>\$ 1,323.1</u>	<u>\$ 1,272.7</u>

- 1) Purchase accounting adjustments include (a) an adjustment to increase revenues by the amount that would have been recognized if deferred revenue were not adjusted to fair value at the date of acquisition, (b) an adjustment to increase personnel and commissions expense by the amount that would have been recognized if prepaid commissions and deferred personnel costs were not adjusted to fair value at the date of the acquisitions and (c) an adjustment to decrease depreciation expense by the amount that would not have been recognized if property, plant and equipment were not adjusted to fair value at the date of acquisition.
- 2) Other includes expenses and income that are permitted to be excluded per the terms of our Credit Agreement from Consolidated EBITDA, a financial measure used in calculating our covenant compliance. These include expenses and income related to foreign currency transactions, facilities and workforce restructuring, legal settlements and business acquisitions.

Reconciliation of net income to EBITDA, consolidated EBITDA and adjusted consolidated EBITDA

EBITDA represents net income before interest expense, income taxes, depreciation and amortization. Consolidated EBITDA, defined under our Credit Agreement entered into in April 2018, as amended, is used in calculating covenant compliance, and is EBITDA adjusted for certain items. Consolidated EBITDA is calculated by subtracting from or adding to EBITDA items of income or expense described below. Adjusted Consolidated EBITDA is calculated by subtracting acquired EBITDA (as defined below) from Consolidated EBITDA. EBITDA, Consolidated EBITDA and Adjusted Consolidated EBITDA are presented because we use these measures to evaluate performance of our business and believe them to be useful indicators of an entity's debt capacity and its ability to service debt. EBITDA, Consolidated EBITDA and Adjusted Consolidated EBITDA are not recognized terms under GAAP and should not be considered in isolation or as alternatives to operating income, net income or cash flows from operating activities as indicators of our operating performance. These measures are not necessarily comparable to similarly titled measures by other companies. The following is a reconciliation of EBITDA, Consolidated EBITDA and Adjusted Consolidated EBITDA to net income.

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,
	2020	2019	2020	2019	2020
Net income	\$ 159.4	\$ 95.0	\$ 428.1	\$ 296.9	\$ 569.7
Interest expense, net	54.7	98.5	192.6	304.4	293.1
Provision for income taxes	58.6	23.7	112.9	73.9	132.2
Depreciation and amortization	180.0	190.1	544.1	582.8	736.4
EBITDA	452.7	407.3	1,277.7	1,258.0	1,731.4
Stock-based compensation	21.3	17.1	65.9	55.7	82.6
Acquired EBITDA and cost savings (1)	—	5.5	2.3	39.8	8.0
Non-cash portion of straight-line rent expense	0.1	(0.1)	(0.2)	0.3	(0.3)
(Gain) loss on extinguishment of debt	(0.4)	—	2.2	7.1	2.2
Equity in earnings of unconsolidated affiliates, net	(0.2)	0.1	0.1	(2.1)	(1.4)
Purchase accounting adjustments (2)	1.5	1.9	5.2	12.4	6.8
ASC 606 adoption impact	1.5	4.1	4.4	12.3	11.1
Other (3)	(10.2)	15.4	22.9	(6.3)	36.3
Consolidated EBITDA	\$ 466.3	\$ 451.3	\$ 1,380.5	\$ 1,377.2	\$ 1,876.7
Less: acquired EBITDA and cost savings (1)	—	(5.5)	(2.3)	(39.8)	(8.0)
Adjusted Consolidated EBITDA	<u>\$ 466.3</u>	<u>\$ 445.8</u>	<u>\$ 1,378.2</u>	<u>\$ 1,337.4</u>	<u>\$ 1,868.7</u>

Reconciliation of net income to EBITDA, consolidated EBITDA and adjusted consolidated EBITDA

- 1) Acquired EBITDA reflects the EBITDA impact of significant businesses that were acquired during the period as if the acquisition occurred at the beginning of the period, as well as cost savings enacted in connection with acquisitions.
- 2) Purchase accounting adjustments include (a) an adjustment to increase revenues by the amount that would have been recognized if deferred revenue were not adjusted to fair value at the date of acquisition and (b) an adjustment to increase personnel and commissions expense by the amount that would have been recognized if prepaid commissions and deferred personnel costs were not adjusted to fair value at the date of the acquisitions.
- 3) Other includes expenses and income that are permitted to be excluded per the terms of our Credit Agreement from Consolidated EBITDA, a financial measure used in calculating our covenant compliance. These include expenses and income related to foreign currency transactions, investment gains and losses, facilities and workforce restructuring, legal settlements, business acquisitions and other items.

Reconciliation of net income to adjusted net income and diluted earnings per share to adjusted diluted earnings per share

Adjusted net income and adjusted diluted earnings per share represent net income and earnings per share before amortization of intangible assets and deferred financing costs, stock-based compensation, purchase accounting adjustments and other items. We consider adjusted net income and adjusted diluted earnings per share to be important to management and investors because they represent our operational performance exclusive of the effects of amortization of intangible assets and deferred financing costs, stock-based compensation, purchase accounting adjustments, loss on extinguishment of debt and other items, that are not operational in nature or comparable to those of our competitors. Adjusted net income and adjusted diluted earnings per share are not recognized terms under GAAP. Adjusted net income and adjusted diluted earnings per share do not represent net income or diluted earnings per share, as those terms are defined under GAAP, and should not be considered as alternatives to net income or diluted earnings per share as indicators of our operating performance. Adjusted net income and adjusted diluted earnings per share as presented herein are not necessarily comparable to similarly titled measures presented by other companies. Below is a reconciliation of adjusted net income and adjusted diluted earnings per share to net income and diluted earnings per share, the GAAP measures we believe to be most directly comparable to adjusted net income and adjusted diluted earnings per share.

(in millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
GAAP – Net income	\$ 159.4	\$ 95.0	\$ 428.1	\$ 296.9
Plus: Amortization of intangible assets	153.9	160.2	463.9	489.8
Plus: Amortization of deferred financing costs and original issue discount	3.4	4.5	10.4	13.3
Plus: Stock-based compensation	21.3	17.1	65.9	55.7
(Less) Plus: (Gain) loss on extinguishment of debt	(0.4)	—	2.2	7.1
Plus: Purchase accounting adjustments (1)	10.2	11.4	30.1	41.0
Plus: ASC 606 adoption impact	1.5	4.1	4.4	12.3
(Less) Plus: Equity in earnings of unconsolidated affiliates, net	(0.2)	0.1	0.1	(2.1)
(Less) Plus: Other (2)	(10.2)	15.4	22.9	(6.3)
Income tax effect (3)	(44.7)	(62.5)	(183.8)	(181.4)
Adjusted net income	<u>\$ 294.2</u>	<u>\$ 245.3</u>	<u>\$ 844.2</u>	<u>\$ 726.3</u>
Adjusted diluted earnings per share	\$ 1.10	\$ 0.93	\$ 3.17	\$ 2.75
GAAP diluted earnings per share	\$ 0.60	\$ 0.36	\$ 1.61	\$ 1.12
Diluted weighted-average shares outstanding	266.7	262.7	266.0	264.1

Reconciliation of net income to adjusted net income and diluted earnings per share to adjusted diluted earnings per share

- 1) Purchase accounting adjustments include (a) an adjustment to increase revenues by the amount that would have been recognized if deferred revenue were not adjusted to fair value at the date of acquisition, (b) an adjustment to increase personnel and commissions expense by the amount that would have been recognized if prepaid commissions and deferred personnel costs were not adjusted to fair value at the date of the acquisitions and (c) an adjustment to decrease depreciation expense by the amount that would not have been recognized if property, plant and equipment were not adjusted to fair value at the date of acquisition.
- 2) Other includes expenses and income that are permitted to be excluded per the terms of our Credit Agreement from Consolidated EBITDA, a financial measure used in calculating our covenant compliance. These include expenses and income related to foreign currency transactions, investment gains and losses, facilities and workforce restructuring, legal settlements, business acquisitions and other items.
- 3) An estimated normalized effective tax rate of approximately 26% for the three and nine months ended September 30, 2020 and 2019, respectively, has been used to adjust the provision for income taxes for the purpose of computing adjusted net income.



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