SS&C Technologies (NASDAQ:SSNC)

Q2 2019 Earnings Results

SMART PEOPLE
SUPERB TECHNOLOGY

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Q2 2019 Financial Highlights

Metric	Q2 2019	Q2 2018	$ +/-	% +/-
Adjusted Revenue ($M)	$1,155.8	$908.5	$247.3	27.2%
Adjusted Consolidated EBITDA ($M)	$448.2	$291.8	$156.4	53.6%
Adjusted Net Income ($M)	$241.6	$153.8	$87.8	57.1%
Operating Cash flow six months ended June 2019 and 2018 ($M)	$416.6	$119.7	$296.9	248.0%
Adjusted Diluted Earnings Per Share	$0.91	$0.62	$0.29	46.8%

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

Debt Review and Capital Allocation

- **$416.6mm operating cash flow six months ended June 30, 2019**
- **Debt Pay down**
  - Paid $1,339.3mm in debt since acquiring DST Systems in April 2018
  - Leverage ratio is 4.2x consolidated EBITDA at June 30, 2019
- **Shareholder returns**
  - Paid $25.4mm in dividends in Q2 2019

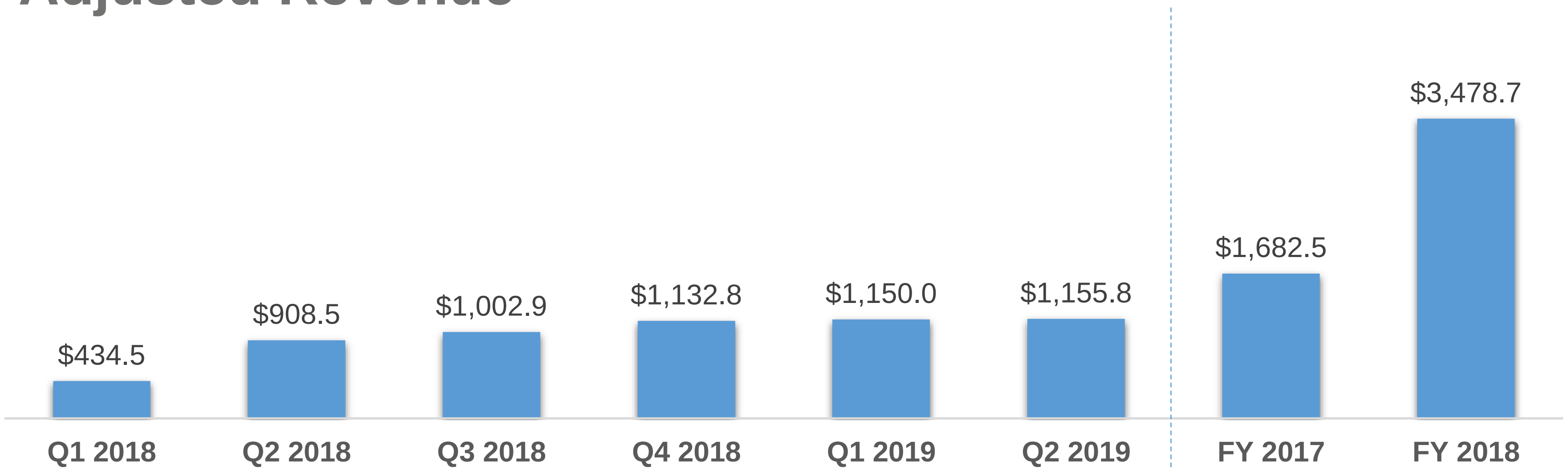
Organic Growth Calculation 2019

	Q1 2019	Q2 2019
Total Adjusted Revenue ($M)	1,150.0	1,155.8
Adjustments for Fx ($M)	2.1	9.2
Adjustments for acquisitions ($M)	(712.4)	(244.3)
Organic Revenue ($M)	439.7	920.7
Prior Year Adjusted Revenue ($M)	434.6	908.5
Adjustments ($M) [1]	--	(20.1)
	434.6	888.4
Organic growth rate (%)	1.2%	3.6%

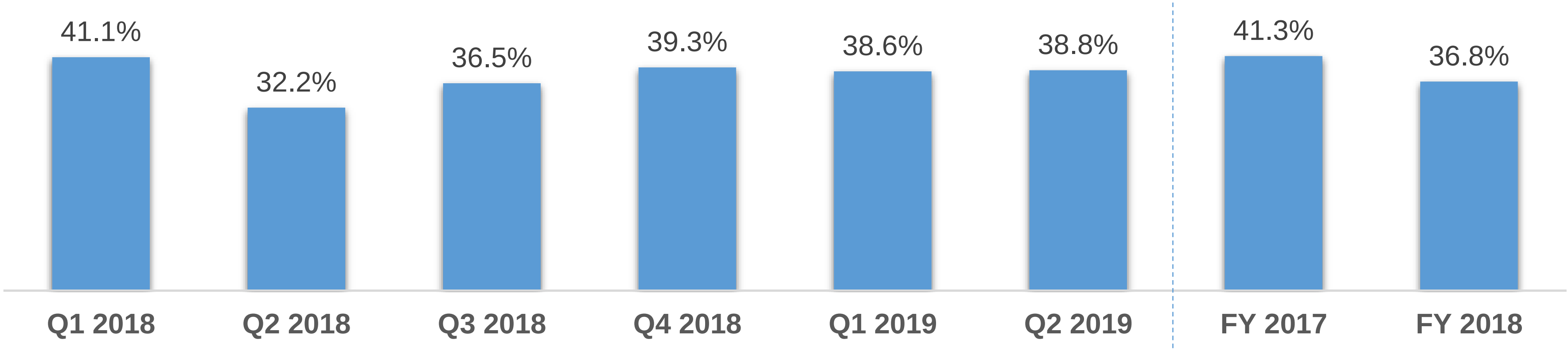
[1]Adjustments include $4.0m for out-of pocket expense reimbursements, and $16.1m for DST clients that terminated pre-acquisition.

Revenue and Margins

Adjusted Revenue



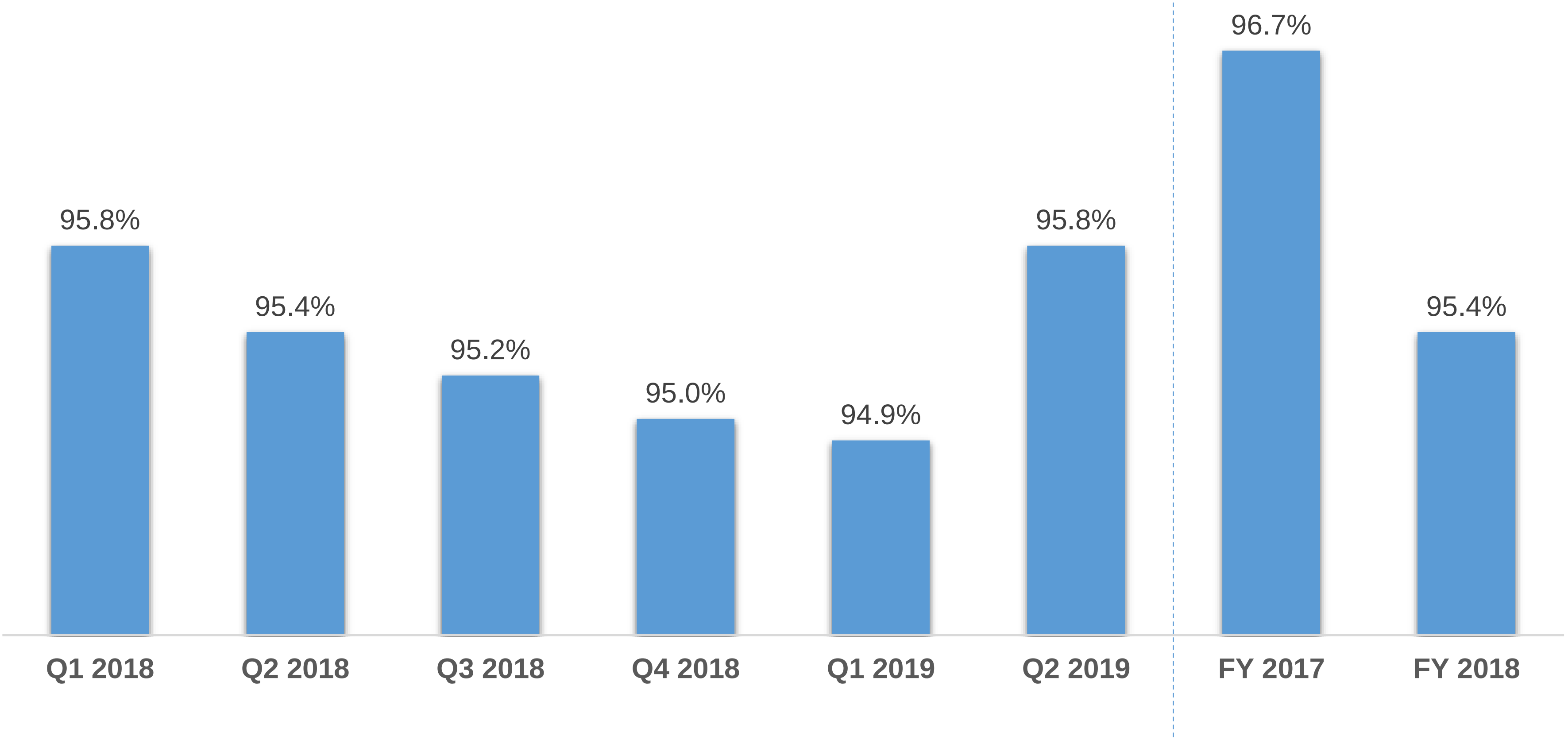
Adjusted Consolidated EBITDA Margin



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

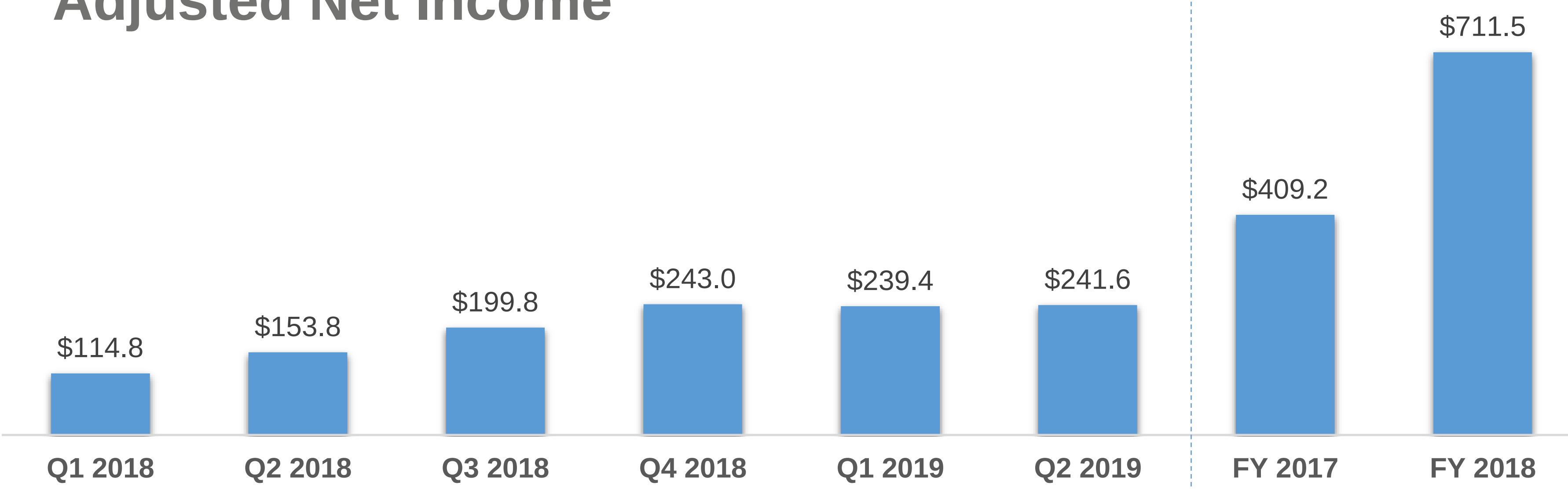
Revenue Retention Rates

- 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.

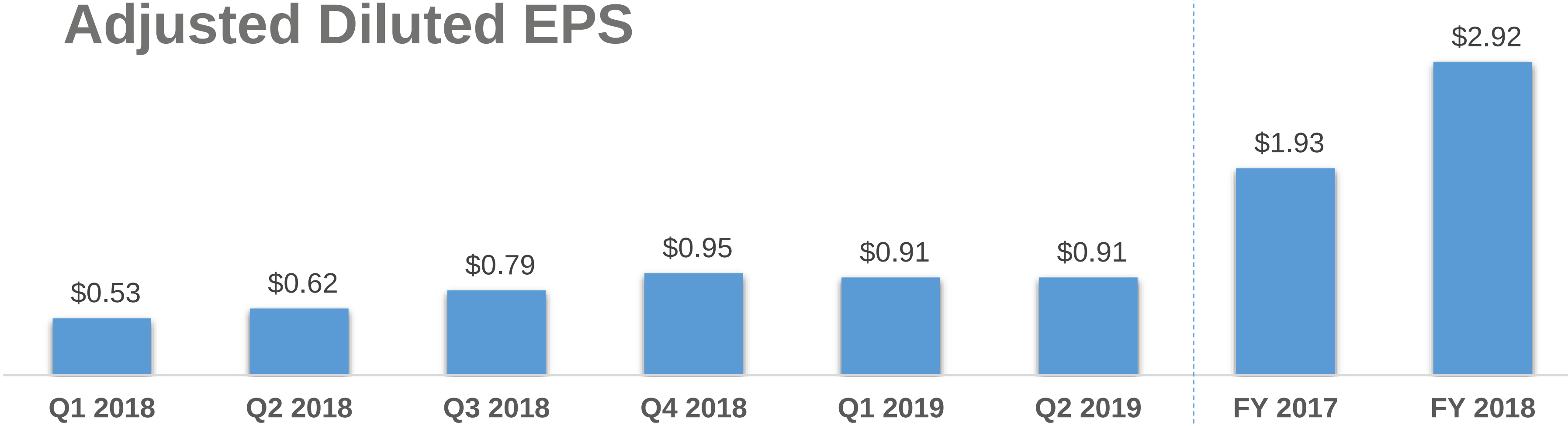


Net Income and EPS

Adjusted Net Income

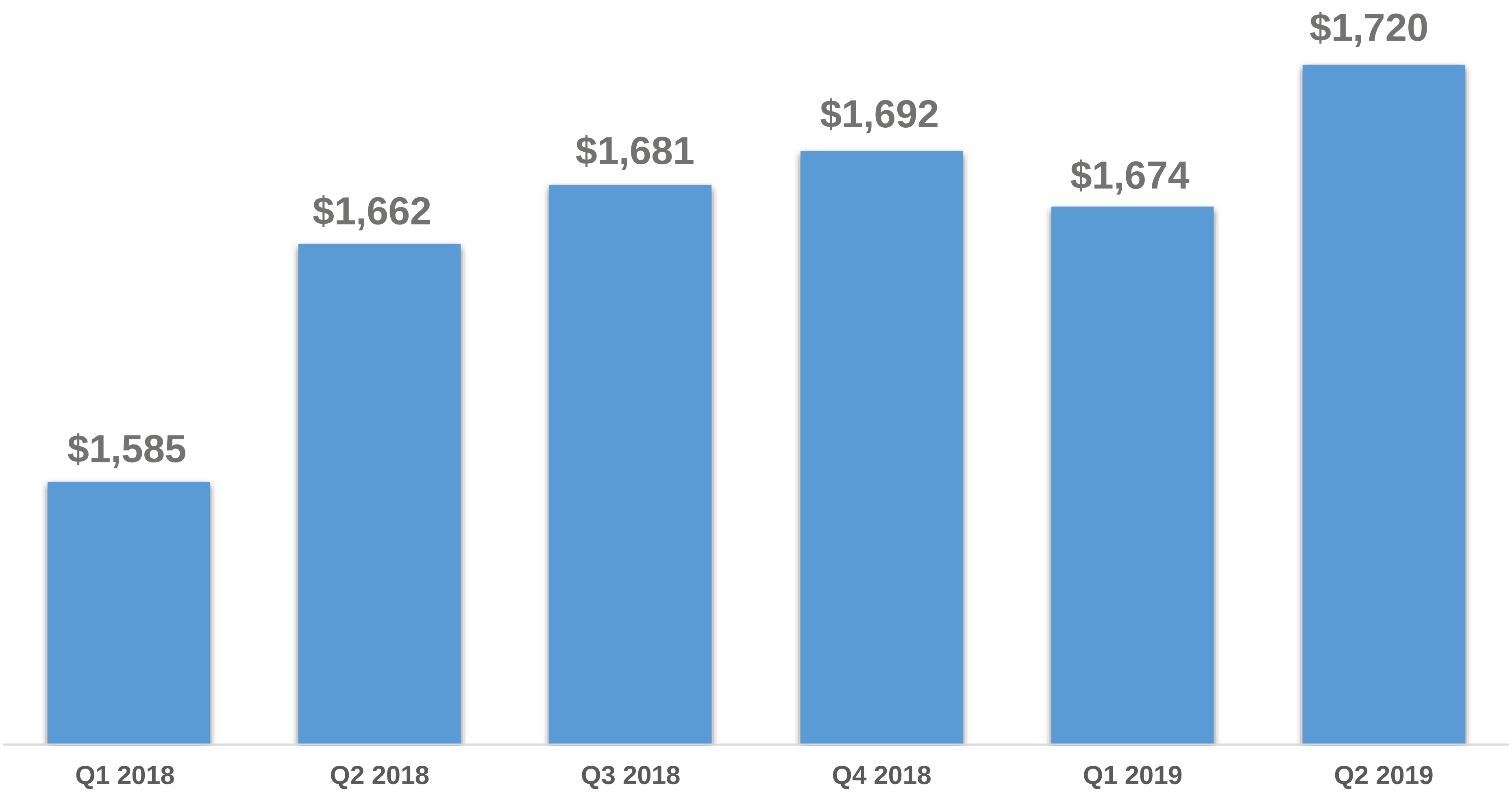


Adjusted Diluted EPS



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

Alternative Assets under Administration ($bln)



Guidance

	Q3 2019	FY 2019
Adjusted Revenue ($M)	$1,123.0 – $1,153.0	$4,570.9 – $4,630.9
Adjusted Net Income ($M)	$227.5 – $243.5	$947.5 – $988.5
Cash from Operating Activities ($M)	-	$1,050.0 – $1,080.0
Capital Expenditures (% of revenue)	-	2.6% – 2.8%
Diluted Shares (M)	267.6 – 266.4	266.7 – 265.7
Effective Income Tax Rate (%)	26%	26%

SS&C does not provide reconciliations of guidance for Adjusted Revenues and Adjusted Net Income to comparable GAAP measures, in reliance on the unreasonable efforts exception provided under Item 10(e)(1)(i)(B) of Regulation S-K. SS&C is unable, without unreasonable efforts, to forecast certain items required to develop meaningful comparable GAAP financial measures. These items include acquisition transactions and integration, foreign exchange rate changes, as well as other non-cash and other adjustments as defined under the Company's Credit agreement, that are difficult to predict in advance in order to include in a GAAP estimate. The unavailable information could have a significant impact on Q3 2019 and FY 2019 GAAP financial results.

Appendix

Disclosures Relating to Non-GAAP Financial Measures

Reconciliation of Revenues to Adj. 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2019	2018	2019	2018
Revenues	$ 1,148.0	$ 895.8	$ 2,285.2	$ 1,317.7
ASC 606 adoption impact	3.8	9.7	8.0	21.6
Purchase accounting adjustments impact on revenue	4.0	3.0	12.6	3.9
Adjusted revenues	$ 1,155.8	$ 908.5	$ 2,305.8	$ 1,343.2

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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2019	2018	2019	2018
Software-enabled services	$ 962.7	$ 741.6	$ 1,934.7	$ 1,036.4
License, maintenance and related	185.3	154.2	350.5	281.3
Total revenues	$ 1,148.0	$ 895.8	$ 2,285.2	$ 1,317.7
Software-enabled services	$ 966.8	$ 744.2	$ 1,947.6	$ 1,039.0
License, maintenance and related	189.0	164.3	358.2	304.2
Total adjusted revenues	$ 1,155.8	$ 908.5	$ 2,305.8	$ 1,343.2

Reconciliation of Operating Income to Adj. Operating Income

Adjusted operating income represents operating income (loss) 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 (loss), as that term is defined under GAAP, and should not be considered as an alternative to operating income (loss) 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 (loss), the GAAP measure we believe to be most directly comparable to adjusted operating income.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2019	2018	2019	2018
Operating income (loss)	$ 223.5	$ (50.7)	$ 425.5	$ 36.1
Amortization of intangible assets	158.8	106.8	329.6	161.4
Stock-based compensation	18.2	45.0	38.6	57.7
Purchase accounting adjustments (1)	12.1	12.7	29.6	13.3
ASC 606 adoption impact	3.9	9.7	8.2	21.6
Other (2)	9.7	148.3	15.6	153.6
Adjusted operating income	$ 426.2	$ 271.8	$ 847.1	$ 443.7

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 currency transactions, facilities and workforce restructuring, legal settlements and business combinations.

Reconciliation of Net Income to EBITDA, Consolidated EBITDA and Adj. Consolidated EBITDA

EBITDA represents net income (loss) 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 (loss), net income (loss) 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 (loss).

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,
(in millions)	2019	2018	2019	2018	2019
Net income (loss)	$ 121.1	$ (63.7)	$ 201.9	$ (12.5)	$ 317.7
Interest expense, net	104.3	70.2	205.9	95.6	381.2
Provision (benefit) for income taxes	34.2	(99.9)	50.2	(89.2)	161.4
Depreciation and amortization	189.9	135.3	392.7	196.7	714.4
EBITDA	449.5	41.9	850.7	190.6	1,574.7
Stock-based compensation	18.2	45.0	38.6	57.7	77.7
Acquired EBITDA and cost savings (1)	4.5	60.2	10.3	228.1	151.2
Non-cash portion of straight-line rent expense	0.4	—	0.4	—	0.4
Loss on extinguishment of debt	—	44.4	7.1	44.4	6.0
Equity in earnings of unconsolidated affiliates, net	(2.2)	(1.1)	(2.2)	(1.1)	(3.2)
Purchase accounting adjustments (2)	2.5	4.2	10.5	4.8	23.5
ASC 606 adoption impact	3.9	9.7	8.2	21.6	26.9
Other (3)	(24.1)	147.7	(21.7)	152.5	(3.7)
Consolidated EBITDA	$ 452.7	$ 352.0	$ 901.9	$ 698.6	$ 1,853.5
Less: acquired EBITDA and cost savings (1)	(4.5)	(60.2)	(10.3)	(228.1)	(151.2)
Adjusted Consolidated EBITDA	$ 448.2	$ 291.8	$ 891.6	$ 470.5	$ 1,702.3

Reconciliation of Net Income to EBITDA, Consolidated EBITDA and Adj. 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 combinations 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 (loss) and earnings (loss) 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 (loss) or diluted earnings (loss) per share, as those terms are defined under GAAP, and should not be considered as alternatives to net income (loss) or diluted earnings (loss) 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 (loss) and diluted earnings (loss) per share, the GAAP measures we believe to be most directly comparable to adjusted net income and adjusted diluted earnings per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data)	2019	2018	2019	2018
GAAP – Net income (loss)	$ 121.1	$ (63.7)	$ 201.9	$ (12.5)
Plus: Amortization of intangible assets	158.8	106.8	329.6	161.4
Plus: Amortization of deferred financing costs and original issue discount	4.4	3.4	8.7	6.0
Plus: Stock-based compensation	18.2	45.0	38.6	57.7
Plus: Loss on extinguishment of debt	—	44.4	7.1	44.4
Plus: Purchase accounting adjustments (1)	12.1	12.7	29.6	13.4
Plus: ASC 606 adoption impact	3.9	9.7	8.2	21.6
Less: Equity in earnings of unconsolidated affiliates, net	(2.2)	(1.1)	(2.2)	(1.1)
(Less) Plus: Other (2)	(24.1)	147.7	(21.7)	152.5
Income tax effect (3)	(50.6)	(151.1)	(118.8)	(174.8)
Adjusted net income	$ 241.6	$ 153.8	$ 481.0	$ 268.6
Adjusted diluted earnings per share	$ 0.91	$ 0.62	$ 1.82	$ 1.15
GAAP diluted earnings (loss) per share	$ 0.45	$ (0.27)	$ 0.76	$ (0.06)
Diluted weighted-average shares outstanding	266.2	248.2	265.0	232.9

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 combinations and other items.
3) An estimated normalized effective tax rate of approximately 26% for the three and six months ended June 30, 2019 and 25% and 24% for the three and six months ended June 30, 2018, respectively, has been used to adjust the provision for income taxes for the purpose of computing adjusted net income.

SS&C