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SSNC - Q1 2014 SS&C Technologies Earnings Conference Call

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## CORPORATE PARTICIPANTS

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**Bill Stone** *SS&C Technologies Holdings, Inc. - Chairman & CEO*

**Norm Boulanger** *SS&C Technologies Holdings, Inc. - President & COO*

**Rahul Kanwar** *SS&C Technologies Holdings, Inc. - SVP & MD, Alternative Assets*

**Patrick Pedonti** *SS&C Technologies Holdings, Inc. - SVP & CFO*

## CONFERENCE CALL PARTICIPANTS

**Ashish Sabadra** *Deutsche Bank Research - Analyst*

**Rohit Sahni** *Harbor Spring Capital - Analyst*

## PRESENTATION

### Operator

Good afternoon. My name is Bridget, and I'll be your conference operator today. I'd like to welcome everyone to the SS&C Technologies first quarter 2014 conference call.

(Operator Instructions)

Please note that this conference is being recorded and will be made available on SS&C's website: [www.ssctech.com](http://www.ssctech.com).

I'd now like to turn the call over to Justine Stone, Investor Relations Coordinator. Ms. Stone, you may begin your conference.

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**Justine Stone** - *SS&C Technologies Holdings, Inc. - IR Coordinator*

Welcome, and thank you for joining us for our Q1 2014 earnings call.

I'm Justine Stone, Investor Relations Coordinator for SS&C. With me today is Bill Stone, Chairman and Chief Executive Officer; Norm Boulanger, President and Chief Operating Officer; Rahul Kanwar, Senior Vice President and Managing Director of Alternative Assets; and Patrick Pedonti, Chief Financial Officer.

Before we get started, we need to review the Safe Harbor statement. Please note that various remarks we make today about future expectations, plans, and prospects, including the financial outlook we provide, constitute forward-looking statements for purposes of the Safe Harbor Provisions under Private Security Litigation Reform Act of 1995.

Actual results may differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed in the Risk Factors section of our most recent annual report on Form 10-K, which is on file with the SEC and can also be accessed on our website.

These forward-looking statements represent our expectations only as of today, May 1, 2014. While the Company may elect to update these forward-looking statements, it specifically disclaims any obligation to do so.

During today's call, we will be referring to certain non-GAAP financial measures. A reconciliation of these non-GAAP financial measures to comparable GAAP financial measures is included in today's earnings release, which is located in the Investor Relations section of our website, at [www.ssctech.com](http://www.ssctech.com).



I will now turn the call over to Bill.

Actually, welcome, everybody. We're pleased to report Q1 revenue grew to \$185.8 million, an increase of 7.3%.

As you can tell, we continue to perform. Now, we believe we've continued to perform because we deliver mission-critical solutions on a worldwide basis and our quality and our breadth resonate.

We also continue to generate impressive amounts of cash. We paid \$45 million of debt this quarter, and we have paid down \$420 million in debt since the acquisition of GlobeOp in June of 2012.

We have also spent a lot of money on our development organization, and we expect to roll out new products and new services in the next couple of quarters.

The financial technology space is crowded, as is the fund administration business. SS&C possesses the workforce, technology, and discipline to be the long-term winner. Even as we ramp up our sales force, and with our sales and marketing expense up 25.7% this quarter, we were able to increase our adjusted operating margin from 37.4% to 39.1%, an increase of 170 basis points.

I look forward to continued progress in 2014 on all fronts, and we are confident we are on the right track with our strategies for Cloud-based and mobility-enabled technology and services.

We've also had a number of key signings in the first quarter of 2014.

Finally, we're hosting our Investment Intelligence client summit in Orlando, Florida, next week. We plan on showcasing our latest innovations in technology, including mobility, voice recognition, and reporting portals.

And with that, I'll turn it over to Norm.

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**Norm Boulanger** - *SS&C Technologies Holdings, Inc. - President & COO*

Thanks, Bill.

We are pleased with our strong result in Q1 and the momentum we see in our business overall. Our institutional business had its best quarter in three years. We signed a number of strategic deals in our software-enabled services business for our REIT, [global wealth] platform, and alternative services.

We continue to invest in our team and technology to drive and support our growth objectives. We believe expertise is a key differentiator. We are focused on ensuring we have the strongest subject matter excellence in sales, services, development, and IT infrastructure in order to sell and service our customers.

At the same time, we are focused and disciplined on driving margins in our business.

Our recent and past success with real estate investment trust customers led us to establish a REIT servicing group. We believe we have the best technology and service experts in the space and are creating a dedicated group that will allow us to accelerate our growth. The new servicing group is focused on the expanding areas of residential mortgage-backed securities, commercial mortgage-backed securities, and equity-linked real estate.

We also had a number of new solution releases in the quarter, among them the latest versions of CAMRA (called CAMRA Workspace), Total Return, and Lightning.

In Q1, we moved, upgraded, and expanded our offices in Evansville, Indiana. We also expanded and consolidated our office space in our Windsor headquarters, which continues to be a hub of various strategic groups. We are also leasing new office space in Boston and Dublin, which will allow us to consolidate multiple office locations.

In Q1, we signed a number of deals across the business: a contract with Virtus Investment Partners to provide middle- and back-office services for its separately managed institutional and closed-end fund assets, utilizing our global wealth platform.

Two publicly traded REITs, totaling approximately \$80 billion in assets, selected SS&C for our REIT technology and related REIT expertise.

An international financial service firm licensed our loan origination and servicing platform to support its \$13-billion global commercial lending business.

A \$26-billion asset manager chose SS&C for its performance and reporting solution.

A large Canadian bank extended its license for us as its portfolio common platform.

An alternative investment manager and existing SS&C GlobeOp customer chose our front-office solution to provide the front-to-back integrated solution from SS&C.

Two current SS&C customers added our fixed connectivity services.

A venture capital firm selected SS&C for its front-office platform.

And a Taiwan-based life insurance company chose SS&C for its insurance investment accounting platform.

And with that, I'll turn it over to Rahul.

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**Rahul Kanwar** - *SS&C Technologies Holdings, Inc. - SVP & MD, Alternative Assets*

Thanks, Norm.

We had a strong start to 2014. Our alternative assets revenue increased 9.5%, over the same period in 2013. This growth came from both new clients and increased sales to existing customers.

For example, we increased sales of GoTrade+, which offers our customers an outsource solution for their middle-office operations. This includes functions such as collateral management, reconciliation, price verification, and settlement for bank loans and derivatives. We think our potential market for such functions includes banks, insurance companies, and corporations that use derivatives. We continue to invest both in the product set and the sales force.

California remains an attractive area of growth for us and is well represented in our deal pipeline. Our Los Angeles office and our ability to service west coast business hours helps us attract new prospects. We're already seeing some results. This quarter, we were selected by a \$5-billion-plus private equity fund to outsource some of their funds, a relationship that we think will expand over time.

Other key deals signed during the quarter were: a credit manager selected SS&C for fund administration and performance measurement and attribution; three alternative investment managers expanded their relationship for administration of several new funds; a long/short equity fund converted to SS&C because it required a top-tier fund administrator to satisfy potential investors; a current hedge fund customer turned to SS&C for its private equity fund administration requirements.



We remain focused on customer satisfaction, and this quarter instituted a customer monitoring program for engaging with our clients and acting on their feedback. Programs like this bring us closer to our clients, help us target development to meet their needs, and boost our cross-sell efforts.

Now, I will turn it over to Patrick.

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**Patrick Pedonti** - *SS&C Technologies Holdings, Inc. - SVP & CFO*

Thanks, Rahul.

Results for the first quarter were revenue of \$185.8 million.

GAAP net income was \$26.4 million, and GAAP diluted EPS was \$0.30.

Revenue increased \$12.5 million, or 7%, over Q1 2013. Strong license revenue from CAMRA and LMS products and year-over-year 6% growth in our software-enabled services drove the growth in the quarter.

Foreign exchange had a negative impact on revenue of approximately \$1 million, compared to Q1 2013.

Adjusted operating income in the first quarter was \$72.6 million, an increase of \$7.9 million, or 12%, from the first quarter of 2013.

Operating margins increased to 39.1%, from 37.4% of revenue in Q1 2013. We continue to make significant progress on implementing GlobeOp and PORTIA acquisition cost synergies, and currently expect to generate approximately \$21 million of savings for the full year 2014. In addition, operating margins improved significantly in our fund administration and institutional products businesses.

Adjusted consolidated EBITDA was \$76.2 million, or 41% of adjusted revenue. This was an improvement of 11%, or \$7.5 million, compared to Q1 2013.

Net interest expense for the fourth quarter was \$7.1 million and includes \$1.5 million of non-cash amortized financing costs and OID. Interest expense decreased due to the \$239 million of debt pay-downs since the first quarter of 2013, and the 2013 credit facility repricing reduced our weighted average interest costs from 4.4% to 3.0%.

We recorded a GAAP tax provision for the quarter of \$12.8 million, or 33% of pretax income. In the first quarter, we recorded a non-cash charge for \$2.4 million to adjust our deferred tax liabilities for tax changes enacted in New York state. Excluding this one-time item, our tax rate was 27% in the quarter.

Adjusted net income was \$48.3 million, and adjusted diluted EPS was \$0.56. The adjusted net income excludes: \$21.3 million of amortization of intangible assets; \$3 million of stock-based compensation; \$1.5 million of non-cash debt issuance costs; and \$2 million of unusual expenses, mostly related to FX losses and legal expenses for an IP infringement lawsuit we filed in the first quarter.

And the effective tax rate we used for adjusted income was 28%.

On our balance sheet and cash flow, as of March 31, we had \$78.4 million of cash and \$737 million of gross debt, for a net debt position at approximately \$658 million.

We had strong operating cash flow in the first quarter. Operating cash flow was \$38.6 million, a \$17.9 million increase over Q1 2013. Cash flow was driven by improved earnings, lower cash tax payments, and improved accounts receivable DSO.

For the quarter, we paid down \$45 million of debt. That brings the total to \$420 million since the GlobeOp acquisition.

We purchased approximately 90,000 shares of SS&C stock in the first quarter, for a total of \$3.5 million.

We used \$3.6 million for capital expenditures and capitalized software, [or] 1.9% of revenue.

We paid \$6.2 million in cash taxes, compared to \$9.8 million in the first quarter of 2013.

Our accounts receivable DSO as of March was 42.5 days, and that compares to 45 days as of December 2013.

And in financing activities, we recorded the proceeds from option exercises of \$4 million and a tax benefit related to the option exercise of \$2.5 million.

And our LTM EBITDA that we use for covenant compliances was approximately \$299 million as of March, and based on our net debt our leverage ratio was 2.2 times.

For outlook for the second quarter of 2014, our current expectation is: revenue in the range of \$186.5 million to \$190 million; adjusted net income of \$48.5 million to \$50.4 million; and diluted shares in the range of 87.2 million to 87.5 million.

For the year, our current expectation for the full year is: revenue in the range of \$757 million to \$775 million -- that represents a growth of 6.2% to 8.7% over 2013; adjusted net income of \$197.5 million to \$206.8 million; and outstanding diluted shares increasing approximately 3% compared to 2013, to a range of 87.7 million to 88.2 million.

And we expect that our effective tax rate will be approximately 28% for the full year, excluding any extraordinary items.

For the full year, we expect cash from operating activities to be in the range of \$220 million to \$230 million, and capital expenditures to be in the range of 2.3% to 2.8% of revenues.

Our current plan is to use all excess cash flow to fund potential acquisitions, buy back shares in the open market, and pay down debt.

And I'll turn it over to Bill for final comments.

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**Bill Stone** - *SS&C Technologies Holdings, Inc. - Chairman & CEO*

Thanks, Patrick.

Looking at 2014 and beyond, we feel pretty optimistic about our future. For the year 2014, as Patrick said, we're guiding revenue between \$757 million to \$775 million.

I'd also like to take a minute to invite all of you to our first Analyst Day that we've had. That will be June 3 in New York City. If you're interested in registering, please contact [justine.stone@sscinc.com](mailto:justine.stone@sscinc.com), and we'll be sending an invitation shortly after today's call. Please take a minute to register via the link.

I'll now open the lines up for questions. Bridget?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Bryan Keane, Deutsche Bank.



**Ashish Sabadra** - *Deutsche Bank Research - Analyst*

This is Ashish Sabadra, calling on behalf of Bryan Keane. Quick question on the license revenue and the professional services. Those were pretty solid in the quarter. I was wondering if you could just give some more color what's driving those trends there and the sustainability of the growth in both those segments?

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**Bill Stone** - *SS&C Technologies Holdings, Inc. - Chairman & CEO*

I think that --. I'll start off. First, for the professional services, I think first quarter of 2013 was a tad weak. So, you're seeing an approximate 40% increase in revenue. I would say that actually it's probably closer to 15% to 20% increase because of the weakness in 2013.

But we have done a number of large projects in Q1, and we have a number of them lined up for the rest of the year. So, I would imagine that professional services will be pretty strong in 2014.

As far as licenses are concerned, we did several pretty good sized licenses this quarter. LMS had a great quarter, for instance. And again, I think people have waited a long time to get new technology. And in some spots, they're spending money to get it.

Norm?

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**Norm Boulanger** - *SS&C Technologies Holdings, Inc. - President & COO*

Just a couple of things I'd add to that is, on professional services, one of the things we've been focused on there over the last year is making sure we support our clients in looking at their entire operations. And that's resonating and we're getting a lot of consulting businesses that help re-engineer people's back-office organization. So, I think that will continue and will support the professional service line going forward.

And the last thing to contribute on licenses, Bill talked about some of these sales. It's really the persistence. Some of these sales we've been working for a long time. So, some of the larger sales we won this quarter --. For example, we had three sales: one, that took us two years; one, 18 months; one, 15 months.

So, staying on those sales, allowing clients to take the time they need to make a decision, some of that came to fruition this quarter. So, we feel pretty good about that.

And then, just the overall trend on the mortgage loan space and the real estate investment trust space. There's really a lot of opportunity, a lot of these coming in. It supported Q1, and I think will support going forward.

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**Ashish Sabadra** - *Deutsche Bank Research - Analyst*

Okay. That's great. Thanks for that color on the REIT servicing business. I was wondering if you could help us size the opportunity for REIT servicing? How big is the opportunity that you believe for SS&C and the growth profile there?

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**Bill Stone** - *SS&C Technologies Holdings, Inc. - Chairman & CEO*

The REITs business, I think there's something like 40 public mortgage REITs, and there's also probably a similar number of equity REITs. And that's primarily US-based. There's also a number of similar type organizations out of Canada.

We currently are running at a multi-million dollar run rate basis, probably right around high single digits. And my guess is is that market is probably \$100 million.

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**Ashish Sabadra** - *Deutsche Bank Research - Analyst*

Okay. That's great. One quick one on the regulatory front. On the third call, you'd highlighted that you've signed up over 100 clients for Form PF, FATCA, CPO-PQR, and 13F filing. So, just as we look at the regulatory environment and the regulatory services in particular, I was wondering if you could just provide some update on that front, the success that you've had in signing up new clients and the revenue potential there?

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**Bill Stone** - *SS&C Technologies Holdings, Inc. - Chairman & CEO*

It continues to grow. We have blown way through 100 clients, and it continues to be a very attractive area for our clients to outsource to us. That's probably twice as big a business as our REITs business is right now, and my guess is that you're looking at regulatory services probably at \$500 million, or so, as far as the market is concerned.

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**Ashish Sabadra** - *Deutsche Bank Research - Analyst*

Okay. That's great. And one final question for me, on the alternative business. I was just wondering if you can also give the AUM -- you provided the growth for that business -- the AUM at the end of the first quarter?

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**Bill Stone** - *SS&C Technologies Holdings, Inc. - Chairman & CEO*

I don't think that that's been published yet. So, I think that at the end of the fourth quarter, it was I think \$566 billion.

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**Ashish Sabadra** - *Deutsche Bank Research - Analyst*

Okay. Actually, one final question for Patrick. Patrick, you highlighted that the margins increased in the fund administration and institutional product business. If you could just highlight the drivers there? Is it related to the GlobeOp synergies? Or, are there other drivers that's driving margin improvement?

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**Patrick Pedonti** - *SS&C Technologies Holdings, Inc. - SVP & CFO*

I think it's not only the GlobeOp business. The GlobeOp business, those margins continue to improve in the first quarter. But also, we're getting improvement in our core alternative asset business, also. So, it's the whole alternative asset business, including GlobeOp, that's improving.

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**Bill Stone** - *SS&C Technologies Holdings, Inc. - Chairman & CEO*

And we also had some help with the currency, in Indian currency?

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**Patrick Pedonti** - *SS&C Technologies Holdings, Inc. - SVP & CFO*

We did. Our costs are down a little bit due to the Indian currency.

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**Bill Stone** - *SS&C Technologies Holdings, Inc. - Chairman & CEO*

Yes, rupee.

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**Patrick Pedonti** - *SS&C Technologies Holdings, Inc. - SVP & CFO*

Yes, the rupee. Compared to Q1 2013.

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**Ashish Sabadra** - *Deutsche Bank Research - Analyst*

Okay. That's great.

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**Operator**

(Operator Instructions) Rohit Sahni, Harbor Spring.

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**Rohit Sahni** - *Harbor Spring Capital - Analyst*

Congrats on a great quarter. Two really quick questions. Obviously, you guys continue to show improvement in margins, which is impressive. Do you think that there's potential for that trend to continue, as we approach later this year and early parts of next year?

And then, secondly, I know you've instituted the share buyback program, and you've done a great job of leveraging down with a net debt around a little over 2-times. Is it possible once you get to a comfortable leverage ratio we'll see more cash deployment towards share buybacks and/or M&A?

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**Bill Stone** - *SS&C Technologies Holdings, Inc. - Chairman & CEO*

Rohit, thanks for the nice comments. We have always looked at M&A as being the first use of our cash. Now, when we get more highly levered, then we're probably not as voracious on acquisitions. But right now, we're looking and looking hard, but we're very disciplined and we're not overpaying.

We can drive our business, drive margins. We think we'll drive margins over the next several years. And so, I think that we're very confident in that. We believe that we have some great solutions coming out. We've got a great workforce. And I think our ability to drive those margins are going to be tied to our focus and then also to continuing to innovate, which I think we've done a pretty good job with.

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**Rohit Sahni** - *Harbor Spring Capital - Analyst*

Got it. And then, with respect to customer wins, I think one thing you guys are doing well is you're continuing to win customers not just in your core alternatives business but in a variety of sectors, whether it's insurance or real estate, et cetera. Do we expect to see that to continue? And over the next year or two, should we see the mix weighting of new wins towards a certain sector versus another? Or, is it going to be fairly balanced?

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**Bill Stone** - *SS&C Technologies Holdings, Inc. - Chairman & CEO*

Well, it's interesting. We really started the fund administration business in 2002, and we started the Company in 1986. So, we would have thought that for a while insurance was our core business and then asset management. We bought OMR, and banks became a very core part of our business. When we bought FMC in 2005, asset managers were a very strong part of our business. PORTIA has 200 very well-known asset managers, almost \$10 trillion in assets on theirs.

So, I think what we have is a very strong business model. It's solutions and services across all asset managers: alternatives, insurance, bank, pension, institutional asset managers, RIAs. So, there's a very robust set of technology and a very strong workforce to be able to do software as a service, as well as sell technology on a per-drink basis or on a professional license basis.



**Rohit Sahni** - Harbor Spring Capital - Analyst

Great. Good job.

**Operator**

(Operator Instructions) I'm not showing any questions at this time. Please proceed with any further remarks.

**Bill Stone** - SS&C Technologies Holdings, Inc. - Chairman & CEO

Well, we appreciate everyone being on the call today, and we will look forward to seeing you in another 90 days. Thank you.

**Operator**

Thank you. And ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.

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