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Presentation

STERLING AUTY, ANALYST, JPMORGAN CHASE & CO.: All right, thanks, everybody, for joining us. My name is Sterling Auty; I'm the software technology analyst here at J.P. Morgan . Happy to have with us Bill Stone , who is the Founder and CEO of SS&C .

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I'm going to turn the microphone over to Bill. Go ahead and give us a bit of a brief overview, and then I will start off with questions and I'll bring the audience in very quickly after that. With that, Bill?

BILL STONE , CHAIRMAN AND CEO, SS&C TECHNOLOGIES HOLDINGS , INC.: Sterling, thanks, and thanks, everybody, on this Wednesday morning. SS&C has been around for 28 years. We just finished a great quarter in Q1. We offer a range of software and services around the world for investment organizations.

We have about 4300 employees in 46 offices, and we think that we're in a market where they spend $100 billion a year to do investment processing and investment accounting for various asset managers, be they hedge funds, fund to funds, private equity funds, bank-owned funds, insurance companies, pension funds, government funds, real estates, REITs, so forth and so on. We think we have a chance to be a major player and we've put a lot of money into that.

In the first quarter, we spent 25% more on sales and marketing than we did in the first quarter of 2013, so our number went from $9.4 million to $11.8 million, and we still grew operating margins by 170 basis points. And I think our EBITDA margins were 41.3% in the first quarter of 2014.

STERLING AUTY: So long those lines, it's been a couple of years now that you've had PORTIA and GlobeOp, specifically, in terms of acquisitions as part of the Company. Are all the synergies in terms of cost synergies done? Do you have the margins on those businesses where you expected to get them and is there anything left?

BILL STONE : Well, there's always something left. The business at GlobeOp was doing, I think about $209 million in revenue when we acquired them and about $60 million in EBITDA, so about a 28% margin when we acquired them. They are running close to 40% margins for us now and the revenue's up to over $240 million, so I think we're at about $100 million of EBITDA on GlobeOp.

On PORTIA, we've ticked the revenues up to almost $25 million from $21 million when we acquired them, and EBITDA has gone from something around $13 million, $40 million to about $24.5 million. So we think those are both great businesses.

We think that GlobeOp needed maybe a little more strategic direction, and we think that PORTIA just ne a little tender love and care. They have been on the market four years out of the past six. It's awful hard to keep morale up and keep people selling when everybody is asking who's your new parent going to be?

STERLING AUTY: Let's take a step back for those that don't know the Company as well. Can you give investors a sense of the mix of your business in terms of -- how much of the business is kind of SaaS delivery, how much of it is a BPO in terms of actually doing the fund accounting, etc. on behalf of your customers versus what's left that's still kind of a traditional perpetual software license model?

BILL STONE : Sure, so in the -- 2013, for instance, we had about $713 million in revenue. Our recurring revenue is about 92%. The SaaS part of it, which we label software-enabled services, is probably about 30%. The BPO part, which we use all of our own software, right, so we're not doing things that are -- we went through accounts payable for BPO, we went through accounts receivable. We do credit default swaps and statistical arbitrage and stuff like that from an accounting and information delivery standpoint.

That represents about 40% of our business. So those two combined are 72%, 73%. Maintenance is about $105 **million** and that's a traditional maintenance business off of licenses that we've sold over the 28 years of our existence. And then 4% -- about $28 **million**, I think, is licenses and about $30 **million** are implementation services and other consulting services.

STERLING AUTY: So within that -- now let's kind of talk a little bit about the competitive landscape for those businesses. Who are your primary competitors?

BILL STONE : Yes, you know, the great thing is we don't compete against Google ; we don't have Amazon. There's no monsters in what we're doing. Our major competitors when we're doing the work for people tend to be State Street , Bank of New York , Citco, J.P. Morgan , HSBC , [Head to Serve].

In software, we generally compete against Advent, SimCorp , SunGard , Eagle -- which is part of Bank of New York , and State Street again. They own Princeton Financial Systems . So those are kind of the two major sections that we compete against.

STERLING AUTY: So I think about your business in terms of the growth. It seems that you do extremely well in two situations. One, when assets are growing, whether that's the market and typically like -- take a look at last year, I think assets under management in the US across the asset classes were up like 16%. It seems like that's a great environment for you.

And the second phase is when you've made a major **acquisition**, which you have proven time and again to execute on. Is that a fair characterization and if so, how would you characterize the environment that we are in here for 2014 in terms of being supportive of your growth?

BILL STONE : I think those things are historically true. We've done a really good job with acquisitions. We drive a lot of synergies. I think that we are in some transformational stages. What I was saying about our sales force -- we have probably growing our sales force from maybe 70 to 110 over the last 18, 20 months. We're going to grow it from 110 to 150 over the next 2 or 3 quarters.

And I think that -- I just met a very senior guy from Goldman Sachs , retired, and he brought SS&C up to Perry Capital, which is one of the biggest hedge funds in the country, and also to Fortress, which is another huge hedge fund and private **equity** fund.

Neither one of them had heard of us. That's a problem, right. So I think -- now we need to figure out how to fix that problem. And if you listen to CNBC, when they come to see us, they can fix it for us. Of course, then our margins will go from 41% to 24%, so we're not sure we want them to fix it for us.

So it's figuring out how to do it in the most cost-effective way where you get the most bang for your buck on your marketing dollars. SS&C has got 1000 chartered accounts and CPAs. We are a bit skeptical of marketing, right? Part of it is my money, and I am one of those CPAs, so we're working on it.

I think we're going to get better known, and I think as we get better known, that is going to change. Because when we get a chance to show what we have -- our technology is better, our people are better, and our processes are better. Our pricing is not cheap, but we are not out of the world, either, so when we get a chance to show people, they say, where have you been?

So I think -- we won Ares, which was -- when we first started talking to Ares, they were $42 **billion**, $43 **billion** in assets. Now they are almost $70 **billion**. When we signed them, they were $55 **billion** or $56 **billion**. So there's a great advantage to winning very large organizations and what that's done to the marketplace about where we sit.

STERLING AUTY: The customers that you serve absolutely have to have something, otherwise they wouldn't be in business. So I would imagine that every time you go in, you are displacing something, whether it's in-house, third-party, etc.

How does that impact the sales cycles, because I'**m** thinking as you're talking about increasing the sales headcount, does that have any impact in terms of would you expect as you get better known that maybe those sales cycles would change?

BILL STONE : I don't necessarily think the sales cycles would change, but number of sales cycles that we are in will change. And so, just by -- right now, we have stuff coming in to the top of the funnel faster than we've ever had. Now what does that mean? Well, it means that some of them will close in 3 months, and some of them will close in 6 months, 9 months, 12 months, and so forth out to 24 months.

But since there are so many more of them, we should have more of an uplift in our revenue, and I think it will start manifesting itself over the next one to two years. I think we're going to continue to invest, and Goldman Sachs sold their fund administration business 1 1/2 years, 2 years ago to State Street .

When Goldman Sachs does one of those things, generally Morgan Stanley is just a year behind. In this case, they are two years behind, but they tend to be the leader and so there's a good chance that maybe Citi, maybe J.P. Morgan , maybe Morgan Stanley , or maybe some of the other big banks will decide -- HSBC -- will decide to shed their fund administration businesses and SS&C would be a natural acquirer.

STERLING AUTY: Outside of those fund administrators continuing to consolidate, are there other segments of the market that you see that are ripe for consolidation?

BILL STONE : We think that the technology landscape, as well, will also consolidate. So where there's Princeton Financial System , and State Street , and Eagle Development at Bank of New York , and Advent Software out in San Francisco, and SimCorp out in Copenhagen. There won't be that many, and we again would be natural acquirers for any those businesses.

We would get lots of synergies. We would bring lots of expertise to bear and there would be tremendous cross-selling opportunities. And most of those that I just mentioned, other than the big banks, but even inside the big banks, Eagle or Princeton is not used as an outsourcer, not used as a SaaS provider.

So the big advantage SS&C has done -- since 2002, we've really restructured our business models so where we are a large services component with our technology. So we have numbers of clients that pay us in excess of $15 **million** a year, some that pay us up to $40 **million** year.

You don't get that in software. You couldn't sell somebody a license for $40 **million** a year. That never happens. So the biggest software license I think we've ever sold is about $5 **million**.

STERLING AUTY: So when you think about the consolidation valuation, you've always been very disciplined in terms of the valuations that you've paid in terms of acquisitions through the years. Obviously, multiples have compressed in the market, but where are the heads at in terms of some of these private companies and in terms of how they view their own value? Has it adjusted yet, or do they still kind of have hopes of sky high valuations?

BILL STONE : I went and looked at a **company** in Minneapolis five or six weeks ago. Now it's $30 **million** in revenue, going to do $40 **million** in revenue in 2014. Really nice **company**. So the banker handed me a list of synergies -- kind of like this page of synergies. Couple, you know, four or five pages, and first page said in part of their business that we'd get synergies between -- over the next five years, between $395 **million** and $2.6 **billion**.

So I kind of flip through it like this and tossed it in the middle of the table and the guy said, don't you want to go through the synergies? And I kind of looked at him and said hey, you guys, I brought my own cocaine. (laughter)

So then when they asked are you going to bid, I said, look I don't want to insult anybody, but I'**m** not paying you 15 times sales. Now if you are selling cocaine and it was legal, maybe. But for accounting software for the investment world, we're not getting there.

And so you can only deal with people that have something that, at least in your sphere, is a rational price. And if it's not rational, then you are really sticking your neck out. It doesn't mean you can't make money, even if you pay it irrationally, but you better be perfect. And SS&C is a bunch of humans, which makes us not perfect.

STERLING AUTY: So when you look at where the business is today from a geographic standpoint, GlobeOp definitely bolstered your position internationally. Where do you feel you are in terms of that build out and where is the opportunities to go from here?

BILL STONE : We only get 2% or 3% of our revenue in Asia Pac. Over the next 3 years, we ought to move that up to maybe 10% or 12%, and given that we grow in the next 2 or 3 years, for, say, $1 **billion** maybe, we ought to be having $100 **million**. Right now it's about $15 **million** to $20 **million**.

So we are building out **Hong Kong**; we've hired some people -- some senior people. We are moving some people from Mumbai to **Hong Kong**. We've got some great clients in **Hong Kong** and they want us to have a bigger presence. We also have a nice little office in Singapore that we want to make bigger, so we think there's opportunity there. We would like to grow in Japan, but that's been very difficult -- very difficult place to grow in.

So we have a good office in Sydney. We have opportunities; it's just we have to execute.

STERLING AUTY: One more question along those lines. I want to bring the audience in. When you look at that -- is organic investment really what's going to be necessary, especially in Asia? Or are there assets that could help speed the penetration in terms of acquisition?

BILL STONE : Yes, there's some interesting things that you can buy. Obviously, we did GlobeOp, which was a publicly traded company in London, and we acquired Financial Models, which was a publicly traded company in Toronto. Buying a company in Australia or Japan I think will be somewhat problematic, just from the distance and the ability to spend enough time to get it done.

I spent hundreds of hours on GlobeOp. And I don't know that that opportunity would present itself going to Sydney, where it takes you a day to get there, takes you a day get back, and it takes you a month to recover. So I don't know that our -- but organically, I think there's real opportunity for us to grow.

And as we start growing organically, I think some entrepreneurs will come and want to be sold to us. Because a lot of times, we are able to buy their business at a pretty good price, give them a really nice employment contract with an equity upside, and they get two bites of the apple, and that's been very attractive to a number of the people that we have acquired over the last 15 years or so.

STERLING AUTY: I don't know. I could see a winter in Sydney, summer in the States type of management style. That might work out.

BILL STONE : That's right. Especially when I get my A380.

Questions and Answers

STERLING AUTY: Questions from the audience? Yes?

UNIDENTIFIED AUDIENCE MEMBER: It seems like the biggest beef I hear amongst the financial service clients is all the dollars they put into compliance and what have you. Are you looking at plays in that area as well, too, or --

STERLING AUTY: So how does compliance play into the business and the growth?

BILL STONE : Sure. We created something called a regulatory solutions group a couple years ago. We just went through our 200th client that we've gotten, and about over 40% of them weren't using us for anything and now are using us for regulatory compliance. We have a tremendous amount of expertise in things like Form PF, FATCA, AIFMD, CPO-PQR, Solvency II, Basel III.

So we have a whole group that that's all they do. And it sometimes is a little tension filled when you're with clients and they are saying you're making money off all this regulation. I always tell them is is that they are regulating you, they're not regulating me. So I'm here to help you if you want to use us to help you comply with the regulations, but we're not the ones being regulated.

UNIDENTIFIED AUDIENCE MEMBER: Are you guys considering all the fee thing -- I use a kind word -- that the marketplace is making them. What do you guys think of (inaudible - microphone inaccessible)?

BILL STONE : Yes, so the market opportunity in compliance and regulatory solutions -- we think the market is probably going to spend on average an additional $1 billion dollars a year, and that's probably on top of the $10 billion or $15 billion they already spend.

And we are up to pushing $20 million in revenue and we think over the next two or three or four years, we ought be able to double, triple that, maybe. And there's a lot of opportunity, it is just getting people comfortable and walking them through the process.

STERLING AUTY: Other questions? Yes?

UNIDENTIFIED AUDIENCE MEMBER: I think you did a great job at acquisitions. How you think about organic growth, both what's a reasonable target rate and what's the organic growth been the last few years?

STERLING AUTY: So what has your organic growth been in the last couple of years and what's a reasonable target going forward?

BILL STONE : Yes, the last couple of years we've been mid-single digits -- 5%, 6%, 7%, 8% each quarter. Before the financial crisis, we were running 13% to 18%. There's not much animal spirits out in the financial services industry right now. So you don't find a whole lot of formation.

I think the term insurance company formation might be an oxymoron. I think that very similar on [lonely] asset managers or also banks. So you are not going to get the kind of lift. And then we also used to get some lift, because our -- most of our contracts had kickers for maintenance renewals and other renewals -- CPI plus a few hundred, 200, 300 basis points.

That used to give us 5%, 6% rate increase and now it gets us 2% or 3% rate increase. So I mean, I think a reasonable rate on organic growth is 5% to 10% over the near term, which I would say 2 to 3 years.

If we hit the accelerants, I think we have, I think we might be able to move it to where it's 8% to 12%, but that's going to manifest itself on whether or not us hiring all of these new salespeople works out. We think it well, and we think the opportunities are there to grow faster.

STERLING AUTY: Other questions? Yes?

UNIDENTIFIED AUDIENCE MEMBER: Seems like one of the (technical difficulty) customer relationships that firms like State Street have already in place? And other places where you could be, I guess we call it the [nibbing] in certain places inside their opportunities or where are you focusing those (inaudible - microphone inaccessible)?

BILL STONE : Yes, the REITs opportunity really kind of came out of winning a large mandate from Western Asset Management. And they moved their REIT business from State Street to us.

Also, we pitch hard on internal control systems. So if State Street 's your fund administrator and your custodian, and they reconcile to each other, that's not too independent, right? So we push pretty hard on if it's your money and it's your business, why on earth wouldn't you have separation of duties? And other people talk about financing as being a real carrot.

But BlueCrest is our biggest client, and they were going to move $12.5 **billion** in assets to HSBC from GlobeOp, and we were told that before we bought GlobeOp, so we were well aware. But we convinced them not to move it, and I think because our processes, our people, and our technology is better and there is a $40 **million** organization in London that was between us and a major multi-trillion dollar bank.

And the CFO says look, we've had a 30 year relationship, I agree with you that you have better technology, better people, and better processes, but I'**m** sure if there's ever a problem in our derivatives, the bank will step up and use their balance sheet to solve it.

So I hadn't talked to them -- I called them and that was the feedback I had gotten and I said I understand that you're counting on the bank to step up if you have a problem on your derivatives. I said of course, you are the CFO, and you will have made a decision against going with the best technology, the best people, and the best processes.

So when there's that balance sheet being used -- which, I believe, they would use it, you won't be the CFO anymore. So they went with us. You've got to break these things down into practical terms. But you make that decision as a CFO. That's not a good decision, you know, and derivatives already have enough leverage in them that you don't want to take more risk in that operation; you want to take as little operational risk as possible.

STERLING AUTY: Yes?

UNIDENTIFIED AUDIENCE MEMBER: Following up to the organic question, it sounds like you're going to be putting a number of feet on the street in sales organizations, but you mentioned that the hedge fund community, kind of $8 **million**. How are you going to make sure that you bring these people in and they ramp-up productivity in an efficient manner?

BILL STONE : Well, we try to hire professionals, and we pay them well, and we have high expectations. And when they don't meet our expectations, we get different ones. And it's not that we don't train them -- we go through significant training in both role-playing and education on our products and -- but SS&C is not a place where you have 10017 in New York City. That is your ZIP Code. So we don't do it that way.

Your territory is Earth, right. You go find a **lead**, it's yours. Now somebody else already has that **lead**, we track that, and we manage that. But SS&C generates probably 70%, 80% of the leads, and so we don't want to have our best leads, say, be in Houston, and we have maybe a really weak sales person in Houston.

We wouldn't give that **lead** to the guy in Houston. We're going to give that **lead** to a guy in New York, or a guy in Chicago, or a gal in LA. We're not -- the best leads go to the best salespeople.

And the only time the best salespeople don't get the next best **lead** is because they are already full. They can't manage any more. That's our whole processes and it also leaves -- the ambitious people have a really big hunting territory and they really like that.

STERLING AUTY: Yes?

UNIDENTIFIED AUDIENCE MEMBER: Can you talk about your balance sheet? Where you are in terms of leverage and your thoughts on using cash flow going forward?

BILL STONE : Yes, we are at about 2.2 times levered, and when we bought GlobeOp and PORTIA, which we closed late June 2012, we were about 4.3 -- 4.3, 4.4, I think. So we've made more than two turns of leverage reduction since a little less than two years ago. We are very comfortable at the 2.2. We are generating free cash flow of over a couple of hundred million dollars a year.

Historically, we've paid down debt. Our debt carries a 3% weighted average coupon on it. Obviously that's pre-tax. So after tax, that's about 2%. I think the analysts have us at about $2.30 a share for this year. I think on $46, that $2.30 is 5%, right? So I'm not a financial wizard, but I think buying back our stock, where we get 5% return, is better than paying off our debt, which we are paying off 2% net debt.

So I think stock buybacks will be a larger part of what we do. And acquisitions are always going to be the lead, and we would lever back up if we got the right acquisition. And we levered 6.8 when we went private, and then we levered about 4.4 when we did PORTIA and GlobeOp.

I don't think that we would go back to 6.8, unless we thought we could make a boatload of money. But if we thought we could make a boatload of money, then we might. But more than likely, I would say high 4s, maybe to 5. And then that would have to be a great acquisition for us, too.

STERLING AUTY: Last question. You won some larger accounts. Can you talk to us about how they ramp, so how they phase in and what that does to your growth rate in the near term?

BILL STONE : Yes, we -- as I said earlier, right, we sent out a press release when we won Ares. Ares is probably 80% on the original contract with them, but probably less than 50% on the opportunity at Ares. So Ares is an extremely large opportunity for us.

And they've brought us three or four other very large private equity and hedge fund opportunities. We just signed Vertis; we signed several other ones that are quite large about the same time we signed Ares. The next quarter we signed Crescent, which is an $11 billion credit fund in LA.

The ramp-up is happening. It's happening -- it never happens as fast as you want, but we are getting very good at it. And we've gone from zero people in Los Angeles, 18, 19 months ago, to 75 now. So we are investing heavily in California, which is -- it's very robust for investment organizations right now. And we think we will start getting lift in the second -- over the next couple to three quarters.

I told you little bit about when we bought GlobeOp that we saved $12.5 billion from BlueCrest going to HSBC , but BlueCrest, pretty smart people on, they wanted the same pricing that HSBC had offered them, which, of course, that was about half their assets back in 2012.

So we did that. So we gave them a couple of basis points on that $12.5 billion, so that's about $2.5 million, $3 million. But BlueCrest is now $40 billion and we have all that. So it's been a very good negotiation for us.

STERLING AUTY: All right, with that, Bill, thank you so much for joining us. We appreciate it.

BILL STONE : Okay, Sterling, thank you.

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