

SS&C Technologies Holdings Inc
Form 10-Q
August 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 001-34675

SS&C TECHNOLOGIES HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware 71-0987913
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

80 Lamberton Road

Windsor, CT 06095

(Address of principal executive offices, including zip code)

860-298-4500

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

There were 201,137,804 shares of the registrant's common stock outstanding as of August 3, 2016.

SS&C TECHNOLOGIES HOLDINGS, INC.

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This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words “believes”, “anticipates”, “plans”, “expects”, “estimates”, “projects”, “forecasts”, “may” and “should” and similar expressions are intended to identify forward-looking statements. The important factors discussed under the caption “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission on February 29, 2016, among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. The Company does not undertake an obligation to update its forward-looking statements to reflect future events or circumstances.

Explanatory Note

On June 24, 2016, SS&C Holdings Technologies, Inc. completed a two-for-one stock split, effective in the form of a stock dividend. All share and per share amounts (other than for the Company's Class A non-voting common stock) have been retroactively restated for all periods presented to reflect the stock split.

PART I

Item 1. Financial Statements

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data) (Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$95,222	\$ 434,159
Accounts receivable, net of allowance for doubtful accounts of \$3,957 and \$2,957, respectively	239,428	169,951
Prepaid expenses and other current assets	32,598	27,511
Prepaid income taxes	39,319	40,627
Restricted cash	2,818	2,818
Total current assets	409,385	675,066
Property, plant and equipment:		
Land	2,655	2,655
Building and improvements	37,042	37,855
Equipment, furniture, and fixtures	112,436	97,274
	152,133	137,784
Less: accumulated depreciation	(82,576)	(70,641)
Net property, plant and equipment	69,557	67,143
Deferred income taxes	2,018	2,199
Goodwill (Note 3)	3,636,495	3,549,212
Intangible and other assets, net of accumulated amortization of \$634,518 and \$536,929, respectively	1,571,384	1,508,622
Total assets	\$5,688,839	\$ 5,802,242
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 2)	\$30,878	\$ 32,281
Accounts payable	20,033	11,957
Income taxes payable	—	1,428
Accrued employee compensation and benefits	55,836	83,894
Interest payable	22,386	28,903
Other accrued expenses	45,964	36,231
Deferred revenue	238,785	222,024
Total current liabilities	413,882	416,718
Long-term debt, net of current portion (Note 2)	2,569,971	2,719,070
Other long-term liabilities	61,915	51,434

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Deferred income taxes	478,641	509,574
Total liabilities	3,524,409	3,696,796
Commitments and contingencies (Note 8)		
Stockholders' equity (Note 5):		
Common stock:		
Class A non-voting common stock, \$0.01 par value per share, 5,000,000 shares authorized;		
0 and 2,703,846 shares issued and outstanding, respectively	—	27
Common stock, \$0.01 par value per share, 400,000,000 shares authorized; 201,849,586 shares		
and 193,104,452 shares issued, respectively, and 200,276,386 shares and 191,531,574 shares		
outstanding, respectively, of which 17,876 and 24,876 are unvested, respectively	2,018	1,932
Additional paid-in capital	1,859,124	1,793,149
Accumulated other comprehensive loss	(100,642)	(83,170)
Retained earnings	421,926	411,493
	2,182,426	2,123,431
Less: cost of common stock in treasury, 1,573,200 and 1,572,878 shares, respectively	(17,996)	(17,985)
Total stockholders' equity	2,164,430	2,105,446
Total liabilities and stockholders' equity	\$5,688,839	\$ 5,802,242

The accompanying notes are an integral part of these condensed consolidated financial statements.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data) (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	2015	June 30,	2015
	2016		2016	2015
Revenues:				
Software-enabled services	\$244,672	\$150,123	\$450,319	\$303,690
Maintenance and term licenses	103,392	38,978	198,512	78,952
Total recurring revenues	348,064	189,101	648,831	382,642
Perpetual licenses	5,039	12,948	10,254	16,018
Professional services	19,974	10,719	38,123	19,843
Total non-recurring revenues	25,013	23,667	48,377	35,861
Total revenues	373,077	212,768	697,208	418,503
Cost of revenues:				
Software-enabled services	146,243	88,548	259,971	177,150
Maintenance and term licenses	46,460	12,338	93,406	26,505
Total recurring cost of revenues	192,703	100,886	353,377	203,655
Perpetual licenses	643	1,021	1,141	2,045
Professional services	17,133	7,596	32,645	16,110
Total non-recurring cost of revenues	17,776	8,617	33,786	18,155
Total cost of revenues	210,479	109,503	387,163	221,810
Gross profit	162,598	103,265	310,045	196,693
Operating expenses:				
Selling and marketing	28,535	13,931	58,396	27,318
Research and development	40,827	17,520	77,274	37,128
General and administrative	27,199	13,463	57,894	30,763
Total operating expenses	96,561	44,914	193,564	95,209
Operating income	66,037	58,351	116,481	101,484
Interest expense, net	(32,846)	(5,419)	(65,935)	(11,019)
Other income (expense), net	12	(164)	(1,835)	(1,671)
Income before income taxes	33,203	52,768	48,711	88,794
Provision for income taxes	4,982	13,640	13,485	23,420
Net income	\$28,221	\$39,128	\$35,226	\$65,374
Basic earnings per share	\$0.14	\$0.23	\$0.18	\$0.39
Basic weighted average number of common shares				
outstanding	198,765	170,810	198,143	169,674
Diluted earnings per share	\$0.14	\$0.22	\$0.17	\$0.37
Diluted weighted average number of common and common				
equivalent shares outstanding	204,916	179,104	204,596	177,974

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Net income	\$28,221	\$39,128	\$35,226	\$65,374
Other comprehensive (loss) income, net of tax:				
Foreign currency exchange translation adjustment	(26,793)	22,808	(17,472)	(13,411)
Total comprehensive (loss) income, net of tax	(26,793)	22,808	(17,472)	(13,411)
Comprehensive income	\$1,428	\$61,936	\$17,754	\$51,963

The accompanying notes are an integral part of these condensed consolidated financial statements.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	For the Six Months Ended June 30,	
	2016	2015
Cash flow from operating activities:		
Net income	\$35,226	\$65,374
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	113,440	52,103
Stock-based compensation expense	27,913	8,314
Income tax benefit related to exercise of stock options	(23,760)	(5,065)
Amortization and write-offs of loan origination costs	5,312	2,874
Loss on sale or disposition of property and equipment	150	209
Deferred income taxes	(24,056)	(7,395)
Provision for doubtful accounts	1,257	299
Changes in operating assets and liabilities, excluding effects from acquisitions:		
Accounts receivable	(13,458)	(1,804)
Prepaid expenses and other assets	(1,516)	2,488
Accounts payable	7,870	(2,405)
Accrued expenses	(25,851)	(20,186)
Income taxes prepaid and payable	23,757	11,064
Deferred revenue	13,052	(5,148)
Net cash provided by operating activities	139,336	100,722
Cash flow from investing activities:		
Additions to property and equipment	(13,593)	(5,750)
Proceeds from sale of property and equipment	43	—
Cash paid for business acquisitions, net of cash acquired	(317,554)	(7,863)
Additions to capitalized software	(3,306)	(1,792)
Purchase of long-term investment	(1,000)	—
Net cash used in investing activities	(335,410)	(15,405)
Cash flow from financing activities:		
Repayments of debt	(155,325)	(174,000)
Proceeds from exercise of stock options	19,212	8,735
Withholding taxes related to equity award net share settlement	(4,615)	—
Income tax benefit related to exercise of stock options	23,760	5,065
Proceeds from common stock issuance, net	—	717,866
Purchase of common stock for treasury	(11)	—
Payment of fees related to refinancing activities	(222)	—
Dividends paid on common stock	(24,790)	(21,101)
Net cash (used in) provided by financing activities	(141,991)	536,565
Effect of exchange rate changes on cash and cash equivalents	(872)	(1,651)
Net (decrease) increase in cash and cash equivalents	(338,937)	620,231
Cash and cash equivalents, beginning of period	434,159	109,577
Cash and cash equivalents, end of period	\$95,222	\$729,808

The accompanying notes are an integral part of these condensed consolidated financial statements.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1—Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These accounting principles were applied on a basis consistent with those of the audited consolidated financial statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission (the “SEC”) on February 29, 2016 (the “2015 Form 10-K”). In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments, except as noted elsewhere in the notes to the condensed consolidated financial statements) necessary for a fair statement of its financial position as of June 30, 2016, the results of its operations for the three and six months ended June 30, 2016 and 2015 and its cash flows for the six months ended June 30, 2016 and 2015. These statements do not include all of the information and footnotes required by GAAP for annual financial statements. The financial statements contained herein should be read in conjunction with the audited consolidated financial statements and footnotes as of and for the year ended December 31, 2015, which were included in the 2015 Form 10-K. The December 31, 2015 consolidated balance sheet data were derived from audited financial statements but do not include all disclosures required by GAAP for annual financial statements. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the expected results for any subsequent quarters or the full year.

Reclassifications

In connection with the acquisition of Advent and the related increase in term license revenues, the Company condensed its presentation of revenues on its Condensed Consolidated Statements of Comprehensive Income to illustrate its two types of revenue streams: recurring revenues and non-recurring revenues. Recurring revenues consist of software-enabled services and maintenance and term licenses. Non-recurring revenues consist of professional services and perpetual licenses.

The Company’s prior presentation required that revenues from term license agreements be allocated between license revenue and maintenance revenue, with the license portion being reported together with revenue from perpetual license agreements as “Software licenses”, and the maintenance portion being reported together with maintenance revenue related to perpetual licenses as “Maintenance”. The Company reclassified \$3.1 million and \$7.4 million from “Software licenses” to “Maintenance and term licenses” for the three and six months ended June 30, 2015, respectively. In connection with the reclassification of revenues, the Company reclassified the related costs of revenues, which were immaterial. The revised presentation better illustrates the nature of the Company’s revenues and costs of revenues by indicating the recurring nature of the license portion of revenue from term license agreements. The Company has not changed its accounting methods for revenue recognition.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU is intended to simplify several aspects of the accounting for share-based payment transactions,

including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The provisions of this ASU are effective for years beginning after December 15, 2016. Early application is permitted. The Company is currently evaluating the impact of this ASU.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU would require lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date; (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting is largely unchanged under the amendments of this ASU. The provisions of this ASU are effective for years beginning after December 15, 2018. The Company is currently evaluating the impact of this ASU.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This ASU establishes specific guidance to an organization's management on their responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern. The provisions of ASU 2014-15 are effective for interim and annual periods beginning after December 15, 2016. This ASU is not expected to have an impact on the Company's financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The objective of ASU 2014-09 is to clarify the principles for recognizing revenue by removing inconsistencies and weaknesses in revenue requirements;

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

providing a more robust framework for addressing revenue issues; improving comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; and providing more useful information to users of financial statements through improved revenue disclosure requirements. On August 12, 2015, the FASB issued ASU No. 2015-14, deferring the effective date by one year for ASU No. 2014-09. The provisions of ASU No. 2014-09 will be effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted for annual periods beginning after December 15, 2016. The Company is currently evaluating the impact of this standard on its financial position, results of operations and cash flows.

Note 2—Debt

At June 30, 2016 and December 31, 2015, debt consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Senior secured credit facilities, weighted-average interest rate		
of 3.91% and 3.94%, respectively	\$2,064,675	\$ 2,220,000
5.875% senior notes due 2023	600,000	600,000
Unamortized original issue discount and debt issuance costs	(63,826)	(68,649)
	2,600,849	2,751,351
Less current portion of long-term debt	30,878	32,281
Long-term debt	\$2,569,971	\$ 2,719,070

Fair value of debt. The carrying amounts and fair values of financial instruments are as follows (in thousands):

	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Senior secured credit facilities	\$2,064,675	\$2,059,770	\$2,220,000	\$2,202,105
5.875% senior notes due 2023	600,000	613,500	600,000	616,500

The above fair values, which are Level 2 liabilities, were computed based on comparable quoted market prices. The fair values of cash, accounts receivable, net, short-term borrowings, and accounts payable approximate the carrying amounts due to the short-term maturities of these instruments.

Note 3—Goodwill

The change in carrying value of goodwill as of and for the six months ended June 30, 2016 is as follows (in thousands):

Balance at December 31, 2015	\$3,549,212
2016 acquisitions	99,494
Adjustments to prior acquisitions	(398)
Effect of foreign currency translation	(11,813)
Balance at June 30, 2016	\$3,636,495

Note 4—Earnings per Share

Earnings per share (“EPS”) is calculated in accordance with the relevant standards. Basic EPS includes no dilution and is computed by dividing net income available to the Company’s common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income by the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares consist of stock options, stock appreciation rights (“SARs”), restricted stock units (“RSUs”) and restricted stock awards (“RSAs”) using the treasury stock method. Common equivalent shares are excluded from the computation of diluted earnings per share if the effect of including such common equivalent shares is anti-dilutive because their total assumed proceeds exceed the average fair value of common stock for the period. The

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

Company has two classes of common stock, each with identical participation rights to earnings and liquidation preferences, and therefore the calculation of EPS as described above is identical to the calculation under the two-class method.

The following table sets forth the weighted average common shares used in the computation of basic and diluted EPS (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Weighted average common shares outstanding — used in				
calculation of basic EPS	198,765	170,810	198,143	169,674
Weighted average common stock equivalents — options and				
restricted shares	6,151	8,294	6,453	8,300
Weighted average common and common equivalent shares				
outstanding — used in calculation of diluted EPS	204,916	179,104	204,596	177,974

Weighted average stock options, SARs, RSUs and RSAs representing 7,304,581 and 4,122,738 shares were outstanding for the three months ended June 30, 2016 and 2015, respectively, and weighted average stock options, SARs, RSUs and RSAs representing 7,075,350 and 4,119,018 for the six months ended June 30, 2016 and 2015, respectively, but were not included in the computation of diluted EPS because the effect of including them would be anti-dilutive.

Conversion of Class A Common Stock. On March 30, 2016, William C. Stone converted 2,703,846 shares of Class A non-voting stock into 2,703,846 shares of common stock. Each share of Class A non-voting common stock converted automatically into one share of the Company's common stock upon the expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Dividends. In 2016, the Company paid a quarterly cash dividend of \$0.0625 per share of common stock on March 15, 2016 and June 15, 2016 to stockholders of record as of the close of business on March 7, 2016 and June 1, 2016, respectively, totaling \$24.8 million.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

Note 5—Equity and Stock-based Compensation

On May 25, 2016, the Company's Board of Directors approved a two-for-one stock split to be effected in the form of a stock dividend. The record date for the stock split was June 7, 2016 and the payment date was June 24, 2016. All share and per share amounts (other than for the Company's Class A non-voting common stock) have been retroactively restated for all periods presented to reflect the stock split.

At the Company's annual meeting of shareholders held on May 25, 2016, the Company's shareholders approved the Company's Amended and Restated 2014 Stock Incentive Plan (the "Amended 2014 Plan"). The primary changes to the Amended 2014 Plan are to (i) increase the shares available for equity awards by 24 million shares and (ii) add flexibility to use this plan as the Company's only equity plan by authorizing the issuance of full-value awards (that is, restricted stock and restricted stock units) and expanding the class of participants to include non-employee directors. Following the approval of the 2014 Amended Plan, the Company will no longer make grants under the Company's 2008 Stock Incentive Plan or the Company's 2006 Equity Incentive Plan.

Total stock options, SARs, RSUs and RSAs. The amount of stock-based compensation expense recognized in the Company's Condensed Consolidated Statements of Comprehensive Income for three and six months ended June 30, 2016 and 2015 was as follows (in thousands):

Statement of Comprehensive Income Classification	Three Months		For the Six	
	Ended June 30,	Ended June 30,	Months Ended	Months Ended
	2016	2015	2016	2015
Cost of software-enabled services	\$2,779	\$1,525	\$5,184	\$3,129
Cost of maintenance and term licenses	700	101	1,511	202
Cost of recurring revenues	3,479	1,626		