



# The Advisory Board Company

The First Place the World's Great Health Care Organizations  
Turn to Solve Their Most Complex Challenges

30th Annual J.P. Morgan Healthcare Conference  
January 2012

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# Investment Thesis

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1. Uniquely Positioned in Today's Environment
2. Powerful Economic Model
3. Multiple Avenues of Growth
4. Strong Financial Performance



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## Uniquely Positioned in Today's Environment

# Unparalleled Standing as Industry's Trusted Advisor

## Built over 30+ Years



### Large, Prestigious Membership Base

- ~3,200 member institutions around the globe
- All 14 of the U.S. News & World Report honor roll hospitals
- 99 of the 100 largest health systems
- Meaningful relationships at all levels of the org chart

### World-Class Insight and Intellectual Property

- Powerful research engine focused on most important, common issues
- Institutional expertise on all aspects of highly complex industry
- Knowledge base of 35K+ best practices
- Growing data asset comprising data on 33% of all U.S. inpatient admissions



### Deep Connections Throughout the Industry

- 3,200 CEOs
- 12,000+ Senior Executives
- 13,000+ Product Leaders
- 40,000+ Line Managers

# A Singular Moment in Health Care

“Perfect Storm” Creates Tremendous Opportunity

## Market Factors

- Health care reform
- 31 million newly insured
- New payment structures
- Increasing cost pressure
- Aging baby boomers



## Health System Imperatives

- Physician alignment
- Care coordination
- I.T./operational efficiency
- Revenue cycle enhancements
- Transition to value-based approach

*Disruptive Change*

*Delivery System Reform*



Intense need for Advisory Board  
research, software, and services

# Insight-Driven Standardized Offerings

## Key Attributes of Our 50+ Discrete Programs

- Distinct executive constituencies
- Separate agendas/performance metrics
- 12-36 month renewable memberships
- All-inclusive annual fees

## Representative Programs

### Research Programs

- Health System Strategy
- Financial Strategy
- Clinical Operations
- IT Strategy
- Oncology Planning
- Marketing & Planning
- Nursing Executive Program
- Clinical Technology Assessment
- Revenue Cycle Performance

### Software-Based Programs

- Revenue Integrity Performance (RAC)
- Workforce Performance
- Quality Performance
- Physician Management
- Supply Chain Performance
- Surgery Performance
- Payment Integrity Performance

### Management and Advisory Services Programs

- Clinical Integration
- Practice Management
- Revenue Cycle
- Service Line Growth

# Research Memberships That Inflect Performance



## Multiple Channels for Best Practice Insight

### Reports and Briefings

- 40+ reports
- 240,000+ studies distributed
- 250+ briefs

### Meeting and Teleconferences

- 180+ member presentations
- 2,600 onsites
- 130+ topics

### Access to Experts

- Real-time access to expert research staff
- 3,000+ customized reports
- 2,200 technology assessments

### Implementation Toolkits

- 80,000+ online users
- Extensive library of best practices
- 300+ online meetings

### Online Tools

- 19,000+ decision support users
- 200 online tools



20+ National member meetings

15+ Executive-only national meetings

3,500 Attendees at national meetings

### Outstanding Member Feedback:

“Really framed the strategic questions we face. You’ve captured a lot of information quickly especially considering the rate of change in health care. This was the most useful program I’ve attended in my career. Bravo!”

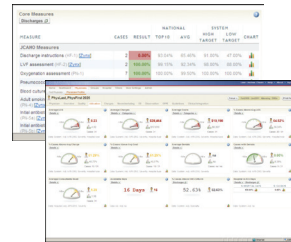
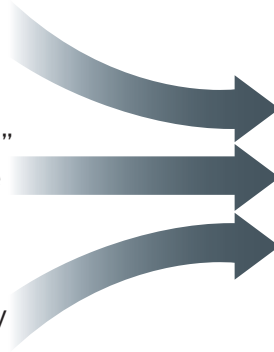


# Impactful “Right-Answer” Software

Advisory Board  
Insight on Key  
Metrics

Heretofore “Siloed”  
Data from Multiple  
Member Source  
Systems

Proven Technology  
Platform

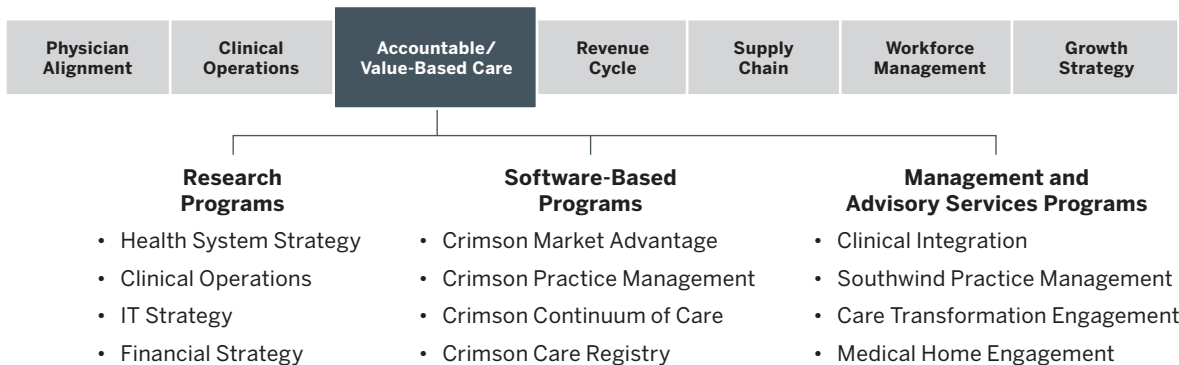


World-Class Analytics  
Delivered through Hosted  
Applications to Executives,  
Managers, and Front Line Staff

## Ensuring Success Via Wrap-Around Support

- Dedicated Advisor
- User Training/Enfranchisement
- Annual User Summit
- ROI Toolkits
- Cohort Benchmarking
- Case Studies/White Papers

# Providing Returns Across All Key Health System Verticals



## Driving Deep Value



Memorial Hermann Healthcare System is working with us through these programs to drive impact in their work with more than 2,000 physicians in this issue area.

- 15 percent improvement on ALOS
- 2 percent improvement on 30-day readmissions
- 14 percent improvement on mortality rates
- Savings of more than \$3.5 M

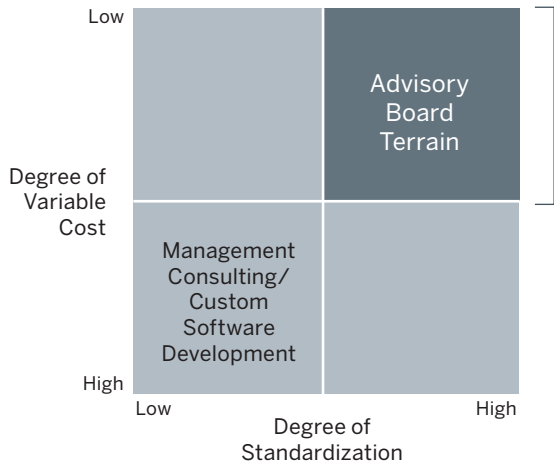


# Powerful Economic Model

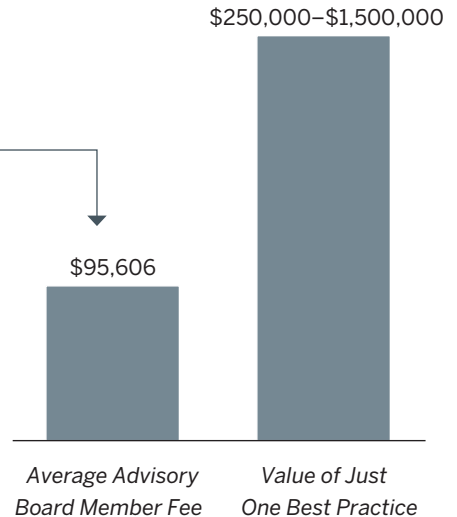
# Offering a Unique Value Proposition



Focusing On  
the Standardized Terrain...

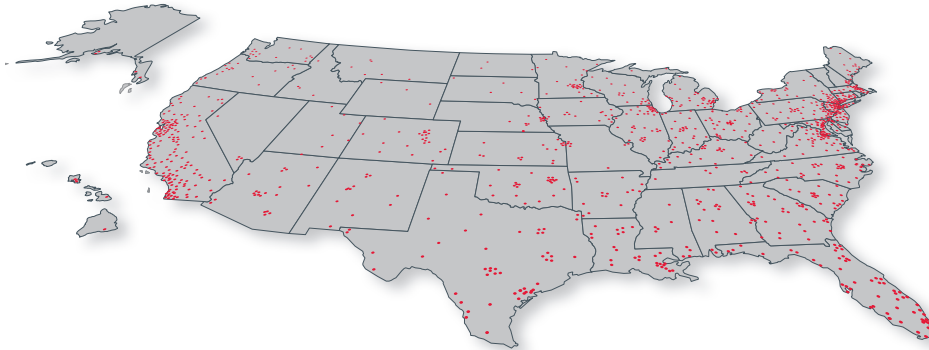


...Establishes Compelling  
Member ROI



# Delivering Measurable Results

## Driving Bottom Line Impact



**FAIRVIEW SOUTHDALE** used the Surgery Performance Program to reduce physician variation in supplies, realizing nearly **\$500 K** in annualized savings

**WELLSPAN** used the Revenue Cycle Performance Program to identify and re-bill lost accounts yielding **\$1.4 M** incremental revenue in 100 days

**JOHNS HOPKINS BAYVIEW MEDICAL CENTER** used Nursing Operations Performance Program to eliminate **\$1 M** in premium labor

**FAIRVIEW HOSPITAL** used Crimson to reduce Medicare length of stay for annualized savings of **\$2.5 M**

**HENRY FORD MACOMB HOSPITAL** used Crimson to help physicians improve LOS and resource utilization, achieving annualized savings of over **\$800 K**

**ST. MARY MEDICAL CENTER** used Crimson to improve Core Measures compliance, resulting in \$500 K of pay-for performance incentive payments

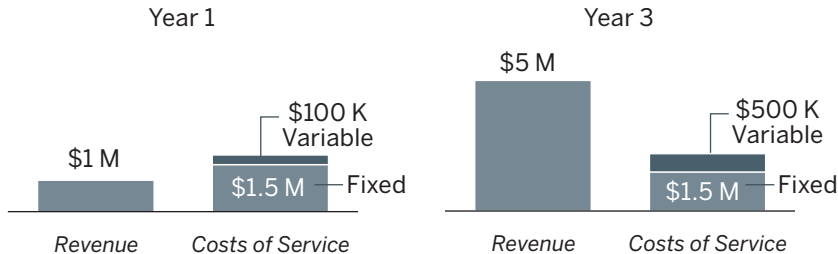
**SOUTHEASTERN REGIONAL** used the Revenue Cycle Performance Program to reduce denials yielding **\$5.4 M** of incremental revenue

**ACADEMIC MEDICAL CENTER** Used our best practice research to mount aggressive contracting negotiations on implants which yielded **\$1M** in savings

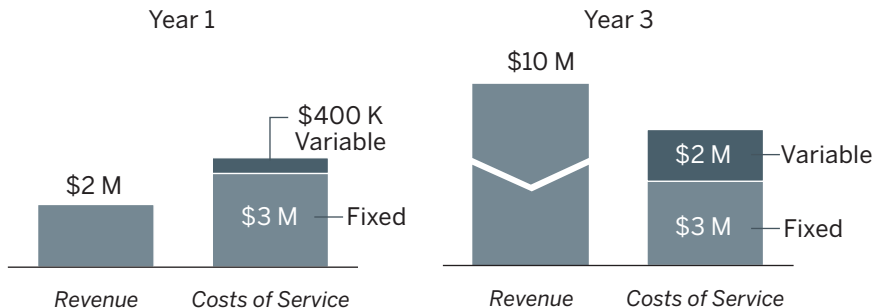
# Scalable Program Economics



## Research Memberships Economic Profile



## Software-Based Memberships Economic Profile



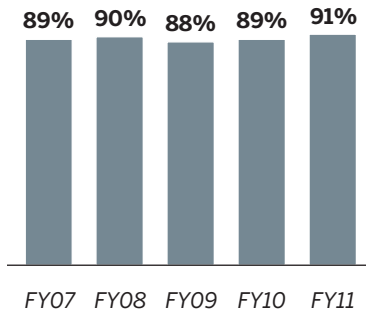
Beyond Year 3

- ✓ Largely fixed-cost programs; low variable costs
- ✓ Considerable margin growth potential as programs continue to scale in out years

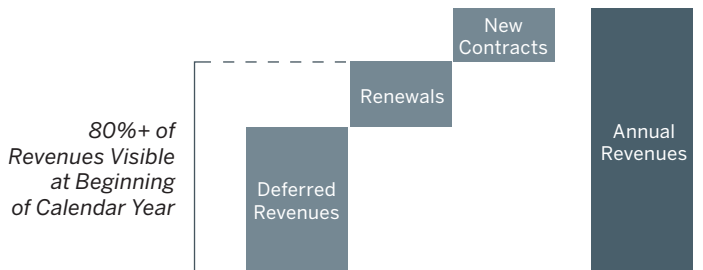
# Predictable Renewals Yield Strong Visibility



## Member Renewal Rate



## Composition of Annual Revenues





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## Multiple Avenues of Growth

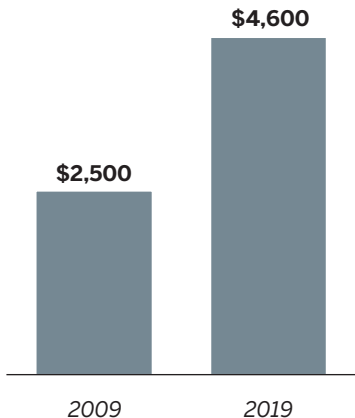


# Serving Large and Growing Markets

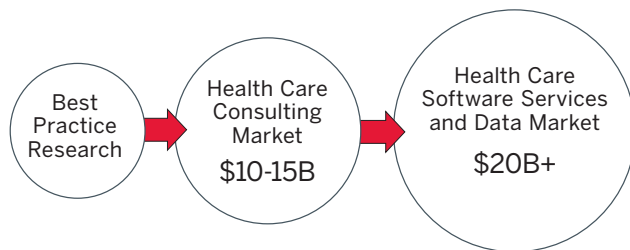


## A Growing \$2.5 Trillion Industry

*National Health Expenditure Projections*  
(Billions)



## New Services Expand Addressable Market



Source: Health Affairs, doi: 10.1377/hlthaff.2010.0788 (Published online September 9, 2010).

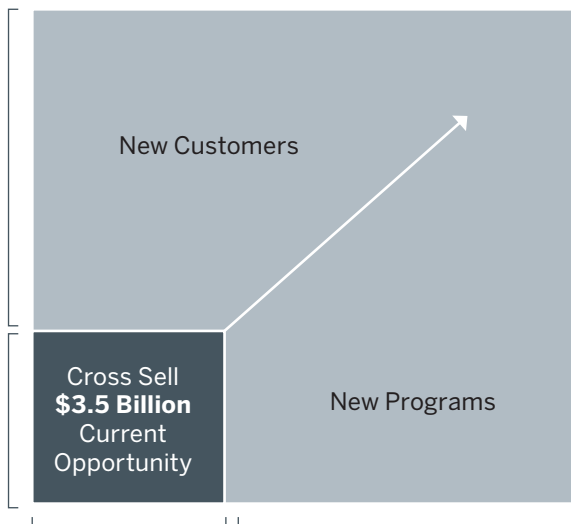
# A Compelling Opportunity



## ~15,000 Immediate Prospects

- U.S. Hospitals
- Other U.S. Health Care
- International Hospitals
- U.S. Education
- International Education

## ~3,200 Current Members



## 50+ Current Programs

## New Program Launches

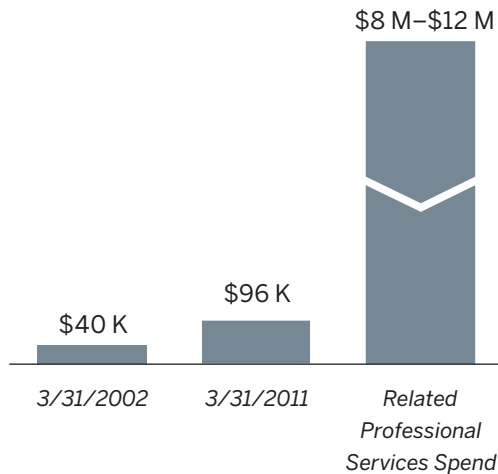
- New Research Programs
- New Software-Based Programs
- New Management/Advisory Services Programs
- New Data Programs

# Cross-Selling to Grow Relationships



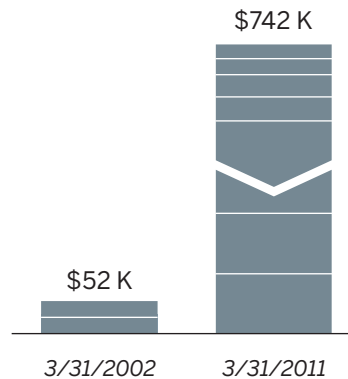
## Average Advisory Board Spend

*Per Member*



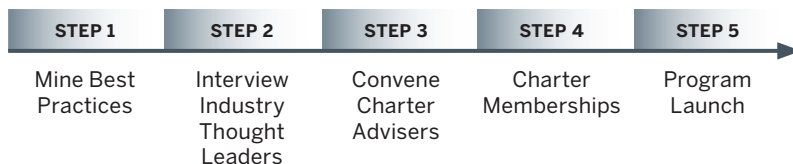
## Cross-Sell Opportunity Case Study

*300-Bed Community Hospital*



# Proven New Program Development Engine

## Standardized Evaluation Process



25

New programs under evaluation

\$250,000

Average pre-launch development cost

15-20

Industry leaders as charter members

### Recent Launches

- Crimson Market Advantage
- Crimson Practice Management Program
- Front-End Denials Management Program
- Crimson Care Registry
- Employee Health Performance Program

### Representative Charter Members

- Alta Bates Summit Medical Center
- Baylor Healthcare System
- Brown University
- Fairview Hospital-Cleveland Clinic
- Georgetown University
- Massachusetts General Hospital
- Medical Center of Central Georgia
- Memorial Hermann Healthcare
- Seton Family of Hospitals
- Spectrum Health Hospitals

# Strategic Acquisitions Expand Capabilities

## Leveraging Our Research Engine

Regular course of research surfaces key areas of member need, as well as innovative and distinctive best practice solutions

- 3,200 members
- 550+ researchers
- 2,000+ conversations daily
- 100+ member meetings per year



## Applying Rigorous Acquisition Criteria

- ✓ Fit with long-term growth strategy
- ✓ Important member terrain, with clear decision maker for purchase
- ✓ Complementary technology platform
- ✓ Hardwires research-proven best practices
- ✓ Attractive economics

### Recent Acquisitions

**crimson**

**Cielo**  
MedSolutions

  
**SOUTHWIND**  
HEALTH PARTNERS

  
**PivotHealth**

**CONCUITY**

# Entering New Markets



## Education

- Fragmented sector with common set of complex issues
- Research ethic, willingness to collaborate
- Existing relationships with academic institutions
- 2,000+ potential partners in North America

Current members include:

- *Brown University*
- *University of California at Berkeley*
- *Duke University*
- *Wake Forest University*



## International

- Growing health care spending and common operational issues
- Large appetite for lessons from U.S. health care
- Nascent data and analytics need in global health care systems
- 1,500+ potential partners in key international markets

Current members include:

- *Cambridge University Hospitals*
- *NHS Foundation Trust*
- *Aga Khan Health Service*
- *University Hospital Zurich*
- *Royal Prince Alfred Hospital*



## Non Provider Health Care

- High interest in provider issue set by non-provider health care companies
- Growing data asset a platform for potential new products
- Need for sales training and product development advice
- 2,000+ potential partners in key segments

Current members include:

- *GE Healthcare*
- *Medtronic, Inc.*
- *Eli Lilly*
- *Pfizer*



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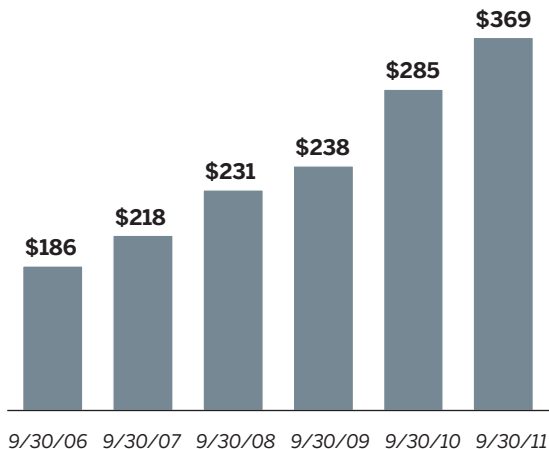
## Strong Financial Performance

# Consistent Contract Value Growth



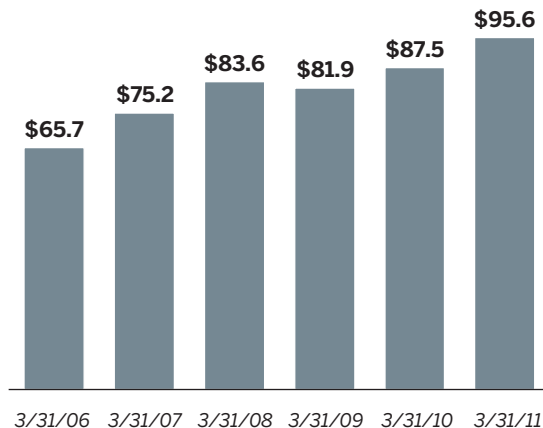
## Contract Value

(Millions)



## Contract Value per Member

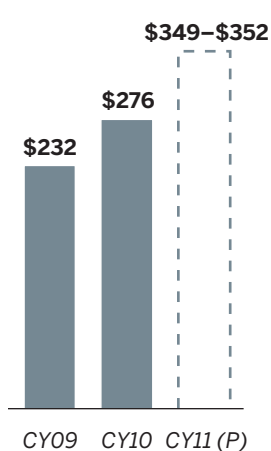
(Thousands)





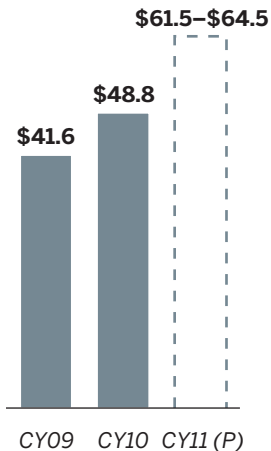
# Financial Performance

Revenue  
(Millions)



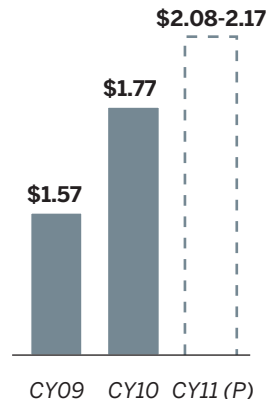
26-27%

Adjusted EBITDA\*  
(Millions)



26-32%

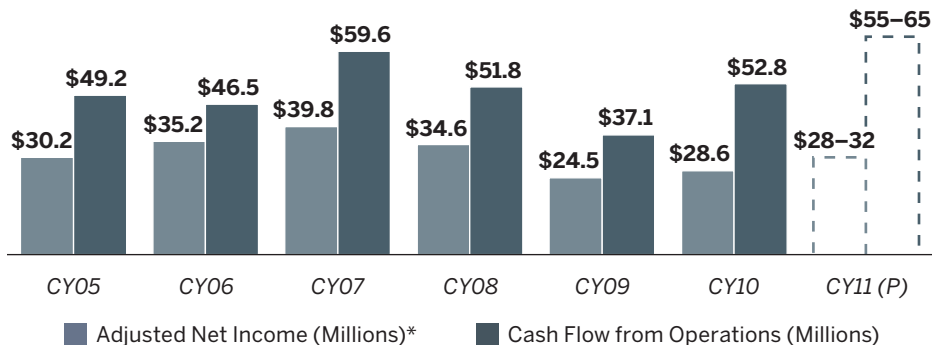
Adjusted EPS\*



18%-23%

\* Adjusted EBITDA excludes share-based compensation expense and certain one-time charges. Adjusted EPS excludes share-based compensation expense, amortization from acquisitions, and certain one-time charges. Please refer to the Appendix for a reconciliation to GAAP results.

# Robust Cash Flow



- Cash flow substantially exceeds adjusted net income
- 100% self-funded growth; no debt
- Repurchased >\$315 million worth of shares since 2004
- Utilized >\$90 million for acquisitions since 2008
- Currently ~\$7 per share of cash on Balance Sheet

\* Net income has been adjusted to exclude share-based compensation expense, acquisition-related amortization, and certain one-time charges. Please refer to the Appendix for a reconciliation to GAAP results.

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# Appendix

	CY2009	CY2010
Net Income	10,286	18,465
One-Time QHTC Charge	-	-
Share-based Compensation Expense, Net of Tax	7,348	5,851
Acquisition-Related Depreciation and Amortization, Net of Tax	774	2,612
Costs Related to the Acquisition of Concuity, Net of Tax	-	738
Adjustment to Fair Value of Acquisition-Related Earn Out Liability, Net of Tax	-	962
One-time Write-off of Capitalized Software, Net of Tax	4,860	-
One-time Option Cancellation Charge, Net of Tax	1,273	-
<b>Adjusted Net Income</b>	<b>24,541</b>	<b>28,628</b>

	CY2009	CY2010
Net Income	10,286	18,465
Other Income, Net	(1,860)	(1,469)
Depreciation and Amortization	6,807	5,672
Acquisition-Related and Other Depreciation and Amortization from Cost of Services	1,156	4,328
Provision for Income Taxes	5,005	10,149
Share-Based Compensation Expense	10,919	9,071
Costs Related to the Acquisition of Concuity	-	1,123
Adjustment to Fair Value of Acquisition-Related Earn Out Liability	-	1,500
One-Time Write-Off of Capitalized Software	7,397	-
One-time Option Cancellation Charge	1,937	-
<b>Adjusted EBITDA</b>	<b>41,647</b>	<b>48,839</b>

	CY2009	CY2010
GAAP earnings per diluted share	0.66	1.14
	-	-
Share-based Compensation Expense, Net of tax	0.47	0.36
Acquisition-Related Depreciation and Amortization, Net of tax	0.05	0.16
Costs related to the Acquisition of Concuity, Net of tax	-	0.05
Adjustment to Fair Value of Acquisition-Related Earn-out Liability, net of tax	-	0.06
One-time Write-off of Capitalized Software, Net of tax	0.31	-
One-time Option Cancellation Charge, Net of Tax	0.08	-
<b>Adjusted earnings per diluted share</b>	<b>1.57</b>	<b>1.77</b>



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