

# Advent Software, Inc.

## Investor Presentation

November 2006

Advent Investor Relations

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# Overview and Strategy

Market

Solutions

Financials

The forward looking statements included in this presentation, which reflect management's best judgment based on factors currently known, involve risks and uncertainties, and our actual results may differ materially from those discussed here. These risks and uncertainties include potential fluctuations in results and future growth rates, the successful development and market acceptance of new products and product enhancements, continued uncertainties and fluctuations in the financial markets, and other risks detailed from time to time in our SEC reports including, but not limited to, our annual report on Form 10-K and quarterly reports on Form 10-Q.

**To strengthen and grow Advent's franchise as the leading provider of mission critical products and services for the investment management industry**

# Advent Company Snapshot

- Founded by current CEO in 1983; IPO on Nasdaq in 1995
- 2005 financial performance:
  - ▶ \$169 million in revenues
  - ▶ 9% pro forma operating profit
  - ▶ \$37 million in operating cash flows
  - ▶ \$23 million in term contract bookings
    - Only 10% recognized as revenue in 2005
  - ▶ R&D spending of \$30 million or 18% of revenue
- \$61 million in cash and equivalents; no debt
  - ▶ Operating cash flow of ~ \$10-\$12M per quarter and growing
- Over 80% of revenue from recurring sources
- 4,500 clients worldwide
- \$12 trillion in assets managed on Advent's systems in over 60 countries
- Active share repurchase programs:
  - ▶ 7.6 million shares repurchased in past two years
  - ▶ New program approved July 2006 for another 1.5 million shares (888k remain)

- **Critical changes over the past two years:**
  - ▶ Operating loss to an operating profit
  - ▶ Transition to term licensing
  - ▶ Restructured to a market-focused organization
  - ▶ Successful introduction of Advent Portfolio Exchange (APX) platform
  - ▶ Doubled the number Geneva clients sold to date
  - ▶ Robust annual product refresh cycle
  - ▶ Return to 5-10% annual price increases
  - ▶ Client renewal rate returned to ~ 90%

# Experienced Management Team



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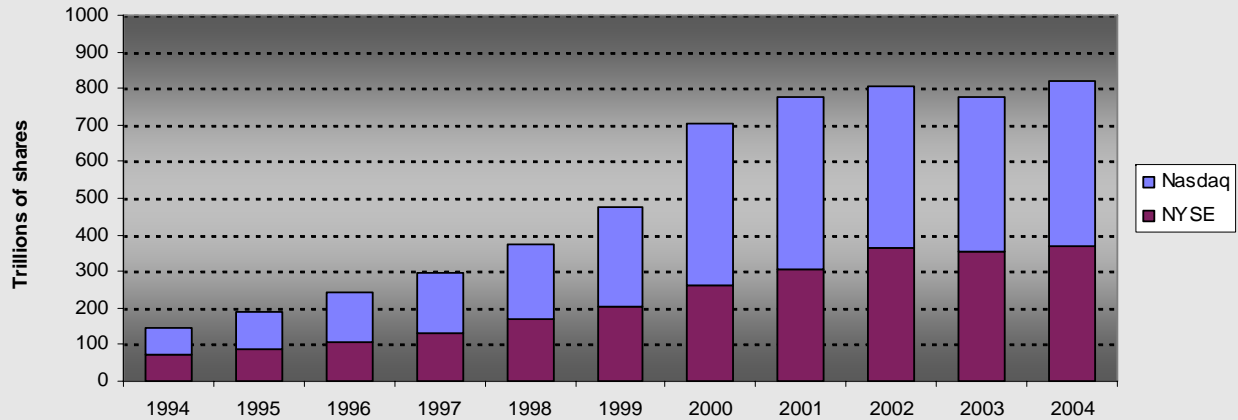


- Alternative investment market growing
- Buy vs. build mix shifting towards *buy*
  - ▶ 50:50 in 2001
  - ▶ Estimated to be 60:40 by 2008

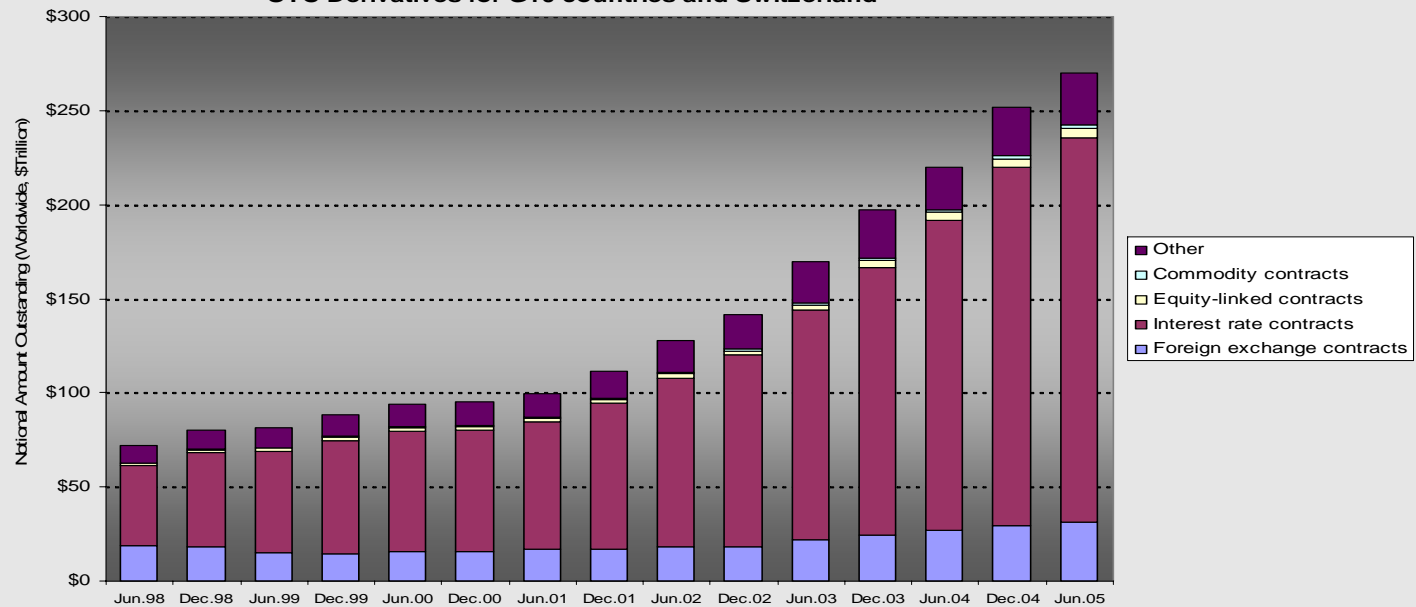
(source: TowerGroup)
- Tightening regulatory environment
- Industry consolidation
- Growth in complexity and volumes of trading
  - ▶ Drives increasing need for automation
- Long-term international trends
  - ▶ Management of stored wealth is moving away from governments, large banks and corporations

# Trading Volumes and Alternative Assets Growing

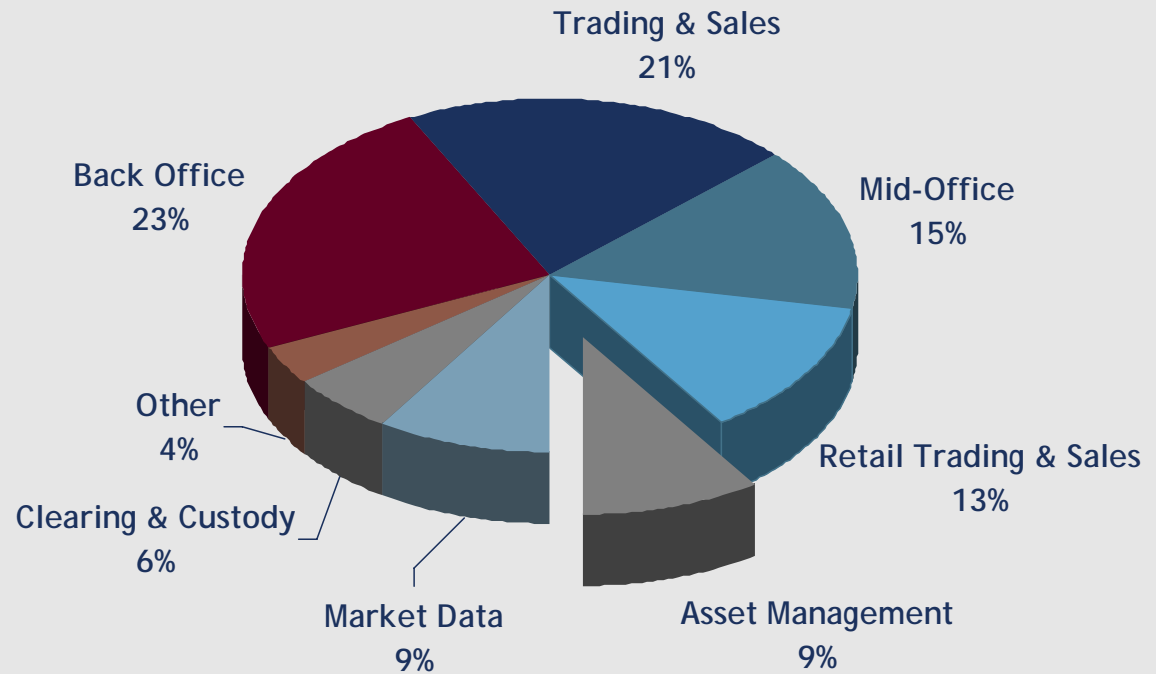
Yearly Share Volumes



OTC Derivatives for G10 countries and Switzerland

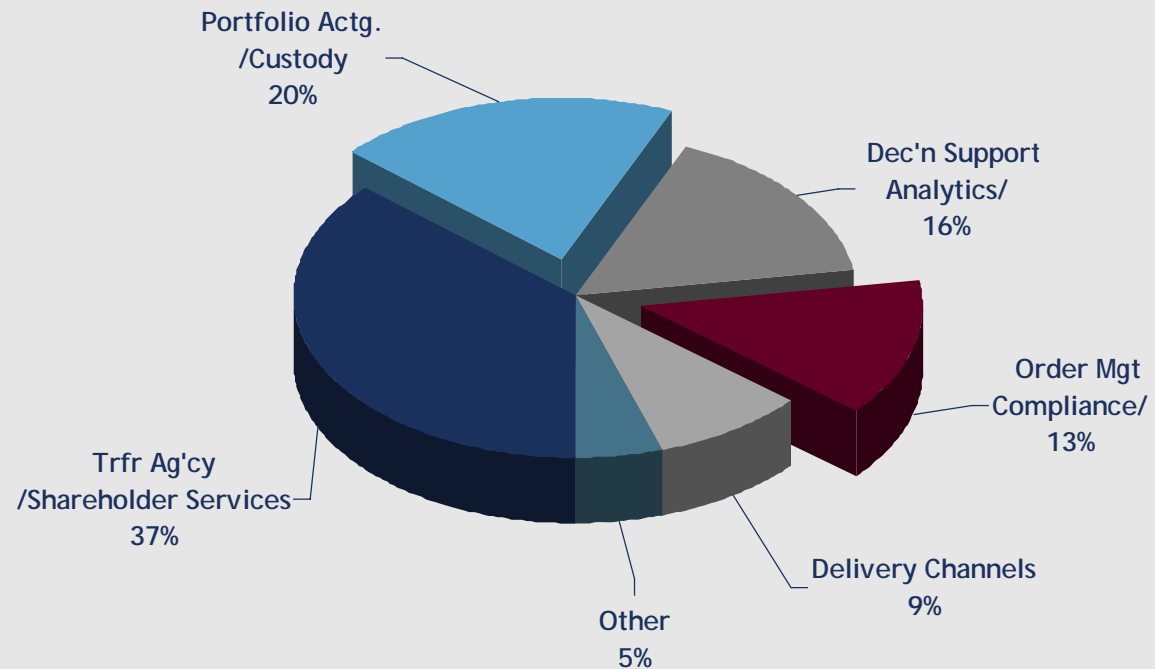


Source: Bank for International Settlement Semi-annual OTC derivatives statistics, May 2006.



Of the \$71 billion in total annual securities industry IT spending, 9% (\$6.7 billion) can be classified as Asset Management

*\*TowerGroup Research: Viewpoint Issues 88 and 89, May 2004. To be updated this May, 2006.*

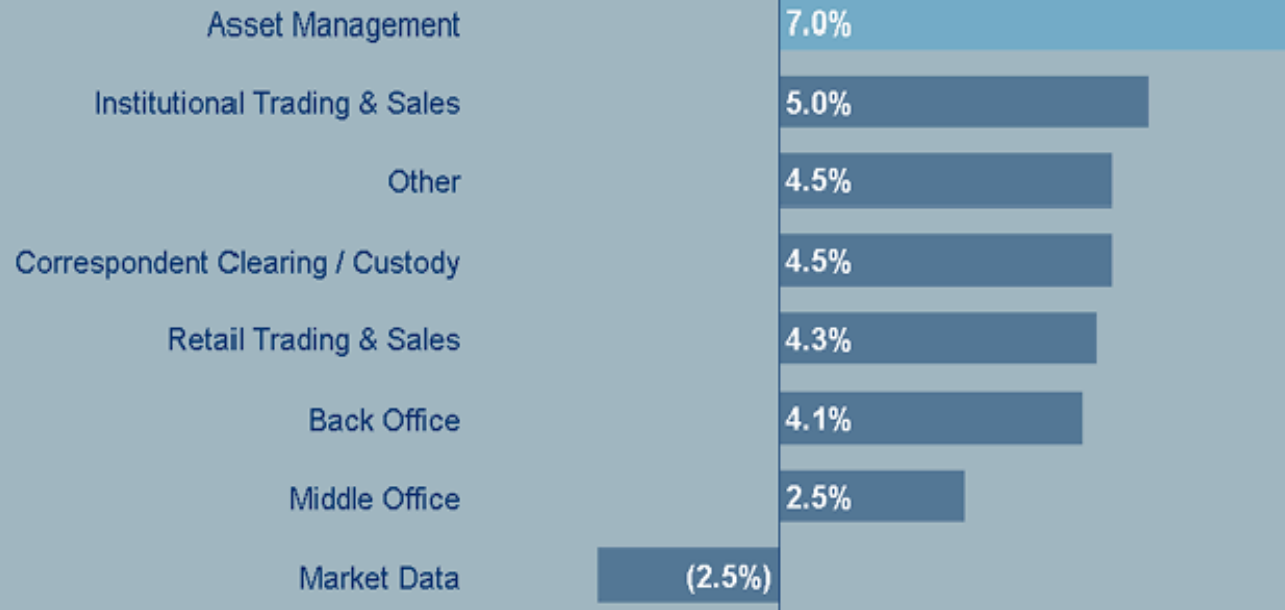


Of the \$6.7 billion annual spend on Asset Management, Advent's proven core competencies of Portfolio Accounting and Trade Order Management account for 33% (\$2.2 billion) in global IT securities industry spending (both internal and external)

\*TowerGroup Research: Viewpoint Issues 88 and 89, May 2004. To be updated this May, 2006.

# Global Securities Projected IT Spending Growth

## Global Securities Industry IT Spending (% CAGR, 2004–08)



Global IT Spending Will Grow Faster in Asset Management Than Other Areas in Securities Industry

Exhibit #: ViewPoint Issue 89-E1  
Source: TowerGroup estimates

**Asset Management segment is projected to be fastest growing segment through 2008**

## Strengthen Core Business

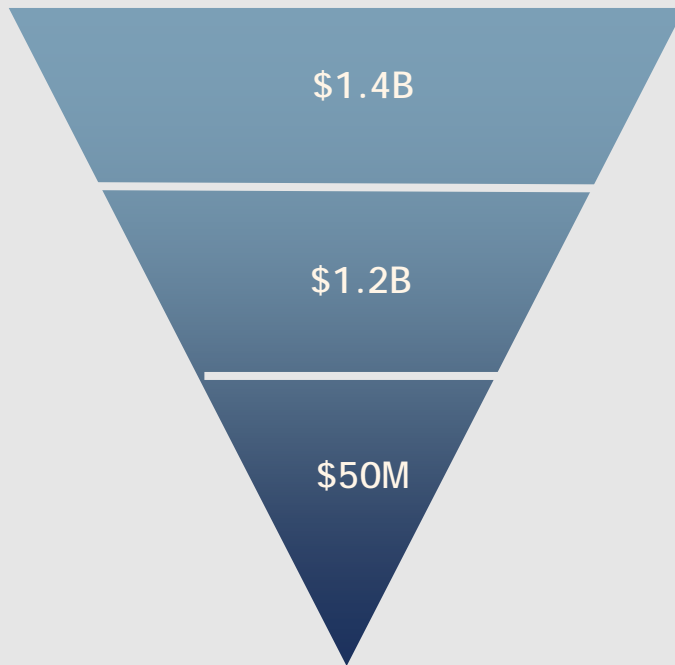
- Annual product refresh cycle
- Upsell (Axys -> APX or Geneva)
- Cross-sell complementary products and services to increase solution footprint (suite strategy)
- Add new products to our suite
- Continue annual maintenance price increases

## Grow Core Business

- Leverage APX & Geneva integrated suites and best of breed components
- Customer-focused innovation
- Layering of term bookings into revenue model
- Capitalize on tighter regulatory and compliance environment
- Increase share in growing alternative investment and international markets

# Advent's Addressable Market Today

## Annual Segment Spend

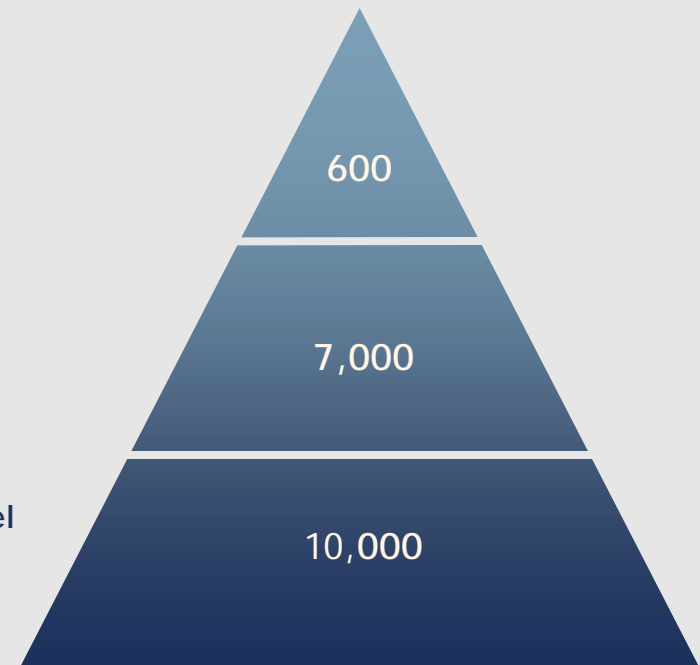


**\$2.6B Market Size**

## Segment

- HF/MF Admin.
- Prime Broker
- GAM
- Hedge Funds
- PCS
- IBD
- Hedge Fund
- Family Office
- Investment Counsel
- Advisor/RIA




## Firm Distribution



**~17,600 Firms**

\* Original Advent Research (2003): Estimated ASP \* number of firms in segment (including Advent clients) excluding maintenance and services

# Advent's Addressable Market Today

Core Product Offering	Customer Segment	Addressable Market Size (#)	Typical Deal Size (\$)
	Global Asset Managers/Mutual Funds	600 +	\$150K/yr to \$1M+/yr
	Prime Brokerage/Fund Administrators		
	Large or Complex Hedge Funds		
	Hedge Funds	17,000 +	\$50K/yr to \$150K/yr
	Asset Managers		
	Bank/Trust/PCS		
	Family Offices		\$12K/yr to \$125K/yr
	Financial Advisors/RIA's		



# Representative Clients

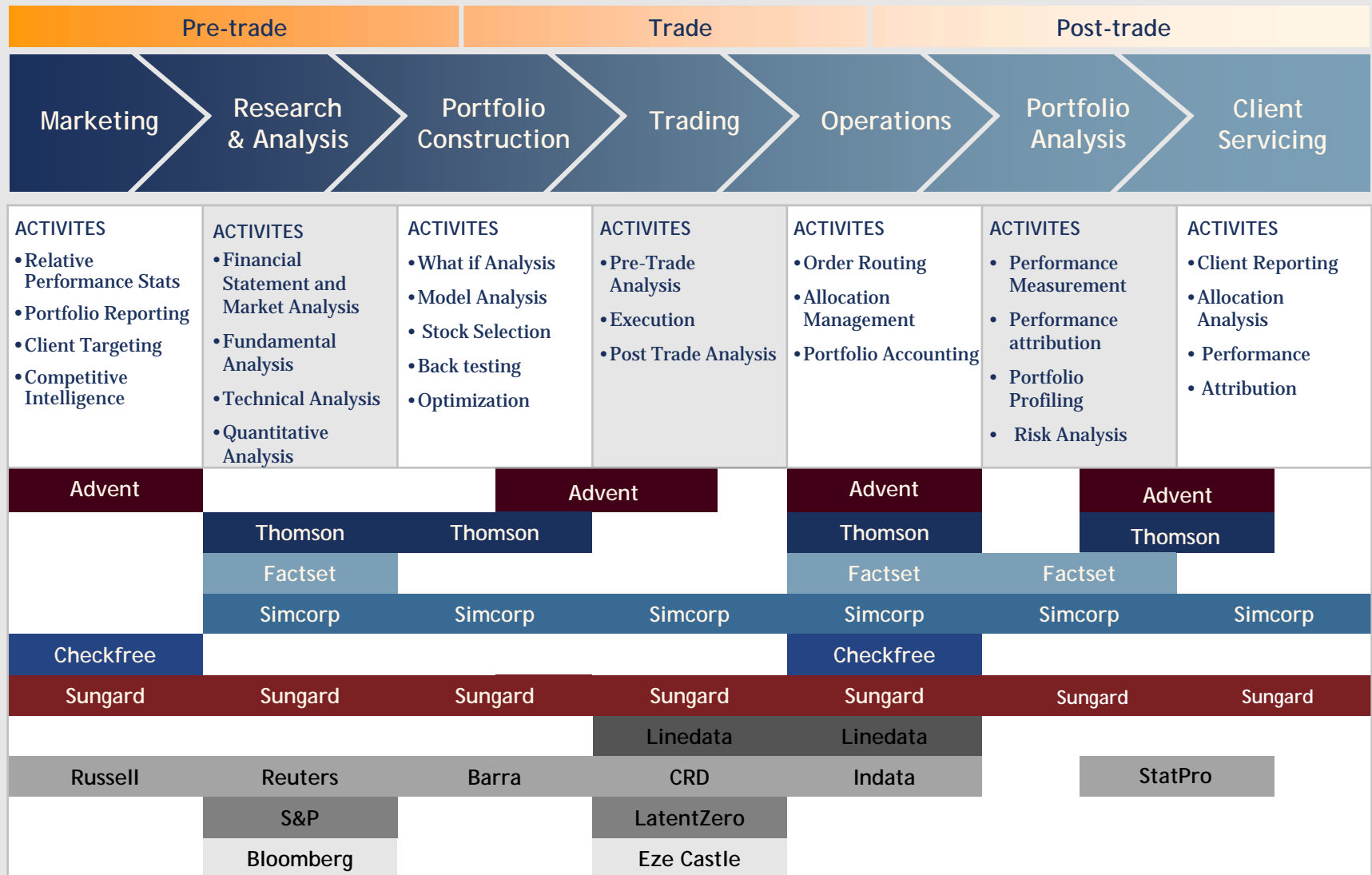
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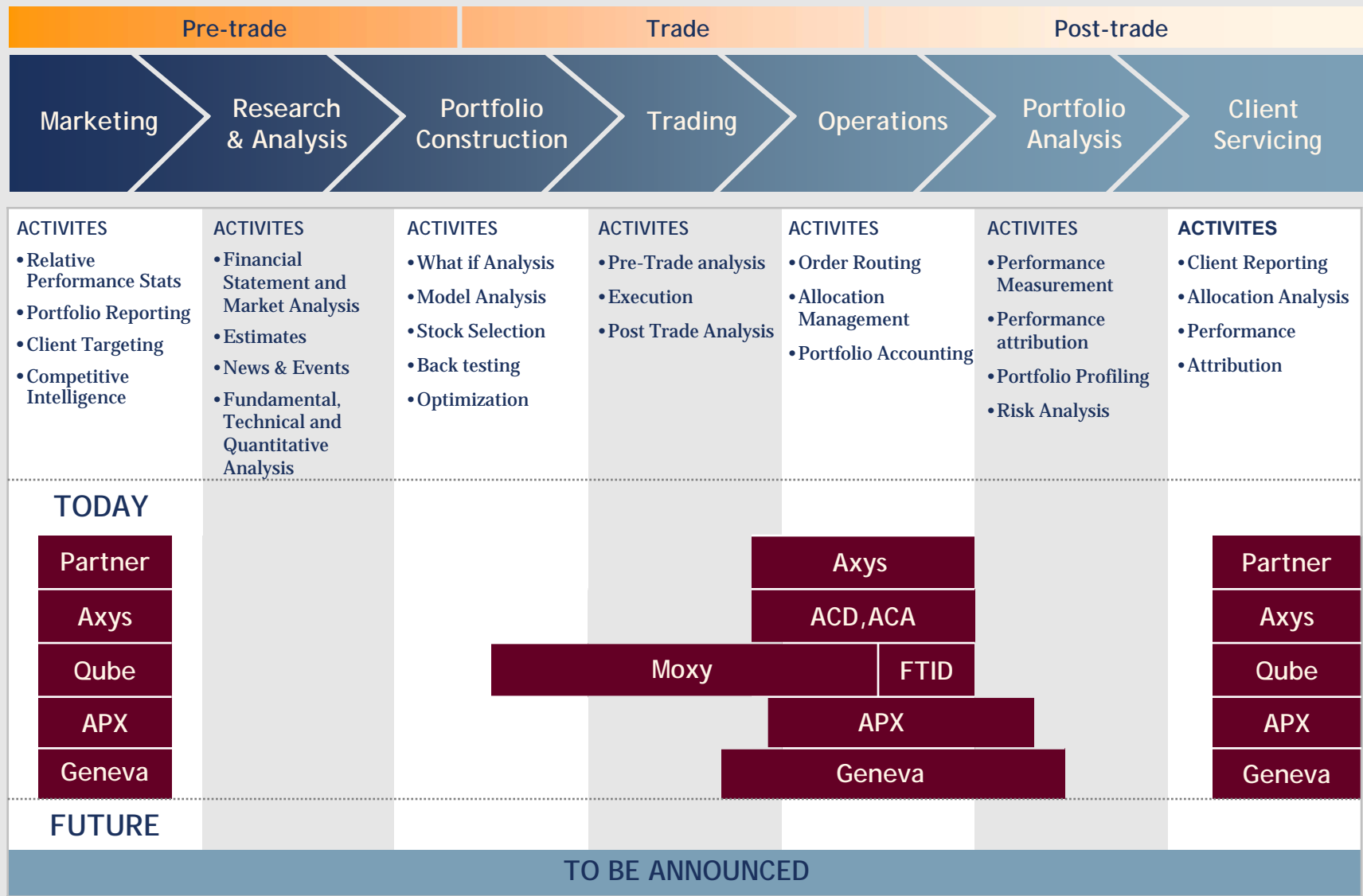
Solutions

Financials

# Suite Strategy: Broad & Comprehensive



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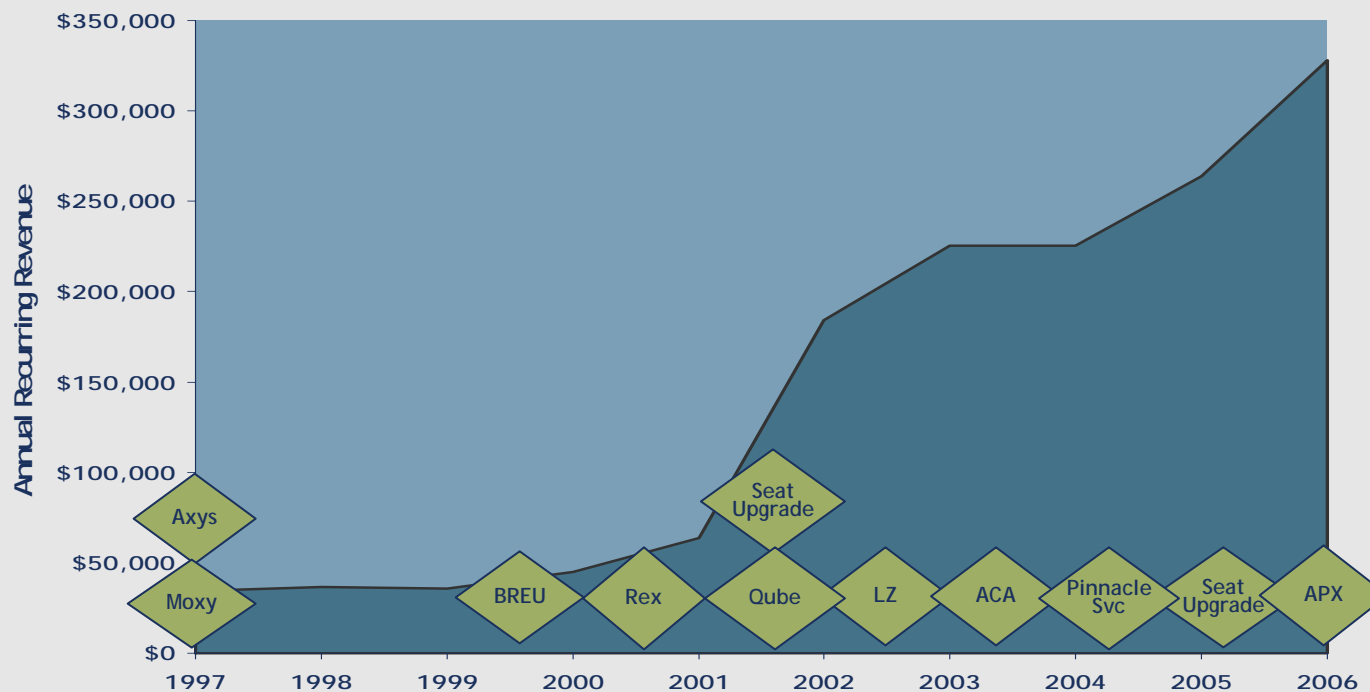


# Case Study: Large Asset Manager


## Profile:

- \$7B AUM Institutional and HNW Asset Manager
- Small Cap focus, with HNW, MF, SMA business lines
- \$30K in recurring revenue to Advent in 1996
- \$270K in recurring revenue to Advent in 2006

The value of the suite builds over time, increasing Advent's footprint and the client's dependency on Advent with every new product added



# Advent's Platform Positioning

Accounting Platforms	Geneva	APX	Axys
AUM Sweet Spot	\$30B + (or complex requirements)	\$1B - \$30B	\$100M - \$1B
Customers	92 (launched 1999)	58 (launched Sept, 2005)	> 4,000 (launched 1993)
Environment/ Database	UNIX® Object-oriented DB	.Net Relational	 <b>Windows</b> Flat File
Instrument Coverage	Alternatives + Derivatives + all traditional investments	Equities, Fixed Income and some Derivatives	Equities and basic Fixed Income
Currencies Reported	Unlimited Reporting and Settlement Currency	System and Reporting Currencies	Multi-currency optional

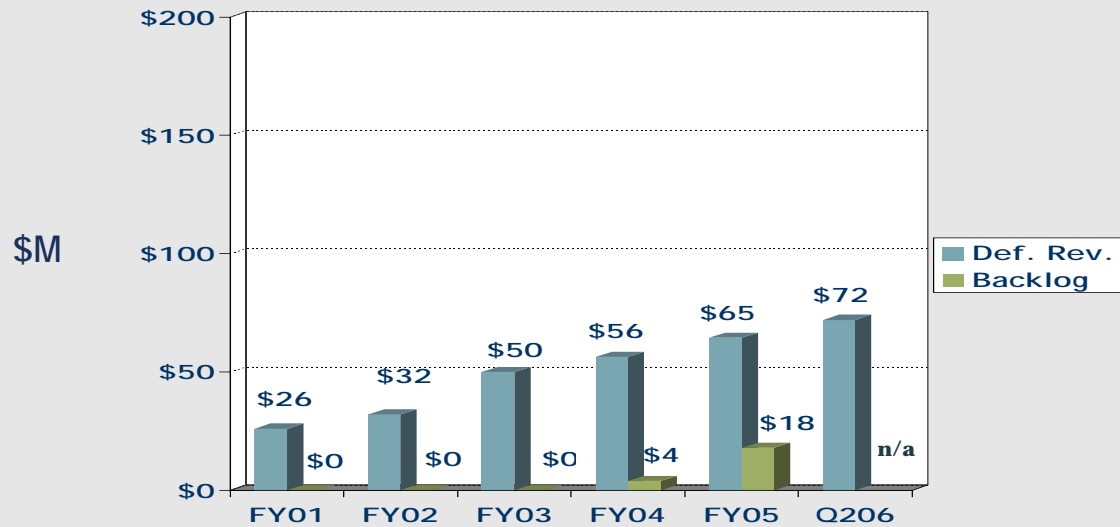
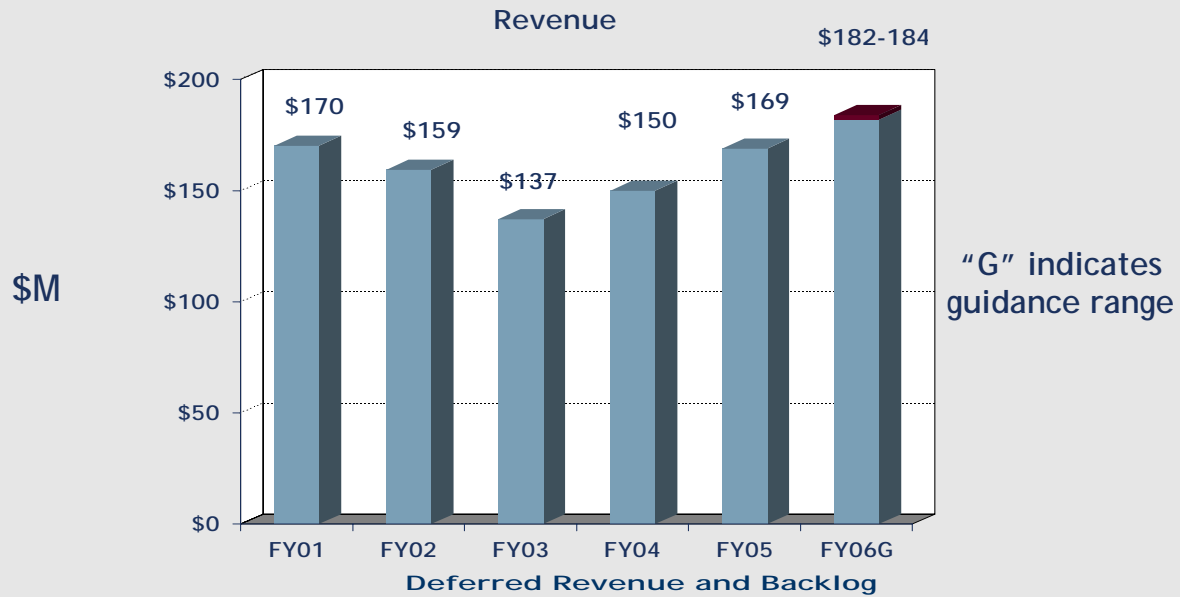
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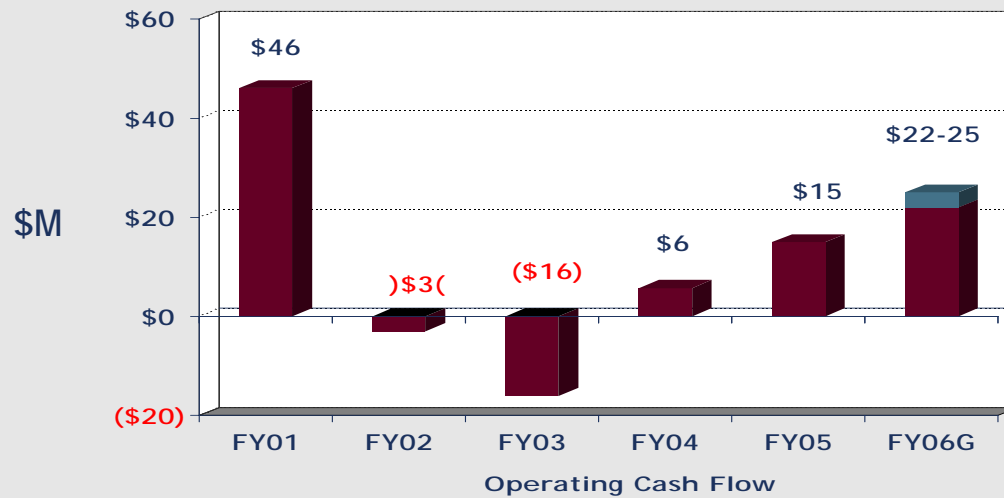
# Revenue, Deferred and Backlog





# Operating Profit and Cash Flow

Pro Forma Operating Profit/(Loss)

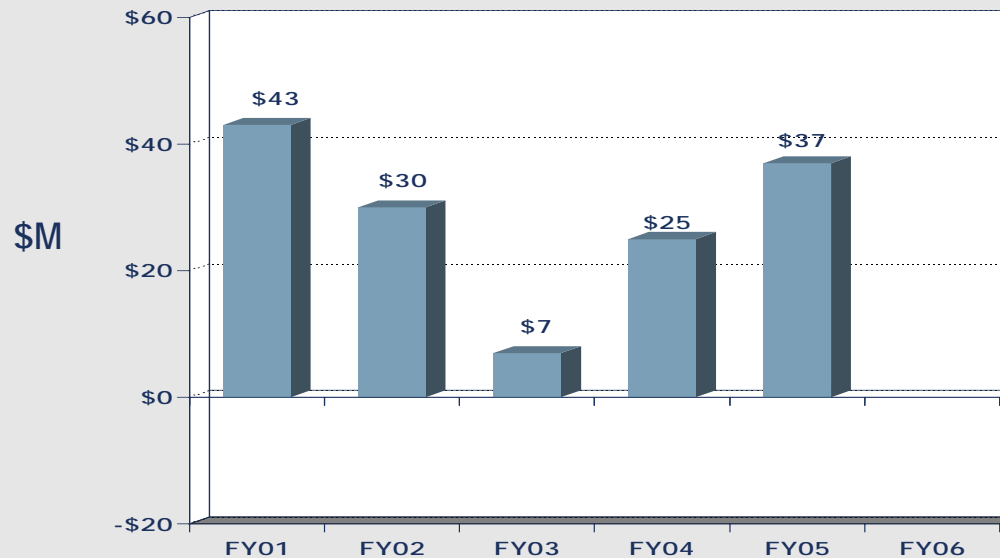


Operating Profit excludes:

- Amortization
- Restructuring
- Stock-based compensation

"G" indicates guidance range

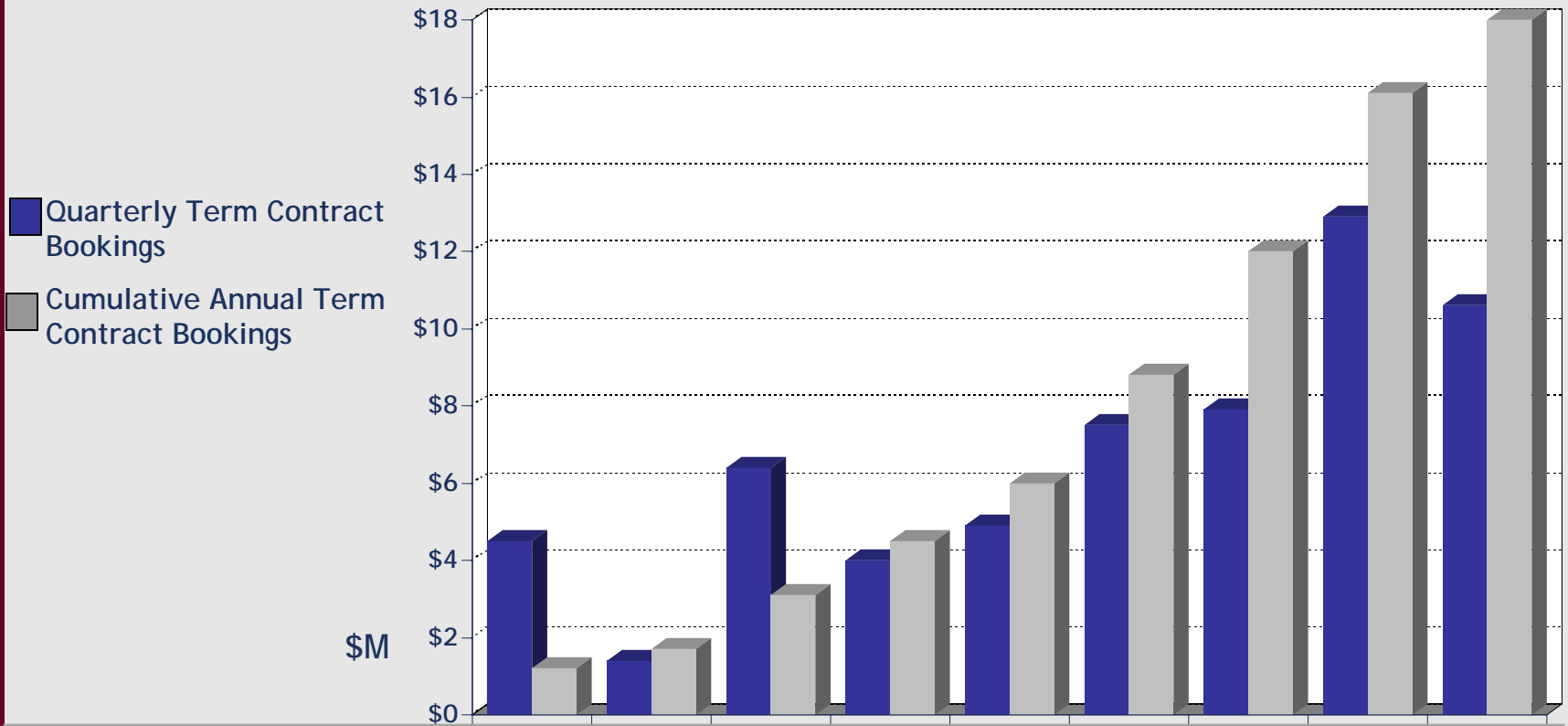
Operating Cash Flow



Drivers:

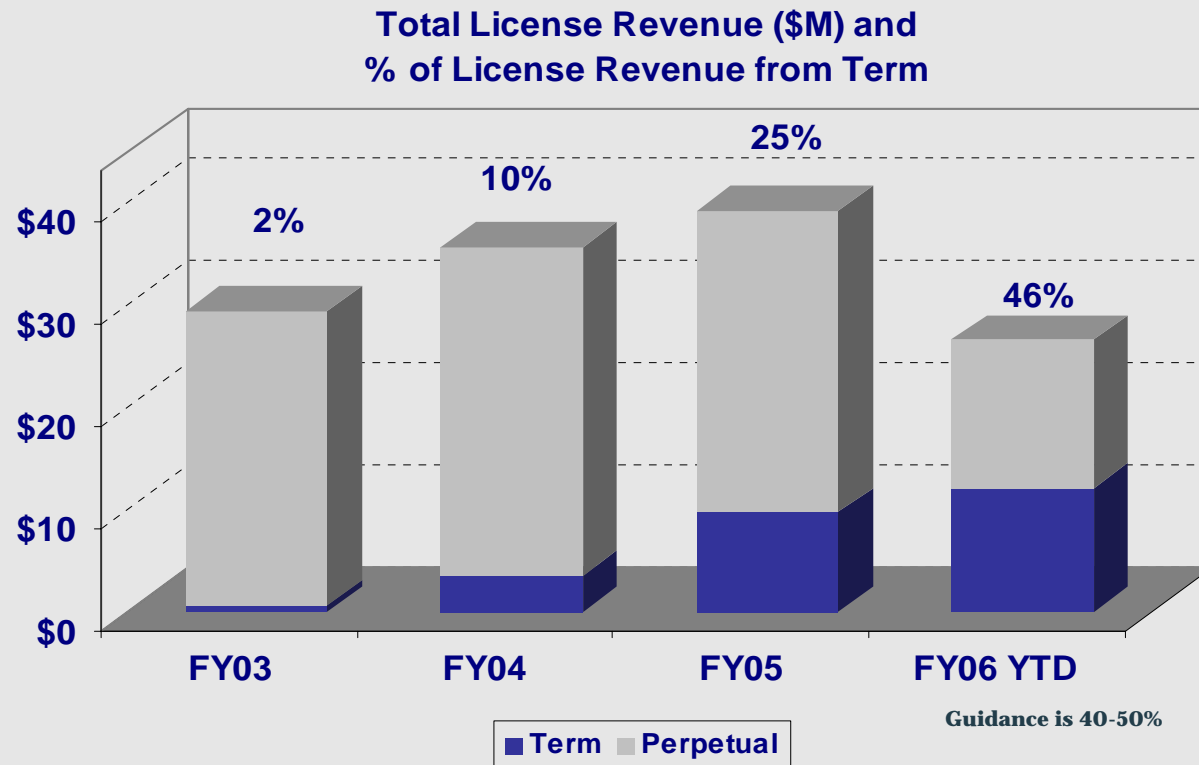
- Revenue growth
- Improved profit margins
- Working capital management

# Successful Transition to Term Licensing



\$M	Q3'04	Q4'04	Q1'05	Q2'05	Q3'05	Q4'05	Q1'06	Q2'06	Q3'06
<b>Quarterly Contract Value</b>	<b>\$4.5</b>	<b>\$1.4</b>	<b>\$6.4</b>	<b>\$4.0</b>	<b>\$4.9</b>	<b>\$7.5</b>	<b>\$7.9</b>	<b>\$12.9</b>	<b>\$10.6</b>
<b>Average Contract Term (in years)</b>	3.7	2.8	4.7	2.9	3.3	2.7	2.5	3.1	2.9
<b>Annualized Contract Value</b>	\$1.2	\$0.5	\$1.4	\$1.4	\$1.5	\$2.8	\$3.2	\$4.1	\$3.6
<b>Cumulative Annual Contract Value</b>	<b>\$1.2</b>	<b>\$1.7</b>	<b>\$3.1</b>	<b>\$4.5</b>	<b>\$6.0</b>	<b>\$8.8</b>	<b>\$12.0</b>	<b>\$16.1</b>	<b>\$19.7</b>

# Increasing Term License Revenue



## Revenue

- Build APX business
- Continue growing Geneva business
- Develop international market
  - ▶ Currently only 10% of revenue
  - ▶ Focusing on Europe first
- Continue investing at least 15% of revenues in product development
- Leverage some offshore product development
- Layering of term revenue
  - ▶ 2.25 years into what will be a 3-5 year transition

## Cost

- Q4 2006 headquarters move
- Reduce G&A professional fees (audit, SOX, legal, etc.)
- Further improve MicroEdge contribution margin
- Build IT infrastructure for scalability and long term cost savings
- Offshore some client services
- Headcount additions primarily limited to revenue-generating personnel

# Advent's Financial Model

Income Statement	FY05	FY06 1H	Long Term Business Model
Revenue Growth	12%	10%	Mid-teens
Gross Margin	71%	71%	74-75%
Sales & Marketing	24%	25%	24-25%
Product Development	18%	17%	15-16%
General & Administrative	20%	16%	10-12%
Pro forma Operating Margin*	9%	13%	Mid-20's

\* Excludes Stock Comp. Expense, Restructuring and Amortization of Developed Technology/Intangibles

- **Franchise as leading supplier of mission-critical products and services for investment management industry**
  - ▶ Large, diverse client base in 60 countries with \$12 trillion managed on Advent systems
  - ▶ Customer-focused innovation with substantial investment in Product Development
  - ▶ Opportunity to further expand internationally
  - ▶ Average length of customer relationship over 8 years and growing
- **Growing, predictable revenue model**
  - ▶ Term & AUA license, maintenance and recurring revenues ~ 80% of revenue and growing
  - ▶ Term bookings growing rapidly (averaging 40% annually)
  - ▶ Term bookings of \$23M in 2005 with only 10% recognized as revenue
- **Improved financials with additional operating leverage**
  - ▶ Strong balance sheet with \$61 million in cash; no debt
  - ▶ Operating cash flow of ~ \$10-12M per quarter and growing







## “ \$100 into \$7 ”

- Assume a perpetual license is sold for \$100k, with maintenance at 23% (\$23k) and \$60k of implementation services
- Annual term license fee equivalent is ~\$51k, split \$28k license:\$23k maintenance, with the same \$60k for implementation services
- Sale takes place on September 30 (last day of Q3)
- Implementation is completed in Q1
- Impact on:
  - ▶ Recognized revenue
  - ▶ Billings
  - ▶ Deferred revenue

# Revenue Recognition – Each Quarter

## \$100k PERPETUAL deal

	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Total
Perpetual License	100	0	0	0	0	0	0	0	0	0	0	0	0	100
Maintenance	0	6	6	6	6	6	6	6	6	6	6	6	6	70
Professional Services	0	40	20	0	0	0	0	0	0	0	0	0	0	60
Quarterly Revenue	100	46	26	6	6	6	6	6	6	6	6	6	6	230
Cumulative Revenue	\$100	\$146	\$172	\$177	\$183	\$189	\$195	\$200	\$206	\$212	\$218	\$224	\$230	

Billings

\$123	\$0	\$0	\$0	\$23	\$0	\$0	\$0	\$23	\$0	\$0	\$0	\$23
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Deferred Revenue at Qtr End

\$23	\$17	\$11	\$6	\$23	\$17	\$11	\$6	\$23	\$17	\$11	\$6	\$23
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## Equivalent 3-year TERM deal

	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Total
Term License	0	0	14	7	7	7	7	7	7	7	7	7	7	85
Maintenance	0	0	12	6	6	6	6	6	6	6	6	6	6	69
Professional Services	0	0	10	5	5	5	5	5	5	5	5	5	5	60
Quarterly Revenue	0	0	36	18	18	18	18	18	18	18	18	18	18	214
Cumulative Revenue	\$0	\$0	\$36	\$53	\$71	\$89	\$107	\$125	\$142	\$160	\$178	\$196	\$214	

Billings

\$51	\$40	\$20	\$0	\$51	\$0	\$0	\$0	\$51	\$0	\$0	\$0	\$51
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Deferred Revenue at Qtr End

\$51	\$91	\$75	\$57	\$90	\$72	\$54	\$36	\$69	\$51	\$33	\$18	\$51
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No revenue is recognized until implementation services are substantially complete

# Revenue Recognition – Each Year

## \$100k PERPETUAL deal

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
Perpetual License	100	0	0	0	0	0	0	0	0	0	100
Maintenance	23	23	24	25	27	28	29	31	32	34	277
Professional Services	60	0	0	0	0	0	0	0	0	0	60
Annual Revenue	183	23	24	25	27	28	29	31	32	34	437
Cumulative Revenue	\$183	\$206	\$230	\$256	\$282	\$310	\$339	\$370	\$403	\$437	

## EQUIVALENT 3-year TERM deal

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
Term License	28	28	28	32	32	32	37	37	37	43	336
Maintenance	23	23	23	27	27	27	30	30	30	35	275
Professional Services	20	20	20	0	0	0	0	0	0	0	60
Annual Revenue	71	71	71	59	59	59	68	68	68	78	671
Cumulative Revenue	\$71	\$142	\$214	\$273	\$331	\$390	\$458	\$526	\$594	\$671	

How much greater is cumulative revenue under a term model than a perpetual model?

(61%)	(31%)	(7%)	7%	17%	26%	35%	42%	47%	54%
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Cumulative breakeven occurs at approximately 3 ¾ years

# SOP 97-2 Revenue and Expense Deferral

	<u>Q4 05</u>	<u>Q1 06</u>	<u>Q2 06</u>	<u>Q3 06</u>	<u>FY06 YTD</u>
License	(0.1)	(0.3)	(0.4)	(0.3)	(1.0)
Maintenance	(0.1)	(0.2)	(0.4)	(0.2)	(0.8)
Prof. Services	(0.5)	(1.4)	(1.9)	(0.9)	(4.2)
<b>Total Revenue</b>	<b>(0.7)</b>	<b>(1.9)</b>	<b>(2.7)</b>	<b>(1.4)</b>	<b>(6.0)</b>
Cost of Prof. Services	0.2	0.6	0.7	0.3	1.6
<b>Gross Margin impact</b>	<b>(0.5)</b>	<b>(1.3)</b>	<b>(2.0)</b>	<b>(1.1)</b>	<b>(4.4)</b>
Sales & Marketing	-	-	0.1	0.1	0.2
<b>Operating Margin impact</b>	<b>(0.5)</b>	<b>(1.3)</b>	<b>(1.9)</b>	<b>(1.0)</b>	<b>(4.2)</b>

SOP 97-2 Adjustment is required because no revenue can be recognized until the implementation is substantially complete. Implementation services and direct incremental expenses are also deferred and spread over the life of the term contract