



The Advisory Board Company

Earnings Conference Call for the Quarter Ended June 30, 2016

July 27, 2016

Forward-Looking Statements and Non-GAAP Presentation

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be affected by many factors, including, among others, those described in the Company's news release dated July 27, 2016 and under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's most recent filings on Form 10-K or 10-Q with the Securities and Exchange Commission. Consequently, actual operations and results may differ materially from those expressed or implied in any forward-looking statements made by us. All forward-looking statements are qualified by those factors and the other information disclosed in the Company's filings with the Securities and Exchange Commission. The Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

This presentation contains information regarding adjusted revenue, adjusted EBITDA, adjusted net income, non-GAAP earnings per diluted share, adjusted effective tax rate, adjusted weighted average common shares outstanding - diluted, and free cash flows, which are financial measures of performance that are not calculated in accordance with generally accepted accounting principles, or "GAAP." The Appendix presents a reconciliation of each historical non-GAAP financial measure to the most directly comparable GAAP financial measure.

Q2 2016 Financial Summary



\$198.4 M

Revenue

4.3% increase

*(as compared to Q2 2015
adjusted revenue)*

.....



\$774.9 M

Contract Value

4.5% increase

(as compared to Q2 2015)

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\$47.7 M

Adjusted EBITDA

4.7% increase

(as compared to Q2 2015)

.....



\$0.47

Non-GAAP EPS

20.5% increase

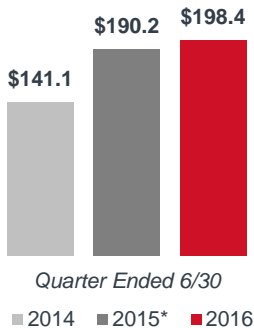
(as compared to Q2 2015)

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*Contract Value is the aggregate annualized revenue attributable to all agreements in effect at any given point in time, without regard to the initial term or remaining duration of any such agreements. For contracts with more than 12-months duration, we include only 12 months in Contract Value.

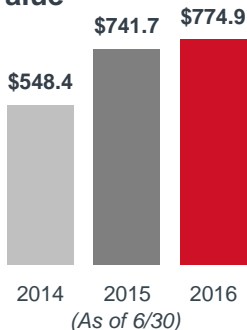
Top Line Growth

▶ Revenue (millions)



*2015 value is adjusted revenue.

▶ Contract Value (millions)



Growth Rates

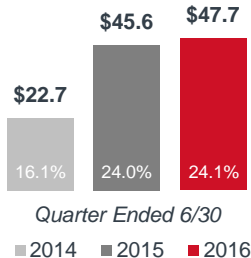
- 4.3% Q2 revenue growth, as compared to Q2 2015 adjusted revenue
- 2-year revenue CAGR of 18.6%
- 4.5% Q2 contract value growth, as compared to Q2 2015
- 2-year contract value CAGR of 18.9%

Key Growth Drivers

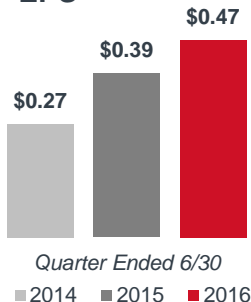
- Consistent high renewal rates
- Continued cross sell and new member growth

Earnings Growth and Margin Expansion

▶ Adjusted EBITDA & Margin (millions)



▶ Non-GAAP EPS



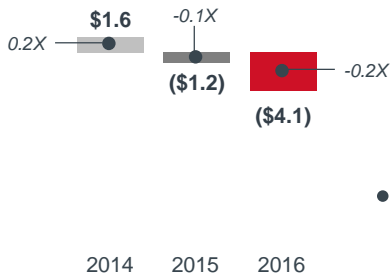
Q2 Operating Expense and Margin Expansion Drivers

- Gross Margin of 51.4%, up from 49.6% in Q2 2015
 - Scaling revenue over our fixed cost base
 - Scaling of acquisitions completed in 2013 and 2014
- Member Relations and Marketing expense increased to 16.5% of revenue, compared to 16.0% of revenue in Q2 2015
- General & Administrative expense decreased to 16.2% of revenue, compared to 16.8% of revenue in Q2 2015
- 20.5% non-GAAP EPS growth due to EBITDA growth, moderation of capital expenditures, deleveraging, and share repurchases

Cash Flow and Position

▶ Q2 Cash Flow From Operations

(millions)

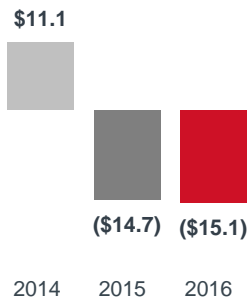


6/30/16 Cash Position

- Cash on hand: \$17.4 M
(net of \$26.2 M of share repurchase in Q2)
- Debt: \$553.0 M
- Debt / Adjusted EBITDA: 3.0x
(2.9x net of cash)
- Evolent: \$222.5 M
(value not reflected on balance sheet)

▶ Q2 Free Cash Flow*

(millions)



*Cash Flow From Operations minus capital expenditures.

Outlook For 2016

We are raising our Calendar Year 2016 guidance:

	Prior	Revised
Revenue	\$810 – \$830 M (4 – 6% growth)	\$817 – \$830 M (5 – 6% growth)
Adjusted EBITDA	\$188 – \$195 M (23 – 24% margin)	\$190 – \$195 M (23 – 24% margin)
Non-GAAP EPS	\$1.63 - \$1.73 (8 – 15% growth)	\$1.83 - \$1.90 (21 – 26% growth)
Stock-based Compensation	\$32 M	\$32 M
Interest Expense	\$19 M	\$19 M
Acquisition-related Amortization	\$29 M	\$29 M
Depreciation & Amortization	\$52 M	\$50 M
Capital Expenditures	\$60 M	\$60 M
Share Count	43 M	41 M
Tax Rate	40%	38% – 40%



Appendix

GAAP to Adjusted Income Reconciliation

	6/30/16 GAAP	% Revenue	Equity Expense	Earnout	Land Rent	Acquisition D&A	Tax Adjustment	Evolut	6/30/16 Adjusted	% Revenue
Revenues	\$198,382								\$198,382	
Cost of Services	\$96,440	48.6%	(\$2,493)	(\$1,775)	(\$478)				\$91,694	46.2%
Gross Profit	\$101,942	51.4%							\$106,688	53.8%
Member Relations and Marketing General and Administrative	\$32,718	16.5%	(\$1,387)		(\$351)				\$30,980	15.6%
	\$32,219	16.2%	(\$4,085)		(\$165)				\$27,969	14.1%
EBITDA	\$37,005	18.7%							\$47,739	24.1%
Depreciation and Amortization	\$11,749	5.9%							\$11,749	5.9%
Acquisition Depreciation and Amortization	\$7,168	3.6%				(\$7,168)			-	-
Operating Profit	\$18,088	9.1%							\$35,990	18.1%
Other Income (Expenses), net	(\$5,312)	(2.7%)							(\$5,312)	(2.7%)
Pre-tax Income	\$12,776	6.4%							\$30,678	15.5%
Taxes	(\$4,870)	(2.5%)							(\$11,688)	(5.9%)
Tax Rate	38.1%								38.1%	
Evolut	(\$411)	(0.3%)						\$411	-	-
Net Income	\$7,495	3.8%							\$18,990	9.6%
Diluted Shares Outstanding	40,570								40,570	
EPS	\$0.18								\$0.47	

Historical Financial Information

The Advisory Board Company

Financial Highlights and Reconciliation Of Non-GAAP Measures (Unaudited)

(In Thousands, Except Per Share Data)

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	2014	2016	2015	2014
Revenue	\$ 198,382	\$ 183,583	\$ 141,133	\$ 399,117	\$ 362,905	\$ 278,936
Effect on revenue of fair value adjustments to acquisition-related deferred revenue	-	6,617	-	-	12,499	-
Adjusted Revenue	\$ 198,832	\$ 190,200	\$ 141,133	\$ 399,117	\$ 375,404	\$ 278,936

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	2014	2016	2015	2014
Net (loss) income attributable to common stockholders	\$ 7,495	\$ 7,666	\$ (4,226)	\$ 17,834	\$ (14,406)	\$ 4,111
Effect on revenue of fair value adjustments to acquisition-related deferred revenue	-	6,617	-	-	12,499	-
Equity in (income) loss of unconsolidated entities	411	(4,000)	2,150	445	(1,621)	4,881
Accretion of noncontrolling interest to redemption value	-	-	7,040	-	-	7,040
Provision for income taxes	4,870	3,372	3,194	10,533	3,094	10,127
Interest expense	4,389	5,154	-	9,210	10,766	-
Other expense (income), net	923	128	(710)	862	1,247	(1,442)
Loss on financing activities	-	-	-	-	17,398	-
Depreciation and amortization	18,917	18,499	9,579	38,684	35,773	18,363
Acquisition and similar transaction charges	-	961	268	-	6,610	268
Fair value adjustment of acquisition-related earn-out liabilities	1,775	(1,427)	(100)	705	(1,083)	(4,200)
Build-to-suit land rent	995	-	-	1,870	-	-
Vacation accrual	-	-	-	-	(850)	-
Share-based compensation expense	7,965	8,631	5,541	14,947	15,036	9,964
Adjusted EBITDA	\$ 47,740	\$ 45,601	\$ 22,736	\$ 95,090	\$ 84,463	\$ 49,112

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	2014	2016	2015	2014
Net income (loss) attributable to common stockholders	\$ 7,495	\$ 7,666	\$ (4,226)	\$ 17,834	\$ (14,406)	\$ 4,111
Effect of adjusted tax rate on net (loss) income	-	332	-	-	8,861	-
Effect on revenue of fair value adjustments to acquisition-related deferred revenue, net of adjusted tax rate	-	3,758	-	-	7,046	-
Equity in (income) loss of unconsolidated entities	411	(4,000)	2,150	445	(1,621)	4,881
Accretion of noncontrolling interest to redemption value	-	-	7,040	-	-	7,040
Impairment of acquired and internally developed software, net of tax	-	-	-	-	-	-
Amortization of acquisition-related intangibles, net of adjusted tax rate	4,437	4,562	1,458	9,116	8,782	2,889
Loss on financing activities, net of adjusted tax rate	-	-	-	-	9,725	-
Acquisition and similar transaction charges, net of adjusted tax rate	-	546	163	-	3,704	163
Fair value adjustment of acquisition-related earn-out liabilities, net of adjusted tax rate	1,099	(811)	(61)	407	(619)	(2,582)
(Gain) loss on investment in common stock warrants, net of tax	-	(40)	108	-	(40)	108
Build-to-suit land rent, net of tax	616	-	-	1,183	-	-
Vacation accrual, net of adjusted tax rate	-	-	-	-	(475)	-
Share-based compensation expense, net of adjusted tax rate	4,930	4,902	3,368	9,447	8,483	6,090
Adjusted net income	\$ 18,988	\$ 16,915	\$ 10,000	\$ 38,432	\$ 29,440	\$ 22,700



Historical Financial Information

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Financial Highlights and Reconciliation Of Non-GAAP Measures (Unaudited)

(In Thousands, Except Per Share Data)

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2016	2015	2014	2016	2015	2014
Net (loss) income attributable to common shareholders per share - Diluted	\$ 0.18	\$ 0.18	\$ (0.12)	\$ 0.43	\$ (0.35)	\$ 0.11
Effect of adjusted tax rate on net (loss) income	-	0.01	-	-	0.22	-
Effect of adjusted weighted average common shares outstanding - Diluted earnings (loss) per share	-	-	0.01	-	0.01	0.01
Effect on revenue of fair value adjustments to acquisition-related deferred revenue, net of adjusted tax rate	-	0.09	-	-	0.17	-
Equity in (income) loss of unconsolidated entities	0.01	(0.09)	0.06	0.01	(0.03)	0.14
Accretion of noncontrolling interest to redemption value	-	-	0.19	-	-	0.19
Impairment of acquired and internally developed software, net of tax	-	-	-	-	-	-
Amortization of acquisition-related intangibles, net of adjusted tax rate	0.11	0.11	0.04	0.22	0.21	0.08
Loss on financing activities, net of adjusted tax rate	-	-	-	-	0.23	-
Acquisition and similar transaction charges, net of adjusted tax rate	-	0.01	-	-	0.09	-
Fair value adjustment of acquisition-related earn-out liabilities, net of adjusted tax rate	0.03	(0.02)	-	0.01	(0.02)	(0.08)
(Gain) loss on investment in common stock warrants, net of tax	-	(0.01)	-	-	(0.01)	-
Build-to-suit land rent, net of tax	0.02	-	-	0.03	-	-
Vacation accrual, net of adjusted tax rate	-	-	-	-	(0.01)	-
Share-based compensation expense, net of adjusted tax rate	0.12	0.11	0.09	0.23	0.19	0.16
Non-GAAP earnings per diluted share	\$ 0.47	\$ 0.39	\$ 0.27	\$ 0.93	\$ 0.70	\$ 0.61

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2016	2015	2014	2016	2015	2014
Effective tax rate	38.1%	47.9%	39.2%	36.6%	(23.9%)	38.9%
Effect on tax rate of Washington, D.C. tax law change including write-off of DC income tax credits	0.0%	0.0%	0.0%	0.0%	73.2%	0.0%
Effect on tax rate of loss on financing activities	0.0%	0.9%	0.0%	0.0%	(-8.5%)	0.0%
Effect on tax rate of unconsolidated equity method investment related FIN 48 liability	0.0%	(14.9%)	0.0%	0.0%	0.0%	0.0%
Effect on tax rate of Royall acquisition costs and other tax items	0.0%	9.3%	0.0%	0.0%	2.8%	0.0%
Adjusted effective tax rate	38.1%	43.2%	39.2%	36.6%	43.6%	38.9%

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2016	2015	2014	2016	2015	2014
Weighted average common shares outstanding - Diluted	40,570	42,914	36,413	41,222	41,686	37,125
Dilutive shares outstanding	-	-	892	-	555	-
Adjusted weighted average common shares outstanding - Diluted	40,570	42,914	37,305	41,222	42,241	37,125

	Six Months Ended		
	June 30		
	2016	2015	2014
Cash flow from operations	\$ 23,081	\$ 41,729	\$ 5,332
Capital expenditures	21,485	25,466	23,020
Free cash flow	\$ 1,596	\$ 16,263	(\$17,688)





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