

# Second Quarter 2017 Conference Call

August 8, 2017

# 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 August 8, 2017 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, and adjusted earnings per diluted share, 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.

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Performance Summary / Business Update

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Financial Performance Review and Update

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Q & A

# Performance Summary / Business Update

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## Solid overall Q2-17 performance

- Total adjusted revenue\* of \$199.8M vs. guidance of \$192 - 197M
  - Education grew 19%; Health Care declined 3%
- Adjusted EBITDA of \$44.3M vs. guidance of \$44 - 49M

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## Health Care Update

- Early success in expanding Research relationships
- Momentum in Health System Growth and Revenue Cycle Technology
- Continued strength in Consulting driven by alignment with key member needs
- As expected, challenges in Clinical Alignment Technology

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## Education Update

- Strong performance across the board
- Enrollment and Student Success continue to be top member concerns
- Timely Research work on key industry topics
- Great momentum in Student Success data and analytics

\* Excludes exited programs.

1

Business and Market Update

2

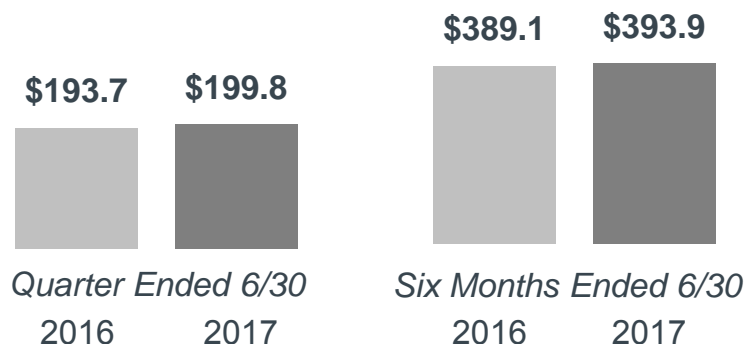
**Financial Performance Review and Update**

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Q & A

# Revenue and Contract Value \*

## ▶ Revenue (millions)



## ▶ Contract Value (millions)



Q2-17 adjusted revenue up 3.2% vs. Q2-16

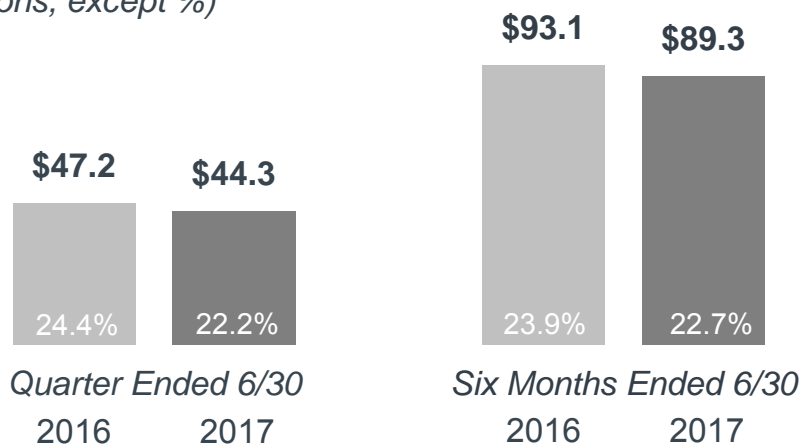
- Education growth of 19%, partially offset by 3.3% decline in Health Care
- Growth in Health Care Consulting revenue offset by a decline in new Technology sales in last 12 months
- Contract Value declined 4.4% vs. 6/30/16 principally due to sales timing (strong 1H-16 and back-half weighted 2017), and timing of consulting engagements
- Sales strength across all Education offerings, Planning 20/20, EMR and revenue cycle consulting
- Consistent renewals in both Health Care and Education

\* Excludes exited programs from current and prior year periods.

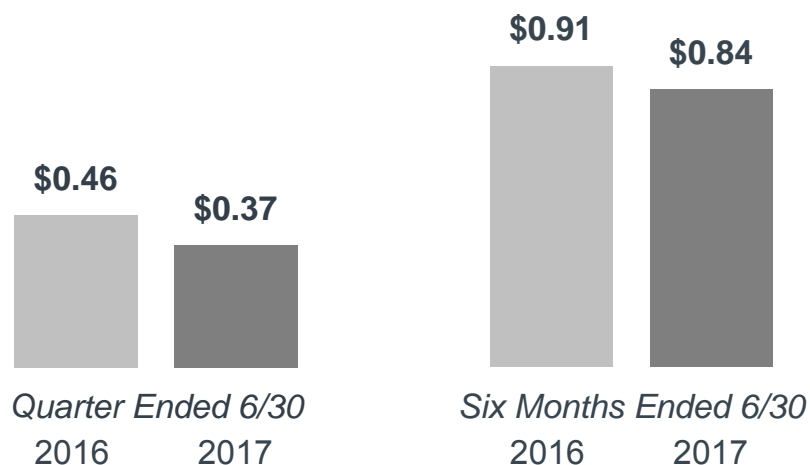
# EBITDA and EPS

## ▶ Adjusted EBITDA & Margin

(millions, except %)



## ▶ Non-GAAP Adjusted EPS



220 basis point decline in Q2-17 Adjusted EBITDA margin principally due to:

- Increased one-time, third-party costs to support consulting projects
- Higher mix of operating expenses from technology development, offset by lower capital expenditures
- Higher G&A expenses from third-party tax, audit, and accounting advisors

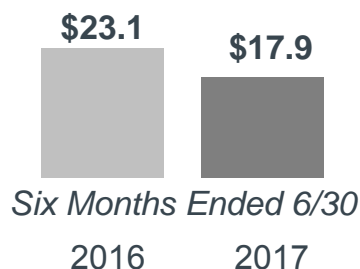
Q2-17 adjusted EPS primarily impacted by:

- Higher operating and G&A expenses vs Q2-16
- Higher adjusted effective tax rate (42.7% in Q2-17 vs 38.1% in Q2-16) principally due to impact of equity vesting and exercises under new tax accounting rules

# Cash Flow and Capital Position

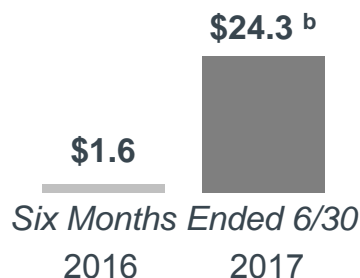
## ▶ Cash Flow from Operations (CFFO)

(millions)



## ▶ Free Cash Flow (FCF) <sup>a</sup>

(millions)



- 1H-17 cash flow included \$23.9M in cash costs from Health Care business restructuring and related severance expenses
- 1H-17 FCF increased significantly vs. 1H-16, after adjusting for restructuring and strategic alternative-related expenses,

### As of 6/30/17

- Cash and Cash Equivalents: \$144.0 M
- Total Outstanding Debt: \$501.0 M
- Debt / Adjusted EBITDA (TTM): 2.7x  
(1.9x net of cash)
- Evolent Ownership Value: ~\$141.3 M  
(gross value not reflected on balance sheet)

a) Cash Flow From Operations less capital expenditures (Purchases of property and equipment, and Capitalized external-use software development costs).

b) Adjusted for \$23.9 million in cash costs related to the Company's Health Care business restructuring and related severance expenses.



# Guidance Unchanged for Calendar Year 2017

	CY-17 Guidance <sup>a</sup>	2016 Actual
<b>Adjusted Revenue</b>	<b>\$780 - \$840 M</b> (0.6) - 7.9% growth	<b>\$786.1 M</b> <sup>b</sup>
<b>Adjusted EBITDA</b>	<b>\$190 - \$215 M</b> 2.7 - 16.2% growth 24.4 - 25.6% margin	<b>\$185.0 M</b> <sup>b</sup> 23.5% margin
<b>Adjusted EPS</b>	<b>\$1.80 - \$2.10</b> (3.2) - 12.9% growth	<b>\$1.86</b> <sup>c</sup>
<b>Stock-based Compensation</b>	<b>\$29 M</b>	<b>\$29.4 M</b>
<b>Interest Expense</b>	<b>\$19 M</b>	<b>\$18.1 M</b>
<b>Acquisition-related Amortization</b>	<b>\$26 M</b>	<b>\$31.0 M</b>
<b>Depreciation &amp; Amortization</b>	<b>\$50 M</b>	<b>\$42.1 M</b>
<b>Capital Expenditures</b>	<b>\$50 - 55 M</b>	<b>\$48.5 M</b>
<b>Share Count</b>	<b>41.5 M</b>	<b>40.9 M</b>
<b>Tax Rate</b>	<b>36% - 38%</b>	<b>17.5%</b>
<b>Operating Cash Flow</b>	<b>\$135 M</b>	<b>\$109.2 M</b>
<b>Free Cash Flow</b>	<b>\$80 M</b>	<b>\$60.7 M</b>

a) Excludes restructuring and contribution from exited programs.

b) Excludes contribution from exited programs.

c) Excludes a \$0.38 per-share benefit related to incremental R&D tax credits from prior years recorded in the fourth quarter of 2016.

# A Compelling Business Profile

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## Unique Position in Our Markets

- Insight-driven best practices research, technology, and consulting
- \$2B+ of annual member-validated ROI; hundreds of impact case studies
- 30-year track record in health care; 10-year track record in education

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## Broad Reach and Enduring Relationships

- 4,500+ health care members; 1,200+ education members
- Deep C-suite partnerships in two high-demand target markets
- Consistently high renewal rates (92% at 3/31/17)

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## Powerful Economic Model

- 85% recurring revenue from research and technology subscriptions
- Scalable solutions/programs drive long-term margin expansion

# APPENDIX

# Reconciliation of GAAP to Non-GAAP Measures

## *Adjusted Revenue and Adjusted EBITDA*

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenue	\$ 200,299	\$ 198,382	\$ 394,838	\$ 399,117
Less: Revenue from exited programs	485	4,711	967	9,989
Adjusted revenue	\$ 199,814	\$ 193,671	\$ 393,871	\$ 389,128

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income	\$ 14,747	\$ 7,495	\$ 34,401	\$ 17,834
(Gain) loss from equity method investments	(17,736)	411	(39,313)	445
(Benefit) provision for income taxes	(2,681)	4,870	(3,405)	10,533
Interest expense	4,730	4,389	9,230	9,210
Other expense (income), net	90	923	(143)	862
Depreciation and amortization	21,645	18,917	43,979	38,684
Fair value adjustment to acquisition-related earn-out liabilities	52	1,775	452	705
Build-to-suit land rent	931	995	1,862	1,871
Stock-based compensation expense	5,614	7,965	11,325	14,947
Loss (income) from exited programs	3,835	(48)	7,884	(1,036)
Depreciation and amortization from exited programs	(1,872)	(506)	(3,110)	(975)
Restructuring and strategic alternative charges	14,915	-	26,128	-
Adjusted EBITDA	\$ 44,270	\$ 47,186	\$ 89,290	\$ 93,080

# Reconciliation of GAAP to Non-GAAP Measures

## *Adjusted Net Income, Adjusted EPS, and Adjusted Tax Rate*

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income	\$ 14,747	\$ 7,495	\$ 34,401	\$ 17,834
(Gain) loss from equity method investments	(17,736)	411	(39,313)	445
Amortization of acquisition-related intangibles	6,593	6,975	13,400	14,013
Fair value adjustment to acquisition-related earn-out liabilities	52	1,775	452	705
Build-to-suit land rent	931	995	1,862	1,871
Stock-based compensation expense	5,614	7,965	11,325	14,947
Loss (income) from exited programs	3,835	(48)	7,884	(1,036)
Restructuring and strategic alternative charges	14,915	-	26,128	-
Income tax effects and adjustments	(13,634)	(6,732)	(21,596)	(11,331)
Adjusted net income	\$ 15,317	\$ 18,836	\$ 34,543	\$ 37,448

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income per share - diluted	\$ 0.36	\$ 0.18	\$ 0.83	\$ 0.43
(Gain) loss from equity method investments	(0.43)	0.01	(0.95)	0.01
Amortization of acquisition-related intangibles	0.16	0.17	0.32	0.34
Fair value adjustment to acquisition-related earn-out liabilities	-	0.04	0.01	0.02
Build-to-suit land rent	0.02	0.03	0.05	0.05
Stock-based compensation expense	0.14	0.20	0.28	0.36
Loss (income) from exited programs	0.09	-	0.19	(0.03)
Restructuring and strategic alternative charges	0.36	-	0.63	-
Income tax effects and adjustments	(0.33)	(0.17)	(0.52)	(0.27)
Non-GAAP adjusted earnings per share	\$ 0.37	\$ 0.46	\$ 0.84	\$ 0.91

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Effective tax rate	47.3%	38.1%	40.9%	36.6%
Effects of rate change on investments in Evolent Health, Inc. and Evolent Health LLC	-4.6%	0.0%	-3.1%	0.0%
Adjusted effective tax rate	42.7%	38.1%	37.8%	36.6%

# Reconciliation of GAAP to Non-GAAP Measures

## *Cash Flow from Operations to Free Cash Flow*

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2017</b>	<b>2016</b>
Net cash provided by operating activities	\$ 17,935	\$ 23,081
Purchases of property and equipment	(16,287)	\$ (19,877)
Capitalized external-use software development costs	(1,285)	\$ (1,608)
Free cash flow	\$ 363	\$ 1,596
Restructuring-related cash costs	23,892	\$ -
Free cash flow, adjusted for restructuring-related cash costs	\$ 24,255	\$ 1,596



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