Clarivate Analytics

Conference Call

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CORPORATE PARTICIPANTS

Mark Donahue – *Investor Relations*

Jerre Stead – *Executive Chairman and Chief Executive Officer*

Richard Hanks – *Chief Financial Officer*

Mukhtar Ahmed – *President of Science Group*

Clifford Smith – *Senior Vice President of Corporate Development*

PRESENTATION

Operator
Good morning, and welcome to the Clarivate Analytics Conference Call. All participants will be in listen-only mode. Should you need assistance, please see to our conference specialist by pressing the star key, followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask question, you may press star then one on your telephone keypad. To withdraw your question, please press star and then two. Please note this event is being recorded.

I will now turn the conference over to Mark Donahue, Head of Investor Relations. Please go ahead, sir.

Mark Donahue
Thank you, Keith, and good morning, everyone. Thank you for joining us for the announcement of our proposed acquisition of Decision Resources Group, which we will refer to as DRG on today's call. With me today are Jerre Stead, Executive Chairman and Chief Executive Officer; Richard Hanks, Chief Financial Officer; Mukhtar Ahmed, President of Science Group; and Clifford Smith, Senior Vice President of Corporate Development.

As a reminder, this conference call is being recorded and webcast and is copyrighted material of Clarivate Analytics. Any rebroadcast of this information in whole or in part without prior written consent of Clarivate is prohibited. This morning, Clarivate issued a press release announcing a proposed acquisition of DRG. The release as well as an accompanying supplemental presentation is available in the Investor Relations section of the company's website, clarivate.com under Events and Presentations.

During our call, we may make certain forward-looking statements within the meaning of applicable securities laws. Such forward-looking statements, involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the business or developments in Clarivate's industry to differ materially from the anticipated results, performance achievements or developments, expressed or implied by such forward-looking statements.

Information about the factors that could such actual results to differ materially from anticipated result or performance can be found in Clarivate's filings with SEC and on the company's website. Our discussion will include non-GAAP measures or adjusted numbers, including pro forma EBITDA. Clarivate believes non-GAAP results are useful in order to enhance an understanding of our ongoing operating performance, but they are a supplement to and should not be considered in isolation from or as a substitute for GAAP financial measures. After our prepared remarks, we will open up the call to your questions.

With that, it is a pleasure to turn the call over to Jerre.

Jerre Stead
Thank you, Mark, and thank you, everyone, for taking the time to join us on short notice for the call today. I want to welcome all of our investors at Clarivate, colleagues from around the world on the call or webcast. I'd also like to extend a special welcome to our soon-to-be new colleagues at Decision Resources Group.

Today is a very exciting day for our company, as we announce the significant proposed acquisition of DRG. I'm pleased that we could add a growing asset at a very attractive price and multiple. We will capitalize on the significant strategic benefits this acquisition brings to Clarivate, while maximizing the financial benefits, which includes a growing revenue and EDITDA business.

For those who are not familiar with DRG, let me tell you a bit about their capabilities. You will see why we're so pleased that they will be joining our family. The company has a global workforce of approximately 1,200 colleagues, spread across offices in the US, UK and Asia. DRG offers data driven, decision making resources and workflow solutions to pharma, medical technology, provider and payer clients to help them make informed business decisions about critical commercial challenges in complex health markets. DRG has a world-class customer base, helping more than 1,200 global customers achieve commercial success. Their customer portfolio is impressive, working with all 50 of the top life science companies, 19 of the top 20 medical device companies, and 8 of the top 10 US payers and top health systems.

DRG offers a wide and broad range of products and services to their customers, covering a variety of use cases across patients, markets and stakeholders. They focus on understanding the patient and market landscape. They provide their customers with forecasting, treatment analysis, new product development and brand tracking and strategy formation. They optimize access for patients through policy analytics, promotion tools, pricing reimbursement insights, and through e-learning. They engage with stakeholders through commercial targeting and formulating strategies, patient segmentation, digital marketing and social analytics.

DRG generates growing revenue through product sales, including research reports. They offer consulting and training services, and most recently developed an analytics data and insights offering to better serve their large customer base. DRG has a strong retention rate of 99%, which is music to our ears. This combination is truly transformative to our Life Science business led by Mukhtar. DRG provides us with scale in a large, fast-growing attractive market. It also provides us with offerings across the entire life science value chain, and we have identified many synergies on both the revenue and cost sides, which creates a very attractive financial picture.

I am grateful that we had time with all of you at our Investor Day in November, where we shared the details of the many initiatives that we are driving to simply our business, while we capitalize on our opportunities for growth. You'll remember that Jeff and Mukhtar both reviewed some of the large market potential inherent in their respective businesses, and Mukhtar provided specific insight on the vast market opportunity in life science, one of the fastest growing global industries. We are very fortunate that such a strong asset became available and we were able to opportunistically acquire it. DRG is one of the most important assets in life sciences globally, and we're delighted to add it to our company.

This is an absolute game changer for Clarivate. It allows us to be one of the largest and most complete providers of life science information in the world and allows us to provide unrivaled solutions for our customers. This transaction aligns with our strategy of pursuing acquisitions that are strategically and financially attractive. At 12 times trailing EBITDA, we are acquiring DRG at a very attractive price, which we believe will be below 10 times, once we get all the cost synergies captured and deliver the revenue synergies as we exit 2021.

We expect the transaction to be accretive in its first year. The purchase price is $950 million, $900 million in cash, and $50 million of equity, which will be issued 12 months after closing. The cash component of the transaction will be backstopped by a fully committed bridge facility. We expect to raise a combination of debt and equity capital in advance of closing the transaction in order to optimize our go forward capital structure to the benefit of all shareholders. The transaction is subject to customary closing conditions, including approval by the shareholders, and is expected to close during this year's first quarter.

The acquisition of DRG offers us numerous strategic benefits and significantly increases our life science portfolio, which has attractive in-market growth characteristics. The combination of our company and DRG creates one of the top data and analytic providers in life science.

We are very well positioned to support customers across the entire drug, device and medical technology life cycles. Clarivate Life Sciences' products focus on early life cycle innovation, encompassing pre-clinical and clinical development, regulatory review and business development. DRG has largely focused on the commercial aspects of the pharmaceutical products following approval, including market access and insights and analytics. The combination of these two businesses will advance medical science from research to outcome, offering a one-stop shop for life science customers and help them to improve human lives. By leveraging the expertise, content and technologies of both companies, our Science Group will pursue significant growth opportunities through new product development and gaining deeper market penetration in our expanded customer base.

This combination also supports the continued and increasing need for capabilities that support drug development and commercialization, driven by rare, niche and orphan diseases, oncology, and specialty market segments and personalized medicines. Together, we will build on a common product strategy of delivering highly innovative solutions, leveraging state-of-the-art data sciences. I am very confident that we will be able to deliver an exceptional customer experience while accelerating our customers' innovation and commercial growth.

In addition to the strategic benefits, we will also benefit financially. This combination will put us in a stronger financial position to grow both organically from new data product development cross selling and through additional business development opportunities. Let me briefly cover some of the high-level financial attributes of this transaction, and we'll be coming back to you with much more detail when we announce earnings for 2019 on February 27.

For the full year of 2019, DRG generated $207 million in revenue, with 9% organic growth compared to 2018. Their adjusted EBITDA was $47 million. By leveraging our larger infrastructure, this acquisition provides cost synergy opportunities of approximately $30 million, which we expect to realize within the first 18 months following the close. This drives 2019 adjusted EBITDA to $77 million before the benefit of revenue synergies, which we will aggressively pursue to drive topline and margin expansion.

The combination of cost synergies, and eventually revenue synergies, will significantly expand our Life Science EBITDA margins. We expect this acquisition to be accretive, as I said earlier to our earnings per share within the first year. This morning we reaffirmed our 2020 stand-alone guidance, which at this time, excludes the acquisition of DRG. As a reminder, our outlook also excludes the sale of certain of MarkMonitor assets, as we completed that divestiture on January 1st of 2020.

Our 2020 stand-alone lookout is adjusted revenues in a range of $950 million to $970 million, adjusted EBITDA in a range of $330 million to $350 million, adjusted EBITDA margins in a range of 35% to 38%, and adjusted free cash flow in a range of $195 million to $210 million. After closing this acquisition, we will update our 2020 outlook to reflect the full impact of DRG on our full year's results.

Before we open it up to questions, I want to thank everyone, all of our colleagues at Clarivate and DRG, for their dedication, collaboration and very hard work in getting us to this point. We're excited, I am more excited than I can remember for an acquisition and about our future as we aim for greatness together. We look forward to updating you on our progress, as we continue our pursuit of being the premier information services company serving the Life Sciences and IP industries worldwide.

Thank you for your time, and now we're ready to take your questions. As a reminder, please limit yourself to one question and then return to queue. Operator, let's open up.

QUESTIONS AND ANSWERS

Operator
Thank you, yes. We will now begin the question and answer session. To ask a question, you may press star, then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble the roster.

And this morning's first question comes from Seth Webber with RBC.

Seth Webber
Good morning, everybody.

Jerre Stead
Hi, Seth. How are you?

Seth Webber
Doing fine, thanks; how about yourself?

Jerre Stead
Good.

Seth Webber
Good. Hey, I wanted to ask about the DRG revenue mix, your comfort level with the 30-ish percent coming from the value add, the analytical and consulting services space and how you're thinking about integrating that into your model and also how much of the 12% CAGR is coming from this more consultative area and your general comfort level with that type of growth rate for that business. Thanks.

Jerre Stead
Yes, no that is a good question. Richard, I am going to have you pick up and pass it over to Mukhtar, but we're very comfortable with the mix, and as I said in my script, 99% of their business has been renewing. But give them the background, Richard, of how important this is for us.

Richard Hanks
Yes. Good Morning, Seth. Thanks for the question. So, on the revenue mix, as you said, it is 70% subscription/recurring, 30% transactional, partly from the consulting services business that they have. This is an organization that has very deep and tenured relationships with the top 50 global pharmaceutical and biotech companies. We're of the view that we can expand that consulting services channel, leveraging our international business. DRG's revenues are relatively concentrated in North America, and we have a terrific platform that can drive not just consulting services, but there are other products including analytics, through our channels in EMEA and Asia Pacific. So we're very confident about the growth outlook.

In terms of consulting services I think that, number one, that enables us to capture a greater share of wallet; secondly, it enables us to pull through the sale of other products and services within the portfolio. Just not DRG's, but I think very importantly, Clarivate's. As Jerre described, this is a terrific union of Clarivate's capabilities, which are in the drug discovery through to the clinical trials phase, and DRG's, which are principally in the commercial space.

So we're very confident in the revenue mix. We have a plan to, over time, migrate some of the recurring and one-time revenues onto a platform capability, which will be subscription based. That will take a bit

of time to execute against. But overall, we are very satisfied and very pleased with the mix of the portfolio.

Mukhtar, is there anything you would like to add from a commercial perspective?

Mukhtar Ahmed
Richard, no. I think you've covered all of the important points here. I think the key thing here is that this is a union of some really unique assets and capabilities. Together, they serve the end to end value chain for life cycle for life science companies. Actually, also in the medical technology sector, what DRG brings is really deep expertise in med-tech, especially, which should really give us a platform for growth into that sector also.

Jerre Stead
I'd just add one quick thing, and then, operator, we'll take the next question. We've targeted this to be exiting, your question was a good one, Seth, to exit 2021 at approximately 40% adjusted EBITDA for this business, so it's going to be a very good one for us. Then as we make the changes that Richard and Mukhtar talked about, you'll see a lot of the synergies on the revenue side that we have not included in any numbers at this point. Thank you. Next question.

Operator
Yes, thank you. The next question comes from Andrew Nicholas with William Blair.

Andrew Nicholas
Good Morning. I want to talk a little growth rate at DRG. I think in your slides you talked about a 9% organic growth in 2019. I'm just curious, is that relatively consistent with the past couple of years, and is that how we should be thinking about growth for this business going forward? And then relatedly, do the revenue synergies keep this at 9% or accelerate a little bit further into double digits?

Jerre Stead
So, I'll start and then, Mukhtar, you pick up and then let Richard wrap up on it. We expect to see this double digit growth for the years to come, many years to come. And I feel very confident that that's going to happen. We also, I would say, because the question is a really critical one of what we did with due diligence. We know, based on everything they accomplished in 2019, what we can expect in 2020, 2021 and 2022 as we get our arms around it, and it will also pull through, and we've not said anything about that, just what Richard commented a minute ago, it will pull through an organic growth increase of significance, with our Life Science business in Clarivate.

Mukhtar?

Mukhtar Ahmed
Thanks, Jerre. If we look at the markets that DRG is serving, those are all high-growth markets and there is significant growth in those, both across North America and Europe, but especially in Asia Pacific. So, the growth rate that DRG achieved in 2019 is well below that rate of market growth, so there's plenty of opportunity to realize a double digit growth rate. The assets that they have, they have spent a lot of time focusing on those assets and also focusing on areas of deep specialization. Particularly, the analytics and data space for their customers, and med tech is also an area they invested in which creates significant opportunity for them moving forward.

So yes, we absolutely expect to realize the growth moving forward. Richard, do you want to add to this?

Jerre Stead

Richard?

Richard Hanks
Yes, sure. Thanks, Mukhtar. So as Mukhtar described, the life sciences, analytics and data space from the market's perspective is growing at 12% and so with DRG's capabilities combined with Clarivate's, we are very confident that we can achieve double digit growth rates. Two thousand and nineteen growth, 9.5%, a good year.   We expect and plan for a similar outcome in 2020, potentially a bit more, with cross-sell opportunities through the channels that we have, that I described earlier. The growth in data analytics in particular is very impressive. That will be an asset that we will continue to polish and drive growth through. And then as Mukhtar emphasized, the data assets around medical technology are extremely impressive, and that is an asset that we will leverage heavily over the next three years to propel those double digit rates.

So, analytics, consulting services, good growth in 2019, great momentum in the business going into 2020, we're very confident with double digit sustained growth rates.

Jerre Stead
Thanks, Richard. Next question.

Operator
Yes. The next question comes from Zach Cummins with B Riley FBR.

Zach Cummins
Hi. Good Morning Jerre. My question is just focused around the $30 million of expected adjusted EBITDA synergies. Can you provide a little more incremental color in some of the specific areas that you look to extract some of those costs?

Jerre Stead
Yes, I'll have Richard comment more.   But it's people, it's real estate, it's being able to scale up significantly. It will relieve us from having only one corporate structure. So there's nothing magic about it, Zach, but I would say our confidence level of those $30 million and the time frame we've laid out is 90% plus. Richard?

Richard Hanks
Thanks, Jerre. So, as Jerre described, we did a very thorough piece of work on expense synergies. The principle that we applied was that we must not disturb any delivery mechanisms within the business, and we must not disturb the go to market model. We need to sustain and grow from the 9.5% growth in 2019. So those are the principles we applied in looking into expense synergies.

Now that said, from the thorough exercise that we completed, we identified $30 million of synergies, and that will be a combination of head count, facilities, some modest technology savings and then areas such as audit fees, insurance, the customary procurement areas you would expect. We did a thorough piece of work. In terms of realization, we expect one-third of the synergies to be realized on an annual basis in 2020 and fully realized over the next 18 months.

Jerre Stead
Thanks, Richard. Thank you, Zach. Next question.

Operator

Once again, please press star and then one if you would like to ask a question. And at present, we don't have any questions.

Jerre Stead
Okay, well I'll wrap it up in just a second, and I would suggest that we'll listen one more second for any others. We look forward to responding to everyone's questions as we move forward. As I've said, I have done over 200 acquisitions during my career, most of which have been quite successful. This one, from a strategic and financial standpoint, is one of the very best, I've ever seen. I put it right at the top. As we said, it will be accretive on an EPS basis in year one. A lot of those don't get to be.

We will have the opportunity and taking the opportunity to make sure that we optimize, as we said, our balance sheet going forward, that we'll do that because we're in great shape. We'll do our best to get that closed before we close this, we'll get the financing wrapped up, and we'll optimize it, either using the ability we have with lines of credit, etc., not Long term, short term and/or equity if we so choose. But it will be done to make it the very best fit going forward, and no matter what balance we use, it will be accretive on an EPS basis.

Was there another question that came up?

Operator
Yes. We do have a follow-up from Andrew Nicholas with William Blair.

Jerre Stead
Okay.

Andrew Nicholas
Hi, guys. Thanks for letting me follow up here. I just wanted to ask another question about maybe the data assets themselves. Would you mind fleshing out how proprietary the data is, where the data is typically coming from and just maybe give us some appreciation for why you believe it's such a unique data set?

Jerre Stead
Yes, Mukhtar, great question, pick it up.

Mukhtar Ahmed
Sure. The data that DRG has, some of it comes from inbound agreements that they uniquely have with a number of providers across healthcare in particular, so those are very unique to them. In other cases, they assembled data sets that are proprietary to them, particularly in the med-tech sector. But just as an example, what DRG has access to is just such deep and unique data in commercial and epidemiology, for example, the formulary data, they have some very unique forecasting and market segmentation capabilities. So that's what makes them so very, very unique in being able to provide the services and expertise, particularly, around commercial strategy, key decision making and in the commercialization of drugs and medical device. And also, deep market access strategies, particularly around patient segmentation.

So, something that Richard touched on earlier on, the data and analytics business, has grown and we expect it to continue to grow just by virtue of these very, very unique data assets that they possess.

Andrew Nicholas
Thanks. One more, if I could squeeze it in. Just in terms of revenue synergies, obviously you guys seem pretty optimistic about your abilities to accelerate growth on the top line. I'm curious if you could possibly

give me an example or two of what a revenue synergy might be between Cortellis and DRG or the client base or where you are primarily focused. And an example or a use case would be helpful too.

Jerre Stead

That's a great question. Mukhtar will pick it up in just a second. One of the other very nice things about this particular merger is that our strength in Asia will offset their absence in Asia, and so that's an upside that we've not put numbers around yet. Mukhtar and I were just at our Asia Pacific kickoff meeting this week with our sales team in Bangkok, none of them knowing this was going on, but all very excited about what we have been doing with Life Science. So pick up a couple of examples, Mukhtar.

Mukhtar Ahmed

Yes of course. So if you take Cortellis, Cortellis has deep strength and is a market leader in pretty much everything from the discovery stage, particularly for drug development, all the way through the clinical developmental stages to regulatory. That's the core strength of Cortellis, aided by also Web of Science actually as well, which supports some of the academic research requirements that ultimately feed into that process.

Now coupled with DRG's portfolio, which pretty much picks it up from post approval onwards into markets, access into real world evidence in particular, when you fuse that together, the combination makes it such a unique and compelling proposition, not just not from multinational pharma, but also specialty biopharmas. And as Jerre has said, Asia Pacific is where we see a huge opportunity to take that proposition forward. It's an untapped market, particularly for the DRG team, and with the combined assets, it just means that we can support pharma in particular, right across their value chain.

So, any pharma stats, for example, when they're in the clinical development stage, that's the stage in which one starts looking at market access strategy, and up until now we haven't been able to service that with Cortellis. But with the DRG portfolio, we're now able to fuse that together, so it becomes almost a seamless progression from clinical into post approval. So for global pharma in particular, we can service them, we can service their affiliates, which is typically the case for certainly the top 50 pharma, they have affiliates around the world that need to be serviced, since they have drug launch programs for particular geographies and particular markets. So it just means we are bringing forth a very, very different and stronger proposition for those customers.

Jerre Stead

Thanks, Mukhtar. Operator, any other questions?

Operator

Not at the present time, no.

Jerre Stead

Thank you. So with that, I'll close on just a couple of things. First of all, I want to thank the entire team. Just for background, when we signed our exclusive agreement, it was after Thanksgiving and I'm just tremendously proud of the effort that everybody did to be able to get us to this point as quickly as we did. As I said, this is one of the best that I have been able to participate in, and very eager to give it to the shareholder returns that we will get. Strategically, it's as good or better than any I've ever had.

Two, from a financial standpoint, it's outstanding, and if you remember, the goals, that I said were my personal goals, of $1.5 billion of revenue and $600 million of EBITDA, this one will take us a giant leap forward towards that, and it's unique because we'll be accretive, as we said, on EPS in the first year, and we will take this opportunity to balance our balance sheet and our portfolio, if you will, between minimizing any dilution, and also making sure that we're on track to continue to reduce our debt to trailing 12 months.

So this one is as good as it gets. We look forward to more reporting on it on February 27. Thank you all very much for the short notice. This is a winner. Thank you.

CONCLUSION

Operator
Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.