

# CONSTELLATION SOFTWARE INC.

## TO OUR SHAREHOLDERS

We had record revenues in Q2 2009, topping \$100 million in quarterly revenue for the first time. At 27%, our ROIC (Annualized) continues to be very good. Disappointment in the quarter stemmed primarily from our Organic Net Revenue growth of -4%. Our private sector businesses' Q2 organic revenue growth was significantly negative (-14%) vs Q2 of last year, and the rate of organic revenue decline has not yet moderated. The public sector businesses have also seen slow organic revenue growth (4%), some of which was due to foreign exchange fluctuations, but a significant portion of the slow growth was due to lackluster bookings in the last couple of quarters.

The Maximus Asset Justice and Education solutions ("MAJES") businesses that we acquired in Q3 of 2008 contributed significantly to revenue (\$19 million), Adjusted EBITDA (\$5.5 million) and cash flow from operating activities (\$7.1 million) in Q2 2009. This was the first quarter where the MAJES cash flows suggest that the purchase price that we paid might be reasonable. It is still too early to congratulate ourselves, as contract penalties and/or contingent liabilities assumed as part of the acquisition could yet reverse the positive cash flows achieved to date.

During Q2 we completed one acquisition, and subsequent to quarter-end another four acquisitions closed. Total capital deployed for the five acquisitions was \$8 million. Our cash flow exceeded the capital deployed on acquisitions, and our bank line was paid down by \$17 million during Q2.

This quarter, John Billowits (CFO) and I visited with a large number of private equity ("PE") firms that acquire software businesses. Our initial hope was that they might have some over-levered businesses to sell. We found that they had very few software businesses in financial difficulty. In fact, software businesses in general, whether PE owned or public, appear to have fared remarkably well during the recession. Their costs are largely headcount related, their revenues are largely recurring, and most of them have trimmed headcount in response to modest revenue contraction. Software Equity Group, LLC reported in their 2Q09 Software Industry Equity Report, that the median public software company EBITDA margin is at a four-year high. The good news is that most software businesses are resilient high return businesses. The bad news is that a large number of deep-pocketed PE organisations and well financed profitable public companies continue to compete with us for all of the larger acquisition opportunities.

At the time of our initial public offering we established an objective of generating in excess of 20% average annual revenue growth per share and EBITDA growth per share for the period January 1, 2006 through December 31, 2010. We continue to believe that the employees of Constellation will deliver this remarkable performance despite the current economic environment.

Mark Leonard  
President  
Constellation Software Inc.

August 5<sup>th</sup>, 2009

	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
(\$ millions, except percentages)									
Revenue	60.5	60.6	66.1	73.6	77.7	80.8	98.4	97.3	101.5
Net Income	3.5	3.3	1.6	4.3	3.4	3.3	4.0	3.8	3.7
Net Revenue	54.9	55.3	60.2	66.6	71.0	74.6	88.6	89.3	91.1
Net Maintenance Revenue	33.3	34.5	37.8	41.7	43.8	46.1	52.9	53.7	56.6
Adjusted Net Income (1)	8.4	8.5	9.4	11.1	12.0	12.3	19.0	16.8	16.4
Average Invested Capital	149	158	167	176	188	201	216	234	247
Net Revenue Growth (Y/Y)	16%	14%	24%	31%	29%	35%	47%	34%	28%
Organic Net Revenue Growth (Y/Y)	0%	2%	3%	6%	5%	7%	0%	-5%	-4%
Net Maintenance Growth (Y/Y)	24%	23%	28%	34%	32%	34%	40%	29%	29%
Adjusted Net Income Growth (Y/Y)	91%	13%	5%	62%	43%	45%	103%	51%	36%
Average Invested Capital Growth (Y/Y)	25%	26%	24%	24%	26%	27%	29%	33%	31%
Tangible Net Assets / Net Revenue	-45%	-53%	-74%	-58%	-58%	-84%	-102%	-80%	-78%
ROIC (Annualized)	23%	22%	22%	25%	26%	25%	35%	29%	27%
ROIC + Organic Net Revenue Growth	23%	24%	26%	32%	31%	32%	35%	24%	23%

(1) Historical figures restated to comply with revised definition.

### Performance Metrics Glossary

“Net Revenue” means Revenue for GAAP purposes less third party and flow-through expenses. We use Net Revenue since it captures 100% of the license, maintenance and services revenues associated with Constellation’s own products, but only includes the margin on our lower value-added revenues such as commodity hardware or third party software.

“Net Maintenance Revenue” is derived from GAAP Maintenance Revenue by subtracting third party maintenance costs. We believe that Net Maintenance Revenue is one of the best indicators of the intrinsic value of a software company and that the operating profitability of a low growth software business should correlate tightly to Net Maintenance Revenues.

Effective Q1 2008, the term “Adjusted Net Income” is derived by adjusting GAAP net income for the non-cash amortization of intangibles, future income taxes, and charges related to appreciation in common shares eligible for redemption (a charge that we no longer incur now that Constellation’s common shares are publicly traded). Prior to Q1 2008, Adjusted Net Income was derived by adjusting GAAP net income for the non-cash amortization of intangibles and charges related to appreciation in common shares eligible for redemption. The computation was changed to include future income taxes since the majority of future income taxes relate to the amortization of intangible assets, and thus are being added back to more closely match the non-cash future tax recovery with the amortization of intangibles. All previously reported Adjusted Net Income figures have been restated in the table above to reflect the new method of computations. We use Adjusted Net Income because it is generally a better measure of cash flow than GAAP net income and it is closely aligned with the calculation of net income we use for bonus purposes.

“Average Invested Capital” is based on the Company’s estimate of the amount of money that our shareholders had invested in Constellation. Subsequent to that estimate, each period we have kept a running tally, adding Adjusted Net Income, subtracting any dividends, adding any amounts related to share issuances and making some small adjustments, including adjustments relating to our use of certain incentive programs and the amortization of impaired intangibles.

“Tangible Net Assets / Quarterly Net Revenue” provides a measure of our Tangible Net Assets as a proportion of Quarterly Net Revenue. Tangible Net Assets is calculated by taking Total Assets for GAAP purposes, and subtracting (i) intangible assets and goodwill, (ii) cash and short term investments, (iii) future income tax assets, (iv) all customer, trade and government liabilities that do not bear a coupon, excluding future income tax liabilities and acquisition holdbacks.

“ROIC (Annualized)” represents a ratio of Adjusted Net Income to Average Invested Capital.

“ROIC + Organic Net Revenue Growth” provides a historical measure of the effectiveness of our capital allocation.

#### Forward Looking Statements

Certain statements herein may be “forward looking” statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Constellation or the industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date hereof. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements. These forward looking statements are made as of the date hereof and Constellation assumes no obligation to update any forward looking statements to reflect new events or circumstances except as required by law.

#### Non-GAAP Measures

Net Revenue, Net Maintenance Revenue, Adjusted Net Income, Adjusted EBITDA and Organic Net Revenue Growth are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Net Revenue, Net Maintenance Revenue, Adjusted Net Income, Adjusted EBITDA and Organic Net Revenue Growth should not be construed as alternatives to revenue or net income determined in accordance with GAAP as an indicator of the financial performance of the Company or as a measure of the Company’s liquidity and cash flows. The Company’s method of calculating Net Revenue, Net Maintenance Revenue, Adjusted Net Income, Adjusted EBITDA and Organic Net Revenue Growth may differ from other issuers and, accordingly, may not be comparable to similar measures presented by other issuers. Please refer to Constellation’s most recently filed Management Discussion and Analysis for a reconciliation, where applicable, between the GAAP and non-GAAP measures referred to above.