

Constellation Software Inc. Announces Results for the Third Quarter Ended September 30, 2017 and Declares Quarterly Dividend

TORONTO, ONTARIO (October 26, 2017) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the third quarter ended September 30, 2017 and declared a \$1.00 per share dividend payable on January 4, 2018 to all common shareholders of record at close of business on December 15, 2017. This dividend has been designated as an eligible dividend for the purposes of the Income Tax Act (Canada). Please note that all dollar amounts referred to in this press release are in U.S. Dollars unless otherwise stated.

The following press release should be read in conjunction with the Company’s Unaudited Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2017 and the accompanying notes, our Management Discussion and Analysis for the three and nine months ended September 30, 2017 and with our annual Consolidated Financial Statements, prepared in accordance with International Financial Reporting Standards (“IFRS”) and our annual Management’s Discussion and Analysis for the year ended December 31, 2016, which can be found on SEDAR at www.sedar.com and on the Company’s website www.csisoftware.com. Additional information about the Company is also available on SEDAR at www.sedar.com.

Q3 2017 Headlines:

- Revenue grew 17% (4% organic growth, 2% after adjusting for changes in foreign exchange rates) to \$637 million compared to \$546 million in Q3 2016.
- Adjusted EBITA increased \$21 million or 15% to \$162 million as compared to \$140 million in Q3 2016.
- Net income decreased 20% to \$54 million (\$2.56 on a diluted per share basis) from \$68 million (\$3.18 on a diluted per share basis) in Q3 2016.
- Adjusted net income declined 4% to \$116 million (\$5.45 on a diluted per share basis) from \$121 million (\$5.70 on a diluted per share basis) in Q3 2016. Excluding the impact of unrealized foreign exchange (gains) and losses recorded in Q3 2017 and Q3 2016 Adjusted net income increased 3% to \$123 million (\$5.81 on a diluted per share basis) from \$120 million (\$5.65 on a diluted per share basis) in Q3 2016.
- Fourteen acquisitions were completed for aggregate cash consideration of \$52 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$12 million.
- Cash flows from operations were \$123 million, a decrease of 11%, or \$15 million, compared to \$138 million for the comparable period in 2016.
- Subsequent to September 30, 2017, the Company entered into agreements to acquire seven entities for aggregate cash consideration of \$41 million on closing plus cash holdbacks of \$9 million for total consideration of \$50 million.

Total revenue for the quarter ended September 30, 2017 was \$637 million, an increase of 17%, or \$91 million, compared to \$546 million for the comparable period in 2016. For the first nine months of 2017 total revenues were \$1,792 million, an increase of 15%, or \$231 million, compared to \$1,561 million for the comparable period in 2016. The increase for both the three and nine month periods compared to the same periods in the prior year is primarily attributable to growth from acquisitions as the Company experienced organic growth of 4% and 2% respectively, 2% and 3% respectively after adjusting for the impact of the changes in the valuation of the US dollar against most major currencies in which the Company transacts business.

For the quarter ended September 30, 2017, Adjusted EBITA increased to \$162 million compared to \$140 million for the same period in 2016 representing an increase of 15%. Adjusted EBITA margin was 25% for the quarter ended September 30, 2017 and 26% for the same period in 2016. For the first nine months of 2017, Adjusted EBITA increased to \$447 million compared to \$379 million during the same period in 2016, representing an increase of 18%. Adjusted EBITA margin was 25% in the first nine months of 2017 and 24% for the same period in 2016.

Net income for the quarter ended September 30, 2017 was \$54 million compared to net income of \$68 million for the same period in 2016. On a per share basis this translated into a net income per diluted share of \$2.56 in the quarter ended September 30, 2017 compared to net income per diluted share of \$3.18 for the same period in 2016. For the nine months ended September 30, 2017, net income was \$146 million or \$6.88 per diluted share compared to \$141 million or \$6.66 per diluted share for the same period in 2016.

For the quarter ended September 30, 2017, Adjusted net income decreased to \$116 million from \$121 million for the same period in 2016, representing a decrease of 4%. Adjusted net income margin was 18% for the quarter ended September 30, 2017 and 22% for the same period in 2016. For the first nine months of 2017, Adjusted net income increased to \$322 million from \$273 million during the same period in 2016, representing an increase of 18%. Adjusted net income margin was 18% in the first nine months of 2017 and 17% for the same period in 2016. Excluding the impact of the unrealized foreign exchange (gain) loss recorded in each of the three and nine month periods ended September 30, 2016 and 2017 the margins would have been 19% for both of the respective periods in 2017, and 22% and 19% for the respective periods in 2016.

Cash flows from operations for the quarter ended September 30, 2017 were \$123 million, a decrease of 11%, or \$15 million, compared to \$138 million for the comparable period in 2016.

The following table displays our revenue by reportable segment and the percentage change for the three and nine months ended September 30, 2017 compared to the same periods in 2016:

	Three months ended					Nine months ended				
	September 30,		Period-Over-Period Change		Organic Growth	September 30,		Period-Over-Period Change		Organic Growth
	2017	2016	\$	%		2017	2016	\$	%	
	(\$M, except percentages)					(\$M, except percentages)				
Public Sector										
Licenses	28	21	7	34%	2%	75	63	12	20%	-9%
Professional services	101	87	14	16%	4%	287	251	36	14%	1%
Hardware and other	37	33	4	12%	4%	96	88	8	9%	3%
Maintenance and other recurring	269	226	43	19%	5%	759	643	115	18%	3%
	436	368	68	18%	5%	1,217	1,045	172	16%	2%
Private Sector										
Licenses	16	14	2	15%	3%	46	41	5	12%	2%
Professional services	24	22	2	8%	-3%	72	67	5	8%	-2%
Hardware and other	7	7	0	4%	-10%	21	21	0	1%	-8%
Maintenance and other recurring	153	134	19	14%	4%	437	388	48	12%	3%
	200	178	23	13%	2%	575	517	59	11%	2%

Certain totals and percentages may not reconcile due to rounding.

For purposes of calculating organic growth, estimated pre-acquisition revenue from the relevant companies acquired in 2016 and 2017 was added to actual reported revenue for the three and nine months ended September 30, 2016.

Public Sector

For the quarter ended September 30, 2017, total revenue in the public sector reportable segment increased 18%, or \$68 million to \$436 million, compared to \$368 million for the quarter ended September 30, 2016. For the nine months ended September 30, 2017, total revenue increased by 16%, or \$172 million to \$1,217 million, compared to \$1,045 million for the comparable period in 2016. Organic revenue growth was 5% and 2% respectively for the three and nine months ended September 30, 2017 compared to the same periods in 2016, and 3% and 2% for after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business.

Private Sector

For the quarter ended September 30, 2017, total revenue in the private sector reportable segment increased 13%, or \$23 million to \$200 million, compared to \$178 million for the quarter ended September 30, 2016. For the nine months ended September 30, 2017, total revenue increased by 11%, or \$59 million to \$575 million, compared to \$517 million for the comparable period in 2016. Organic revenue growth was 2% for both the three and nine months ended September 30, 2017 compared to the same periods in 2016, and 1% and 3% respectively after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business.

Conference Call and Webcast

Management will host a conference call at **7:30 a.m. (ET) on Friday, October 27, 2017** to answer questions regarding the results. The teleconference numbers are 647-788-4919 or 877-291-4570. The call will also be webcast live and archived on Constellation's website at www.csisoftware.com.

A replay of the conference call will be available as of 12:30 p.m. ET the same day until 11:59 p.m. ET on November 10, 2017. To access the replay, please dial 416-621-4642 or 800-585-8367 followed by the passcode 99526408.

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. 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 reflect current assumptions and expectations regarding future events and operating performance and are made as of the date hereof and Constellation assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances

Non-IFRS Measures

The term "Adjusted EBITA" refers to net income before adjusting for finance and other income, bargain purchase gain, finance costs, income taxes, share in net income or loss of equity investees, impairment of non-financial assets, amortization, TSS membership liability revaluation charge, and foreign exchange gain or loss. The Company believes that Adjusted EBITA is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration intangible asset amortization and the other items listed above. "Adjusted EBITA margin" refers to the percentage that Adjusted EBITA for any period represents as a portion of total revenue for that period.

"Adjusted net income" means net income adjusted for non-cash expenses (income) such as amortization of intangible assets, deferred income taxes, the TSS membership liability revaluation charge, and certain other expenses (income), and excludes the portion of the adjusted net income of Total Specific Solutions (TSS) B.V. ("TSS") attributable to the minority owners of TSS. The Company believes that Adjusted net income is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration amortization of intangible assets, deferred income taxes, the TSS membership liability revaluation charge, and certain other non-cash expenses (income) incurred or recognized by the Company from time to time, and adjusts for the portion of TSS' Adjusted net income not attributable to shareholders of Constellation. "Adjusted net income margin" refers to the percentage that Adjusted net income for any period represents as a portion of total revenue for that period.

Adjusted EBITA and Adjusted net income are not recognized measures under IFRS and, accordingly, readers are cautioned that Adjusted EBITA and Adjusted net income should not be construed as alternatives to net income determined in accordance with IFRS. The Company's method of calculating Adjusted EBITA and Adjusted net income may differ from other issuers and, accordingly, Adjusted EBITA and Adjusted net income may not be comparable to similar measures presented by other issuers. Adjusted EBITA includes 100% of the Adjusted EBITA of TSS.

The following table reconciles Adjusted EBITA to net income:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>636</u>	<u>546</u>	<u>1,792</u>	<u>1,561</u>
Net income	54	67	146	141
Adjusted for:				
Income tax expense (recovery)	26	27	69	59
Foreign exchange (gain) loss	8	(1)	11	25
TSS membership liability revaluation charge	12	7	40	14
Share in net (income) loss of equity investees	(0)	(5)	(0)	(6)
Finance and other income	(1)	(3)	(2)	(3)
Bargain purchase gain	(5)	-	(5)	-
Finance costs	9	5	19	16
Amortization of intangible assets	60	43	168	132
Adjusted EBITA	162	140	447	379
Adjusted EBITA margin	25%	26%	25%	24%

Certain totals and percentages may not reconcile due to rounding.

The following table reconciles Adjusted net income to net income:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	636	546	1,792	1,561
Net income	54	67	146	141
Adjusted for:				
Amortization of intangible assets	60	43	168	132
TSS membership liability revaluation charge	12	7	40	14
Bargain purchase gain	(5)	-	(5)	-
Less non-controlling interest in the Adjusted net income of TSS	(5)	(4)	(16)	(13)
Deferred income tax expense (recovery)	(0)	8	(11)	(1)
Adjusted net income	115	121	322	273
Adjusted net income margin	18%	22%	18%	17%

Certain totals and percentages may not reconcile due to rounding.

About Constellation Software Inc.

Constellation's common shares are listed on the Toronto Stock Exchange under the symbol "CSU". Constellation acquires, manages and builds vertical market software businesses.

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SOURCE: CONSTELLATION SOFTWARE INC.

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Financial Position
(In thousands of U.S. dollars)

Unaudited

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash	\$ 414,586	\$ 353,499
Equity securities available-for-sale	-	4,236
Accounts receivable, net	298,798	243,554
Work in progress	68,602	56,541
Inventories	29,240	19,667
Other assets	107,499	96,181
	918,725	773,678
Non-current assets:		
Property and equipment	53,006	46,395
Deferred income taxes	34,494	49,863
Other assets	21,436	19,782
Intangible assets	1,139,435	993,743
	1,248,371	1,109,783
Total assets	\$ 2,167,096	\$ 1,883,461
Liabilities and Shareholders' Equity		
Current liabilities:		
CSI Facility	\$ -	\$ -
New CNH Facility	74,881	-
CNH Facility	-	7,361
TSS Membership Liability	45,063	26,435
Accounts payable and accrued liabilities	328,304	291,697
Dividends payable	20,794	21,051
Deferred revenue	556,190	460,975
Provisions	9,336	7,955
Acquisition holdback payments	34,968	17,056
Income taxes payable	55,537	40,634
	1,125,073	873,164
Non-current liabilities:		
CNH Facility	-	115,336
TSS Membership Liability	79,271	46,502
Debentures	238,693	223,870
Deferred income taxes	139,657	129,585
Acquisition holdback payments	4,965	855
Other liabilities	30,588	36,640
	493,174	552,788
Total liabilities	1,618,247	1,425,952
Shareholders' equity:		
Capital stock	99,283	99,283
Accumulated other comprehensive income (loss)	(27,044)	(36,108)
Retained earnings	476,610	394,334
	548,849	457,509
Total liabilities and shareholders' equity	\$ 2,167,096	\$ 1,883,461

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Income
(In thousands of U.S. dollars, except per share amounts)

Three and nine months ended September 30, 2017 and 2016

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue				
License	\$ 44,478	\$ 35,285	\$ 120,482	\$ 103,110
Professional services	125,530	109,872	358,648	317,464
Hardware and other	43,852	39,515	117,208	109,030
Maintenance and other recurring	422,599	360,974	1,195,531	1,031,692
	636,459	545,646	1,791,869	1,561,296
Expenses				
Staff	312,667	266,142	898,751	781,744
Hardware	24,208	21,660	63,619	61,725
Third party license, maintenance and professional services	55,059	51,264	155,601	142,848
Occupancy	15,584	13,047	43,454	37,590
Travel	18,546	15,678	52,438	44,999
Telecommunications	5,716	5,376	16,051	16,198
Supplies	4,103	2,304	11,583	6,991
Software and equipment	11,200	9,590	30,556	27,180
Professional fees	7,921	6,438	21,614	19,932
Other, net	14,126	8,263	35,112	28,029
Depreciation	5,768	5,454	16,388	15,436
Amortization of intangible assets	59,829	42,676	167,852	131,987
	534,727	447,892	1,513,019	1,314,659
Foreign exchange loss (gain)	7,567	(1,026)	10,926	24,778
TSS membership liability revaluation charge	11,781	7,070	40,311	13,937
Share in net (income) loss of equity investee	(80)	(5,410)	(206)	(5,717)
Finance and other expense (income)	(1,291)	(2,929)	(1,720)	(3,201)
Bargain purchase gain	(5,008)	-	(5,008)	-
Finance costs	8,725	5,332	19,456	16,353
	21,694	3,037	63,759	46,150
Income before income taxes	80,038	94,717	215,091	200,487
Current income tax expense (recovery)	25,975	19,244	80,191	59,915
Deferred income tax expense (recovery)	(206)	8,011	(10,952)	(556)
Income tax expense (recovery)	25,769	27,255	69,239	59,359
Net income	54,269	67,462	145,852	141,128
Earnings per share				
Basic and diluted	\$ 2.56	\$ 3.18	\$ 6.88	\$ 6.66

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Comprehensive Income
(In thousands of U.S. dollars, except per share amounts)

Three and nine months ended September 30, 2017 and 2016

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net income	\$ 54,269	\$ 67,462	\$ 145,852	\$ 141,128
Items that are or may be reclassified subsequently to net income:				
Net change in fair value of available-for-sale financial asset during the period	-	6,612	(1,314)	6,946
Net change in fair value of derivatives designated as hedges during the period	193	157	538	134
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	(2,539)	1,288	(2,539)
Foreign currency translation differences from foreign operations	857	1,264	8,704	4,301
Deferred income tax recovery (expense)	(58)	(541)	(152)	(578)
Other comprehensive (loss) income for the period, net of income tax	992	4,953	9,064	8,264
Total comprehensive income (loss) for the period	\$ 55,261	\$ 72,415	\$ 154,916	\$ 149,392

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Changes in Equity
(In thousands of U.S. dollars)

Unaudited

Nine months ended September 30, 2017

	Capital stock	Accumulated other comprehensive income/(loss)			Total accumulated other comprehensive income/(loss)	Retained earnings	Total
		Cumulative translation account	Amounts related to gains/losses on available- for-sale financial assets	Amounts related to gains/(losses) on derivatives designed as hedges			
Balance at January 1, 2017	\$ 99,283	\$ (35,748)	\$ 17	\$ (377)	\$ (36,108)	\$ 394,334	\$ 457,509
<i>Total comprehensive income for the period:</i>							
Net income	-	-	-	-	-	145,852	145,852
<i>Other comprehensive income (loss)</i>							
Net change in fair value of available-for-sale financial asset during the period	-	-	(1,314)	-	(1,314)	-	(1,314)
Net change in fair value of derivatives designated as hedges during the period	-	-	-	538	538	-	538
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	-	1,288	-	1,288	-	1,288
Foreign currency translation differences from foreign operations	-	8,704	-	-	8,704	-	8,704
Deferred tax recovery (expense)	-	-	9	(161)	(152)	-	(152)
Total other comprehensive income (loss) for the period	-	8,704	(17)	377	9,064	-	9,064
Total comprehensive income (loss) for the period	-	8,704	(17)	377	9,064	145,852	154,916
Transactions with owners, recorded directly in equity Dividends to shareholders of the Company	-	-	-	-	-	(63,576)	(63,576)
Balance at September 30, 2017	\$ 99,283	\$ (27,044)	\$ -	\$ -	\$ (27,044)	\$ 476,610	\$ 548,849

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Changes in Equity
(In thousands of U.S. dollars)

Unaudited

Nine months ended September 30, 2016

	Capital stock	Accumulated other comprehensive income/(loss)			Total accumulated other comprehensive income/(loss)	Retained earnings	Total
		Cumulative translation account	Amounts related to gains/losses on available- for-sale financial assets	Amounts related to gains/(losses) on derivatives designed as hedges			
Balance at January 1, 2016	\$ 99,283	\$ (33,614)	\$ -	\$ (705)	\$ (34,319)	\$ 272,318	\$ 337,282
<i>Total comprehensive income for the period:</i>							
Net income	-	-	-	-	-	141,128	141,128
<i>Other comprehensive income (loss)</i>							
Net change in fair value of available-for-sale financial asset during the period	-	-	6,946	-	6,946	-	6,946
Net change in fair value of derivatives designated as hedges during the period	-	-	-	134	134	-	134
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	-	(2,539)	-	(2,539)	-	(2,539)
Foreign currency translation differences from foreign operations	-	4,301	-	-	4,301	-	4,301
Deferred tax recovery (expense)	-	-	(545)	(33)	(578)	-	(578)
Total other comprehensive income for the period	-	4,301	3,862	101	8,264	-	8,264
Total comprehensive income for the period	-	4,301	3,862	101	8,264	141,128	149,392
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company	-	-	-	-	-	(63,576)	(63,576)
Balance at September 30, 2016	\$ 99,283	\$ (29,313)	\$ 3,862	\$ (604)	\$ (26,055)	\$ 349,870	\$ 423,098

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Cash Flows
(In thousands of U.S. dollars)

Three and nine months ended September 30, 2017 and 2016
Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Cash flows from operating activities:				
Net income	\$ 54,269	\$ 67,462	\$ 145,852	\$ 141,128
Adjustments for:				
Depreciation	5,768	5,454	16,388	15,436
Amortization of intangible assets	59,829	42,676	167,852	131,987
TSS membership liability revaluation charge	11,781	7,070	40,311	13,937
Share in net (income) loss of equity investee	(80)	(5,410)	(206)	(5,717)
Finance and other income	(1,291)	(2,929)	(1,720)	(3,201)
Bargain purchase gain	(5,008)	-	(5,008)	-
Finance costs	8,725	5,332	19,456	16,353
Income tax expense (recovery)	25,769	27,255	69,239	59,359
Foreign exchange loss (gain)	7,567	(1,026)	10,926	24,778
Change in non-cash operating working capital exclusive of effects of business combinations	(28,069)	2,038	(28,421)	(9,210)
Income taxes paid	(16,539)	(10,094)	(69,517)	(27,692)
Net cash flows from operating activities	122,721	137,828	365,152	357,158
Cash flows from (used in) financing activities:				
Interest paid	(5,572)	(5,547)	(16,707)	(17,395)
Increase (decrease) in New CNH Facility, net	74,608	-	74,608	-
Repayments of CNH facility	(134,248)	-	(138,177)	(4,495)
Credit facility transaction costs	(1,942)	-	(1,942)	(1,212)
Dividends paid	(21,192)	(21,192)	(63,576)	(63,576)
Net cash flows from (used in) in financing activities	(88,346)	(26,739)	(145,794)	(86,678)
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired	(41,863)	(34,500)	(156,062)	(101,198)
Post-acquisition settlement payments, net of receipts	(4,723)	(12,050)	(21,611)	(18,283)
Purchases of available-for-sale equity securities	-	(13,902)	-	(26,596)
Proceeds from sale of available-for-sale equity securities	-	14,276	2,828	14,276
Interest, dividends and other proceeds received	1,152	644	21,607	794
Property and equipment purchased	(5,450)	(3,934)	(14,382)	(13,621)
Net cash flows from (used in) investing activities	(50,884)	(49,466)	(167,620)	(144,628)
Effect of foreign currency on cash and cash equivalents	1,331	(143)	9,349	131
Increase (decrease) in cash and cash equivalents	(15,178)	61,480	61,087	125,983
Cash, beginning of period	429,764	242,974	353,499	178,471
Cash, end of period	\$ 414,586	\$ 304,454	\$ 414,586	\$ 304,454