

Constellation Software Inc. Announces Results for the First Quarter Ended March 31, 2014 and Declares Quarterly Dividend

TORONTO, ONTARIO (April 30, 2014) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the first quarter ended March 31, 2014 and declared a \$1.00 per share dividend payable on July 3, 2014 to all common shareholders of record at close of business on June 17, 2014. 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 months ended March 31, 2014 and the accompanying notes, 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, 2013, which can be found on SEDAR at www.sedar.com and on the Company’s website www.cssoftware.com. Additional information about the Company is also available on SEDAR at www.sedar.com.

Q1 2014 Highlights:

- Revenue grew 54% to \$395 million compared to \$256 million in Q1 2013. Organic growth was 7% in Q1 2014.
- Adjusted EBITA increased \$22 million or 56% to \$63 million as compared to \$40 million in Q1 2013.
- Adjusted Net Income increased 60% to \$53 million (\$2.52 on a diluted per share basis) from \$33 million (\$1.57 on a diluted per share basis) in Q1 2013.
- Net income was \$9 million in Q1 2014 and Q1 2013. (\$0.42 on a diluted per share basis in Q1 2014 compared to \$0.43 in Q1 2013).
- Six acquisitions were completed for aggregate upfront cash consideration of \$15 million (which includes \$4 million paid for acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$3 million.
- Cash flows from operations increased \$66 million or 194% to \$100 million from \$34 million in Q1 2013.
- The amount drawn on the Company’s credit facility increased to \$485 million from \$479 million in Q4 2013.

First quarter 2014 revenue was \$395 million, an increase of 54%, or \$138 million, compared to \$256 million for the comparable period in 2013. The increase is mainly attributable to growth from acquisitions, however, the Company did experience organic growth of 7%.

Adjusted EBITA for the first quarter 2014 was \$63 million, a 56% increase compared to the prior year's first quarter Adjusted EBITA of \$40 million. First quarter 2014 Adjusted EBITA per share on a diluted basis increased 56% to \$2.96, compared to \$1.91 for the same period last year. Adjusted EBITA margin was 16% for both the quarters ended March 31, 2014 and March 31, 2013. A general improvement in EBITA margins across business units (18%) was offset by low EBITA margins realized by Total Specific Solutions (TSS) B.V. (“TSS”) (5%). The TSS EBITA margins included severance of approximately \$3 million relating to a restructuring program in place at the time of the acquisition.

Adjusted Net Income for the first quarter 2014 was \$53 million, compared to the prior year's first quarter Adjusted Net Income of \$33 million, a 60% increase. First quarter 2014 Adjusted Net Income per share on a diluted basis increased 60% to \$2.52 compared to \$1.57 for the prior year’s first quarter.

Net income for the first quarter 2014 and 2013 was \$9 million. Net income per share on a diluted per share basis for the first quarter of 2014 decreased 3% to \$0.42, compared to \$0.43 for the first quarter of 2013.

The following table displays our revenue by reportable segment and the percentage change for the three months ended March 31, 2014 compared to the same period in 2013:

	Three months ended March 31,		Period-Over- Period Change	
	<u>2014</u>	<u>2013</u>	\$	%
	(\$M, except percentages)			
Public Sector				
Licenses	16.2	12.7	3.5	27%
Professional services	75.2	42.2	33.0	78%
Hardware and other	28.6	22.1	6.5	30%
Maintenance and other recurring	157.8	93.9	63.9	68%
	277.8	170.9	106.9	63%
Private Sector				
Licenses	10.3	7.9	2.4	30%
Professional services	16.6	12.9	3.7	29%
Hardware and other	5.2	3.7	1.5	39%
Maintenance and other recurring	84.9	61.0	24.0	39%
	117.1	85.6	31.5	37%

Comparative figures have been reclassified to conform to the current year's presentation.

Public Sector

For the quarter ended March 31, 2014, total revenue in the public sector reportable segment increased 63%, or \$107 million, to \$278 million, compared to \$171 million for the quarter ended March 31, 2013. Revenue growth from acquired businesses was significant as we completed twenty-three acquisitions since the beginning of 2013 in our public sector segment. It is estimated that acquisitions completed since the beginning of 2013 contributed approximately \$94 million to our Q1 2014 revenues. Organic revenue growth was 7% in Q1 2014 compared to the same period in 2013.

Private Sector

For the quarter ended March 31, 2014, total revenue in the private sector reportable segment increased 37%, or \$31 million, to \$117 million, compared to \$86 million for the quarter ended March 31, 2013. Revenue growth from acquired businesses was significant for the three month period as we completed thirteen acquisitions since the beginning of 2013 in our private sector segment. It is estimated that acquisitions completed since the beginning of 2013 contributed approximately \$26 million to our Q1 2014 revenues. Revenues increased organically by 7% in Q1 2014 compared to the same period in 2013.

Conference Call and Webcast

Management will host a conference call at **9:00 a.m. (ET) on Thursday, May 1st, 2014** to answer questions regarding the results. The teleconference numbers are 416-340-2216 or 866-226-1792. 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 11:30 a.m. ET the same day until 11:59 p.m. ET on May 14, 2014. To access the replay, please dial 905-694-9451 or 800-408-3053 followed by the passcode 9393313.

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, finance costs, income taxes, share in net income or loss of equity investees, impairment of non-financial assets, amortization, 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. Previously the Company has reported “Adjusted EBITDA” in certain financial disclosures. Adjusted EBITDA refers to Adjusted EBITA as defined above then further excludes depreciation. The Company uses depreciation as a proxy for the cash flows used to purchase property and equipment required to support the Company’s main business activities. As such, the Company believes Adjusted EBITA is a more useful measure than Adjusted EBITDA.

“Adjusted net income” means net income adjusted for non-cash expenses (income) such as amortization of intangible assets, deferred income taxes, and certain other expenses (income). 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, and certain other non-cash expenses (income) incurred or recognized by the Company from time to time. “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.

The following table reconciles Adjusted EBITA to net income:

	Three months ended March 31,	
	<u>2014</u>	<u>2013</u>
	(\$M, except percentages)	
Total revenue	<u>394.8</u>	<u>256.4</u>
Net income	8.9	9.2
Adjusted for:		
Income tax expense (recovery)	8.2	2.7
Foreign exchange (gain) loss	0.2	1.8
Share in net (income) loss of equity investees	(0.1)	(0.3)
Finance and other income	(0.5)	(0.5)
Finance costs	3.3	1.1
Amortization of intangible assets	42.8	26.5
Adjusted EBITA	62.8	40.4
Adjusted EBITA margin	16%	16%

The following table reconciles Adjusted net income to net income:

	Three months ended March 31,	
	<u>2014</u>	<u>2013</u>
	(\$M, except percentages)	
Total revenue	<u>394.8</u>	<u>256.4</u>
Net income	8.9	9.2
Adjusted for:		
Amortization of intangible assets	42.8	26.5
Deferred income tax expense (recovery)	1.6	(2.3)
Adjusted net income	53.3	33.3
Adjusted net income margin	14%	13%

About Constellation Software Inc.

Constellation Software acquires, manages and builds vertical market software businesses that provide mission-critical software solutions.

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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)

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash	\$ 142,444	\$ 77,967
Equity security available-for-sale	469	780
Accounts receivable	203,949	191,446
Work in progress	61,913	53,682
Inventories	23,704	21,145
Other assets	69,691	67,161
	502,170	412,181
Non-current assets:		
Property and equipment	36,378	36,017
Deferred income taxes	61,849	71,673
Other assets	35,317	36,171
Intangible assets	954,862	981,662
	1,088,406	1,125,523
Total assets	\$ 1,590,576	\$ 1,537,704
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	\$ 483,773	\$ 477,170
Accounts payable and accrued liabilities	219,836	260,585
Dividends payable	21,233	21,031
Deferred revenue	413,431	306,213
Provisions	13,693	11,887
Acquisition holdback payments	23,531	26,496
Income taxes payable	7,074	5,474
	1,182,571	1,108,856
Non-current liabilities:		
Deferred income taxes	106,746	112,780
Acquisition holdback payments	4,255	4,203
Other liabilities	43,129	45,866
	154,130	162,849
Total liabilities	1,336,701	1,271,705
Shareholders' equity:		
Capital stock	99,283	99,283
Accumulated other comprehensive income	621	449
Retained earnings	153,971	166,267
	253,875	265,999
Total liabilities and shareholders' equity	\$ 1,590,576	\$ 1,537,704

CONSTELLATION SOFTWARE INC.

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

Three months ended March 31, 2014 and 2013
(Unaudited)

	2014	2013
Revenue	\$ 394,849	\$ 256,431
Expenses		
Staff	225,672	148,104
Hardware	18,739	16,011
Third party license, maintenance and professional services	35,319	18,440
Occupancy	9,958	6,580
Travel	11,415	9,506
Telecommunications	3,945	3,093
Supplies	8,707	4,648
Professional fees	5,039	3,461
Other, net	9,141	3,990
Depreciation	4,087	2,212
Amortization of intangible assets	42,802	26,461
	374,824	242,506
Foreign exchange loss (gain)	172	1,775
Share in net (income) loss of equity investee	(120)	(344)
Finance and other income	(468)	(490)
Finance costs	3,314	1,116
	2,898	2,057
Income before income taxes	17,127	11,868
Current income tax expense (recovery)	6,611	4,980
Deferred income tax expense (recovery)	1,620	(2,311)
Income tax expense (recovery)	8,231	2,669
Net income	8,896	9,199
Earnings per share		
Basic and diluted	\$ 0.42	\$ 0.43

CONSTELLATION SOFTWARE INC.

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

Three months ended March 31, 2014 and 2013
(Unaudited)

	2014	2013
Net income	\$ 8,896	9,199
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	93	111
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial asset	(264)	-
Foreign currency translation differences from foreign operations	320	(2,611)
Current income tax recovery (expense)	35	(52)
Deferred income tax recovery (expense)	(12)	-
Other comprehensive (loss) income for the period, net of income tax	172	(2,552)
Total comprehensive income for the period	\$ 9,068	\$ 6,647

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

Three months ended March 31, 2014

	Capital stock	Accumulated other comprehensive income/(loss)	Cumulative translation account	Amounts related to gains/losses on available- for-sale financial assets	Total accumulated other comprehensive income/(loss)	Retained earnings	Total
Balance at January 1, 2014	\$ 99,283	\$ (32)	\$ 481		\$ 449	\$ 166,267	\$ 265,999
<i>Total comprehensive income for the period</i>							
Net income	-	-	-		-	8,896	8,896
<i>Other comprehensive income (loss)</i>							
Net change in fair value of available-for-sale financial asset during the period	-	-	93		93	-	93
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial assets	-	-	(264)		(264)	-	(264)
Foreign currency translation differences from foreign operations	-	320	-		320	-	320
Current tax recovery (expense)	-	35	-		35	-	35
Deferred tax recovery (expense)	-	(12)	-		(12)	-	(12)
Total other comprehensive income (loss) for the period	-	343	(171)		172	-	172
Total comprehensive income (loss) for the period	-	343	(171)		172	8,896	9,068
Transactions with owners, recorded directly in equity Dividends to shareholders of the Company	-	-	-		-	(21,192)	(21,192)
Balance at March 31, 2014	\$ 99,283	\$ 311	\$ 310		\$ 621	\$ 153,971	\$ 253,875

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

Three months ended March 31, 2013

	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			
Balance at January 1, 2013	\$ 99,283	\$ 1,450	\$ 171	\$ 1,621	\$ 157,900	\$ 258,804
<i>Total comprehensive income for the period</i>						
Net income	-	-	-	-	9,199	9,199
<i>Other comprehensive income (loss)</i>						
Net change in fair value of available-for-sale financial assets during the period	-	-	111	111	-	111
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial assets	-	-	-	-	-	-
Foreign currency translation differences from foreign operations	-	(2,611)	-	(2,611)	-	(2,611)
Current tax recovery (expense)	-	(52)	-	(52)	-	(52)
Deferred tax recovery (expense)	-	-	-	-	-	-
Total other comprehensive income for the period	-	(2,663)	111	(2,552)	-	(2,552)
Total comprehensive income for the period	-	(2,663)	111	(2,552)	9,199	6,647
Transactions with owners, recorded directly in equity						
Dividends to shareholders of the Company	-	-	-	-	(21,192)	(21,192)
Balance at March 31, 2013	\$ 99,283	\$ (1,213)	\$ 282	\$ (931)	\$ 145,907	\$ 244,259

CONSTELLATION SOFTWARE INC.

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

Three months ended March 31, 2014 and 2013
(Unaudited)

	2014	2013
Cash flows from operating activities:		
Net income	\$ 8,896	\$ 9,199
Adjustments for:		
Depreciation	4,087	2,212
Amortization of intangible assets	42,802	26,461
Share in net (income) loss of equity investee	(120)	(344)
Finance and other income	(468)	(490)
Finance costs	3,314	1,116
Income tax expense	8,231	2,669
Foreign exchange loss (gain)	172	1,775
Change in non-cash operating working capital exclusive of effects of business combinations	37,896	(4,124)
Income taxes paid	(5,285)	(4,562)
Net cash flows from operating activities	99,525	33,912
Cash flows from (used in) financing activities:		
Interest paid	(2,215)	(505)
Increase (decrease) in other non current liabilities	-	(23)
Increase (decrease) in bank indebtedness, net	6,601	63,000
Dividends paid	(21,192)	(21,192)
Net cash flows from (used in) in financing activities	(16,806)	41,280
Cash flows from (used in) investing activities:		
Acquisition of businesses, net of cash acquired	(10,834)	(69,893)
Post-acquisition settlement payments, net of receipts	(2,344)	(5,221)
Proceeds from sale of available-for-sale equity securities	404	-
Interest and dividends received	130	-
Proceeds from sale of assets	-	5,423
Property and equipment purchased	(4,218)	(2,111)
Net cash flows used in investing activities	(16,862)	(71,802)
Effect of foreign currency on cash and cash equivalents	(1,380)	(390)
Increase (decrease) in cash and cash equivalents	64,477	3,000
Cash, beginning of period	77,967	41,313
Cash, end of period	\$ 142,444	\$ 44,313