

Constellation Software Inc. Announces Results for the Second Quarter Ended June 30, 2014 and Declares Quarterly Dividend

TORONTO, ONTARIO (July 31, 2014) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the second quarter ended June 30, 2014 and declared a \$1.00 per share dividend payable on October 3, 2014 to all common shareholders of record at close of business on September 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 and six months ended June 30, 2014 and the accompanying notes, our Management’s Discussion and Analysis for the three and six months ended June 30, 2014, 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.csisoftware.com. Additional information about the Company is also available on SEDAR at www.sedar.com.

Q2 2014 Headlines:

- Revenue grew 39% (5% organically) to \$416 million compared to \$298 million in Q2 2013.
- Adjusted EBITA increased \$22 million or 37% to \$81 million as compared to \$59 million in Q2 2013.
- Adjusted Net Income increased 30% to \$65 million (\$3.07 on a diluted per share basis) from \$50 million (\$2.36 on a diluted per share basis) in Q2 2013.
- Five acquisitions were completed for aggregate cash consideration of \$13 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$7 million.
- Cash flows from operations for the second quarter of 2014 were \$44 million, an increase of 145%, or \$26 million, compared to \$18 million for the comparable period in 2013.
- The amount drawn on the Company’s credit facilities decreased to \$447 million from \$485 million in Q1 2014.
- Net income increased 19% to \$23 million (\$1.08 on a diluted per share basis) from \$19 million (\$0.91 on a diluted per share basis) in Q2 2013.

Second quarter 2014 revenue was \$416 million, an increase of 39%, or \$118 million, compared to \$298 million for the comparable period in 2013. For the first six months of 2014 total revenues were \$811 million, an increase of 46%, or \$256 million, compared to \$555 million for the comparable period in 2013. The increase for both the three and six month periods ended June 30, 2014 compared to the same periods in the prior year is mainly attributable to growth from acquisitions, however, the Company did experience positive organic growth of 5% and 6%, respectively. During the quarter ended June 30, 2013, a contract that was previously accounted for on a zero margin basis due to uncertainty regarding profitability was completed, resulting in the recognition of previously deferred profit margin as part of professional services revenue in the amount of \$5 million. Excluding this amount from the 2013 results, organic growth would have been 6% and 7% for the three and six month periods ended June 30, 2014, respectively.

Adjusted EBITA for the second quarter of 2014 was \$81 million, a 37% increase compared to the prior year’s second quarter Adjusted EBITA of \$59 million. Second quarter 2014 Adjusted EBITA per share on a diluted basis increased 37% to \$3.83, compared to \$2.80 for the same period last year. Adjusted EBITA for the six month period ended June 30, 2014 was \$144 million, a 44% increase over last year’s Adjusted EBITA of \$100 million for the same period. Adjusted EBITA per share on a diluted basis for the six month period ended June 30, 2014 increased 44% to \$6.79, compared to \$4.70 for the same period last year.

Adjusted Net Income for the second quarter of 2014 was \$65 million, compared to the prior year's second quarter Adjusted Net Income of \$50 million, a 30% increase. Second quarter 2014 Adjusted Net Income per share on a diluted basis increased 30% to \$3.07 compared to \$2.36 for the prior year's second quarter. Adjusted Net Income for the six month period ended June 30, 2014 was \$118 million, an increase of 42% over last year's Adjusted Net Income of \$84 million. Adjusted Net Income per share on a diluted basis for the six month period ended June 30, 2014 increased 42% to \$5.58, compared to \$3.94 for the same period in 2013.

Cash flows from operations for the second quarter of 2014 were \$44 million, an increase of 145%, or \$26 million, compared to \$18 million for the comparable period in 2013. For the first six months of 2014 cash flows from operations were \$144 million, an increase of 177%, or \$92 million, compared to \$52 million for the comparable period in 2013. The increase for both the three and six month periods compared to the same periods in the prior year is mainly attributable to growth from acquisitions.

Net income for the second quarter 2014 was \$23 million compared to the prior year's second quarter net income of \$19 million. On a diluted per share basis, this translates into net income per share of \$1.08 for the second quarter of 2014 compared to \$0.91 for the same period of 2013. Net income for the six month period ended June 30, 2014 was \$32 million, an increase of 12% over net income of \$28 million for the same period in 2013. Net income per share on a diluted basis for the six month period ended June 30, 2014 increased 12% to \$1.50, compared to \$1.34 for the same period in 2013.

The following table displays our revenue by reportable segment and the percentage change for the three and six months ended June 30, 2014 compared to the same periods in 2013:

	Three months ended June 30,		Period-Over- Period Change		Six months ended June 30,		Period-Over- Period Change	
	2014	2013	\$	%	2014	2013	\$	%
	(\$M, except percentages)							
Public Sector								
Licenses	21.0	15.2	5.8	39%	37.2	27.9	9.3	33%
Professional services	81.5	52.0	29.5	57%	156.7	94.2	62.5	66%
Hardware and other	29.8	25.1	4.7	19%	58.4	47.2	11.2	24%
Maintenance and other recurring	161.4	103.5	57.9	56%	319.2	197.3	121.8	62%
	293.7	195.7	98.0	50%	571.5	366.6	204.9	56%
Private Sector								
Licenses	9.4	8.9	0.5	5%	19.6	16.8	2.8	17%
Professional services	17.8	14.9	2.9	19%	34.5	27.9	6.6	24%
Hardware and other	5.3	4.4	0.9	21%	10.5	8.1	2.4	29%
Maintenance and other recurring	89.8	74.2	15.6	21%	174.8	135.2	39.5	29%
	122.2	102.5	19.8	19%	239.3	188.0	51.3	27%

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

Public Sector

For the quarter ended June 30, 2014, total revenue in the public sector reportable segment increased by 50%, or \$98 million to \$294 million, compared to \$196 million for the quarter ended June 30, 2013. For the six months ended June 30, 2014, total revenue increased by 56%, or \$205 million to \$572 million, compared to \$367 million for the comparable period in 2013. Revenue growth from acquired businesses contributed approximately \$90 million to our Q2 2014 revenues and \$184 million to our six months ended June 30, 2014 revenues compared to the same periods in 2013, as we completed 25 acquisitions since the beginning of 2013. Organic revenue growth was 4% in Q2 2014 and 6% for the six months ended June 30, 2014 compared to the same periods in 2013. As

mentioned above, during the quarter ended June 30, 2013, a contract that was previously accounted for on a zero margin basis due to uncertainty regarding profitability was completed, resulting in the recognition of previously deferred profit margin as part of professional services revenue in the amount of \$5 million. Excluding this amount, organic growth would have been 7% for the three and six month periods ended June 30, 2014, respectively.

Private Sector

For the quarter ended June 30, 2014, total revenue in the private sector reportable segment increased 19%, or \$20 million to \$122 million, compared to \$102 million for the quarter ended June 30, 2013. For the six months ended June 30, 2014 total revenue increased by 27%, or \$51 million to \$239 million, compared to \$188 million for the comparable period in 2013. Revenue growth from acquired businesses contributed approximately \$15 million to our Q2 2014 revenues and \$41 million to our six months ended June 30, 2014 revenues compared to the same periods in 2013, as we completed 16 acquisitions since the beginning of 2013. Revenues increased organically by 5% in Q2 2014 and 6% for the six months ended June 30, 2014 compared to the same periods in 2013.

Conference Call and Webcast

Management will host a conference call at **9:00 a.m. (ET) on Friday, August 1, 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 August 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, but has determined that Adjusted EBITA is a more meaningful measure going forward. 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:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	415.9	298.2	810.8	554.6
Net income	23.0	19.2	31.9	28.4
Adjusted for:				
Income tax expense (recovery)	10.3	7.8	18.5	10.4
Foreign exchange (gain) loss	2.2	0.4	2.3	2.1
Share in net (income) loss of equity investees	(0.4)	(0.0)	(0.5)	(0.4)
Finance and other income	(1.4)	(0.0)	(1.9)	(0.5)
Finance costs	3.5	2.2	6.8	3.3
Amortization of intangible assets	44.0	29.8	86.8	56.3
Adjusted EBITA	81.1	59.3	143.9	99.7
Adjusted EBITA margin	20%	20%	18%	18%

The following table reconciles Adjusted net income to net income:

	Three months ended June 30,		Six months ended June 30,	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>415.9</u>	<u>298.2</u>	<u>810.8</u>	<u>554.6</u>
Net income	23.0	19.2	31.9	28.4
Adjusted for:				
Amortization of intangible assets	44.0	29.8	86.8	56.3
Deferred income tax expense (recovery)	(1.9)	1.1	(0.3)	(1.2)
Adjusted net income	65.0	50.1	118.4	83.5
Adjusted net income margin	16%	17%	15%	15%

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)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash	\$ 101,276	\$ 77,967
Equity security available-for-sale	-	780
Accounts receivable	193,058	191,446
Work in progress	65,162	55,728
Inventories	25,732	21,145
Other assets	66,438	65,115
	451,666	412,181
Non-current assets:		
Property and equipment	37,996	36,017
Deferred income taxes	64,157	71,673
Other assets	39,014	36,171
Intangible assets	936,733	981,662
	1,077,900	1,125,523
Total assets	\$ 1,529,566	\$ 1,537,704
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	\$ 270,524	\$ 477,170
Accounts payable and accrued liabilities	234,648	260,585
Dividends payable	21,535	21,031
Deferred revenue	375,455	306,213
Provisions	9,376	11,887
Acquisition holdback payments	20,386	26,496
Income taxes payable	11,844	5,474
	943,768	1,108,856
Non-current liabilities:		
Deferred income taxes	110,610	112,780
Bank indebtedness	168,950	-
Acquisition holdback payments	4,124	4,203
Other liabilities	45,465	45,866
	329,149	162,849
Total liabilities	1,272,917	1,271,705
Shareholders' equity:		
Capital stock	99,283	99,283
Accumulated other comprehensive income	1,629	449
Retained earnings	155,737	166,267
	256,649	265,999
Total liabilities and shareholders' equity	\$ 1,529,566	\$ 1,537,704

CONSTELLATION SOFTWARE INC.

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

Three and six months ended June 30, 2014 and 2013

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenue				
License	\$ 30,357	\$ 24,057	\$ 56,838	\$ 44,725
Professional services	99,350	66,951	191,160	122,050
Hardware and other	35,056	29,477	68,848	55,285
Maintenance and other recurring	251,168	177,704	493,934	332,560
	415,931	298,189	810,780	554,620
Expenses				
Staff	224,426	158,243	450,098	306,347
Hardware	19,755	16,246	38,494	32,257
Third party license, maintenance and professional services	38,196	25,829	73,515	44,269
Occupancy	10,206	6,694	20,164	13,274
Travel	12,535	11,125	23,950	20,631
Telecommunications	4,152	3,334	8,097	6,427
Supplies	9,174	4,975	17,881	9,623
Professional fees	5,211	3,760	10,250	7,221
Other, net	7,063	6,279	16,204	10,269
Depreciation	4,094	2,422	8,181	4,634
Amortization of intangible assets	43,985	29,800	86,787	56,261
	378,797	268,707	753,621	511,213
Foreign exchange loss (gain)	2,177	361	2,349	2,136
Share in net (income) loss of equity investee	(415)	(13)	(535)	(357)
Finance and other income	(1,386)	(10)	(1,854)	(500)
Finance costs	3,528	2,151	6,842	3,267
	3,904	2,489	6,802	4,546
Income before income taxes	33,230	26,993	50,357	38,861
Current income tax expense (recovery)	12,183	6,687	18,794	11,667
Deferred income tax expense (recovery)	(1,911)	1,074	(291)	(1,237)
Income tax expense (recovery)	10,272	7,761	18,503	10,430
Net income	22,958	19,232	31,854	28,431
Earnings per share				
Basic and diluted	\$ 1.08	\$ 0.91	\$ 1.50	\$ 1.34

CONSTELLATION SOFTWARE INC.

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

Three and six months ended June 30, 2014 and 2013

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net income	\$ 22,958	\$19,232	\$ 31,854	\$ 28,431
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	-	161	93	272
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial asset	(310)	-	(574)	-
Foreign currency translation differences from foreign operations	1,318	(822)	1,638	(3,433)
Current income tax recovery (expense)	-	(27)	35	(79)
Deferred income tax recovery (expense)	-	-	(12)	-
Other comprehensive (loss) income for the period, net of income tax	1,008	(688)	1,180	(3,240)
Total comprehensive income for the period	\$ 23,966	\$18,544	\$ 33,034	\$ 25,191

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

Six months ended June 30, 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	-	-	-		-	31,854	31,854
<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	-	-	(574)		(574)	-	(574)
Foreign currency translation differences from foreign operations	-	1,638	-		1,638	-	1,638
Current tax recovery (expense)	-	35	-		35	-	35
Deferred tax recovery (expense)	-	(12)	-		(12)	-	(12)
Total other comprehensive income (loss) for the period	-	1,661	(481)		1,180	-	1,180
Total comprehensive income (loss) for the period	-	1,661	(481)		1,180	31,854	33,034
Transactions with owners, recorded directly in equity Dividends to shareholders of the Company	-	-	-		-	(42,384)	(42,384)
Balance at June 30, 2014	\$ 99,283	\$ 1,629	\$ -		\$ 1,629	\$ 155,737	\$ 256,649

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

Six months ended June 30, 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	-	-	-	-	28,431	28,431
<i>Other comprehensive income (loss)</i>						
Net change in fair value of available-for-sale financial assets during the period	-	-	272	272	-	272
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial assets	-	-	-	-	-	-
Foreign currency translation differences from foreign operations	-	(3,433)	-	(3,433)	-	(3,433)
Current tax recovery (expense)	-	(79)	-	(79)	-	(79)
Deferred tax recovery (expense)	-	-	-	-	-	-
Total other comprehensive income for the period	-	(3,512)	272	(3,240)	-	(3,240)
Total comprehensive income for the period	-	(3,512)	272	(3,240)	28,431	25,191
Transactions with owners, recorded directly in equity						
Dividends to shareholders of the Company	-	-	-	-	(42,384)	(42,384)
Balance at June 30, 2013	\$ 99,283	\$ (2,062)	\$ 443	\$ (1,619)	\$ 143,947	\$ 241,611

CONSTELLATION SOFTWARE INC.

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

Three and six months ended June 30, 2014 and 2013
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Cash flows from operating activities:				
Net income	\$ 22,958	\$ 19,232	\$ 31,854	\$ 28,431
Adjustments for:				
Depreciation	4,094	2,422	8,181	4,634
Amortization of intangible assets	43,985	29,800	86,787	56,261
Share in net (income) loss of equity investee	(415)	(13)	(535)	(357)
Finance and other income	(1,386)	(10)	(1,854)	(500)
Finance costs	3,528	2,151	6,842	3,267
Income tax expense	10,272	7,761	18,503	10,430
Foreign exchange loss (gain)	2,177	361	2,349	2,136
Change in non-cash operating working capital exclusive of effects of business combinations	(28,806)	(34,125)	9,090	(38,249)
Income taxes paid	(12,345)	(9,607)	(17,630)	(14,169)
Net cash flows from operating activities	44,062	17,972	143,587	51,884
Cash flows from (used in) financing activities:				
Interest paid	(2,798)	(776)	(5,013)	(1,281)
Increase (decrease) in other non current liabilities	-	144	-	121
Increase (decrease) in bank indebtedness, net	(36,083)	76,251	(29,482)	139,251
Credit facility transaction costs	(5,439)	-	(5,439)	-
Dividends paid	(21,192)	(21,192)	(42,384)	(42,384)
Net cash flows from (used in) in financing activities	(65,512)	54,427	(82,318)	95,707
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired	(11,063)	(75,158)	(21,897)	(145,051)
Post-acquisition settlement payments, net of receipts	(5,673)	(5,464)	(8,017)	(10,685)
Proceeds from sale of available-for-sale equity securities	469	-	873	-
Interest and dividends received	102	-	232	-
Proceeds from sale of assets	-	121	-	5,544
Property and equipment purchased	(4,786)	(3,186)	(9,004)	(5,297)
Net cash flows used in investing activities	(20,951)	(83,687)	(37,813)	(155,489)
Effect of foreign currency on cash and cash equivalents	1,233	(661)	(147)	(1,051)
Increase (decrease) in cash and cash equivalents	(41,168)	(11,949)	23,309	(8,949)
Cash, beginning of period	142,444	44,313	77,967	41,313
Cash, end of period	\$ 101,276	\$ 32,364	\$ 101,276	\$ 32,364