

Constellation Software Inc. Announces Results for the Third Quarter Ended September 30, 2013 and Declares Quarterly Dividend

TORONTO, ONTARIO (October 30, 2013) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the third quarter ended September 30, 2013 and declared a \$1.00 per share dividend payable on January 3, 2014 to all common shareholders of record at close of business on December 17, 2013. 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, 2013 and the accompanying notes, our Management’s Discussion and Analysis for the three and nine months ended September 30, 2013, 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, 2012, 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 2013 Headlines:

- Revenue grew 40% (4% organically) to \$316 million compared to \$226 million in Q3 2012.
- Adjusted EBITDA increased \$12 million or 25% to \$61 million as compared to Q3 2012.
- Adjusted Net Income increased 29% to \$54 million (\$2.55 on a diluted per share basis) from \$42 million (\$1.99 on a diluted per share basis) in Q3 2012.
- Seven acquisitions were completed for aggregate cash consideration of \$10 million plus cash holdbacks of \$1 million and estimated value of contingent consideration of \$1 million.
- Cash flows from operations for the first nine months of 2013 increased \$55 million or 66% to \$139 million from \$84 million for the comparable period in 2012.
- The amount drawn on the Company’s credit facility decreased to \$148 million from \$185 million in Q2 2013.

Third quarter 2013 revenue was \$316 million, an increase of 40%, or \$90 million, compared to \$226 million for the comparable period in 2012. For the first nine months of 2013 total revenues were \$871 million, an increase of 38%, or \$240 million, compared to \$630 million for the comparable period in 2012. The increase for both the three and nine month periods 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 4% and 3%, respectively.

Adjusted EBITDA for the third quarter of 2013 was \$61 million, a 25% increase compared to the prior year's third quarter Adjusted EBITDA of \$49 million. Third quarter 2013 Adjusted EBITDA per share on a diluted basis increased 25% to \$2.86, compared to \$2.30 for the same period last year. Adjusted EBITDA for the nine month period ended September 30, 2013 was \$165 million, a 25% increase over last year’s Adjusted EBITDA of \$132 million for the same period. Adjusted EBITDA per share on a diluted basis for the nine month period ended September 30, 2013 increased 25% to \$7.79, compared to \$6.21 for the same period last year.

Adjusted Net Income for the third quarter of 2013 was \$54 million, compared to the prior year's third quarter Adjusted Net Income of \$42 million, a 29% increase. Third quarter 2013 Adjusted Net Income per share on a diluted basis increased 29% to \$2.55 compared to \$1.99 for the prior year’s third quarter. Adjusted Net Income for the nine month period ended September 30, 2013 was \$138 million, an increase of 25% over last year’s Adjusted Net Income of \$110 million. Adjusted Net Income per share on a diluted basis for the nine month period ended September 30, 2013 increased 25% to \$6.49, compared to \$5.19 for the same period in 2012.

Net income for the third quarter 2013 was \$22 million compared to the prior year's third quarter net income of \$21 million. On a diluted per share basis, this translates into net income per share of \$1.05 for the third quarter of

2013 compared to \$0.99 for the same period of 2012. Net income for the nine month period ended September 30, 2013 was \$51 million, a decrease of 4% over last year's Net income of \$53 million. Net income per share on a diluted basis for the nine month period ended September 30, 2013 decreased 4% to \$2.39, compared to \$2.48 for the same period in 2012.

Cash flows from operations for the third quarter of 2013 were \$88 million, an increase of 92%, or \$42 million, compared to \$46 million for the comparable period in 2012. The increase was caused by a positive variance in changes in non-cash operating working capital in the third quarter of 2013 versus the third quarter of 2012 as well as an increase in Adjusted EBITDA as compared to the previous year. For the first nine months of 2013 cash flows from operations were \$139 million, an increase of 66%, or \$55 million, compared to \$84 million for the comparable period in 2012.

The following table displays our revenue by reportable segment and the percentage change for the three and nine months ended September 30, 2013 compared to the same periods in 2012:

	Three months				Nine months			
	ended		Period-Over-		ended		Period-Over-	
	September 30,		Period Change		September 30,		Period Change	
	<u>2013</u>	<u>2012</u>	\$	%	<u>2013</u>	<u>2012</u>	\$	%
	(\$M, except percentages)				(\$M, except percentages)			
Public Sector								
Licenses	17.6	12.7	5.0	39%	46.5	33.3	13.2	40%
Professional services	49.4	39.7	9.7	24%	145.7	107.5	38.3	36%
Hardware and other	31.1	22.4	8.7	39%	78.6	63.5	15.1	24%
Maintenance and other recurring	119.8	85.8	34.0	40%	324.6	242.3	82.3	34%
	217.9	160.6	57.3	36%	595.4	446.5	148.9	33%
Private Sector								
Licenses	9.2	6.1	3.1	50%	25.1	16.4	8.6	53%
Professional services	13.4	10.8	2.6	24%	39.1	31.1	8.0	26%
Hardware and other	3.9	3.3	0.6	17%	11.7	10.0	1.7	17%
Maintenance and other recurring	71.5	45.2	26.4	58%	199.3	126.2	73.0	58%
	98.0	65.4	32.6	50%	275.1	183.7	91.4	50%

Public Sector

For the quarter ended September 30, 2013, total revenue in the public sector reportable segment increased by 36%, or \$57 million to \$218 million, compared to \$161 million for the quarter ended September 30, 2012. For the nine months ended September 30, 2013, total revenue increased by 33%, or \$149 million to \$595 million, compared to \$447 million for the comparable period in 2012. Total revenue growth from acquired businesses contributed approximately \$52 million to our Q3 2013 revenues and \$131 million to our nine months ended September 30, 2013 revenues compared to the same periods in 2012, as we completed 31 acquisitions since the beginning of 2012. Organic revenue growth was 4% in Q3 2013 and 3% for the nine months ended September 30, 2013 compared to the same periods in 2012.

Private Sector

For the quarter ended September 30, 2013, total revenue in the private sector reportable segment increased 50%, or \$33 million to \$98 million, compared to \$65 million for the quarter ended September 30, 2012. For the nine months ended September 30, 2013 total revenue increased by 50%, or \$91 million to \$275 million, compared to \$184 million for the comparable period in 2012. Total revenue growth from acquired businesses contributed approximately \$30 million to our Q3 2013 revenues and \$83 million to our nine months ended September 30, 2013 revenues compared to the same periods in 2012, as we completed 25 acquisitions since the beginning of

2012. Revenues increased organically by 4% for both the three and nine months ended September 30, 2013 compared to the same periods in 2012.

Conference Call and Webcast

Management will host a conference call at **9:00 a.m. (ET) on Thursday, October 31, 2013** to answer questions regarding the results. The teleconference numbers are 416-340-8530 or 800-766-6630. 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 November 14, 2013. 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 EBITDA" refers to net income before adjusting for finance income, finance costs, income taxes, equity in net income or loss of equity investees, impairment of non-financial assets, depreciation, amortization, and foreign exchange gain or loss. The Company believes that Adjusted EBITDA 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 asset depreciation and amortization and the other items listed above. "Adjusted EBITDA margin" refers to the percentage that Adjusted EBITDA 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, 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 EBITDA and Adjusted net income are not recognized measures under IFRS and, accordingly, readers are cautioned that Adjusted EBITDA 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 EBITDA and Adjusted net income may differ from other issuers and, accordingly, Adjusted EBITDA and Adjusted net income may not be comparable to similar measures presented by other issuers.

The following table reconciles Adjusted EBITDA to net income:

(Unaudited)	Three months ended September 30,		Nine months ended September 30,	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>315.9</u>	<u>226.0</u>	<u>870.5</u>	<u>630.2</u>
Net income (loss)	22.2	21.1	50.7	52.6
Adjusted for:				
Income tax expense (recovery)	2.7	4.8	13.1	11.8
Foreign exchange (gain) loss	(1.6)	(0.3)	0.5	(0.3)
Equity in net (income) loss of equity investees	(0.3)	(0.2)	(0.7)	0.9
Finance income	(0.4)	(2.1)	(0.9)	(3.5)
Finance costs	1.7	1.1	5.0	2.9
Amortization of intangible assets	33.8	22.1	90.0	61.6
Depreciation	2.6	2.1	7.3	5.6
Adjusted EBITDA	60.7	48.6	165.0	131.6
Adjusted EBITDA margin	19%	22%	19%	21%

The following table reconciles Adjusted net income to net income:

(Unaudited)	Three months ended September 30,		Nine months ended September 30,	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>315.9</u>	<u>226.0</u>	<u>870.5</u>	<u>630.2</u>
Net income (loss)	22.2	21.1	50.7	52.6
Adjusted for:				
Amortization of intangible assets	33.8	22.1	90.0	61.6
Deferred income tax expense (recovery)	(1.9)	(1.1)	(3.1)	(4.3)
Adjusted net income (loss)	54.1	42.1	137.6	109.9
Adjusted net income margin	17%	19%	16%	17%

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)

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash	\$ 44,962	\$ 41,313
Equity security available-for-sale	627	470
Accounts receivable	166,598	126,987
Work in progress	52,958	36,926
Inventories	21,327	18,739
Other assets	42,640	29,178
	<u>329,112</u>	<u>253,613</u>
Non-current assets:		
Property and equipment	22,990	21,300
Deferred income taxes	73,288	104,307
Other assets	37,305	31,104
Intangible assets	522,807	402,355
	<u>656,390</u>	<u>559,066</u>
Total assets	\$ 985,502	\$ 812,679
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	\$ 147,045	\$ 44,356
Accounts payable and accrued liabilities	182,595	147,559
Dividends payable	21,151	20,945
Deferred revenue	293,075	224,049
Provisions	5,498	6,396
Acquired contract liabilities	2,027	3,535
Acquisition holdback payments	18,155	20,635
Income taxes payable	2,889	5,066
	<u>672,435</u>	<u>472,541</u>
Non-current liabilities:		
Deferred income taxes	24,755	29,283
Acquired contract liabilities	17,232	26,073
Acquisition holdback payments	3,495	5,973
Other liabilities	22,859	20,005
	<u>68,341</u>	<u>81,334</u>
Total liabilities	740,776	553,875
Shareholders' equity:		
Capital stock	99,283	99,283
Accumulated other comprehensive income	441	1,621
Retained earnings	145,002	157,900
	<u>244,726</u>	<u>258,804</u>
Total liabilities and shareholders' equity	\$ 985,502	\$ 812,679

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Revenue	\$ 315,877	\$ 225,980	\$ 870,497	\$ 630,227
Expenses				
Staff	167,493	120,197	473,840	339,517
Hardware	20,800	14,554	53,057	37,486
Third party license, maintenance and professional services	27,579	15,134	71,848	44,095
Occupancy	7,895	5,450	21,169	15,114
Travel	11,154	8,595	31,785	24,607
Telecommunications	3,831	2,792	10,258	7,842
Supplies	5,782	3,512	15,405	10,810
Professional fees	3,999	3,979	11,220	8,046
Other, net	6,639	3,130	16,908	11,104
Depreciation	2,624	2,112	7,258	5,633
Amortization of intangible assets	33,773	22,099	90,034	61,643
	291,569	201,554	802,782	565,897
Foreign exchange loss (gain)	(1,636)	(321)	500	(330)
Equity in net (income) loss of equity investees	(300)	(216)	(657)	875
Finance income	(375)	(2,066)	(875)	(3,529)
Finance costs	1,705	1,131	4,972	2,923
	(606)	(1,472)	3,940	(61)
Profit (loss) before income taxes	24,914	25,898	63,775	64,391
Current income tax expense (recovery)	4,563	5,918	16,230	16,087
Deferred income tax expense (recovery)	(1,896)	(1,085)	(3,133)	(4,277)
Income tax expense (recovery)	2,667	4,833	13,097	11,810
Net income (loss)	22,247	21,065	50,678	52,581
Earnings (loss) per share				
Basic and diluted	\$ 1.05	\$ 0.99	\$ 2.39	\$ 2.48

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income (loss)	\$ 22,247	\$ 21,065	\$ 50,678	\$ 52,581
Items that are or may be reclassified subsequently to profit or loss:				
Net change in fair value of available-for-sale financial asset during the period	(115)	8,907	157	13,821
Net unrealized foreign exchange gain (loss) on available-for-sale financial asset during the period	-	72	-	45
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial asset	-	(1,900)	-	(2,963)
Foreign currency translation differences from foreign operations	2,083	1,875	(1,350)	1,073
Current income tax recovery (expense)	92	34	13	26
Deferred income tax recovery (expense)	-	(1,063)	-	(1,376)
Other comprehensive (loss) income for the period, net of income tax	2,060	7,925	(1,180)	10,626
Total comprehensive income (loss) for the period	\$ 24,307	\$ 28,990	\$ 49,498	\$ 63,207

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

Nine months ended September 30, 2013

	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, 2013	\$ 99,283	\$ 1,450	\$ 171		\$ 1,621	\$ 157,900	\$ 258,804
<i>Total comprehensive income for the period</i>							
Net income (loss)	-	-	-		-	50,678	50,678
<i>Other comprehensive income (loss)</i>							
Net change in fair value of available-for-sale financial asset during the period	-	-	157		157	-	157
Net unrealized foreign exchange adjustment gain (loss) on available-for-sale financial asset during the period	-	-	-		-	-	-
Amounts reclassified to profit during the period related to realized gains on available-for-sale investment	-	-	-		-	-	-
Foreign currency translation differences from from foreign operations	-	(1,350)	-		(1,350)	-	(1,350)
Current tax recovery (expense)	-	13	-		13	-	13
Deferred tax recovery (expense)	-	-	-		-	-	-
Total other comprehensive income (loss) for the period	-	(1,337)	157		(1,180)	-	(1,180)
Total comprehensive income (loss) for the period	-	(1,337)	157		(1,180)	50,678	49,498
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company	-	-	-		-	(63,576)	(63,576)
Balance at September 30, 2013	\$ 99,283	\$ 113	\$ 328		\$ 441	\$ 145,002	\$ 244,726

(Unaudited)

Nine months ended September 30, 2012

	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, 2012	\$ 99,283	\$ 182	\$ 6,779	\$ 6,961	\$ 150,036	\$ 256,280
<i>Total comprehensive income for the period</i>						
Net income	-	-	-	-	52,581	52,581
<i>Other comprehensive income (loss)</i>						
Net change in fair value of available-for-sale financial assets during the period	-	-	13,821	13,821	-	13,821
Net unrealized foreign exchange adjustment gain (loss) on available-for-sale financial assets during the period	-	-	45	45	-	45
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial assets	-	-	(2,963)	(2,963)	-	(2,963)
Foreign currency translation differences from from foreign operations	-	1,073	-	1,073	-	1,073
Current tax recovery (expense)	-	26	-	26	-	26
Deferred tax recovery (expense)	-	-	(1,376)	(1,376)	-	(1,376)
Total other comprehensive income for the period	-	1,099	9,527	10,626	-	10,626
Total comprehensive income for the period	-	1,099	9,527	10,626	52,581	63,207
Transactions with owners, recorded directly in equity						
Dividends to shareholders of the Company	-	-	-	-	(63,576)	(63,576)
Balance at September 30, 2012	\$ 99,283	\$ 1,281	\$ 16,306	\$ 17,587	\$ 139,041	\$ 255,911

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Cash flows from operating activities:				
Net income (loss)	\$ 22,247	\$ 21,065	\$ 50,678	\$ 52,581
Adjustments for:				
Depreciation	2,624	2,112	7,258	5,633
Amortization of intangible assets	33,773	22,099	90,034	61,643
Equity in net (income) loss of equity investees	(300)	(216)	(657)	875
Finance income	(375)	(2,066)	(875)	(3,529)
Finance costs	1,705	1,131	4,972	2,923
Income tax expense	2,667	4,833	13,097	11,810
Foreign exchange loss (gain)	(1,636)	(321)	500	(330)
Change in non-cash operating working capital exclusive of effects of business combinations	32,317	4,492	(5,932)	(29,347)
Income taxes paid	(5,440)	(7,596)	(19,609)	(18,311)
Net cash flows from operating activities	87,582	45,533	139,466	83,948
Cash flows from (used in) financing activities:				
Interest paid	(1,053)	(634)	(2,334)	(1,471)
Decrease in other non current liabilities	(191)	(192)	(70)	(70)
(Decrease) increase in bank indebtedness, net	(36,949)	6,710	102,302	36,052
Credit facility transaction costs	-	(191)	-	(2,077)
Dividends paid	(21,192)	(21,192)	(63,576)	(42,384)
Net cash flows from (used in) in financing activities	(59,385)	(15,499)	36,322	(9,950)
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired	(7,073)	(14,507)	(152,124)	(65,144)
Post-acquisition settlement payments, net of receipts	(6,008)	(7,038)	(16,693)	(11,671)
Purchases of available-for-sale financial assets	-	(131)	-	(211)
Proceeds from sale of available-for-sale equity securities	-	7,293	-	9,156
Proceeds from sale of intangible assets	-	-	-	101
Interest and dividends received	348	164	348	243
Proceeds from sale of assets	(105)	-	5,439	-
Property and equipment purchased	(3,181)	(2,132)	(8,478)	(4,673)
Net cash flows used in investing activities	(16,019)	(16,351)	(171,508)	(72,199)
Effect of foreign currency on cash and cash equivalents	420	388	(631)	451
Increase (decrease) in cash and cash equivalents	12,598	14,071	3,649	2,250
Cash, beginning of period	32,364	21,671	41,313	33,492
Cash, end of period	\$ 44,962	\$ 35,742	\$ 44,962	\$ 35,742