

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

TORONTO, ONTARIO (October 30, 2014) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the third quarter ended September 30, 2014 and declared a \$1.00 per share dividend payable on January 5, 2015 to all common shareholders of record at close of business on December 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 nine months ended September 30, 2014 and the accompanying notes, our Management’s Discussion and Analysis for the three and nine months ended September 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.

Q3 2014 Headlines:

- Revenue grew 33% (4% organically) to \$419 million compared to \$316 million in Q3 2013.
- Adjusted EBITA increased \$42 million or 73% to \$100 million as compared to \$58 million in Q3 2013. Adjusted EBITA was positively impacted by the following items; \$4 million settlement payment received and recorded as professional services revenue with no offsetting expense, \$3 million credit relating to US benefits claims, \$2 million dollar reversal of vacation accruals, \$1 million recovery of bad debt, and \$4 million of R&D tax credits relating to prior periods. Similar adjustments were not recorded in 2013.
- Adjusted Net Income increased 28% to \$69 million (\$3.27 on a diluted per share basis) from \$54 million (\$2.55 on a diluted per share basis) in Q3 2013. Adjusted net income was positively impacted by the same Adjusted EBITA items listed above on an after tax basis.
- Net income increased 44% to \$32 million (\$1.51 on a diluted per share basis) from \$22 million (\$1.05 on a diluted per share basis) in Q3 2013. Net income was impacted by the same Adjusted EBITA items listed above on an after tax basis.
- Four acquisitions were completed for aggregate cash consideration of \$19 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$8 million.
- Cash flows from operations for the third quarter of 2014 were \$101 million, an increase of 15%, or \$13 million, compared to \$88 million for the comparable period in 2013.
- The amount drawn on the Company’s credit facilities decreased to \$367 million from \$447 million in Q2 2014.
- R&D tax credits in the amount of \$13 million are expected to be utilized to offset taxes payable on taxable income for the nine months ended September 30, 2014. Current tax expense however reflects gross taxes before the application of R&D tax credits.

Third quarter 2014 revenue was \$419 million, an increase of 33%, or \$103 million, compared to \$316 million for the comparable period in 2013. For the first nine months of 2014 total revenues were \$1,230 million, an increase of 41%, or \$359 million, compared to \$871 million for the comparable period in 2013. The increase for both the three and nine month periods ended September 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 4% and 5%, respectively.

Adjusted EBITA for the third quarter of 2014 was \$100 million, a 73% increase compared to the prior year's third quarter Adjusted EBITA of \$58 million. Third quarter 2014 Adjusted EBITA per share on a diluted basis increased 73% to \$4.73, compared to \$2.74 for the same period last year. Adjusted EBITA for the nine month

period ended September 30, 2014 was \$244 million, a 55% increase over last year's Adjusted EBITA of \$158 million for the same period. Adjusted EBITA per share on a diluted basis for the nine month period ended September 30, 2014 increased 55% to \$11.52, compared to \$7.44 for the same period last year. Adjusted EBITA for the three and nine months ended September 30, 2014 was positively impacted by the items listed above and similar items were not recorded in 2013.

Adjusted Net Income for the third quarter of 2014 was \$69 million, compared to the prior year's third quarter Adjusted Net Income of \$54 million, a 28% increase. Third quarter 2014 Adjusted Net Income per share on a diluted basis increased 28% to \$3.27 compared to \$2.55 for the prior year's third quarter. Adjusted Net Income for the nine month period ended September 30, 2014 was \$188 million, an increase of 36% over last year's Adjusted Net Income of \$138 million. Adjusted Net Income per share on a diluted basis for the nine month period ended September 30, 2014 increased 36% to \$8.86, compared to \$6.49 for the same period in 2013. Adjusted net income was positively impacted by the same items as Adjusted EBITA listed above on an after tax basis.

Net income for the third quarter 2014 was \$32 million compared to the prior year's third quarter net income of \$22 million. On a diluted per share basis, this translates into net income per share of \$1.51 for the third quarter of 2014 compared to \$1.05 for the same period of 2013. Net income for the nine month period ended September 30, 2014 was \$64 million, an increase of 26% over net income of \$51 million for the same period in 2013. Net income per share on a diluted basis for the nine month period ended September 30, 2014 increased 26% to \$3.01, compared to \$2.39 for the same period in 2013. Net income was positively impacted by the same items as Adjusted EBITA listed above on an after tax basis.

Cash flows from operations for the third quarter of 2014 were \$101 million, an increase of 15%, or \$13 million, compared to \$88 million for the comparable period in 2013. For the first nine months of 2014 cash flows from operations were \$245 million, an increase of 75%, or \$105 million, compared to \$139 million for the comparable period in 2013. 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.

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

	Three months ended September 30,		Period-Over- Period Change		Nine months ended September 30,		Period-Over- Period Change	
	<u>2014</u>	<u>2013</u>	\$	%	<u>2014</u>	<u>2013</u>	\$	%
	(\$M, except percentages)				(\$M, except percentages)			
Public Sector								
Licenses	18.2	17.0	1.2	7%	55.4	44.9	10.5	23%
Professional services	82.9	48.2	34.7	72%	239.6	142.4	97.2	68%
Hardware and other	27.5	30.9	(3.5)	-11%	85.9	78.1	7.7	10%
Maintenance and other recurring	166.3	116.0	50.3	43%	485.4	313.3	172.1	55%
	294.8	212.2	82.7	39%	866.3	578.7	287.6	50%
Private Sector								
Licenses	10.2	9.8	0.4	4%	29.8	26.7	3.2	12%
Professional services	16.6	14.5	2.1	14%	51.1	42.4	8.6	20%
Hardware and other	5.5	4.0	1.5	37%	15.9	12.1	3.8	32%
Maintenance and other recurring	91.7	75.3	16.3	22%	266.4	210.5	55.9	27%
	124.0	103.7	20.2	20%	363.3	291.8	71.5	25%

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

Public Sector

For the quarter ended September 30, 2014, total revenue in the public sector reportable segment increased by 39%, or \$83 million to \$295 million, compared to \$212 million for the quarter ended September 30, 2013. For the nine months ended September 30, 2014, total revenue increased by 50%, or \$288 million to \$866 million, compared to \$579 million for the comparable period in 2013. Revenue growth from acquired businesses contributed approximately \$75 million to our Q3 2014 revenues and \$259 million to our nine months ended September 30, 2014 revenues compared to the same periods in 2013, as we completed 26 acquisitions since the beginning of 2013. Organic revenue growth was 4% in Q3 2014 and 5% for the nine months ended September 30, 2014 compared to the same periods in 2013.

Private Sector

For the quarter ended September 30, 2014, total revenue in the private sector reportable segment increased 20%, or \$20 million to \$124 million, compared to \$104 million for the quarter ended September 30, 2013. For the nine months ended September 30, 2014 total revenue increased by 25%, or \$72 million to \$363 million, compared to \$292 million for the comparable period in 2013. Revenue growth from acquired businesses contributed approximately \$17 million to our Q3 2014 revenues and \$57 million to our nine months ended September 30, 2014 revenues compared to the same periods in 2013, as we completed 19 acquisitions since the beginning of 2013. Revenues increased organically by 3% in Q3 2014 and 5% for the nine months ended September 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 Monday, November 3, 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 November 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:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	418.8	315.9	1,229.6	870.5
Net income	31.9	22.2	63.8	50.7
Adjusted for:				
Income tax expense (recovery)	15.7	2.7	34.2	13.1
Foreign exchange (gain) loss	6.4	(1.6)	8.7	0.5
Share in net (income) loss of equity investees	(0.2)	(0.3)	(0.7)	(0.7)
Finance and other income	(0.9)	(0.4)	(2.7)	(0.9)
Finance costs	4.1	1.7	10.9	5.0
Amortization of intangible assets	43.2	33.8	130.0	90.0
Adjusted EBITA	100.2	58.1	244.2	157.7
Adjusted EBITA margin	24%	18%	20%	18%

The following table reconciles Adjusted net income to net income:

	Three months ended September 30,		Nine months ended September 30,	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>418.8</u>	<u>315.9</u>	<u>1,229.6</u>	<u>870.5</u>
Net income	31.9	22.2	63.8	50.7
Adjusted for:				
Amortization of intangible assets	43.2	33.8	130.0	90.0
Deferred income tax expense (recovery)	(5.8)	(1.9)	(6.1)	(3.1)
Adjusted net income	69.3	54.1	187.7	137.6
Adjusted net income margin	17%	17%	15%	16%

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, 2014	December 31, 2013
Assets		
Current assets:		
Cash	\$ 81,601	\$ 77,967
Equity security available-for-sale	-	780
Accounts receivable	184,434	191,446
Work in progress	62,925	55,728
Inventories	28,192	21,145
Other assets	59,938	65,115
	<u>417,090</u>	<u>412,181</u>
Non-current assets:		
Property and equipment	35,267	36,017
Deferred income taxes	65,970	71,673
Other assets	39,011	36,171
Intangible assets	879,067	981,662
	<u>1,019,315</u>	<u>1,125,523</u>
Total assets	\$ 1,436,405	\$ 1,537,704
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	\$ 202,303	\$ 477,170
Accounts payable and accrued liabilities	235,868	260,585
Dividends payable	20,819	21,031
Deferred revenue	361,729	306,213
Provisions	9,143	11,887
Acquisition holdback payments	18,208	26,496
Income taxes payable	21,106	5,474
	<u>869,176</u>	<u>1,108,856</u>
Non-current liabilities:		
Deferred income taxes	104,759	112,780
Bank indebtedness	157,251	-
Acquisition holdback payments	7,117	4,203
Other liabilities	47,174	45,866
	<u>316,301</u>	<u>162,849</u>
Total liabilities	1,185,477	1,271,705
Shareholders' equity:		
Capital stock	99,283	99,283
Accumulated other comprehensive income	(10,066)	449
Retained earnings	161,711	166,267
	<u>250,928</u>	<u>265,999</u>
Total liabilities and shareholders' equity	\$ 1,436,405	\$ 1,537,704

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, 2014 and 2013

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue				
License	\$ 28,362	\$ 26,836	\$ 85,200	\$ 71,561
Professional services	99,553	62,777	290,713	184,827
Hardware and other	32,950	34,953	101,798	90,238
Maintenance and other recurring	257,942	191,311	751,876	523,871
	418,807	315,877	1,229,587	870,497
Expenses				
Staff	213,195	167,493	663,293	473,840
Hardware	18,243	20,800	56,737	53,057
Third party license, maintenance and professional services	38,979	27,579	112,494	71,848
Occupancy	10,237	7,895	30,401	21,169
Travel	12,263	11,154	36,213	31,785
Telecommunications	4,021	3,831	12,118	10,258
Supplies	8,260	5,782	26,141	15,405
Professional fees	6,293	3,999	16,543	11,220
Other, net	3,051	6,639	19,255	16,908
Depreciation	4,054	2,624	12,235	7,258
Amortization of intangible assets	43,184	33,773	129,971	90,034
	361,780	291,569	1,115,401	802,782
Foreign exchange loss (gain)	6,359	(1,636)	8,708	500
Share in net (income) loss of equity investee	(150)	(300)	(685)	(657)
Finance and other income	(853)	(375)	(2,707)	(875)
Finance costs	4,059	1,705	10,901	4,972
	9,415	(606)	16,217	3,940
Income before income taxes	47,612	24,914	97,969	63,775
Current income tax expense (recovery)	21,452	4,563	40,246	16,230
Deferred income tax expense (recovery)	(5,765)	(1,896)	(6,056)	(3,133)
Income tax expense (recovery)	15,687	2,667	34,190	13,097
Net income	31,925	22,247	63,779	50,678
Earnings per share				
Basic and diluted	\$ 1.51	\$ 1.05	\$ 3.01	\$ 2.39

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, 2014 and 2013

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income	\$ 31,925	\$ 22,247	\$ 63,779	\$ 50,678
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	-	(115)	93	157
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial asset	-	-	(574)	-
Foreign currency translation differences from foreign operations	(11,695)	2,083	(10,057)	(1,350)
Current income tax recovery (expense)	-	92	35	13
Deferred income tax recovery (expense)	-	-	(12)	-
Other comprehensive (loss) income for the period, net of income tax	(11,695)	2,060	(10,515)	(1,180)
Total comprehensive income for the period	\$ 20,230	\$ 24,307	\$ 53,264	\$ 49,498

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

Nine months ended September 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	-	-	-	-	-	63,779	63,779
<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	-	(10,057)		-	(10,057)	-	(10,057)
Current tax recovery (expense)	-	35		-	35	-	35
Deferred tax recovery (expense)	-	(12)		-	(12)	-	(12)
Total other comprehensive income (loss) for the period	-	(10,034)		(481)	(10,515)	-	(10,515)
Total comprehensive income (loss) for the period	-	(10,034)		(481)	(10,515)	63,779	53,264
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company	-	-		-	-	(63,576)	(63,576)
Fair value of rights offered to shareholders of the Company	-	-		-	-	(4,759)	(4,759)
Balance at September 30, 2014	\$ 99,283	\$ (10,066)		\$ -	\$ (10,066)	\$ 161,711	\$ 250,928

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)		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	-	-	-	-	50,678	50,678
<i>Other comprehensive income (loss)</i>						
Net change in fair value of available-for-sale financial assets during the period	-	-	157	157	-	157
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial assets	-	-	-	-	-	-
Foreign currency translation differences from foreign operations	-	(1,350)	-	(1,350)	-	(1,350)
Current tax recovery (expense)	-	13	-	13	-	13
Deferred tax recovery (expense)	-	-	-	-	-	-
Total other comprehensive income for the period	-	(1,337)	157	(1,180)	-	(1,180)
Total comprehensive income 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

CONSTELLATION SOFTWARE INC.

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

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Cash flows from operating activities:				
Net income	\$ 31,925	\$ 22,247	\$ 63,779	\$ 50,678
Adjustments for:				
Depreciation	4,054	2,624	12,235	7,258
Amortization of intangible assets	43,184	33,773	129,971	90,034
Share in net (income) loss of equity investee	(150)	(300)	(685)	(657)
Finance and other income	(853)	(375)	(2,707)	(875)
Finance costs	4,059	1,705	10,901	4,972
Income tax expense	15,687	2,667	34,190	13,097
Foreign exchange loss (gain)	6,359	(1,636)	8,708	500
Change in non-cash operating working capital exclusive of effects of business combinations	(1,305)	32,317	7,785	(5,932)
Income taxes paid	(1,909)	(5,440)	(19,539)	(19,609)
Net cash flows from operating activities	101,051	87,582	244,638	139,466
Cash flows from (used in) financing activities:				
Interest paid	(3,185)	(1,053)	(8,198)	(2,334)
Increase (decrease) in other non current liabilities	-	(191)	-	(70)
Increase (decrease) in bank indebtedness, net	(67,300)	(36,949)	(96,782)	102,302
Credit facility transaction costs	(1,425)	-	(6,864)	-
Dividends paid	(21,192)	(21,192)	(63,576)	(63,576)
Net cash flows from (used in) in financing activities	(93,102)	(59,385)	(175,420)	36,322
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired	(16,399)	(7,073)	(38,296)	(152,124)
Post-acquisition settlement payments, net of receipts	(6,528)	(6,008)	(14,545)	(16,693)
Proceeds from sale of available-for-sale equity securities	-	-	873	-
Interest and dividends received	40	348	272	348
Proceeds from sale of assets	153	(105)	153	5,439
Property and equipment purchased	(1,020)	(3,181)	(10,024)	(8,478)
Net cash flows used in investing activities	(23,754)	(16,019)	(61,567)	(171,508)
Effect of foreign currency on cash and cash equivalents	(3,870)	420	(4,017)	(631)
Increase (decrease) in cash and cash equivalents	(19,675)	12,598	3,634	3,649
Cash, beginning of period	101,276	32,364	77,967	41,313
Cash, end of period	\$ 81,601	\$ 44,962	\$ 81,601	\$ 44,962