

Constellation Software Inc. Announces Results for the Fourth Quarter and Year Ended December 31, 2014 and Declares Quarterly Dividend

TORONTO, ONTARIO (February 25, 2015) -- Constellation Software Inc. (TSX:CSU) ("Constellation" or the "Company") today announced its financial results for the fourth quarter and year ended December 31, 2014 and declared a \$1.00 per share dividend payable on April 3, 2015 to all common shareholders of record at close of business on March 18, 2015. 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 Audited Consolidated Financial Statements for the year ended December 31, 2014 and the accompanying notes, prepared in accordance with International Financial Reporting Standards ("IFRS"), our Management's Discussion and Analysis for the three and twelve months ended December 31, 2014, 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.

Q4 2014 Headlines:

- Revenue grew 29% (0.5% organically) to \$440 million compared to \$340 million in Q4 2013. The approximate impact of changes in foreign exchange rates to organic growth was negative 3.6%.
- Adjusted EBITA increased \$28 million or 37% to \$104 million as compared to \$76 million in Q4 2013.
- Adjusted Net Income increased 25% to \$87 million (\$4.09 on a diluted per share basis) from \$69 million (\$3.26 on a diluted per share basis) in Q4 2013.
- Net income decreased 7% to \$39 million (\$1.86 on a diluted per share basis) from \$43 million (\$2.00 on a diluted per share basis) in Q4 2013.
- Eight acquisitions were completed for aggregate cash consideration of \$70 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$7 million.
- The amount drawn on the Company's credit facilities decreased to \$216 million from \$360 million in Q3 2014.
- Cash flows from operations for the fourth quarter of 2014 were \$97 million, an increase of 20%, or \$16 million, compared to \$81 million for the comparable period in 2013.
- The Company completed an agreement to sell a minority stake (33.29%) in its TSS business to members of the TSS executive management team and a private investor.

2014 Headlines:

- Revenue grew 38% (4% organically) to \$1,669 million compared to \$1,211 million in 2013.
- Adjusted EBITA increased \$114 million or 49% to \$348 million as compared to \$234 million in 2013.
- Adjusted net income increased 33% to \$274 million (\$12.94 on a diluted per share basis) from \$207 million (\$9.76 on a diluted per share basis) in 2013.
- Net income increased 11% to \$103 million (\$4.87 on a diluted per share basis) from \$93 million (\$4.39 on a diluted per share basis) in 2013.
- Twenty-three acquisitions were completed for aggregate upfront cash consideration of \$115 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$25 million.
- Cash flows from operations increased \$121 million or 55% to \$341 million from \$220 million in 2013.
- R&D tax credits in the amount of \$10 million are expected to be utilized to offset taxes payable on taxable income for the 2014 fiscal year. Current tax expense however reflects gross taxes before the application of R&D tax credits.

Fourth quarter 2014 revenue was \$440 million, an increase of 29%, or \$100 million, compared to \$340 million for the comparable period in 2013. For the year ended December, 31 2014 total revenues were \$1,669 million, an increase of 38%, or \$459 million, compared to \$1,211 million for the comparable period in 2013. The increase for both the three and twelve month periods ended December 31, 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 0.5% and 4%, respectively. For the quarter ended December 31, 2014 the appreciation of the US dollar against most major currencies in which the Company transacts business resulted in an approximate 3.6% reduction in the Company's organic growth rate. The impact to the full year 2014 organic growth rate was immaterial.

Adjusted EBITA for the fourth quarter of 2014 was \$104 million, a 37% increase compared to the prior year's fourth quarter Adjusted EBITA of \$76 million. Fourth quarter 2014 Adjusted EBITA per share on a diluted basis increased 37% to \$4.90, compared to \$3.59 for the same period last year. Adjusted EBITA for the year ended December 31, 2014 was \$348 million, a 49% increase over last year's Adjusted EBITA of \$234 million for the same period. Adjusted EBITA per share on a diluted basis for the year ended December 31, 2014 increased 49% to \$16.43, compared to \$11.03 for the same period last year.

Adjusted Net Income for the fourth quarter of 2014 was \$87 million, compared to the prior year's fourth quarter Adjusted Net Income of \$69 million, a 25% increase. Fourth quarter 2014 Adjusted Net Income per share on a diluted basis increased 25% to \$4.09 compared to \$3.26 for the prior year's fourth quarter. Adjusted Net Income for the year ended December 31, 2014 was \$274 million, an increase of 33% over last year's Adjusted Net Income of \$207 million. Adjusted Net Income per share on a diluted basis for the year ended December 31, 2014 increased 33% to \$12.94, compared to \$9.76 for the same period in 2013.

Net income for the fourth quarter 2014 was \$39 million compared to the prior year's fourth quarter net income of \$43 million. On a diluted per share basis, this translates into net income per share of \$1.86 for the fourth quarter of 2014 compared to \$2.00 for the same period of 2013. Net income for the twelve month period ended December 31, 2014 was \$103 million, an increase of 11% over net income of \$93 million for the same period in 2013. Net income per share on a diluted basis for the year ended December 31, 2014 increased 11% to \$4.87, compared to \$4.39 for the same period in 2013.

Cash flows from operations for the fourth quarter of 2014 were \$97 million, an increase of 20%, or \$16 million, compared to \$81 million for the comparable period in 2013. For the year ended December 31, 2014 cash flows from operations were \$341 million, an increase of 55%, or \$121 million, compared to \$220 million for the comparable period in 2013.

On December 23, 2014, in accordance with the terms of the purchase and sale agreement for the TSS acquisition, and on the basis of the term sheets attached thereto, Constellation and the sellers of TSS along with members of TSS' executive management team (collectively, the "minority owners") entered into a Members Agreement pursuant to which the minority owners acquired 33.29% of the voting interests in Constellation Software Netherlands Holdings Cooperatief (the "Coop"). Proceeds from this transaction in the amount of €39.4 million (US\$48.5 million) were applied to repay debt under the Constellation credit facility. In accordance with IFRS, 100% of the financial results for TSS are included in the consolidated financial results of the Company. A liability has been recorded on the Company's Consolidated Statements of Financial Position to reflect the value of the interests in TSS sold to the minority owners.

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

	Three months ended December 31,				Period-Over-Period Change				Fiscal Year ended December 31,				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	22.1	20.7	1.5	7%					77.5	65.6	11.9	18%											
Professional services	87.4	55.8	31.6	57%					327.0	198.2	128.8	65%											
Hardware and other	30.5	33.0	(2.5)	-8%					116.3	111.1	5.2	5%											
Maintenance and other recurring	165.3	121.6	43.7	36%					650.7	434.9	215.8	50%											
	305.3	231.0	74.3	32%					1,171.6	809.8	361.8	45%											
Private Sector																							
Licenses	11.5	9.4	2.1	22%					41.3	36.1	5.3	15%											
Professional services	18.0	16.1	1.9	12%					69.1	58.6	10.5	18%											
Hardware and other	7.1	4.7	2.4	51%					23.0	16.8	6.2	37%											
Maintenance and other recurring	97.8	79.0	18.8	24%					364.3	289.6	74.7	26%											
	134.5	109.2	25.2	23%					497.7	401.0	96.7	24%											

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

Public Sector

For the quarter ended December 31, 2014, total revenue in the public sector reportable segment increased by 32%, or \$74 million to \$305 million, compared to \$231 million for the quarter ended December 31, 2013. For the year ended December 31, 2014, total revenue increased by 45%, or \$362 million to \$1,172 million, compared to \$810 million for the comparable period in 2013. Revenue growth from acquired businesses contributed approximately \$75 million to our Q4 2014 revenues and \$334 million to our year ended December 31, 2014 revenues compared to the same periods in 2013, as we completed 30 acquisitions since the beginning of 2013. Organic revenue growth was -0.3% in Q4 2014 and 3% for the twelve months ended December 31, 2014 compared to the same periods in 2013. For the quarter ended December 31, 2014 the appreciation of the US dollar against most major currencies in which the Company transacts business resulted in an approximate 4.1% reduction in the public sector revenue organic growth rate. The impact to the full year 2014 organic growth rate was immaterial.

Private Sector

For the quarter ended December 31, 2014, total revenue in the private sector reportable segment increased 23%, or \$25 million to \$134 million, compared to \$109 million for the quarter ended December 31, 2013. For the twelve months ended December 31, 2014 total revenue increased by 24%, or \$97 million to \$498 million, compared to \$401 million for the comparable period in 2013. Revenue growth from acquired businesses contributed approximately \$23 million to our Q4 2014 revenues and \$80 million to our twelve months ended December 31, 2014 revenues compared to the same periods in 2013, as we completed 23 acquisitions since the beginning of 2013. Revenues increased organically by 2% in Q4 2014 and 4% for the twelve months ended December 31, 2014 compared to the same periods in 2013. For the quarter ended December 31, 2014 the appreciation of the US dollar against most major currencies in which the Company transacts business resulted in an approximate 2.5% reduction in the private sector revenue organic growth rate. The impact to the full year 2014 organic growth rate was immaterial.

Conference Call and Webcast

Management will host a conference call at **9:00 a.m. (ET) on Thursday, February 26, 2015** 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 March 12, 2015. To access the replay, please dial 905-694-9451 or 800-408-3053 followed by the passcode 9275174.

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 December 31, <u>2014</u> <u>2013</u> (\$M, except percentages)		Fiscal Year ended December 31, <u>2014</u> <u>2013</u> (\$M, except percentages)	
Total revenue	<u>439.8</u>	<u>340.3</u>	<u>1,669.3</u>	<u>1,210.8</u>
Net income	39.3	42.5	103.1	93.1
Adjusted for:				
Income tax expense (recovery)	17.6	12.0	51.8	25.1
Foreign exchange (gain) loss	1.8	(1.3)	10.5	(0.8)
Share in net (income) loss of equity investees	(0.1)	(0.1)	(0.8)	(0.8)
Finance and other income	(1.4)	(0.2)	(4.1)	(1.0)
Bargain purchase gain	(2.2)	(8.1)	(2.2)	(8.1)
Finance costs	5.8	2.2	16.7	7.1
Amortization of intangible assets	43.2	29.1	173.2	119.1
Adjusted EBITA	103.9	76.1	348.1	233.8
Adjusted EBITA margin	24%	22%	21%	19%

The following table reconciles Adjusted net income to net income:

	Three months ended December 31, <u>2014</u> <u>2013</u> (\$M, except percentages)		Fiscal Year ended December 31, <u>2014</u> <u>2013</u> (\$M, except percentages)	
Total revenue	<u>439.8</u>	<u>340.3</u>	<u>1,669.3</u>	<u>1,210.8</u>
Net income	39.3	42.5	103.1	93.1
Adjusted for:				
Amortization of intangible assets	43.2	29.1	173.2	119.1
Bargain purchase gain	(2.2)	(8.1)	(2.2)	(8.1)
Deferred income tax expense (recovery)	6.3	5.7	0.2	2.6
Adjusted net income	86.6	69.2	274.3	206.8
Adjusted net income margin	20%	20%	16%	17%

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.

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

December 31, December 31,
2014 2013

Assets

Current assets:

Cash	\$ 70,679	\$ 77,967
Equity security available-for-sale	-	780
Accounts receivable	200,056	191,446
Work in progress	51,483	55,728
Inventories	25,246	21,145
Other assets	63,294	65,115
	410,758	412,181

Non-current assets:

Property and equipment	37,227	36,017
Deferred income taxes	60,763	71,673
Other assets	36,942	36,171
Intangible assets	887,435	981,662
	1,022,367	1,125,523

Total assets	\$ 1,433,125	\$ 1,537,704
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Liabilities and Shareholders' Equity

Current liabilities:

Bank indebtedness	\$ 66,326	\$ 477,170
TSS membership liability	17,345	-
Accounts payable and accrued liabilities	244,996	260,585
Dividends payable	21,192	21,031
Deferred revenue	347,336	306,213
Provisions	13,399	11,887
Acquisition holdback payments	22,665	26,496
Income taxes payable	25,588	5,474
	758,847	1,108,856

Non-current liabilities:

Bank indebtedness	149,654	-
TSS membership liability	30,515	-
Debentures	78,642	-
Deferred income taxes	107,275	112,780
Acquisition holdback payments	3,603	4,203
Other liabilities	44,758	45,866
	414,447	162,849

Total liabilities	1,173,294	1,271,705
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Shareholders' equity:

Capital stock	99,283	99,283
Accumulated other comprehensive income	(19,290)	449
Retained earnings	179,838	166,267
	259,831	265,999

Total liabilities and shareholders' equity	\$ 1,433,125	\$ 1,537,704
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CONSTELLATION SOFTWARE INC.

Consolidated Statements of Income

(In thousands of U.S. dollars, except per share amounts)

	Years ended December 31,	
	2014	2013
Revenue		
License	\$ 118,868	\$ 101,666
Professional services	396,128	256,749
Hardware and other	139,340	127,886
Maintenance and other recurring	1,015,008	724,475
	1,669,344	1,210,776
Expenses		
Staff	881,587	643,672
Hardware	79,532	73,475
Third party license, maintenance and professional services	152,191	102,377
Occupancy	41,043	29,309
Travel	50,144	44,724
Telecommunications	16,356	14,208
Supplies	36,827	22,023
Professional fees	22,844	17,633
Other, net	24,278	19,593
Depreciation	16,462	9,944
Amortization of intangible assets	173,186	119,144
	1,494,450	1,096,102
 Foreign exchange loss (gain)	10,528	(768)
Share in net (income) loss of equity investee	(830)	(780)
Finance and other income	(4,109)	(1,041)
Bargain purchase gain	(2,246)	(8,111)
Finance costs	16,680	7,124
	20,023	(3,576)
 Income before income taxes	154,871	118,250
 Current income tax expense (recovery)	51,542	22,528
Deferred income tax expense (recovery)	231	2,587
Income tax expense (recovery)	51,773	25,115
 Net income	103,098	93,135
 Earnings per share		
Basic and diluted	\$ 4.87	\$ 4.39

CONSTELLATION SOFTWARE INC.

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

	Years ended December 31,	
	2014	2013
Net income	\$ 103,098	\$ 93,135
Items that are or may be reclassified subsequently to net income:		
Net change in fair value of available-for-sale financial asset during the year	93	310
Net change in fair value of derivatives designated as hedges during the year	(546)	-
Amounts reclassified to profit during the year related to realized gains on available-for-sale financial asset	(574)	-
Foreign currency translation differences from foreign operations	(18,871)	(1,535)
Current income tax recovery (expense)	35	53
Deferred income tax recovery (expense)	124	-
Other comprehensive (loss) income for the year, net of income tax	(19,739)	(1,172)
Total comprehensive income for the year	\$ 83,359	\$ 91,963

CONSTELLATION SOFTWARE INC.

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

Year ended December 31, 2014

	Capital stock	Accumulated other comprehensive income/(loss)		Total accumulated other comprehensive income/(loss)	Retained earnings	Total
		Cumulative translation gains/losses related to account gains/losses on derivatives designed as hedges	Amounts related to gains/losses on available-for-sale financial assets			
Balance at January 1, 2014	\$ 99,283	\$ (32)	\$ -	\$ 481	\$ 449	\$ 166,267 \$ 265,999
<i>Total comprehensive income for the year</i>						
Net income	-	-	-	-	-	103,098 103,098
<i>Other comprehensive income (loss)</i>						
Net change in fair value of available-for-sale financial asset during the year	-	-	-	93	93	- 93
Net change in fair value of derivatives designated as hedges during the year	-	-	(546)	-	(546)	- (546)
Amounts reclassified to profit during the year related to realized gains on available-for-sale financial assets	-	-	-	(574)	(574)	- (574)
Foreign currency translation differences from foreign operations	-	(18,871)	-	-	(18,871)	- (18,871)
Current tax recovery (expense)	-	35	-	-	35	- 35
Deferred tax recovery (expense)	-	(12)	136	-	124	- 124
Total other comprehensive income (loss) for the year	-	(18,848)	(410)	(481)	(19,739)	- (19,739)
Total comprehensive income (loss) for the year	-	(18,848)	(410)	(481)	(19,739)	103,098 83,359
Transactions with owners, recorded directly in equity						
Dividends to shareholders of the Company	-	-	-	-	-	(84,768) (84,768)
Fair value of rights offered to shareholders of the Company	-	-	-	-	-	(4,759) (4,759)
Balance at December 31, 2014	\$ 99,283	\$ (18,880)	\$ (410)	\$ -	\$ (19,290)	\$ 179,838 \$ 259,831

CONSTELLATION SOFTWARE INC.

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

Year ended December 31, 2013

	Capital stock	Accumulated other comprehensive income/(loss)		Total accumulated other comprehensive income/(loss)	Retained earnings	Total
	Cumulative translation gains/losses related to account derivatives designed as hedges	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 year</i>						
Net income	-	-	-	-	-	93,135 93,135
<i>Other comprehensive income (loss)</i>						
Net change in fair value of available-for-sale financial assets during the year	-	-	-	310	310	- 310
Amounts reclassified to profit during the year related to realized gains on available-for-sale financial assets	-	-	-	-	-	-
Foreign currency translation differences from foreign operations	-	(1,535)	-	-	(1,535)	- (1,535)
Current tax recovery (expense)	-	53	-	-	53	- 53
Deferred tax recovery (expense)	-	-	-	-	-	-
Total other comprehensive income for the year	-	(1,482)	-	310	(1,172)	- (1,172)
Total comprehensive income for the year	-	(1,482)	-	310	(1,172) 93,135	91,963
Transactions with owners, recorded directly in equity						
Dividends to shareholders of the Company	-	-	-	-	-	(84,768) (84,768)
Balance at December 31, 2013	\$ 99,283	\$ (32)	\$ -	\$ 481	\$ 449	\$ 166,267 \$ 265,999

CONSTELLATION SOFTWARE INC.

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

	Year ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 103,098	\$ 93,135
Adjustments for:		
Depreciation	16,462	9,944
Amortization of intangible assets	173,186	119,144
Share in net (income) loss of equity investee	(830)	(780)
Finance and other income	(4,109)	(1,041)
Finance costs	16,680	7,124
Bargain purchase gain	(2,246)	(8,111)
Income tax expense	51,773	25,115
Foreign exchange loss (gain)	10,528	(768)
Change in non-cash operating working capital exclusive of effects of business combinations	(1,713)	519
<u>Income taxes paid</u>	<u>(21,367)</u>	<u>(23,988)</u>
Net cash flows from operating activities	341,462	220,293
Cash flows from (used in) financing activities:		
Interest paid	(12,877)	(3,428)
Increase (decrease) in bank indebtedness, net	(233,513)	432,645
Credit facility transaction costs	(7,166)	(343)
Proceeds from issuance of debentures	81,233	-
Proceeds from issuance of TSS membership liability	48,503	-
<u>Dividends paid</u>	<u>(84,768)</u>	<u>(84,768)</u>
Net cash flows from (used in) in financing activities	(208,588)	344,106
Cash flows from (used in) investing activities:		
Acquisition of businesses, net of cash acquired	(98,688)	(501,095)
Post-acquisition settlement payments, net of receipts	(22,952)	(21,771)
Proceeds from sale of available-for-sale equity securities	873	-
Interest and dividends received	788	348
Proceeds from sale of assets	153	5,690
<u>Property and equipment purchased</u>	<u>(13,868)</u>	<u>(11,100)</u>
Net cash flows used in investing activities	(133,694)	(527,928)
Effect of foreign currency on cash and cash equivalents		
<u>Effect of foreign currency on cash and cash equivalents</u>	<u>(6,468)</u>	<u>183</u>
Increase (decrease) in cash and cash equivalents	(7,288)	36,654
Cash, beginning of year	77,967	41,313
Cash, end of year	\$ 70,679	\$ 77,967