CONSTELLATION SOFTWARE INC.
Q308

TO OUR SHAREHOLDERS

In a diversified company like ours, you can usually point to some businesses that are stars and some that are not. I'm currently in the happy position of being able to commend the performance of all of our Operating Groups to shareholders. In Q3, some of our businesses recorded double digit organic growth and many of them produced record profits. Others continue to be profitable despite rending and perhaps long term change in their sectors. In aggregate, Constellation generated 7% organic Net Revenue growth in Q3, managed a further 28% acquired Net Revenue growth, produced record Adjusted EBITDA ($15.7 million) and Adjusted Net Income ($12.3 million), and invested more in acquisitions ($44 million) than in any previous quarter. You can't judge the quality of this quarter's acquisitions by this quarter's profit, but after 85 acquisitions over a 13 year period, we seem to have developed a knack for acquiring fundamentally sound businesses at fair prices. While it's comforting to revel in the Q3 results, I suspect that our Organic Growth will flag in 2009. Forecasters are calling for GNP contraction in North America. Constellation can't hope to be immune, but we anticipate faring far better than most software companies due to our high and growing (34% growth in Q3) Net Maintenance Revenue.

Another metric worth bringing to your attention in the table below is Tangible Net Assets / Net Revenue. Our Operating Groups did an exceptional job of managing their working capital in an economic environment where many customers are trying to hang on to their cash a little bit longer. This improvement is overshadowed by the large amount of negative Tangible Net Assets that we acquired late in the quarter as a result of the Maximus acquisition. I anticipate that we will not be able to maintain the -84% Tangible Net Assets / Net Revenue ratio in the future, but we should see continued good performance on this metric. A glossary for our quarterly Performance Metrics is appended to this letter. I encourage you to refer back to previous letters for more extensive discussions of each of the metrics.

	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
($ millions, except percentages)									
Revenue	54	54	56	60	61	66	74	78	81
Net Income / (Loss)	2.3	3.8	2.6	3.5	3.3	1.6	4.3	3.4	3.3
Net Revenue	48	49	51	55	55	60	67	71	75
Net Maintenance Revenue	28	30	31	33	35	38	42	44	46
Adjusted Net Income [1]	7.5	9.0	6.9	8.4	8.5	9.4	11.1	12.0	**12.3**
Average Invested Capital	125	135	143	149	158	167	176	188	201
Net Revenue Growth (Y/Y)	24%	22%	10%	16%	14%	24%	31%	29%	**35%**
Organic Net Revenue Growth (Y/Y)	5%	3%	-1%	0%	2%	3%	6%	5%	**7%**
Net Maintenance Growth (Y/Y)	30%	29%	20%	24%	23%	28%	34%	32%	**34%**
Adjusted Net Income Growth (Y/Y)	49%	115%	43%	91%	13%	5%	62%	43%	47%
Average Invested Capital Growth (Y/Y)	20%	24%	25%	25%	26%	24%	24%	26%	**35%**
Tangible Net Assets / Net Revenue	-59%	-73%	-57%	-45%	-53%	-74%	-58%	-58%	**-84%**
ROIC (Annualized)	24%	27%	19%	23%	22%	22%	25%	26%	25%
ROIC + Organic Net Revenue Growth	29%	30%	18%	23%	24%	26%	32%	31%	32%

[1] Historical figures restated to comply with revised definition.

Because of the uncertainty in credit and equity markets, there are some great VMS investments to be had right now. We scooped up a big one this last quarter in the form of the Maximus assets. It consists of 3 good businesses, two of which came with very large uneconomic contracts. As we indicated when we announced the acquisition, the contingent liabilities associated with these contracts could exceed 50% of the purchase price. Contracts of this size and structure are unusual in our businesses (at least the way we run them). We factored these contracts into the price that we paid for these assets, and if we got it right, these 3 businesses will eventually generate good ROIC's and contribute to our organic growth.

Having bought the Maximus assets and 16 other businesses this year, combined with our purchases of publicly traded shares of VMS companies and the pending takeover offer for Gladstone plc, we have deployed and committed approximately $94 million of capital. While we have also had record cash flows and profits, these commitments have largely tapped out our existing line of credit. I am leery about using short term financing for acquisitions, so we are exploring financing options: Either we slow down the pace of acquisitions and live within our cash flow from operations, or we raise long term financing, whether that be equity or debt flavoured. The capital markets are volatile right now, so I wouldn't hazard a bet as to whether we will find the right investors. If we do, you can expect our acquisition pace in 2009 to continue… if not, it will slow. Irrespective of our acquisition prospects, I continue to be optimistic that our long term performance will be attractive.

Mark Leonard
President
Constellation Software Inc.

November 6th, 2008

Performance Metrics Glossary

"Net Revenue" means Revenue for GAAP purposes less third party and flow-through expenses. We use Net Revenue since it captures 100% of the license, maintenance and services revenues associated with Constellation's own products, but only includes the margin on our lower value-added revenues such as commodity hardware or third party software.

"Net Maintenance Revenue" is derived from GAAP Maintenance Revenue by subtracting third party maintenance costs. We believe that Net Maintenance Revenue is one of the best indicators of the intrinsic value of a software company and that the operating profitability of a low growth software business should correlate tightly to Net Maintenance Revenues.

Effective Q1 2008, the term ''Adjusted Net Income'' is derived by adjusting GAAP net income for the non-cash amortization of intangibles, future income taxes, and charges related to appreciation in common shares eligible for redemption (a charge that we no longer incur now that Constellation's common shares are publicly traded). Prior to Q1 2008, Adjusted Net Income was derived by adjusting GAAP net income for the non-cash amortization of intangibles and charges related to appreciation in common shares eligible for redemption. The computation was changed to include future income taxes since the majority of future income taxes relate to the amortization of intangible assets, and thus are being added back to more closely match the non-cash future tax recovery with the amortization of intangibles. All previously reported Adjusted Net Income figures have been restated in the table above to reflect the new method of computations. We use

Adjusted Net Income because it is generally a better measure of cash flow than GAAP net income and it is closely aligned with the calculation of net income we use for bonus purposes.

"Average Invested Capital" is based on the Company's estimate of the amount of money that our shareholders had invested in Constellation. Subsequent to that estimate, each period we have kept a running tally, adding Adjusted Net Income, subtracting any dividends, adding any amounts related to share issuances and making some small adjustments, including adjustments relating to our use of certain incentive programs and the amortization of impaired intangibles.

"Tangible Net Assets / Quarterly Net Revenue" provides a measure of our Tangible Net Assets as a proportion of Quarterly Net Revenue. Tangible Net Assets is calculated by taking Total Assets for GAAP purposes, and subtracting (i) intangible assets and goodwill, (ii) cash and short term investments, (iii) future income tax assets, (iv) all customer, trade and government liabilities that do not bear a coupon, excluding future income tax liabilities and acquisition holdbacks.

"ROIC (Annualized)" represents a ratio of Adjusted Net Income to Average Invested Capital.

"ROIC + Organic Net Revenue Growth" provides a historical measure of the effectiveness of our capital allocation.

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. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date hereof. 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 are made as of the date hereof and Constellation assumes no obligation to update any forward looking statements to reflect new events or circumstances except as required by law.

Non-GAAP Measures

Net Revenue, Net Maintenance Revenue, Adjusted Net Income, Adjusted EBITDA and Organic Net Revenue Growth are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Net Revenue, Net Maintenance Revenue, Adjusted Net Income Adjusted EBITDA and Organic Net Revenue Growth should not be construed as alternatives to revenue or net income determined in accordance with GAAP as an indicator of the financial performance of the Company or as a measure of the Company's liquidity and cash flows. The Company's method of calculating Net Revenue, Net Maintenance Revenue, Adjusted Net Income, Adjusted EBITDA and Organic Net Revenue Growth may differ from other issuers and, accordingly, may not be comparable to similar measures presented by other issuers. Please refer to Constellation's most recently filed Management Discussion and Analysis for a reconciliation, where applicable, between the GAAP and non-GAAP measures referred to above.