CONSTELLATION SOFTWARE INC.

TO OUR SHAREHOLDERS

Our Q1 2009 performance compared well with Q1 2008: revenue was up 32%, Adjusted EBITDA up 64%, and Adjusted Net Income up 51%. Sequential comparisons vs Q4 2008 along with a bit of digging reveal a less rosy picture: revenue down 1%, Adjusted EBITDA down 7%, and Adjusted Net Income down 11%. The drivers of this performance that strike me as worthy of highlighting include our Organic Net Revenue Growth rate (-5%), the Maximus Asset, Justice and Education ("MAJES") acquisition which was completed in Q3 2008, our increased tax payments, and lastly, the Canadian dollar.

Organic Net Revenue Growth

Some of our businesses are more subject than others to a downturn in the economy. In Q1 2009, our Private Sector segment Net Revenue contracted 15% organically vs Q1 of 2008, while our Public Sector segment Net Revenue fared better (1% organic growth vs Q1 of 2008) for a combined Organic Net Revenue Growth of -5%. This is the worst Organic Net Revenue Growth that we have produced since we started keeping such records in 2001. Despite the occasional encouraging press release from real estate brokers, bankers and homebuilders to the contrary, we have yet to see any clear signs of a recovery in our private sector businesses. There is also little direct evidence of government stimulus spending trickling down to our public sector clients.

MAJES Acquisition

GAAP and even our own "Adjusted EBITDA" measure do a poor job of reflecting the current economics of the MAJES acquisition. In an investor's shoes, I'd look at the cash purchase price ($35 million disbursed to date) and compare it with the cash produced ($1 million in the 6 months that we've owned the business). Not bad, but certainly not up to our long term expectations, and nowhere near as good as the reported six month Adjusted EBITDA ($8 million) and Net Income ($3 million) for these businesses would lead you to believe. There are several large contracts within MAJES that are cash flow negative, and until they are either completed or terminated by the customers, we don't expect attractive returns from the acquisition. The MAJES acquisition also "helped" our TNA/Net Revenue ratio, contributing to a significant drop in the ratio in Q3 2008 and beyond. MAJES came with significant contract related liabilities but my sense is that the asset intensity of this business will eventually be similar to our other businesses. Excluding the MAJES acquisition, the TNA/Net Revenue ratio was down vs Q1 2008, which suggests that our businesses are continuing to practice conservative revenue recognition.

Taxes

We have had low tax rates during the last couple of years, but increasing profitability is driving them up. In Q1 2009 we provided for current taxes ($3.1 million) that are more than three times the amount provided for in Q1 2008. Taxes are inevitable, and despite our efforts to minimise them, we anticipate that our ratio of cash taxes to Adjusted Net Income will continue to increase during 2009.

Canadian Dollar

In the Q4 2008 letter to shareholders I chronicled how the Canadian dollar had affected our profitability during the last 7 years. The gist of the matter, is that with disproportionate expenses in Canadian dollars and revenues in US dollars, we run a fundamental and unhedged foreign exchange position. This hurt us for many years as the Canadian dollar appreciated vs the US dollar, but in the second half of 2008 as the Canadian dollar plummeted by over 20%, we benefited significantly. In Q1 2009 the average Canadian dollar vs US dollar exchange rate was .8054, down from an average rate of .8264 in Q4 2008. Of late the Canadian dollar has strengthened, and should it continue, we can expect leaner profit margins.

We had comforted ourselves in the last couple of quarters that poor organic growth for Constellation likely meant even worse performance for other vertical market software businesses, and hence we would see a number of good acquisition prospects. This hasn't proved to be the case. Q1 2009 was a slow acquisition activity quarter for Constellation, with just one acquisition and no new signed letters of intent. Many owner-managers of healthy businesses seem to be waiting out the recession before selling, but I had expected some of the leveraged transactions of the last few years to come unraveled. To date, we have seen very few distressed asset sales. I'm still hopeful that lenders will lose patience with some private equity sponsored vertical market software businesses during the second half of the year culminating in some larger transactions. We are currently negotiating an increase in our credit line so that we can pursue large acquisitions.

The toughest challenge in the software business is intelligently trading off profitability and organic growth. Many entrepreneurs have a huge bias towards growth at the expense of profits. Most private equity owned software firms have the opposite bias. At Constellation we try to find an optimum position where incremental investment still generates good incremental long term returns. I think our managers and employees are doing a great job of maintaining profitability in a difficult economic environment, without curtailing our record Research & Development spending ($15 million in Q1).

I look forward to seeing those of you who are able to attend our Annual General Meeting on May 7th, 2009.

Mark Leonard
President
Constellation Software Inc.

May 6th, 2009

	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
($ millions, except percentages)									
Revenue	55.9	60.5	60.6	66.1	73.6	77.7	80.8	98.4	97.3
Net Income / (Loss)	2.6	3.5	3.3	1.6	4.3	3.4	3.3	4.0	3.8
Net Revenue	50.7	54.9	55.3	60.2	66.6	71.0	74.6	88.6	89.3
Net Maintenance Revenue	31.2	33.3	34.5	37.8	41.7	43.8	46.1	52.9	53.7
Adjusted Net Income (1)	6.9	8.4	8.5	9.4	11.1	12.0	12.3	19.0	16.8
Average Invested Capital	143	149	158	167	176	188	201	216	234
Net Revenue Growth (Y/Y)	10%	16%	14%	24%	31%	29%	35%	47%	34%
Organic Net Revenue Growth (Y/Y)	-1%	0%	2%	3%	6%	5%	7%	0%	-5%
Net Maintenance Growth (Y/Y)	20%	24%	23%	28%	34%	32%	34%	40%	29%
Adjusted Net Income Growth (Y/Y)	43%	91%	13%	5%	62%	43%	45%	103%	51%
Average Invested Capital Growth (Y/Y)	25%	25%	26%	24%	24%	26%	27%	29%	33%
Tangible Net Assets / Net Revenue	-57%	-45%	-53%	-74%	-58%	-58%	-84%	-102%	-80%
ROIC (Annualized)	19%	23%	22%	22%	25%	26%	25%	35%	29%
ROIC + Organic Net Revenue Growth	18%	23%	24%	26%	32%	31%	32%	35%	24%

(1) Historical figures restated to comply with revised definition.

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.