CONSTELLATION SOFTWARE INC.

TO OUR SHAREHOLDERS

This quarter I'm using a reverse shaggy dog format for the Shareholder letter. Shaggy dog stories are wildly tangential tales that end with underwhelming and/or irrelevant punch lines. In my reverse shaggy dog story, we are going to start with the overwhelming punch line and then tell relevant tangential tales. To the extent that you take the time to follow my explanations of the impact this quarter of foreign exchange, employee bonus accruals, acquisition accounting, and organic growth, you'll have an appropriate context in which to judge our remarkable Q4 results and make sensible assumptions about our future results.

In Q4 2008 Constellation had record Net Revenue per share and record Adjusted Net Income per share in the midst of the worst economic decline that most of us have ever seen. Compared to Q4 2007, revenue grew 49%, Net Revenue grew 47%, Adjusted EBITDA grew 111%, Adjusted Net Income grew 103%, and Net Income grew 142%. Meanwhile, the U.S. department of Commerce believes that GDP decreased at an annual rate of 6.2% in the quarter, calling out the "downturn in exports and a much larger decrease in equipment and software" for special attention. Why did Constellation do so well in such a difficult environment?

The facile answer is that we have robust businesses with inherently attractive economics run by good managers whose compensation is tightly aligned with that of shareholders. The more nuanced answer requires a deeper understanding of Constellation and its business model.

As many of you know (please refer to the 2008 annual MD&A for the details), we run Constellation with an unhedged structural currency mismatch. The vast majority of our revenues (81% in Q4 2008) are in US dollars, while a large portion of our expenses (23%) are in Canadian dollars. The Canadian dollar has appreciated in excess of 60% vs. the US dollar since early 2002, peaking above par in late 2007. Despite the adverse foreign exchange rate move during that period we maintained and grew our operating margins. Since the 2007 peak the Canadian dollar has dropped by more than 20%, settling in around an average rate of .8264 per US dollar in Q4 2008. We have benefited enormously from the recent collapse in the Canadian dollar. Some of those benefits are transient (relating to Canadian dollar liabilities on the balance sheet that have depreciated, such as accrued employee bonuses), while others could continue to help us operate with higher margins. In the future, assuming a geographical business mix and foreign exchange rates consistent with those we achieved in Q4 2008, we would expect operating margins to be approximately 3% higher than they would be if we were to operate at the average foreign exchange rates that prevailed throughout the first 9 months of 2008.

Employee bonuses were approximately 9.5% of Net Revenue in 2008. In Q4 2008 they amounted to only 7.9% of Net Revenue, despite the fact that both ROIC and Net Revenue Growth increased. Once again, the impact was primarily due to foreign exchange rates. The bonus accrual that was made for the first 9 months of 2008 was calculated using historical foreign exchange rates and required a multi-million dollar adjustment in Q4 2008 as a significant portion is in Canadian dollars. The Net Revenue Growth of 47% that was achieved in Q4 2008 is not sustainable. Nor is the ROIC of 35%. Hence with some confidence (and no little regret) we can predict that employee bonuses will be less than 9.5% of Net Revenues in 2009. This, however, does point out one of the attractive features of our bonus plan – when one of our businesses suffers a downturn, its costs are automatically trimmed due to lower bonuses. We saw this at the

Homebuilders Operating Group in 2008: operating expenses per employee decreased 14% (mostly due to lower employee bonuses), while Adjusted EBITDA dropped 18%.

We don't often spotlight an individual acquisition. Partly this is because we do a lot of them. In 2007 we made 17 acquisitions and in 2008 a further 21 - tracking them all publicly would be a sinecure for our auditors second only to IFRS. Partly it is because we don't like sharing sensitive information with competitors. We were required by applicable securities laws to file a Business Acquisition Report ("BAR") for our recent acquisition of certain assets and liabilities of Maximus Inc.'s Asset, Justice, and Education solutions businesses ("MAJES"), so the competitive reasons are less valid in this instance.

The BAR did, however, throw into question our sanity. Read literally, it suggests that we bought a business that had $72 million in revenues and lost $32 million pre tax in the year leading up to our acquisition. According to the BAR, the business also had a negative tangible net worth (excluding deferred income taxes) of $2 million. For this we paid $40 million. Clearly we had quite a different perception of these businesses than that depicted in the BAR. I'm pleased to refer you to the "selected financial information" for the MAJES businesses in our 2008 MD&A. The business generated $17 million in revenue during Q4 2008, $3 million of Adjusted EBITDA, $1 million of Net Income, and had a negative $1 million cash flow from operating activities. You need to understand the acquisition accounting to interpret this information.

The Asset Solutions business is performing well, but the Education and Justice businesses have their challenges. First and foremost among these are a number of what I have previously referred to as "uneconomic contracts". Where we cannot reasonably estimate the effort to complete these contracts, we are using the "completed-contract" method to account for them. We have never used this accounting method before. It involves capitalising the contract revenues and expenses on the balance sheet until the contract is completed and then recognizing them in a lump sum. This tends to depress revenues vs. our normal (percent complete) revenue recognition methods, and can have a profound effect upon the bottom line. If at some stage we are able to estimate the cost to complete these contracts, and if we expect the contracts to generate losses, then we are allowed to take provisions against the estimated losses. Prior to that, we cannot recognise losses. Accounting aside, we have been able to make progress with most of the Education and Justice clients that were a source of concern. These situations may take years to resolve. We'll keep you apprised of the financial performance of the MAJES businesses for a couple of years. You will be able to decide first-hand whether or not we effectively deployed a large chunk of capital on behalf of our shareholders.

Organic Net Revenue growth ("OGr") came in at a 0% for Q4 2008, and 5% for 2008 as a whole. Compared to our long term objective of 5-10%, this is low. Compared to U.S. GDP, we are doing fine. There were a couple of mitigating factors. The appreciation of the US dollar vs. the Canadian dollar, the UK pound, and the Danish kroner shaved a couple of points off the OGr rate. I'm sensitive to the fact that our OGr historically benefited from currency shifts, so I don't want to over-emphasize this point. The MAJES acquisition also took a couple of points off of our Q4 2008 OGr rate (we accounted for its run-rate revenues using the numbers in the BAR, which did not use completed-contract accounting). Incorporating these adjustments and a recent analysis we did of license bookings (which are slowing), its apparent to me that achieving organic growth in 2009 is going to be difficult. Some of our public businesses will grow, but the private sector businesses still anticipate significant organic decline.

I continue to be in the fortunate position of being able to commend the performance of <u>all</u> of our Operating Groups. I have confidence that their managers will protect the interests of our customers, shareholders and employees despite the distressing economic environment.

Mark Leonard
President
Constellation Software Inc.

March 4th, 2009

	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
	($ millions, except percentages)								
Revenue	53.5	55.9	60.5	60.6	66.1	73.6	77.7	80.8	98.4
Net Income / (Loss)	3.8	2.6	3.5	3.3	1.6	4.3	3.4	3.3	4.0
Net Revenue	48.6	50.7	54.9	55.3	60.2	66.6	71.0	74.6	88.6
Net Maintenance Revenue	29.6	31.2	33.3	34.5	37.8	41.7	43.8	46.1	52.9
Adjusted Net Income (1)	9.0	6.9	8.4	8.5	9.4	11.1	12.0	12.3	19.0
Average Invested Capital	135	143	149	158	167	176	188	201	216
Net Revenue Growth (Y/Y)	22%	10%	16%	14%	24%	31%	29%	35%	47%
Organic Net Revenue Growth (Y/Y)	3%	-1%	0%	2%	3%	6%	5%	7%	0%
Net Maintenance Growth (Y/Y)	29%	20%	24%	23%	28%	34%	32%	34%	40%
Adjusted Net Income Growth (Y/Y)	115%	43%	91%	13%	5%	62%	43%	45%	103%
Average Invested Capital Growth (Y/Y)	24%	25%	25%	26%	24%	24%	26%	27%	29%
Tangible Net Assets / Net Revenue	-73%	-57%	-45%	-53%	-74%	-58%	-58%	-84%	-102%
ROIC (Annualized)	27%	19%	23%	22%	22%	25%	26%	25%	35%
ROIC + Organic Net Revenue Growth	30%	18%	23%	24%	26%	32%	31%	32%	35%

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

<u>Performance Metrics Glossary</u>

"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.