CONSTELLATION SOFTWARE INC.

TO OUR SHAREHOLDERS

GAAP statements tend to be the best tool that investors have to monitor and judge a company's performance. We have tried to supplement GAAP by providing you with our own calculations of Adjusted Net Income, Average Invested Capital, ROIC, Organic Net Revenue Growth, and Attrition (the "CSI Metrics") amongst others. The CSI Metrics do attract cynicism from some quarters, so I've also included in this letter a couple of GAAP financial metrics that reflect the company's performance over the last decade. I welcome any suggestions that you may have for other metrics to include in these annual letters.

Table 1

	Adjusted Net Income (a.)	Average Invested Capital	ROIC	Organic Net Revenue Growth (YoY)	ROIC + Organic Net Revenue Growth
2000	(2.4)	68	-4%	b.	b.
2001	7.1	69	10%	b.	b.
2002	1.5	71	2%	6%	8%
2003	21.8	83	26%	11%	37%
2004	12.7	84	15%	9%	24%
2005	17.4	101	17%	18%	35%
2006	25.7	123	21%	8%	29%
2007	33.2	154	22%	1%	23%
2008	54.4	195	28%	5%	33%
2009	62.4	256	24%	-3%	21%

a. Historical figures restated to comply with current definition (see Glossary)
b. Not Available

The definitions of Adjusted Net Income, Average Invested Capital, ROIC and Net Revenue appear in the Glossary below.

Internally we think about Adjusted Net Income as the cash profits we generate after paying cash taxes. The most significant variation from GAAP net income, is that we assume our intangible assets are not diminishing in economic value. This is a critical assumption that our board challenges, and that you, as shareholders, need to monitor. The way we support the "ever-expanding intangibles value" contention with our board is by regularly forecasting the cash flows for each of our acquired business units and comparing them to our original acquisition costs to calculate acquisition by acquisition IRR's. We don't provide this level of disclosure to our shareholders because we want to avoid the cost to the company (having done more than 100 acquisitions), the disclosure of competitive information to competitors and overwhelming shareholders with the sheer volume of information that would be required. Instead we disclose the annual changes in our maintenance revenue base, with a particular focus on the organic changes. Our attrition statistics show that we have grown our maintenance revenues organically, even during the recent recession, so I'd argue that the economic value of our intangibles in aggregate has increased rather than decreased for as long as we've done our annual maintenance attrition surveys.

And when we think about Invested Capital, we think about the shareholder capital that has been invested in the businesses, plus any Adjusted Net Income less any distributions. Obviously, when you divide Adjusted Net Income by Invested Capital, you get a measure of the return on our shareholders' investment (i.e. ROIC). If you add Organic Net Revenue Growth to ROIC, you get what we believe is a proxy for the annual increase in Shareholders' value. In a capital intensive business you couldn't just add Organic Net Revenue Growth to ROIC, because growing revenues would require incremental Invested Capital. In our businesses we can nearly always grow revenues organically without incremental capital.

If you refer to Table 1, you'll see that Average Invested Capital is compounding at a handsome pace, largely because we are generating attractive ROIC's and are paying only a modest dividend. In 2009 we generated a 24% ROIC. I'm particularly pleased with this performance, as it was achieved in a recession, and despite a significant adverse move in currencies. The trend in Organic Net Revenue Growth is less attractive. In the middle of the decade we generated double digit growth rates, but this has slowed, culminating in a 3% contraction in 2009. This is the worst performance that we've experienced since we started tracking Organic Net Revenue Growth. The macro economy had a significant influence on our organic growth, but some of the decelerating growth is also self imposed. In 2004 we started tracking CSI's investments in new Initiatives on an Initiative by Initiative basis. The system was not without flaws, but as the longitudinal data has gradually been amassed, it has convinced me and many of our other managers that the returns that we are generating on these investments are nowhere near as good as we had originally hoped. I believe that our efforts to generate better returns from Initiatives have permanently reduced the amount of Organic Net Revenue growth that we will seek. We are currently targeting an average of 5% organic growth over the long term.

The attrition statistics for 2009 and the previous three years appear in Table 2. We calculate attrition and growth each year based off of the prior year's GAAP maintenance revenue, rather than the run-rate of maintenance revenue at the end of the prior year. This creates a persistent overstatement of both organic growth and attrition if we consistently acquire significant amounts of maintenance revenue late in each year. Foreign exchange changes during the last couple of years have been significant and also complicate the analysis. Despite the challenges of pulling together accurate data across tens of thousands of clients in a multitude of different geographies, we believe that the table is indicative of the trends in our maintenance base.

Table 2

	2006	2007	2008	2009
Maintenance Revenue (US$MM)	**116**	**142**	**193**	**252**
Growth from:				
Acquisitions	17%	11%	24%	27%
Organic Sources				
a) New maintenance	15%	10%	10%	8%
b) Price increases	5%	8%	9%	3%
c) Attrition - Lost Modules	-2%	-2%	-3%	-3%
c) Attrition - Lost Customers	-4%	-4%	-4%	-4%
Total Organic Growth	15%	12%	11%	4%
Total Maintenance Growth	32%	23%	35%	31%

Our customer and module attrition has consistently been less than the sum of new maintenance revenue plus maintenance price increases (i.e. the organic growth in our maintenance revenue has been positive). This suggests that the economic value of Constellation's intangible assets has appreciated even during the recent recession. And while the Total Organic Growth in maintenance has slowed during the recession, 2009 was a record year for the acquisition of maintenance revenues so we still had a very attractive increase (31%) in our maintenance revenues. It seems intuitively appealing that as we go through an economic cycle there will be good times to organically grow maintenance revenues and good times to buy maintenance revenues, and that those events will rarely coincide. I only wish we had acquired more maintenance during the recession before acquisition prices rebounded.

Our attrition rates also illustrate the long-term nature of our client relationships. Attrition due to the loss of customers in 2009 was ~4%, suggesting that our average customer will stay with Constellation for 26 years. Customer relationships that endure for more than two decades are valuable. We have symbiotic relationships with tens of thousands of customers: we handle thousands of their calls each day, and issue scores of new versions of mission critical software each year which incorporate their feedback and suggestions. For an annual cost that rarely exceeds 1% of a customers' revenues, our products help them run their businesses efficiently, adopt their industry's best practices, and adapt to changing times.

In aggregate our intangibles appear to be steadily increasing in value. Nevertheless there is one sector amongst our businesses where the picture is not so rosy. Within our CHS Operating Group, primarily due to the contraction of our homebuilder businesses, Total Organic Growth has averaged -10% in each of the last two years. During the recession we believe that our market share in the homebuilding software industry has grown, even while our revenues and profits have decreased. We still anticipate generating an investment return from this sector that exceeds our hurdle rate.

Even when you use GAAP financial metrics to measure performance, you can be accused of cherry-picking those that look good. There's nothing like studying many years of a company's financial statements and filings to form a clear picture of its business and its managers' values. Nevertheless, I've tried to boil down that analysis into two simple per share metrics in Table 3. I used per share metrics, because it is no achievement to grow revenues or cash flow 50% per annum while growing share count by 100% per annum. I used Revenue per Share because, all other things being equal, any increase in Revenues per Share should translate into a similar increase in intrinsic value per share (not including dividends). Obviously, all other things are not equal. I'd suggest, however, that on balance the important factors that drive our economic model have improved during the last decade (for instance, margins have improved and we are using less and less working capital). This is borne out by our Cash Flow from Operating Activities per Share, which has improved at a rate in excess of Revenue per Share during the decade. The growth in Cash Flow from Operating Activities per Share has not been achieved at the cost of significantly increased debt per share. Indeed, if we liquidated our portfolio of marketable securities at current market prices, we would entirely eliminate our debt.

Table 3

	Total Revenue per Share	YoY △	Cash Flow from Operating Activities per Share	YoY △	Total Share Count
2000	3.00		0.06		19,439
2001	2.95	-2%	0.48	729%	19,284
2002	3.22	9%	0.43	-11%	19,342
2003	4.16	29%	0.74	72%	19,428
2004	5.49	32%	0.59	-20%	19,891
2005	8.11	48%	1.21	106%	20,392
2006	10.01	23%	1.36	12%	21,065
2007	11.47	15%	1.62	19%	21,192
2008	15.60	36%	2.96	83%	21,192
2009	20.67	32%	3.90	32%	21,192
CAGR		24%		30%*	

* 8 year CAGR 2001-2009 is 30%. The 9 year CAGR is 60%.

Experience and math suggest that the compound average growth rates in Revenue per share and Cash Flow from Operating Activities per share of the last decade are not maintainable. Inevitable decline doesn't make the company's performance to date any less impressive. As both the GAAP and CSI Metrics suggest, and over pretty much any period, we have done extremely well vs most comparables. I'm proud of the company that our employees and shareholders have built.

The majority of the Constellation board believe that our stock price does not adequately reflect the company's fundamental performance and its ability to deploy retained capital at high returns. They speculate that the complexity of the company creates a discount because only enterprising investors are willing to do the work to understand our business. The board also worries that if we continue with our current strategy, our growth rates may start to slow and/or our profitability erode. There's something to their observations and concerns.

We have been a serial acquirer of inherently attractive small vertical market software businesses in a large number of different verticals. We try to be competent long-term oriented owners of these businesses. Our maintenance attrition and organic maintenance growth numbers, coupled with our profitability suggest that we have been successful. In the vast majority of cases, the longer we have owned a small software business, the larger and better it has become. If we persist in this strategy (let's call it the "many verticals" strategy), we will continue to add new verticals and to make many more small acquisitions each year. We've handled our geometric growth to date by largely abdicating management to the general managers of each of our vertical businesses. We have a very thin overlay of infrastructure at CSI. We count on the fact that with each new acquisition will come general managers who are steeped in their verticals… veterans who have built industry leading (albeit small) vertical market software businesses with great economics. Having owned more than a hundred vertical market software businesses, we also have some best practices that we can share. We coach the managers of our newly acquired businesses in how to grow their businesses and make them even better. As long as we compensate these managers appropriately, and are not tempted to meddle too much, then I think we can scale up Constellation for many years to come.

This large span of control with low overhead is an experiment. A couple of successful conglomerates appear to have used it, but it isn't common and we are feeling our way forward. The challenge is striking a balance between keeping overheads low and having the management capacity to intervene when a business isn't living up to its potential. Unfortunately, even if we execute this "many verticals" strategy flawlessly, and continue to generate high returns on our invested capital, Constellation will become even more complex and difficult for our shareholders and board to understand.

An alternative strategy that we've discussed with the board, is concentrating our activities in a fewer number of larger verticals. This would likely mean paying higher multiples for larger acquisitions and paying strategic premiums to accelerate the number of tuck-in acquisitions that we do in any one vertical. Despite the higher multiples (and hence lower returns on investment) associated with such acquisitions, we'd end up with fewer and larger businesses and Constellation would be easier to manage and understand.

We've decided to continue with our original "many verticals" strategy, but we are monitoring our ability to keep on scaling up the number of verticals in which we compete. Management are not currently feeling overtaxed, and hate the prospect of paying premiums for larger businesses and tuck-in acquisitions. So for the time being, at least, our shareholders and board will have to contend with increased complexity, and our management will focus on maximising the long term return on capital.

Only one eleventh of our shares changed hands in 2009 (vs one sixteenth in 2008). Our share price has outperformed the S&P TSX index by an average of 16% per annum since our IPO in 2006. We seem to have attracted a group of shareholders who have willingly sacrificed liquidity in return for the opportunity to make a long term investment in what they believe is a good company. We continue to seek long-term oriented shareholders that share our approach to investing.

As in previous years, we will be hosting the annual general meeting in early May. Many of our Directors and Officers and a number of our General Managers will be in attendance. We look forward to talking about our business and answering your questions. I hope to see you there.

Mark Leonard March 25, 2010
President
Constellation Software Inc.

Glossary

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 that 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.

“ROIC” represents a ratio of Adjusted Net Income to Average Invested Capital.

“Net Revenue”. Net Revenue is gross revenue for GAAP purposes less any 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 the margin on the lower value-added revenues such as commodity hardware or third party software.

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

Adjusted Net Income, Adjusted EBITDA and Organic Revenue Growth are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Adjusted Net Income Adjusted EBITDA and Organic Revenue Growth should not be construed as alternatives to 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 Adjusted Net Income, Adjusted EBITDA and Organic 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.