CONSTELLATION SOFTWARE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following discussion and analysis should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements for the three month period ended March 31, 2020, which we prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" and "Risks and Uncertainties".

Unless otherwise indicated, all dollar amounts are expressed in U.S. dollars. All references to "$" are to U.S. dollars and all references to "C$" are to Canadian dollars. Due to rounding, certain totals and subtotals may not foot and certain percentages may not reconcile.

Additional information about Constellation Software Inc. (the "Company" or "Constellation"), including our most recently filed Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com.

Forward Looking Statements

Certain statements in this report may contain "forward looking" statements that involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are intended to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance as of the date of this MD&A, May 7, 2020. 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, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which can be obtained electronically on SEDAR at www.sedar.com.

Non-IFRS Measures

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as Free cash flow available to shareholders.

Free cash flow available to shareholders ''FCFA2S'' refers to net cash flows from operating activities less interest paid on lease obligations, interest paid on other facilities, credit facility transaction costs, repayments of lease obligations, the TSS membership liability revaluation charge, and property and equipment purchased, and includes interest and dividends received. We believe that FCFA2S is useful supplemental information as it provides an indication of the uncommitted cash flow that is available to shareholders if we do not make any acquisitions, or investments, and do not repay any debts. While we could use the FCFA2S to pay dividends or repurchase shares, our objective is to invest all of our FCFA2S in acquisitions which meet our hurdle rate.

FCFA2S is not a recognized measure under IFRS and, accordingly, readers are cautioned that FCFA2S should not be construed as an alternative to net cash flows from operating activities. See ''Results of Operations

—Free cash flow available to shareholders" for a reconciliation of FCFA2S to net cash flows from operating activities.

Overview

We acquire, manage and build vertical market software ("VMS") businesses. Generally, these businesses provide mission critical software solutions that address the specific needs of our customers in particular markets. Our focus on acquiring businesses with growth potential, managing them well and then building them, has allowed us to generate significant cash flows and revenue growth during the past several years.

Our revenue consists primarily of software license fees, maintenance and other recurring fees, professional service fees and hardware sales. Software license revenue is comprised of license fees charged for the use of our software products generally licensed under multiple-year or perpetual arrangements. Maintenance and other recurring revenue primarily consists of fees charged for customer support on our software products post-delivery and also includes, to a lesser extent, recurring fees derived from software as a service, subscriptions, combined software/support contracts, transaction-related revenues, and hosted products. Maintenance and other recurring fee arrangements generally include ongoing customer support and rights to certain product updates "when and if available" and products sold on a subscription basis. Professional service revenue consists of fees charged for implementation and integration services, customized programming, product training and consulting. Hardware sales include the resale of third party hardware that forms part of our customer solutions, as well as sales of customized hardware assembled internally. Our customers typically purchase a combination of software, maintenance, professional services and hardware, although the type, mix and quantity of each vary by customer and by product.

Expenses consist primarily of staff costs, the cost of hardware, third party licenses, maintenance and professional services to fulfill our customer arrangements, travel and occupancy costs and other general operating expenses.

Results of Operations

(In millions of dollars, except percentages and per share amounts)

Unaudited

	Three months ended March 31,		Period-Over-Period Change	
	2020	2019	$	%
Revenue	**953**	**819**	**134**	**16%**
Expenses	716	640	76	12%
Amortization of intangible assets	94	75	19	25%
Foreign exchange (gain) loss	(6)	1	(7)	NM
TSS membership liability revaluation charge	18	10	8	83%
Finance and other income	(0)	(3)	2	-84%
Bargain purchase gain	-	(28)	28	-100%
Impairment of intangible and other non-financial assets	5	-	5	NM
Finance costs	11	9	2	25%
Income before income taxes	115	115	1	1%
Income tax expense (recovery)				
Current income tax expense (recovery)	44	36	8	23%
Deferred income tax expense (recovery)	(12)	(8)	(4)	49%
Income tax expense (recovery)	33	28	4	15%
Net income	**83**	**87**	**(4)**	**-4%**
Net cash flows from operating activities	**361**	**284**	**76**	**27%**
Free cash flow available to shareholders	**311**	**250**	**60**	**24%**
Weighted average number of shares outstanding				
Basic and diluted	21.2	21.2		
Net income per share				
Basic and diluted	$ 3.91	$ 4.09	$ (0.18)	-4%
Net cash flows from operating activities per share				
Basic and diluted	$ 17.01	$ 13.40	$ 3.61	27%
Free cash flow available to shareholders per share				
Basic and diluted	$ 14.66	$ 11.81	$ 2.85	24%
Cash dividends declared per share				
Basic and diluted	$ 1.00	$ 1.00	$ -	0%

NM - Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Comparison of the first quarter ended March 31, 2020 and 2019

Revenue:

Total revenue for the quarter ended March 31, 2020 was $953 million, an increase of 16%, or $134 million, compared to $819 million for the comparable period in 2019. The increase is primarily attributable to growth from acquisitions as the Company experienced organic growth of negative 2% in the quarter, 0% after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business. For acquired companies, organic growth is calculated as the difference between actual revenues achieved by each company in the financial period following acquisition compared to the estimated revenues they achieved in the corresponding financial period preceding the date of acquisition by Constellation.

The following table displays the breakdown of our revenue according to revenue type:

	Three months ended March 31,		Period-Over-Period Change		Q119 Proforma Adj. (Note 1)	Organic Growth
	2020	2019	$	%	$	%
	($ in millions, except percentages)					
Licenses	57	53	5	9%	10	-8%
Professional services	178	158	20	12%	34	-8%
Hardware and other	42	36	6	17%	5	3%
Maintenance and other recurring	676	572	104	18%	104	0%
	953	819	134	16%	153	-2%

$M - Millions of dollars

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Note 1: Estimated pre-acquisition revenues for the three months ended March 31, 2019 from companies acquired after December 30, 2018. (Obtained from unaudited vendor financial information.)

For comparative purposes the table below shows the quarterly organic growth as compared to the same period in the prior year by revenue type since Q1 2018.

	Quarter Ended								
	Mar. 31 2018	Jun. 30 2018	Sep. 30 2018	Dec. 31 2018	Mar. 31 2019	Jun. 30 2019	Sep. 30 2019	Dec. 31 2019	Mar. 31 2020
Licenses	-4%	-5%	-9%	-3%	-3%	5%	-14%	-10%	-8%
Professional services	3%	3%	-5%	1%	-5%	-7%	-8%	-8%	-8%
Hardware and other	-16%	-11%	-20%	4%	-4%	-15%	-2%	-22%	3%
Maintenance and other recurring	8%	6%	3%	2%	1%	2%	1%	2%	0%
Revenue	**5%**	**4%**	**-1%**	**2%**	**-1%**	**-1%**	**-2%**	**-3%**	**-2%**

The following table shows the same information adjusting for the impact of foreign exchange movements.

	Quarter Ended								
	Mar. 31 2018	Jun. 30 2018	Sep. 30 2018	Dec. 31 2018	Mar. 31 2019	Jun. 30 2019	Sep. 30 2019	Dec. 31 2019	Mar. 31 2020
Licenses	-8%	-7%	-7%	-1%	1%	8%	-12%	-9%	-7%
Professional services	-3%	0%	-4%	3%	-1%	-4%	-5%	-7%	-6%
Hardware and other	-20%	-13%	-19%	5%	-1%	-14%	0%	-21%	4%
Maintenance and other recurring	4%	4%	4%	4%	5%	4%	3%	3%	2%
Revenue	**0%**	**1%**	**0%**	**3%**	**3%**	**2%**	**0%**	**-2%**	**0%**

For fiscal 2019 and earlier periods, we aggregated our business into two distinct segments for financial reporting purposes: (i) the public sector reportable segment, which included business units focused primarily on government and government-related customers, and (ii) the private sector reportable segment, which included business units focused primarily on commercial customers. Following the guidance set out by IFRS 8, Operating Segments ("IFRS 8"), the public sector reportable segment was derived by combining our Volaris, Harris and TSS operating segments, and the private sector reportable segment was derived by combining our Vela, Jonas and Perseus operating segments. While the operating segments in the public sector were comprised of businesses that primarily serve government and government-related customers, they also included businesses that serve commercial customers, and similarly the operating groups in the private sector were comprised of businesses that primarily serve commercial customers but also included businesses that serve government and government-related customers. For the fiscal years ended December 31, 2019 and 2018 approximately 35% and 30% respectively of the revenue in the public sector reportable segment was generated from commercial customers, and 15% and 16% respectively of revenue in the private sector reportable segment was generated from government and government-related customers. Each of our operating segments operate essentially as mini Constellations, conglomerates of small vertical market software companies with similar economic characteristics. Each operating segment CEO is focused on investing capital that generates returns at or above the investment hurdle rates set by CSI's head office (primarily the President) and the Board of Directors, irrespective of whether the acquired business operates primarily in the public or private sector. Accordingly presenting information on a public and private sector basis is no longer meaningful. Accordingly, we now aggregate our six operating segments into one reportable segment, consistent with the objective and basic principles of IFRS 8.

Expenses:

The following table displays the breakdown of our expenses:

	Three months ended March 31,		Period-Over-Period Change	
	2020	2019	$	%
	($ in millions, except percentages)			
Expenses				
Staff	510	445	65	15%
Hardware	23	21	2	11%
Third party license, maintenance and professional services	79	69	10	15%
Occupancy	9	9	0	4%
Travel, Telecommunications, Supplies & Software and equipment	51	44	6	15%
Professional fees	14	11	3	25%
Other, net	5	21	(16)	-76%
Depreciation	25	21	5	23%
	716	640	76	12%

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Overall expenses for the quarter ended March 31, 2020 increased 12%, or $76 million to $715 million, compared to $640 million during the same period in 2019. As a percentage of total revenue, expenses equalled 75% for the quarter ended March 31, 2020 and 78% for the same period in 2019. The change in valuation of the US dollar against most major currencies in which the Company transacts business resulted in an approximate 2% decrease in expenses for the three months ended March 31, 2020 compared to the first quarter of 2019.

Staff expense – Staff expenses increased 15% or $65 million for the quarter ended March 31, 2020 over the same period in 2019. Staff expense can be broken down into five key operating departments: Professional Services, Maintenance, Research and Development, Sales and Marketing, and General and Administrative. Included within staff expenses for each of the above five departments are personnel and related costs associated with providing the necessary services. The table below compares the period over period variances.

	Three months ended March 31,		Period-Over-Period Change	
	2020	2019	$	%
	($ in millions, except percentages)			
Professional services	110	96	14	14%
Maintenance	101	88	13	15%
Research and development	143	123	20	16%
Sales and marketing	70	63	7	11%
General and administrative	85	74	12	16%
	510	445	65	15%

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

The increase in staff expenses for the quarter ended March 31, 2020 was primarily due to the growth in the number of employees compared to the same period in 2019 primarily due to acquisitions. Staff expenses in the first quarter of every year are typically higher as a percentage of revenue as compared to other quarters, largely attributable to increased payroll tax costs associated with our annual bonus payments that are made in the month of March.

Hardware expenses – Hardware expenses increased 11% or $2 million for the quarter ended March 31, 2020 over the same period in 2019, as compared to the 17% increase in hardware and other revenue for the same periods. Hardware margin for the three months ended March 31, 2020 was 46% as compared to 43% for the same period in 2019.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses increased 15% or $10 million for the quarter ended March 31, 2020 over the same period in 2019. The increase is primarily due to third party license, maintenance and professional services expenses of acquired businesses.

Occupancy expenses – Occupancy expenses increased 4% or $0.3 million for the quarter ended March 31, 2020 over the same period in 2019. This increase is primarily due to the occupancy expenses of acquired businesses.

Travel, Telecommunications, Supplies & Software and equipment expenses – Travel, Telecommunications, Supplies & Software and equipment expenses increased 15% or $6 million for the quarter ended March 31, 2020 over the same period in 2019. The increase in these expenses is primarily due to expenses incurred by acquired businesses.

Professional fees – Professional fees increased 25% or $3 million for the quarter ended March 31, 2020 over the same period in 2019. There are no individually material reasons contributing to this variance.

Other, net – Other expenses decreased 76% or $16 million for the quarter ended March 31, 2020 over the same period in 2019. The following table provides a further breakdown of expenses within this category.

	Three months ended March 31,		Period-Over-Period Change	
	2020	2019	$	%
	($ in millions, except percentages)			
Advertising and promotion	13	11	1	11%
Recruitment and training	4	4	0	6%
Bad debt expense	3	1	2	187%
R&D tax credits	(5)	(5)	(1)	16%
Contingent consideration	(13)	5	(18)	NM
Other expense, net	3	4	(1)	-19%
	5	21	(16)	-76%

NM - Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

The contingent consideration negative expense amount recorded for Q1 2020 relates to a decrease in anticipated acquisition earnout payment accruals primarily as a result of decreases to revenue forecasts for the associated acquisitions. Revenue forecasts are updated on a quarterly basis and the related anticipated acquisition earnout payment accruals are updated accordingly. The bad debt expense increase is primarily related to an increased risk of payment defaults. Both the decrease in revenue forecasts and the increased risk of payment defaults are primarily attributable to the COVID-19 pandemic. See “Risks and Uncertainties”. There are no individually material reasons contributing to the remaining variances.

Depreciation – Depreciation of property and equipment increased 23% or $5 million for the quarter ended March 31, 2020 over the same period in 2019. This increase is primarily due to the depreciation expense associated with acquired businesses.

Other Income and Expenses:

The following table displays the breakdown of our other income and expenses:

	Three months ended March 31,		Period-Over-Period Change	
	2020	2019	$	%
	($ in millions, except percentages)			
Amortization of intangible assets	94	75	19	25%
Foreign exchange (gain) loss	(6)	1	(7)	NM
TSS membership liability revaluation charge	18	10	8	83%
Finance and other expense (income)	(0)	(3)	2	-84%
Bargain purchase gain	-	(28)	28	-100%
Impairment of intangible and other non-financial assets	5	-	5	NM
Finance costs	11	9	2	25%
Income tax expense (recovery)	33	28	4	15%
	155	93	62	67%

NM - Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Amortization of intangible assets – Amortization of intangible assets increased 25% or $19 million for the quarter ended March 31, 2020 over the same period in 2019. The increase in amortization expense is primarily attributable to an increase in the carrying amount of our intangible asset balance over the twelve-month period ended March 31, 2020 as a result of acquisitions completed during this twelve-month period.

Foreign exchange – Most of our businesses are organized geographically so many of our expenses are incurred in the same currency as our revenues, which mitigates some of our exposure to currency fluctuations. For the quarter ended March 31, 2020, we realized a foreign exchange gain of $6 million compared to a loss of $1 million for the same period in 2019. The following table provides a breakdown of these amounts.

	Three months ended March 31,		Period-Over-Period Change	
	2020	2019	$	%
	($ in millions, except percentages)			
Unrealized foreign exchange (gain) loss related to:				
- revaluation of intercompany loans between entities with differing functional currencies (1)	16	(2)	19	NM
- revaulation of the Company's unsecured subordinated floating rate debentures as a result of the appreciation (depreciation) of the Canadian dollar against the US dollar.	(18)	4	(23)	NM
Remaining foreign exchange (gain) loss	(4)	(1)	(3)	349%
	(6)	1	(7)	NM

NM - Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

(1) Offsetting amounts recorded in other comprehensive income. Net impact to Total comprehensive income for each period is nil.

The remaining foreign exchange gains and losses per the table above are primarily related to the unrealized foreign exchange translation gains of certain net Canadian dollar denominated liability balances to US dollars as a result of the Canadian dollar's depreciation against the US dollar.

TSS membership liability revaluation charge – The valuation of the TSS membership liability that was put in place in Q4 2014 increased by approximately 8% from Q4 2019 or $18 million. The increase is primarily the result of the growth in TSS' reported trailing twelve month maintenance revenue (primarily due to acquisitions). Maintenance revenue and net tangible assets are the two main drivers in the calculation of the liability. The liability recorded on the balance sheet increased by 6% or $14 million over the three month period ended March 31, 2020 from $221 million to $235 million as a result of the revaluation charge of $18 million and a $4 million foreign exchange gain that was recorded through other comprehensive income. The TSS membership liability is denominated in Euros and the Euro depreciated 2% versus the US dollar during Q1 2020.

Finance and other expense (income) – Finance and other income for the quarter ended March 31, 2020 was $0.5 million compared to $3 million for the same period in 2019. Interest earned on cash balances was $0.1 million in Q1 2020 and $3 million in Q1 2019.

Bargain purchase gain – A bargain purchase gain adjustment totalling $28 million was recorded in the three month period ended March 31, 2019 relating to two of the acquisitions made during 2018 and 2019. No similar gain was recognized for the same period in 2020. In Q4 2018 the Company acquired a business that was undergoing an extensive restructuring. The seller of that business capitalized the balance sheet on closing with cash in the amount of €47 million ($53 million) that was to be utilized to fund expected losses generated by the business, contributing to a bargain purchase gain of $63 million being recorded in Q4 2018. Revisions to the restructuring cost expectations resulted in a further bargain purchase gain of $4 million being recorded in Q1 2019. The business recorded an EBITA loss of $13 million in Q1 2019. There was no current income tax recovery recorded in Q1 2019 associated with these losses. The remaining $24 million bargain purchase gain related to an acquisition where the seller continues as a minority partner in the acquired business. The seller contributed $17 million into the partnership.

Impairment of intangible and other non-financial assets – An impairment expense of $5 million was recorded in the three month period ended March 31, 2020 primarily relating to three businesses acquired during 2019. Primarily due to the near-term impact, as well as the yet uncertain but probable longer-term impact of the COVID-19 pandemic, the forecasted cash flows for these businesses have declined significantly from the forecasted cash flows at the time of acquisition. See "Risks and Uncertainties". There was no similar expense recorded for the same period in 2019.

Finance costs – Finance costs for the quarter ended March 31, 2020 increased $2 million to $11 million, compared to $9 million for the same period in 2019 primarily a result of an increase in the average debt outstanding in Q1 2020 as compared to Q1 2019.

Income taxes – We operate globally and we calculate our tax provision in each of the jurisdictions in which we conduct business. Our effective tax rate on a consolidated basis is, therefore, affected by the realization and anticipated relative profitability of our operations in those various jurisdictions, as well as different tax rates that apply and our ability to utilize tax losses and other credits. For the quarter ended March 31, 2020, income tax expense increased $4 million to $33 million compared to $28 million for the same period in 2019. Current tax expense has historically approximated our cash tax rate however the quarterly expense can sometimes fall outside of the annual range due to out of period adjustments. Current tax expense reflects gross taxes before the application of R&D tax credits which are classified as part of "other, net" expenses in the statement of income.

Constellation is subject to tax audits in the countries in which the Company carries on business globally. These tax audits could result in additional tax expense in future periods relating to historical filings. Reviews by tax authorities generally focus on, but are not limited to, the validity of the Company's inter-company transactions, including financing and transfer pricing policies which generally involve subjective areas of taxation and a significant degree of judgment. If any of these tax authorities are successful with their challenges, the Company's income tax expense may be adversely affected and Constellation could also be subject to interest and penalty charges.

Net Income and Earnings per Share:

Net income for the quarter ended March 31, 2020 was $83 million compared to net income of $87 million for the same period in 2019. On a per share basis this translated into a net income per diluted share of $3.91 in the quarter ended March 31, 2020 compared to net income per diluted share of $4.09 for the same period in 2019. There was no change in the number of shares outstanding.

Net cash flows from operating activities ("CFO"):

For the quarter ended March 31, 2020, CFO increased $76 million to $361 million compared to $284 million for the same period in 2019 representing an increase of 27%.

Free cash flow available to shareholders ("FCFA2S"):

For the quarter ended March 31, 2020, FCFA2S increased $60 million to $311 million compared to $250 million for the same period in 2019 representing an increase of 24%.

The following table reconciles FCFA2S to net cash flows from operating activities:

	Three months ended March 31,	
	2020	2019
	($ in millions, except percentages)	
Net cash flows from operating activities	361	284
Adjusted for:		
Interest paid on lease obligations	(2)	(2)
Interest paid on other facilities	(8)	(8)
Payments of lease obligations	(14)	(10)
TSS membership liability revaluation charge	(18)	(10)
Property and equipment purchased	(7)	(7)
Interest and dividends received	0	3
Free cash flow available to shareholders	311	250

Due to rounding, certain totals may not foot.

Quarterly Results

	Quarter Ended								
	Mar. 31 2018	Jun. 30 2018	Sep. 30 2018	Dec. 31 2018	Mar. 31 2019	Jun. 30 2019	Sep. 30 2019	Dec. 31 2019	Mar. 31 2020
Revenue	718	752	759	831	819	846	870	956	953
Net income	83	52	66	179	87	73	82	92	83
CFO	258	53	143	208	284	50	177	255	361
FCFA2S	242	27	112	178	250	12	134	193	311
Net income per share									
Basic & diluted	3.90	2.45	3.10	8.46	4.09	3.45	3.85	4.34	3.91
CFO per share									
Basic & diluted	12.16	2.50	6.75	9.84	13.40	2.36	8.37	12.02	17.01
FCFA2S per share									
Basic & diluted	11.41	1.27	5.29	8.39	11.81	0.58	6.35	9.12	14.66

We experience seasonality in our operating results in that CFO and FCFA2S in the first quarter of every year is typically the highest and CFO and FCFA2S in the second quarter of every year is the lowest. The key driver impacting this seasonality is the timing of annual maintenance contract renewals. Our quarterly results may also fluctuate as a result of the various acquisitions which may be completed by the Company in any given quarter. We may experience variations in our net income on a quarterly basis depending upon the timing of certain expenses or gains, which may include changes in provisions, acquired contract liabilities, foreign exchange gains and losses, bargain purchase gains, and gains or losses on the sale of financial and other assets.

Liquidity

Our net cash position (cash less bank indebtedness excluding capitalized transaction costs) increased by $180 million to $216 million in the three months ended March 31, 2020 resulting from cash flows from operations exceeding the net capital deployed on acquisitions plus dividends. Cash increased by $48 million to $364 million at March 31, 2020 compared to $316 million at December 31, 2019 and bank indebtedness decreased by $132 million to $148 million at March 31, 2020 compared to $280 million at December 31, 2019.

Total assets increased $89 million, from $3,488 million at December 31, 2019 to $3,577 million at March 31, 2020. The increase is primarily due to a $48 million increase in cash, $33 million increase in accounts receivable and $25 million increase in other current assets. At March 31, 2020 three subsidiaries holding cash totalling $118 million maintained debt facilities, which facilities are without recourse to Constellation. As explained in the "Capital Resources and Commitments" section below, there are limitations on the ability of these subsidiaries to distribute funds to Constellation.

Current liabilities increased $77 million, from $1,732 million at December 31, 2019 to $1,809 million at March 31, 2020. The increase is primarily due to an increase in deferred revenue of $247 million mainly due to acquisitions made since December 31, 2019 and the timing of maintenance and other billings versus performance and delivery under those customer arrangements, offset by a decrease in bank indebtedness of $119 million and a decrease in accounts payable and accrued liabilities of $76 million largely relating to the payment of bonuses accrued in 2019.

Net Changes in Cash Flows
(in $M's)

	Three months ended March 31, 2020	Three months ended March 31, 2019
Net cash provided by operating activities	361	284
Net cash from (used in) financing activities	(167)	(103)
Cash used in the acquisition of businesses	(139)	(73)
Cash obtained with acquired businesses	14	25
Net cash from (used in) other investing activities	(8)	(5)
Net cash from (used in) investing activities	(133)	(52)
Effect of foreign currency	(13)	(1)
Net increase (decrease) in cash and cash equivalents	**48**	**128**

The net cash flows from operating activities were $361 million for the quarter ended March 31, 2020. The $361 million provided by operating activities resulted from $83 million in net income plus $180 million of non-cash adjustments to net income and $136 million of cash from non-cash operating working capital, offset by $38 million in taxes paid.

The net cash flows used in financing activities in the quarter ended March 31, 2020 were $167 million, which is mainly a result of dividends paid of $21 million, a net decrease in bank indebtedness of $120 million, lease obligation payments of $14 million, and interest paid on bank indebtedness and the Company's unsecured subordinated floating rate debentures in the period of $8 million.

The net cash flows used in investing activities in the quarter ended March 31, 2020 were $133 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of $139 million (including payments for holdbacks relating to prior acquisitions) offset by $14 million of acquired cash.

We believe we have sufficient cash and available credit capacity to continue to operate for the foreseeable future. Generally our VMS businesses operate with negative working capital as a result of the collection of maintenance payments and other revenues in advance of the performance of the related services. As such, management anticipates that it can continue to grow the business organically without any additional funding. If we continue to acquire VMS businesses we may need additional external funding depending upon the size and timing of the potential acquisitions.

Capital Resources and Commitments

CSI Facility

On December 13, 2019, Constellation completed an amendment and restatement of its revolving credit facility agreement (the "CSI Facility"), with a syndicate of Canadian chartered banks, U.S. banks, and a Japanese bank in the amount of $700 million, extending its maturity date to December 2024. The CSI Facility bears a variable interest rate with no fixed repayments required over the term to maturity. Interest rates are calculated at standard U.S. and Canadian reference rates plus interest rate spreads based on a leverage table. The CSI Facility is currently collateralized by the majority of the Company's assets including the assets of certain material subsidiaries. The CSI Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at March 31, 2020, $nil had been drawn from this credit facility, and letters of credit totaling $19 million were issued, which limits the borrowing capacity on a dollar-for-dollar basis.

Debt without recourse to CSI

Certain of CSI's subsidiaries have entered into term debt facilities and revolving credit facilities with various financial institutions. CSI does not guarantee the debt of its subsidiaries, nor are there any cross-guarantees between subsidiaries. The credit facilities are collateralized by substantially all of the assets of the borrowing entity and its subsidiaries. The credit facilities typically bear interest at a rate calculated using an interest rate index plus a margin. The financing arrangements for each subsidiary typically contain certain restrictive covenants, which may include limitations or prohibitions on additional indebtedness, payment of cash dividends, redemption of capital, capital spending, making of acquisitions and sales of assets. In addition, certain financial covenants must be met by those subsidiaries that have outstanding debt.

Debt without recourse to CSI comprises the following ($ in millions):

	Revolving Credit Facilities	Term Debt Facilities	Total
Principal outstanding at March 31, 2020 (and equal to fair value)	$ -	$ 148	$ 148
Deduct: Carrying value of transaction costs included in debt balance	-	(4)	(4)
Carrying value at March 31, 2020	-	145	145
Current portion	-	2	2
Non-current portion	-	143	143

Debentures

On October 1, 2014 and November 19, 2014, the Company issued unsecured subordinated debentures (the "Debentures") with a total principal value of C$96.0 million for total proceeds of C$91.2 million. The proceeds were used by the Company to pay down $81.2 million of outstanding bank indebtedness.

On September 30, 2015, the Company issued an additional tranche of Debentures with a total principal value of C$186.2 million for total proceeds of C$214.2 million. The proceeds were used by the Company to pay down $130.4 million of outstanding bank indebtedness. The September 30, 2015 issuance formed a single series with the outstanding C$96.0 million aggregate principal amount of Debentures, Series 1 of the Company. The Debentures have a maturity date of March 31, 2040.

TSS Membership Liability

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 Holding Cooperatief U.A. ("CNH"), a subsidiary of Constellation and the indirect owner of 100% of TSS. Proceeds from this transaction in the amount of $48.5 million (€39.4 million) were utilized to repay, in part, outstanding bank indebtedness of Constellation. In accordance with IFRS, 100% of the financial results for TSS are included in the consolidated financial results of the Company.

Each of the minority owners may, at any time, exercise a put option to sell all or a portion of their interests in CNH back to Constellation for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Accordingly, the Company classified the proceeds from the Members Agreement as a liability. The main valuation driver in such calculation is the maintenance and other recurring revenue of CNH. Upon the exercise of a put option, Constellation would be obligated to redeem up to 33.33% of the minority owners' interests put, no later than 30 business days from the date notice is received (classified as a current liability), and up to 33.33% on each of the first and second anniversary of the date the first redemption payment is made.

The seller of TSS also has an option available to it to sell approximately 68% of its interests in CNH, for an amount calculated in accordance with a valuation methodology described within the Members Agreement, in the event that Robin Van Poelje, TSS' CEO, is no longer employed by TSS. The approximately 32% remaining interest can be sold via the put option described above.

In the event of a change of control in Constellation, the minority owners would have the option to sell 100% of their interests in CNH for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Constellation would be obligated to remit payment in respect thereof no later than 30 business days from the date notice is given.

Commencing at any time after December 31, 2023, Constellation may exercise a call option to purchase all of the minority owners' interests in CNH, for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Upon exercise of the call option, the full purchase price will be paid within 30 business days of the notice date, following which the minority owners' membership in CNH will be terminated. There is a valuation premium if the call option is exercised versus the put option.

If any of TSS' executive management team that participate in the Members Agreement are terminated for urgent cause as defined in Section 7:678 of the Dutch Civil Code, Constellation shall have the right to purchase all of the interests beneficially owned by the terminated executive for an amount calculated in accordance with the valuation methodology described within the Members Agreement. The full purchase price will be paid within 30 business days from the date notice is given, following which the terminated executive's membership in CNH will be terminated. An option does exist for the terminated executive to elect to be paid in annual installments of 33.33%

of his interests in CNH over a 3 year period. The valuation of the interests being purchased will be calculated at each annual payment date.

Other commitments

Commitments include operating leases for office equipment and facilities, letters of credit and performance bonds issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Also, occasionally we structure some of our acquisitions with contingent consideration based on the future performance of the acquired business. The fair value of contingent consideration recorded in our statement of financial position was $44 million at March 31, 2020. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments, or any equity interests in non-consolidated entities that would have a significant effect on our assets and liabilities as at March 31, 2020.

The TSS membership liability commitment assumes that the minority owners have exercised their put option to sell 100% of their interests back to Constellation. This option however has not been exercised as at May 7, 2020. See the "Critical Accounting Estimate" section of the Company's 2019 Annual Consolidated Financial Statements for a discussion on the valuation methodology utilized.

Foreign Currency Exposure

We operate internationally and have foreign currency risks related to our revenue, operating expenses, assets and liabilities denominated in currencies other than the U.S. dollar. Consequently, we believe movements in the foreign currencies in which we transact will impact future revenue and net income. The impact to organic revenue growth for the three months ended March 31, 2020 was approximately negative 2%. We cannot predict the effect of foreign exchange gains or losses in the future; however, if significant foreign exchange losses are experienced, they could have a material adverse effect on our business, revenues, results of operations, and financial condition. The Company enters into forward foreign exchange contracts from time to time with the objective of mitigating volatility in profit or loss in respect of financial liabilities. In entering into these forward exchange contracts, the Company is exposed to the credit risk of the counterparties to such contracts and the possibility that the counterparties will default on their payment obligations under these contracts. However, given that the counterparties are Schedule 1 banks or affiliates thereof, the Company believes these risks are not material. During the quarter ended March 31, 2020, the Company did not purchase any contracts of this nature.

The following table provides an approximate breakdown of our revenue and expenses by currency, expressed as a percentage of total revenue and expenses, as applicable, for the three months ended March 31, 2020:

	Three Months Ended March 31, 2020	
Currencies	% of Revenue	% of Expenses
USD	51%	47%
CAD	7%	12%
GBP	8%	8%
EURO	21%	20%
CHF	1%	3%
Others	11%	11%
Total	100%	100%

Off-Balance Sheet Arrangements

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for insignificant and short-term operating leases and letters of credit, all of our liabilities and commitments are reflected as part of our statement of financial position.

Proposed Transactions

We seek potential acquisition targets on an ongoing basis and may complete several acquisitions in any given fiscal year.

Share Capital

As at May 7, 2020, there were 21,191,530 common shares outstanding.

Risks and Uncertainties

The Company's business is subject to a number of risk factors which are described in our most recently filed AIF. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

The Company is closely monitoring the impact of the 2019 novel coronavirus, or COVID-19, on all aspects of its business. COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020. The COVID-19 pandemic has had disruptive effects in countries in which the Company operates and has adversely impacted many of its business units' operations to date, including through the cancellation by certain customers of their ongoing software maintenance contracts and the suspension or cancellation of new software purchases. The pandemic may also have an adverse impact on many of the Company's customers, including their ability to satisfy ongoing payment obligations to the Company, which could increase the Company's bad debt exposure. The future impacts of the pandemic and any resulting economic impact are largely unknown and rapidly evolving. It is possible that the COVID-19 pandemic, the measures taken by the governments of countries affected and the resulting economic impact may continue to adversely affect the Company's results of operations, cash flows and financial position as well as its customers in future periods, and this impact could be material.

Controls and Procedures

Evaluation of disclosure controls and procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. At March 31, 2020, the President and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting:

The President and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures which provide reasonable assurance that material information regarding the Company is accumulated and communicated to the Company's management, including its President and Chief Financial Officer in a timely manner.

In addition, the President and Chief Financial Officer have designed or caused it to be designed under their supervision internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. The President and Chief Financial Officer have been advised that the control framework the President and the Chief Financial Officer used to design the Company's ICFR is recognized by the Committee of Sponsoring Organizations of the Treadway Commission.

The President and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the period ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our internal controls over financial reporting are effective in providing reasonable, not absolute, assurance that the objectives of our control systems have been met.