

Constellation Software Inc. Announces Results for the First Quarter Ended March 31, 2019 and Declares Quarterly Dividend

TORONTO, ONTARIO (May 1, 2019) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the first quarter ended March 31, 2019 and declared a \$1.00 per share dividend payable on July 8, 2019 to all common shareholders of record at close of business on June 14, 2019. This dividend has been designated as an eligible dividend for the purposes of the Income Tax Act (Canada). Please note that all dollar amounts referred to in this press release are in U.S. Dollars unless otherwise stated.

The following press release should be read in conjunction with the Company’s Unaudited Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2019 and the accompanying notes, our Management Discussion and Analysis for the three months ended March 31, 2019 and with our annual Consolidated Financial Statements, prepared in accordance with International Financial Reporting Standards (“IFRS”) and our annual Management’s Discussion and Analysis for the year ended December 31, 2018, which can be found on SEDAR at www.sedar.com and on the Company’s website www.csisoftware.com. Additional information about the Company is also available on SEDAR at www.sedar.com.

Q1 2019 Headlines:

- Revenue grew 14% (negative 1% organic growth, positive 3% after adjusting for changes in foreign exchange rates) to \$819 million compared to \$718 million in Q1 2018.
- Adjusted EBITA increased \$21 million or 13% to \$179 million as compared to \$159 million in Q1 2018.
- Net income increased 5% to \$87 million (\$4.09 on a diluted per share basis) from \$83 million (\$3.90 on a diluted per share basis) in Q1 2018.
- Adjusted net income decreased 11% to \$127 million (\$5.97 on a diluted per share basis) from \$143 million (\$6.73 on a diluted per share basis) in Q1 2018.
- A number of acquisitions were completed for aggregate cash consideration of \$47 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$22 million resulting in total consideration of \$70 million.
- Cash flows from operations were \$284 million, an increase of 10%, or \$26 million, compared to \$258 million for the comparable period in 2018.

Total revenue for the quarter ended March 31, 2019 was \$819 million, an increase of 14%, or \$100 million, compared to \$718 million for the comparable period in 2018. The increase is primarily attributable to growth from acquisitions as the Company experienced organic growth of negative 1%, positive 3% 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.

For the quarter ended March 31, 2019, Adjusted EBITA increased to \$179 million compared to \$159 million for the same period in 2018 representing an increase of 13%. Adjusted EBITA margin was 22% for both periods. Included in the Q1 2019 results was an EBITA loss of \$13 million relating to a business acquired in Q4 2018. The seller of that business capitalized the balance sheet on closing with cash in the amount of €47 million (\$53 million) that will be utilized to fund expected losses generated by the business. Based on current estimates an EBITA loss of approximately \$20 million inclusive of restructuring costs, will be recorded by the business in the full year 2019 results. There was no current income tax recovery recorded in Q1 2019 associated with these losses.

Net income for the quarter ended March 31, 2019 was \$87 million compared to net income of \$83 million for the same period in 2018. On a per share basis this translated into a net income per diluted share of \$4.09 in the quarter ended March 31, 2019 compared to net income per diluted share of \$3.90 for the same period in 2018.

For the quarter ended March 31, 2019, Adjusted net income decreased to \$127 million from \$143 million for the same period in 2018, representing a decrease of 11%. Adjusted net income margin was 15% for the quarter ended March 31,

2019 and 20% for the same period in 2018. Excluding the impact of the \$1 million unrealized foreign exchange loss in Q1 2019, and the \$14 million unrealized foreign exchange gain and an \$8 million financial liability accrual reversal recorded to finance and other income in Q1 2018, the margins would have been 16% and 17% for Q1 2019 and Q1 2018 respectively.

For the quarter ended March 31, 2019 Cash flows from operations were \$284 million, an increase of 10%, or \$26 million, compared to \$258 million for the comparable period in 2018.

The following table displays our revenue by reportable segment and the percentage change for the three months ended March 31, 2019 compared to the same period in 2018:

	Three months ended March 31,		Period-Over-Period Change		Organic Growth
	2019	2018	\$	%	%
	(\$M, except percentages)				
Public Sector					
Licenses	34	29	5	18%	-7%
Professional services	122	111	11	10%	-7%
Hardware and other	30	26	4	14%	-2%
Maintenance and other recurring	364	320	44	14%	1%
	549	486	64	13%	-2%
Private Sector					
Licenses	19	15	4	24%	7%
Professional services	36	31	5	15%	-1%
Hardware and other	6	6	(0)	-1%	-12%
Maintenance and other recurring	208	180	28	16%	2%
	269	233	36	16%	2%

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

For purposes of calculating organic growth, estimated pre-acquisition revenue from the relevant companies acquired in 2018 and 2019 was added to actual reported revenue for the three months ended March 31, 2018.

Public Sector

For the quarter ended March 31, 2019, total revenue in the public sector reportable segment increased 13%, or \$64 million to \$549 million, compared to \$486 million for the quarter ended March 31, 2018. For purposes of calculating organic growth, estimated pre-acquisition revenues included from the relevant companies acquired in 2018 and 2019 was \$73 million for the three months ended March 31, 2018. Organic revenue growth was negative 2% for the three months ended March 31, 2019 compared to the same period in 2018, and positive 2% after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business.

Private Sector

For the quarter ended March 31, 2019, total revenue in the private sector reportable segment increased 16%, or \$36 million to \$269 million, compared to \$233 million for the quarter ended March 31, 2018. For purposes of calculating organic growth, estimated pre-acquisition revenues included from the relevant companies acquired in 2018 and 2019 was \$32 million for the three months ended March 31, 2018. Organic revenue growth was 2% in for the three months ended March 31, 2019 compared to the same period in 2018, and 5% after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business.

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

Non-IFRS Measures

The term “Adjusted EBITA” refers to net income before adjusting for finance and other income, bargain purchase gain, finance costs, income taxes, share in net income or loss of equity investees, impairment of non-financial assets, amortization, TSS membership liability revaluation charge, and foreign exchange gain or loss. The Company believes that Adjusted EBITA is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration intangible asset amortization and the other items listed above. “Adjusted EBITA margin” refers to the percentage that Adjusted EBITA for any period represents as a portion of total revenue for that period.

“Adjusted net income” means net income adjusted for non-cash expenses (income) such as amortization of intangible assets, deferred income taxes, the TSS membership liability revaluation charge, and certain other expenses (income), and excludes the portion of the adjusted net income of Total Specific Solutions (TSS) B.V. (“TSS”) attributable to the minority owners of TSS. The Company believes that Adjusted net income is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to taking into consideration amortization of intangible assets, deferred income taxes, the TSS membership liability revaluation charge, and certain other non-cash expenses (income) incurred or recognized by the Company from time to time, and adjusts for the portion of TSS’ Adjusted net income not attributable to shareholders of Constellation. “Adjusted net income margin” refers to the percentage that Adjusted net income for any period represents as a portion of total revenue for that period.

Adjusted EBITA and Adjusted net income are not recognized measures under IFRS and, accordingly, readers are cautioned that Adjusted EBITA and Adjusted net income should not be construed as alternatives to net income determined in accordance with IFRS. The Company’s method of calculating Adjusted EBITA and Adjusted net income may differ from other issuers and, accordingly, Adjusted EBITA and Adjusted net income may not be comparable to similar measures presented by other issuers. Adjusted EBITA includes 100% of the Adjusted EBITA of TSS.

The following table reconciles Adjusted EBITA to net income:

	Three months ended March 31,	
	<u>2019</u>	<u>2018</u>
	(\$M, except percentages)	
Total revenue	<u>819</u>	<u>718</u>
Net income	87	83
Adjusted for:		
Income tax expense (recovery)	28	19
Foreign exchange (gain) loss	1	(14)
TSS membership liability revaluation charge	10	7
Finance and other income	(3)	(9)
Bargain purchase gain	(28)	(0)
Finance costs	9	5
Amortization of intangible assets	75	69
Adjusted EBITA	179	159
Adjusted EBITA margin	22%	22%

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

The following table reconciles Adjusted net income to net income:

	Three months ended March 31,	
	<u>2019</u>	<u>2018</u>
	(\$M, except percentages)	
Total revenue	<u>819</u>	<u>718</u>
Net income	87	83
Adjusted for:		
Amortization of intangible assets	75	69
TSS membership liability revaluation charge	10	7
Bargain purchase gain	(28)	(0)
Less non-controlling interest in the Adjusted net income of TSS	(9)	(7)
Deferred income tax expense (recovery)	(8)	(8)
Adjusted net income	127	143
Adjusted net income margin	15%	20%

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

About Constellation Software Inc.

Constellation's common shares are listed on the Toronto Stock Exchange under the symbol "CSU". Constellation acquires, manages and builds vertical market software businesses.

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SOURCE: CONSTELLATION SOFTWARE INC.

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Financial Position

(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

Unaudited

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash	\$ 717	\$ 589
Accounts receivable	362	362
Unbilled revenue	97	80
Inventories	39	34
Other assets	165	143
	1,380	1,207
Non-current assets:		
Property and equipment	67	67
Right of use assets	209	-
Deferred income taxes	48	47
Other assets	65	64
Intangible assets	1,556	1,549
	1,944	1,728
Total assets	\$ 3,324	\$ 2,935
Liabilities and Shareholders' Equity		
Current liabilities:		
CSI facility	\$ -	\$ -
Debt without recourse to Constellation Software Inc.	1	51
TSS membership liability	65	67
Accounts payable and accrued liabilities	388	464
Dividends payable	445	21
Deferred revenue	877	657
Provisions	19	7
Acquisition holdback payables	47	47
Lease obligations	51	-
Income taxes payable	38	30
	1,931	1,344
Non-current liabilities:		
Debt without recourse to Constellation Software Inc.	104	102
TSS membership liability	114	117
Debentures	218	215
Deferred income taxes	195	192
Acquisition holdback payables	12	25
Lease obligations	170	-
Other liabilities	74	74
	888	725
Total liabilities	2,820	2,069
Shareholders' equity:		
Capital stock	99	99
Accumulated other comprehensive income (loss)	(40)	(37)
Retained earnings	445	804
	505	866
Total liabilities and shareholders' equity	\$ 3,324	\$ 2,935

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Income

(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2019 and 2018

Unaudited

	Three months ended March 31,	
	2019	2018
Revenue		
License	\$ 53	\$ 44
Professional services	158	142
Hardware and other	36	33
Maintenance and other recurring	572	500
	<u>819</u>	<u>718</u>
Expenses		
Staff	445	389
Hardware	21	18
Third party license, maintenance and professional services	69	61
Occupancy	9	19
Travel, telecommunications, supplies, software and equipment	44	42
Professional fees	11	10
Other, net	21	13
Depreciation	21	7
Amortization of intangible assets	75	69
	<u>715</u>	<u>628</u>
Foreign exchange loss (gain)	1	(14)
TSS membership liability revaluation charge	10	7
Finance and other expense (income)	(3)	(9)
Bargain purchase (gain)	(28)	(0)
Finance costs	9	5
	<u>(11)</u>	<u>(11)</u>
Income before income taxes	115	101
Current income tax expense (recovery)	36	26
Deferred income tax expense (recovery)	(8)	(8)
Income tax expense (recovery)	<u>28</u>	<u>19</u>
Net income	<u>87</u>	<u>83</u>
Earnings per share		
Basic and diluted	\$ 4.09	\$ 3.90

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Comprehensive Income

(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2019 and 2018

Unaudited

	Three months ended March 31,	
	2019	2018
Net income	\$ 87	\$ 83
Items that are or may be reclassified subsequently to net income:		
Foreign currency translation differences from foreign operations	(3)	(4)
Deferred income tax recovery (expense)	-	-
Other comprehensive (loss) income for the period, net of income tax	(3)	(4)
Total comprehensive income (loss) for the period	\$ 83	\$ 78

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Changes in Equity

(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

Unaudited

Three months ended March 31, 2019

	Capital stock	Accumulated other comprehensive income/(loss)	Retained earnings	Total
		Cumulative translation account		
Balance at January 1, 2019	\$ 99		(37) \$	804 \$
				866
<i>Total comprehensive income for the period:</i>				
Net income	-	-	87	87
<i>Other comprehensive income (loss)</i>				
Foreign currency translation differences from foreign operations	-	(3)	-	(3)
Total other comprehensive income (loss) for the period	-	(3)	-	(3)
Total comprehensive income (loss) for the period	-	(3)	87	83
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company	-	-	(445)	(445)
Balance at March 31, 2019	\$ 99		(40) \$	445 \$
				505

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Changes in Equity

(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

Unaudited

Three months ended March 31, 2018

	Capital stock	Accumulated other comprehensive income/(loss) Cumulative translation account	Retained earnings	Total
Balance at January 1, 2018	\$ 99	\$ (27)	\$ 532	\$ 604
Impact of change in accounting policy	-	-	(23)	(23)
<i>Total comprehensive income for the period:</i>				
Net income	-	-	83	83
<i>Other comprehensive income (loss)</i>				
Foreign currency translation differences from foreign operations	-	(4)	-	(4)
Total other comprehensive income for the period	-	(4)	-	(4)
Total comprehensive income for the period	-	(4)	83	78
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company	-	-	(21)	(21)
Balance at March 31, 2018	\$ 99	\$ (31)	\$ 570	\$ 638

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Cash Flows

(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2019 and 2018

Unaudited

	Three months ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 87	\$ 83
Adjustments for:		
Depreciation	21	7
Amortization of intangible assets	75	69
TSS membership liability revaluation charge	10	7
Finance and other expense (income)	(3)	(9)
Bargain purchase (gain)	(28)	(0)
Finance costs	9	5
Income tax expense (recovery)	28	19
Foreign exchange loss (gain)	1	(14)
Change in non-cash operating assets and liabilities exclusive of effects of business combinations	123	147
Income taxes paid	(38)	(55)
Net cash flows from operating activities	284	258
Cash flows from (used in) financing activities:		
Interest paid on lease obligations	(2)	-
Interest paid on other facilities	(8)	(5)
Increase (decrease) in New CNH Facility, net	(51)	(58)
Repayments of Acceo facility	(0)	-
Repayments of lease obligations	(10)	-
Distribution to TSS minority owners	(11)	-
Dividends paid	(21)	(21)
Net cash flows from (used in) in financing activities	(103)	(84)
Cash flows from (used in) investing activities:		
Acquisition of businesses	(47)	(320)
Cash obtained with acquired businesses	25	23
Post-acquisition settlement payments, net of receipts	(26)	(17)
Interest, dividends and other proceeds received	3	1
Property and equipment purchased	(7)	(4)
Net cash flows from (used in) investing activities	(52)	(317)
Effect of foreign currency on cash and cash equivalents	(1)	2
Increase (decrease) in cash	128	(141)
Cash, beginning of period	589	489
Cash, end of period	\$ 717	\$ 348