

Constellation Software Inc. Announces Results for the First Quarter Ended March 31, 2020 and Declares Quarterly Dividend

TORONTO, ONTARIO (May 7, 2020) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the first quarter ended March 31, 2020 and declared a \$1.00 per share dividend payable on July 10, 2020 to all common shareholders of record at close of business on June 19, 2020. 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, 2020 and the accompanying notes, our Management Discussion and Analysis for the three months ended March 31, 2020 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, 2019, 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

We would like to acknowledge and thank all of our employees for their selflessness and continued commitment and support of each other and our customers during COVID-19 and the many challenges it has created. We remain focused on ensuring that our employees and their families are safe and healthy.

Q1 2020 Headlines:

- Revenue grew 16% (negative 2% organic growth, 0% after adjusting for changes in foreign exchange rates) to \$953 million compared to \$819 million in Q1 2019.
- Net income decreased 4% to \$83 million (\$3.91 on a diluted per share basis) from \$87 million (\$4.09 on a diluted per share basis) in Q1 2019. Excluding the bargain purchase gain recorded in Q1 2019 net income increased 42%.
- Impairment of intangible and other non-financial assets was \$5 million in Q1 2020 versus nil in Q1 2019.
- A number of acquisitions were completed for aggregate cash consideration of \$107 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$48 million resulting in total consideration of \$155 million.
- Cash flows from operations (“CFO”) were \$361 million, an increase of 27%, or \$76 million, compared to \$284 million for the comparable period in 2019.
- Free cash flow available to shareholders¹ (“FCFA2S”) increased \$60 million to \$311 million compared to \$250 million for the same period in 2019 representing an increase of 24%.

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%, 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.

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.

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%.

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

1. See Non-IFRS measures.

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. There was no similar expense recorded for the same period in 2019.

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 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.

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

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. Constellation believes that FCFA2S is useful supplemental information as it provides an indication of the uncommitted cash flow that is available to shareholders if Constellation does not make any acquisitions, or investments, and does not repay any debts. While Constellation could use the FCFA2S to pay dividends or repurchase shares, Constellation's objective is to invest all of our FCFA2S in acquisitions which meet Constellation's 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.

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

	Three months ended March 31,	
	<u>2020</u>	<u>2019</u>
	(\$ 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.

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, 2020	December 31, 2019	March 31, 2019
Assets			
Current assets:			
Cash	\$ 364	\$ 316	\$ 717
Accounts receivable	455	422	362
Unbilled revenue	104	110	97
Inventories	32	31	39
Other assets	209	184	165
	<u>1,163</u>	<u>1,062</u>	<u>1,380</u>
Non-current assets:			
Property and equipment	78	78	67
Right of use assets	233	234	209
Deferred income taxes	46	45	48
Other assets	70	72	65
Intangible assets	1,987	1,997	1,556
	<u>2,414</u>	<u>2,425</u>	<u>1,944</u>
Total assets	\$ 3,577	\$ 3,488	\$ 3,324
Liabilities and Shareholders' Equity			
Current liabilities:			
CSI facility	\$ -	\$ 63	\$ -
Debt without recourse to Constellation Software Inc.	2	57	1
TSS membership liability	90	86	65
Accounts payable and accrued liabilities	453	529	388
Dividends payable	21	21	445
Deferred revenue	1,035	788	877
Provisions	10	13	19
Acquisition holdback payables	78	76	47
Lease obligations	59	62	51
Income taxes payable	60	36	38
	<u>1,809</u>	<u>1,732</u>	<u>1,931</u>
Non-current liabilities:			
Debt without recourse to Constellation Software Inc.	143	153	104
TSS membership liability	145	136	114
Debentures	203	222	218
Deferred income taxes	250	246	195
Acquisition holdback payables	30	25	12
Lease obligations	191	187	170
Other liabilities	87	101	74
	<u>1,049</u>	<u>1,069</u>	<u>888</u>
Total liabilities	2,858	2,800	2,820
Shareholders' equity:			
Capital stock	99	99	99
Accumulated other comprehensive income (loss)	(70)	(40)	(40)
Retained earnings	690	628	445
	<u>719</u>	<u>687</u>	<u>505</u>
Total liabilities and shareholders' equity	\$ 3,577	\$ 3,488	\$ 3,324

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, 2020 and 2019

Unaudited

	Three months ended March 31,	
	2020	2019
Revenue		
License	\$ 57	\$ 53
Professional services	178	158
Hardware and other	42	36
Maintenance and other recurring	676	572
	<u>953</u>	<u>819</u>
Expenses		
Staff	510	445
Hardware	23	21
Third party license, maintenance and professional services	79	69
Occupancy	9	9
Travel, telecommunications, supplies, software and equipment	51	44
Professional fees	14	11
Other, net	5	21
Depreciation	25	21
Amortization of intangible assets	94	75
	<u>810</u>	<u>715</u>
Foreign exchange loss (gain)	(6)	1
TSS membership liability revaluation charge	18	10
Finance and other expense (income)	(0)	(3)
Bargain purchase gain	-	(28)
Impairment of intangible and other non-financial assets	5	-
Finance costs	11	9
	<u>28</u>	<u>(11)</u>
Income before income taxes	115	115
Current income tax expense (recovery)	44	36
Deferred income tax expense (recovery)	(12)	(8)
Income tax expense (recovery)	<u>33</u>	<u>28</u>
Net income	<u>83</u>	<u>87</u>
Earnings per share		
Basic and diluted	\$ 3.91	\$ 4.09

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, 2020 and 2019

Unaudited

	Three months ended March 31,	
	2020	2019
Net income	\$ 83	\$ 87
Items that are or may be reclassified subsequently to net income:		
Foreign currency translation differences from foreign operations	(30)	(3)
Deferred income tax recovery (expense)	-	-
Other comprehensive (loss) income for the period, net of income tax	(30)	(3)
Total comprehensive income (loss) for the period	\$ 53	\$ 83

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, 2020

	Capital stock	Accumulated other comprehensive income (loss)	Retained earnings	Total
		Cumulative translation account		
Balance at January 1, 2020	\$ 99	\$ (40)	\$ 628	687
<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	-	(30)	-	(30)
Total other comprehensive income (loss) for the period	-	(30)	-	(30)
Total comprehensive income (loss) for the period	-	(30)	83	53
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company	-	-	(21)	(21)
Balance at March 31, 2020	\$ 99	\$ (70)	\$ 690	719

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) Cumulative translation account	Retained earnings	Total
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 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 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, 2020 and 2019

Unaudited

	Three months ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 83	\$ 87
Adjustments for:		
Depreciation	25	21
Amortization of intangible assets	94	75
TSS membership liability revaluation charge	18	10
Finance and other expense (income)	(0)	(3)
Bargain purchase (gain)	-	(28)
Impairment of intangible and other non-financial assets	5	-
Finance costs	11	9
Income tax expense (recovery)	33	28
Foreign exchange loss (gain)	(6)	1
Change in non-cash operating assets and liabilities exclusive of effects of business combinations	136	123
Income taxes paid	(38)	(38)
Net cash flows from operating activities	361	284
Cash flows from (used in) financing activities:		
Interest paid on lease obligations	(2)	(2)
Interest paid on other facilities	(8)	(8)
Increase (decrease) in CSI facility	(65)	-
Increase (decrease) in revolving credit under debt facilities without recourse to CSI	(55)	(51)
Repayments of term debt under facilities without recourse to CSI	(1)	(0)
Payments of lease obligations	(14)	(10)
Distribution to TSS minority owners	-	(11)
Dividends paid	(21)	(21)
Net cash flows from (used in) in financing activities	(167)	(103)
Cash flows from (used in) investing activities:		
Acquisition of businesses	(107)	(47)
Cash obtained with acquired businesses	14	25
Post-acquisition settlement payments, net of receipts	(32)	(26)
Purchases of other investments	(1)	-
Interest, dividends and other proceeds received	0	3
Property and equipment purchased	(7)	(7)
Net cash flows from (used in) investing activities	(133)	(52)
Effect of foreign currency on cash and cash equivalents	(13)	(1)
Increase (decrease) in cash	48	128
Cash, beginning of period	316	589
Cash, end of period	364	717