

Constellation Software Inc. Announces Results for the Second Quarter Ended June 30, 2019 and Declares Quarterly Dividend

TORONTO, ONTARIO (August 2, 2019) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the second quarter ended June 30, 2019 and declared a \$1.00 per share dividend payable on October 7, 2019 to all common shareholders of record at close of business on September 16, 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 and six months ended June 30, 2019 and the accompanying notes, our Management Discussion and Analysis for the three and six months ended June 30, 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.csissoftware.com. Additional information about the Company is also available on SEDAR at www.sedar.com.

Q2 2019 Headlines:

- Revenue grew 12% (negative 1% organic growth, positive 2% after adjusting for changes in foreign exchange rates) to \$846 million compared to \$752 million in Q2 2018.
- Adjusted EBITA increased \$33 million or 19% to \$208 million as compared to \$175 million in Q2 2018. Adjusted EBITA margin was 25% as compared to 23% in Q2 2018.
- Net income increased 41% to \$73 million (\$3.45 on a diluted per share basis) from \$52 million (\$2.45 on a diluted per share basis) in Q2 2018.
- Adjusted net income increased 13% to \$137 million (\$6.49 on a diluted per share basis) from \$122 million (\$5.75 on a diluted per share basis) in Q2 2018.
- A number of acquisitions were completed for aggregate cash consideration of \$82 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$28 million resulting in total consideration of \$110 million.
- Cash flows from operations (after adjusting for the impact of IFRS 16 *Leases*, which was adopted on January 1, 2019) were \$36 million, a decrease of 32%, or \$17 million, compared to \$53 million for the comparable period in 2018.
- Subsequent to June 30, 2019, the Company completed or entered into agreements to acquire a number of businesses for aggregate cash consideration of \$190 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$30 million resulting in total consideration of \$221 million.

Total revenue for the quarter ended June 30, 2019 was \$846 million, an increase of 12%, or \$94 million, compared to \$752 million for the comparable period in 2018. For the first six months of 2019 total revenues were \$1,665 million, an increase of 13%, or \$194 million, compared to \$1,471 million for the comparable period in 2018. The increase for both the three and six month periods compared to the same periods in the prior year is primarily attributable to growth from acquisitions as the Company experienced organic growth of negative 1% in both periods, 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.

For the quarter ended June 30, 2019, Adjusted EBITA increased to \$208 million compared to \$175 million for the same period in 2018 representing an increase of 19%. For the first six months of 2019, Adjusted EBITA increased to \$387 million compared to \$334 million during the same period in 2018, representing an increase of 16%. Adjusted EBITA margin was 25% and 23% for the three and six months ended June 30, 2019 respectively, compared to 23% during the same periods in 2018.

Net income for the quarter ended June 30, 2019 was \$73 million compared to net income of \$52 million for the same period in 2018. On a per share basis, this translated into a net income per diluted share of \$3.45 in the quarter ended June 30, 2019 compared to net income per diluted share of \$2.45 for the same period in 2018. For the six months ended June 30, 2019, net income was \$160 million or \$7.54 per diluted share compared to \$135 million or \$6.35 per diluted share for the same period in 2018.

For the quarter ended June 30, 2019, Adjusted net income increased to \$137 million from \$122 million for the same period in 2018, representing an increase of 13%. Adjusted net income margin was 16% for the quarter ended June 30, 2019 and 16% for the same period in 2018. For the first six months of 2019 and 2018, Adjusted net income was \$264 million. Adjusted net income margin was 16% for the six months ended June 30, 2019 and 18% for the same period in 2018. Excluding the impact of the unrealized foreign exchange (gain) loss recorded in each of the three and six month periods ended June 30, 2018 and 2019, and the \$7.9 million financial liability accrual reversal recorded to finance and other income in Q1 2018, the margins would have been 18% and 17% for the respective periods in 2019, and 17% for both the respective periods in 2018.

In conjunction with the Company's adoption of IFRS 16 on January 1, 2019, lease obligation and interest payments that have historically been deducted from cash flows from operations are now recorded as a component of cash flows used in financing activities. For the three and six months ended June 30, 2019, lease obligation and interest payments totaled \$15 million and \$26 million respectively. Cash flows from operations for the quarter ended June 30, 2019 after deducting these lease related payments were \$36 million, a decrease of 32%, or \$17 million, compared to \$53 million for the comparable period in 2018. Cash flows from operations for the six months ended June 30, 2019 after deducting these lease related payments were \$308 million, a decrease of 1%, or \$2 million, compared to \$311 million for the comparable period in 2018.

The following table displays our revenue by reportable segment and the percentage change for the three and six months ended June 30, 2019 compared to the same periods in 2018:

	Three months ended June 30,		Period-Over-Period Change		Organic Growth	Six months ended June 30,		Period-Over-Period Change		Organic Growth
	<u>2019</u>	<u>2018</u>	\$	%	%	<u>2019</u>	<u>2018</u>	\$	%	%
	(\$M, except percentages)					(\$M, except percentages)				
Public Sector										
Licenses	36	29	7	26%	0%	70	57	13	22%	-4%
Professional services	125	114	11	10%	-6%	247	225	22	10%	-6%
Hardware and other	33	36	(2)	-7%	-17%	64	62	1	2%	-11%
Maintenance and other recurring	369	322	47	15%	1%	732	642	91	14%	1%
	564	500	63	13%	-2%	1,113	986	127	13%	-2%
Private Sector										
Licenses	25	19	5	27%	15%	44	35	9	26%	11%
Professional services	38	39	(0)	-1%	-11%	74	70	5	6%	-6%
Hardware and other	7	7	0	1%	-6%	14	14	0	0%	-9%
Maintenance and other recurring	212	186	25	14%	2%	420	366	53	15%	2%
	282	252	30	12%	1%	552	485	67	14%	1%

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 and six months ended June 30, 2018.

Public Sector

For the quarter ended June 30, 2019, total revenue in the public sector reportable segment increased 13%, or \$63 million to \$564 million, compared to \$500 million for the quarter ended June 30, 2018. For the six months ended June 30, 2019, total revenue increased by 13%, or \$127 million to \$1,113 million, compared to \$986 million for

the comparable period in 2018. For purposes of calculating organic growth, estimated pre-acquisition revenues included from the relevant companies acquired in 2018 and 2019 was \$73 million and \$146 million for the three and six month periods ended June 30, 2018, respectively. Organic revenue growth was negative 2% for both the three and six months ended June 30, 2019 compared to the same periods in 2018, and positive 1% 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 June 30, 2019, total revenue in the private sector reportable segment increased 12%, or \$30 million to \$282 million, compared to \$252 million for the quarter ended June 30, 2018. For the six months ended June 30, 2019, total revenue increased by 14%, or \$67 million to \$552 million, compared to \$485 million for the comparable period in 2018. For purposes of calculating organic growth, estimated pre-acquisition revenues included from the relevant companies acquired in 2018 and 2019 was \$28 million and \$60 million for the three and six month periods ended June 30, 2018, respectively. Organic revenue growth was 1% for both the three and six months ended June 30, 2019 compared to the same periods in 2018, and 4% 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 June 30,		Six months ended June 30,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>846</u>	<u>752</u>	<u>1,665</u>	<u>1,471</u>
Net income	73	52	160	135
Adjusted for:				
Income tax expense (recovery)	30	27	58	46
Foreign exchange (gain) loss	13	9	15	(5)
TSS membership liability revaluation charge	8	14	18	21
Finance and other income	(0)	(1)	(3)	(10)
Bargain purchase gain	-	(0)	(28)	(0)
Finance costs	9	5	18	10
Amortization of intangible assets	75	70	151	139
Adjusted EBITA	208	175	387	334
Adjusted EBITA margin	25%	23%	23%	23%

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 June 30,		Six months ended June 30,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>846</u>	<u>752</u>	<u>1,665</u>	<u>1,471</u>
Net income	73	52	160	135
Adjusted for:				
Amortization of intangible assets	75	70	151	139
TSS membership liability revaluation charge	8	14	18	21
Bargain purchase gain	-	(0)	(28)	(0)
Less non-controlling interest in the Adjusted net income of TSS	(7)	(6)	(16)	(13)
Deferred income tax expense (recovery)	(12)	(8)	(20)	(16)
Adjusted net income	137	122	264	264
Adjusted net income margin	16%	16%	16%	18%

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

	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash	\$ 214	\$ 589
Accounts receivable	368	362
Unbilled revenue	105	80
Inventories	45	34
Other assets	183	143
	<u>915</u>	<u>1,207</u>
Non-current assets:		
Property and equipment	69	67
Right of use assets	211	-
Deferred income taxes	48	47
Other assets	66	64
Intangible assets	1,621	1,549
	<u>2,014</u>	<u>1,728</u>
Total assets	\$ 2,929	\$ 2,935
Liabilities and Shareholders' Equity		
Current liabilities:		
CSI facility	\$ -	\$ -
Debt without recourse to Constellation Software Inc.	11	51
TSS membership liability	69	67
Accounts payable and accrued liabilities	400	464
Dividends payable	22	21
Deferred revenue	802	657
Provisions	17	7
Acquisition holdback payables	53	47
Lease obligations	54	-
Income taxes payable	25	30
	<u>1,452</u>	<u>1,344</u>
Non-current liabilities:		
Debt without recourse to Constellation Software Inc.	106	102
TSS membership liability	121	117
Debentures	222	215
Deferred income taxes	202	192
Acquisition holdback payables	15	25
Lease obligations	170	-
Other liabilities	76	74
	<u>913</u>	<u>725</u>
Total liabilities	2,365	2,069
Shareholders' equity:		
Capital stock	99	99
Accumulated other comprehensive income (loss)	(32)	(37)
Retained earnings	497	804
	<u>564</u>	<u>866</u>
Total liabilities and shareholders' equity	\$ 2,929	\$ 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 and six months ended June 30, 2019 and 2018

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue				
License	\$ 61	\$ 48	\$ 113	\$ 92
Professional services	164	153	322	295
Hardware and other	41	43	77	76
Maintenance and other recurring	581	508	1,152	1,008
	846	752	1,665	1,471
Expenses				
Staff	437	390	882	780
Hardware	22	24	43	42
Third party license, maintenance and professional services	73	67	142	128
Occupancy	9	20	17	39
Travel, telecommunications, supplies, software and equipment	49	45	93	87
Professional fees	11	9	22	19
Other, net	15	15	36	28
Depreciation	21	7	42	13
Amortization of intangible assets	75	70	151	139
	713	647	1,428	1,275
Foreign exchange loss (gain)	13	9	15	(5)
TSS membership liability revaluation charge	8	14	18	21
Finance and other expense (income)	(0)	(1)	(3)	(10)
Bargain purchase (gain)	-	(0)	(28)	(0)
Finance costs	9	5	18	10
	30	26	19	15
Income before income taxes	103	79	218	180
Current income tax expense (recovery)	42	35	78	61
Deferred income tax expense (recovery)	(12)	(8)	(20)	(16)
Income tax expense (recovery)	30	27	58	46
Net income	73	52	160	135
Earnings per share				
Basic and diluted	\$ 3.45	\$ 2.45	\$ 7.54	\$ 6.35

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 and six months ended June 30, 2019 and 2018

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net income	\$ 73	\$ 52	\$ 160	\$ 135
Items that are or may be reclassified subsequently to net income:				
Foreign currency translation differences from foreign operations	8	(3)	4	(7)
Deferred income tax recovery (expense)	-	-	-	-
Other comprehensive (loss) income for the period, net of income tax	8	(3)	4	(7)
Total comprehensive income (loss) for the period	\$ 81	\$ 49	\$ 164	\$ 128

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

Six months ended June 30, 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	-	-	160	160
<i>Other comprehensive income (loss)</i>				
Foreign currency translation differences from foreign operations	-	4	-	4
Total other comprehensive income (loss) for the period	-	4	-	4
Total comprehensive income (loss) for the period	-	4	160	164
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company	-	-	(466)	(466)
Balance at June 30, 2019	\$ 99	\$ (32)	\$ 497	564

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

Six months ended June 30, 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	-	-	135	135
<i>Other comprehensive income (loss)</i>				
Foreign currency translation differences from foreign operations	-	(7)	-	(7)
Total other comprehensive income for the period	-	(7)	-	(7)
Total comprehensive income for the period	-	(7)	135	128
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company	-	-	(42)	(42)
Balance at June 30, 2018	\$ 99	\$ (34)	\$ 600	\$ 666

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 and six months ended June 30, 2019 and 2018

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Cash flows from operating activities:				
Net income	\$ 73	\$ 52	\$ 160	\$ 135
Adjustments for:				
Depreciation	21	7	42	13
Amortization of intangible assets	75	70	151	139
TSS membership liability revaluation charge	8	14	18	21
Finance and other expense (income)	(0)	(1)	(3)	(10)
Bargain purchase (gain)	-	(0)	(28)	(0)
Finance costs	9	5	18	10
Income tax expense (recovery)	30	27	58	46
Foreign exchange loss (gain)	13	9	15	(5)
Change in non-cash operating assets and liabilities exclusive of effects of business combinations	(130)	(102)	(7)	45
Income taxes paid	(49)	(27)	(88)	(82)
Net cash flows from operating activities	50	53	334	311
Cash flows from (used in) financing activities:				
Interest paid on lease obligations	(2)	-	(4)	-
Interest paid on other facilities	(7)	(5)	(15)	(11)
Increase (decrease) in revolving credit debt facilities without recourse to CSI	11	23	(40)	(35)
Repayments of term debt facilities without recourse to CSI	(1)	-	(1)	-
Repayments of lease obligations	(13)	-	(23)	-
Distribution to TSS minority owners	-	-	(11)	-
Dividends paid	(445)	(21)	(466)	(42)
Net cash flows from (used in) in financing activities	(457)	(3)	(560)	(87)
Cash flows from (used in) investing activities:				
Acquisition of businesses	(82)	(43)	(130)	(362)
Cash obtained with acquired businesses	10	17	35	40
Post-acquisition settlement payments, net of receipts	(12)	(15)	(37)	(32)
Purchases of other investments	(6)	-	(6)	-
Interest, dividends and other proceeds received	1	1	3	1
Property and equipment purchased	(8)	(8)	(15)	(12)
Net cash flows from (used in) investing activities	(97)	(48)	(149)	(365)
Effect of foreign currency on cash and cash equivalents	1	(5)	0	(3)
Increase (decrease) in cash	(503)	(4)	(375)	(145)
Cash, beginning of period	717	348	589	489
Cash, end of period	214	344	214	344

