

Constellation Software Inc. Announces Results for the Second Quarter Ended June 30, 2020 and Declares Quarterly Dividend

TORONTO, ONTARIO (August 6, 2020) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the second quarter ended June 30, 2020 and declared a \$1.00 per share dividend payable on October 9, 2020 to all common shareholders of record at close of business on September 18, 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 and six months ended June 30, 2020 and the accompanying notes, our Management Discussion and Analysis for the three and six months ended June 30, 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

Our board remain both grateful and impressed by the Constellation employees who continue to re-think, re-invent and re-imagine how they support each other and our customers through the many challenges created by COVID-19.

Q2 2020 Headlines:

- Revenue grew 9% (negative 8% organic growth, negative 7% after adjusting for changes in foreign exchange rates) to \$922 million compared to \$846 million in Q2 2019.
- Net income increased 12% to \$83 million (\$3.90 on a diluted per share basis) from \$73 million (\$3.45 on a diluted per share basis) in Q2 2019.
- Impairment of intangible and other non-financial assets was \$4 million in Q2 2020 versus nil in Q2 2019.
- A number of acquisitions were completed for aggregate cash consideration of \$67 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$17 million resulting in total consideration of \$84 million.
- Cash flows from operations (“CFO”) were \$237 million, an increase of 370%, or \$186 million, compared to \$50 million for the comparable period in 2019.
- Free cash flow available to shareholders¹ (“FCFA2S”) increased \$178 million to \$190 million compared to \$12 million for the same period in 2019.
- CFO and FCFA2S were positively impacted by the deferral of approximately \$29 million of tax instalment payments to the second half of 2020 in conjunction with the certain government’s COVID-19 relief programs.
- The Company determined that certain of its subsidiaries qualified for an estimated aggregate amount of \$17 million of grants from various government authorities, and recognized such amounts as a reduction to expenses in the quarter.
- On May 20, 2020 the Company entered into a binding agreement with IJssel B.V. to purchase 100% of the shares of Topicus.com B.V., a Netherlands-based diversified vertical market software provider. The transaction is currently expected to close in 2020, subject to the satisfaction of certain closing conditions.
- Subsequent to June 30, 2020, the Company completed or entered into agreements to acquire a number of businesses for aggregate cash consideration of \$64 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$14 million resulting in total consideration of \$78 million.

Total revenue for the quarter ended June 30, 2020 was \$922 million, an increase of 9%, or \$76 million, compared to \$846 million for the comparable period in 2019. For the first six months of 2020 total revenues were \$1,875 million, an increase of 13%, or \$210 million, compared to \$1,665 million for the comparable period in 2019. The

1. See Non-IFRS measures.

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 8% and negative 5% respectively, negative 7% and negative 4% respectively after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business.

Net income for the quarter ended June 30, 2020 was \$83 million compared to net income of \$73 million for the same period in 2019. On a per share basis, this translated into a net income per diluted share of \$3.90 in the quarter ended June 30, 2020 compared to net income per diluted share of \$3.45 for the same period in 2019. For the six months ended June 30, 2020, net income was \$166 million or \$7.81 per diluted share compared to \$160 million or \$7.54 per diluted share for the same period in 2019.

For the quarter ended June 30, 2020, CFO increased \$186 million to \$237 million compared to \$50 million for the same period in 2019 representing an increase of 370%. For the first six months of 2020, CFO increased \$263 million to \$597 million compared to \$334 million during the same period in 2019, representing an increase of 79%.

For the quarter ended June 30, 2020, FCFA2S increased \$178 million to \$190 million compared to \$12 million for the same period in 2019. For the first six months of 2020, FCFA2S increased \$238 million to \$501 million compared to \$263 million during the same period in 2019, representing an increase of 91%.

CFO and FCFA2S for the three and six months ended June 30, 2020 were positively impacted by the deferral of approximately \$29 million of tax instalment payments to the second half of 2020 in conjunction with certain government's COVID-19 relief programs.

The Company is closely monitoring the impact of 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 June 30,		Six months ended June 30,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	(\$ in millions, except percentages)		(\$ in millions, except percentages)	
Net cash flows from operating activities	237	50	597	334
Adjusted for:				
Interest paid on lease obligations	(2)	(2)	(4)	(4)
Interest paid on other facilities	(5)	(7)	(14)	(15)
Credit facility transaction costs	(0)	-	(0)	-
Payments of lease obligations	(16)	(13)	(30)	(23)
TSS membership liability revaluation charge	(17)	(8)	(35)	(18)
Property and equipment purchased	(6)	(8)	(13)	(15)
Interest and dividends received	0	0	0	3
 Free cash flow available to shareholders	 190	 12	 501	 263

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

	June 30, 2020	December 31, 2019	June 30, 2019
Assets			
Current assets:			
Cash	\$ 585	\$ 316	\$ 214
Accounts receivable	393	422	368
Unbilled revenue	103	110	105
Inventories	32	31	45
Other assets	207	184	183
	<u>1,319</u>	<u>1,062</u>	<u>915</u>
Non-current assets:			
Property and equipment	78	78	69
Right of use assets	241	234	211
Deferred income taxes	45	45	48
Other assets	73	72	66
Intangible assets	2,011	1,997	1,621
	<u>2,448</u>	<u>2,425</u>	<u>2,014</u>
Total assets	\$ 3,767	\$ 3,488	\$ 2,929
Liabilities and Shareholders' Equity			
Current liabilities:			
CSI facility	\$ 98	\$ 63	-
Debt without recourse to Constellation Software Inc.	3	57	11
TSS membership liability	93	86	69
Accounts payable and accrued liabilities	480	529	400
Dividends payable	21	21	22
Deferred revenue	938	788	802
Provisions	10	13	17
Acquisition holdback payables	72	76	53
Lease obligations	67	62	54
Income taxes payable	95	36	25
	<u>1,879</u>	<u>1,732</u>	<u>1,452</u>
Non-current liabilities:			
Debt without recourse to Constellation Software Inc.	159	153	106
TSS membership liability	164	136	121
Debentures	210	222	222
Deferred income taxes	243	246	202
Acquisition holdback payables	29	25	15
Lease obligations	193	187	170
Other liabilities	98	101	76
	<u>1,095</u>	<u>1,069</u>	<u>913</u>
Total liabilities	2,974	2,800	2,365
Shareholders' equity:			
Capital stock	99	99	99
Accumulated other comprehensive income (loss)	(57)	(40)	(32)
Retained earnings	752	628	497
	<u>794</u>	<u>687</u>	<u>564</u>
Total liabilities and shareholders' equity	\$ 3,767	\$ 3,488	\$ 2,929

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, 2020 and 2019

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Revenue				
License	\$ 51	\$ 61	\$ 108	\$ 113
Professional services	170	164	347	322
Hardware and other	35	41	77	77
Maintenance and other recurring	666	581	1,342	1,152
	<u>922</u>	<u>846</u>	<u>1,875</u>	<u>1,665</u>
Expenses				
Staff	480	437	990	882
Hardware	22	22	45	43
Third party license, maintenance and professional services	77	73	156	142
Occupancy	8	9	17	17
Travel, telecommunications, supplies, software and equipment	31	49	82	93
Professional fees	13	11	26	22
Other, net	0	15	5	36
Depreciation	25	21	51	42
Amortization of intangible assets	96	75	190	151
	<u>752</u>	<u>713</u>	<u>1,562</u>	<u>1,428</u>
Foreign exchange loss (gain)	10	13	4	15
TSS membership liability revaluation charge	17	8	35	18
Finance and other expense (income)	(1)	(0)	(2)	(3)
Bargain purchase gain	(0)	-	(0)	(28)
Impairment of intangible and other non-financial assets	4	-	8	-
Finance costs	10	9	22	18
	<u>39</u>	<u>30</u>	<u>67</u>	<u>19</u>
Income before income taxes	131	103	246	218
Current income tax expense (recovery)	70	42	115	78
Deferred income tax expense (recovery)	(22)	(12)	(34)	(20)
Income tax expense (recovery)	<u>48</u>	<u>30</u>	<u>80</u>	<u>58</u>
Net income	<u>83</u>	<u>73</u>	<u>166</u>	<u>160</u>
Earnings per share				
Basic and diluted	\$ 3.90	\$ 3.45	\$ 7.81	\$ 7.54

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, 2020 and 2019

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net income	\$ 83	\$ 73	\$ 166	\$ 160
Items that are or may be reclassified subsequently to net income:				
Foreign currency translation differences from foreign operations	13	8	(17)	4
Deferred income tax recovery (expense)	-	-	-	-
Other comprehensive (loss) income for the period, net of income tax	13	8	(17)	4
Total comprehensive income (loss) for the period	\$ 96	\$ 81	\$ 149	\$ 164

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, 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	-	-	166	166
<i>Other comprehensive income (loss)</i>				
Foreign currency translation differences from foreign operations	-	(17)	-	(17)
Total other comprehensive income (loss) for the period	-	(17)	-	(17)
Total comprehensive income (loss) for the period	-	(17)	166	149
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company	-	-	(42)	(42)
Balance at June 30, 2020	\$ 99	\$ (57)	\$ 752	794

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) 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	-	-	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 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 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, 2020 and 2019

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Cash flows from operating activities:				
Net income	\$ 83	\$ 73	\$ 166	\$ 160
Adjustments for:				
Depreciation	25	21	51	42
Amortization of intangible assets	96	75	190	151
TSS membership liability revaluation charge	17	8	35	18
Finance and other expense (income)	(1)	(0)	(2)	(3)
Bargain purchase (gain)	(0)	-	(0)	(28)
Impairment of intangible and other non-financial assets	4	-	8	-
Finance costs	10	9	22	18
Income tax expense (recovery)	48	30	80	58
Foreign exchange loss (gain)	10	13	4	15
Change in non-cash operating assets and liabilities exclusive of effects of business combinations	(35)	(130)	100	(7)
Income taxes paid	(19)	(49)	(57)	(88)
Net cash flows from operating activities	237	50	597	334
Cash flows from (used in) financing activities:				
Interest paid on lease obligations	(2)	(2)	(4)	(4)
Interest paid on other facilities	(5)	(7)	(14)	(15)
Increase (decrease) in CSI facility	100	-	35	-
Increase (decrease) in revolving credit under debt facilities without recourse to CSI	-	11	(55)	(40)
Proceeds from issuance of term debt under facilities without recourse to CSI	15	-	15	-
Repayments of term debt under facilities without recourse to CSI	(3)	(1)	(4)	(1)
Credit facility transaction costs	(0)	-	(0)	-
Payments of lease obligations	(16)	(13)	(30)	(23)
Distribution to TSS minority owners	-	-	-	(11)
Dividends paid	(21)	(445)	(42)	(466)
Net cash flows from (used in) in financing activities	67	(457)	(100)	(560)
Cash flows from (used in) investing activities:				
Acquisition of businesses	(68)	(82)	(175)	(130)
Cash obtained with acquired businesses	10	10	24	35
Post-acquisition settlement payments, net of receipts	(23)	(12)	(55)	(37)
Purchases of other investments	(1)	(6)	(2)	(6)
Interest, dividends and other proceeds received	1	1	1	3
Property and equipment purchased	(6)	(8)	(13)	(15)
Net cash flows from (used in) investing activities	(87)	(97)	(220)	(149)
Effect of foreign currency on cash and cash equivalents	5	1	(9)	0
Increase (decrease) in cash	221	(503)	269	(375)
Cash, beginning of period	364	717	316	589
Cash, end of period	\$ 585	\$ 214	585	214