

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

TORONTO, ONTARIO (October 31, 2019) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the third quarter ended September 30, 2019 and declared a \$1.00 per share dividend payable on January 8, 2020 to all common shareholders of record at close of business on December 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 nine months ended September 30, 2019 and the accompanying notes, our Management Discussion and Analysis for the three and nine months ended September 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.csisoftware.com. Additional information about the Company is also available on SEDAR at www.sedar.com.

Q3 2019 Headlines:

- Revenue grew 15% (negative 2% organic growth, 0% after adjusting for changes in foreign exchange rates) to \$870 million compared to \$759 million in Q3 2018.
- Net income increased 24% to \$82 million (\$3.85 on a diluted per share basis) from \$66 million (\$3.10 on a diluted per share basis) in Q3 2018.
- A number of acquisitions were completed for aggregate cash consideration of \$278 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$67 million resulting in total consideration of \$345 million.
- Cash flows from operations (“CFO”) (after adjusting for the impact of IFRS 16 *Leases*, which was adopted on January 1, 2019) were \$163 million, an increase of 14%, or \$20 million, compared to \$143 million for the comparable period in 2018.
- Free cash flow available to shareholders (“FCFA2S”) increased \$22 million to \$134 million compared to \$112 million for the same period in 2018 representing an increase of 20%.
- Subsequent to September 30, 2019, the Company completed or entered into agreements to acquire a number of businesses for aggregate cash consideration of \$56 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$24 million resulting in total consideration of \$79 million.

Total revenue for the quarter ended September 30, 2019 was \$870 million, an increase of 15%, or \$111 million, compared to \$759 million for the comparable period in 2018. For the first nine months of 2019 total revenues were \$2,534 million, an increase of 14%, or \$305 million, compared to \$2,230 million for the comparable period in 2018. The increase for both the three and nine 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 2% and negative 1% respectively, 0% 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.

Net income for the quarter ended September 30, 2019 was \$82 million compared to net income of \$66 million for the same period in 2018. On a per share basis, this translated into a net income per diluted share of \$3.85 in the quarter ended September 30, 2019 compared to net income per diluted share of \$3.10 for the same period in 2018. For the nine months ended September 30, 2019, net income was \$241 million or \$11.39 per diluted share compared to \$200 million or \$9.45 per diluted share for the same period in 2018.

For the quarter ended September 30, 2019, CFO increased \$34 million to \$177 million compared to \$143 million for the same period in 2018 representing an increase of 24%. For the first nine months of 2019, CFO increased \$58 million to \$512 million compared to \$454 million during the same period in 2018, representing an increase of 13%.

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 CFO are now recorded as a component of cash flows used in financing activities. For the three and nine months ended September 30, 2019 lease obligation and interest payments totaled \$14 million and \$40 million respectively. If lease obligation and interest payments were deducted from CFO for the three and nine months ended September 30, 2019 the increase in CFO would have been 14% and 4% over the same periods in 2018.

For the quarter ended September 30, 2019, FCFA2S increased \$22 million to \$134 million compared to \$112 million for the same period in 2018 representing an increase of 20%. For the first nine months of 2019, FCFA2S increased \$16 million to \$397 million compared to \$381 million during the same period in 2018, representing an increase of 4%. The primary reason for the large variance between the 4% growth in FCFA2S and the 14% revenue growth for the first nine months of 2019 is that FCFA2S includes the impact of changes in non-cash operating assets and liabilities exclusive of effects of business combinations or "changes in non-cash operating working capital". For the nine months ended September 30, 2019 there was \$44 million of cash used in non-cash operating working capital compared to \$19 million of cash generated from non-cash operating working capital for the same period in 2018. See Appendix A – "Note to shareholders regarding our replacement non-IFRS measure", included in our Management Discussion and Analysis for the three and nine months ended September 30, 2019, for further discussion around the FCFA2S metric.

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

	Three months ended September 30,		Period-Over-Period Change		Organic Growth	Nine months ended September 30,		Period-Over-Period Change		Organic Growth
	2019	2018	\$	%	%	2019	2018	\$	%	%
	(\$M, except percentages)					(\$M, except percentages)				
Public Sector										
Licenses	32	31	2	5%	-18%	102	88	14	16%	-9%
Professional services	127	114	13	11%	-8%	375	339	35	10%	-7%
Hardware and other	37	33	5	15%	1%	101	95	6	6%	-7%
Maintenance and other recurring	387	328	59	18%	1%	1,119	969	150	15%	1%
	584	506	79	16%	-2%	1,697	1,492	206	14%	-2%
Private Sector										
Licenses	19	18	1	3%	-8%	63	53	10	18%	5%
Professional services	36	34	3	8%	-5%	111	104	7	7%	-6%
Hardware and other	8	8	0	1%	-14%	21	21	0	0%	-11%
Maintenance and other recurring	223	194	29	15%	0%	642	560	82	15%	2%
	286	254	32	13%	-1%	837	738	99	13%	0%

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 nine months ended September 30, 2018.

Public Sector

For the quarter ended September 30, 2019, total revenue in the public sector reportable segment increased 16%, or \$79 million to \$584 million, compared to \$506 million for the quarter ended September 30, 2018. For the nine months ended September 30, 2019, total revenue increased by 14%, or \$206 million to \$1,697 million, compared to \$1,492 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 \$91 million and \$237 million for the three and nine month periods ended September 30, 2018, respectively. Organic revenue growth was

negative 2% for both the three and nine months ended September 30, 2019 compared to the same periods in 2018, and 0% and positive 1% 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.

Private Sector

For the quarter ended September 30, 2019, total revenue in the private sector reportable segment increased 13%, or \$32 million to \$286 million, compared to \$254 million for the quarter ended September 30, 2018. For the nine months ended September 30, 2019, total revenue increased by 13%, or \$99 million to \$837 million, compared to \$738 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 \$36 million and \$96 million for the three and nine month periods ended September 30, 2018, respectively. Organic revenue growth was negative 1% and 0% for the three and nine months ended September 30, 2019 respectively compared to the same periods in 2018, and 1% and 3% 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.

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		Nine months ended	
	September 30,		September 30,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(\$M, except percentages)		(\$M, except percentages)	
Net cash flows from operating activities	177	143	512	454
Adjusted for:				
Interest paid on lease obligations	(2)	-	(5)	-
Interest paid on other facilities	(8)	(7)	(23)	(17)
Credit facility transaction costs	(0)	(3)	(0)	(3)
Repayments of lease obligations	(12)	-	(35)	-
TSS membership liability revaluation charge	(12)	(17)	(30)	(38)
Property and equipment purchased	(9)	(6)	(24)	(18)
Interest and dividends received	0	2	3	3
 Free cash flow available to shareholders	 134	 112	 397	 381

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

	September 30, 2019	December 31, 2018	September 30, 2018
Assets			
Current assets:			
Cash	\$ 235	\$ 589	\$ 456
Accounts receivable	390	362	330
Unbilled revenue	106	80	89
Inventories	43	34	32
Other assets	182	143	158
	<u>956</u>	<u>1,207</u>	<u>1,066</u>
Non-current assets:			
Property and equipment	70	67	58
Right of use assets	220	-	-
Deferred income taxes	38	47	47
Other assets	71	64	59
Intangible assets	1,882	1,549	1,506
	<u>2,281</u>	<u>1,728</u>	<u>1,671</u>
Total assets	\$ 3,237	\$ 2,935	\$ 2,737
Liabilities and Shareholders' Equity			
Current liabilities:			
CSI facility	\$ 21	\$ -	\$ -
Debt without recourse to Constellation Software Inc.	99	51	63
TSS membership liability	84	67	61
Accounts payable and accrued liabilities	454	464	385
Dividends payable	21	21	21
Deferred revenue	790	657	681
Provisions	14	7	5
Acquisition holdback payables	77	47	57
Lease obligations	57	-	-
Income taxes payable	30	30	35
	<u>1,646</u>	<u>1,344</u>	<u>1,309</u>
Non-current liabilities:			
Debt without recourse to Constellation Software Inc.	115	102	108
TSS membership liability	110	117	107
Debentures	219	215	227
Deferred income taxes	241	192	179
Acquisition holdback payables	22	25	15
Lease obligations	179	-	-
Other liabilities	93	74	77
	<u>978</u>	<u>725</u>	<u>715</u>
Total liabilities	2,624	2,069	2,024
Shareholders' equity:			
Capital stock	99	99	99
Accumulated other comprehensive income (loss)	(44)	(37)	(32)
Retained earnings	558	804	645
	<u>613</u>	<u>866</u>	<u>713</u>
Total liabilities and shareholders' equity	\$ 3,237	\$ 2,935	\$ 2,737

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 nine months ended September 30, 2019 and 2018

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenue				
License	\$ 51	\$ 49	\$ 165	\$ 141
Professional services	164	148	485	443
Hardware and other	45	40	122	116
Maintenance and other recurring	609	521	1,762	1,529
	870	759	2,534	2,230
Expenses				
Staff	434	384	1,316	1,163
Hardware	25	22	68	64
Third party license, maintenance and professional services	75	66	218	194
Occupancy	9	19	26	58
Travel, telecommunications, supplies, software and equipment	50	44	143	131
Professional fees	12	9	34	28
Other, net	18	11	53	40
Depreciation	23	7	65	20
Amortization of intangible assets	84	70	234	209
	730	633	2,158	1,908
Foreign exchange loss (gain)	6	8	20	3
TSS membership liability revaluation charge	12	17	30	38
Finance and other expense (income)	1	(3)	(2)	(13)
Bargain purchase (gain)	(7)	(1)	(36)	(1)
Finance costs	11	8	29	18
	22	30	41	45
Income before income taxes	117	97	335	277
Current income tax expense (recovery)	44	32	121	93
Deferred income tax expense (recovery)	(8)	(1)	(28)	(16)
Income tax expense (recovery)	36	31	94	77
Net income	82	66	241	200
Earnings per share				
Basic and diluted	\$ 3.85	\$ 3.10	\$ 11.39	\$ 9.45

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 nine months ended September 30, 2019 and 2018

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net income	\$ 82	\$ 66	\$ 241	\$ 200
Items that are or may be reclassified subsequently to net income:				
Foreign currency translation differences from foreign operations	(12)	2	(7)	(5)
Deferred income tax recovery (expense)	-	-	-	-
Other comprehensive (loss) income for the period, net of income tax	(12)	2	(7)	(5)
Total comprehensive income (loss) for the period	\$ 70	\$ 68	\$ 234	\$ 195

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

Nine months ended September 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	-	-	241	241
<i>Other comprehensive income (loss)</i>				
Foreign currency translation differences from foreign operations	-	(7)	-	(7)
Total other comprehensive income (loss) for the period	-	(7)	-	(7)
Total comprehensive income (loss) for the period	-	(7)	241	234
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company	-	-	(487)	(487)
Balance at September 30, 2019	\$ 99	\$ (44)	\$ 558	613

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

Nine months ended September 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	-	-	200	200
<i>Other comprehensive income (loss)</i>				
Foreign currency translation differences from foreign operations	-	(5)	-	(5)
Total other comprehensive income for the period	-	(5)	-	(5)
Total comprehensive income for the period	-	(5)	200	195
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company	-	-	(64)	(64)
Balance at September 30, 2018	\$ 99	\$ (32)	\$ 645	\$ 713

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 nine months ended September 30, 2019 and 2018

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Cash flows from operating activities:				
Net income	\$ 82	\$ 66	\$ 241	\$ 200
Adjustments for:				
Depreciation	23	7	65	20
Amortization of intangible assets	84	70	234	209
TSS membership liability revaluation charge	12	17	30	38
Finance and other expense (income)	1	(3)	(2)	(13)
Bargain purchase (gain)	(7)	(1)	(36)	(1)
Finance costs	11	8	29	18
Income tax expense (recovery)	36	31	94	77
Foreign exchange loss (gain)	6	8	20	3
Change in non-cash operating assets and liabilities exclusive of effects of business combinations	(37)	(27)	(44)	19
Income taxes paid	(32)	(34)	(119)	(116)
Net cash flows from operating activities	177	143	512	454
Cash flows from (used in) financing activities:				
Interest paid on lease obligations	(2)	-	(5)	-
Interest paid on other facilities	(8)	(7)	(23)	(17)
Increase (decrease) in CSI facility	22	-	22	-
Increase (decrease) in revolving credit under debt facilities without recourse to CSI	89	-	49	(35)
Proceeds from issuance of term debt under facilities without recourse to CSI	11	110	11	110
Repayments of term debt under facilities without recourse to CSI	(0)	(0)	(2)	(0)
Credit facility transaction costs	(0)	(3)	(0)	(3)
Repayments of lease obligations	(12)	-	(35)	-
Distribution to TSS minority owners	-	-	(11)	-
Dividends paid	(21)	(21)	(487)	(64)
Net cash flows from (used in) in financing activities	79	80	(481)	(8)
Cash flows from (used in) investing activities:				
Acquisition of businesses	(278)	(92)	(408)	(454)
Cash obtained with acquired businesses	68	8	103	48
Post-acquisition settlement payments, net of receipts	(8)	(21)	(45)	(53)
Purchases of other investments	(4)	-	(9)	-
Interest, dividends and other proceeds received	2	2	5	3
Property and equipment purchased	(9)	(6)	(24)	(18)
Net cash flows from (used in) investing activities	(228)	(110)	(378)	(475)
Effect of foreign currency on cash and cash equivalents	(7)	(1)	(6)	(4)
Increase (decrease) in cash	21	112	(354)	(33)
Cash, beginning of period	214	344	589	489
Cash, end of period	\$ 235	\$ 456	\$ 235	\$ 456