

Constellation Software Inc. Announces Results for the Third Quarter Ended September 30, 2022 and Declares Quarterly Dividend

TORONTO, ONTARIO (November 4, 2022) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the third quarter ended September 30, 2022 and declared a \$1.00 per share dividend payable on January 11, 2023 to all common shareholders of record at close of business on December 20, 2022. 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, 2022 and the accompanying notes, our Management Discussion and Analysis for the three and nine months ended September 30, 2022 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, 2021, 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 2022 Headlines:

- Revenue grew 33% (negative 3% organic growth, 2% after adjusting for changes in foreign exchange rates) to \$1,725 million compared to \$1,299 million in Q3 2021.
- Net income attributable to common shareholders increased 28% to \$136 million (\$6.42 on a diluted per share basis) from \$107 million (\$5.04 on a diluted per share basis) in Q3 2021.
- A number of acquisitions were completed for aggregate cash consideration of \$207 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$61 million resulting in total consideration of \$268 million.
- Cash flows from operations (“CFO”) were \$321 million, an increase of 10%, or \$29 million, compared to \$292 million for the comparable period in 2021.
- Free cash flow available to shareholders¹ (“FCFA2S”) increased \$3 million to \$229 million compared to \$226 million for the same period in 2021.

Total revenue for the quarter ended September 30, 2022 was \$1,725 million, an increase of 33%, or \$426 million, compared to \$1,299 million for the comparable period in 2021. For the first nine months of 2022 total revenues were \$4,774 million, an increase of 28%, or \$1,051 million, compared to \$3,724 million for the comparable period in 2021. 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 3% and negative 2% respectively, positive 2% 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. Organic growth is not a standardized financial measure and might not be comparable to measures disclosed by other issuers.

Net income attributable to common shareholders of CSI for the quarter ended September 30, 2022 was \$136 million compared to \$107 million for the same period in 2021. On a per share basis this translated into a net income per diluted share of \$6.42 in the quarter ended September 30, 2022 compared to net income per diluted share of \$5.04 for the same period in 2021. For the nine months ended September 30, 2022, net income attributable to common shareholders of CSI was \$360 million or \$16.99 per diluted share compared to \$186 million or \$8.79 per diluted share for the same period in 2021. There was no change in the number of shares outstanding.

For the quarter ended September 30, 2022, CFO increased \$29 million to \$321 million compared to \$292 million for the same period in 2021 representing an increase of 10%. For the nine months ended September 30, 2022, CFO decreased \$61 million to \$897 million compared to \$959 million for the same period in 2021 representing a decrease of 6%. The primary reasons for the decline in CFO for the nine months ended September 30, 2022 is that CFO 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 (“NCOWC”), and income taxes paid. For the nine

1. See Non-IFRS measures.

months ended September 30, 2022 there was \$27 million of cash used in NCOWC compared to \$53 million of cash generated from NCOWC for the same period in 2021. Cash used in NCOWC associated with the Company's recently acquired Altera business unit was \$32 million for the nine months ended September 30, 2022. There are many reasons contributing to the NCOWC impact variance for the Company, including Altera, none of which are indicative of an underlying concern with the overall NCOWC balance. Specifically, there are no concerns with accounts receivable or unbilled revenue aging. Income taxes paid increased 87% or \$41 million for the quarter ended September 30, 2022 and 42% or \$83 million for the nine months ended September 30, 2022 over the same periods in 2021. Approximate \$50 million and \$100 million cash tax payments were made in the three and nine month periods ending September 30, 2022 respectively relating to the deferral of R&E expenses associated with the Tax Cuts and Jobs Act.

For the quarter ended September 30, 2022, FCFA2S increased \$3 million to \$229 million compared to \$226 million for the same period in 2021 representing an increase of 1%. For the nine months ended September 30, 2022, FCFA2S decreased \$76 million to \$563 million compared to \$639 million for the same period in 2021 representing a decrease of 12%. The items negatively impacting CFO summarized above are the same items negatively impacting FCFA2S. On February 1, 2022, the Topicus Preferred Shares and Topicus Coop Preference Units were converted to Topicus Subordinate Voting Shares and Topicus Coop Ordinary Units respectively. As a result of this conversion the non-controlling interest in Topicus.com Inc. decreased from approximately 70% to 39%.

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 IRGA / TSS membership liability revaluation charge, and property and equipment purchased, and includes interest and dividends received. The portion of this amount applicable to non-controlling interests is then deducted. We believe that FCFA2S is useful supplemental information as it provides an indication of the uncommitted cash flow that is available to shareholders if we do not make any acquisitions, or investments, and do not repay any debts. While we could use the FCFA2S to pay dividends or repurchase shares, our objective is to invest all of our FCFA2S in acquisitions which meet our 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 September 30,		Nine months ended September 30,	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	(\$ in millions)		(\$ in millions)	
Net cash flows from operating activities	321	292	897	959
Adjusted for:				
Interest paid on lease obligations	(3)	(2)	(8)	(7)
Interest paid on other facilities	(23)	(12)	(49)	(30)
Credit facility transaction costs	(0)	(0)	(3)	(4)
Payments of lease obligations	(24)	(21)	(69)	(61)
IRGA / TSS membership liability revaluation charge	(33)	(25)	(89)	(107)
Property and equipment purchased	(8)	(7)	(27)	(18)
Interest and dividends received	0	1	0	1
	<hr/>	<hr/>	<hr/>	<hr/>
	230	226	652	732
Less amount attributable to Non-controlling interests	(1)	1	(89)	(93)
Free cash flow available to shareholders	229	226	563	639

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, 2022	December 31, 2021	September 30, 2021
Assets			
Current assets:			
Cash	\$ 665	\$ 763	\$ 961
Accounts receivable	744	600	512
Unbilled revenue	219	140	144
Inventories	46	35	32
Other assets	473	296	278
	<u>2,146</u>	<u>1,835</u>	<u>1,929</u>
Non-current assets:			
Property and equipment	121	93	91
Right of use assets	274	245	252
Deferred income taxes	155	66	63
Other assets	160	99	94
Intangible assets	4,469	3,428	3,006
	<u>5,179</u>	<u>3,931</u>	<u>3,506</u>
Total assets	\$ 7,325	\$ 5,766	\$ 5,434
Liabilities and Shareholders' Equity			
Current liabilities:			
Debt with recourse to Constellation Software Inc.	\$ 364	\$ 143	\$ 137
Debt without recourse to Constellation Software Inc.	234	60	54
Redeemable preferred securities	-	7	7
Accounts payable and accrued liabilities	917	832	720
Dividends payable	21	22	21
Deferred revenue	1,545	1,158	1,168
Provisions	9	11	11
Acquisition holdback payables	148	94	92
Lease obligations	89	79	81
Income taxes payable	99	56	86
	<u>3,425</u>	<u>2,461</u>	<u>2,377</u>
Non-current liabilities:			
Debt with recourse to Constellation Software Inc.	522	561	550
Debt without recourse to Constellation Software Inc.	705	354	325
Deferred income taxes	465	436	393
Acquisition holdback payables	62	68	49
Lease obligations	206	190	195
Other liabilities	239	175	145
	<u>2,200</u>	<u>1,784</u>	<u>1,656</u>
Total liabilities	5,625	4,245	4,034
Shareholders' equity:			
Capital stock	99	99	99
Other equity	-	(179)	(162)
Accumulated other comprehensive income (loss)	(227)	(66)	(69)
Retained earnings	1,632	1,206	1,103
Non-controlling interests	196	460	429
	<u>1,700</u>	<u>1,521</u>	<u>1,401</u>
Total liabilities and shareholders' equity	\$ 7,325	\$ 5,766	\$ 5,434

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Income (loss)

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

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Revenue				
License	\$ 79	\$ 69	\$ 220	\$ 206
Professional services	375	256	985	747
Hardware and other	54	45	151	127
Maintenance and other recurring	1,217	929	3,418	2,643
	1,725	1,299	4,774	3,724
Expenses				
Staff	925	676	2,581	1,982
Hardware	31	25	88	71
Third party license, maintenance and professional services	167	113	443	317
Occupancy	12	10	35	30
Travel, telecommunications, supplies, software and equipment	80	46	215	129
Professional fees	26	21	78	53
Other, net	64	21	132	41
Depreciation	38	31	105	90
Amortization of intangible assets	177	134	491	376
	1,521	1,077	4,167	3,087
Foreign exchange loss (gain)	(57)	(5)	(98)	(3)
IRGA/TSS Membership liability revaluation charge	33	25	89	107
Finance and other expense (income)	8	(4)	24	(9)
Bargain purchase gain	(3)	(1)	(4)	(1)
Impairment of intangible and other non-financial assets	-	1	1	7
Redeemable preferred securities expense (income)	-	-	-	295
Finance costs	29	18	73	50
	11	34	86	446
Income (loss) before income taxes	193	188	521	190
Current income tax expense (recovery)	113	70	322	209
Deferred income tax expense (recovery)	(63)	(4)	(189)	(43)
Income tax expense (recovery)	50	67	133	166
Net income (loss)	143	121	388	24
Net income (loss) attributable to:				
Common shareholders of Constellation Software Inc.	136	107	360	186
Non-controlling interests	7	15	28	(162)
Net income (loss)	143	121	388	24
Earnings per common share of Constellation Software Inc.				
Basic and diluted	\$ 6.42	\$ 5.04	\$ 16.99	\$ 8.79

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Comprehensive Income (loss)
(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net income (loss)	\$ 143	\$ 121	\$ 388	\$ 24
Items that are or may be reclassified subsequently to net income (loss):				
Foreign currency translation differences from foreign operations and other, net of tax	(93)	(21)	(184)	(39)
Other comprehensive income (loss) for the period, net of income tax	(93)	(21)	(184)	(39)
Total comprehensive income (loss) for the period	\$ 50	\$ 100	\$ 204	\$ (15)
Total other comprehensive income (loss) attributable to:				
Common shareholders of Constellation Software Inc.	(80)	(13)	(156)	(19)
Non-controlling interests	(13)	(8)	(27)	(19)
Total other comprehensive income (loss)	\$ (93)	\$ (21)	\$ (184)	\$ (39)
Total comprehensive income (loss) attributable to:				
Common shareholders of Constellation Software Inc.	56	93	204	167
Non-controlling interests	(6)	7	1	(182)
Total comprehensive income (loss)	\$ 50	\$ 100	\$ 204	\$ (15)

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statement 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, 2022

	Equity Attributable to Common Shareholders of CSI				Total	Non-controlling interests	Total equity
	Capital stock	Other equity	Accumulated other comprehensive income (loss)	Retained earnings			
Balance at January 1, 2022	\$ 99	\$ (179)	\$ (66)	\$ 1,206	\$ 1,061	\$ 460	\$ 1,521
<i>Total comprehensive income (loss) for the period:</i>							
Net income (loss)	-	-	-	360	360	28	388
<i>Other comprehensive income (loss)</i>							
Foreign currency translation differences from foreign operations and other, net of tax	-	-	(156)	-	(156)	(27)	(184)
Total other comprehensive income (loss) for the period	-	-	(156)	-	(156)	(27)	(184)
Total comprehensive income (loss) for the period	-	-	(156)	360	204	1	204
Transactions with owners, recorded directly in equity							
Conversion of redeemable preferred securities to subordinate voting shares of Topicus.com Inc. and ordinary units of Topicus Coop and other related movements	-	305	(5)	-	301	(301)	-
Non-controlling interests arising from business combinations	-	-	-	-	-	41	41
Other movements in non-controlling interests	-	-	-	2	2	(5)	(2)
Dividends to shareholders of the Company	-	-	-	(64)	(64)	-	(64)
Reclassification of other equity to retained earnings	-	(127)	-	127	-	-	-
Balance at September 30, 2022	\$ 99	\$ -	\$ (227)	\$ 1,632	\$ 1,504	\$ 196	\$ 1,700

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statement 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, 2021

	Equity Attributable to Common Shareholders of CSI				Total	Non-controlling interests	Total equity
	Capital stock	Other equity	Accumulated other comprehensive income (loss)	Retained earnings			
Balance at January 1, 2021	\$ 99	\$ -	\$ (31)	\$ 980	\$ 1,048	\$ -	\$ 1,048
<i>Total comprehensive income (loss) for the period:</i>							
Net income (loss)	-	-	-	186	186	(162)	24
<i>Other comprehensive income (loss)</i>							
Foreign currency translation differences from foreign operations and other, net of tax	-	-	(19)	-	(19)	(19)	(39)
Total other comprehensive income (loss) for the period	-	-	(19)	-	(19)	(19)	(39)
Total comprehensive income (loss) for the period	-	-	(19)	186	167	(182)	(15)
Transactions with owners, recorded directly in equity							
Special dividend of Topicus Subordinated Voting Shares	-	(141)	(16)	-	(157)	157	-
Issuance of Topicus Coop Ordinary Units to non-controlling interests	-	(21)	(2)	-	(23)	23	-
Net acquisition of non-controlling interest associated with acquisitions and other movements	-	1	-	1	1	1	3
Dividends to shareholders of the Company	-	-	-	(64)	(64)	-	(64)
Reclassification of Redeemable preferred securities of Topicus Coop from liabilities to non-controlling interest	-	-	-	-	-	434	434
Accrued dividends to preference unit holders of Topicus Coop	-	-	-	-	-	(5)	(5)
Balance at September 30, 2021	\$ 99	\$ (162)	\$ (69)	\$ 1,103	\$ 972	\$ 429	\$ 1,401

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.)

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Cash flows from (used in) operating activities:				
Net income (loss)	\$ 143	\$ 121	\$ 388	\$ 24
Adjustments for:				
Depreciation	38	31	105	90
Amortization of intangible assets	177	134	491	376
IRGA/TSS Membership liability revaluation charge	33	25	89	107
Finance and other expense (income)	8	(4)	24	(9)
Bargain purchase (gain)	(3)	(1)	(4)	(1)
Impairment of intangible and other non-financial assets	-	1	1	7
Redeemable preferred securities expense (income)	-	-	-	295
Finance costs	29	18	73	50
Income tax expense (recovery)	50	67	133	166
Foreign exchange loss (gain)	(57)	(5)	(98)	(3)
Change in non-cash operating assets and liabilities exclusive of effects of business combinations	(8)	(47)	(27)	53
Income taxes paid	(89)	(48)	(279)	(196)
Net cash flows from (used in) operating activities	321	292	897	959
Cash flows from (used in) financing activities:				
Interest paid on lease obligations	(3)	(2)	(8)	(7)
Interest paid on debt	(23)	(12)	(49)	(30)
Increase (decrease) in CSI facility	(32)	-	205	-
Increase (decrease) in Topicus revolving credit debt facility without recourse to CSI	7	12	112	24
Proceeds from issuance of debt facilities without recourse to CSI	22	6	447	140
Repayments of debt facilities without recourse to CSI	(17)	(2)	(30)	(4)
Other financing activities	3	-	4	-
Credit facility transaction costs	(0)	(0)	(3)	(4)
Payments of lease obligations	(24)	(21)	(69)	(61)
Distribution to the Joday Group	-	-	(23)	(22)
Dividends paid to redeemable preferred security holders	-	-	(7)	-
Dividends paid to common shareholders of the Company	(21)	(21)	(64)	(64)
Net cash flows from (used in) financing activities	(89)	(41)	516	(29)
Cash flows from (used in) investing activities:				
Acquisition of businesses	(207)	(130)	(1,421)	(736)
Cash obtained with acquired businesses	42	28	190	112
Post-acquisition settlement payments, net of receipts	(39)	(16)	(98)	(101)
Receipt of additional subscription amount from the sellers of Topicus.com B.V.	-	-	-	33
Purchases of other investments	(0)	(14)	(96)	(15)
Proceeds from sales of other investments	-	8	3	8
Interest, dividends and other proceeds received	1	1	4	4
Property and equipment purchased	(8)	(7)	(27)	(18)
Net cash flows from (used in) investing activities	(211)	(131)	(1,445)	(713)
Effect of foreign currency on cash and cash equivalents	(32)	(10)	(67)	(13)
Increase (decrease) in cash	(11)	110	(99)	203
Cash, beginning of period	\$ 676	\$ 851	\$ 763	\$ 758
Cash, end of period	\$ 665	\$ 961	\$ 665	\$ 961

