

Constellation Software Inc. Announces Results for the Fourth Quarter and Year Ended December 31, 2019 and Declares Quarterly Dividend

TORONTO, ONTARIO (February 13, 2020) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the fourth quarter and year ended December 31, 2019 and declared a \$1.00 per share dividend payable on April 7, 2020 to all common shareholders of record at close of business on March 16, 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 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.

Q4 2019 Headlines:

- Revenue grew 15% (negative 3% organic growth, negative 2% after adjusting for changes in foreign exchange rates) to \$956 million compared to \$831 million in Q4 2018.
- Net income decreased 49% to \$92 million (\$4.34 on a diluted per share basis) from \$179 million (\$8.46 on a diluted per share basis) in Q4 2018. Excluding the amortization of intangible assets expense and bargain purchase gains net income decreased 1%.
- A number of acquisitions were completed for aggregate cash consideration of \$141 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$33 million resulting in total consideration of \$175 million.
- Cash flows from operations (“CFO”) (after adjusting for the impact of IFRS 16 *Leases*, which was adopted on January 1, 2019) were \$236 million, an increase of 13%, or \$28 million, compared to \$208 million for the comparable period in 2018.
- Free cash flow available to shareholders (“FCFA2S”) increased \$14 million to \$193 million compared to \$180 million for the same period in 2018 representing an increase of 8%.
- Subsequent to December 31, 2019, the Company completed or entered into agreements to acquire a number of businesses for aggregate cash consideration of \$63 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$42 million resulting in total consideration of \$104 million.

2019 Headlines:

- Revenue grew 14% (negative 1% organic growth, positive 1% after adjusting for changes in foreign exchange rates) to \$3,490 million compared to \$3,060 million in 2018.
- Net income decreased 12% to \$333 million (\$15.73 on a diluted per share basis) from \$379 million (\$17.91 on a diluted per share basis) in 2018. Excluding the amortization of intangible assets expense and bargain purchase gains net income increased 5%.
- A number of acquisitions were completed for aggregate cash consideration of \$549 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$139 million resulting in total consideration of \$688 million.
- Cash flows from operations (“CFO”) (after adjusting for the impact of IFRS 16 *Leases*, which was adopted on January 1, 2019) were \$708 million, an increase of 7%, or \$46 million, compared to \$662 million for the comparable period in 2018.
- Free cash flow available to shareholders (“FCFA2S”) increased \$32 million to \$590 million compared to \$559 million for the same period in 2018 representing an increase of 6%.

Total revenue for the quarter ended December 31, 2019 was \$956 million, an increase of 15%, or \$125 million, compared to \$831 million for the comparable period in 2018. For the year ended December 31, 2019 total revenues were \$3,490 million, an increase of 14%, or \$430 million, compared to \$3,060 million for the comparable period

in 2018. The increase for both the three and twelve 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 1% respectively, negative 2% 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.

Net income for the quarter ended December 31, 2019 was \$92 million compared to net income of \$179 million for the same period in 2018. On a per share basis, this translated into a net income per diluted share of \$4.34 in the quarter ended December 31, 2019 compared to net income per diluted share of \$8.46 for the same period in 2018. For the year ended December 31, 2019, net income was \$333 million or \$15.73 per diluted share compared to \$379 million or \$17.91 per diluted share for the same period in 2018.

For the quarter ended December 31, 2019, CFO increased \$46 million to \$255 million compared to \$208 million for the same period in 2018 representing an increase of 22%. For the year ended December 31, 2019, CFO increased \$105 million to \$767 million compared to \$662 million during the same period in 2018, representing an increase of 16%. 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 twelve months ended December 31, 2019 lease obligation and interest payments totaled \$19 million and \$59 million respectively. If lease obligation and interest payments were deducted from CFO for the three and twelve months ended December 31, 2019 the increase in CFO would have been 13% and 7% over the same periods in 2018.

For the quarter ended December 31, 2019, FCFA2S increased \$14 million to \$193 million compared to \$180 million for the same period in 2018 representing an increase of 8%. For the year ended December 31, 2019, FCFA2S increased \$32 million to \$590 million compared to \$559 million during the same period in 2018, representing an increase of 6%. The primary reason for the large variance between the 6% growth in FCFA2S and the 14% revenue growth for the year-ended December 31, 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 year ended December 31, 2019 there was \$28 million of cash used in non-cash operating working capital compared to \$14 million of cash generated from non-cash operating working capital for the same period in 2018.

The following table displays our revenue by reportable segment and the percentage change for the three and twelve months ended December 31, 2019 compared to the same periods in 2018:

	Three months ended					Year ended				
	December 31,		Period-Over-Period Change		Organic Growth	December 31,		Period-Over-Period Change		Organic Growth
	2019	2018	\$	%		%	2019	2018	\$	
	(\$ in millions, except percentages)					(\$ in millions, except percentages)				
Public Sector										
Licenses	41	33	8	24%	-4%	143	121	22	18%	-7%
Professional services	147	132	15	12%	-8%	522	471	51	11%	-7%
Hardware and other	42	51	(9)	-17%	-25%	143	146	(3)	-2%	-13%
Maintenance and other recurring	425	340	85	25%	3%	1,544	1,309	235	18%	2%
	655	556	99	18%	-2%	2,353	2,047	305	15%	-2%
Private Sector										
Licenses	21	24	(4)	-15%	-20%	83	77	6	8%	-3%
Professional services	41	41	(0)	0%	-8%	151	144	7	5%	-7%
Hardware and other	9	7	2	26%	-2%	30	28	2	7%	-8%
Maintenance and other recurring	230	202	28	14%	0%	873	763	110	14%	1%
	300	275	26	9%	-3%	1,138	1,013	125	12%	-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 twelve months ended December 31, 2018.

Public Sector

For the quarter ended December 31, 2019, total revenue in the public sector reportable segment increased 18%, or \$99 million to \$655 million, compared to \$556 million for the quarter ended December 31, 2018. For the year ended December 31, 2019, total revenue increased by 15%, or \$305 million to \$2,353 million, compared to \$2,047 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 \$115 million and \$351 million for the three and twelve month periods ended December 31, 2019, respectively. Organic revenue growth was negative 2% for both the three and twelve months ended December 31, 2019 compared to the same periods in 2018, and negative 1% and 0% 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 December 31, 2019, total revenue in the private sector reportable segment increased 9%, or \$26 million to \$300 million, compared to \$275 million for the quarter ended December 31, 2018. For the year ended December 31, 2019, total revenue increased by 12%, or \$125 million to \$1,138 million, compared to \$1,013 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 \$132 million for the three and twelve month periods ended December 31, 2019, respectively. Organic revenue growth was negative 3% and negative 1% for the three and twelve months ended December 31, 2019 respectively compared to the same periods in 2018, and negative 2% and positive 2% 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		Year ended	
	December 31,		December 31,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(\$ in millions, except percentages)		(\$ in millions, except percentages)	
Net cash flows from operating activities	255	208	767	662
Adjusted for:				
Interest paid on lease obligations	(2)	-	(7)	-
Interest paid on other facilities	(8)	(7)	(31)	(24)
Credit facility transaction costs	(2)	(1)	(3)	(4)
Payments of lease obligations	(17)	-	(51)	-
TSS membership liability revaluation charge	(22)	(18)	(52)	(55)
Property and equipment purchased	(10)	(7)	(34)	(25)
Interest and dividends received	0	4	3	5
 Free cash flow available to shareholders	 193	 180	 590	 559

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.

Consolidated Statements of Financial Position

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

	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash	\$ 316	\$ 589
Accounts receivable	422	362
Unbilled revenue	110	80
Inventories	31	34
Other assets	184	143
	<u>1,062</u>	<u>1,207</u>
Non-current assets:		
Property and equipment	78	67
Right of use assets	234	-
Deferred income taxes	45	47
Other assets	72	64
Intangible assets	1,997	1,549
	<u>2,425</u>	<u>1,728</u>
Total assets	\$ 3,488	\$ 2,935
Liabilities and Shareholders' Equity		
Current liabilities:		
CSI facility	\$ 63	\$ -
Debt without recourse to Constellation Software Inc.	57	51
TSS membership liability	86	67
Accounts payable and accrued liabilities	529	464
Dividends payable	21	21
Deferred revenue	788	657
Provisions	13	7
Acquisition holdback payables	76	47
Lease obligations	62	-
Income taxes payable	36	30
	<u>1,732</u>	<u>1,344</u>
Non-current liabilities:		
Debt without recourse to Constellation Software Inc.	153	102
TSS membership liability	136	117
Debentures	222	215
Deferred income taxes	246	192
Acquisition holdback payables	25	25
Lease obligations	187	-
Other liabilities	101	74
	<u>1,069</u>	<u>725</u>
Total liabilities	2,800	2,069
Shareholders' equity:		
Capital stock	99	99
Accumulated other comprehensive income (loss)	(40)	(37)
Retained earnings	628	804
	<u>687</u>	<u>866</u>
Total liabilities and shareholders' equity	\$ 3,488	\$ 2,935

CONSTELLATION SOFTWARE INC.

Consolidated Statements of Income

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

	Years ended December 31,	
	2019	2018
Revenue		
License	\$ 226	\$ 198
Professional services	673	616
Hardware and other	173	175
Maintenance and other recurring	2,417	2,072
	3,490	3,060
Expenses		
Staff	1,797	1,565
Hardware	101	96
Third party license, maintenance and professional services	300	265
Occupancy	35	78
Travel, telecommunications, supplies, software and equipment	201	181
Professional fees	49	39
Other, net	73	52
Depreciation	92	27
Amortization of intangible assets	331	279
	2,979	2,582
Foreign exchange loss (gain)	11	(3)
TSS membership liability revaluation charge	52	55
Finance and other expense (income)	(4)	(17)
Bargain purchase gain	(45)	(69)
Finance costs	42	26
	55	(8)
Income before income taxes	456	486
Current income tax expense (recovery)	164	127
Deferred income tax expense (recovery)	(41)	(20)
Income tax expense (recovery)	123	106
Net income	333	379
Earnings per share		
Basic and diluted	\$ 15.73	\$ 17.91

CONSTELLATION SOFTWARE INC.

Consolidated Statements of Comprehensive Income

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

	Years ended December 31,	
	2019	2018
Net income	\$ 333	\$ 379
Items that are or may be reclassified subsequently to net income:		
Foreign currency translation differences from foreign operations	(4)	(10)
Deferred income tax recovery (expense)	-	-
Other comprehensive (loss) income for the period, net of income tax	(4)	(10)
Total comprehensive income (loss) for the period	\$ 330	\$ 369

CONSTELLATION SOFTWARE INC.

Consolidated Statements of Changes in Equity

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

Year ended December 31, 2019	Capital stock	Accumulated other comprehensive (loss) income	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	-	-	333	333
<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)	333	330
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company	-	-	(509)	(509)
Balance at December 31, 2019	\$ 99		(40) \$	\$ 628
				\$ 687

CONSTELLATION SOFTWARE INC.

Consolidated Statements of Changes in Equity

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

Year ended December 31, 2018

	Capital stock	Accumulated other comprehensive (loss) income 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	-	-	379	379
<i>Other comprehensive income (loss)</i>				
Foreign currency translation differences from foreign operations	-	(10)	-	(10)
Total other comprehensive income for the period	-	(10)	-	(10)
Total comprehensive income for the period	-	(10)	379	369
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company	-	-	(85)	(85)
Balance at December 31, 2018	\$ 99	\$ (37)	\$ 804	866

CONSTELLATION SOFTWARE INC.

Consolidated Statements of Cash Flows

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

	Years ended December 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 333	\$ 379
Adjustments for:		
Depreciation	92	27
Amortization of intangible assets	331	279
TSS membership liability revaluation charge	52	55
Finance and other expense (income)	(4)	(17)
Bargain purchase (gain)	(45)	(69)
Finance costs	42	26
Income tax expense (recovery)	123	106
Foreign exchange loss (gain)	11	(3)
Change in non-cash operating assets and liabilities exclusive of effects of business combinations	(28)	14
Income taxes paid	(140)	(135)
Net cash flows from operating activities	767	662
Cash flows from (used in) financing activities:		
Interest paid on lease obligations	(7)	-
Interest paid on other facilities	(31)	(24)
Increase (decrease) in CSI facility	65	-
Increase (decrease) in revolving credit under debt facilities without recourse to CSI	5	(46)
Proceeds from issuance of term debt under facilities without recourse to CSI	49	110
Repayments of term debt under facilities without recourse to CSI	(2)	(1)
Credit facility transaction costs	(3)	(4)
Payments of lease obligations	(51)	-
Distribution to TSS minority owners	(11)	-
Dividends paid	(509)	(85)
Net cash flows from (used in) in financing activities	(496)	(49)
Cash flows from (used in) investing activities:		
Acquisition of businesses	(549)	(523)
Cash obtained with acquired businesses	118	118
Post-acquisition settlement payments, net of receipts	(74)	(80)
Purchases of other investments	(11)	(3)
Interest, dividends and other proceeds received	6	5
Property and equipment purchased	(34)	(25)
Net cash flows from (used in) investing activities	(544)	(508)
Effect of foreign currency on cash and cash equivalents	1	(6)
Increase (decrease) in cash	(273)	100
Cash, beginning of period	589	489
Cash, end of period	\$ 316	\$ 589