

Constellation Software Inc. Announces Results for the Second Quarter Ended June 30, 2018 and Declares Quarterly Dividend

TORONTO, ONTARIO (July 26, 2018) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the second quarter ended June 30, 2018 and declared a \$1.00 per share dividend payable on October 3, 2018 to all common shareholders of record at close of business on September 14, 2018. 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, 2018 and the accompanying notes, our Management Discussion and Analysis for the three and six months ended June 30, 2018 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, 2017, 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.

Q2 2018 Headlines:

- Revenue grew 25% (4% organic growth, 1% after adjusting for changes in foreign exchange rates) to \$752 million compared to \$600 million in Q2 2017.
- Adjusted EBITA increased \$21 million or 13% to \$175 million as compared to \$155 million in Q2 2017.
- Net income increased 2% to \$52 million (\$2.45 on a diluted per share basis) from \$51 million (\$2.41 on a diluted per share basis) in Q2 2017.
- Adjusted net income increased 9% to \$122 million (\$5.75 on a diluted per share basis) from \$112 million (\$5.30 on a diluted per share basis) in Q2 2017.
- A number of acquisitions were completed for aggregate cash consideration of \$43 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$12 million resulting in total consideration of \$55 million.
- Cash flows from operations were \$53 million, a decrease of 13%, or \$7 million, compared to \$60 million for the comparable period in 2017.

Total revenue for the quarter ended June 30, 2018 was \$752 million, an increase of 25%, or \$152 million, compared to \$600 million for the comparable period in 2017. For the first six months of 2018 total revenues were \$1,471 million, an increase of 27%, or \$315 million, compared to \$1,155 million for the comparable period in 2017. 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 4% in both the three and six month periods, 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. The Company adopted IFRS 15 “Revenue from contracts with customers” (“IFRS 15”) effective January 1, 2018 utilizing the cumulative effect method. Under the cumulative effect method comparative periods have not been restated; however, the quantitative differences between reported results under IFRS 15 and those that would have been reported under IAS 11 and IAS 18 (“prior IFRS”) have been disclosed. For the three and six months ended June 30, 2018 total revenue was \$1 million lower and \$7 million higher respectively than it would have been under prior IFRS. The organic growth figures included above and below exclude the impact of IFRS 15.

For the quarter ended June 30, 2018, Adjusted EBITA increased to \$175 million compared to \$155 million for the same period in 2017 representing an increase of 13%. For the first six months of 2018, Adjusted EBITA increased to \$334 million compared to \$285 million during the same period in 2017, representing an increase of 17%. For the three and six months ended June 30, 2018, Adjusted EBITA was \$2 million lower and \$7 million higher respectively, than it would have been under prior IFRS. Adjusted EBITA margin was 23% for both the three and six months ended June 30, 2018, compared to 26% and 25% during the same periods in 2017. Excluding the impact of IFRS 15, Adjusted

EBITA margin would have been 24% and 22% for the three and six months ended June 30, 2018, respectively. The margin decline is primarily the result of lower margins on recently acquired businesses.

Net income for the quarter ended June 30, 2018 was \$52 million compared to net income of \$51 million for the same period in 2017. On a per share basis, this translated into a net income per diluted share of \$2.45 in the quarter ended June 30, 2018 compared to net income per diluted share of \$2.41 for the same period in 2017. For the six months ended June 30, 2018, net income was \$135 million or \$6.35 per diluted share compared to \$92 million or \$4.32 per diluted share for the same period in 2017.

For the quarter ended June 30, 2018, Adjusted net income increased to \$122 million from \$112 million for the same period in 2017, representing an increase of 9%. Adjusted net income margin was 16% for the quarter ended June 30, 2018 and 19% for the same period in 2017. For the quarter ended June 30, 2018, Adjusted net income was \$1 million lower than it would have been under prior IFRS. For the first six months of 2018, Adjusted net income increased to \$265 million from \$207 million during the same period in 2017, representing an increase of 28%. Adjusted net income margin was 18% for both the six months ended June 30, 2018 and June 30, 2017. For the six months ended June 30, 2018, Adjusted net income was \$4 million higher than it would have been under prior IFRS. Excluding the impact of the unrealized foreign exchange (gain) loss recorded in each of the three and six month periods ended June 30, 2017 and 2018, a \$8 million financial liability accrual reversal recorded to finance and other income in Q1 2018, and the impacts of IFRS 15, the margins would have been 18% and 17% for the respective periods in 2018, and 19% and 18% for the respective periods in 2017.

Cash flows from operations for the quarter ended June 30, 2018 were \$53 million, an decrease of 13%, or \$7 million, compared to \$60 million for the comparable period in 2017.

The following table displays our revenue by reportable segment and the percentage change for the three and six months ended June 30, 2018 compared to the same periods in 2017:

	Three months ended June 30,		Period-Over-Period Change		Organic Growth	Six months ended June 30,		Period-Over-Period Change		Organic Growth
	<u>2018</u>	<u>2017</u>	\$	%	%	<u>2018</u>	<u>2017</u>	\$	%	%
	(\$M, except percentages)					(\$M, except percentages)				
Public Sector										
Licenses	29	25	4	16%	-8%	57	46	11	23%	-7%
Professional services	114	96	18	19%	-2%	225	185	40	21%	1%
Hardware and other	36	35	1	4%	-6%	62	59	3	5%	-7%
Maintenance and other recurring	322	251	71	28%	7%	642	490	152	31%	7%
	500	406	94	23%	3%	986	780	205	26%	4%
Private Sector										
Licenses	19	16	3	19%	1%	35	30	5	17%	-1%
Professional services	39	25	14	56%	19%	70	48	22	46%	12%
Hardware and other	7	7	(0)	0%	-31%	14	14	(1)	-4%	-34%
Maintenance and other recurring	186	146	41	28%	6%	366	283	83	29%	7%
	252	194	58	30%	6%	485	375	110	29%	5%

Certain totals and percentages may not reconcile due to rounding.

For purposes of calculating organic growth, estimated pre-acquisition revenue from the relevant companies acquired in 2017 and 2018 was added to actual reported revenue for the three and six months ended June 30, 2017.

Public Sector

For the quarter ended June 30, 2018, total revenue in the public sector reportable segment increased 23%, or \$94 million to \$500 million, compared to \$406 million for the quarter ended June 30, 2017. For the six months ended June 30, 2018, total revenue increased by 26%, or \$205 million to \$986 million, compared to \$780 million for the

comparable period in 2017. For the three and six months ended June 30, 2018 total revenue was respectively \$2 million lower and \$7 million higher than it would have been under prior IFRS. Organic growth excludes the impact of IFRS 15. Organic revenue growth was 3% and 4%, respectively, for the three and six months ended June 30, 2018 compared to the same periods in 2017, and 0% for both periods 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, 2018, total revenue in the private sector reportable segment increased 30%, or \$58 million to \$252 million, compared to \$194 million for the quarter ended June 30, 2017. For the six months ended June 30, 2018, total revenue increased by 29%, or \$110 million to \$485 million, compared to \$375 million for the comparable period in 2017. For the three and six months ended June 30, 2018 total revenue was respectively \$0.2 million and \$0.5 million higher than it would have been under prior IFRS. Organic growth excludes the impact of IFRS 15. Organic revenue growth was 6% and 5% for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017, and 4% 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

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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>752</u>	<u>600</u>	<u>1,471</u>	<u>1,155</u>
Net income	52	51	135	92
Adjusted for:				
Income tax expense (recovery)	27	25	46	43
Foreign exchange (gain) loss	9	2	(5)	3
TSS membership liability revaluation charge	14	15	21	29
Share in net (income) loss of equity investees	0	(0)	(0)	(0)
Finance and other income	(1)	(0)	(10)	(0)
Bargain purchase gain	(0)	-	(0)	-
Finance costs	5	5	10	11
Amortization of intangible assets	70	56	139	108
Adjusted EBITA	175	155	334	285
Adjusted EBITA margin	23%	26%	23%	25%

Certain totals and percentages may not reconcile due to rounding.

The following table reconciles Adjusted net income to net income:

	Three months ended June 30,		Six months ended June 30,	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>752</u>	<u>600</u>	<u>1,471</u>	<u>1,155</u>
Net income	52	51	135	92
Adjusted for:				
Amortization of intangible assets	70	56	139	108
TSS membership liability revaluation charge	14	15	21	29
Bargain purchase gain	(0)	-	(0)	-
Less non-controlling interest in the Adjusted net income of TSS	(6)	(5)	(13)	(11)
Deferred income tax expense (recovery)	(8)	(5)	(16)	(11)
Adjusted net income	122	112	264	207
Adjusted net income margin	16%	19%	18%	18%

Certain totals and percentages may not reconcile due to rounding.

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 thousands of U.S. dollars)

Unaudited

June 30, 2018 December 31, 2017

Assets

Current assets:

Cash	\$	343,566	\$	488,964
Accounts receivable		329,650		316,538
Unbilled revenue		83,808		64,109
Inventories		29,503		23,196
Other assets		153,484		100,098
		<u>940,011</u>		<u>992,905</u>

Non-current assets:

Property and equipment		58,129		53,817
Deferred income taxes		54,254		38,362
Other assets		56,583		21,801
Intangible assets		1,444,583		1,181,333
		<u>1,613,549</u>		<u>1,295,313</u>

Total assets	\$	2,553,560	\$	2,288,218
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Liabilities and Shareholders' Equity

Current liabilities:

CSI Facility	\$	-	\$	-
New CNH Facility		62,551		96,398
TSS Membership Liability		55,370		49,215
Accounts payable and accrued liabilities		347,975		379,573
Dividends payable		21,235		21,575
Deferred revenue		711,471		541,108
Provisions		5,836		10,377
Acquisition holdback payables		61,558		42,867
Income taxes payable		30,588		31,028
		<u>1,296,584</u>		<u>1,172,141</u>

Non-current liabilities:

TSS Membership Liability		97,403		86,575
Debentures		224,247		236,462
Deferred income taxes		174,118		148,961
Acquisition holdback payables		14,924		6,480
Other liabilities		80,173		33,521
		<u>590,865</u>		<u>511,999</u>

Total liabilities		1,887,449		1,684,140
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Shareholders' equity:

Capital stock		99,283		99,283
Accumulated other comprehensive income (loss)		(33,547)		(26,739)
Retained earnings		600,375		531,534
		<u>666,111</u>		<u>604,078</u>

Total liabilities and shareholders' equity	\$	2,553,560	\$	2,288,218
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CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Income
(In thousands of U.S. dollars, except per share amounts)

Three and six months ended June 30, 2018 and 2017

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue				
License	\$ 47,861	\$ 40,872	\$ 91,680	\$ 76,004
Professional services	152,644	120,705	294,814	233,118
Hardware and other	43,214	41,930	75,984	73,356
Maintenance and other recurring	508,326	396,577	1,008,026	772,932
	752,045	600,084	1,470,504	1,155,410
Expenses				
Staff	390,441	296,769	779,853	586,084
Hardware	23,961	23,091	41,758	39,411
Third party license, maintenance and professional services	66,611	50,539	128,082	100,542
Occupancy	19,785	14,434	38,917	27,870
Travel	21,006	18,068	39,273	33,892
Telecommunications	6,296	5,267	12,446	10,335
Supplies	4,602	3,608	9,212	7,480
Software and equipment	13,167	9,819	26,079	19,356
Professional fees	8,901	6,768	19,079	13,693
Other, net	15,135	11,814	28,401	20,986
Depreciation	6,747	5,321	13,398	10,620
Amortization of intangible assets	69,898	55,738	138,530	108,023
	646,550	501,236	1,275,028	978,292
Foreign exchange loss (gain)	8,673	1,865	(5,304)	3,359
TSS membership liability revaluation charge	13,872	15,415	20,712	28,530
Share in net (income) loss of equity investee	2	(77)	(233)	(126)
Finance and other expense (income)	(1,157)	(408)	(10,044)	(429)
Bargain purchase gain	(14)	-	(119)	-
Finance costs	5,005	5,473	10,221	10,731
	26,381	22,268	15,233	42,065
Income before income taxes	79,114	76,580	180,243	135,053
Current income tax expense (recovery)	34,963	30,108	61,455	54,216
Deferred income tax expense (recovery)	(7,844)	(4,678)	(15,751)	(10,746)
Income tax expense (recovery)	27,119	25,430	45,704	43,470
Net income	51,995	51,150	134,539	91,583
Earnings per share				
Basic and diluted	\$ 2.45	\$ 2.41	\$ 6.35	\$ 4.32

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Comprehensive Income
(In thousands of U.S. dollars, except per share amounts)

Three and six months ended June 30, 2018 and 2017

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income	\$ 51,995	\$ 51,150	\$ 134,539	\$ 91,583
Items that are or may be reclassified subsequently to net income:				
Net change in fair value of available-for-sale financial asset during the period	-	-	-	(1,314)
Net change in fair value of derivatives designated as hedges during the period	-	181	-	345
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	409	-	1,288
Foreign currency translation differences from foreign operations	(2,642)	4,956	(6,808)	7,847
Deferred income tax recovery (expense)	-	(102)	-	(94)
Other comprehensive (loss) income for the period, net of income tax	(2,642)	5,444	(6,808)	8,072
Total comprehensive income (loss) for the period	\$ 49,353	\$ 56,594	\$ 127,731	\$ 99,655

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Changes in Equity
(In thousands of U.S. dollars)

Unaudited

Six months ended June 30, 2018

	Capital stock	Accumulated other comprehensive income/(loss)		Total accumulated other comprehensive income/(loss)	Retained earnings	Total	
		Cumulative translation account	Amounts related to gains/losses on available- for-sale financial assets	Amounts related to gains/(losses) on derivatives designed as hedges			
Balance at January 1, 2018	\$ 99,283	\$ (26,739)	\$ -	\$ -	\$ (26,739)	\$ 531,534	\$ 604,078
Impact of change in accounting policy	-	-	-	-	-	(23,314)	(23,314)
<i>Total comprehensive income for the period:</i>							
Net income	-	-	-	-	-	134,539	134,539
<i>Other comprehensive income (loss)</i>							
Net change in fair value of available-for-sale financial asset during the period	-	-	-	-	-	-	-
Net change in fair value of derivatives designated as hedges during the period	-	-	-	-	-	-	-
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	-	-	-	-	-	-
Foreign currency translation differences from foreign operations	-	(6,808)	-	-	(6,808)	-	(6,808)
Deferred tax recovery (expense)	-	-	-	-	-	-	-
Total other comprehensive income (loss) for the period	-	(6,808)	-	-	(6,808)	-	(6,808)
Total comprehensive income (loss) for the period	-	(6,808)	-	-	(6,808)	134,539	127,731
Transactions with owners, recorded directly in equity Dividends to shareholders of the Company	-	-	-	-	-	(42,384)	(42,384)
Balance at June 30, 2018	\$ 99,283	\$ (33,547)	\$ -	\$ -	\$ (33,547)	\$ 600,375	\$ 666,111

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Changes in Equity
(In thousands of U.S. dollars)

Unaudited

Six months ended June 30, 2017

	Capital stock	Accumulated other comprehensive income/(loss)			Total accumulated other comprehensive income/(loss)	Retained earnings	Total
		Cumulative translation account	Amounts related to gains/losses on available- for-sale financial assets	Amounts related to gains/(losses) on derivatives designed as hedges			
Balance at January 1, 2017	\$ 99,283	\$ (35,748)	\$ 17	\$ (377)	\$ (36,108)	\$ 394,334	\$ 457,509
<i>Total comprehensive income for the period:</i>							
Net income	-	-	-	-	-	91,583	91,583
<i>Other comprehensive income (loss)</i>							
Net change in fair value of available-for-sale financial asset during the period	-	-	(1,314)	-	(1,314)	-	(1,314)
Net change in fair value of derivatives designated as hedges during the period	-	-	-	345	345	-	345
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	-	1,288	-	1,288	-	1,288
Foreign currency translation differences from foreign operations	-	7,847	-	-	7,847	-	7,847
Deferred tax recovery (expense)	-	-	9	(103)	(94)	-	(94)
Total other comprehensive income for the period	-	7,847	(17)	242	8,072	-	8,072
Total comprehensive income for the period	-	7,847	(17)	242	8,072	91,583	99,655
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company	-	-	-	-	-	(42,384)	(42,384)
Balance at June 30, 2017	\$ 99,283	\$ (27,901)	\$ -	\$ (135)	\$ (28,036)	\$ 443,533	\$ 514,780

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Cash Flows
(In thousands of U.S. dollars)

Three and six months ended June 30, 2018 and 2017
Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Cash flows from operating activities:				
Net income	\$ 51,995	\$ 51,150	\$ 134,539	\$ 91,583
Adjustments for:				
Depreciation	6,747	5,321	13,398	10,620
Amortization of intangible assets	69,898	55,738	138,530	108,023
TSS membership liability revaluation charge	13,872	15,415	20,712	28,530
Share in net (income) loss of equity investee	2	(77)	(233)	(126)
Finance and other expense (income)	(1,157)	(408)	(10,044)	(429)
Bargain purchase gain	(14)	-	(119)	-
Finance costs	5,005	5,473	10,221	10,731
Income tax expense (recovery)	27,119	25,430	45,704	43,470
Foreign exchange loss (gain)	8,673	1,865	(5,304)	3,359
Change in non-cash operating assets and liabilities exclusive of effects of business combinations	(101,768)	(71,569)	45,257	(352)
Income taxes paid	(27,475)	(27,881)	(82,090)	(52,978)
Net cash flows from operating activities	52,897	60,457	310,571	242,431
Cash flows from (used in) financing activities:				
Interest paid	(5,267)	(5,684)	(10,535)	(11,135)
Increase (decrease) in New CNH Facility, net	23,174	-	(34,503)	-
Repayments of CNH facility	-	(3,929)	-	(3,929)
Dividends paid	(21,192)	(21,192)	(42,384)	(42,384)
Net cash flows from (used in) in financing activities	(3,285)	(30,805)	(87,422)	(57,448)
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired	(26,297)	(65,362)	(322,754)	(114,199)
Post-acquisition settlement payments, net of receipts	(15,227)	(11,533)	(31,825)	(16,888)
Proceeds from sale of available-for-sale equity securities	-	815	-	2,828
Interest, dividends and other proceeds received	729	902	1,477	20,455
Property and equipment purchased	(7,567)	(4,522)	(12,033)	(8,932)
Net cash flows from (used in) investing activities	(48,362)	(79,700)	(365,135)	(116,736)
Effect of foreign currency on cash and cash equivalents	(5,210)	5,923	(3,412)	8,018
Increase (decrease) in cash	(3,960)	(44,125)	(145,398)	76,265
Cash, beginning of period	347,526	473,889	488,964	353,499
Cash, end of period	\$ 343,566	\$ 429,764	\$ 343,566	\$ 429,764

