

Constellation Software Inc. Announces Results for the Fourth Quarter and Year Ended December 31, 2017 and Declares Quarterly Dividend

TORONTO, ONTARIO (February 14, 2018) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the fourth quarter and year ended December 31, 2017 and declared a \$1.00 per share dividend payable on April 5, 2018 to all common shareholders of record at close of business on March 16, 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 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.

Q4 2017 Headlines:

- Revenue grew 22% (8% organic growth, 5% after adjusting for changes in foreign exchange rates) to \$688 million compared to \$564 million in Q4 2016.
- Adjusted EBITA increased \$23 million or 15% to \$175 million as compared to \$151 million in Q4 2016.
- Net income increased 16% to \$76 million (\$3.59 on a diluted per share basis) from \$66 million (\$3.10 on a diluted per share basis) in Q4 2016.
- Adjusted net income increased 15% to \$141 million (\$6.63 on a diluted per share basis) from \$122 million (\$5.75 on a diluted per share basis) in Q4 2016.
- A number of acquisitions were completed for aggregate cash consideration of \$84 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$22 million resulting in total consideration of \$106 million.
- Cash flows from operations were \$163 million, an increase of 22%, or \$29 million, compared to \$134 million for the comparable period in 2016.
- Subsequent to December 31, 2017, the Company completed a number of acquisitions for aggregate cash consideration of \$278 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$42 million resulting in total consideration of \$320 million.
- Subsequent to February 14, 2018 the Company policy will be to only issue press releases for acquisitions having an aggregate purchase price of \$50 million or more.

2017 Headlines:

- Revenue grew 17% (3% organic growth, 3% after adjusting for changes in foreign exchange rates) to \$2,479 million compared to \$2,125 million in 2016.
- Adjusted EBITA increased \$91 million or 17% to \$621 million as compared to \$530 million in 2016.
- Net income increased 7% to \$222 million (\$10.47 on a diluted per share basis) from \$207 million (\$9.76 on a diluted per share basis) in 2016.
- Adjusted net income increased 17% to \$463 million (\$21.84 on a diluted per share basis) from \$395 million (\$18.64 on a diluted per share basis) in 2016.
- A number of acquisitions were completed for aggregate cash consideration of \$269 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$60 million resulting in total consideration of \$329 million.
- Cash flows from operations were \$528 million, an increase of 8%, or \$37 million, compared to \$491 million for the comparable period in 2016.

Total revenue for the quarter ended December 31, 2017 was \$688 million, an increase of 22%, or \$124 million, compared to \$564 million for the comparable period in 2016. For the year ended December 31, 2017 total revenues were \$2,479 million, an increase of 17%, or \$354 million, compared to \$2,125 million for the comparable period

in 2016. The increase for both the three and twelve month periods ended December 31, 2017 is primarily attributable to growth from acquisitions as the Company experienced organic growth of 8% and 3% respectively, 5% 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.

For the quarter ended December, 2017, Adjusted EBITA increased to \$175 million compared to \$151 million for the same period in 2016 representing an increase of 15%. Adjusted EBITA margin was 25% for the quarter ended December 31, 2017 and 27% for the same period in 2016. For the year ended December 31, 2017, Adjusted EBITA increased to \$621 million compared to \$530 million during the same period in 2016, representing an increase of 17%. Adjusted EBITA margin was 25% for both the years ended December 31 2017 and 2016.

Net income for the quarter ended December 31, 2017 was \$76 million compared to net income of \$66 million for the same period in 2016. On a per share basis this translated into a net income per diluted share of \$3.59 in the quarter ended December 31, 2017 compared to net income per diluted share of \$3.10 for the same period in 2016. For the year ended December 31, 2017, net income was \$222 million or \$10.47 per diluted share compared to \$207 million or \$9.76 per diluted share for the same period in 2016.

For the quarter ended December 31, 2017, Adjusted net income increased to \$141 million from \$122 million for the same period in 2016, representing an increase of 15%. Adjusted net income margin was 20% for the quarter ended December 31, 2017 and 22% for the same period in 2016. For the year ended December 31, 2017, Adjusted net income increased to \$463 million from \$395 million during the same period in 2016, representing an increase of 17%. Adjusted net income margin was 19% for both the years ended December 31, 2017 and 2016.

Cash flows from operations for the quarter ended December 31, 2017 were \$163 million, an increase of 22%, or \$29 million, compared to \$134 million for the comparable period in 2016. Cash flows from operations for the year ended December 31, 2017 were \$528 million, an increase of 8%, or \$37 million, compared to \$491 million for the comparable period in 2016.

The following table displays our revenue by reportable segment and the percentage change for the three and twelve month periods ended December 31, 2017 compared to the same periods in 2016:

	Three months ended December 31,		Period-Over- Period Change		Organic Growth	Year ended December 31,		Period-Over- Period Change		Organic Growth
	2017	2016	\$	%	%	2017	2016	\$	%	%
	(\$M, except percentages)									
Public Sector										
Licenses	32	25	7	27%	3%	107	88	19	22%	-6%
Professional services	112	94	18	19%	7%	398	344	54	16%	3%
Hardware and other	43	32	10	32%	21%	139	120	18	15%	8%
Maintenance and other recurring	287	232	54	23%	7%	1,046	876	170	19%	4%
	473	384	89	23%	8%	1,689	1,428	261	18%	4%
Private Sector										
Licenses	18	14	4	26%	14%	64	55	9	16%	5%
Professional services	28	23	5	21%	9%	100	90	10	11%	1%
Hardware and other	8	6	1	22%	-3%	29	27	2	6%	-7%
Maintenance and other recurring	161	136	25	18%	6%	598	524	73	14%	4%
	215	180	35	19%	7%	790	697	93	13%	3%

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 2016 and 2017 was added to actual reported revenue for the three and twelve month periods ended December 31, 2017.

Public Sector

For the quarter ended December 31, 2017, total revenue in the public sector reportable segment increased 23%, or \$89 million to \$473 million, compared to \$384 million for the quarter ended December 31, 2016. For the year ended December 31, 2017, total revenue increased by 18%, or \$261 million to \$1,689 million, compared to \$1,428 million for the comparable period in 2016. Organic revenue growth was 8% and 4% respectively for the three and twelve month periods ended December 31, 2017 compared to the same periods in 2016, and 5% 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.

Private Sector

For the quarter ended December 31, 2017, total revenue in the private sector reportable segment increased 19%, or \$35 million to \$215 million, compared to \$180 million for the quarter ended December 31, 2016. For the year ended December 31, 2017, total revenue increased by 13%, or \$94 million to \$790 million, compared to \$697 million for the comparable period in 2016. Organic revenue growth was 7% and 3% respectively for the three and twelve month periods ended December 31, 2017 compared to the same periods in 2016, and 5% 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.

Conference Call and Webcast

Management will host a conference call at **8:00 a.m. (ET) on Thursday, February 15, 2018** to answer questions regarding the results. The teleconference numbers are 647-788-4919 or 877-291-4570. The call will also be webcast live and archived on Constellation's website at www.csisoftware.com.

A replay of the conference call will be available as of 12:30 p.m. ET the same day until 11:59 p.m. ET on March 1, 2018. To access the replay, please dial 416-621-4642 or 800-585-8367 followed by the passcode 2869957.

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 December 31,		Year ended December 31,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>688</u>	<u>564</u>	<u>2,479</u>	<u>2,125</u>
Net income	76	66	222	207
Adjusted for:				
Income tax expense (recovery)	30	20	99	80
Foreign exchange (gain) loss	(2)	1	9	26
TSS membership liability revaluation charge	10	8	50	22
Share in net (income) loss of equity investees	(0)	0	(0)	(5)
Finance and other income	(1)	(8)	(3)	(11)
Bargain purchase gain	(5)	-	(10)	-
Finance costs	5	5	25	22
Amortization of intangible assets	63	59	230	191
Adjusted EBITA	175	151	621	530
Adjusted EBITA margin	25%	27%	25%	25%

Certain totals and percentages may not reconcile due to rounding.

The following table reconciles Adjusted net income to net income:

	Three months ended December 31,		Year ended December 31,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>688</u>	<u>564</u>	<u>2,479</u>	<u>2,125</u>
Net income	76	66	222	207
Adjusted for:				
Amortization of intangible assets	63	59	230	191
TSS membership liability revaluation charge	10	8	50	22
Bargain purchase gain	(5)	-	(10)	-
Less non-controlling interest in the Adjusted net income of TSS	(6)	(5)	(22)	(19)
Deferred income tax expense (recovery)	3	(5)	(8)	(5)
Adjusted net income	141	122	463	395
Adjusted net income margin	20%	22%	19%	19%

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.

Consolidated Statements of Financial Position
(In thousands of U.S. dollars)

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash	\$ 488,964	\$ 353,499
Equity securities available-for-sale	-	4,236
Accounts receivable, net	316,538	243,554
Work in progress	64,109	56,541
Inventories	23,196	19,667
Other assets	100,098	96,181
	<u>992,905</u>	<u>773,678</u>
Non-current assets:		
Property and equipment	53,817	46,395
Deferred income taxes	38,362	49,863
Other assets	21,801	19,782
Intangible assets	1,181,333	993,743
	<u>1,295,313</u>	<u>1,109,783</u>
Total assets	\$ 2,288,218	\$ 1,883,461
Liabilities and Shareholders' Equity		
Current liabilities:		
CSI Facility	\$ -	\$ -
New CNH Facility	96,398	-
CNH Facility	-	7,361
TSS Membership Liability	49,215	26,435
Accounts payable and accrued liabilities	379,573	291,697
Dividends payable	21,575	21,051
Deferred revenue	541,108	460,975
Provisions	10,377	7,955
Acquisition holdback payables	42,867	17,056
Income taxes payable	31,028	40,634
	<u>1,172,141</u>	<u>873,164</u>
Non-current liabilities:		
CNH Facility	-	115,336
TSS Membership Liability	86,575	46,502
Debentures	236,462	223,870
Deferred income taxes	148,961	129,585
Acquisition holdback payables	6,480	855
Other liabilities	33,521	36,640
	<u>511,999</u>	<u>552,788</u>
Total liabilities	1,684,140	1,425,952
Shareholders' equity:		
Capital stock	99,283	99,283
Accumulated other comprehensive income (loss)	(26,739)	(36,108)
Retained earnings	531,534	394,334
Total liabilities and shareholders' equity	\$ 2,288,218	\$ 1,883,461

CONSTELLATION SOFTWARE INC.

Consolidated Statements of Income

(In thousands of U.S. dollars, except per share amounts)

	Years ended December 31,	
	2017	2016
Revenue		
License	\$ 170,384	\$ 142,534
Professional services	498,195	434,488
Hardware and other	167,636	147,749
Maintenance and other recurring	1,643,206	1,400,315
	2,479,421	2,125,086
Expenses		
Staff	1,236,874	1,058,989
Hardware	92,666	82,304
Third party license, maintenance and professional services	212,604	192,703
Occupancy	58,885	51,696
Travel	73,632	61,745
Telecommunications	21,949	21,674
Supplies	16,120	9,820
Software and equipment	42,936	36,547
Professional fees	31,311	28,249
Other, net	48,644	28,963
Depreciation	22,576	22,376
Amortization of intangible assets	230,494	190,574
	2,088,691	1,785,640
Foreign exchange loss (gain)	8,611	25,990
TSS membership liability revaluation charge	49,912	21,635
Share in net (income) loss of equity investee	(369)	(5,317)
Finance and other expense (income)	(3,176)	(10,834)
Bargain purchase gain	(9,918)	-
Finance costs	24,788	21,573
	69,848	53,047
Income before income taxes	320,882	286,399
Current income tax expense (recovery)	106,476	84,943
Deferred income tax expense (recovery)	(7,562)	(5,328)
Income tax expense (recovery)	98,914	79,615
Net income	221,968	206,784
Earnings per share		
Basic and diluted	\$ 10.47	\$ 9.76

CONSTELLATION SOFTWARE INC.

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

	Years ended December 31,	
	2017	2016
Net income	\$ 221,968	\$ 206,784
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)	5,224
Net change in fair value of derivatives designated as hedges during the period	538	468
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	1,288	(5,204)
Foreign currency translation differences from foreign operations	9,009	(2,134)
Deferred income tax recovery (expense)	(152)	(143)
Other comprehensive (loss) income for the period, net of income tax	9,369	(1,789)
Total comprehensive income (loss) for the period	\$ 231,337	\$ 204,995

CONSTELLATION SOFTWARE INC.

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

Year ended December 31, 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	-	-	-	-	-	221,968	221,968
<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	-	-	-	538	538	-	538
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	-	9,009	-	-	9,009	-	9,009
Deferred tax recovery (expense)	-	-	9	(161)	(152)	-	(152)
Total other comprehensive income (loss) for the period	-	9,009	(17)	377	9,369	-	9,369
Total comprehensive income (loss) for the period	-	9,009	(17)	377	9,369	221,968	231,337
Transactions with owners, recorded directly in equity Dividends to shareholders of the Company	-	-	-	-	-	(84,768)	(84,768)
Balance at December 31, 2017	\$ 99,283	\$ (26,739)	\$ -	\$ -	\$ (26,739)	\$ 531,534	\$ 604,078

CONSTELLATION SOFTWARE INC.

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

Year ended December 31, 2016

	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, 2016	\$ 99,283	\$ (33,614)	\$ -	\$ (705)	\$ (34,319)	\$ 272,318	\$ 337,282
<i>Total comprehensive income for the period:</i>							
Net income	-	-	-	-	-	206,784	206,784
<i>Other comprehensive income (loss)</i>							
Net change in fair value of available-for-sale financial asset during the period	-	-	5,224	-	5,224	-	5,224
Net change in fair value of derivatives designated as hedges during the period	-	-	-	468	468	-	468
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	-	(5,204)	-	(5,204)	-	(5,204)
Foreign currency translation differences from foreign operations	-	(2,134)	-	-	(2,134)	-	(2,134)
Deferred tax recovery (expense)	-	-	(3)	(140)	(143)	-	(143)
Total other comprehensive income for the period	-	(2,134)	17	328	(1,789)	-	(1,789)
Total comprehensive income for the period	-	(2,134)	17	328	(1,789)	206,784	204,995
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company	-	-	-	-	-	(84,768)	(84,768)
Balance at December 31, 2016	\$ 99,283	\$ (35,748)	\$ 17	\$ (377)	\$ (36,108)	\$ 394,334	\$ 457,509

CONSTELLATION SOFTWARE INC.

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

	Years ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 221,968	\$ 206,784
Adjustments for:		
Depreciation	22,576	22,376
Amortization of intangible assets	230,494	190,574
TSS membership liability revaluation charge	49,912	21,635
Share in net (income) loss of equity investee	(369)	(5,317)
Finance and other expense (income)	(3,176)	(10,834)
Bargain purchase gain	(9,918)	-
Finance costs	24,788	21,573
Income tax expense (recovery)	98,914	79,615
Foreign exchange loss (gain)	8,611	25,990
Change in non-cash operating working capital exclusive of effects of business combinations	(15,149)	(16,496)
Income taxes paid	(100,894)	(45,019)
Net cash flows from operating activities	527,757	490,881
Cash flows from (used in) financing activities:		
Interest paid	(22,144)	(22,867)
Increase (decrease) in New CNH Facility, net	94,846	-
Repayments of CNH facility	(138,177)	(8,709)
Credit facility transaction costs	(2,450)	(1,212)
Dividends paid	(84,768)	(84,768)
Net cash flows from (used in) in financing activities	(152,693)	(117,556)
Cash flows from (used in) investing activities:		
Acquisition of businesses, net of cash acquired	(225,147)	(152,310)
Post-acquisition settlement payments, net of receipts	(30,866)	(25,791)
Purchases of available-for-sale equity securities	-	(27,707)
Proceeds from sale of available-for-sale equity securities	2,828	28,491
Interest, dividends and other proceeds received	22,993	1,729
Property and equipment purchased	(19,711)	(19,098)
Net cash flows from (used in) investing activities	(249,903)	(194,686)
Effect of foreign currency on cash and cash equivalents	10,304	(3,611)
Increase (decrease) in cash and cash equivalents	135,465	175,028
Cash, beginning of period	353,499	178,471
Cash, end of period	\$ 488,964	\$ 353,499