NOTE TO SHAREHOLDERS REGARDING OUR REPLACEMENT NON-IFRS MEASURE

In my last Letter to Shareholders dated April 20, 2018, I wrote about the pros and cons of using the growth in Adjusted net income (“ANI”) per share versus cash flow from operations ("CFO") per share as indicators of the increase in CSI's economic value. Neither metric is ideal.

Too often managers and shareholders unquestioningly accept ANI as the equivalent of earnings available to shareholders. Regulators require reconciliations of ANI to net income to highlight the difference, but these reconciliations often get short shrift. CFO doesn’t distinguish well between the return on capital and the return of capital.

In CSI's reconciliation of ANI and Adjusted EBITA to net income the largest item is the amortisation of intangible assets. Clearly some of this amortisation represents an actual decrease in the economic value of the related underlying intangible assets. Our appreciating intangible assets have more than offset depreciating intangible assets to date, so I didn't fret about adding back the entire amount when calculating ANI. That will not always be the case. We have literally thousands of purchased products and the associated customer relationships. Many of these intangible assets are regularly maintained, enhanced and extended. A few deteriorate - some due to irrational competitors, some due to poor management and some due to shrinkage in the underlying vertical. The vast majority of CSI's economic value resides in our ability to acquire and manage these intangible assets. I can guarantee that indiscriminately adding back amortisation to create a proxy for earnings available to shareholders will eventually be misleading. I'd much rather our shareholders focused on the free cash flow that is produced each year and the trend in that free cash flow.

While the growth in net cash flow from operations (as defined by IFRS) is a useful starting point in understanding CSI's economic value, it doesn’t take into account all of our cash needs for continuing operations. To reflect these necessary expenditures, we are introducing some adjustments to operating cash flow, to create a metric that we call Free cash flow available to shareholders, or "FCFA2S".

We will no longer report ANI and Adjusted EBITA. We will focus instead on IFRS sanctioned measures of profitability (i.e. net income) and cashflow (i.e. net cashflow from operations) in our MD&A, and will add FCFA2S as our only non-IFRS metric.

In the table below, we've presented the FCFA2S (along with ANI, CFO and net income) for the last 10 years. In the table below that, we've presented the same metrics for the last 9 quarters.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Cash flows from operating activities	82	107	138	145	220	341	396	491	528	662
Interest expense, financing fees and lease obligations	(5)	(5)	(5)	(4)	(4)	(20)	(18)	(24)	(25)	(28)
Interest and dividends received	1	1	1	0	0	1	1	1	4	5
Property and Equipment-purchases	(4)	(7)	(7)	(6)	(11)	(14)	(13)	(19)	(20)	(25)
TSS Minority Owners Liability	-	-	-	-	-	-	(22)	(22)	(50)	(55)
Free Cash Flow Available to Shareholders ("FCFA2S")	**74**	**96**	**126**	**135**	**206**	**308**	**344**	**427**	**438**	**559**
Adjusted net income ("ANI")	**62**	**84**	**140**	**172**	**207**	**274**	**371**	**395**	**463**	**597**
Net Income	**10**	**42**	**157**	**93**	**93**	**103**	**177**	**207**	**222**	**379**

Note: For historical reconciliations of Net Income to ANI see the MD&A filed for the relevant period, available on SEDAR at www.sedar.com.

	Q317	Q417	Q118	Q218	Q318	Q418	Q119	Q219	Q319
Net Cash flows from operating activities	123	163	258	53	143	208	284	50	177
Interest expense, financing fees and lease obligations	(8)	(6)	(5)	(5)	(9)	(8)	(19)	(22)	(22)
Interest and dividends received	1	1	1	1	2	2	3	0	0
Property and Equipment-purchases	(5)	(5)	(4)	(8)	(6)	(7)	(7)	(8)	(9)
TSS Minority Owners Liability	(12)	(10)	(7)	(14)	(17)	(18)	(10)	(8)	(12)
Free Cash Flow Available to Shareholders ("FCFA2S")	**99**	**143**	**242**	**27**	**112**	**178**	**250**	**12**	**134**
Adjusted net income ("ANI")	**116**	**141**	**143**	**122**	**145**	**187**	**127**	**137**	**154**
Net Income	**54**	**76**	**83**	**52**	**66**	**179**	**87**	**73**	**82**

Note: For historical reconciliations of Net Income to ANI see the MD&A filed for the relevant period, available on SEDAR at www.sedar.com.

We calculate FCFA2S by taking net cash flow from operating activities per IFRS, subtracting the amounts that we spend on fixed assets and on servicing the capital we have sourced from other stakeholders (e.g. debt providers, lease providers, minority shareholders), and then adding interest and dividends earned on investments. The remaining FCFA2S is the uncommitted cashflow available to CSI's shareholders if we made no further acquisitions, nor repaid our other capital-providing stakeholders.

There has been grumbling from some of CSI's directors and finance staff that I'm creating much ado about nothing… that FCFA2S is very similar to ANI, so why make the change? Partly, it's the name. ANI implies income. When we buy a company that we expect to consistently shrink, then the ANI for that business is actually a combination of return on capital and return of capital. The name implies otherwise.

I did like the fact that ANI, unlike CFO, was net of the cost of servicing the capital provided by other stakeholders (e.g. interest on debt, dividends on preferred stock, and lease payments). The deductions from CFO that we've made to create FCFA2S reflect this cost. This may become an increasingly important adjustment if we do more partnering with other investors and operators or create spin-out businesses.

FCFA2S captures changes in working capital, while ANI did not. If venture-backed competitors use their balance sheet as a weapon, we will have to respond and that could depress our FCFA2S, but would not depress ANI. At the extreme, we've seen some venture-backed competitors offering a year or two of free SaaS service in return for customers signing a 5 year subscription.

FCFA2S reflects cash taxes, while ANI uses only current taxes. I'm a motivated consumer of corporate tax arcana… at least when it comes to optimising cash taxes. That said, I am baffled by what the accountants are now doing with the reported current and deferred tax liabilities and tax assets. I believe that these balance sheet items verge on meaningless for even the most sophisticated analysts of financial information.

And lastly, we will reconcile FCFA2S to CFO, its closest IFRS measure. I believe that FCFA2S will nearly always be less than CFO. This feels more comfortable to me than reconciling ANI to net income, and always having ANI be significantly greater than net income.

While we could use the FCFA2S to pay dividends, or repurchase shares, our current objective is to invest all of it in acquisitions which meet our hurdle rate.

If you keep a weather eye on the trends in CSI's FCFA2S per share, I think you'll be able to spot any significant deterioration in the value of our intangible assets.

Mark Leonard

Glossary

''Adjusted EBITA'' refers to net income before adjusting for finance and other expense (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.

''Adjusted net income'' ("ANI") means net income adjusted for non-cash expenses (income) such as amortization of intangible assets, deferred income taxes, the Total Specific Solutions (TSS) B.V. ("TSS") membership liability revaluation charge, bargain purchase gains, and certain other expenses (income), and excludes the portion of the adjusted net income of TSS attributable to the minority owners of TSS (see "Capital Resources and Commitments" section).

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.

The following table reconciles Adjusted net income to Net income for the current period:

	Q319 ($M)
Net income	82
Adjusted for:	
Amortization of intangible assets	84
TSS membership liability revaluation charge	12
Bargain purchase gain	(7)
Less non-controlling interest in the Adjusted net income of TSS	(7)
Deferred income tax expense (recovery)	(8)
Adjusted net income	154

Due to rounding, certain totals may not foot.