

Constellation Software Inc. Announces Results for the Fourth Quarter and Year Ended December 31, 2016 and Declares Quarterly Dividend

TORONTO, ONTARIO (February 15, 2017) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the fourth quarter and year ended December 31, 2016 and declared a \$1.00 per share dividend payable on April 5, 2017 to all common shareholders of record at close of business on March 17, 2017. 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, 2016, 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 2016 Headlines:

- Revenue grew 10% (negative 1% organic growth, positive 1% after adjusting for changes in foreign exchange rates) to \$564 million compared to \$512 million in Q4 2015.
- Adjusted EBITA increased \$18 million or 14% to \$151 million as compared to \$133 million in Q4 2015.
- Adjusted Net Income increased 3% to \$122 million (\$5.75 on a diluted per share basis) from \$118 million (\$5.55 on a diluted per share basis) in Q4 2015.
- Net income decreased to \$3.10 on a diluted per share basis compared to \$3.11 on a diluted per share basis in Q4 2015.
- Eight acquisitions were completed for aggregate cash consideration of \$64 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$6 million.
- Cash flows from operations were \$134 million, an increase of 17%, or \$20 million, compared to \$114 million for the comparable period in 2015.

2016 Headlines:

- Revenue grew 16% (1% organic growth, 2% after adjusting for changes in foreign exchange rates) to \$2,125 million compared to \$1,838 million in 2015.
- Adjusted EBITA increased \$84 million or 19% to \$530 million as compared to \$446 million in 2015.
- Adjusted net income increased 6% to \$395 million (\$18.64 on a diluted per share basis) from \$371 million (\$17.51 on a diluted per share basis) in 2015.
- Net income increased 17% to \$207 million (\$9.76 on a diluted per share basis) from \$177 million (\$8.36 on a diluted per share basis) in 2015.
- Forty acquisitions were completed for aggregate cash consideration of \$188 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$23 million.
- Cash flows from operations were \$491 million, an increase of 24%, or \$95 million, compared to \$396 million in 2015.

Total revenue for the quarter ended December 31, 2016 was \$564 million, an increase of 10%, or \$52 million, compared to \$512 million for the comparable period in 2015. For the 2016 fiscal year total revenues were \$2,125 million, an increase of 16%, or \$287 million, compared to \$1,838 million for the comparable period in 2015. 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 1% and positive 1% respectively, positive 1% and 2% respectively after adjusting for the impact of the net appreciation of the US dollar against most major currencies in which the Company transacts business. The Company’s Q4 2016 organic growth rate was negatively impacted as a result of higher than average hardware sales recorded in the quarter ended December 31, 2015 in our public sector relating to deliveries on various large projects in our transit vertical during

that quarter. Hardware revenue is primarily recognized on delivery and as such can result in temporary spikes in revenue. Organic growth for the three and twelve month periods ended December 31, 2016 was positive 4% and 3% respectively after adjusting for both foreign exchange and hardware sales.

Adjusted EBITA for the fourth quarter of 2016 was \$151 million, a 14% increase compared to the prior year's fourth quarter Adjusted EBITA of \$133 million. Fourth quarter 2016 Adjusted EBITA per share on a diluted basis increased 14% to \$7.14, compared to \$6.27 for the same period last year. Adjusted EBITA for the year ended December 31, 2016 was \$530 million, a 19% increase over last year's Adjusted EBITA of \$446 million for the same period. Adjusted EBITA per share on a diluted basis for the year ended December 31, 2016 increased 19% to \$25.01, compared to \$21.02 for the same period last year.

Adjusted Net Income for the fourth quarter of 2016 was \$122 million, compared to the prior year's fourth quarter Adjusted Net Income of \$118 million, a 3% increase. Fourth quarter 2016 Adjusted Net Income per share on a diluted basis increased 3% to \$5.75 compared to \$5.55 for the prior year's fourth quarter. Adjusted Net Income for the year ended December 31, 2016 was \$395 million, an increase of 6% over last year's Adjusted Net Income of \$371 million. Adjusted Net Income per share on a diluted basis for the year ended December 31, 2016 increased 6% to \$18.64, compared to \$17.51 for the same period in 2016. Adjusted net income margin was 22% for the quarter ended December 31, 2016 and 23% for the same period in 2015. Adjusted net income margin was 19% in the year ended December 31, 2016 and 20% for the same period in 2015.

Net income for the fourth quarter 2016 was \$66 million, consistent with prior year's fourth quarter net income of \$66 million. Net income per share on a diluted per share basis for the fourth quarter of 2016 was \$3.10 compared to \$3.11 for the same period of 2015. Net income for the year ended December 31, 2016 was \$207 million, an increase of 17% over net income of \$177 million for the same period in 2015. Net income per share on a diluted basis for the year ended December 31, 2016 increased 17% to \$9.76, compared to \$8.36 for the same period in 2015.

Cash flows from operations for the fourth quarter of 2016 were \$134 million, an increase of 17%, or \$20 million, compared to \$114 million for the comparable period in 2015. For the year ended December 31, 2016 cash flows from operations were \$491 million, an increase of 24%, or \$95 million, compared to \$396 million for the comparable period in 2015.

The following table displays our revenue by reportable segment and the percentage change for the three and year ended December 31, 2016 compared to the same periods in 2015:

	Three months ended December 31,		Period-Over- Period Change		Year ended December 31,		Period-Over- Period Change	
	2016	2015	\$	%	2016	2015	\$	%
	(\$M, except percentages)							
Public Sector								
Licenses	25.0	22.0	3.0	14%	87.6	86.0	1.6	2%
Professional services	93.9	83.3	10.7	13%	344.4	311.5	32.9	11%
Hardware and other	32.3	46.4	(14.1)	-30%	120.4	126.4	(5.9)	-5%
Maintenance and other recurring	232.4	197.6	34.8	18%	875.9	744.6	131.2	18%
	383.6	349.3	34.4	10%	1,428.3	1,268.5	159.8	13%
Private Sector								
Licenses	14.4	12.3	2.1	17%	55.0	45.0	9.9	22%
Professional services	23.1	20.2	2.9	14%	90.1	73.1	17.0	23%
Hardware and other	6.5	6.9	(0.5)	-7%	27.3	26.6	0.8	3%
Maintenance and other recurring	136.2	122.8	13.4	11%	524.5	425.2	99.3	23%
	180.2	162.3	17.9	11%	696.8	569.8	127.0	22%

Public Sector

For the quarter ended December 31, 2016, total revenue in the public sector reportable segment increased by 10%, or \$35 million to \$384 million, compared to \$349 million for the quarter ended December 31, 2015. For the year ended December 31, 2016, total revenue increased by 13%, or \$159 million to \$1,428 million, compared to \$1,269 million for the comparable period in 2015. Organic revenue growth was negative 2% and 0% respectively for the three months and year ended December 31, 2016 compared to the same periods in 2015, and 0% and 1% respectively after adjusting for the impact of the net appreciation of the US dollar against most major currencies in which the Company transacts business. The public sector's Q4 2016 organic growth rate was negatively impacted as a result of higher than average hardware sales recorded in the quarter ended December 31, 2015 in our public sector relating to deliveries on various large projects in our transit vertical during that quarter. Hardware revenue is primarily recognized on delivery and as such can result in temporary spikes in revenue. Organic growth for the public sector for the three and twelve month periods ended December 31, 2016 was 4% and 2% respectively after adjusting for both foreign exchange and hardware sales.

Private Sector

For the quarter ended December, 2016, total revenue in the private sector reportable segment increased 11%, or \$18 million to \$180 million, compared to \$162 million for the quarter ended December 31, 2015. For the year ended December 31, 2016 total revenue increased by 22%, or \$127 million to \$697 million, compared to \$570 million for the comparable period in 2015. Organic revenue growth was 1% for both the three months and year-ended December 31, 2016 compared to the same periods in 2015, and 3% in each case after adjusting for the impact of the net appreciation 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 **9:00 a.m. (ET) on Thursday, February 16, 2017** to answer questions regarding the results. The teleconference numbers are 416-340-2218 or 866-223-7781. 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 2, 2017. To access the replay, please dial 905-694-9451 or 800-408-3053 followed by the passcode 8816026.

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,	
	2016	2015	2016	2015
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>563.8</u>	<u>511.6</u>	<u>2,125.1</u>	<u>1,838.3</u>
Net income	65.7	66.0	206.8	177.2
Adjusted for:				
Income tax expense (recovery)	20.3	15.8	79.6	67.1
Foreign exchange (gain) loss	1.2	(7.3)	26.0	(15.7)
TSS membership liability revaluation charge	7.7	7.1	21.6	22.2
Share in net (income) loss of equity investees	0.4	(0.2)	(5.3)	(1.1)
Finance and other income	(7.6)	(1.5)	(10.8)	(4.8)
Finance costs	5.2	5.1	21.6	20.1
Amortization of intangible assets	58.6	47.9	190.6	180.5
Adjusted EBITA	151.4	132.8	530.0	445.5
Adjusted EBITA margin	27%	26%	25%	24%

The following table reconciles Adjusted net income to net income:

	Three months ended December 31,		Year ended December 31,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>563.8</u>	<u>511.6</u>	<u>2,125.1</u>	<u>1,838.3</u>
Net income	65.7	66.0	206.8	177.2
Adjusted for:				
Amortization of intangible assets	58.6	47.9	190.6	180.5
TSS membership liability revaluation charge	7.7	7.1	21.6	22.2
Less non-controlling interest in the Adjusted net income of TSS	(5.4)	(3.1)	(18.7)	(12.6)
Deferred income tax expense (recovery)	(4.8)	(0.1)	(5.3)	3.6
Adjusted net income	121.8	117.7	395.0	371.0
Adjusted net income margin	22%	23%	19%	20%

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, 2016	December 31, 2015
Assets		
Current assets:		
Cash	\$ 353,499	\$ 178,471
Equity securities available-for-sale	4,236	-
Accounts receivable, net	243,554	226,771
Work in progress	56,541	59,483
Inventories	19,667	24,332
Other assets	96,181	67,246
	<u>773,678</u>	<u>556,303</u>
Non-current assets:		
Property and equipment	46,395	42,072
Deferred income taxes	49,863	56,650
Other assets	19,782	32,186
Intangible assets	993,743	952,109
	<u>1,109,783</u>	<u>1,083,017</u>
Total assets	\$ 1,883,461	\$ 1,639,320
Liabilities and Shareholders' Equity		
Current liabilities:		
CSI Facility	\$ -	\$ -
CNH Facility	7,361	8,725
TSS membership liability	26,435	19,602
Accounts payable and accrued liabilities	291,697	274,981
Dividends payable	21,051	21,326
Deferred revenue	460,975	421,027
Provisions	7,955	8,420
Acquisition holdback payments	17,056	9,116
Income taxes payable	40,634	6,561
	<u>873,164</u>	<u>769,758</u>
Non-current liabilities:		
CNH Facility	115,336	126,407
TSS Membership Liability	46,502	34,482
Debentures	223,870	220,043
Deferred income taxes	129,585	109,795
Acquisition holdback payments	855	6,987
Other liabilities	36,640	34,566
	<u>552,788</u>	<u>532,280</u>
Total liabilities	1,425,952	1,302,038
Shareholders' equity:		
Capital stock	99,283	99,283
Accumulated other comprehensive income (loss)	(36,108)	(34,319)
Retained earnings	394,334	272,318
	<u>457,509</u>	<u>337,282</u>
Total liabilities and shareholders' equity	\$ 1,883,461	\$ 1,639,320

CONSTELLATION SOFTWARE INC.

Consolidated Statements of Income

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

	Years ended December 31,	
	2016	2015
Revenue		
License	\$ 142,534	\$ 131,022
Professional services	434,488	384,583
Hardware and other	147,749	152,909
Maintenance and other recurring	1,400,315	1,169,795
	2,125,086	1,838,309
Expenses		
Staff	1,058,989	912,416
Hardware	82,304	90,308
Third party license, maintenance and professional services	192,703	163,684
Occupancy	51,696	43,218
Travel	61,745	54,643
Telecommunications	21,674	17,909
Supplies	9,820	10,951
Software and equipment	36,547	30,954
Professional fees	28,249	22,619
Other, net	28,963	29,042
Depreciation	22,376	17,028
Amortization of intangible assets	190,574	180,469
	1,785,640	1,573,241
Foreign exchange loss (gain)	25,990	(15,743)
TSS membership liability revaluation charge	21,635	22,244
Share in net (income) loss of equity investee	(5,317)	(1,070)
Finance and other expense (income)	(10,834)	(4,772)
Finance costs	21,573	20,110
	53,047	20,769
Income before income taxes	286,399	244,299
Current income tax expense (recovery)	84,943	63,450
Deferred income tax expense (recovery)	(5,328)	3,601
Income tax expense (recovery)	79,615	67,051
Net income	206,784	177,248
Earnings per share		
Basic and diluted	\$ 9.76	\$ 8.36

CONSTELLATION SOFTWARE INC.

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

	Years ended December 31,	
	2016	2015
Net income	\$ 206,784	\$ 177,248
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	5,224	-
Net change in fair value of derivatives designated as hedges during the period	468	(423)
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial assets	(5,204)	-
Foreign currency translation differences from foreign operations	(2,134)	(14,734)
Deferred income tax recovery (expense)	(143)	128
Other comprehensive (loss) income for the period, net of income tax	(1,789)	(15,029)
Total comprehensive income (loss) for the period	\$ 204,995	\$ 162,219

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 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 (loss) for the period	-	(2,134)	17	328	(1,789)	-	(1,789)
Total comprehensive income (loss) 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 Changes in Equity
(In thousands of U.S. dollars)

Year ended December 31, 2015

	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, 2015	\$ 99,283	\$ (18,880)	\$ -	\$ (410)	\$ (19,290)	\$ 179,838	\$ 259,831
<i>Total comprehensive income for the period:</i>							
Net income	-	-	-	-	-	177,248	177,248
<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	-	-	-	(423)	(423)	-	(423)
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial assets	-	-	-	-	-	-	-
Foreign currency translation differences from foreign operations	-	(14,734)	-	-	(14,734)	-	(14,734)
Deferred tax recovery (expense)	-	-	-	128	128	-	128
Total other comprehensive income for the period	-	(14,734)	-	(295)	(15,029)	-	(15,029)
Total comprehensive income for the period	-	(14,734)	-	(295)	(15,029)	177,248	162,219
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company	-	-	-	-	-	(84,768)	(84,768)
Balance at December 31, 2015	\$ 99,283	\$ (33,614)	\$ -	\$ (705)	\$ (34,319)	\$ 272,318	\$ 337,282

CONSTELLATION SOFTWARE INC.

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

	Years ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 206,784	\$ 177,248
Adjustments for:		
Depreciation	22,376	17,028
Amortization of intangible assets	190,574	180,469
TSS membership liability revaluation charge	21,635	22,244
Share in net (income) loss of equity investee	(5,317)	(1,070)
Finance and other income	(10,834)	(4,772)
Finance costs	21,573	20,110
Income tax expense (recovery)	79,615	67,051
Foreign exchange loss (gain)	25,990	(15,743)
Change in non-cash operating working capital exclusive of effects of business combinations	(16,496)	3,080
Income taxes paid	(45,019)	(69,701)
Net cash flows from operating activities	490,881	395,944
Cash flows from (used in) financing activities:		
Interest paid	(22,867)	(17,533)
Increase (decrease) in revolving credit facility, net	-	(64,500)
Repayments of CNH facility	(8,709)	(2,199)
Credit facility transaction costs	(1,212)	-
Proceeds from issuance of debentures	-	159,709
Distribution to TSS minority owners	-	(10,879)
Dividends paid	(84,768)	(84,768)
Net cash flows from (used in) in financing activities	(117,556)	(20,170)
Cash flows from (used in) investing activities:		
Acquisition of businesses, net of cash acquired	(152,310)	(210,299)
Post-acquisition settlement payments, net of receipts	(25,791)	(38,473)
Purchases of available-for-sale equity securities	(27,707)	-
Proceeds from sale of available-for-sale equity securities	28,491	-
Interest, dividends and other proceeds received	1,729	570
Property and equipment purchased	(19,098)	(12,894)
Net cash flows from (used in) investing activities	(194,686)	(261,096)
Effect of foreign currency on cash and cash equivalents	(3,611)	(6,886)
Increase (decrease) in cash and cash equivalents	175,028	107,792
Cash, beginning of period	178,471	70,679
Cash, end of period	\$ 353,499	\$ 178,471