



CONSTELLATION
SOFTWARE
INC.

Constellation Software Inc.

INTERIM FINANCIAL REPORT

First Quarter Fiscal Year 2020

For the three month period ended
March 31, 2020
(UNAUDITED)

CONSTELLATION SOFTWARE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following discussion and analysis should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements for the three month period ended March 31, 2020, which we prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" and "Risks and Uncertainties".

Unless otherwise indicated, all dollar amounts are expressed in U.S. dollars. All references to "\$" are to U.S. dollars and all references to "C\$" are to Canadian dollars. Due to rounding, certain totals and subtotals may not foot and certain percentages may not reconcile.

Additional information about Constellation Software Inc. (the "Company" or "Constellation"), including our most recently filed Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com.

Forward Looking Statements

Certain statements in this report may contain "forward looking" statements that involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are intended to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance as of the date of this MD&A, May 7, 2020. 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, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which can be obtained electronically on SEDAR at www.sedar.com.

Non-IFRS Measures

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as Free cash flow available to shareholders.

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. We believe that FCFA2S is useful supplemental information as it provides an indication of the uncommitted cash flow that is available to shareholders if we do not make any acquisitions, or investments, and do not repay any debts. While we could use the FCFA2S to pay dividends or repurchase shares, our objective is to invest all of our FCFA2S in acquisitions which meet our 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. See "Results of Operations

—Free cash flow available to shareholders” for a reconciliation of FCFA2S to net cash flows from operating activities.

Overview

We acquire, manage and build vertical market software (“VMS”) businesses. Generally, these businesses provide mission critical software solutions that address the specific needs of our customers in particular markets. Our focus on acquiring businesses with growth potential, managing them well and then building them, has allowed us to generate significant cash flows and revenue growth during the past several years.

Our revenue consists primarily of software license fees, maintenance and other recurring fees, professional service fees and hardware sales. Software license revenue is comprised of license fees charged for the use of our software products generally licensed under multiple-year or perpetual arrangements. Maintenance and other recurring revenue primarily consists of fees charged for customer support on our software products post-delivery and also includes, to a lesser extent, recurring fees derived from software as a service, subscriptions, combined software/support contracts, transaction-related revenues, and hosted products. Maintenance and other recurring fee arrangements generally include ongoing customer support and rights to certain product updates “when and if available” and products sold on a subscription basis. Professional service revenue consists of fees charged for implementation and integration services, customized programming, product training and consulting. Hardware sales include the resale of third party hardware that forms part of our customer solutions, as well as sales of customized hardware assembled internally. Our customers typically purchase a combination of software, maintenance, professional services and hardware, although the type, mix and quantity of each vary by customer and by product.

Expenses consist primarily of staff costs, the cost of hardware, third party licenses, maintenance and professional services to fulfill our customer arrangements, travel and occupancy costs and other general operating expenses.

Results of Operations

(In millions of dollars, except percentages and per share amounts)

Unaudited

	Three months ended March 31,		Period-Over- Period Change	
	<u>2020</u>	<u>2019</u>	\$	%
Revenue	953	819	134	16%
Expenses	716	640	76	12%
Amortization of intangible assets	94	75	19	25%
Foreign exchange (gain) loss	(6)	1	(7)	NM
TSS membership liability revaluation charge	18	10	8	83%
Finance and other income	(0)	(3)	2	-84%
Bargain purchase gain	-	(28)	28	-100%
Impairment of intangible and other non-financial assets	5	-	5	NM
Finance costs	11	9	2	25%
Income before income taxes	115	115	1	1%
Income tax expense (recovery)				
Current income tax expense (recovery)	44	36	8	23%
Deferred income tax expense (recovery)	(12)	(8)	(4)	49%
Income tax expense (recovery)	33	28	4	15%
Net income	83	87	(4)	-4%
Net cash flows from operating activities	361	284	76	27%
Free cash flow available to shareholders	311	250	60	24%
Weighted average number of shares outstanding				
Basic and diluted	21.2	21.2		
Net income per share				
Basic and diluted	\$ 3.91	\$ 4.09	\$ (0.18)	-4%
Net cash flows from operating activities per share				
Basic and diluted	\$ 17.01	\$ 13.40	\$ 3.61	27%
Free cash flow available to shareholders per share				
Basic and diluted	\$ 14.66	\$ 11.81	\$ 2.85	24%
Cash dividends declared per share				
Basic and diluted	\$ 1.00	\$ 1.00	\$ -	0%

NM - Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Comparison of the first quarter ended March 31, 2020 and 2019

Revenue:

Total revenue for the quarter ended March 31, 2020 was \$953 million, an increase of 16%, or \$134 million, compared to \$819 million for the comparable period in 2019. The increase is primarily attributable to growth from acquisitions as the Company experienced organic growth of negative 2% in the quarter, 0% 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 acquired companies, organic growth is calculated as the difference between actual revenues achieved by each company in the financial period following acquisition compared to the estimated revenues they achieved in the corresponding financial period preceding the date of acquisition by Constellation.

The following table displays the breakdown of our revenue according to revenue type:

	Three months ended March 31,		Period-Over-Period Change		Q119 Proforma Adj. (Note 1)	Organic Growth
	<u>2020</u>	<u>2019</u>	\$	%	\$	%
(\$ in millions, except percentages)						
Licenses	57	53	5	9%	10	-8%
Professional services	178	158	20	12%	34	-8%
Hardware and other	42	36	6	17%	5	3%
Maintenance and other recurring	676	572	104	18%	104	0%
	953	819	134	16%	153	-2%

\$M - Millions of dollars

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Note 1: Estimated pre-acquisition revenues for the three months ended March 31, 2019 from companies acquired after December 30, 2018. (Obtained from unaudited vendor financial information.)

For comparative purposes the table below shows the quarterly organic growth as compared to the same period in the prior year by revenue type since Q1 2018.

	Quarter Ended								
	Mar. 31 <u>2018</u>	Jun. 30 <u>2018</u>	Sep. 30 <u>2018</u>	Dec. 31 <u>2018</u>	Mar. 31 <u>2019</u>	Jun. 30 <u>2019</u>	Sep. 30 <u>2019</u>	Dec. 31 <u>2019</u>	Mar. 31 <u>2020</u>
Licenses	-4%	-5%	-9%	-3%	-3%	5%	-14%	-10%	-8%
Professional services	3%	3%	-5%	1%	-5%	-7%	-8%	-8%	-8%
Hardware and other	-16%	-11%	-20%	4%	-4%	-15%	-2%	-22%	3%
Maintenance and other recurring	8%	6%	3%	2%	1%	2%	1%	2%	0%
Revenue	5%	4%	-1%	2%	-1%	-1%	-2%	-3%	-2%

The following table shows the same information adjusting for the impact of foreign exchange movements.

	Quarter Ended									
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31	
	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>	
Licenses	-8%	-7%	-7%	-1%	1%	8%	-12%	-9%	-7%	
Professional services	-3%	0%	-4%	3%	-1%	-4%	-5%	-7%	-6%	
Hardware and other	-20%	-13%	-19%	5%	-1%	-14%	0%	-21%	4%	
Maintenance and other recurring	4%	4%	4%	4%	5%	4%	3%	3%	2%	
Revenue	0%	1%	0%	3%	3%	2%	0%	-2%	0%	

For fiscal 2019 and earlier periods, we aggregated our business into two distinct segments for financial reporting purposes: (i) the public sector reportable segment, which included business units focused primarily on government and government-related customers, and (ii) the private sector reportable segment, which included business units focused primarily on commercial customers. Following the guidance set out by IFRS 8, Operating Segments (“IFRS 8”), the public sector reportable segment was derived by combining our Volaris, Harris and TSS operating segments, and the private sector reportable segment was derived by combining our Vela, Jonas and Perseus operating segments. While the operating segments in the public sector were comprised of businesses that primarily serve government and government-related customers, they also included businesses that serve commercial customers, and similarly the operating groups in the private sector were comprised of businesses that primarily serve commercial customers but also included businesses that serve government and government-related customers. For the fiscal years ended December 31, 2019 and 2018 approximately 35% and 30% respectively of the revenue in the public sector reportable segment was generated from commercial customers, and 15% and 16% respectively of revenue in the private sector reportable segment was generated from government and government-related customers. Each of our operating segments operate essentially as mini Constellations, conglomerates of small vertical market software companies with similar economic characteristics. Each operating segment CEO is focused on investing capital that generates returns at or above the investment hurdle rates set by CSI’s head office (primarily the President) and the Board of Directors, irrespective of whether the acquired business operates primarily in the public or private sector. Accordingly presenting information on a public and private sector basis is no longer meaningful. Accordingly, we now aggregate our six operating segments into one reportable segment, consistent with the objective and basic principles of IFRS 8.

Expenses:

The following table displays the breakdown of our expenses:

	Three months ended March 31,		Period-Over- Period Change	
	<u>2020</u>	<u>2019</u>	<u>\$</u>	<u>%</u>
Expenses				
Staff	510	445	65	15%
Hardware	23	21	2	11%
Third party license, maintenance and professional services	79	69	10	15%
Occupancy	9	9	0	4%
Travel, Telecommunications, Supplies & Software and equipment	51	44	6	15%
Professional fees	14	11	3	25%
Other, net	5	21	(16)	-76%
Depreciation	25	21	5	23%
	716	640	76	12%

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Overall expenses for the quarter ended March 31, 2020 increased 12%, or \$76 million to \$715 million, compared to \$640 million during the same period in 2019. As a percentage of total revenue, expenses equalled 75% for the quarter ended March 31, 2020 and 78% for the same period in 2019. The change in valuation of the US dollar against most major currencies in which the Company transacts business resulted in an approximate 2% decrease in expenses for the three months ended March 31, 2020 compared to the first quarter of 2019.

Staff expense – Staff expenses increased 15% or \$65 million for the quarter ended March 31, 2020 over the same period in 2019. Staff expense can be broken down into five key operating departments: Professional Services, Maintenance, Research and Development, Sales and Marketing, and General and Administrative. Included within staff expenses for each of the above five departments are personnel and related costs associated with providing the necessary services. The table below compares the period over period variances.

	Three months ended March 31,		Period-Over- Period Change	
	<u>2020</u>	<u>2019</u>	<u>\$</u>	<u>%</u>
Professional services	110	96	14	14%
Maintenance	101	88	13	15%
Research and development	143	123	20	16%
Sales and marketing	70	63	7	11%
General and administrative	85	74	12	16%
	510	445	65	15%

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

The increase in staff expenses for the quarter ended March 31, 2020 was primarily due to the growth in the number of employees compared to the same period in 2019 primarily due to acquisitions. Staff expenses in the first quarter of every year are typically higher as a percentage of revenue as compared to other quarters, largely attributable to increased payroll tax costs associated with our annual bonus payments that are made in the month of March.

Hardware expenses – Hardware expenses increased 11% or \$2 million for the quarter ended March 31, 2020 over the same period in 2019, as compared to the 17% increase in hardware and other revenue for the same periods. Hardware margin for the three months ended March 31, 2020 was 46% as compared to 43% for the same period in 2019.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses increased 15% or \$10 million for the quarter ended March 31, 2020 over the same period in 2019. The increase is primarily due to third party license, maintenance and professional services expenses of acquired businesses.

Occupancy expenses – Occupancy expenses increased 4% or \$0.3 million for the quarter ended March 31, 2020 over the same period in 2019. This increase is primarily due to the occupancy expenses of acquired businesses.

Travel, Telecommunications, Supplies & Software and equipment expenses – Travel, Telecommunications, Supplies & Software and equipment expenses increased 15% or \$6 million for the quarter ended March 31, 2020 over the same period in 2019. The increase in these expenses is primarily due to expenses incurred by acquired businesses.

Professional fees – Professional fees increased 25% or \$3 million for the quarter ended March 31, 2020 over the same period in 2019. There are no individually material reasons contributing to this variance.

Other, net – Other expenses decreased 76% or \$16 million for the quarter ended March 31, 2020 over the same period in 2019. The following table provides a further breakdown of expenses within this category.

	Three months ended		Period-Over-Period	
	March 31,		Change	
	2020	2019	\$	%
	(\$ in millions, except percentages)			
Advertising and promotion	13	11	1	11%
Recruitment and training	4	4	0	6%
Bad debt expense	3	1	2	187%
R&D tax credits	(5)	(5)	(1)	16%
Contingent consideration	(13)	5	(18)	NM
Other expense, net	3	4	(1)	-19%
	5	21	(16)	-76%

NM - Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

The contingent consideration negative expense amount recorded for Q1 2020 relates to a decrease in anticipated acquisition earnout payment accruals primarily as a result of decreases to revenue forecasts for the associated acquisitions. Revenue forecasts are updated on a quarterly basis and the related anticipated acquisition earnout payment accruals are updated accordingly. The bad debt expense increase is primarily related to an increased risk of payment defaults. Both the decrease in revenue forecasts and the increased risk of payment

defaults are primarily attributable to the COVID-19 pandemic. See “Risks and Uncertainties”. There are no individually material reasons contributing to the remaining variances.

Depreciation – Depreciation of property and equipment increased 23% or \$5 million for the quarter ended March 31, 2020 over the same period in 2019. This increase is primarily due to the depreciation expense associated with acquired businesses.

Other Income and Expenses:

The following table displays the breakdown of our other income and expenses:

	Three months ended March 31,		Period-Over- Period Change	
	<u>2020</u>	<u>2019</u>	<u>\$</u>	<u>%</u>
	(\$ in millions, except percentages)			
Amortization of intangible assets	94	75	19	25%
Foreign exchange (gain) loss	(6)	1	(7)	NM
TSS membership liability revaluation charge	18	10	8	83%
Finance and other expense (income)	(0)	(3)	2	-84%
Bargain purchase gain	-	(28)	28	-100%
Impairment of intangible and other non-financial assets	5	-	5	NM
Finance costs	11	9	2	25%
Income tax expense (recovery)	33	28	4	15%
	155	93	62	67%

NM - Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Amortization of intangible assets – Amortization of intangible assets increased 25% or \$19 million for the quarter ended March 31, 2020 over the same period in 2019. The increase in amortization expense is primarily attributable to an increase in the carrying amount of our intangible asset balance over the twelve-month period ended March 31, 2020 as a result of acquisitions completed during this twelve-month period.

Foreign exchange – Most of our businesses are organized geographically so many of our expenses are incurred in the same currency as our revenues, which mitigates some of our exposure to currency fluctuations. For the quarter ended March 31, 2020, we realized a foreign exchange gain of \$6 million compared to a loss of \$1 million for the same period in 2019. The following table provides a breakdown of these amounts.

	Three months ended		Period-Over-Period	
	March 31,		Change	
	<u>2020</u>	<u>2019</u>	<u>\$</u>	<u>%</u>
	(\$ in millions, except percentages)			
Unrealized foreign exchange (gain) loss related to:				
- revaluation of intercompany loans between entities with differing functional currencies ⁽¹⁾	16	(2)	19	NM
- revaluation of the Company's unsecured subordinated floating rate debentures as a result of the appreciation (depreciation) of the Canadian dollar against the US dollar.	(18)	4	(23)	NM
Remaining foreign exchange (gain) loss	(4)	(1)	(3)	349%
	(6)	1	(7)	NM

NM - Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

(1) Offsetting amounts recorded in other comprehensive income. Net impact to Total comprehensive income for each period is nil.

The remaining foreign exchange gains and losses per the table above are primarily related to the unrealized foreign exchange translation gains of certain net Canadian dollar denominated liability balances to US dollars as a result of the Canadian dollar's depreciation against the US dollar.

TSS membership liability revaluation charge – The valuation of the TSS membership liability that was put in place in Q4 2014 increased by approximately 8% from Q4 2019 or \$18 million. The increase is primarily the result of the growth in TSS' reported trailing twelve month maintenance revenue (primarily due to acquisitions). Maintenance revenue and net tangible assets are the two main drivers in the calculation of the liability. The liability recorded on the balance sheet increased by 6% or \$14 million over the three month period ended March 31, 2020 from \$221 million to \$235 million as a result of the revaluation charge of \$18 million and a \$4 million foreign exchange gain that was recorded through other comprehensive income. The TSS membership liability is denominated in Euros and the Euro depreciated 2% versus the US dollar during Q1 2020.

Finance and other expense (income) – Finance and other income for the quarter ended March 31, 2020 was \$0.5 million compared to \$3 million for the same period in 2019. Interest earned on cash balances was \$0.1 million in Q1 2020 and \$3 million in Q1 2019.

Bargain purchase gain – A bargain purchase gain adjustment totalling \$28 million was recorded in the three month period ended March 31, 2019 relating to two of the acquisitions made during 2018 and 2019. No similar gain was recognized for the same period in 2020. In Q4 2018 the Company acquired a business that was undergoing an extensive restructuring. The seller of that business capitalized the balance sheet on closing with cash in the amount of €47 million (\$53 million) that was to be utilized to fund expected losses generated by the business, contributing to a bargain purchase gain of \$63 million being recorded in Q4 2018. Revisions to the restructuring cost expectations resulted in a further bargain purchase gain of \$4 million being recorded in Q1 2019. The business recorded an EBITA loss of \$13 million in Q1 2019. There was no current income tax recovery recorded in Q1 2019 associated with these losses. The remaining \$24 million bargain purchase gain related to an acquisition where the seller continues as a minority partner in the acquired business. The seller contributed \$17 million into the partnership.

Impairment of intangible and other non-financial assets – An impairment expense of \$5 million was recorded in the three month period ended March 31, 2020 primarily relating to three businesses acquired during 2019. Primarily due to the near-term impact, as well as the yet uncertain but probable longer-term impact of the COVID-19 pandemic, the forecasted cash flows for these businesses have declined significantly from the forecasted cash flows at the time of acquisition. See “Risks and Uncertainties”. There was no similar expense recorded for the same period in 2019.

Finance costs – Finance costs for the quarter ended March 31, 2020 increased \$2 million to \$11 million, compared to \$9 million for the same period in 2019 primarily a result of an increase in the average debt outstanding in Q1 2020 as compared to Q1 2019.

Income taxes – We operate globally and we calculate our tax provision in each of the jurisdictions in which we conduct business. Our effective tax rate on a consolidated basis is, therefore, affected by the realization and anticipated relative profitability of our operations in those various jurisdictions, as well as different tax rates that apply and our ability to utilize tax losses and other credits. For the quarter ended March 31, 2020, income tax expense increased \$4 million to \$33 million compared to \$28 million for the same period in 2019. Current tax expense has historically approximated our cash tax rate however the quarterly expense can sometimes fall outside of the annual range due to out of period adjustments. Current tax expense reflects gross taxes before the application of R&D tax credits which are classified as part of “other, net” expenses in the statement of income.

Constellation is subject to tax audits in the countries in which the Company carries on business globally. These tax audits could result in additional tax expense in future periods relating to historical filings. Reviews by tax authorities generally focus on, but are not limited to, the validity of the Company’s inter-company transactions, including financing and transfer pricing policies which generally involve subjective areas of taxation and a significant degree of judgment. If any of these tax authorities are successful with their challenges, the Company’s income tax expense may be adversely affected and Constellation could also be subject to interest and penalty charges.

Net Income and Earnings per Share:

Net income for the quarter ended March 31, 2020 was \$83 million compared to net income of \$87 million for the same period in 2019. On a per share basis this translated into a net income per diluted share of \$3.91 in the quarter ended March 31, 2020 compared to net income per diluted share of \$4.09 for the same period in 2019. There was no change in the number of shares outstanding.

Net cash flows from operating activities (“CFO”):

For the quarter ended March 31, 2020, CFO increased \$76 million to \$361 million compared to \$284 million for the same period in 2019 representing an increase of 27%.

Free cash flow available to shareholders (“FCFA2S”):

For the quarter ended March 31, 2020, FCFA2S increased \$60 million to \$311 million compared to \$250 million for the same period in 2019 representing an increase of 24%.

The following table reconciles FCFA2S to net cash flows from operating activities:

	Three months ended	
	March 31,	
	<u>2020</u>	<u>2019</u>
	(\$ in millions, except percentages)	
Net cash flows from operating activities	361	284
Adjusted for:		
Interest paid on lease obligations	(2)	(2)
Interest paid on other facilities	(8)	(8)
Payments of lease obligations	(14)	(10)
TSS membership liability revaluation charge	(18)	(10)
Property and equipment purchased	(7)	(7)
Interest and dividends received	0	3
 Free cash flow available to shareholders	 311	 250

Due to rounding, certain totals may not foot.

Quarterly Results

	Quarter Ended								
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31
	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>
Revenue	718	752	759	831	819	846	870	956	953
Net income	83	52	66	179	87	73	82	92	83
CFO	258	53	143	208	284	50	177	255	361
FCFA2S	242	27	112	178	250	12	134	193	311
Net income per share									
Basic & diluted	3.90	2.45	3.10	8.46	4.09	3.45	3.85	4.34	3.91
CFO per share									
Basic & diluted	12.16	2.50	6.75	9.84	13.40	2.36	8.37	12.02	17.01
FCFA2S per share									
Basic & diluted	11.41	1.27	5.29	8.39	11.81	0.58	6.35	9.12	14.66

We experience seasonality in our operating results in that CFO and FCFA2S in the first quarter of every year is typically the highest and CFO and FCFA2S in the second quarter of every year is the lowest. The key driver impacting this seasonality is the timing of annual maintenance contract renewals. Our quarterly results may also fluctuate as a result of the various acquisitions which may be completed by the Company in any given quarter. We may experience variations in our net income on a quarterly basis depending upon the timing of certain expenses or gains, which may include changes in provisions, acquired contract liabilities, foreign exchange gains and losses, bargain purchase gains, and gains or losses on the sale of financial and other assets.

Liquidity

Our net cash position (cash less bank indebtedness excluding capitalized transaction costs) increased by \$180 million to \$216 million in the three months ended March 31, 2020 resulting from cash flows from operations exceeding the net capital deployed on acquisitions plus dividends. Cash increased by \$48 million to \$364 million at March 31, 2020 compared to \$316 million at December 31, 2019 and bank indebtedness decreased by \$132 million to \$148 million at March 31, 2020 compared to \$280 million at December 31, 2019.

Total assets increased \$89 million, from \$3,488 million at December 31, 2019 to \$3,577 million at March 31, 2020. The increase is primarily due to a \$48 million increase in cash, \$33 million increase in accounts receivable and \$25 million increase in other current assets. At March 31, 2020 three subsidiaries holding cash totalling \$118 million maintained debt facilities, which facilities are without recourse to Constellation. As explained in the “Capital Resources and Commitments” section below, there are limitations on the ability of these subsidiaries to distribute funds to Constellation.

Current liabilities increased \$77 million, from \$1,732 million at December 31, 2019 to \$1,809 million at March 31, 2020. The increase is primarily due to an increase in deferred revenue of \$247 million mainly due to acquisitions made since December 31, 2019 and the timing of maintenance and other billings versus performance and delivery under those customer arrangements, offset by a decrease in bank indebtedness of \$119 million and a decrease in accounts payable and accrued liabilities of \$76 million largely relating to the payment of bonuses accrued in 2019.

Net Changes in Cash Flows

(in \$M's)

	Three months ended March 31, 2020	Three months ended March 31, 2019
Net cash provided by operating activities	361	284
Net cash from (used in) financing activities	(167)	(103)
Cash used in the acquisition of businesses	(139)	(73)
Cash obtained with acquired businesses	14	25
Net cash from (used in) other investing activities	(8)	(5)
Net cash from (used in) investing activities	(133)	(52)
Effect of foreign currency	(13)	(1)
Net increase (decrease) in cash and cash equivalents	48	128

The net cash flows from operating activities were \$361 million for the quarter ended March 31, 2020. The \$361 million provided by operating activities resulted from \$83 million in net income plus \$180 million of non-cash adjustments to net income and \$136 million of cash from non-cash operating working capital, offset by \$38 million in taxes paid.

The net cash flows used in financing activities in the quarter ended March 31, 2020 were \$167 million, which is mainly a result of dividends paid of \$21 million, a net decrease in bank indebtedness of \$120 million, lease obligation payments of \$14 million, and interest paid on bank indebtedness and the Company’s unsecured subordinated floating rate debentures in the period of \$8 million.

The net cash flows used in investing activities in the quarter ended March 31, 2020 were \$133 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of \$139 million (including payments for holdbacks relating to prior acquisitions) offset by \$14 million of acquired cash.

We believe we have sufficient cash and available credit capacity to continue to operate for the foreseeable future. Generally our VMS businesses operate with negative working capital as a result of the collection of maintenance payments and other revenues in advance of the performance of the related services. As such, management anticipates that it can continue to grow the business organically without any additional funding. If we continue to acquire VMS businesses we may need additional external funding depending upon the size and timing of the potential acquisitions.

Capital Resources and Commitments

CSI Facility

On December 13, 2019, Constellation completed an amendment and restatement of its revolving credit facility agreement (the “CSI Facility”), with a syndicate of Canadian chartered banks, U.S. banks, and a Japanese bank in the amount of \$700 million, extending its maturity date to December 2024. The CSI Facility bears a variable interest rate with no fixed repayments required over the term to maturity. Interest rates are calculated at standard U.S. and Canadian reference rates plus interest rate spreads based on a leverage table. The CSI Facility is currently collateralized by the majority of the Company’s assets including the assets of certain material subsidiaries. The CSI Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at March 31, 2020, \$nil had been drawn from this credit facility, and letters of credit totaling \$19 million were issued, which limits the borrowing capacity on a dollar-for-dollar basis.

Debt without recourse to CSI

Certain of CSI’s subsidiaries have entered into term debt facilities and revolving credit facilities with various financial institutions. CSI does not guarantee the debt of its subsidiaries, nor are there any cross-guarantees between subsidiaries. The credit facilities are collateralized by substantially all of the assets of the borrowing entity and its subsidiaries. The credit facilities typically bear interest at a rate calculated using an interest rate index plus a margin. The financing arrangements for each subsidiary typically contain certain restrictive covenants, which may include limitations or prohibitions on additional indebtedness, payment of cash dividends, redemption of capital, capital spending, making of acquisitions and sales of assets. In addition, certain financial covenants must be met by those subsidiaries that have outstanding debt.

Debt without recourse to CSI comprises the following (\$ in millions):

	Revolving Credit Facilities	Term Debt Facilities	Total
Principal outstanding at March 31, 2020 (and equal to fair value)	\$ -	\$ 148	\$ 148
Deduct: Carrying value of transaction costs included in debt balance	-	(4)	(4)
Carrying value at March 31, 2020	-	145	145
Current portion	-	2	2
Non-current portion	-	143	143

Debentures

On October 1, 2014 and November 19, 2014, the Company issued unsecured subordinated debentures (the “Debentures”) with a total principal value of C\$96.0 million for total proceeds of C\$91.2 million. The proceeds were used by the Company to pay down \$81.2 million of outstanding bank indebtedness.

On September 30, 2015, the Company issued an additional tranche of Debentures with a total principal value of C\$186.2 million for total proceeds of C\$214.2 million. The proceeds were used by the Company to pay down \$130.4 million of outstanding bank indebtedness. The September 30, 2015 issuance formed a single series with the outstanding C\$96.0 million aggregate principal amount of Debentures, Series 1 of the Company. The Debentures have a maturity date of March 31, 2040.

TSS Membership Liability

On December 23, 2014, in accordance with the terms of the purchase and sale agreement for the TSS acquisition, and on the basis of the term sheets attached thereto, Constellation and the sellers of TSS along with members of TSS’ executive management team (collectively, the “minority owners”) entered into a Members Agreement pursuant to which the minority owners acquired 33.29% of the voting interests in Constellation Software Netherlands Holding Cooperatief U.A. (“CNH”), a subsidiary of Constellation and the indirect owner of 100% of TSS. Proceeds from this transaction in the amount of \$48.5 million (€39.4 million) were utilized to repay, in part, outstanding bank indebtedness of Constellation. In accordance with IFRS, 100% of the financial results for TSS are included in the consolidated financial results of the Company.

Each of the minority owners may, at any time, exercise a put option to sell all or a portion of their interests in CNH back to Constellation for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Accordingly, the Company classified the proceeds from the Members Agreement as a liability. The main valuation driver in such calculation is the maintenance and other recurring revenue of CNH. Upon the exercise of a put option, Constellation would be obligated to redeem up to 33.33% of the minority owners’ interests put, no later than 30 business days from the date notice is received (classified as a current liability), and up to 33.33% on each of the first and second anniversary of the date the first redemption payment is made.

The seller of TSS also has an option available to it to sell approximately 68% of its interests in CNH, for an amount calculated in accordance with a valuation methodology described within the Members Agreement, in the event that Robin Van Poelje, TSS’ CEO, is no longer employed by TSS. The approximately 32% remaining interest can be sold via the put option described above.

In the event of a change of control in Constellation, the minority owners would have the option to sell 100% of their interests in CNH for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Constellation would be obligated to remit payment in respect thereof no later than 30 business days from the date notice is given.

Commencing at any time after December 31, 2023, Constellation may exercise a call option to purchase all of the minority owners’ interests in CNH, for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Upon exercise of the call option, the full purchase price will be paid within 30 business days of the notice date, following which the minority owners’ membership in CNH will be terminated. There is a valuation premium if the call option is exercised versus the put option.

If any of TSS’ executive management team that participate in the Members Agreement are terminated for urgent cause as defined in Section 7:678 of the Dutch Civil Code, Constellation shall have the right to purchase all of the interests beneficially owned by the terminated executive for an amount calculated in accordance with the valuation methodology described within the Members Agreement. The full purchase price will be paid within 30 business days from the date notice is given, following which the terminated executive’s membership in CNH will be terminated. An option does exist for the terminated executive to elect to be paid in annual installments of 33.33%

of his interests in CNH over a 3 year period. The valuation of the interests being purchased will be calculated at each annual payment date.

Other commitments

Commitments include operating leases for office equipment and facilities, letters of credit and performance bonds issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Also, occasionally we structure some of our acquisitions with contingent consideration based on the future performance of the acquired business. The fair value of contingent consideration recorded in our statement of financial position was \$44 million at March 31, 2020. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments, or any equity interests in non-consolidated entities that would have a significant effect on our assets and liabilities as at March 31, 2020.

The TSS membership liability commitment assumes that the minority owners have exercised their put option to sell 100% of their interests back to Constellation. This option however has not been exercised as at May 7, 2020. See the “Critical Accounting Estimate” section of the Company’s 2019 Annual Consolidated Financial Statements for a discussion on the valuation methodology utilized.

Foreign Currency Exposure

We operate internationally and have foreign currency risks related to our revenue, operating expenses, assets and liabilities denominated in currencies other than the U.S. dollar. Consequently, we believe movements in the foreign currencies in which we transact will impact future revenue and net income. The impact to organic revenue growth for the three months ended March 31, 2020 was approximately negative 2%. We cannot predict the effect of foreign exchange gains or losses in the future; however, if significant foreign exchange losses are experienced, they could have a material adverse effect on our business, revenues, results of operations, and financial condition. The Company enters into forward foreign exchange contracts from time to time with the objective of mitigating volatility in profit or loss in respect of financial liabilities. In entering into these forward exchange contracts, the Company is exposed to the credit risk of the counterparties to such contracts and the possibility that the counterparties will default on their payment obligations under these contracts. However, given that the counterparties are Schedule 1 banks or affiliates thereof, the Company believes these risks are not material. During the quarter ended March 31, 2020, the Company did not purchase any contracts of this nature.

The following table provides an approximate breakdown of our revenue and expenses by currency, expressed as a percentage of total revenue and expenses, as applicable, for the three months ended March 31, 2020:

Currencies	Three Months Ended March 31, 2020	
	% of Revenue	% of Expenses
USD	51%	47%
CAD	7%	12%
GBP	8%	8%
EURO	21%	20%
CHF	1%	3%
Others	11%	11%
Total	100%	100%

Off-Balance Sheet Arrangements

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for insignificant and short-term operating leases and letters of credit, all of our liabilities and commitments are reflected as part of our statement of financial position.

Proposed Transactions

We seek potential acquisition targets on an ongoing basis and may complete several acquisitions in any given fiscal year.

Share Capital

As at May 7, 2020, there were 21,191,530 common shares outstanding.

Risks and Uncertainties

The Company's business is subject to a number of risk factors which are described in our most recently filed AIF. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

The Company is closely monitoring the impact of the 2019 novel coronavirus, or COVID-19, on all aspects of its business. COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020. The COVID-19 pandemic has had disruptive effects in countries in which the Company operates and has adversely impacted many of its business units' operations to date, including through the cancellation by certain customers of their ongoing software maintenance contracts and the suspension or cancellation of new software purchases. The pandemic may also have an adverse impact on many of the Company's customers, including their ability to satisfy ongoing payment obligations to the Company, which could increase the Company's bad debt exposure. The future impacts of the pandemic and any resulting economic impact are largely unknown and rapidly evolving. It is possible that the COVID-19 pandemic, the measures taken by the governments of countries affected and the resulting economic impact may continue to adversely affect the Company's results of operations, cash flows and financial position as well as its customers in future periods, and this impact could be material.

Controls and Procedures

Evaluation of disclosure controls and procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. At March 31, 2020, the President and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting:

The President and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures which provide reasonable assurance that material information regarding the Company is accumulated and communicated to the Company's management, including its President and Chief Financial Officer in a timely manner.

In addition, the President and Chief Financial Officer have designed or caused it to be designed under their supervision internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the

reliability of financial reporting and the preparation of financial statements. The President and Chief Financial Officer have been advised that the control framework the President and the Chief Financial Officer used to design the Company's ICFR is recognized by the Committee of Sponsoring Organizations of the Treadway Commission.

The President and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the period ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our internal controls over financial reporting are effective in providing reasonable, not absolute, assurance that the objectives of our control systems have been met.

Condensed Consolidated Interim Financial Statements
(In U.S. dollars)

**CONSTELLATION
SOFTWARE INC.**

For the three months ended March 31, 2020 and 2019
Unaudited

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Financial Position

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

Unaudited

	March 31, 2020	December 31, 2019	March 31, 2019
Assets			
Current assets:			
Cash	\$ 364	\$ 316	\$ 717
Accounts receivable	455	422	362
Unbilled revenue	104	110	97
Inventories	32	31	39
Other assets (note 5)	209	184	165
	1,163	1,062	1,380
Non-current assets:			
Property and equipment	78	78	67
Right of use assets	233	234	209
Deferred income taxes	46	45	48
Other assets (note 5)	70	72	65
Intangible assets (note 6)	1,987	1,997	1,556
	2,414	2,425	1,944
Total assets	\$ 3,577	\$ 3,488	\$ 3,324
Liabilities and Shareholders' Equity			
Current liabilities:			
CSI facility (note 7)	\$ -	\$ 63	\$ -
Debt without recourse to Constellation Software Inc. (note 8)	2	57	1
TSS membership liability (note 9)	90	86	65
Accounts payable and accrued liabilities	453	529	388
Dividends payable (note 13)	21	21	445
Deferred revenue	1,035	788	877
Provisions	10	13	19
Acquisition holdback payables	78	76	47
Lease obligations	59	62	51
Income taxes payable	60	36	38
	1,809	1,732	1,931
Non-current liabilities:			
Debt without recourse to Constellation Software Inc. (note 8)	143	153	104
TSS membership liability (note 9)	145	136	114
Debentures (note 10)	203	222	218
Deferred income taxes	250	246	195
Acquisition holdback payables	30	25	12
Lease obligations	191	187	170
Other liabilities (note 5)	87	101	74
	1,049	1,069	888
Total liabilities	2,858	2,800	2,820
Shareholders' equity (note 13):			
Capital stock	99	99	99
Accumulated other comprehensive income (loss)	(70)	(40)	(40)
Retained earnings	690	628	445
	719	687	505
Subsequent events (notes 13 and 20)			
Total liabilities and shareholders' equity	\$ 3,577	\$ 3,488	\$ 3,324

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Income

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

Three months ended March 31, 2020 and 2019

Unaudited

	Three months ended March 31,	
	2020	2019
Revenue		
License	\$ 57	\$ 53
Professional services	178	158
Hardware and other	42	36
Maintenance and other recurring	676	572
	<u>953</u>	<u>819</u>
Expenses		
Staff	510	445
Hardware	23	21
Third party license, maintenance and professional services	79	69
Occupancy	9	9
Travel, telecommunications, supplies, software and equipment	51	44
Professional fees	14	11
Other, net	5	21
Depreciation	25	21
Amortization of intangible assets	94	75
	<u>810</u>	<u>715</u>
Foreign exchange loss (gain)	(6)	1
TSS membership liability revaluation charge (note 9)	18	10
Finance and other expense (income) (note 14)	(0)	(3)
Bargain purchase gain	-	(28)
Impairment of intangible and other non-financial assets	5	-
Finance costs (note 14)	11	9
	<u>28</u>	<u>(11)</u>
Income before income taxes	115	115
Current income tax expense (recovery)	44	36
Deferred income tax expense (recovery)	(12)	(8)
Income tax expense (recovery)	<u>33</u>	<u>28</u>
Net income	<u>83</u>	<u>87</u>
Earnings per share		
Basic and diluted (note 15)	\$ 3.91	\$ 4.09

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Comprehensive Income

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

Three months ended March 31, 2020 and 2019

Unaudited

	Three months ended March 31,	
	2020	2019
Net income	\$ 83	\$ 87
Items that are or may be reclassified subsequently to net income:		
Foreign currency translation differences from foreign operations	(30)	(3)
Deferred income tax recovery (expense)	-	-
Other comprehensive (loss) income for the period, net of income tax	(30)	(3)
Total comprehensive income (loss) for the period	\$ 53	\$ 83

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Changes in Equity
(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

Unaudited

Three months ended March 31, 2020

	Capital stock	Accumulated other comprehensive income (loss)	Retained earnings	Total
		Cumulative translation account		
Balance at January 1, 2020	\$ 99	\$ (40)	\$ 628	687
<i>Total comprehensive income for the period:</i>				
Net income	-	-	83	83
<i>Other comprehensive income (loss)</i>				
Foreign currency translation differences from foreign operations	-	(30)	-	(30)
Total other comprehensive income (loss) for the period	-	(30)	-	(30)
Total comprehensive income (loss) for the period	-	(30)	83	53
Transactions with owners, recorded directly in equity Dividends to shareholders of the Company (note 13)	-	-	(21)	(21)
Balance at March 31, 2020	\$ 99	\$ (70)	\$ 690	719

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Changes in Equity

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

Unaudited

Three months ended March 31, 2019

	Capital stock	Accumulated other comprehensive income (loss) Cumulative translation account	Retained earnings	Total
Balance at January 1, 2019	\$ 99	\$ (37)	\$ 804	866
<i>Total comprehensive income for the period:</i>				
Net income	-	-	87	87
<i>Other comprehensive income (loss)</i>				
Foreign currency translation differences from foreign operations	-	(3)	-	(3)
Total other comprehensive income (loss) for the period	-	(3)	-	(3)
Total comprehensive income for the period	-	(3)	87	83
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company (note 13)	-	-	(445)	(445)
Balance at March 31, 2019	\$ 99	\$ (40)	\$ 445	505

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Cash Flows

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

Three months ended March 31, 2020 and 2019

Unaudited

	Three months ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 83	\$ 87
Adjustments for:		
Depreciation	25	21
Amortization of intangible assets	94	75
TSS membership liability revaluation charge	18	10
Finance and other expense (income)	(0)	(3)
Bargain purchase (gain)	-	(28)
Impairment of intangible and other non-financial assets	5	-
Finance costs	11	9
Income tax expense (recovery)	33	28
Foreign exchange loss (gain)	(6)	1
Change in non-cash operating assets and liabilities exclusive of effects of business combinations (note 19)	136	123
Income taxes paid	(38)	(38)
Net cash flows from operating activities	361	284
Cash flows from (used in) financing activities:		
Interest paid on lease obligations	(2)	(2)
Interest paid on other facilities	(8)	(8)
Increase (decrease) in CSI facility	(65)	-
Increase (decrease) in revolving credit under debt facilities without recourse to CSI	(55)	(51)
Repayments of term debt under facilities without recourse to CSI	(1)	(0)
Payments of lease obligations	(14)	(10)
Distribution to TSS minority owners (note 9)	-	(11)
Dividends paid	(21)	(21)
Net cash flows from (used in) in financing activities	(167)	(103)
Cash flows from (used in) investing activities:		
Acquisition of businesses (note 4)	(107)	(47)
Cash obtained with acquired businesses (note 4)	14	25
Post-acquisition settlement payments, net of receipts	(32)	(26)
Purchases of other investments	(1)	-
Interest, dividends and other proceeds received	0	3
Property and equipment purchased	(7)	(7)
Net cash flows from (used in) investing activities	(133)	(52)
Effect of foreign currency on cash and cash equivalents	(13)	(1)
Increase (decrease) in cash	48	128
Cash, beginning of period	316	589
Cash, end of period	364	717

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

Notes to the condensed consolidated interim financial statements

- | | |
|---|--|
| 1. Reporting entity | 11. Provisions |
| 2. Basis of presentation | 12. Income taxes |
| 3. Significant accounting policies | 13. Capital and other components of equity |
| 4. Business acquisitions | 14. Finance and other income and finance costs |
| 5. Other assets and other non-current liabilities | 15. Earnings per share |
| 6. Intangible assets | 16. Financial instruments |
| 7. CSI facility | 17. Operating segments |
| 8. Debt without recourse to CSI | 18. Contingencies |
| 9. TSS Membership liability | 19. Changes in non-cash operating assets and liabilities |
| 10. Debentures | 20. Subsequent events |

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

1. Reporting entity

Constellation Software Inc. is a company domiciled in Canada. The address of Constellation's registered office is 20 Adelaide Street East, Suite 1200, Toronto, Ontario, Canada. The condensed consolidated interim financial statements of Constellation as at and for the period ended March 31, 2020 comprise Constellation and its subsidiaries (together referred to as "Constellation", "CSI", or the "Company") and the Company's interest in associates. The Company is engaged principally in the development, installation and customization of software relating to the markets listed below, and in the provision of related professional services and support.

Public transit operators	Asset management	Municipal systems
Para transit operators	Fleet and facility management	School administration
School transportation	District attorney	Public safety
Non-emergency medical	Taxi dispatch	Healthcare
Ride share	Benefits administration	Rental
Local government	Insurance	Electric utilities
Agri-business	Collections management	Court
Marine asset management	Water utilities	School and special library
Communications	Credit unions	Drink distribution
Education	Financial services	Notaries
Fashion retail	Pharmacies	Long-term care
Home and community care	County systems	Research management
Retail management and distribution	Public housing authorities	Not-for-profit organizations
Automotive	Accountancy	Catering
Small and medium sized businesses	Property management	Food services
Creative agencies	Commercial printing	Horticulture
Event management	Distillery	Hospitality
Manufacturing plant performance	Advertising and marketing	Project management
Quality management	Real estate brokers and agents	Compliance
Private clubs and daily fee golf courses	Lease management	Window manufacturers
Construction	Winery management	Cabinet manufacturers
Aerospace	Buy here pay here dealers	Made-to-order manufacturers
Health clubs	RV and marine dealers	Window and other dealers
Moving and storage	Pulp and paper manufacturers	Multi-carrier shipping
Metal service centers	Agriculture equipment dealers	Supply chain optimization
Attractions	Outdoor equipment dealers	Multi-channel distribution
Leisure centers	Ombudsman	Wholesale distribution
Human resources and payroll	Healthcare electronic medical records	Homebuilders
Radiology and laboratory information systems	Pharmaceutical and biotech manufacturers	Third party logistics warehouse management systems
Product licensing	Marinas	Grocery
Tire distribution	Salons and spas	Association management
Housing finance agencies	Municipal treasury and debt systems	Mining

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

Tour operators	Auto clubs	Publishing
Design and welding	Textiles and apparel	Oil and gas
Legal	Logistics	Aviation
Industrial distribution	Public libraries	

2. Basis of presentation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies disclosed in Note 3 of the Company’s 2019 annual consolidated financial statements except as disclosed herein.

The policies applied in these condensed consolidated interim financial statements are based on International Financial Reporting Standards (IFRS), issued and outstanding as of May 7, 2020, the date the Board of Directors approved the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements should be read in conjunction with the Company’s 2019 annual consolidated financial statements.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain assets and liabilities initially recognized in connection with business combinations, derivative financial instruments and contingent consideration related to business acquisitions, which are measured at their estimated fair value.

(c) Functional and presentation of currency

The condensed consolidated interim financial statements are presented in U.S. dollars, which is Constellation’s functional currency.

(d) Use of estimates and judgements

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses, consistent with those disclosed in the 2019 annual consolidated financial statements and described in these condensed consolidated interim financial statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount or values may vary in certain instances from the assumptions and estimates made. Changes will be recorded, with corresponding effect in profit or loss, when, and if, better information is obtained.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

The Company is closely monitoring the impact of the 2019 novel coronavirus, or COVID-19, on all aspects of its business. COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020. The COVID-19 pandemic has adversely impacted many of Constellation's business units' operations to date. The future impacts of the pandemic and any resulting economic impact are largely unknown and rapidly evolving. It is possible that the COVID-19 pandemic, the measures taken by the governments of countries affected and the resulting economic impact may continue to adversely affect the Company's results of operations, cash flows and financial position as well as its customers in future periods.

3. Significant accounting policies

The significant accounting policies used in preparing these condensed consolidated interim financial statements are unchanged from those disclosed in the Company's 2019 annual consolidated financial statements and have been applied consistently to all periods presented in these condensed consolidated interim financial statements; however, the Company is now presenting one reportable segment, consistent with the objective and basic principles of IFRS 8. See note 17, Operating Segments, for further details.

The accounting policies have been applied consistently by Constellation's subsidiaries.

4. Business acquisitions

During the three-month period ended March 31, 2020, the Company completed a number of acquisitions for aggregate cash consideration of \$107 plus cash holdbacks of \$41 and contingent consideration with an estimated fair value of \$7 resulting in total consideration of \$155. The contingent consideration is payable on the achievement of certain financial targets in the post-acquisition periods. The obligation for contingent consideration for acquisitions during the three-month period ended March 31, 2020 has been recorded at its estimated fair value at the various acquisition dates. The estimated fair value of the applicable contingent consideration is calculated using the estimated financial outcome and resulting expected contingent consideration to be paid and inclusion of a discount rate as appropriate. For these arrangements, which include both maximum, or capped, and unlimited contingent consideration amounts, the estimated increase to the initial consideration is not expected to exceed \$14. Aggregate contingent consideration of \$44 (December 31, 2019 - \$59) has been reported in the condensed consolidated interim statement of financial position at its estimated fair value relating to applicable acquisitions completed in the current and prior periods. Changes made to the estimated fair value of contingent consideration are included in other, net in the condensed consolidated interim statements of income. A recovery of \$13 been recorded for the three months ended March 31, 2020, as a result of such changes (expense of \$5 for the three months ended March 31, 2019).

There were no acquisitions during the three-month period that were deemed to be individually significant. The majority of the businesses acquired during the three-month period were acquisitions of shares and the remainder were asset acquisitions. The cash holdbacks are generally payable over a two-year period and are adjusted, as necessary, for such items as working capital or net tangible asset assessments, as defined in the agreements, and claims under the respective representations and warranties of the purchase and sale agreements.

The acquisitions during the three month period ended March 31, 2020 include software companies catering to the following markets: advertising and marketing, asset management, automotive, aviation, communications, compliance, construction, education, healthcare, hospitality, legal, logistics, industrial distribution, mining, moving and storage, oil and gas, private clubs and daily fee golf courses, public libraries, real estate brokers and agents, retail management and distribution, third party logistics warehouse management systems, and utilities all of which are software businesses similar to existing businesses operated by the Company. The acquisitions have been

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

accounted for using the acquisition method with the results of operations included in these consolidated financial statements from the date of each acquisition.

The goodwill recognized in connection with these acquisitions is primarily attributable to the application of Constellation's best practices to improve the operations of the companies acquired, synergies with existing businesses of Constellation, and other intangibles that do not qualify for separate recognition including assembled workforce. Goodwill in the amount of \$0 is expected to be deductible for income tax purposes.

The gross contractual amounts of acquired receivables was \$23; however, the Company has recorded an allowance of \$0 as part of the acquisition accounting to reflect contractual cash flows that are not expected to be collected.

Due to the complexity and timing of certain acquisitions made, the Company is in the process of determining and finalizing the estimated fair value of the net assets acquired as part of the acquisitions closed during the last three quarters of 2019 and first quarter of 2020. The amounts determined on a provisional basis generally relate to net asset assessments and measurement of the assumed liabilities, including acquired contract liabilities. The cash consideration associated with these provisional estimates totals \$608.

The aggregate impact of acquisition accounting applied in connection with business acquisitions in the three-month period ended March 31, 2020 is as follows:

Assets acquired:		
Cash	\$	14
Accounts receivable		23
Other current assets		6
Property and equipment		3
Other non-current assets		11
Deferred income taxes		0
Technology assets		80
Customer assets		88
		<hr/>
		225
Liabilities assumed:		
Current liabilities		14
Deferred revenue		29
Deferred income taxes		26
Other non-current liabilities		8
		<hr/>
		76
Goodwill		7
		<hr/>
Total consideration	\$	155

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

The 2020 business acquisitions did not have a material impact to either the consolidated revenue or the consolidated net income for the three months ended March 31, 2020. The materiality threshold is reviewed on a regular basis taking into account the quantitative (contribution to revenue and net income) and qualitative (size and comparability with other Constellation businesses) factors of current period acquisitions on both an individual and aggregate basis.

5. Other assets and other non-current liabilities

(a) Other assets

	March 31, 2020		December 31, 2019	
Prepaid and other current assets	\$	105	\$	96
Investment tax credits recoverable		28		26
Sales tax receivable		15		18
Equity securities held for trading		8		10
Other receivables		53		34
Total other current assets	\$	209	\$	184
Investment tax credits recoverable	\$	11	\$	13
Costs to obtain a contract		37		37
Non-current trade and other receivables and other assets		20		20
Equity accounted investees		2		2
Total other non-current assets	\$	70	\$	72

(b) Other non-current liabilities

	March 31, 2020		December 31, 2019	
Contingent consideration	\$	30	\$	42
Deferred revenue		39		41
Other non-current liabilities		18		18
Total other non-current liabilities	\$	87	\$	101

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

6. Intangible Assets

	Technology Assets	Customer Assets	Backlog	Non-compete agreements	Trademarks	Goodwill	Total
Cost							
Balance at January 1, 2019	\$ 1,793	\$ 964	\$ 16	\$ 3	\$ 7	\$ 302	\$ 3,085
Acquisitions through business combinations	368	344	0	-	-	59	770
Effect of movements in foreign exchange	8	1	0	0	(0)	0	10
Balance at December 31, 2019	\$ 2,169	\$ 1,309	\$ 16	\$ 3	\$ 7	\$ 361	\$ 3,865
Balance at January 1, 2020	\$ 2,169	\$ 1,309	\$ 16	\$ 3	\$ 7	\$ 361	\$ 3,865
Acquisitions through business combinations	79	88	-	-	-	9	175
Effect of movements in foreign exchange	(66)	(46)	0	(0)	(0)	(12)	(124)
Balance at March 31, 2020	\$ 2,182	\$ 1,350	\$ 17	\$ 3	\$ 7	\$ 357	\$ 3,916
Accumulated amortization and impairment losses							
Balance at January 1, 2019	\$ 1,124	\$ 391	\$ 16	\$ 3	\$ 2	\$ -	\$ 1,536
Amortization for the period	226	104	0	(0)	0	-	331
Impairment charge	-	-	-	-	-	-	-
Effect of movements in foreign exchange	1	0	(0)	0	-	-	2
Balance at December 31, 2019	\$ 1,351	\$ 495	\$ 16	\$ 3	\$ 2	\$ -	\$ 1,868
Balance at January 1, 2020	\$ 1,351	\$ 495	\$ 16	\$ 3	\$ 2	\$ -	\$ 1,868
Amortization for the period	61	33	0	0	0	-	94
Impairment charge	3	1	-	-	-	1	5
Effect of movements in foreign exchange	(27)	(11)	(0)	(0)	0	-	(38)
Balance at March 31, 2020	\$ 1,389	\$ 518	\$ 16	\$ 3	\$ 2	\$ 1	\$ 1,929
Carrying amounts							
At January 1, 2019	\$ 669	\$ 573	\$ -	\$ -	\$ 6	\$ 302	\$ 1,549
At December 31, 2019	\$ 817	\$ 813	\$ (0)	\$ 0	\$ 5	\$ 361	\$ 1,997
At January 1, 2020	\$ 817	\$ 813	\$ (0)	\$ 0	\$ 5	\$ 361	\$ 1,997
At March 31, 2020	\$ 793	\$ 832	\$ 0	\$ 0	\$ 5	\$ 356	\$ 1,987

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

7. CSI Facility

On December 13, 2019, Constellation completed an amendment and restatement of its revolving credit facility agreement (the "CSI Facility"), with a syndicate of Canadian chartered banks, U.S. banks, and a Japanese bank in the amount of \$700, extending its maturity date to December 2024. The CSI Facility bears a variable interest rate with no fixed repayments required over the term to maturity. Interest rates are calculated at standard U.S. and Canadian reference rates plus interest rate spreads based on a leverage table. The CSI Facility is currently collateralized by the majority of the Company's assets including the assets of certain material subsidiaries. The CSI Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at March 31, 2020 \$nil (December 31, 2019 – \$65) had been drawn from this credit facility, and letters of credit totaling \$19 (December 31, 2019 - \$21) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Transaction costs associated with the CSI Facility are included in other assets in the consolidated statement of financial position as at March 31, 2020 and are being amortized through profit or loss using the effective interest rate method. As at March 31, 2020 the carrying amount of such costs is \$2, included in other assets (December 31, 2019 - \$2, included as a reduction to the CSI Facility).

8. Debt without recourse to CSI

Certain of CSI's subsidiaries have entered into term debt facilities and revolving credit facilities with various financial institutions. CSI does not guarantee the debt of its subsidiaries, nor are there any cross-guarantees between subsidiaries. The credit facilities are collateralized by substantially all of the assets of the borrowing entity and its subsidiaries. The credit facilities typically bear interest at a rate calculated using an interest rate index plus a margin. The financing arrangements for each subsidiary typically contain certain restrictive covenants, which may include limitations or prohibitions on additional indebtedness, payment of cash dividends, redemption of capital, capital spending, making of acquisitions and sales of assets. In addition, certain financial covenants must be met by those subsidiaries that have outstanding debt.

Debt without recourse to CSI comprises the following:

	Revolving Credit Facilities	Term Debt Facilities	Total
Principal outstanding at March 31, 2020 (and equal to fair value)	\$ -	\$ 148	\$ 148
Deduct: Carrying value of transaction costs included in debt balance	-	(4)	(4)
Carrying value at March 31, 2020	-	145	145
Current portion	-	2	2
Non-current portion	-	143	143

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

The annual minimum repayment requirements for the term facilities without recourse to CSI is as follows:

<u>Year</u>	<u>Term Debt Facilities</u>
2020	2
2021	2
2022	2
2023	99
2024	1
2025	44
	<hr/>
	148

9. TSS Membership Liability

On December 23, 2014, in accordance with the terms of the purchase and sale agreement for the Total Specific Solutions (“TSS”) acquisition, and on the basis of the term sheets attached thereto, Constellation and the sellers of TSS along with members of TSS’ executive management team (collectively, the “minority owners”) entered into a Members Agreement pursuant to which the minority owners acquired 33.29% of the voting interests in Constellation Software Netherlands Holding Cooperatief U.A. (“CNH”), a subsidiary of Constellation and the indirect owner of 100% of TSS. Total proceeds from this transaction was €39 (\$49).

Commencing any time after December 31, 2014, each of the minority owners may exercise a put option to sell all or a portion of their interests in CNH back to Constellation for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Accordingly, the Company classified the proceeds from the Members Agreement as a liability. The main valuation driver in such calculation is the maintenance and other recurring revenue of CNH. Upon the exercise of a put option, Constellation would be obligated to redeem up to 33.33% of the minority owners’ interests put, no later than 30 business days from the date notice is received, and up to 33.33% on each of the first and second anniversary of the date the first redemption payment is made. In determining the valuation of the liability at each reporting period, the Company assumes the minority owners exercised their put option on the last day of the current reporting period, and redeemed 33.33% of their interests on exercise (which is classified as a current liability), and will redeem 33.33% on each of the first and second anniversary dates. Maintenance and recurring revenue of CNH for the trailing twelve months determined at the end of the current reporting period was used as the basis for valuing the interests at each redemption date. Any increase or decrease in the value of the membership liability is recorded as an expense or income in the consolidated statements of income for the period.

The seller of TSS also has an option available to it to sell approximately 68% of its interests in CNH, for an amount calculated in accordance with a valuation methodology described within the Members Agreement, in the event that Robin Van Poelje, TSS’ CEO, is no longer employed by TSS. The remaining interest of approximately 32% can be sold via the put option described above.

In the event of a change of control in Constellation, the minority owners would have the option to sell 100% of their interests in CNH for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Constellation would be obligated to remit payment in respect thereof no later than 30 business days from the date notice is given.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

Commencing at any time after December 31, 2023, Constellation may exercise a call option to purchase all of the minority owners' interests in CNH, for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Upon exercise of the call option, the full purchase price will be paid within 30 business days of the notice date, following which the minority owners' membership in CNH will be terminated.

If any of TSS' executive management team that participate in the Members Agreement are terminated for urgent cause as defined in Section 7:678 of the Dutch Civil Code, Constellation shall have the right to purchase all of the interests beneficially owned by the terminated executive for an amount calculated in accordance with a valuation methodology described within the Members Agreement. The full purchase price will be paid within 30 business days from the date notice is given, following which the terminated executive's membership in CNH will be terminated. An option does exist for the terminated executive to elect to be paid in annual installments of 33.33% of his interests in CNH over a 3-year period. The valuation of the interests being purchased will be calculated at each reporting period. During the periods ended March 31, 2020 and December 31, 2019, no options were exercised.

10. Debentures

On October 1, 2014 and November 19, 2014, the Company issued debentures with a total principal value of C\$96 for total proceeds of C\$91. On September 30, 2015, the Company issued another tranche of debentures (collectively with the 2014 issuances called the "Debentures") with a total principal value of C\$186 for total proceeds of C\$214.

The Debentures have a maturity date of March 31, 2040 (the "Maturity Date").

The interest rate from and including:

- March 31, 2018 but excluding March 31, 2019 was 8.1%
- March 31, 2019 but excluding March 31, 2020 was 8.8%
- March 31, 2020 but excluding March 31, 2021 is 8.6%

Subsequent from and including March 31, 2021 to but excluding the Maturity Date, the interest rate applicable to the Debentures will be reset on an annual basis on March 31 of each year, at a rate equal to the annual average percentage change in the All-items Consumer Price Index during the 12-month period ending on December 31 in the prior year (which amount may be positive or negative) plus 6.5%. Notwithstanding the foregoing, the interest rate applicable to the debentures will not be less than 0%. The Company may, subject to certain approvals, elect the Payment in Kind election ("PIK Election"), in lieu of paying interest in cash, to satisfy all or any portion of its interest obligation payable on an interest payment date by issuing to each Debenture holder PIK Debentures equal to the amount of the interest obligation to be satisfied. The PIK Debentures will have the same terms and conditions as the Debentures and will form part of the principal amount of the Debentures. If, on any interest payment date, the Company fails to pay the amount of interest owing on the Debentures in full in cash, the Company will not (A) declare or pay dividends of any kind on the Common Shares, nor (B) participate in any share buyback or redemption involving the Common Shares, until the date on which the Company pays such interest (or the unpaid portion thereof) in cash to holders of the Debentures; however, where the Company has issued PIK Debentures in respect of all or a portion of the amount of interest owing on the Debentures on an interest payment date, the Company may resume declaring or paying dividends of any kind on the Common Shares and participating in any share buyback or redemption involving the Common Shares beginning on the next earlier of (i) the interest payment date of which the Company pays the amount of interest owing on the Debentures in full in cash and (ii) the date on which

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

the Company repays all amounts owing under the PIK Debenture. All payments in respect of the Debentures will be subordinated in right of payment to the prior payment in full of all senior indebtedness of the Company.

The Debentures will be redeemable in certain circumstances at the option of the Company or the holder. During the period beginning on March 16 and ending on March 31 of each year, the Company will have the right, at its option, to give notice to holders of Debentures of its intention to redeem the Debentures, in whole or in part, on March 31 in the year that is five years following the year in which notice is given, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date fixed for redemption. During the period beginning on March 1 and ending on March 15 of each year, holders of Debentures will also have the right, at their option, to give notice to the Company of their intention to require the Company to repurchase (or to “put”) the Debentures, in whole or in part, on March 31 in the year that is five years following the year in which notice is given, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date fixed for repurchase.

During the periods ended March 31, 2020 and December 31, 2019, no notices for redemption of the Debentures were received or given by the Company.

The fair value of the debentures as at March 31, 2020 was \$233 (December 31, 2019 - \$286).

11. Provisions

At January 1, 2020	\$	16
Reversal		(1)
Provisions recorded during the period		3
Provisions used during the period		(4)
Effect of movements in foreign exchange and other		(1)
At March 31, 2020	\$	14
Provisions classified as current liabilities		10
Provisions classified as other non-current liabilities		3

The provisions balance is comprised of various individual provisions for onerous contracts and other estimated liabilities of the Company of uncertain timing or amount.

12. Income taxes

Income tax expense is recognized based on management’s best estimate of the actual income tax rate for the interim period applied to the pre-tax income of the interim period for each entity in the consolidated group. As a result of foreign exchange fluctuations, acquisitions and ongoing changes due to intercompany transactions amongst entities operating in different jurisdictions, the Company has determined that a reasonable estimate of a weighted average annual tax rate cannot be determined on a consolidated basis. The Company’s consolidated effective tax rate in respect of continuing operations for the three months ended March 31, 2020 was 28% (25% for the three months ended March 31, 2019).

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

Constellation is subject to tax audits in the countries in which the Company does business globally. These tax audits could result in additional tax expense in future periods relating to historical filings. Reviews by tax authorities generally focus on, but are not limited to, the validity of the Company's inter-company transactions, including financing and transfer pricing policies which generally involve subjective areas of taxation and a significant degree of judgment. If any of these tax authorities are successful with their challenges, the Company's income tax expense may be adversely affected and Constellation could also be subject to interest and penalty charges.

13. Capital and other components of equity

	Common Shares	
	Number	Amount
March 31, 2020	21,191,530	\$ 99
December 31, 2019	21,191,530	\$ 99

Dividends and other distributions to shareholders

During the three months ended March 31, 2020, the Company declared a \$1.00 per share dividend to all common shareholders of record at close of business on March 16, 2020. The dividend declared in the quarter ended March 31, 2020 representing \$21 were paid and settled on April 7, 2020.

A dividend of \$1.00 per share representing \$21 were accrued as at December 31, 2019 and subsequently paid and settled on January 8, 2020.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

14. Finance and other expense (income) and finance costs

	Three months ended March 31,	
	2020	2019
Interest income on cash	\$ (0)	\$ (3)
(Increase) decrease in the fair value of equity securities held for trading	2	-
Share in net (income) loss of equity investee	(0)	(0)
Finance and other income	(2)	0
Finance and other expense (income)	\$ (0)	\$ (3)
Interest expense on debt and debentures	\$ 8	\$ 7
Interest expense on lease obligations	2	2
Amortization of debt related transaction costs	0	0
Amortization of debenture discount (premium) and associated rights offering, net	(1)	(1)
Other finance costs	2	1
Finance costs	\$ 11	\$ 9

15. Earnings per share

Basic and diluted earnings per share

	Three months ended March 31,	
	2020	2019
Numerator:		
Net income	\$ 83	\$ 87
Denominator:		
Basic and diluted shares outstanding	21,191,530	21,191,530
Earnings per share		
Basic and diluted	\$ 3.91	\$ 4.09

16. Financial instruments

Fair values versus carrying amounts

The carrying values of cash, accounts receivable, accounts payable, accrued liabilities, dividends payable, income taxes payable, the majority of acquisition holdbacks, debt without recourse to CSI and the CSI Facility, approximate

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

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Three months ended March 31, 2020 and 2019

(Unaudited)

their fair values due to the short-term nature of these instruments. Bank debt and debt without recourse to CSI is subject to market interest rates.

Fair value hierarchy

The table below analyzes financial instruments carried at fair value, by valuation method.

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 inputs are inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- level 3 inputs are inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

In the table below, the Company has segregated all financial assets and liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

Financial assets and financial liabilities measured at fair value as at March 31, 2020 and December 31, 2019 in the condensed consolidated interim financial statements are summarized below. The Company has no additional financial liabilities measured at fair value after initial recognition other than those recognized in connection with business combinations.

	March 31, 2020				December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Equity securities held for trading	\$ 8	\$ -	\$ -	\$ 8	\$ 10	\$ -	\$ -	\$ 10
	8	-	-	8	10	-	-	10
Liabilities:								
Contingent consideration	\$ -	\$ -	\$ 44	\$ 44	\$ -	\$ -	\$ 59	\$ 59
	-	-	44	44	-	-	59	59

There were no transfers of fair value measurement between level 1, 2 and 3 of the fair value hierarchy in the periods ended March 31, 2020 and December 31, 2019.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

Balance at January 1, 2020	\$	59
Increase from business acquisitions		7
Cash recoveries (payments)		(7)
Charges through profit or loss		(12)
Foreign exchange and other movements		(5)
Balance at March 31, 2020		44
Contingent consideration classified as current liabilities		13
Contingent consideration classified as other non-current liabilities		30

Estimates of the fair value of contingent consideration are performed by the Company on a quarterly basis. Key unobservable inputs include revenue/profitability growth rates and the discount rates applied (8% to 11%). The estimated fair value increases as the annual revenue/profitability growth rate increases and as the discount rate decreases and vice versa.

17. Operating segments

For fiscal 2019 and earlier periods, the Company aggregated CSI into two distinct segments for financial reporting purposes: (i) the public sector reportable segment, which included business units focused primarily on government and government-related customers, and (ii) the private sector reportable segment, which included business units focused primarily on commercial customers. Following the guidance set out by IFRS 8, Operating Segments (“IFRS 8”), the public sector reportable segment was derived by combining the Company’s Volaris, Harris and TSS operating segments, and the private sector reportable segment was derived by combining the Company’s Vela, Jonas and Perseus operating segments. While the operating segments in the public sector were comprised of businesses that primarily serve government and government-related customers, they also included businesses that serve commercial customers, and similarly the operating groups in the private sector were comprised of businesses that primarily serve commercial customers but also include businesses that serve government and government-related customers. For the fiscal years ended December 31, 2019 and 2018 approximately 35% and 30% respectively of the revenue in the public sector reportable segment was generated from commercial customers, and 15% and 16% respectively of revenue in the private sector reportable segment was generated from government and government-related customers.

Each of the Company’s operating segments operate essentially as mini Constellations, conglomerates of small vertical market software companies with similar economic characteristics. Each operating segment CEO is focused on investing capital that generates returns at or above the investment hurdle rates set by CSI’s head office (primarily the President) and the Board of Directors, irrespective of whether the acquired business operates primarily in the public or private sector. Accordingly presenting information on a public and private sector basis is no longer meaningful and the Company now aggregates the six operating segments into one reportable segment, consistent with the objective and basic principles of IFRS 8.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

(In millions of U.S. dollars, except per share amounts and as otherwise indicated.)

(Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2020 and 2019

(Unaudited)

18. Contingencies

In the normal course of operations, the Company is subject to litigation and claims from time to time. The Company may also be subject to lawsuits, investigations and other claims, including environmental, labour, income and sales tax, product, customer disputes and other matters. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not always possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse impact on the results of operations, financial position or liquidity of the Company.

19. Changes in non-cash operating assets and liabilities

	Three months ended	
	March 31,	
	2020	2019
Decrease (increase) in current accounts receivable	\$ (29)	\$ 8
Decrease (increase) in current unbilled revenue	6	(17)
Decrease (increase) in other current assets	(10)	(14)
Decrease (increase) in inventories	(1)	(5)
Decrease (increase) in other non-current assets	4	1
Increase (decrease) in other non-current liabilities	(12)	(1)
Increase (decrease) in current accounts payable and accrued liabilities, excluding holdbacks from acquisitions	(64)	(71)
Increase (decrease) in current deferred revenue	245	212
Increase (decrease) in current provisions	(3)	10
Change in non-cash operating working capital	\$ 136	\$ 123

20. Subsequent events

On May 7, 2020 the Company declared a \$1.00 per share dividend that is payable on July 10, 2020 to all common shareholders of record at close of business on June 19, 2020.