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CONSTELLATION  
SOFTWARE  
INC.

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Constellation Software Inc.

# **INTERIM FINANCIAL REPORT**

Second Quarter Fiscal Year 2020

For the three and six month periods ended  
June 30, 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 and six month periods ended June 30, 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](http://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, August 6, 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](http://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 June 30,		Period-Over- Period Change		Six months ended June 30,		Period-Over-Period Change	
	2020	2019	\$	%	2020	2019	\$	%
<b>Revenue</b>	<b>922</b>	<b>846</b>	<b>76</b>	<b>9%</b>	<b>1,875</b>	<b>1,665</b>	<b>210</b>	<b>13%</b>
Expenses	656	638	18	3%	1,372	1,277	94	7%
Amortization of intangible assets	96	75	21	28%	190	151	40	26%
Foreign exchange (gain) loss	10	13	(4)	-27%	4	15	(11)	-75%
TSS membership liability revaluation charge	17	8	9	112%	35	18	17	96%
Finance and other income	(1)	(0)	(1)	196%	(2)	(3)	2	-49%
Bargain purchase gain	(0)	-	(0)	NM	(0)	(28)	28	-100%
Impairment of intangible and other non-financial assets	4	0	4	NM	8	0	8	NM
Finance costs	10	9	1	13%	22	18	4	19%
Income before income taxes	130	103	27	27%	246	218	28	13%
<b>Income tax expense (recovery)</b>								
Current income tax expense (recovery)	70	42	29	69%	115	78	37	47%
Deferred income tax expense (recovery)	(22)	(12)	(11)	89%	(34)	(20)	(14)	73%
Income tax expense (recovery)	48	30	18	61%	80	58	22	39%
<b>Net income</b>	<b>83</b>	<b>73</b>	<b>9</b>	<b>12%</b>	<b>166</b>	<b>160</b>	<b>6</b>	<b>4%</b>
<b>Net cash flows from operating activities</b>	<b>237</b>	<b>50</b>	<b>186</b>	<b>370%</b>	<b>597</b>	<b>334</b>	<b>263</b>	<b>79%</b>
<b>Free cash flow available to shareholders</b>	<b>190</b>	<b>12</b>	<b>178</b>	<b>NM</b>	<b>501</b>	<b>263</b>	<b>238</b>	<b>91%</b>
Weighted average number of shares outstanding								
Basic and diluted	21.2	21.2			21.2	21.2		
<b>Net income per share</b>								
Basic and diluted	\$ 3.90	\$ 3.45	\$ 0.45	13%	\$ 7.81	\$ 7.54	\$ 0.27	4%
<b>Net cash flows from operating activities per share</b>								
Basic and diluted	\$ 11.17	\$ 2.38	\$ 8.79	370%	\$ 28.18	\$ 15.78	\$ 12.40	79%
<b>Free cash flow available to shareholders per share</b>								
Basic and diluted	\$ 8.99	\$ 0.58	\$ 8.40	NM	\$ 23.65	\$ 12.39	\$ 11.25	91%
<b>Cash dividends declared per share</b>								
Basic and diluted	\$ 1.00	\$ 1.00	\$ -	0%	\$ 2.00	\$ 22.00	\$ (20.00)	-91%

NM - Not meaningful

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

## Comparison of the three and six month periods ended June 30, 2020 and 2019

### Revenue:

Total revenue for the quarter ended June 30, 2020 was \$922 million, an increase of 9%, or \$76 million, compared to \$846 million for the comparable period in 2019. For the first six months of 2020 total revenues were \$1,875 million, an increase of 13%, or \$210 million, compared to \$1,665 million for the comparable period in 2019. The

increase for both the three and six month periods compared to the same periods in the prior year is primarily attributable to growth from acquisitions as the Company experienced negative organic growth of 8% and 5% respectively, negative 7% and negative 4% respectively after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business. For 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 primary reason for the negative organic growth for the three and six months ended June 30, 2020 was the impact of COVID-19. Travel restrictions have negatively impacted the ability to implement software and many businesses have put buying decisions on hold. Certain verticals that we operate in, such as health clubs, hospitality, real estate brokers and agents, salons and spas, and tour operators, have been more negatively impacted than others.

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

	Three months ended June 30,		Period-Over- Period Change		Q219 Proforma Adj. (Note 1)	Organic Growth		Six months ended June 30,		Period-Over- Period Change		Q219 Proforma Adj. (Note 2)	Organic Growth
	2020	2019	\$	%	\$	%		2020	2019	\$	%	\$	%
	(\$ in millions, except percentages)							(\$ in millions, except percentages)					
Licenses	51	61	(10)	-16%	12	-30%		108	113	(5)	-4%	22	-20%
Professional services	170	164	6	4%	41	-17%		347	322	25	8%	75	-12%
Hardware and other	35	41	(6)	-15%	4	-23%		77	77	0	0%	9	-11%
Maintenance and other recurring	666	581	86	15%	104	-3%		1,342	1,152	190	16%	208	-1%
	922	846	76	9%	161	-8%		1,875	1,665	210	13%	314	-5%

\$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 June 30, 2019 from companies acquired after March 31, 2019. (Obtained from unaudited vendor financial information.)

Note 2: Estimated pre-acquisition revenues for the six months ended June 30, 2019 from companies acquired after December 31, 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 Q2 2018.

	Quarter Ended								
	Jun. 30 2018	Sep. 30 2018	Dec. 31 2018	Mar. 31 2019	Jun. 30 2019	Sep. 30 2019	Dec. 31 2019	Mar. 31 2020	Jun. 30 2020
Licenses	-5%	-9%	-3%	-3%	5%	-14%	-10%	-8%	-30%
Professional services	3%	-5%	1%	-5%	-7%	-8%	-8%	-8%	-17%
Hardware and other	-11%	-20%	4%	-4%	-15%	-2%	-22%	3%	-23%
Maintenance and other recurring	6%	3%	2%	1%	2%	1%	2%	0%	-3%
<b>Revenue</b>	<b>4%</b>	<b>-1%</b>	<b>2%</b>	<b>-1%</b>	<b>-1%</b>	<b>-2%</b>	<b>-3%</b>	<b>-2%</b>	<b>-8%</b>

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

	Quarter Ended								
	Jun. 30 2018	Sep. 30 2018	Dec. 31 2018	Mar. 31 2019	Jun. 30 2019	Sep. 30 2019	Dec. 31 2019	Mar. 31 2020	Jun. 30 2020
Licenses	-7%	-7%	-1%	1%	8%	-12%	-9%	-7%	-29%
Professional services	0%	-4%	3%	-1%	-4%	-5%	-7%	-6%	-16%
Hardware and other	-13%	-19%	5%	-1%	-14%	0%	-21%	4%	-22%
Maintenance and other recurring	4%	4%	4%	5%	4%	3%	3%	2%	-1%
<b>Revenue</b>	<b>1%</b>	<b>0%</b>	<b>3%</b>	<b>3%</b>	<b>2%</b>	<b>0%</b>	<b>-2%</b>	<b>0%</b>	<b>-7%</b>

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 June 30,		Period-Over- Period Change		Six months ended June 30,		Period-Over- Period Change	
	<u>2020</u>	<u>2019</u>	\$	%	<u>2020</u>	<u>2019</u>	\$	%
	(\$ in millions, except percentages)				(\$ in millions, except percentages)			
Expenses								
Staff	480	437	42	10%	990	882	108	12%
Hardware	22	22	(0)	-2%	45	43	2	4%
Third party license, maintenance and professional services	77	73	3	4%	156	142	13	9%
Occupancy	8	9	(0)	-2%	17	17	0	1%
Travel, Telecommunications, Supplies & Software and equipment	31	49	(18)	-36%	82	93	(11)	-12%
Professional fees	13	11	2	17%	26	22	5	21%
Other, net	0	15	(15)	-99%	5	36	(30)	-85%
Depreciation	25	21	4	19%	51	42	9	21%
	656	638	18	3%	1,372	1,277	94	7%

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

Overall expenses for the quarter ended June 30, 2020 increased 3%, or \$18 million to \$656 million, compared to \$638 million during the same period in 2019. As a percentage of total revenue, expenses equalled 71% for the quarter ended June 30, 2020 and 75% for the same period in 2019. During the six months ended June 30, 2020, expenses increased 7%, or \$94 million to \$1,372 million, compared to \$1,277 million during the same period in 2019. As a percentage of total revenue, expenses were 73% for the six months ended June 30, 2020 and 77% for the same period in 2019. For the three and six months ended June 30, 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 compared to the comparable periods of 2019.

**Staff expense** – Staff expenses increased 10% or \$42 million for the quarter ended June 30, 2020 and 12% or \$108 million for the six months ended June 30, 2020 over the same periods in 2019. The Company has taken appropriate measures to manage staff expense in conjunction with the negative organic growth resulting from COVID-19. 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 June 30,		Period-Over- Period Change		Six months ended June 30,		Period-Over- Period Change	
	2020	2019	\$	%	2020	2019	\$	%
	(\$ in millions, except percentages)							
Professional services	102	93	9	9%	212	189	23	12%
Maintenance	96	88	7	8%	197	177	20	11%
Research and development	140	120	19	16%	283	244	39	16%
Sales and marketing	66	62	4	6%	136	125	11	9%
General and administrative	77	74	3	4%	162	147	15	10%
	480	437	42	10%	990	882	108	12%

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

The increase in staff expenses for the three and six months ended June 30, 2020 was primarily due to the growth in the number of employees compared to the same periods in 2019 primarily due to acquisitions.

**Hardware expenses** – Hardware expenses decreased 2% or \$0.4 million for the quarter ended June 30, 2020 and increased 4% or \$2 million for the six months ended June 30, 2020 over the same periods in 2019 as compared with the 15% decrease and 0% increase in hardware and other revenue for the three and six month periods ending June 30, 2020 respectively over the comparable periods in 2019. Hardware margins for the three and six months ended June 30, 2020 were 37% and 42% respectively as compared to 45% and 44% for the comparable periods in 2019.

**Third party license, maintenance and professional services expenses** – Third party license, maintenance and professional services expenses increased 4% or \$3 million for the quarter ended June 30, 2020 and 9% or \$13 million for the six months ended June 30, 2020 over the same periods in 2019. The increase is primarily due to third party license, maintenance and professional services expenses of acquired businesses.

**Occupancy expenses** – Occupancy expenses decreased 2% or \$0.1 million for the quarter ended June 30, 2020 and increased 1% or \$0.2 million for the six months ended June 30, 2020 over the same periods in 2019. The increase for the six month period is primarily due to the occupancy expenses of acquired businesses.

**Travel, Telecommunications, Supplies & Software and equipment expenses** – Travel, Telecommunications, Supplies & Software and equipment expenses decreased 36% or \$18 million for the quarter ended June 30, 2020 and 12% or \$11 million for the six months ended June 30, 2020 over the same periods in 2019. The decrease in these expenses is primarily due to travel restrictions related to COVID-19.

**Professional fees** – Professional fees increased 17% or \$2 million for the quarter ended June 30, 2020 and 21% or \$5 million for the six months ended June 30, 2020 over the same periods in 2019. There are no individually material reasons contributing to this variance.

**Other, net** – Other expenses decreased 99% or \$15 million for the quarter ended June 30, 2020 and decreased 85% or \$30 million for the six months ended June 30, 2020 over the same periods in 2019. The following table provides a further breakdown of expenses within this category.

	Three months ended June 30,		Period-Over-Period Change			Six months ended June 30,		Period-Over-Period Change	
	<u>2020</u>	<u>2019</u>	<u>\$</u>	<u>%</u>		<u>2020</u>	<u>2019</u>	<u>\$</u>	<u>%</u>
	(\$ in millions, except percentages)					(\$ in millions, except percentages)			
Advertising and promotion	8	12	(4)	-36%		20	23	(3)	-13%
Recruitment and training	2	5	(3)	-54%		6	8	(2)	-27%
Bad debt expense	2	1	0	20%		5	3	2	99%
R&D tax credits	(6)	(5)	(1)	20%		(11)	(9)	(2)	18%
Contingent consideration	8	0	8	NM		(4)	6	(10)	NM
Government assistance	(17)	-	(17)	NM		(18)	-	(18)	NM
Other expense, net	4	1	3	216%		7	5	2	40%
	0	15	(15)	-99%		5	36	(30)	-85%

NM - Not meaningful

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

The governments of various jurisdictions in which we have operations have approved legislation and taken administrative actions intended to aid businesses that have been adversely impacted by COVID-19, including making grants or credits available to eligible entities to subsidize or offset qualifying expenses, including employee wages, or to lower payroll taxes or required social insurance programs (in certain countries), in each case subject to limits and other specified criteria. During the six months ended June 30, 2020, we determined that we qualify for an estimated aggregate amount of \$18 million of grants from various government authorities, including the Canadian Emergency Wage Subsidy (CEWS) announced by the Government of Canada in April 2020, and recognized such amounts as a reduction in expenses during Q1 and Q2 2020. We have either submitted, or expect to submit, claims for such grants. As at June 30, 2020, the amount of grants receivable totaled \$4 million. We will continue to evaluate all applicable government relief programs and intend to apply for subsequent application periods, if we meet the qualification criteria. There can be no assurance that COVID-19-related governmental assistance to offset our costs will be available in Q3 2020 (or thereafter), and if so, whether we will qualify for or receive any such assistance.

The contingent consideration expense amount recorded for the three months ended June 30, 2020 relates to an increase in anticipated acquisition earnout payment accruals primarily as a result of increases to revenue forecasts for the associated acquisitions. In Q1 2020 a reversal of \$13 million dollars was recorded as revenue forecasts were decreased as a result of the COVID-19 pandemic. Revenue forecasts are updated on a quarterly basis and the related anticipated acquisition earnout payment accruals are updated accordingly. There are no individually material reasons contributing to the remaining variances.

**Depreciation** – Depreciation of property and equipment increased 19% or \$4 million for the quarter ended June 30, 2020 and 21% or \$9 million for the six months ended June 30, 2020 over the same periods in 2019. The increases are 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		Period-Over-Period Change		Six months ended		Period-Over-Period Change	
	June 30,				June 30,			
	2020	2019	\$	%	2020	2019	\$	%
	(\$ in millions, except percentages)				(\$ in millions, except percentages)			
Amortization of intangible assets	96	75	21	28%	190	151	40	26%
Foreign exchange (gain) loss	10	13	(4)	-27%	4	15	(11)	-75%
TSS membership liability revaluation charge	17	8	9	112%	35	18	17	96%
Finance and other expense (income)	(1)	(0)	(1)	196%	(2)	(3)	2	-49%
Bargain purchase gain	(0)	-	(0)	NM	(0)	(28)	28	-100%
Impairment of intangible and other non-financial assets	4	0	4	NM	8	0	8	NM
Finance costs	10	9	1	13%	22	18	4	19%
Income tax expense (recovery)	48	30	18	61%	80	58	22	39%
	183	135	48	36%	338	228	110	48%

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 28% or \$21 million for the quarter ended June 30, 2020 and 26% or \$40 million for the six months ended June 30, 2020 over the same periods in 2019. The increase in amortization expense for the three and six months ended June 30, 2020 is primarily attributable to an increase in the carrying amount of our intangible asset balance over the twelve-month period ended June 30, 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 three and six months ended June 30, 2020, we realized foreign exchange losses of \$10 million and \$4 million respectively compared to losses of \$13 million and \$15 million for the same periods in 2019. The following table provides a breakdown of these amounts.

	Three months ended		Period-Over-Period Change		Six months ended		Period-Over-Period Change	
	June 30,				June 30,			
	2020	2019	\$	%	2020	2019	\$	%
	(\$ in millions, except percentages)				(\$ in millions, except percentages)			
Unrealized foreign exchange (gain) loss related to:								
- revaluation of intercompany loans between entities with differing functional currencies <sup>(1)</sup>	(1)	3	(4)	NM	15	1	14	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.	8	4	4	83%	(10)	9	(19)	NM
Remaining foreign exchange (gain) loss	3	6	(3)	-49%	(1)	5	(6)	NM
	10	13	(4)	-28%	4	15	(11)	-75%

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 and losses of certain non-US dollar denominated working capital balances to US dollars as a result of the depreciation or appreciation of 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 7% or \$17 million from Q1 2020, and approximately 16% or \$35 million from Q4 2019. The increases are 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 16% or \$36 million over the six month period ended June 30, 2020 from \$221 million to \$257 million as a result of the revaluation charge of \$36 million offset by a \$0.3 million foreign exchange expense that was recorded through other comprehensive income. The TSS membership liability is denominated in Euros and the Euro appreciated versus the US dollar during the first six months of 2020.

**Finance and other expense (income)** – Finance and other income for the three and six months ended June 30, 2020 was \$1 million and \$2 million respectively, compared to \$0.5 million and \$3 million respectively for the same periods in 2019. Interest earned on cash balances for the three and six months ended June 30, 2020 was \$0.2 million and \$0.3 million respectively, compared to \$0.2 million and \$2.7 million respectively for the same periods in 2019.

**Bargain purchase gain** – A bargain purchase gain adjustment totalling \$28 million was recorded in the six month period ended June 30, 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** – Impairment expenses of \$4 million and \$8 million were recorded in the three and six month periods ended June 30, 2020 respectively, relating to nine businesses primarily acquired during 2018 and 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 June 30, 2020 increased \$1 million to \$10 million, compared to \$9 million for the same period in 2019. During the six months ended June 30, 2020, finance costs increased \$4 million to \$22 million, from \$18 million for the same period in 2019. The increases are primarily a result of an increase in the average debt outstanding in 2020 as compared to 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 June 30, 2020, income tax expense increased \$18 million to \$48 million compared to \$30 million for the same period in 2019. During the six months ended June 30, 2020, income tax expense increased \$22 million to \$80 million compared to \$58 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 June 30, 2020 was \$83 million compared to net income of \$73 million for the same period in 2019. On a per share basis, this translated into a net income per diluted share of \$3.90 in the quarter ended June 30, 2020 compared to net income per diluted share of \$3.45 for the same period in 2019. For the six months ended June 30, 2020, net income was \$166 million or \$7.81 per diluted share compared to \$160 million or \$7.54 per diluted share 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 June 30, 2020, CFO increased \$186 million to \$237 million compared to \$50 million for the same period in 2019 representing an increase of 370%. For the six months ended June 30, 2020, CFO increased \$263 million to \$597 million compared to \$334 million for the same period in 2019 representing an increase of 79%.

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

For the quarter ended June 30, 2020, FCFA2S increased \$178 million to \$190 million compared to \$12 million for the same period in 2019. For the six months ended June 30, 2020, FCFA2S increased \$238 million to \$501 million compared to \$263 million for the same period in 2019 representing an increase of 91%.

CFO and FCFA2S for the three and six months ended June 30, 2020 were positively impacted by the deferral of approximately \$29 million of tax instalment payments to the second half of 2020 in conjunction with certain government’s COVID-19 relief programs. In addition, cash generated from working capital improvements was approximately \$107 million more in the six months ended June 30, 2020 compared to the six months ended June 30, 2019. Material improvements in working capital were experienced in the Company’s public transit vertical as well as the two companies associated with the bargain purchase gain described above.

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

	Three months ended June 30,		Six months ended June 30,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	(\$ in millions, except percentages)		(\$ in millions, except percentages)	
<b>Net cash flows from operating activities</b>	237	50	597	334
<b>Adjusted for:</b>				
Interest paid on lease obligations	(2)	(2)	(4)	(4)
Interest paid on other facilities	(5)	(7)	(14)	(15)
Credit facility transaction costs	(0)	-	(0)	-
Payments of lease obligations	(16)	(13)	(30)	(23)
TSS membership liability revaluation charge	(17)	(8)	(35)	(18)
Property and equipment purchased	(6)	(8)	(13)	(15)
Interest and dividends received	0	0	0	3
 Free cash flow available to shareholders	 190	 12	 501	 263

Due to rounding, certain totals may not foot.

## Quarterly Results

	Quarter Ended								
	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>	Jun. 30 <u>2020</u>
Revenue	752	759	831	819	846	870	956	953	922
Net income	52	66	179	87	73	82	92	83	83
CFO	53	143	208	284	50	177	255	361	237
FCFA2S	27	112	178	250	12	134	193	311	190
Net income per share									
Basic & diluted	2.45	3.10	8.46	4.09	3.45	3.85	4.34	3.91	3.90
CFO per share									
Basic & diluted	2.50	6.75	9.84	13.40	2.36	8.37	12.02	17.01	11.17
FCFA2S per share									
Basic & diluted	1.27	5.29	8.39	11.81	0.58	6.35	9.12	14.66	8.99

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 \$283 million to \$319 million in the six months ended June 30, 2020 resulting from cash flows from operations exceeding the net capital deployed on acquisitions plus dividends. Cash increased by \$269 million to \$585 million at June 30, 2020 compared to \$316 million at December 31, 2019 and bank indebtedness decreased by \$14 million to \$266 million at June 30, 2020 compared to \$280 million at December 31, 2019.

Total assets increased \$279 million, from \$3,488 million at December 31, 2019 to \$3,767 million at June 30, 2020. The increase is primarily due to the \$269 million increase in cash noted above. At June 30, 2020 five subsidiaries holding cash totalling \$93 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 \$147 million, from \$1,732 million at December 31, 2019 to \$1,879 million at June 30, 2020. The increase is primarily due to an increase in deferred revenue of \$150 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, and an increase in taxes payable of \$60 million, offset by a decrease in bank indebtedness of \$19 million and a decrease in accounts payable and accrued liabilities of \$50 million.

### Net Changes in Cash Flows

(in \$M's)

	Six months ended June 30, 2020	Six months ended June 30, 2019
Net cash provided by operating activities	597	334
Net cash from (used in) financing activities	(100)	(560)
Cash used in the acquisition of businesses	(230)	(167)
Cash obtained with acquired businesses	24	35
Net cash from (used in) other investing activities	(14)	(18)
Net cash from (used in) investing activities	(220)	(149)
Effect of foreign currency	(9)	0
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>269</b>	<b>(375)</b>

The net cash flows from operating activities were \$597 million for the six months ended June 30, 2020. The \$597 million provided by operating activities resulted from \$166 million in net income plus \$388 million of non-cash adjustments to net income and \$100 million of cash from non-cash operating working capital, offset by \$57 million in taxes paid.

The net cash flows used in financing activities for the six months ended June 30, 2020 were \$100 million, which is mainly a result of dividends paid of \$42 million, a net decrease in bank indebtedness of \$9 million, lease obligation payments of \$30 million, and interest paid on bank indebtedness and the Company's unsecured subordinated floating rate debentures in the period of \$14 million.

The net cash flows used in investing activities in the six months ended June 30, 2020 were \$220 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of \$230 million (including payments for holdbacks relating to prior acquisitions) offset by \$24 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 June 30, 2020, \$100 million 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 June 30, 2020 (and equal to fair value)	\$ -	\$ 166	\$ 166
Deduct: Carrying value of transaction costs included in debt balance	-	(4)	(4)
Carrying value at June 30, 2020	-	162	162
Current portion	-	3	3
Non-current portion	-	159	159

## 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 million for total proceeds of C\$91 million. The proceeds were used by the Company to pay down \$81 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 million for total proceeds of C\$214 million. The proceeds were used by the Company to pay down \$130 million of outstanding bank indebtedness. The September 30, 2015 issuance formed a single series with the outstanding C\$96 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 \$49 million (€39 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 by the minority owners.

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 \$53 million at June 30, 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 June 30, 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 August 6, 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 both the three and six months ended June 30, 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 six months ended June 30, 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 and six months ended June 30, 2020:

Currencies	Three Months Ended June 30, 2020		Six Months Ended June 30, 2020	
	% of Revenue	% of Expenses	% of Revenue	% of Expenses
USD	52%	47%	52%	47%
CAD	7%	9%	7%	10%
GBP	7%	8%	8%	8%
EURO	21%	22%	21%	21%
CHF	1%	3%	1%	3%
Others	11%	11%	11%	11%
Total	100%	100%	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 August 6, 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 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 June 30, 2020, the President and Chief Financial Officer, based on the investigation and advice of those under their supervision, have 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 by those 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 by those 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 by those under their supervision, whether or not there were changes to its ICFR during the period ended June 30, 2019 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 and six months ended June 30, 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

	June 30, 2020	December 31, 2019	June 30, 2019
<b>Assets</b>			
Current assets:			
Cash	\$ 585	\$ 316	\$ 214
Accounts receivable	393	422	368
Unbilled revenue	103	110	105
Inventories	32	31	45
Other assets (note 5)	207	184	183
	1,319	1,062	915
Non-current assets:			
Property and equipment	78	78	69
Right of use assets	241	234	211
Deferred income taxes	45	45	48
Other assets (note 5)	73	72	66
Intangible assets (note 6)	2,011	1,997	1,621
	2,448	2,425	2,014
<b>Total assets</b>	<b>\$ 3,767</b>	<b>\$ 3,488</b>	<b>\$ 2,929</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
CSI facility (note 7)	\$ 98	\$ 63	\$ -
Debt without recourse to Constellation Software Inc. (note 8)	3	57	11
TSS membership liability (note 9)	93	86	69
Accounts payable and accrued liabilities	480	529	400
Dividends payable (note 13)	21	21	22
Deferred revenue	938	788	802
Provisions (note 11)	10	13	17
Acquisition holdback payables	72	76	53
Lease obligations	67	62	54
Income taxes payable	95	36	25
	1,879	1,732	1,452
Non-current liabilities:			
Debt without recourse to Constellation Software Inc. (note 8)	159	153	106
TSS membership liability (note 9)	164	136	121
Debentures (note 10)	210	222	222
Deferred income taxes	243	246	202
Acquisition holdback payables	29	25	15
Lease obligations	193	187	170
Other liabilities (note 5)	98	101	76
	1,095	1,069	913
<b>Total liabilities</b>	<b>2,974</b>	<b>2,800</b>	<b>2,365</b>
Shareholders' equity (note 13):			
Capital stock	99	99	99
Accumulated other comprehensive income (loss)	(57)	(40)	(32)
Retained earnings	752	628	497
	794	687	564
Subsequent events (notes 13 and 20)			
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,767</b>	<b>\$ 3,488</b>	<b>\$ 2,929</b>

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 and six months ended June 30, 2020 and 2019

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Revenue				
License	\$ 51	\$ 61	\$ 108	\$ 113
Professional services	170	164	347	322
Hardware and other	35	41	77	77
Maintenance and other recurring	666	581	1,342	1,152
	922	846	1,875	1,665
Expenses				
Staff	480	437	990	882
Hardware	22	22	45	43
Third party license, maintenance and professional services	77	73	156	142
Occupancy	8	9	17	17
Travel, telecommunications, supplies, software and equipment	31	49	82	93
Professional fees	13	11	26	22
Other, net	0	15	5	36
Depreciation	25	21	51	42
Amortization of intangible assets	96	75	190	151
	752	713	1,562	1,428
Foreign exchange loss (gain)	10	13	4	15
TSS membership liability revaluation charge (note 9)	17	8	35	18
Finance and other expense (income) (note 14)	(1)	(0)	(2)	(3)
Bargain purchase gain	(0)	-	(0)	(28)
Impairment of intangible and other non-financial assets	4	-	8	-
Finance costs (note 14)	10	9	22	18
	39	30	67	19
Income before income taxes	131	103	246	218
Current income tax expense (recovery)	70	42	115	78
Deferred income tax expense (recovery)	(22)	(12)	(34)	(20)
Income tax expense (recovery)	48	30	80	58
Net income	83	73	166	160
Earnings per share				
Basic and diluted (note 15)	\$ 3.90	\$ 3.45	\$ 7.81	\$ 7.54

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 and six months ended June 30, 2020 and 2019

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net income	\$ 83	\$ 73	\$ 166	\$ 160
Items that are or may be reclassified subsequently to net income:				
Foreign currency translation differences from foreign operations	13	8	(17)	4
Deferred income tax recovery (expense)	-	-	-	-
Other comprehensive (loss) income for the period, net of income tax	13	8	(17)	4
Total comprehensive income (loss) for the period	\$ 96	\$ 81	\$ 149	\$ 164

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

Six months ended June 30, 2020

	Capital stock	Accumulated other comprehensive income (loss)	Retained earnings	Total
		Cumulative translation account		
<b>Balance at January 1, 2020</b>	<b>\$ 99</b>	<b>\$ (40)</b>	<b>\$ 628</b>	<b>\$ 687</b>
<i>Total comprehensive income for the period:</i>				
Net income	-	-	166	166
<i>Other comprehensive income (loss)</i>				
Foreign currency translation differences from foreign operations	-	(17)	-	(17)
<b>Total other comprehensive income (loss) for the period</b>	<b>-</b>	<b>(17)</b>	<b>-</b>	<b>(17)</b>
<b>Total comprehensive income (loss) for the period</b>	<b>-</b>	<b>(17)</b>	<b>166</b>	<b>149</b>
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company (note 13)	-	-	(42)	(42)
<b>Balance at June 30, 2020</b>	<b>\$ 99</b>	<b>\$ (57)</b>	<b>\$ 752</b>	<b>\$ 794</b>

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

Six months ended June 30, 2019

	Capital stock	Accumulated other comprehensive income (loss) Cumulative translation account	Retained earnings	Total
<b>Balance at January 1, 2019</b>	<b>\$ 99</b>	<b>\$ (37)</b>	<b>\$ 804</b>	<b>\$ 866</b>
<i>Total comprehensive income for the period:</i>				
Net income	-	-	160	160
<i>Other comprehensive income (loss)</i>				
Foreign currency translation differences from foreign operations	-	4	-	4
<b>Total other comprehensive income (loss) for the period</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>4</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>4</b>	<b>160</b>	<b>164</b>
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company (note 13)	-	-	(466)	(466)
<b>Balance at June 30, 2019</b>	<b>\$ 99</b>	<b>\$ (32)</b>	<b>\$ 497</b>	<b>\$ 564</b>

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 and six months ended June 30, 2020 and 2019

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Cash flows from operating activities:				
Net income	\$ 83	\$ 73	\$ 166	\$ 160
Adjustments for:				
Depreciation	25	21	51	42
Amortization of intangible assets	96	75	190	151
TSS membership liability revaluation charge	17	8	35	18
Finance and other expense (income)	(1)	(0)	(2)	(3)
Bargain purchase (gain)	(0)	-	(0)	(28)
Impairment of intangible and other non-financial assets	4	-	8	-
Finance costs	10	9	22	18
Income tax expense (recovery)	48	30	80	58
Foreign exchange loss (gain)	10	13	4	15
Change in non-cash operating assets and liabilities exclusive of effects of business combinations (note 19)	(35)	(130)	100	(7)
Income taxes paid	(19)	(49)	(57)	(88)
Net cash flows from operating activities	237	50	597	334
Cash flows from (used in) financing activities:				
Interest paid on lease obligations	(2)	(2)	(4)	(4)
Interest paid on other facilities	(5)	(7)	(14)	(15)
Increase (decrease) in CSI facility	100	-	35	-
Increase (decrease) in revolving credit under debt facilities without recourse to CSI	-	11	(55)	(40)
Proceeds from issuance of term debt under facilities without recourse to CSI	15	-	15	-
Repayments of term debt under facilities without recourse to CSI	(3)	(1)	(4)	(1)
Credit facility transaction costs	(0)	-	(0)	-
Payments of lease obligations	(16)	(13)	(30)	(23)
Distribution to TSS minority owners (note 9)	-	-	-	(11)
Dividends paid	(21)	(445)	(42)	(466)
Net cash flows from (used in) in financing activities	67	(457)	(100)	(560)
Cash flows from (used in) investing activities:				
Acquisition of businesses (note 4)	(68)	(82)	(175)	(130)
Cash obtained with acquired businesses (note 4)	10	10	24	35
Post-acquisition settlement payments, net of receipts	(23)	(12)	(55)	(37)
Purchases of other investments	(1)	(6)	(2)	(6)
Interest, dividends and other proceeds received	1	1	1	3
Property and equipment purchased	(6)	(8)	(13)	(15)
Net cash flows from (used in) investing activities	(87)	(97)	(220)	(149)
Effect of foreign currency on cash and cash equivalents	5	1	(9)	0
Increase (decrease) in cash	221	(503)	269	(375)
Cash, beginning of period	364	717	316	589
Cash, end of period	\$ 585	\$ 214	585	214

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 and six months ended June 30, 2020 and 2019

(Unaudited)

## Notes to the condensed consolidated interim financial statements

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# CONSTELLATION SOFTWARE INC.

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

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

Three and six months ended June 30, 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 June 30, 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 and in the provision of related professional services and support for customers globally across over 100 diverse markets.

## 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 August 6, 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

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(Unaudited)

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.

The Company is closely monitoring the impact of 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.

During the six months ended June 30, 2020, the Company recorded income of \$18 relating to government grants from various government authorities relating to the pandemic. The Company has recorded the income of \$18 within "Other, net" expenses in the condensed consolidated interim statements of income.

### 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 six-month period ended June 30, 2020, the Company completed a number of acquisitions for aggregate cash consideration of \$175 plus cash holdbacks of \$55 and contingent consideration with an estimated fair value of \$10 resulting in total consideration of \$240. 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 six-month period ended June 30, 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, the estimated increase to the initial consideration is not expected to exceed \$19. Aggregate contingent consideration of \$53 (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" expenses in the condensed consolidated interim statements of income. An expense of \$8 and a recovery of \$4 been recorded for the three and six months ended June 30, 2020, as a result of such changes (expense of \$0 and \$6 for the three and six months ended June 30, 2019).

There were no acquisitions during the six-month period that were deemed to be individually significant. The majority of the businesses acquired during the six-month period were acquisitions of shares and the remainder were asset acquisitions. The cash holdbacks are generally payable within 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.

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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 and six months ended June 30, 2020 and 2019

(Unaudited)

The acquisitions during the six month period ended June 30, 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, creative agencies, textiles and apparel, trade unions, school administration, manufacturing plant performance, homebuilders, financial services, computerized maintenance management systems, and utilities all of which are software businesses similar to existing businesses operated by the Company. The acquisitions have been 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, other intangibles that do not qualify for separate recognition including assembled workforce and synergies with existing businesses of Constellation. Goodwill in the amount of \$2 is expected to be deductible for income tax purposes.

The gross contractual amounts of acquired receivables was \$36; however, the Company has recorded an allowance of \$2 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 two quarters of 2019 and first two quarters 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 \$594.

The aggregate impact of acquisition accounting applied in connection with business acquisitions in the six-month period ended June 30, 2020 is as follows:

# 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 and six months ended June 30, 2020 and 2019

(Unaudited)

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Assets acquired:		
Cash	\$	24
Accounts receivable		35
Other current assets		15
Property and equipment		5
Other non-current assets		23
Deferred income taxes		1
Technology assets		126
Customer assets		126
		<hr/>
		356
Liabilities assumed:		
Current liabilities		30
Deferred revenue		38
Deferred income taxes		44
Other non-current liabilities		20
		<hr/>
		133
Goodwill		17
<hr/>		
<b>Total consideration</b>	<b>\$</b>	<b>240</b>
<hr/>		

The 2020 business acquisitions did not have a material impact to either the consolidated revenue or the consolidated net income for the six months ended June 30, 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.

# 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 and six months ended June 30, 2020 and 2019

(Unaudited)

## 5. Other assets and other non-current liabilities

### (a) Other assets

	June 30, 2020	December 31, 2019
Prepaid and other current assets	\$ 105	\$ 96
Investment tax credits recoverable	28	26
Sales tax receivable	14	18
Equity securities held for trading	8	10
Other receivables	52	34
Total other current assets	\$ 207	\$ 184
Investment tax credits recoverable	\$ 13	\$ 13
Costs to obtain a contract	38	37
Non-current trade and other receivables and other assets	20	20
Equity accounted investees	2	2
Total other non-current assets	\$ 73	\$ 72

### (b) Other non-current liabilities

	June 30, 2020	December 31, 2019
Contingent consideration	\$ 34	\$ 42
Deferred revenue	38	41
Other non-current liabilities	26	18
Total other non-current liabilities	\$ 98	\$ 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 and six months ended June 30, 2020 and 2019

(Unaudited)

## 6. Intangible Assets

	Technology Assets	Customer Assets	Backlog	Non-compete agreements	Trademarks	Goodwill	Total
<b>Cost</b>							
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	125	126	-	-	-	19	270
Effect of movements in foreign exchange	(40)	(28)	0	(0)	0	(7)	(75)
Balance at June 30, 2020	\$ 2,254	\$ 1,406	\$ 17	\$ 3	\$ 7	\$ 373	\$ 4,060
<b>Accumulated amortization and impairment losses</b>							
Balance at January 1, 2019	\$ 1,124	\$ 391	\$ 16	\$ 3	\$ 2	\$ -	\$ 1,536
Amortization for the period	226	104	0	(0)	0	-	331
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	124	66	0	0	0	-	190
Impairment charge	5	2	-	-	-	1	8
Effect of movements in foreign exchange	(12)	(5)	(0)	(0)	0	-	(17)
Balance at June 30, 2020	\$ 1,468	\$ 559	\$ 17	\$ 3	\$ 2	\$ 1	\$ 2,049
<b>Carrying amounts</b>							
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 June 30, 2020	\$ 786	\$ 848	\$ 0	\$ (0)	\$ 5	\$ 372	\$ 2,011



# CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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(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 June 30, 2020 \$100 (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 being amortized through profit or loss using the effective interest rate method. As at June 30, 2020 the carrying amount of such costs is \$2 (December 31, 2019 - \$2).

## 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 June 30, 2020 (and equal to fair value)	\$ -	\$ 166	\$ 166
Deduct: Carrying value of transaction costs included in debt balance	-	(4)	(4)
Carrying value at June 30, 2020	-	162	162
Current portion	-	3	3
Non-current portion	-	159	159

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

Year	Term Debt Facilities
2020	2
2021	3
2022	3
2023	113
2024	1
2025	44
	166

## 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.

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Notes to Condensed Consolidated Interim Financial Statements

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(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 June 30, 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 8.4%

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 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.

# CONSTELLATION SOFTWARE INC.

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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 June 30, 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 June 30, 2020 was \$267 (December 31, 2019 - \$286).

## 11. Provisions

At January 1, 2020	\$	16
Reversal		(2)
Provisions recorded during the period		8
Provisions used during the period		(8)
Effect of movements in foreign exchange and other		(0)
At June 30, 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 and six months ended June 30, 2020 was 37% and 33% (29% and 27% for the three and six months ended June 30, 2019).

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

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Notes to Condensed Consolidated Interim Financial Statements

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(Unaudited)

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
June 30, 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. During the three months ended June 30, 2020, the Company declared a \$1.00 per share dividend to all common shareholders of record at close of business on June 19, 2020. The dividend declared in the quarter ended June 30, 2020 representing \$21 were paid and settled on July 10, 2020.

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

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(Unaudited)

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Interest income on cash	\$ (0)	\$ (0)	\$ (0)	\$ (3)
(Increase) decrease in the fair value of equity securities held for trading	(0)	(0)	2	(0)
Share in net (income) loss of equity investee	0	0	0	(0)
Finance and other income	(1)	(0)	(3)	(0)
<b>Finance and other expense (income)</b>	<b>\$ (1)</b>	<b>\$ (0)</b>	<b>\$ (2)</b>	<b>\$ (3)</b>
Interest expense on debt and debentures	\$ 8	\$ 7	\$ 16	\$ 15
Interest expense on lease obligations	2	2	4	4
Amortization of debt related transaction costs	0	0	1	1
Amortization of debenture discount (premium) and associated rights offering, net	(1)	(1)	(2)	(2)
Other finance costs	1	1	3	1
<b>Finance costs</b>	<b>\$ 10</b>	<b>\$ 9</b>	<b>\$ 22</b>	<b>\$ 18</b>

## 15. Earnings per share

### Basic and diluted earnings per share

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
<b>Numerator:</b>				
Net income	\$ 83	\$ 73	\$ 166	\$ 160
<b>Denominator:</b>				
Basic and diluted shares outstanding	21,191,530	21,191,530	21,191,530	21,191,530
<b>Earnings per share</b>				
Basic and diluted	\$ 3.90	\$ 3.45	\$ 7.81	\$ 7.54

## 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 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

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

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(Unaudited)

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 June 30, 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.

	June 30, 2020				December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Equity securities held for trading	\$ 8	\$ -	\$ -	\$ 8	\$ 10	\$ -	\$ -	\$ 10
	<b>8</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>10</b>
<b>Liabilities:</b>								
Contingent consideration	\$ -	\$ -	\$ 53	\$ 53	\$ -	\$ -	\$ 59	\$ 59
	<b>-</b>	<b>-</b>	<b>53</b>	<b>53</b>	<b>-</b>	<b>-</b>	<b>59</b>	<b>59</b>

There were no transfers of fair value measurement between level 1, 2 and 3 of the fair value hierarchy in the periods ended June 30, 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.

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Balance at January 1, 2020	\$ 59
Increase from business acquisitions	10
Cash recoveries (payments)	(9)
Charges through profit or loss	(3)
Foreign exchange and other movements	(5)
Balance at June 30, 2020	53
Contingent consideration classified as current liabilities	19
Contingent consideration classified as other non-current liabilities	34

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.



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## 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		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Decrease (increase) in current accounts receivable	\$ 77	\$ 10	\$ 48	\$ 18
Decrease (increase) in current unbilled revenue	6	(5)	12	(22)
Decrease (increase) in other current assets	6	(16)	(4)	(30)
Decrease (increase) in inventories	1	(6)	0	(10)
Decrease (increase) in other non-current assets	(3)	(1)	1	(1)
Increase (decrease) in other non-current liabilities	5	(5)	(8)	(6)
Increase (decrease) in current accounts payable and accrued liabilities, excluding holdbacks from acquisitions	(4)	(8)	(68)	(79)
Increase (decrease) in current deferred revenue	(123)	(97)	122	115
Increase (decrease) in current provisions	(0)	(2)	(3)	8
Change in non-cash operating working capital	\$ (35)	\$ (130)	\$ 100	\$ (7)

## 20. Subsequent events

On August 6, 2020 the Company declared a \$1.00 per share dividend that is payable on October 9, 2020 to all common shareholders of record at close of business on September 18, 2020.

On May 20, 2020 the Company entered into a binding agreement with IJssel B.V. (the "Seller") to purchase 100% of the shares of Topicus.com B.V. ("Topicus"), a Netherlands-based diversified vertical market software provider. The transaction is currently expected to close in 2020, subject to the satisfaction of certain closing conditions. The purchase of Topicus will be financed with TSS' cash on hand and its existing revolving line of credit and requires no additional funding from Constellation. Consideration will be in the form of a cash payment plus the issuance to the Seller of approximately 9% of the shares of the new operating group Topicus.com (the merged TSS and Topicus economic entity). Annual gross revenues of Topicus for 2019 were approximately €101 and total tangible assets at December 31, 2019 were approximately €7.

Subsequent to June 30, 2020, the Company completed or entered into agreements to acquire a number of businesses for aggregate cash consideration of \$64 on closing plus cash holdbacks of \$12 and contingent consideration with an estimated fair value of \$2 for total consideration of \$78. The business acquisitions include companies catering primarily to the not-for-profit organizations, distillery, mining, retail management and distribution, communications, rental, healthcare, textiles and apparel, manufacturing plant performance, small and

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medium sized businesses, aerospace, fleet and facility management, and marine asset management verticals and are all software companies similar to the existing business of the Company.