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CONSTELLATION  
SOFTWARE  
INC.

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Constellation Software Inc.

# **INTERIM FINANCIAL REPORT**

Third Quarter Fiscal Year 2022

For the three and nine month periods ended  
September 30, 2022  
(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 nine month periods ended September 30, 2022, 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 November 4, 2022. 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 IRGA / TSS membership liability revaluation charge, and property and equipment purchased, and includes interest and dividends received. The portion of this amount applicable to non-controlling interests is then deducted. 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 may not be comparable to similar financial measures disclosed by other issuers. 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.

## **Corporate Reorganization**

On January 4, 2021 (in anticipation of the acquisition of Topicus.com B.V.), the Company’s subsidiary, Constellation Software Netherlands Holding Coöperatief U.A. (“CSNH”), which principally holds the Total Specific Solutions Operating Group (“TSS”), completed a corporate reorganization. In conjunction with the reorganization, the following steps were completed on January 4, 2021:

- CSNH changed its name to Topicus.com Coöperatief U.A. (“Topicus Coop”).
- The Company engaged in a series of transactions the result of which was that its then existing equity interest in Topicus Coop became an equity interest in Topicus.com Inc. (“Topicus”) and Topicus became the new parent company of Topicus Coop. Topicus issued and Constellation received 39,412,385 preferred shares of Topicus (the “Topicus Preferred Shares”) and 39,412,385 subordinate voting shares of Topicus (the “Topicus Subordinate Voting Shares”). CSI distributed 39,412,367 of the Topicus Subordinate Voting Shares to its common shareholders pursuant a dividend-in-kind and continues to hold 18 Topicus Subordinate Voting Shares of Topicus.
- Constellation also holds 1 super voting share of Topicus (the “Topicus Super Voting Share”). The Topicus Super Voting Share entitles Constellation to that number of votes that equals 50.1% of the aggregate number of votes attached to all the outstanding Topicus Super Voting Shares and Topicus Subordinate Voting Shares. As a result, Constellation Software Inc. controls Topicus.
- Topicus Coop issued 19,665,642 Preference Units and 19,665,642 Ordinary Units to Joday Investments II B.V. (“Joday”) and certain individual investors affiliated therewith (being the previous minority owners of CSNH) (collectively known as the “Joday Group”).

On February 1, 2022, the Topicus Preferred Shares and Topicus Coop Preference Units were converted to Topicus Subordinate Voting Shares and Topicus Coop Ordinary Units respectively. Subsequent to the conversion, CSI will continue to consolidate Topicus and reflect an equity interest of 60.65% in Topicus and a non-controlling interest of 39.35%. The equity interest of 60.65% that the Company reflects in Topicus principally comprises the Company’s Subordinate Voting Shares and the ordinary units of Topicus Coop (“Topicus Coop Ordinary Units”) that are currently owned by the Joday Group and subject to the terms of the investor rights and governance agreement entered into by CSI, the Joday Group, Ijssel B.V., Topicus and Topicus Coop on January 5, 2021 (the “IRGA”).

## **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 rights to certain product updates “when and if available”. 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, depreciation, and other general operating expenses.

## Results of Operations

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

Unaudited

	Three months ended		Period-Over-Period Change		Nine months ended		Period-Over-Period Change	
	September 30,				September 30,			
	2022	2021	\$	%	2022	2021	\$	%
<b>Revenue</b>	<b>1,725</b>	<b>1,299</b>	<b>426</b>	<b>33%</b>	<b>4,774</b>	<b>3,724</b>	<b>1,051</b>	<b>28%</b>
Expenses	1,344	943	401	43%	3,677	2,712	965	36%
Amortization of intangible assets	177	134	43	32%	491	376	115	31%
Foreign exchange (gain) loss	(57)	(5)	(51)	986%	(98)	(3)	(95)	NM
IRGA / TSS membership liability revaluation charge	33	25	8	33%	89	107	(18)	-16%
Finance and other income	8	(4)	13	NM	24	(9)	32	NM
Bargain purchase gain	(3)	(1)	(2)	NM	(4)	(1)	(3)	332%
Impairment of intangible and other non-financial assets	-	1	(1)	-100%	1	7	(6)	-81%
Redeemable preferred securities expense (income)	-	-	-	NM	-	295	(295)	-100%
Finance costs	29	18	11	62%	73	50	23	47%
Income before income taxes	193	188	5	3%	521	190	332	175%
<b>Income tax expense (recovery)</b>								
Current income tax expense (recovery)	113	70	43	61%	322	209	113	54%
Deferred income tax expense (recovery)	(63)	(4)	(60)	NM	(189)	(43)	(146)	341%
Income tax expense (recovery)	50	67	(17)	-25%	133	166	(33)	-20%
<b>Net income (loss) attributable to:</b>								
Common shareholders of CSI	136	107	29	28%	360	186	174	93%
Non-controlling interests	7	15	(7)	-51%	28	(162)	191	NM
Net income (loss)	<b>143</b>	<b>121</b>	<b>22</b>	<b>18%</b>	<b>388</b>	<b>24</b>	<b>364</b>	<b>NM</b>
<b>Net cash flows from operating activities</b>	<b>321</b>	<b>292</b>	<b>29</b>	<b>10%</b>	<b>897</b>	<b>959</b>	<b>(61)</b>	<b>-6%</b>
<b>Free cash flow available to shareholders</b>	<b>229</b>	<b>226</b>	<b>3</b>	<b>1%</b>	<b>563</b>	<b>639</b>	<b>(76)</b>	<b>-12%</b>
Weighted average number of shares outstanding								
Basic and diluted	21.2	21.2			21.2	21.2		
<b>Net income (loss) per share</b>								
Basic and diluted	\$ 6.42	\$ 5.04	\$ 1.38	27%	\$ 16.99	\$ 8.79	\$ 8.20	93%
<b>Net cash flows from operating activities per share</b>								
Basic and diluted	\$ 15.17	\$ 13.78	\$ 1.39	10%	\$ 42.34	\$ 45.24	\$ (2.90)	-6%
<b>Free cash flow available to shareholders per share</b>								
Basic and diluted	\$ 10.82	\$ 10.68	\$ 0.15	1%	\$ 26.58	\$ 30.16	\$ (3.59)	-12%
<b>Cash dividends declared per share</b>								
Basic and diluted	\$ 1.00	\$ 1.00	\$ -	0%	\$ 3.00	\$ 3.00	\$ -	0%

NM - Not meaningful

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

## Comparison of the three and nine month periods ended September 30, 2022 and 2021

### Revenue:

Total revenue for the quarter ended September 30, 2022 was \$1,725 million, an increase of 33%, or \$426 million, compared to \$1,299 million for the comparable period in 2021. For the first nine months of 2022 total revenues were \$4,774 million, an increase of 28%, or \$1,051 million, compared to \$3,724 million for the comparable period in 2021. The increase for both the three and nine month periods compared to the same periods in the prior year is primarily attributable to growth from acquisitions as the Company experienced organic growth of negative 3% and negative 2% respectively, positive 2% and 3% respectively after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business. For 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. Organic growth is not a standardized financial measure and might not be comparable to measures disclosed by other issuers.

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

	Three months ended September 30,		Period-Over- Period Change		Q321 Proforma Adj. (Note 1)	Organic Growth	Nine months ended September 30,		Period-Over- Period Change		Q321 Proforma Adj. (Note 2)	Organic Growth
	2022	2021	\$	%	\$	%	2022	2021	\$	%	\$	%
	(\$ in millions, except percentages)											
Licenses	79	69	10	15%	25	-16%	220	206	14	7%	59	-17%
Professional services	375	256	119	46%	148	-7%	985	747	238	32%	311	-7%
Hardware and other	54	45	9	20%	13	-7%	151	127	24	19%	36	-7%
Maintenance and other recurring	1,217	929	288	31%	298	-1%	3,418	2,643	775	29%	727	1%
	1,725	1,299	426	33%	484	-3%	4,774	3,724	1,051	28%	1,132	-2%

\$M - Millions of dollars

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

Note 1: Estimated pre-acquisition revenues for the three months ended September 30, 2021 from companies acquired after June 30, 2021. (Obtained from unaudited vendor financial information.)

Note 2: Estimated pre-acquisition revenues for the nine months ended September 30, 2021 from companies acquired after December 31, 2020. (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 Q3 2020. Note that the estimated revenues achieved by acquired companies in the corresponding financial period preceding the date of acquisition by Constellation may be updated in the quarter following the quarter they were acquired resulting in slight variances to previously reported figures.

	Quarter Ended									
	Sep. 30 2020	Dec. 31 2020	Mar. 31 2021	Jun. 30 2021	Sep. 30 2021	Dec. 31 2021	Mar. 31 2022	Jun. 30 2022	Sep. 30 2022	
Licenses	-10%	-6%	-4%	18%	3%	4%	-13%	-21%	-16%	
Professional services	-8%	-4%	6%	17%	8%	6%	-5%	-8%	-7%	
Hardware and other	-7%	-13%	-12%	15%	-12%	-12%	-5%	-8%	-7%	
Maintenance and other recurring	2%	4%	7%	12%	8%	5%	4%	1%	-1%	
<b>Revenue</b>	<b>-1%</b>	<b>1%</b>	<b>6%</b>	<b>14%</b>	<b>7%</b>	<b>4%</b>	<b>1%</b>	<b>-2%</b>	<b>-3%</b>	

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

	Quarter Ended									
	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	
	<u>2020</u>	<u>2020</u>	<u>2021</u>	<u>2021</u>	<u>2021</u>	<u>2021</u>	<u>2022</u>	<u>2022</u>	<u>2022</u>	
Licenses	-11%	-7%	-8%	12%	2%	5%	-11%	-17%	-11%	
Professional services	-10%	-6%	1%	10%	6%	7%	-2%	-3%	-2%	
Hardware and other	-10%	-15%	-16%	9%	-13%	-11%	-3%	-4%	1%	
Maintenance and other recurring	1%	2%	3%	7%	6%	6%	7%	6%	5%	
<b>Revenue</b>	<b>-3%</b>	<b>-1%</b>	<b>1%</b>	<b>8%</b>	<b>5%</b>	<b>5%</b>	<b>4%</b>	<b>2%</b>	<b>2%</b>	

Expenses:

The following table displays the breakdown of our expenses:

Expenses	Three months ended				Nine months ended			
	September 30,		Period-Over-Period Change		September 30,		Period-Over-Period Change	
	<u>2022</u>	<u>2021</u>	\$	%	<u>2022</u>	<u>2021</u>	\$	%
	(\$ in millions, except percentages)				(\$ in millions, except percentages)			
Staff	925	676	249	37%	2,581	1,982	600	30%
Hardware	31	25	6	23%	88	71	17	24%
Third party license, maintenance and professional services	167	113	55	49%	443	317	125	40%
Occupancy	12	10	2	19%	35	30	5	18%
Travel, Telecommunications, Supplies & Software and equipment	80	46	34	74%	215	129	87	67%
Professional fees	26	21	5	23%	78	53	25	46%
Other, net	64	21	43	201%	132	41	91	226%
Depreciation	38	31	7	23%	105	90	15	17%
	<b>1,344</b>	<b>943</b>	<b>401</b>	<b>43%</b>	<b>3,677</b>	<b>2,712</b>	<b>965</b>	<b>36%</b>

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

Overall expenses for the quarter ended September 30, 2022 increased 43%, or \$401 million to \$1,344 million, compared to \$943 million during the same period in 2021. As a percentage of total revenue, expenses equalled 78% for the quarter ended September 30, 2022 and 73% for the same period in 2021. During the nine months ended September 30, 2022, expenses increased 36%, or \$965 million to \$3,677 million, compared to \$2,712 million during the same period in 2021. As a percentage of total revenue, expenses equalled 77% for the nine months ended September 30, 2022 and 73% for the same period in 2021. For the three and nine months ended September 30, 2022 the change in valuation of the US dollar against most major currencies in which the Company transacts business resulted in an approximate 6% and 5% decrease in expenses respectively compared to the comparable periods of 2021.

**Staff expense** – Staff expenses increased 37% or \$249 million for the quarter ended September 30, 2022 and 30% or \$600 million for the nine months ended September 30, 2022 over the same periods in 2021. 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 September 30,		Period-Over- Period Change		Nine months ended September 30,		Period-Over- Period Change	
	<u>2022</u>	<u>2021</u>	\$	%	<u>2022</u>	<u>2021</u>	\$	%
	(\$ in millions, except percentages)				(\$ in millions, except percentages)			
Professional services	227	139	88	63%	597	410	187	46%
Maintenance	171	133	39	29%	493	395	98	25%
Research and development	244	185	58	31%	689	539	150	28%
Sales and marketing	114	92	22	24%	331	268	63	23%
General and administrative	170	127	43	33%	470	369	101	27%
	925	676	249	37%	2,581	1,982	600	30%

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

The increase in staff expenses for the three and nine months ended September 30, 2022 was primarily due to the growth in the number of employees compared to the same periods in 2021 primarily due to acquisitions.

**Hardware expenses** – Hardware expenses increased 23% or \$6 million for the quarter ended September 30, 2022 and 24% or \$17 million for the nine months ended September 30, 2022 over the same periods in 2021 as compared with the 20% and 19% increases in hardware and other revenue for the three and nine month periods ending September 30, 2022 respectively over the comparable periods in 2021. Hardware margins for the three and nine months ended September 30, 2022 were both 42% as compared to 43% and 44% for the comparable periods in 2021.

**Third party license, maintenance and professional services expenses** – Third party license, maintenance and professional services expenses increased 49% or \$55 million for the quarter ended September 30, 2022 and 40% or \$125 million for the nine months ended September 30, 2022 over the same periods in 2021. The increase is primarily due to third party license, maintenance and professional services expenses of acquired businesses.

**Occupancy expenses** – Occupancy expenses increased 19% or \$2 million for the quarter ended September 30, 2022 and 18% or \$5 million for the nine months ended September 30, 2022 over the same periods in 2021. The increase is primarily due to the occupancy expenses of acquired businesses.

**Travel, Telecommunications, Supplies & Software and equipment expenses** – Travel, Telecommunications, Supplies & Software and equipment expenses increased 74% or \$34 million for the quarter ended September 30, 2022 and 67% or \$87 million for the nine months ended September 30, 2022 over the same periods in 2021. The increase in these expenses is primarily due to expenses incurred by acquired businesses. In addition employee travel is increasing as restrictions imposed as a result of COVID-19 are gradually being lifted.

**Professional fees** – Professional fees increased 23% or \$5 million for the quarter ended September 30, 2022 and 46% or \$25 million for the nine months ended September 30, 2022 over the same periods in 2021. There are no individually material reasons contributing to this variance.

**Other, net** – Other expenses increased 201% or \$43 million for the quarter ended September 30, 2022 and 226% or \$91 million for the nine months ended September 30, 2022 over the same periods in 2021. The following table provides a further breakdown of expenses within this category.

	Three months ended September 30,		Period-Over-Period Change		Nine months ended September 30,		Period-Over-Period Change	
	<u>2022</u>	<u>2021</u>	<u>\$</u>	<u>%</u>	<u>2022</u>	<u>2021</u>	<u>\$</u>	<u>%</u>
	(\$ in millions, except percentages)				(\$ in millions, except percentages)			
Advertising and promotion	21	15	7	46%	62	37	25	68%
Recruitment and training	12	6	6	102%	27	16	11	71%
Bad debt expense	2	2	0	23%	5	2	3	159%
R&D tax credits	(9)	(7)	(2)	21%	(23)	(20)	(3)	15%
Contingent consideration	33	3	30	975%	45	9	37	421%
Government assistance	(0)	(1)	1	-74%	(1)	(16)	14	-91%
Other expense, net	6	5	1	15%	16	13	3	27%
	64	21	43	201%	132	41	91	226%

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

In 2020 and 2021 the governments of various jurisdictions in which we have operations had approved legislation and took administrative actions intended to aid businesses that had 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 nine months ended September 30, 2021, we determined that we qualified for an estimated aggregate amount of \$16 million of grants from various government authorities, including the Canada Emergency Wage Subsidy (CEWS) announced by the Government of Canada in April 2020, and recognized such amounts as a reduction in expenses during the period. During 2022, programs have either been canceled or we have determined that we no longer qualify. During the nine months ended September 30, 2022 we recognized \$1 million as a reduction in expenses from programs that are still applicable.

The contingent consideration expense amounts recorded for the three and nine months ended September 30, 2022 related to an increase in anticipated acquisition earnout payment accruals primarily as a result of increases to revenue forecasts for the associated acquisitions. Revenue forecasts are updated on a quarterly basis and the related anticipated acquisition earnout payment accruals are updated accordingly. The advertising and promotion increase is primarily related to spending by acquired businesses and a gradual return to pre-COVID-19 levels of spending on trade shows and other marketing activities. Recruitment and training expenses have increased as many businesses that had a freeze on hiring as a result of COVID-19 are now starting to hire.

There are no individually material reasons contributing to the remaining variances.

**Depreciation** – Depreciation of property and equipment increased 23% or \$7 million for the quarter ended September 30, 2022 and 17% or \$15 million for the nine months ended September 30, 2022 over the same periods in 2021. 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 September 30,		Period-Over- Period Change		Nine months ended September 30,		Period-Over- Period Change	
	<u>2022</u>	<u>2021</u>	\$	%	<u>2022</u>	<u>2021</u>	\$	%
	(\$ in millions, except percentages)				(\$ in millions, except percentages)			
Amortization of intangible assets	177	134	43	32%	491	376	115	31%
Foreign exchange (gain) loss	(57)	(5)	(51)	986%	(98)	(3)	(95)	NM
IRGA / TSS membership liability revaluation charge	33	25	8	33%	89	107	(18)	-16%
Finance and other expense (income)	8	(4)	13	NM	24	(9)	32	NM
Bargain purchase gain	(3)	(1)	(2)	200%	(4)	(1)	(3)	332%
Impairment of intangible and other non-financial assets	-	1	(1)	-100%	1	7	(6)	-81%
Redeemable preferred securities expense (income)	-	-	-	NM	-	295	(295)	-100%
Finance costs	29	18	11	62%	73	50	23	47%
Income tax expense (recovery)	50	67	(17)	-25%	133	166	(33)	-20%
	238	234	3	1%	709	988	(279)	-28%

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 32% or \$43 million for the quarter ended September 30, 2022 and 31% or \$115 million for the nine months ended September 30, 2022 over the same periods in 2021. The increase in amortization expense for the three and nine months ended September 30, 2022 is primarily attributable to an increase in the carrying amount of our intangible asset balance over the twelve-month period ended September 30, 2022 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 nine months ended September 30, 2022, we realized foreign exchange gains of \$57 million and \$98 million respectively compared to gains of \$5 million and \$3 million for the same periods in 2021. The following table provides a breakdown of these amounts.

	Three months ended September 30,		Period-Over-Period Change		Nine months ended September 30,		Period-Over-Period Change	
	<u>2022</u>	<u>2021</u>	\$	%	<u>2022</u>	<u>2021</u>	\$	%
	(\$ 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>	(13)	11	(24)	NM	(25)	11	(36)	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.	(14)	(6)	(8)	141%	(17)	1	(17)	NM
- revaluation of the liability associated with the IRGA (Euro denominated liability)	(25)	(9)	(16)	178%	(56)	(16)	(40)	246%
Remaining foreign exchange (gain) loss	(5)	(1)	(4)	291%	(0)	2	(2)	NM
	(57)	(5)	(51)	986%	(98)	(3)	(95)	NM

NM - Not meaningful

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

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

The remaining foreign exchange gains and losses per the table above are primarily related to the unrealized foreign exchange translation gains 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.

**IRGA / TSS membership liability revaluation charge** – On December 23, 2014, in accordance with the terms of the purchase and sale agreement for the initial acquisition of TSS (as defined below) by CSI, and on the basis of the term sheets attached thereto, Constellation and the Joday Group, among others, entered into a Members Agreement (the “Members Agreement”) pursuant to which the Joday Group acquired 33.29% of the voting interests in Constellation Software Netherlands Holding Coöperatief U.A. (which was renamed to Topicus.com Coöperatief U.A.), a subsidiary of Constellation and the indirect owner of 100% of TSS at the time of the acquisition. Total proceeds from this transaction was €39 million (\$49 million).

On January 5, 2021, the Members Agreement was terminated in conjunction with the acquisition of Topicus.com B.V., the reorganization of Topicus Coop and the execution of the IRGA. The IRGA was established to create certain contractual obligations of the parties in respect of the governance of Topicus and Topicus Coop. The Joday Group’s interest in Topicus Coop now comprises 39,331,284 Topicus Coop Ordinary Units (“Topicus Coop Units”) resulting in an interest of 30.29% in Topicus Coop as of September 30, 2022. The IRGA provides for transfer restrictions in respect of the Topicus Coop Units. See “Liability of CSI under the terms of the IRGA” below for further details.

The valuation of the IRGA liability (previously the TSS membership liability) increased by approximately 8% or \$33 million from Q2 2022, and approximately 22% or \$89 million from Q4 2021. The increases are primarily the result of the growth in TSS’ trailing twelve month maintenance revenue on a pro-forma basis (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 3% or \$10 million over the nine month period ended September 30, 2022 from \$395 million to \$405 million as a result of the revaluation charge of \$89 million offset by a distribution to the Joday Group of \$22 million and a \$57 million foreign exchange gain. The IRGA / TSS membership liability is denominated in Euros and the Euro depreciated 14% versus the US dollar during the first nine months of 2022.

**Finance and other expense (income)** – Finance and other expense for the three and nine months ended September 30, 2022 was \$8 million and \$24 million respectively, compared to income of \$4 million and \$9 million respectively for the same periods in 2021. The decrease in fair value of equity securities held for trading for the three and nine months ended September 30, 2022 was \$13 million and \$38 million respectively, compared to increases of \$1 million and \$3 million respectively for the same periods in 2021. Interest earned on cash balances for the three and nine months ended September 30, 2022 was \$0.1 million and \$1 million respectively, compared to \$1 million and \$2 million respectively for the same periods in 2021.

**Bargain purchase gain** – Bargain purchase gains totalling \$3 million and \$4 million were recorded in the three and nine month periods ended September 30, 2022 relating to acquisitions made in the period. Bargain purchase gains totalling \$1 million were recorded in both the three and nine month periods ended September 30, 2021 relating to acquisitions made in the period. The gains in all periods resulted from the fact that the fair value of the separately identifiable assets and liabilities acquired exceeded the total consideration paid, principally due to the acquisition of certain assets that will benefit the Company that had limited value to the sellers.

**Impairment of intangible and other non-financial assets** – Impairment expenses of nil and \$1 million were recorded in the three and nine month periods ended September 30, 2022 compared to \$1 million and \$7 million for the same periods in 2021. These expenses primarily relate to acquired businesses that have been unable to achieve the goals established in their associated investment thesis.

**Redeemable preferred securities expense (income)** – The redeemable preferred securities expense for the nine months ended September 30, 2021 was \$295 million, with no similar expense recorded in 2022. In conjunction with the acquisition of Topicus.com B.V., Topicus Coop issued 5,842,882 Topicus Coop Preference Units (the

“Preferred Securities”) to Ijssel B.V. The Preferred Securities were non-voting and were redeemable at the option of the holder for a redemption price of approximately €19.06 (\$23.28) per security. The redemption price was either to be settled in cash or through the issuance of a variable number of Topicus Coop Ordinary Units of equal value. The Preferred Securities were convertible into Topicus Coop Ordinary Units at a conversion ratio of 1:1, and the Topicus Coop Ordinary Units are convertible into Subordinate Voting Shares of Topicus also at a conversion ratio of 1:1. The Preferred Securities holders were also entitled to a fixed annual cumulative dividend of 5% per annum on the initial Preferred Securities value of approximately €19.06 (\$23.28) per security.

The Preferred Securities were recorded at fair value at the end of each reporting period until the Notification of Conversion (as described in note 12 to the Annual Consolidated Financial Statements for the year ended December 31, 2021). The change in fair value of the Preferred Securities was recorded as redeemable preferred securities expense (income) in the condensed consolidated interim statements of income. Based on the Preferred Securities conversion right, the value of the Preferred Securities was primarily dependent on the price movement of Topicus’ Subordinate Voting Shares. The Notification of Conversion was received from the Preferred Securities holders on May 17, 2021. The closing market price of Topicus’ Subordinate Voting Shares on that date was C\$89.87 or approximately \$74.28. The increase in value from \$23.28 to \$74.28 multiplied by the 5.8 million Preferred Securities outstanding equalled approximately \$298 million. The difference between the increase of \$298 million and the fair value adjustment of \$295 million for the nine month period ended September 30, 2021 primarily relates to the accrued dividend of \$3 million for the period.

On February 1, 2022, all outstanding Topicus Coop Preference Securities were converted into Topicus Coop Ordinary Units.

**Finance costs** – Finance costs for the quarter ended September 30, 2022 increased \$11 million to \$29 million, compared to \$18 million for the same period in 2021. During the nine months ended September 30, 2022, finance costs increased \$23 million to \$73 million, from \$50 million for the same period in 2021. The increases are primarily a result of an increase in the average debt outstanding in 2022 as compared to 2021.

**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 September 30, 2022, income tax expense decreased \$17 million to \$50 million compared to \$67 million for the same period in 2021. During the nine months ended September 30, 2022, income tax expense decreased \$33 million to \$133 million compared to \$166 million for the same period in 2021. 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 (loss). The Company’s consolidated effective tax rate in respect of continuing operations for the three and nine months ended September 30, 2022 was 26% for both periods (35% and 87% respectively for the three and nine months ended September 30, 2021). The 2021 effective tax rate is impacted by the redeemable preferred securities expense, which is not deductible for tax purposes.

Effective for 2022, research and experimentation (R&E) expenditures are no longer allowed to be deducted as incurred for US entities. The Tax Cuts and Jobs Act (TCJA) mandates that, for tax years beginning after December 31, 2021, R&E expenditures be deferred and amortized. US-based expenditures will be amortized over a 5 year period, and non-US-based expenditures over a 15 year period. The total estimated impact to current income tax expense is \$159 million for the 2022 fiscal year. \$43 million and \$117 million was accrued and expensed in the three and nine month periods ended September 30, 2022 respectively. An offsetting amount has been booked to deferred income tax expense so there is no impact on net tax expense or the effective tax rate.

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 attributable to common shareholders of CSI for the quarter ended September 30, 2022 was \$136 million compared to \$107 million for the same period in 2021. On a per share basis this translated into a net income per diluted share of \$6.42 in the quarter ended September 30, 2022 compared to net income per diluted share of \$5.04 for the same period in 2021. For the nine months ended September 30, 2022, net income attributable to common shareholders of CSI was \$360 million or \$16.99 per diluted share compared to \$186 million or \$8.79 per diluted share for the same period in 2021. There was no change in the number of shares outstanding.

Net cash flows from operating activities ("CFO"):

For the quarter ended September 30, 2022, CFO increased \$29 million to \$321 million compared to \$292 million for the same period in 2021 representing an increase of 10%. For the nine months ended September 30, 2022, CFO decreased \$61 million to \$897 million compared to \$959 million for the same period in 2021 representing a decrease of 6%. The primary reasons for the decline in CFO for the nine months ended September 30, 2022 is that CFO includes the impact of changes in non-cash operating assets and liabilities exclusive of effects of business combinations or, changes in non-cash operating working capital ("NCOWC"), and income taxes paid. For the nine months ended September 30, 2022 there was \$27 million of cash used in NCOWC compared to \$53 million of cash generated from NCOWC for the same period in 2021. Cash used in NCOWC associated with the Altera business unit (see "Acquisition of business segment from Allscripts Healthcare Solutions" below) was \$32 million for the nine months ended September 30, 2022. There are many reasons contributing to the NCOWC impact variance for the Company, including Altera, none of which are indicative of an underlying concern with the overall NCOWC balance. Specifically, there are no concerns with accounts receivable or unbilled revenue aging. Income taxes paid increased 87% or \$41 million for the quarter ended September 30, 2022 and 42% or \$83 million for the nine months ended September 30, 2022 over the same periods in 2021. Approximate \$50 million and \$100 million cash tax payments were made in the three and nine month periods ending September 30, 2022 respectively relating to the deferral of R&E expenses associated with the TCJA. (See "Income taxes" above.)

Free cash flow available to shareholders ("FCFA2S"):

For the quarter ended September 30, 2022, FCFA2S increased \$3 million to \$229 million compared to \$226 million for the same period in 2021 representing an increase of 1%. For the nine months ended September 30, 2022, FCFA2S decreased \$76 million to \$563 million compared to \$639 million for the same period in 2021 representing a decrease of 12%. The items negatively impacting CFO summarized above are the same items negatively impacting FCFA2S. On February 1, 2022, the Topicus Preferred Shares and Topicus Coop Preference Units were converted to Topicus Subordinate Voting Shares and Topicus Coop Ordinary Units respectively. As a result of this conversion the non-controlling interest in Topicus.com Inc. decreased from approximately 70% to 39%.

The controlling / non-controlling interest ("NCI") percentage is based on the Topicus Subordinate Voting Shares and Topicus Coop Ordinary Units ("Common Shares"). The controlling interest that the Company reflects in Topicus includes the Common Shares that are currently owned by the Joday Group and subject to the terms of the IRGA.

**Common Share Holdings:**

	Jan 31, 2022		Feb 1, 2022		Sep 30, 2022	
Public shareholders of TOI	40,512,360	62.4%	40,512,360	31.2%	41,137,360	31.7%
Ijssel Group	4,742,889	7.3%	10,585,771	8.2%	9,960,771	7.7%
Joday Group	19,665,642	30.3%	39,331,284	30.3%	39,331,284	30.3%
CSI	19	0.0%	39,412,404	30.4%	39,412,404	30.4%
	<u>64,920,910</u>		<u>129,841,819</u>		<u>129,841,819</u>	
NCI		69.7%		39.4%		39.4%

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	(\$ in millions)		(\$ in millions)	
<b>Net cash flows from operating activities</b>	321	292	897	959
<b>Adjusted for:</b>				
Interest paid on lease obligations	(3)	(2)	(8)	(7)
Interest paid on other facilities	(23)	(12)	(49)	(30)
Credit facility transaction costs	(0)	(0)	(3)	(4)
Payments of lease obligations	(24)	(21)	(69)	(61)
IRGA / TSS membership liability revaluation charge	(33)	(25)	(89)	(107)
Property and equipment purchased	(8)	(7)	(27)	(18)
Interest and dividends received	0	1	0	1
	<u>230</u>	<u>226</u>	<u>652</u>	<u>732</u>
Less amount attributable to Non-controlling interests	(1)	1	(89)	(93)
Free cash flow available to shareholders	229	226	563	639

Due to rounding, certain totals may not foot.

**Quarterly Results**

	Quarter Ended								
	Sep. 30 2020	Dec. 31 2020	Mar. 31 2021	Jun. 30 2021	Sep. 30 2021	Dec. 31 2021	Mar. 31 2022	Jun. 30 2022	Sep. 30 2022
Revenue	1,003	1,091	1,176	1,249	1,299	1,383	1,431	1,618	1,725
Net income (loss) *	122	149	(9)	88	107	124	98	126	136
CFO	234	355	495	171	292	341	498	78	321
FCFA2S	181	307	269	145	226	244	324	12	229
Net income per share *									
Basic & diluted	5.78	7.02	-0.41	4.16	5.04	5.86	4.63	5.94	6.42
CFO per share									
Basic & diluted	11.05	16.73	23.38	8.07	13.78	16.09	23.51	3.66	15.17
FCFA2S per share									
Basic & diluted	8.56	14.47	12.67	6.84	10.68	11.50	15.27	0.56	10.82

\* Attributable to common shareholders of CSI

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.

### Spin-Out of Topicus.com Inc.

Constellation (TSX:CSU) and Topicus (TSXV:TOI) announced on January 5, 2021 that Constellation, acting through its Total Specific Solutions (“TSS”) operating group and its subsidiary TPCS Holding B.V., completed the purchase of 100% of the shares of Topicus.com B.V., a Netherlands-based diversified vertical market software provider, from IJssel B.V. and that in connection with the closing of the acquisition, TSS has been spun out of Constellation and now operates, together with Topicus.com B.V., as a separate public company, Topicus.com Inc. (collectively, the “Spin-Out Transactions”).

In connection with the completion of the Spin-Out Transactions, on January 4, 2021, all of Constellation’s common shareholders of record on December 28, 2020 received, by way of a dividend-in-kind, 1.859817814 subordinate voting shares of Topicus.com (the “Spin-Out Shares”) for each common share of Constellation held.

Constellation’s equity interest in TSS prior to the Spin-Out Transactions was 66.7%. Constellation’s equity interest in Topicus after completion of the Spin-Out Transactions on a fully diluted basis was approximately 30.4%. In addition, Constellation as the holder of the Topicus Super Voting Share is entitled to that number of votes that equals 50.1% of the aggregate number of votes attached to all of the outstanding voting shares at such time. As a result of the Topicus Super Voting Share Constellation consolidated the financial results of Topicus with its financial results.

The tables below provide certain supplemental balance sheet, statement of income, and net operating cash flow information of Topicus for the three and nine months ended September 30, 2022. Topicus is not considered a reportable operating segment of Constellation, however, management has chosen to provide certain supplemental financial information to provide greater clarity into the operating performance and cash flow from operations of Topicus considering Constellation’s equity ownership.

Selected Balance Sheet Information  
As at September 30, 2022

(Unaudited)	<b>Constellation Software Inc. (excluding Topicus)</b>	<b>Topicus</b>	<b>Consolidated</b>
Cash	532	133	665
Bank debt and debentures	1,162	258	1,420

Statement of Income  
(Excluding intercompany activity)

(Unaudited)	For the three months ended September 30, 2022			For the nine months ended September 30, 2022		
	Constellation Software Inc. (excluding Topicus)	Topicus	Consolidated	Constellation Software Inc. (excluding Topicus)	Topicus	Consolidated
<b>Revenue</b>	<b>1,497</b>	<b>228</b>	<b>1,725</b>	<b>4,086</b>	<b>689</b>	<b>4,774</b>
Expenses	1,170	175	1,344	3,153	524	3,677
Amortization of intangible assets	147	29	177	408	83	491
Foreign exchange (gain) loss	(57)	0	(57)	(99)	1	(98)
IRGA / Membership liability revaluation charge	33	-	33	89	-	89
Finance and other income	11	(2)	8	32	(8)	24
Bargain purchase gain	(3)	-	(3)	(4)	-	(4)
Impairment of intangible and other non-financial assets	-	-	-	1	-	1
Redeemable preferred securities expense (income)	-	-	-	-	-	-
Finance costs	25	4	29	62	11	73
Income before income taxes	170	23	193	442	79	521
<b>Income tax expense (recovery)</b>						
Current income tax expense (recovery)	101	12	113	286	36	322
Deferred income tax expense (recovery)	(57)	(7)	(63)	(171)	(19)	(189)
Income tax expense (recovery)	45	5	50	115	18	133
<b>Net income</b>	<b>125</b>	<b>18</b>	<b>143</b>	<b>327</b>	<b>61</b>	<b>388</b>
<b>Net cash flows from operating activities</b>	<b>310</b>	<b>11</b>	<b>321</b>	<b>722</b>	<b>175</b>	<b>897</b>

Foreign Exchange Adjusted Organic Revenue Growth  
(Excluding intercompany activity)

	For the three months ended September 30, 2022			For the nine months ended September 30, 2022		
	Constellation Software Inc. (excluding Topicus)	Topicus	Consolidated	Constellation Software Inc. (excluding Topicus)	Topicus	Consolidated
Licenses	-9%	-26%	-11%	-12%	-24%	-13%
Professional services	-3%	2%	-2%	-3%	0%	-2%
Hardware and other	1%	-17%	1%	-3%	8%	-3%
Maintenance and other recurring	5%	5%	5%	6%	6%	6%
<b>Revenue</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>

### Acquisition of business segment from Allscripts Healthcare Solutions

On May 2, 2022, Constellation, through its wholly-owned subsidiary, N. Harris Computer Corporation, completed the purchase from Allscripts Healthcare Solutions (“Allscripts”) of Allscripts’ Hospitals and Large Physician Practices business segment. This business segment now operates under the name Altera.

The tables below provide certain supplemental balance sheet, statement of income, and net operating cash flow information of Altera for the three and nine months ended September 30, 2022. Altera is not considered a reportable operating segment of Constellation, however, management has chosen to provide certain supplemental financial information to provide greater clarity into the operating performance and cash flow from operations of Altera considering the size of the business and its impact on the results of Constellation.

Selected Balance Sheet Information  
As at September 30, 2022

(Unaudited)	Constellation Software Inc. (excluding		
	Altera)	Altera	Consolidated
Cash	593	72	665
Bank debt and debentures	1,091	329	1,420

Statement of Income  
(Excluding intercompany activity)

(Unaudited)	For the three months ended September 30, 2022			For the nine months ended September 30, 2022		
	Constellation Software Inc. (excluding Altera)	Altera	Consolidated	Constellation Software Inc. (excluding Altera)	Altera	Consolidated
<b>Revenue</b>	<b>1,506</b>	<b>219</b>	<b>1,725</b>	<b>4,416</b>	<b>359</b>	<b>4,774</b>
Expenses	1,162	183	1,344	3,366	311	3,677
Amortization of intangible assets	160	16	177	461	29	491
Foreign exchange (gain) loss	(55)	(1)	(57)	(98)	(1)	(98)
IRGA / Membership liability revaluation charge	33	-	33	89	-	89
Finance and other income	9	(0)	8	24	(0)	24
Bargain purchase gain	(3)	-	(3)	(4)	-	(4)
Impairment of intangible and other non-financial assets	-	-	-	1	-	1
Redeemable preferred securities expense (income)	-	-	-	-	-	-
Finance costs	25	5	29	66	7	73
Income before income taxes	176	17	193	509	12	521
<b>Income tax expense (recovery)</b>						
Current income tax expense (recovery)	113	1	113	329	(7)	322
Deferred income tax expense (recovery)	(67)	3	(63)	(200)	11	(189)
Income tax expense (recovery)	46	4	50	129	4	133
<b>Net income</b>	<b>131</b>	<b>13</b>	<b>143</b>	<b>380</b>	<b>8</b>	<b>388</b>
<b>Net cash flows from operating activities</b>	<b>288</b>	<b>33</b>	<b>321</b>	<b>869</b>	<b>28</b>	<b>897</b>
<b>Free cash flow available to shareholders</b>	<b>206</b>	<b>24</b>	<b>229</b>	<b>552</b>	<b>11</b>	<b>563</b>

Foreign Exchange Adjusted Organic Revenue Growth  
(Excluding intercompany activity)

	For the three months ended September 30, 2022			For the nine months ended September 30, 2022		
	Constellation Software Inc. (excluding Altera)	Altera	Consolidated	Constellation Software Inc. (excluding Altera)	Altera	Consolidated
Licenses	-5%	-63%	-11%	-11%	-56%	-13%
Professional services	-3%	1%	-2%	-3%	-1%	-2%
Hardware and other	1%	-19%	1%	-2%	-28%	-3%
Maintenance and other recurring	6%	-3%	5%	6%	-3%	6%
<b>Revenue</b>	<b>3%</b>	<b>-4%</b>	<b>2%</b>	<b>3%</b>	<b>-4%</b>	<b>3%</b>

## Liquidity

Our net debt position (bank indebtedness excluding capitalized transaction costs less cash) increased by \$814 million to \$561 million in the nine months ended September 30, 2022 resulting from the net capital deployed on acquisitions plus dividends exceeding cash flows from operations. Cash decreased by \$99 million to \$665 million at September 30, 2022 compared to \$763 million at December 31, 2021 and bank indebtedness increased by \$715 million to \$1,226 million at September 30, 2022 compared to \$511 million at December 31, 2021.

Total assets increased \$1,559 million, from \$5,766 million at December 31, 2021 to \$7,325 million at September 30, 2022. The increase is primarily due to a \$1,041 million increase in intangible assets, an increase in accounts receivable of \$144 million, an increase in unbilled revenue of \$79 million and a \$176 million increase in other assets. At September 30, 2022 ten subsidiaries holding cash totalling \$268 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 \$964 million, from \$2,461 million at December 31, 2021 to \$3,425 million at September 30, 2022. The increase is primarily due to an increase in deferred revenue of \$388 million mainly due to acquisitions made since December 31, 2021 and the timing of maintenance and other billings versus performance and delivery under those customer arrangements, an increase in bank indebtedness of \$395 million, and an increase in accounts payable and accrued liabilities of \$85 million.

### Net Changes in Cash Flows

(\$ in millions)

	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Net cash provided by operating activities	897	959
Net cash from (used in) financing activities	516	(29)
Cash used in the acquisition of businesses	(1,519)	(804)
Cash obtained with acquired businesses	190	112
Net cash from (used in) other investing activities	(116)	(21)
Net cash from (used in) investing activities	(1,445)	(713)
Effect of foreign currency	(67)	(13)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(99)</b>	<b>203</b>

The net cash flows from operating activities were \$897 million for the nine months ended September 30, 2022. The \$897 million provided by operating activities resulted from net income of \$388 million plus \$815 million of non-cash adjustments to net income, offset by \$279 million in taxes paid and \$27 million used towards non-cash operating working capital.

The net cash flows from financing activities for the nine months ended September 30, 2022 were \$516 million, which is mainly a result of \$733 million from the net increase in bank indebtedness offset by dividends paid to common shareholders of \$64 million, a distribution to the Joday Group of \$23 million, lease obligation payments of \$69 million, and interest payments of \$56 million.

The net cash flows used in investing activities for the nine months ended September 30, 2022 were \$1,445 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of \$1,519 million (including payments for holdbacks relating to prior acquisitions), and \$96 million in purchases of other investments, offset by \$190 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 November 5, 2021, Constellation completed an amendment and restatement of its revolving credit facility agreement (the “CSI Facility”), with a syndicate of Canadian chartered banks and U.S. banks in the amount of \$700 million, extending its maturity date to November 2026. 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 September 30, 2022, \$205 million had been drawn from this credit facility, and letters of credit totaling \$13 million were issued, which limits the borrowing capacity on a dollar-for-dollar basis.

### Guarantees

One of CSI’s subsidiaries has entered into a \$72 million (£65 million) term debt facility with a financial institution for which CSI has guaranteed the debt. The facility bears a fixed rate of interest. The term loan contains events of default that, if not remedied, allow the loan note holder to require repayment of the loan principal and interest. The loan is due in 2028.

### Debt without recourse to CSI

Certain of CSI’s subsidiaries have entered into term debt facilities and revolving credit facilities with various financial institutions. Except as noted above, 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):

	<b>Topicus Revolving Credit Facility</b>	<b>Debt Facilities</b>	<b>Total</b>
Principal outstanding at September 30, 2022 (and equal to fair value)	\$ 147	\$ 802	949
Deduct: Carrying value of transaction costs included in debt balance	-	(9)	(9)
Carrying value at September 30, 2022	147	792	939
Current portion	147	87	234
Non-current portion	-	705	705

## 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.

## Liability of CSI under the terms of the IRGA / TSS Membership Agreement

On December 23, 2014, in accordance with the terms of the purchase and sale agreement for the initial acquisition of TSS by CSI, and on the basis of the term sheets attached thereto, Constellation and the Joday Group, among others, entered into a Members Agreement (the “Members Agreement”) pursuant to which the Joday Group acquired 33.29% of the voting interests in Constellation Software Netherlands Holding Coöperatief U.A. (which was renamed to Topicus.com Coöperatief U.A.), a subsidiary of Constellation and the indirect owner of 100% of TSS at the time of the acquisition. Total proceeds from this transaction was €39 million (\$49 million).

On January 5, 2021, the Members Agreement was terminated in conjunction with the acquisition of Topicus.com B.V., the reorganization of Topicus Coop and the execution of the IRGA. The IRGA was established to create certain contractual obligations of the parties in respect of the governance of Topicus and Topicus Coop. The Joday Group’s interest in Topicus Coop now comprises 39,331,284 Topicus Coop Ordinary Units resulting in an interest of 30.29% in Topicus Coop as of March 31, 2022. The IRGA provides for transfer restrictions in respect of the Topicus Coop Units.

Any time after January 5, 2021, any member of the Joday Group has the right, at his or its option, to sell any number of its Topicus Coop Units to CSI at a cash price per Topicus Coop Unit determined in accordance with the IRGA. Upon the exercise of such option by a member of the Joday Group, CSI will be obligated to purchase 33.33% of such Topicus Coop Units within 30 days, and an additional 33.33% on each of the first and the second anniversary of such initial purchase. Notwithstanding the foregoing, CSI can offer Topicus the right to purchase such Topicus Coop Units in lieu of CSI.

In the event of a change of control of CSI, any member of the Joday Group has the right, at his or its option, to sell all of its Topicus Coop Units to CSI at a cash price per Topicus Coop Unit determined in accordance with the IRGA. Upon the exercise of such option by a member of the Joday Group, CSI will be obligated to purchase all such Topicus Coop Units. Notwithstanding the foregoing, CSI can offer Topicus the right to purchase such Topicus Coop Units in lieu of CSI.

If CSI reduces its economic interest in Topicus by a sale or transfer of its economic interest (and not due to any additional issuance of any shares or equity by Topicus) by more than one-third (calculated on a fully converted basis in accordance with the IRGA), any member of the Joday Group has the right, at his or its option, to sell to CSI one-third of its Topicus Coop Units at a cash price per Topicus Coop Unit determined in accordance with the IRGA. Upon the exercise of such put option by a member of the Joday Group, CSI will be obligated to purchase all such put Topicus Coop Units. Notwithstanding the foregoing, CSI can offer Topicus the right to purchase such Topicus Coop Units in lieu of CSI. Any member of the Joday Group has a similar right to sell one-half or all of its remaining Topicus Coop Units, respectively, at its option, if CSI further reduces its remaining fully-diluted economic interest in Topicus by a sale or transfer of its economic interest by one-half and again if CSI sells its entire remaining economic interest in Topicus.

All of the Topicus Coop Ordinary Units and Topicus Coop Preference Units held by the Joday Group and Ijssel B.V. (collectively, the “Topicus Coop Exchangeable Units”) are exchangeable, directly or indirectly, for Topicus Subordinate Voting Shares. All of the above rights of members of the Joday Group apply to any Topicus Subordinate Voting Shares issued on an exchange of Topicus Coop Exchangeable Units.

At any time after December 31, 2023, CSI has the right, at its option, to buy all of the Topicus Coop Units and shares of Topicus held by certain members of the Joday Group (excluding Joday) at a cash price per Topicus Coop Unit (or share of Topicus, as applicable) determined in accordance with the IRGA. After December 31, 2043, CSI has the same right to buy all of the Topicus Coop Units and shares of Topicus held by the remaining members of the Joday Group, including Joday.

In addition, if certain individuals affiliated with Joday are terminated from their employment with Topicus Coop or an affiliate thereof for urgent cause (as defined in the Dutch Civil Code), CSI has the right, at its option, to buy all of Topicus Coop Units held by such individuals at a cash price per Topicus Coop Unit determined in accordance with the IRGA.

The Company classified the above obligations of CSI under the terms of the IRGA as a liability consistent with the classification of similar obligations under the Members Agreement. The main valuation driver in the calculation of the liability is the maintenance and other recurring revenue of Topicus. Maintenance and recurring revenue of Topicus for the trailing twelve months on a pro-forma basis determined at the end of the current reporting period was used as the basis for valuing the interests at each purchase date. Any increase or decrease in the value of such liability is recorded as an expense or income in the consolidated statement of income for the period. In conjunction with the termination of the Members Agreement and the execution of the IRGA, the Company recognized an expense of \$19 million as the formula associated with the calculation of the obligation has changed from the use of actual trailing twelve months maintenance and other recurring revenue of Topicus to a calculation which includes the revenue increase from acquired companies on a pro-forma basis.

During the periods ended September 30, 2022 and December 31, 2021, no options were exercised. During the nine months ended September 30, 2022, a distribution in the amount of \$23 million was paid to the Joday Group relating to their Topicus Preferred Shares.

### **Redeemable Preferred Securities**

In conjunction with the acquisition of Topicus.com B.V., Topicus Coop issued 5,842,882 Topicus Coop Preference Units (the “Preferred Securities”) to Ijssel B.V. The Preferred Securities were non-voting and prior to the Notification of Conversion were redeemable at the option of the holder for a redemption price of approximately €19.06 per unit. The redemption price would have been either settled in cash or through the issuance of a variable number of Topicus Coop Ordinary Units of equal value. The Preferred Securities are convertible into Topicus Coop Ordinary Units at a conversion ratio of 1:1. The Preferred Securities holders were entitled to a fixed annual cumulative dividend of 5% per annum on the initial Preferred Securities value of approximately €19.06 per unit.

On February 1, 2022, the Preferred Securities were converted to Topicus Coop Ordinary Units.

### **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 \$158 million at September 30, 2022. 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 September 30, 2022.

The IRGA liability commitment assumes that the Joday Group has exercised their put option to sell 100% of their interests back to Constellation. This option however has not been exercised as at November 4, 2022. See note 7 to the Unaudited Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2022 for a discussion on the valuation methodology utilized.

### Foreign Currency Exposure

We operate internationally and have foreign currency risks related to our revenue, operating expenses, assets and liabilities denominated in currencies other than the U.S. dollar. Consequently, we believe movements in the foreign currencies in which we transact will impact future revenue and net income. The impact to organic revenue growth for the three and nine months ended September 30, 2022 was approximately negative 6% and negative 4% respectively. 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 nine months ended September 30, 2022, 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 nine months ended September 30, 2022:

Currencies	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	% of Revenue	% of Expenses	% of Revenue	% of Expenses
USD	55%	49%	52%	47%
EUR	17%	16%	19%	18%
GBP	8%	8%	8%	8%
CAD	6%	9%	6%	9%
AUD	4%	4%	4%	4%
BRL	2%	2%	2%	2%
CHF	1%	2%	1%	2%
SEK	1%	1%	1%	1%
Others	7%	11%	7%	9%
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 November 4, 2022, 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 operations 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 September 30, 2022, 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 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 September 30, 2022 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 nine months ended September 30, 2022 and 2021  
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

	September 30, 2022	December 31, 2021	September 30, 2021
<b>Assets</b>			
Current assets:			
Cash	\$ 665	\$ 763	\$ 961
Accounts receivable	744	600	512
Unbilled revenue	219	140	144
Inventories	46	35	32
Other assets (note 5)	473	296	278
	<u>2,146</u>	<u>1,835</u>	<u>1,929</u>
Non-current assets:			
Property and equipment	121	93	91
Right of use assets	274	245	252
Deferred income taxes (note 11)	155	66	63
Other assets (note 5)	160	99	94
Intangible assets (note 6)	4,469	3,428	3,006
	<u>5,179</u>	<u>3,931</u>	<u>3,506</u>
<b>Total assets</b>	<b>\$ 7,325</b>	<b>\$ 5,766</b>	<b>\$ 5,434</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Debt with recourse to Constellation Software Inc. (note 7)	\$ 364	\$ 143	\$ 137
Debt without recourse to Constellation Software Inc. (note 8)	234	60	54
Redeemable preferred securities (note 9)	-	7	7
Accounts payable and accrued liabilities	917	832	720
Dividends payable (note 12)	21	22	21
Deferred revenue	1,545	1,158	1,168
Provisions (note 10)	9	11	11
Acquisition holdback payables	148	94	92
Lease obligations	89	79	81
Income taxes payable (note 11)	99	56	86
	<u>3,425</u>	<u>2,461</u>	<u>2,377</u>
Non-current liabilities:			
Debt with recourse to Constellation Software Inc. (note 7)	522	561	550
Debt without recourse to Constellation Software Inc. (note 8)	705	354	325
Deferred income taxes (note 11)	465	436	393
Acquisition holdback payables	62	68	49
Lease obligations	206	190	195
Other liabilities (note 5)	239	175	145
	<u>2,200</u>	<u>1,784</u>	<u>1,656</u>
<b>Total liabilities</b>	<b>5,625</b>	<b>4,245</b>	<b>4,034</b>
Shareholders' equity (note 12):			
Capital stock	99	99	99
Other equity	-	(179)	(162)
Accumulated other comprehensive income (loss)	(227)	(66)	(69)
Retained earnings	1,632	1,206	1,103
Non-controlling interests (notes 1, 9 and 18)	196	460	429
	<u>1,700</u>	<u>1,521</u>	<u>1,401</u>
Subsequent events (notes 12 and 19)			
<b>Total liabilities and shareholders' equity</b>	<b>\$ 7,325</b>	<b>\$ 5,766</b>	<b>\$ 5,434</b>

See accompanying notes to the condensed consolidated interim financial statements.

# CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Income (loss)

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

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<b>Revenue</b>				
License	\$ 79	\$ 69	\$ 220	\$ 206
Professional services	375	256	985	747
Hardware and other	54	45	151	127
Maintenance and other recurring	1,217	929	3,418	2,643
	1,725	1,299	4,774	3,724
<b>Expenses</b>				
Staff	925	676	2,581	1,982
Hardware	31	25	88	71
Third party license, maintenance and professional services	167	113	443	317
Occupancy	12	10	35	30
Travel, telecommunications, supplies, software and equipment	80	46	215	129
Professional fees	26	21	78	53
Other, net	64	21	132	41
Depreciation	38	31	105	90
Amortization of intangible assets (note 6)	177	134	491	376
	1,521	1,077	4,167	3,087
Foreign exchange loss (gain)	(57)	(5)	(98)	(3)
IRGA/TSS Membership liability revaluation charge (note 7)	33	25	89	107
Finance and other expense (income) (note 13)	8	(4)	24	(9)
Bargain purchase gain	(3)	(1)	(4)	(1)
Impairment of intangible and other non-financial assets (note 6)	-	1	1	7
Redeemable preferred securities expense (income) (note 9)	-	-	-	295
Finance costs (note 13)	29	18	73	50
	11	34	86	446
Income (loss) before income taxes	193	188	521	190
Current income tax expense (recovery)	113	70	322	209
Deferred income tax expense (recovery)	(63)	(4)	(189)	(43)
Income tax expense (recovery)	50	67	133	166
Net income (loss)	143	121	388	24
Net income (loss) attributable to:				
Common shareholders of Constellation Software Inc. (notes 1 and 18)	136	107	360	186
Non-controlling interests (notes 1 and 18)	7	15	28	(162)
Net income (loss)	143	121	388	24
Earnings per common share of Constellation Software Inc.				
Basic and diluted (note 14)	\$ 6.42	\$ 5.04	\$ 16.99	\$ 8.79

See accompanying notes to the condensed consolidated interim financial statements.

## CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Comprehensive Income (loss)

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

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net income (loss)	\$ 143	\$ 121	\$ 388	\$ 24
Items that are or may be reclassified subsequently to net income (loss):				
Foreign currency translation differences from foreign operations and other, net of tax	(93)	(21)	(184)	(39)
Other comprehensive income (loss) for the period, net of income tax	(93)	(21)	(184)	(39)
Total comprehensive income (loss) for the period	\$ 50	\$ 100	\$ 204	\$ (15)
Total other comprehensive income (loss) attributable to:				
Common shareholders of Constellation Software Inc. (notes 1 and 18)	(80)	(13)	(156)	(19)
Non-controlling interests (notes 1 and 18)	(13)	(8)	(27)	(19)
Total other comprehensive income (loss)	\$ (93)	\$ (21)	\$ (184)	\$ (39)
Total comprehensive income (loss) attributable to:				
Common shareholders of Constellation Software Inc. (notes 1 and 18)	56	93	204	167
Non-controlling interests (notes 1 and 18)	(6)	7	1	(182)
Total comprehensive income (loss)	\$ 50	\$ 100	\$ 204	\$ (15)

See accompanying notes to the condensed consolidated interim financial statements.

## CONSTELLATION SOFTWARE INC.

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

Unaudited

Nine months ended September 30, 2022

	Equity Attributable to Common Shareholders of CSI				Total	Non-controlling interests	Total equity
	Capital stock	Other equity	Accumulated other comprehensive income (loss)	Retained earnings			
<b>Balance at January 1, 2022</b>	\$ 99	\$ (179)	\$ (66)	\$ 1,206	\$ 1,061	\$ 460	\$ 1,521
<i>Total comprehensive income (loss) for the period:</i>							
Net income (loss)	-	-	-	360	360	28	388
<i>Other comprehensive income (loss)</i>							
Foreign currency translation differences from foreign operations and other, net of tax	-	-	(156)	-	(156)	(27)	(184)
<b>Total other comprehensive income (loss) for the period</b>	-	-	(156)	-	(156)	(27)	(184)
<b>Total comprehensive income (loss) for the period</b>	-	-	(156)	360	204	1	204
Transactions with owners, recorded directly in equity							
Conversion of redeemable preferred securities to subordinate voting shares of Topicus.com Inc. and ordinary units of Topicus Coop (note 1 and 9) and other related movements	-	305	(5)	-	301	(301)	-
Non-controlling interests arising from business combinations (note 4)	-	-	-	-	-	41	41
Other movements in non-controlling interests	-	-	-	2	2	(5)	(2)
Dividends to shareholders of the Company (note 12)	-	-	-	(64)	(64)	-	(64)
Reclassification of other equity to retained earnings	-	(127)	-	127	-	-	-
<b>Balance at September 30, 2022</b>	\$ 99	\$ -	\$ (227)	\$ 1,632	\$ 1,504	\$ 196	\$ 1,700

See accompanying notes to the condensed consolidated interim financial statements.

## CONSTELLATION SOFTWARE INC.

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

Unaudited

Nine months ended September 30, 2021

	Equity Attributable to Common Shareholders of CSI				Total	Non-controlling interests	Total equity interests
	Capital stock	Other equity	Accumulated other comprehensive income (loss)	Retained earnings			
<b>Balance at January 1, 2021</b>	\$ 99	\$ -	\$ (31)	\$ 980	\$ 1,048	\$ -	\$ 1,048
<i>Total comprehensive income (loss) for the period:</i>							
Net income (loss)	-	-	-	186	186	(162)	24
<i>Other comprehensive income (loss)</i>							
Foreign currency translation differences from foreign operations and other, net of tax	-	-	(19)	-	(19)	(19)	(39)
<b>Total other comprehensive income (loss) for the period</b>	-	-	(19)	-	(19)	(19)	(39)
<b>Total comprehensive income (loss) for the period</b>	-	-	(19)	186	167	(182)	(15)
Transactions with owners, recorded directly in equity							
Special dividend of Topicus Subordinated Voting Shares	-	(141)	(16)	-	(157)	157	-
Issuance of Topicus Coop Ordinary Units to non-controlling interests	-	(21)	(2)	-	(23)	23	-
Net acquisition of non-controlling interest associated with acquisitions and other movements	-	1	-	1	1	1	3
Dividends to shareholders of the Company (note 12)	-	-	-	(64)	(64)	-	(64)
Reclassification of Redeemable preferred securities of Topicus Coop from liabilities to non-controlling interest	-	-	-	-	-	434	434
Accrued dividends to preference unit holders of Topicus Coop (note 9)	-	-	-	-	-	(5)	(5)
<b>Balance at September 30, 2021</b>	\$ 99	\$ (162)	\$ (69)	\$ 1,103	\$ 972	\$ 429	\$ 1,401

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.)

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<b>Cash flows from (used in) operating activities:</b>				
Net income (loss)	\$ 143	\$ 121	\$ 388	\$ 24
Adjustments for:				
Depreciation	38	31	105	90
Amortization of intangible assets	177	134	491	376
IRGA/TSS Membership liability revaluation charge	33	25	89	107
Finance and other expense (income) (note 13)	8	(4)	24	(9)
Bargain purchase (gain)	(3)	(1)	(4)	(1)
Impairment of intangible and other non-financial assets	-	1	1	7
Redeemable preferred securities expense (income) (note 9)	-	-	-	295
Finance costs	29	18	73	50
Income tax expense (recovery)	50	67	133	166
Foreign exchange loss (gain)	(57)	(5)	(98)	(3)
Change in non-cash operating assets and liabilities exclusive of effects of business combinations (note 17)	(8)	(47)	(27)	53
Income taxes paid	(89)	(48)	(279)	(196)
Net cash flows from (used in) operating activities	321	292	897	959
<b>Cash flows from (used in) financing activities:</b>				
Interest paid on lease obligations	(3)	(2)	(8)	(7)
Interest paid on debt	(23)	(12)	(49)	(30)
Increase (decrease) in CSI facility	(32)	-	205	-
Increase (decrease) in Topicus revolving credit debt facility without recourse to CSI	7	12	112	24
Proceeds from issuance of debt facilities without recourse to CSI	22	6	447	140
Repayments of debt facilities without recourse to CSI	(17)	(2)	(30)	(4)
Other financing activities	3	-	4	-
Credit facility transaction costs	(0)	(0)	(3)	(4)
Payments of lease obligations	(24)	(21)	(69)	(61)
Distribution to the Joday Group (note 7)	-	-	(23)	(22)
Dividends paid to redeemable preferred security holders (note 9)	-	-	(7)	-
Dividends paid to common shareholders of the Company	(21)	(21)	(64)	(64)
Net cash flows from (used in) financing activities	(89)	(41)	516	(29)
<b>Cash flows from (used in) investing activities:</b>				
Acquisition of businesses (note 4)	(207)	(130)	(1,421)	(736)
Cash obtained with acquired businesses (note 4)	42	28	190	112
Post-acquisition settlement payments, net of receipts	(39)	(16)	(98)	(101)
Receipt of additional subscription amount from the sellers of Topicus.com B.V. (note 4)	-	-	-	33
Purchases of other investments	(0)	(14)	(96)	(15)
Proceeds from sales of other investments	-	8	3	8
Interest, dividends and other proceeds received	1	1	4	4
Property and equipment purchased	(8)	(7)	(27)	(18)
Net cash flows from (used in) investing activities	(211)	(131)	(1,445)	(713)
Effect of foreign currency on cash and cash equivalents	(32)	(10)	(67)	(13)
Increase (decrease) in cash	(11)	110	(99)	203
Cash, beginning of period	\$ 676	\$ 851	\$ 763	\$ 758
Cash, end of period	\$ 665	\$ 961	\$ 665	\$ 961

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 nine months ended September 30, 2022 and 2021

(Unaudited)

## Notes to the condensed consolidated interim financial statements

- |   |  |
|---|--|
| 1. Reporting entity                               | 11. Income taxes   |
| 2. Basis of presentation                          | 12. Capital and other components of equity               |
| 3. Significant accounting policies                | 13. Finance and other expense (income) and finance costs |
| 4. Business acquisitions                          | 14. Earnings per share                                   |
| 5. Other assets and other non-current liabilities | 15. Financial instruments                                |
| 6. Intangible assets                              | 16. Contingencies  |
| 7. Debt with recourse to CSI                      | 17. Changes in non-cash operating assets and liabilities |
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# 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 nine months ended September 30, 2022 and 2021  
(Unaudited)

## 1. Reporting entity

Constellation Software Inc. is a company domiciled in Canada. The address of Constellation Software Inc.'s registered office is 20 Adelaide Street East, Suite 1200, Toronto, Ontario, Canada. The condensed consolidated interim financial statements of Constellation Software Inc. as at and for the three and nine month period ended September 30, 2022 comprise Constellation Software Inc. 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 as well as in the provisioning of related professional services and support for customers globally across over 100 diverse markets.

### Preferred Share Investment in Topicus.com Inc. ("Topicus")

At the beginning of the period, the Company owned 39,412,385 Topicus Preferred Shares. The Topicus Preferred Shares were non-voting and under certain conditions, prior to the Notification of Conversion, were redeemable at the option of CSI for a redemption price of approximately EUR 19.06 per share. The redemption price was either to be settled in cash or through the issuance of a variable number of Topicus Subordinate Voting Shares based on the terms of the Topicus Preferred Shares, or any combination thereof. The Topicus Preferred Shares were also convertible into Topicus Subordinate Voting Shares at a conversion ratio of 1:1. The Topicus Preferred Shares entitled CSI to a fixed annual cumulative dividend of 5% per annum on the initial Topicus Preferred Share value of approximately EUR 19.06 per share.

On February 1, 2022, the Topicus Preferred Shares were converted to Topicus Subordinate Voting Shares. Subsequent to the conversion, CSI continues to consolidate Topicus and now reflects an equity interest of 60.65% (December 31, 2021 – 30.3%) in Topicus and a non-controlling interest of 39.35% (December 31, 2021 – 69.7%).

## 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 2021 annual consolidated financial statements except as disclosed herein.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 4, 2022.

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2021 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.

# 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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(Unaudited)

## **(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 2021 annual consolidated financial statements and described in these condensed consolidated interim financial statements. Actual results may differ from these estimates.

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

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. During the three and nine months ended September 30, 2022, the Company recorded income of \$0 and \$1 (\$1 and \$16 for the three and nine months ended September 30, 2021) relating to government grants from various government authorities relating to the pandemic within "Other, net" expenses in the condensed consolidated interim statements of income (loss).

## **3. Significant accounting policies**

Unless otherwise noted in the condensed consolidated interim financial statements, the significant accounting policies used in preparing these condensed consolidated interim financial statements are unchanged from those disclosed in the Company's 2021 annual consolidated financial statements and have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

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

# 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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## 4. Business acquisitions

(a) On May 2, 2022, the Company completed an agreement with Allscripts Healthcare Solutions (“Allscripts”) to acquire 100% of the net assets of Allscripts’ Hospitals and Large Physician Practices business segment (“Altera”). The Company paid cash of \$731 less a cash holdback receivable of \$5 for aggregate consideration of \$726. Contingent consideration of up to \$30 could be payable based on performance of the business during the two years following transaction closing.

Altera is a software provider based in the United States and primarily operates in the healthcare market and is a software business similar to existing businesses operated by the Company. The acquisition has been accounted for using the acquisition method with the results of operations included in these consolidated financial statements from the date of the acquisition.

The goodwill recognized in connection with this acquisition is primarily attributable to the application of the Company’s best practices to improve the operations of Altera, synergies with existing businesses of the Company, and other intangible assets that do not qualify for separate recognition including assembled workforce. The goodwill is not expected to be deductible for income tax purposes.

The gross contractual amount of acquired receivables was \$187; however, the Company has recorded an allowance of \$42 as part of the acquisition accounting to reflect contractual cash flows that are not expected to be collected.

Due to the complexity of the acquisition, the Company is in the process of determining and finalizing the estimated fair value of the net assets acquired as part of the Altera acquisition. The amounts determined on a provisional basis generally relate to net asset assessments and measurement of the assumed liabilities. The provisional purchase price allocations may differ from the final purchase price allocations, and these differences may be material. Revisions to the allocations will occur as additional information about the fair value of assets and liabilities becomes available. During the three-month period ended September 30, 2022, the Company made changes to provisional estimates of prior quarter preliminary purchase price allocations of intangible assets and corresponding deferred income taxes. The significant changes include a reduction to current assets of \$23, a decrease of technology assets of \$16, decrease in customer assets of \$33, an increase to goodwill of \$44 and an increase of deferred tax assets of \$24. The impact of these provisional changes to the purchase price allocation did not have a significant impact on the Condensed Consolidated Interim Statements of Income (Loss).

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The impact of acquisition accounting applied on a provisional basis in connection with the acquisition of Altera is as follows:

Assets acquired:		
Cash	\$	61
Accounts receivable		144
Other current assets		82
Property and equipment		26
Right of use assets		34
Other non-current assets		31
Deferred income taxes		31
Technology assets		224
Customer assets		395
		<hr/>
		1,028
Liabilities assumed:		
Current liabilities		96
Deferred revenue		286
Deferred income taxes		25
Long-term lease obligations		30
Other non-current liabilities		7
		<hr/>
		444
Goodwill		142
<b>Total consideration</b>	<b>\$</b>	<b>726</b>

The acquisition of Altera contributed revenue of \$219 and \$359 for the three and nine months ended September 30, 2022 and net income of \$11 and \$5 during the three and nine months ended September 30, 2022. If this acquisition had occurred on January 1, 2022, the Company estimates that pro-forma consolidated revenue and pro-forma consolidated net income (loss) would have been \$5,064 and \$390 compared to the actual amounts reported in the consolidated statement of income (loss) for the actual period for the nine months ended September 30, 2022.

(b) During the nine-month period ended September 30, 2022, the Company completed a number of additional acquisitions for aggregate cash consideration of \$689 plus cash holdbacks of \$140 and contingent consideration with an estimated acquisition date fair value of \$43. The total consideration resulting from the additional acquisitions in the nine-month period ended September 30, 2022 was \$872. 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 nine-month period ended September 30, 2022 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

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inclusion of a discount rate as appropriate. For these arrangements, which include both maximum, or capped, and unlimited contingent consideration amounts, the estimated increase to the initial consideration is not expected to exceed \$81. As of September 30, 2022, aggregate contingent consideration of \$158 (December 31, 2021 - \$104) has been reported in the condensed consolidated interim statement of financial position at its estimated fair value relating to applicable acquisitions completed in the current and prior periods. Changes made to the estimated fair value of contingent consideration are included in other, net in the condensed consolidated interim statements of income (loss). An expense of \$33 and \$45 has been recorded for the three and nine months ended September 30, 2022, as a result of such changes (expense of \$3 and \$9 for the three and nine months ended September 30, 2021).

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

On January 3, 2022, the Company acquired a controlling interest of 63.51% in Adapt IT Holdings Limited (“Adapt IT”), a Company based in South Africa. The remaining 36.49% represents non-controlling interest. The total current assets of Adapt IT on the acquisition date and recorded on the opening balance sheet were \$30, the total long-lived assets were \$114, the total current liabilities were \$23 and the total long-term liabilities were \$59. The total revenue recorded during the nine months ended September 30, 2022 was \$77 and the net income for the nine months ended September 30, 2022 was \$2.

On May 16, 2022, Topicus acquired a controlling interest of 72.68% in Sygnity S.A. (“Sygnity”), a Company based in Poland. The remaining 27.32% represents non-controlling interest. The total current assets of Sygnity on the acquisition date and recorded on the opening balance sheet were \$19, the total long-lived assets were \$80, the total current liabilities were \$18 and the total long-term liabilities were \$20. The total revenue recorded during the nine months ended September 30, 2022 was \$18 and the net loss for the nine months ended September 30, 2022 was \$1.

The additional acquisitions during the nine-month period ended September 30, 2022 include software companies catering to the following markets: accounting, automotive, communications, financial services, education, data management, fitness, fleet and facility management, healthcare, homebuilders, horticulture, legal, logistics, mining, oil and gas, moving and storage, notaries, pulp and paper manufacturers, real estate brokers and agents, retail management and distribution, speech recognition, third party logistics warehouse management systems, transit, agribusiness, airport, auctions, compliance, construction, data management, human capital, information services, public libraries, local government, manufacturing, not for profit organizations, public housing, public safety, publishing, software development, property management, hospitality, document management, performance management, trucking, schools, small and medium sized businesses, engineering, travel, automated explosive tracking, risk management, textiles and apparel, asset management, public safety, 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 additional acquisitions is primarily attributable to the application of Constellation’s best practices to improve the operations of the companies acquired, synergies with existing businesses of Constellation, and other intangible assets that do not qualify for separate recognition including assembled workforce. Goodwill in the amount of \$12 is expected to be deductible for income tax purposes.

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The gross contractual amounts of acquired receivables from the additional acquisitions was \$104; however, the Company has recorded an allowance of \$6 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 quarter of 2021 and the first three quarters of 2022. The amounts determined on a provisional basis generally relate to net asset assessments and measurement of the assumed liabilities, including acquired contract liabilities. The provisional purchase price allocations may differ from the final purchase price allocations, and these differences may be material. Revisions to the allocations will occur as additional information about the fair value of assets and liabilities becomes available. The cash consideration associated with these provisional estimates totals \$1,177.

The aggregate impact of acquisition accounting applied in connection with the additional business acquisitions in the nine-month period ended September 30, 2022 is as follows:

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Assets acquired:		
Cash	\$	129
Accounts receivable		98
Other current assets		62
Property and equipment		21
Right of use assets		52
Other non-current assets		7
Deferred income taxes		9
Trademarks		0
Technology assets		464
Customer assets		490
		<hr/>
		1,332
Liabilities assumed:		
Current liabilities		134
Deferred revenue		130
Deferred income taxes		188
Long-term debt		22
Long-term lease obligations		39
Other non-current liabilities		16
		<hr/>
		528
Non-controlling interest		41
Goodwill		112
Bargain purchase gain		(3)
		<hr/>
<b>Total consideration</b>	<b>\$</b>	<b>872</b>

The 2022 additional business acquisitions did not have a material impact to either the consolidated revenue or the consolidated net income (loss) for the nine months ended September 30, 2022. The materiality threshold is reviewed on a regular basis taking into account the quantitative (contribution to revenue and net income (loss)) and qualitative (size and comparability with other Constellation businesses) factors of current period acquisitions on both an individual and aggregate basis.

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

### (a) Other assets

	September 30, 2022	December 31, 2021
Prepaid expenses and other current assets	\$ 226	\$ 155
Investment tax credits recoverable	37	27
Sales tax receivable	26	25
Equity securities held for trading	94	39
Other receivables	89	50
Total other current assets	473	\$ 296
Investment tax credits recoverable	\$ 17	\$ 11
Costs to obtain a contract	50	46
Non-current trade and other receivables and other assets	92	39
Equity accounted investees	2	2
Total other non-current assets	\$ 160	\$ 99

### (b) Other non-current liabilities

	September 30, 2022	December 31, 2021
Contingent consideration	\$ 117	\$ 72
Deferred revenue	69	52
Other non-current liabilities	54	51
Total other non-current liabilities	\$ 239	\$ 175

# CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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## 6. Intangible Assets

	Technology Assets	Customer Assets	Backlog	Non-compete agreements	Trademarks	Goodwill	Total
<b>Cost</b>							
Balance at January 1, 2021	\$ 2,568	\$ 1,640	\$ 17	\$ 3	\$ 8	\$ 435	\$ 4,671
Acquisitions through business combinations	728	780	-	-	25	199	1,732
Effect of movements in foreign exchange	(70)	(64)	0	(0)	(2)	(21)	(158)
Balance at December 31, 2021	\$ 3,226	\$ 2,356	\$ 17	\$ 3	\$ 30	\$ 614	\$ 6,245
Balance at January 1, 2022	\$ 3,226	\$ 2,356	\$ 17	\$ 3	\$ 30	\$ 614	\$ 6,245
Acquisitions through business combinations	690	883	0	-	0	251	1,824
Effect of movements in foreign exchange and other	(220)	(186)	0	(1)	(4)	(62)	(472)
Balance at September 30, 2022	\$ 3,696	\$ 3,052	\$ 17	\$ 2	\$ 27	\$ 803	\$ 7,598
<b>Accumulated amortization and impairment losses</b>							
Balance at January 1, 2021	\$ 1,662	\$ 659	\$ 17	\$ 3	\$ 3	\$ 4	\$ 2,346
Amortization for the period	313	203	0	0	1	-	518
Impairment charge	3	6	-	-	-	0	10
Effect of movements in foreign exchange	(38)	(19)	0	(0)	0	-	(57)
Balance at December 31, 2021	\$ 1,941	\$ 849	\$ 17	\$ 2	\$ 4	\$ 4	\$ 2,817
Balance at January 1, 2022	\$ 1,941	\$ 849	\$ 17	\$ 2	\$ 4	\$ 4	\$ 2,817
Amortization for the period	286	203	0	0	1	-	491
Impairment charge	0	0	-	-	-	1	1
Effect of movements in foreign exchange	(119)	(61)	0	(0)	-	-	(180)
Balance at September 30, 2022	\$ 2,108	\$ 992	\$ 17	\$ 2	\$ 5	\$ 4	\$ 3,129
<b>Carrying amounts</b>							
At January 1, 2021	\$ 907	\$ 981	\$ (0)	\$ 0	\$ 5	\$ 432	\$ 2,325
At December 31, 2021	\$ 1,285	\$ 1,507	\$ 0	\$ 0	\$ 26	\$ 610	\$ 3,428
At January 1, 2022	\$ 1,285	\$ 1,507	\$ 0	\$ 0	\$ 26	\$ 610	\$ 3,428
At September 30, 2022	\$ 1,588	\$ 2,060	\$ 0	\$ (0)	\$ 22	\$ 799	\$ 4,469

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## 7. Debt with recourse to CSI

	CSI Facility	Liability of CSI under the IRGA	Debentures	Term Loan	Total
Principal outstanding at September 30, 2022 (and, except for debentures, equal to fair value)	\$ 205	\$ 405	\$ 205	\$ 72	\$ 888
Deduct: Carrying value of transaction costs included in debt balance	(2)	-	-	(0)	(2)
Carrying value at September 30, 2022	203	405	205	72	886
Current portion	203	161	-	-	364
Non-current portion	-	244	205	72	522

### CSI Facility

On November 5, 2021, Constellation completed an amendment and restatement of its revolving credit facility agreement (the “CSI Facility”), with a syndicate of Canadian chartered banks and U.S. banks in the amount of \$700, extending its maturity date to November 2026. 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 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 September 30, 2022, \$205 (December 31, 2021 – \$nil) had been drawn from this credit facility, and letters of credit totaling \$13 (December 31, 2021 - \$79) 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 September 30, 2022, the carrying amount of such costs is \$2 (December 31, 2021 - \$2).

### Liability of CSI under the terms of the IRGA/TSS Members Agreement

On December 23, 2014, in accordance with the terms of the purchase and sale agreement for the initial acquisition of TSS by CSI, and on the basis of the term sheets attached thereto, Constellation and the Joday Group, among others, entered into a Members Agreement (the “TSS Members Agreement”) pursuant to which the Joday Group acquired 33.29% of the voting interests in Constellation Software Netherlands Holding Coöperatief U.A. (which was renamed to Topicus.com Coöperatief U.A., (“Topicus Coop)), a subsidiary of Constellation and the indirect owner of 100% of TSS at the time of the acquisition. Total proceeds from this transaction was EUR 39.

On January 5, 2021, the TSS Members Agreement was terminated in conjunction with the acquisition of Topicus.com B.V., the reorganization of Topicus Coop and the execution of the Investors Rights and Governance Agreement (“IRGA”). The IRGA was established to create certain contractual obligations of the parties in respect of the governance of Topicus and Topicus Coop. The Joday Group’s interest in Topicus Coop now comprises 39,331,284 Topicus Coop Ordinary Units resulting in an interest of 30.29% in Topicus Coop. The IRGA provides for transfer restrictions in respect of the Topicus Coop Units.

Any time after January 5, 2021, any member of the Joday Group has the right, at their option, to sell any number of its Topicus Coop Units to CSI at a cash price per Topicus Coop Unit determined in accordance with the IRGA. Upon the exercise of such option by a member of the Joday Group, CSI will be obligated to purchase 33.33% of such

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Topicus Coop Units within 30 days, and an additional 33.33% on each of the first and the second anniversary of such initial purchase. Notwithstanding the foregoing, CSI can offer Topicus the right to purchase such Topicus Coop Units in lieu of CSI.

In the event of a change of control of CSI, any member of the Joday Group has the right, at their option, to sell all of its Topicus Coop Units to CSI at a cash price per Topicus Coop Unit determined in accordance with the IRGA. Upon the exercise of such option by a member of the Joday Group, CSI will be obligated to purchase all such Topicus Coop Units. Notwithstanding the foregoing, CSI can offer Topicus the right to purchase such Topicus Coop Units in lieu of CSI.

If CSI reduces its economic interest in Topicus by a sale or transfer of its economic interest (and not due to any additional issuance of any shares or equity by Topicus) by more than one-third (calculated on a fully converted basis in accordance with the IRGA), any member of the Joday Group has the right, at their option, to sell to CSI one-third of its Topicus Coop Units at a cash price per Topicus Coop Unit determined in accordance with the IRGA. Upon the exercise of such put option by a member of the Joday Group, CSI will be obligated to purchase all such put Topicus Coop Units. Notwithstanding the foregoing, CSI can offer Topicus the right to purchase such Topicus Coop Units in lieu of CSI. Any member of the Joday Group has a similar right to sell one-half or all of its remaining Topicus Coop Units, respectively, at its option, if CSI further reduces its remaining fully-diluted economic interest in Topicus by a sale or transfer of its economic interest by one-half and again if CSI sells its entire remaining economic interest in Topicus.

All of the Topicus Coop Ordinary Units held by the Joday Group and Ijssel B.V. (collectively, the "Topicus Coop Exchangeable Units") are exchangeable, directly or indirectly, for Topicus Subordinate Voting Shares. All of the above rights of members of the Joday Group apply to any Topicus Subordinate Voting Shares issued on an exchange of Topicus Coop Exchangeable Units.

At any time after December 31, 2023, CSI has the right, at its option, to buy all of the Topicus Coop Units and shares of Topicus held by certain members of the Joday Group (excluding Joday) at a cash price per Topicus Coop Unit (or share of Topicus, as applicable) determined in accordance with the IRGA. After December 31, 2043, CSI has the same right to buy all of the Topicus Coop Units and shares of Topicus held by the remaining members of the Joday Group, including Joday.

In addition, if certain individuals affiliated with Joday are terminated from their employment with Topicus Coop or an affiliate thereof for urgent cause (as defined in the Dutch Civil Code), CSI has the right, at its option, to buy all of Topicus Coop Units held by such individuals at a cash price per Topicus Coop Unit determined in accordance with the IRGA.

The Company has continued to classify the above obligations of CSI under the terms of the IRGA as a liability. The main valuation driver in such calculation is the maintenance and other recurring revenue of Topicus. Maintenance and recurring revenue of Topicus for the trailing twelve months on a pro-forma basis 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 such liability is recorded as an expense or income in the consolidated statements of income (loss) for the period.

During the periods ended September 30, 2022 and December 31, 2021, no options were exercised. During the nine months ended September 30, 2022, a distribution in the amount of \$23 (September 30, 2021 - \$22) was paid to the Joday Group.

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## *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, 2019 but excluding March 31, 2020 was 8.8%
- March 31, 2020 but excluding March 31, 2021 was 8.4%
- March 31, 2021 but excluding March 31, 2022 was 7.2%
- March 31, 2022 but excluding March 31, 2023 is 9.9%

Subsequent from and including March 31, 2023 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.

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.

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During the periods ended September 30, 2022 and December 31, 2021, no notices for redemption of the Debentures were received or given by the Company.

The fair value of the debentures as at September 30, 2022 was \$285 (December 31, 2021 - \$308).

## *Term Loan*

One of CSI's subsidiaries has entered into a GBP 65 term debt facility with a financial institution for which CSI has guaranteed the debt. The facility bears a fixed rate of interest. The term loan contains events of default that, if not remedied, allow the loan note holder to require repayment of the loan principal and interest. The loan is due in 2028.

## **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 these 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:

	Topicus Revolving Credit Facility	Debt Facilities	Total
Principal outstanding at September 30, 2022 (and equal to fair value)	147 \$	802	949
Deduct: Carrying value of transaction costs included in debt balance	-	(9)	(9)
Carrying value at September 30, 2022	147	792	939
Current portion	147	87	234
Non-current portion	-	705	705

The expected annual minimum repayment requirements for the debt facilities without recourse to CSI (excluding the Topicus revolving credit facility) are as follows:

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Year	Debt Facilities
2022	37
2023	56
2024	45
2025	177
2026	131
2027	297
2028	59
	<hr/>
	802

## 9. Redeemable Preferred Securities

In conjunction with the acquisition of Topicus.com B.V. in 2021, Topicus Coop issued 5,842,882 Topicus Coop Preference Units to Ijssel B.V. The Topicus Coop Preference Units were non-voting and prior to the Notification of Conversion were redeemable at the option of the holder for a redemption price of approximately EUR 19.06 per unit. The redemption price would have either been settled in cash or through the issuance of a variable number of Topicus Coop Ordinary Units. The number of Topicus Coop Ordinary Units would have been determined based on the terms of the Topicus Coop Preference Units. The Topicus Coop Preference Units were convertible into Topicus Coop Ordinary Units (note 18) at a conversion ratio of 1:1. The Topicus Coop Preference Unit holders were entitled to a fixed annual cumulative dividend of 5% per annum on the initial Topicus Coop Preference Unit value of approximately EUR 19.06 per unit.

On February 1, 2022, the Topicus Coop Preference Units were converted to Topicus Coop Ordinary Units.

## 10. Provisions

At January 1, 2022	\$	21
Reversal		(1)
Provisions recorded during the period		10
Provisions used during the period		(10)
Effect of movements in foreign exchange and other		(1)
At September 30, 2022	\$	19
		<hr/>
Provisions classified as current liabilities		9
Provisions classified as other non-current liabilities		10

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

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## 11. 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 nine months ended September 30, 2022 was 26% and 26% (35% and 87% for the three and nine months ended September 30, 2021). The 2021 year to date effective tax rate was impacted by the redeemable preferred securities expense, which is not deductible for tax purposes.

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 intercompany 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.

## 12. Capital and other components of equity

	Common Shares	
	Number	Amount
September 30, 2022	21,191,530	\$ 99
December 31, 2021	21,191,530	\$ 99

### *Dividends and other distributions to shareholders*

During the three months ended March 31, 2022, the Company declared a \$1.00 per share dividend to all common shareholders of record at close of business on March 16, 2022. The dividend declared in the quarter ended March 31, 2022 representing \$21 was paid and settled on April 12, 2022. During the three months ended June 30, 2022, the Company declared a \$1.00 per share dividend to all common shareholders of record at close of business on June 20, 2022. The dividend declared in the quarter ended June 30, 2022 representing \$21 was paid and settled on July 11, 2022. During the three months ended September 30, 2022, the Company declared a \$1.00 per share dividend to all common shareholders of record at close of business on September 20, 2022. The dividend declared in the quarter ended September 30, 2022 representing \$21 was paid and settled on October 11, 2022.

The dividend declared in the quarter ended December 31, 2021 representing \$21 was paid and settled on January 11, 2022.

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Interest income on cash	\$ (0)	\$ (1)	\$ (1)	\$ (2)
(Increase) decrease in the fair value of equity securities held for trading	13	(1)	38	(3)
Share in net (income) loss of equity investee	0	(1)	0	(0)
Finance and other income	(5)	(2)	(14)	(3)
<b>Finance and other expense (income)</b>	<b>\$ 8</b>	<b>\$ (4)</b>	<b>\$ 24</b>	<b>\$ (9)</b>
Interest expense on debt and debentures	\$ 22	\$ 12	\$ 51	\$ 33
Interest expense on lease obligations	3	2	8	7
Amortization of debt related transaction costs	1	1	2	1
Amortization of debenture discount (premium) and associated rights offering, net	-	-	-	(1)
Other finance costs	4	4	12	10
<b>Finance costs</b>	<b>\$ 29</b>	<b>\$ 18</b>	<b>\$ 73</b>	<b>\$ 50</b>

## 14. Earnings per share

### Basic and diluted earnings per share

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<b>Numerator:</b>				
Net income (loss) attributable to common shareholders of CSI	\$ 136	\$ 107	\$ 360	\$ 186
<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	\$ 6.42	\$ 5.04	\$ 16.99	\$ 8.79

## 15. 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, and the CSI Facility, approximate their fair values due to the short-term nature of these instruments. The carrying value of the debt without recourse to CSI approximate their fair values as the debt is subject to market interest rates. The carrying value of the IRGA liability approximates fair value.

### Fair value hierarchy

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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 September 30, 2022 and December 31, 2021 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 and the redeemable preferred securities.

	September 30, 2022				December 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Equity securities held for trading	\$ 94	\$ -	\$ -	\$ 94	\$ 39	\$ -	\$ -	\$ 39
	<b>94</b>	<b>-</b>	<b>-</b>	<b>94</b>	<b>39</b>	<b>-</b>	<b>-</b>	<b>39</b>
<b>Liabilities:</b>								
Redeemable preferred securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7	\$ 7
Contingent consideration	-	-	158	158	-	-	104	104
	<b>-</b>	<b>-</b>	<b>158</b>	<b>158</b>	<b>-</b>	<b>-</b>	<b>110</b>	<b>110</b>

There were no transfers of fair value measurement between level 1, 2 and 3 of the fair value hierarchy in the periods ended September 30, 2022 and December 31, 2021.

The following tables 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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## *Contingent Consideration*

Balance at January 1, 2022	104
Increase from business acquisitions	43
Cash recoveries (payments)	(28)
Charges through profit or loss	51
Foreign exchange and other movements	(12)
Balance at September 30, 2022	158
Contingent consideration classified as current liabilities	41
Contingent consideration classified as other non-current liabilities	117

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.

## *Redeemable Preferred Securities*

Balance at January 1, 2022	\$	7
Foreign exchange and other movements		(0)
Payments		(7)
Balance at September 30, 2022		-

## **16. 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.

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## 17. Changes in non-cash operating assets and liabilities

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Decrease (increase) in current accounts receivable	\$ 38	\$ 7	\$ 25	\$ 40
Decrease (increase) in current unbilled revenue	(17)	(15)	(48)	(26)
Decrease (increase) in other current assets	26	2	(45)	(25)
Decrease (increase) in inventories	(3)	0	(11)	(1)
Decrease (increase) in other non-current assets	(11)	(9)	(20)	(18)
Increase (decrease) in other non-current liabilities	26	8	32	(5)
Increase (decrease) in current accounts payable and accrued liabilities, excluding holdbacks from acquisitions	53	36	(31)	(16)
Increase (decrease) in current deferred revenue	(121)	(75)	75	104
Increase (decrease) in current provisions	(1)	(1)	(3)	(1)
<b>Change in non-cash operating working capital</b>	<b>\$ (8)</b>	<b>\$ (47)</b>	<b>\$ (27)</b>	<b>\$ 53</b>

## 18. Non-controlling interests

The Company's significant non-controlling interests at September 30, 2022 were associated with Topicus, a company whose operations are based in the Netherlands. Constellation's equity interest in Topicus is 60.65% (39.35% being non-controlling interest) as at September 30, 2022. On May 16, 2022, Topicus also acquired a controlling interest of 72.68% in Sygnity S.A. ("Sygnity"), a Company based in Poland. The remaining 27.32% represents non-controlling interest. The acquisition of Sygnity is outlined in note 4.

The following tables summarize the information relating to the Company's non-controlling interests in Topicus before and after intercompany eliminations:

	As at September 30, 2022	Intra-Group Eliminations	Total
Non-controlling interest	39.35%		
Current assets	294		
Non-current assets	978		
Total assets	<u>1,272</u>		
Current liabilities	523		
Non-current liabilities	313		
Total liabilities	<u>836</u>		
Less: Non-controlling interest of Topicus Coop subsidiaries, including interests held by CSI	47		
Net assets after allocation of non-controlling interests (including interests held by CSI)	<u>389</u>	<u>16</u>	<u>404</u>
Net assets allocated to the non-controlling interests of Topicus			159
Add: Non-controlling interest of Topicus Coop subsidiaries not owned by CSI			17
Total non-controlling interest			<u>176</u>

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	Three months ended September 30, 2022	Intra-Group Eliminations	Total
Revenue	230		
Expenses	206		
Income (loss) before income taxes	<u>24</u>		
Income tax expense	5		
Net income (loss) prior to non-controlling interest allocation	<u>18</u>		
Less: Non-controlling interest of Topicus Coop subsidiaries, including interests held by CSI	(1)		
Less: Income allocated to Preference Units of Topicus Coop	-		
Net income (loss) after allocation of non-controlling interest of Topicus Coop subsidiaries	<u>19</u>	<u>(1)</u>	<u>18</u>
Net income (loss) attributable to non-controlling interests of Topicus			7
Add: Non-controlling interest of Topicus Coop subsidiaries not owned by CSI			(0)
Add: Income allocated to Preference Units of Topicus Coop			-
Total non-controlling interest			<u>7</u>

	Nine months ended September 30, 2022	Intra-Group Eliminations	Total
Revenue	694		
Expenses	613		
Income (loss) before income taxes	<u>81</u>		
Income tax expense	18		
Net income (loss) prior to non-controlling interest allocation	<u>63</u>		
Less: Non-controlling interest of Topicus Coop subsidiaries, including interests held by CSI	(1)		
Less: Income allocated to Preference Units of Topicus Coop classified as non-controlling interest	1		
Net income (loss) after allocation of non-controlling interest of Topicus Coop subsidiaries	<u>64</u>	<u>(3)</u>	<u>60</u>
Net income (loss) attributable to non-controlling interests of Topicus			27
Add: Non-controlling interest of Topicus Coop subsidiaries not owned by CSI			(0)
Add: Income allocated to Preference Units of Topicus Coop classified as non-controlling interest			1
Total non-controlling interest			<u>27</u>

Financial information on the statement of cash flows for Topicus is as follows:

	Three months ended September 30, 2022	Nine months ended September 30, 2022
Cash flows from (used in) operating activities	11	175
Cash flows from (used in) financing activities	1	22
Cash flows from (used in) investing activities	(36)	(125)

On January 3, 2022, the Company also acquired a controlling interest of in Adapt IT Holdings Limited (“Adapt IT”), a Company based in South Africa. The acquisition of Adapt IT is outlined in note 4. As of September 30, 2022, the Company has an interest of 64.20% and the remaining 35.80% represents non-controlling interest in Adapt IT.

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## **19. Subsequent events**

On November 4, 2022 the Company declared a \$1.00 per share dividend that is payable on January 11, 2023 to all common shareholders of record at close of business on December 20, 2022.