

Constellation Software Inc. Announces Results for the First Quarter Ended March 31, 2018 and Declares Quarterly Dividend

TORONTO, ONTARIO (April 25, 2018) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its financial results for the first quarter ended March 31, 2018 and declared a \$1.00 per share dividend payable on July 5, 2018 to all common shareholders of record at close of business on June 15, 2018. This dividend has been designated as an eligible dividend for the purposes of the Income Tax Act (Canada). Please note that all dollar amounts referred to in this press release are in U.S. Dollars unless otherwise stated.

The following press release should be read in conjunction with the Company’s Unaudited Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2018 and the accompanying notes, our Management Discussion and Analysis for the three months ended March 31, 2018 and with our annual Consolidated Financial Statements, prepared in accordance with International Financial Reporting Standards (“IFRS”) and our annual Management’s Discussion and Analysis for the year ended December 31, 2017, which can be found on SEDAR at www.sedar.com and on the Company’s website www.csisoftware.com. Additional information about the Company is also available on SEDAR at www.sedar.com.

Q1 2018 Headlines:

- Revenue grew 29% (5% organic growth, 0% after adjusting for changes in foreign exchange rates) to \$719 million compared to \$555 million in Q1 2017.
- Adjusted EBITA increased \$28 million or 21% to \$159 million as compared to \$131 million in Q1 2017.
- Net income increased 104% to \$83 million (\$3.90 on a diluted per share basis) from \$40 million (\$1.91 on a diluted per share basis) in Q1 2017.
- Adjusted net income increased 51% to \$143 million (\$6.73 on a diluted per share basis) from \$95 million (\$4.46 on a diluted per share basis) in Q1 2017.
- A number of acquisitions were completed for aggregate cash consideration of \$320 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$47 million resulting in total consideration of \$367 million.
- Cash flows from operations were \$258 million, an increase of 42%, or \$76 million, compared to \$182 million for the comparable period in 2017.

Total revenue for the quarter ended March 31, 2018 was \$719 million, an increase of 29%, or \$163 million, compared to \$555 million for the comparable period in 2017. The increase is primarily attributable to growth from acquisitions as the Company experienced organic growth of 5% in the quarter, 0% after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business. The Company adopted IFRS 15 “Revenue from contracts with customers” (“IFRS 15”) effective January 1, 2018 utilizing the cumulative effect method. Under the cumulative effect method comparative periods have not been restated however the quantitative differences between reported results under IFRS 15 and those that would have been reported under IAS 11 and IAS 18 (“prior IFRS”) have been disclosed. For the quarter ended March 31, 2018 total revenue was \$9 million higher than it would have been under prior IFRS. The organic growth figures included above and below exclude the impact of this increase.

For the quarter ended March 31, 2018, Adjusted EBITA increased to \$159 million compared to \$131 million for the same period in 2017 representing an increase of 21%. Adjusted EBITA margin was 22% for the quarter ended March 31, 2018 and 24% for the same period in 2017. For the quarter ended March 31, 2018 Adjusted EBITA per share on a diluted basis increased 21% to \$7.48, compared to \$6.16 for the same period last year. For the quarter ended March 31, 2018 Adjusted EBITA was \$9 million higher than it would have been under prior IFRS. Excluding the impact of IFRS 15 Adjusted EBITA margin would have been 21% in Q1 2018. The margin decline is primarily the result of lower margins on recently acquired businesses.

Net income for the quarter ended March 31, 2018 was \$83 million compared to net income of \$40 million for the same period in 2017. On a per share basis this translated into a net income per diluted share of \$3.90 in the quarter ended March 31, 2018 compared to net income per diluted share of \$1.91 for the same period in 2017.

For the quarter ended March 31, 2018, Adjusted net income increased to \$143 million from \$95 million for the same period in 2017, representing an increase of 51%. Adjusted net income margin was 20% for the quarter ended March 31, 2018 and 17% for the same period in 2017. For the quarter ended March 31, 2018 Adjusted net income was \$5 million higher than it would have been under prior IFRS. Excluding the impact of a \$14 million unrealized foreign exchange gain recorded in Q1 2018, an \$8 million financial liability accrual reversal recorded to finance and other income in Q1 2018, the \$5 million impact of IFRS 15 and a \$2 million unrealized foreign exchange loss recorded in Q1 2017 the margins would have been 16% and 17% for Q1 2018 and Q1 2017 respectively.

Cash flows from operations for the quarter ended March 31, 2018 were \$258 million, an increase of 42%, or \$76 million, compared to \$182 million for the comparable period in 2017.

The following table displays our revenue by reportable segment and the percentage change for the three months ended March 31, 2018 compared to the same period in 2017:

	Three months ended March 31,		Period-Over-Period Change		Organic Growth
	<u>2018</u>	<u>2017</u>	\$	%	%
	(\$M, except percentages)				
Public Sector					
Licenses	29	22	7	31%	-5%
Professional services	111	89	22	24%	3%
Hardware and other	26	25	2	8%	-9%
Maintenance and other recurring	320	239	81	34%	7%
	486	374	111	30%	5%
Private Sector					
Licenses	15	13	2	14%	-3%
Professional services	31	23	8	35%	4%
Hardware and other	6	7	(1)	-7%	-37%
Maintenance and other recurring	180	138	42	31%	9%
	233	181	52	29%	5%

For purposes of calculating organic growth, estimated pre-acquisition revenue from the relevant companies acquired in 2017 and 2018 was added to actual reported revenue for the three month period ended March 31, 2017.

Public Sector

For the quarter ended March 31, 2018, total revenue in the public sector reportable segment increased 30%, or \$111 million to \$486 million, compared to \$374 million for the quarter ended March 31, 2017. Organic revenue growth was 5% in Q1 2018 compared to the same period in 2017, and -1% 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 the quarter ended March 31, 2018 total revenue was \$8 million higher than it would have been under prior IFRS. Organic growth excludes the impact of this increase.

Private Sector

For the quarter ended March 31, 2018, total revenue in the private sector reportable segment increased 29%, or \$52 million to \$233 million, compared to \$181 million for the quarter ended March 31, 2017. Organic revenue growth was 5% in Q1 2018 compared to the same period in 2017, and 2% 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 the quarter

ended March 31, 2018 total revenue was \$0.3 million higher than it would have been under prior IFRS. Organic growth excludes the impact of this increase.

Forward Looking Statements

Certain statements herein may be “forward looking” statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Constellation or the industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements. These forward looking statements reflect current assumptions and expectations regarding future events and operating performance and are made as of the date hereof and Constellation assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances

Non-IFRS Measures

The term “Adjusted EBITA” refers to net income before adjusting for finance and other income, bargain purchase gain, finance costs, income taxes, share in net income or loss of equity investees, impairment of non-financial assets, amortization, TSS membership liability revaluation charge, and foreign exchange gain or loss. The Company believes that Adjusted EBITA is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration intangible asset amortization and the other items listed above. “Adjusted EBITA margin” refers to the percentage that Adjusted EBITA for any period represents as a portion of total revenue for that period.

“Adjusted net income” means net income adjusted for non-cash expenses (income) such as amortization of intangible assets, deferred income taxes, the TSS membership liability revaluation charge, and certain other expenses (income), and excludes the portion of the adjusted net income of Total Specific Solutions (TSS) B.V. (“TSS”) attributable to the minority owners of TSS. The Company believes that Adjusted net income is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to taking into consideration amortization of intangible assets, deferred income taxes, the TSS membership liability revaluation charge, and certain other non-cash expenses (income) incurred or recognized by the Company from time to time, and adjusts for the portion of TSS’ Adjusted net income not attributable to shareholders of Constellation. “Adjusted net income margin” refers to the percentage that Adjusted net income for any period represents as a portion of total revenue for that period.

Adjusted EBITA and Adjusted net income are not recognized measures under IFRS and, accordingly, readers are cautioned that Adjusted EBITA and Adjusted net income should not be construed as alternatives to net income determined in accordance with IFRS. The Company’s method of calculating Adjusted EBITA and Adjusted net income may differ from other issuers and, accordingly, Adjusted EBITA and Adjusted net income may not be comparable to similar measures presented by other issuers. Adjusted EBITA includes 100% of the Adjusted EBITA of TSS.

The following table reconciles Adjusted EBITA to net income:

	Three months ended March 31,	
	<u>2018</u>	<u>2017</u>
	(\$M, except percentages)	
Total revenue	<u>718</u>	<u>555</u>
Net income	83	40
Adjusted for:		
Income tax expense (recovery)	19	18
Foreign exchange (gain) loss	(14)	1
TSS membership liability revaluation charge	7	13
Share in net (income) loss of equity investees	(0)	(0)
Finance and other income	(9)	(0)
Bargain purchase gain	(0)	-
Finance costs	5	5
Amortization of intangible assets	69	52
Adjusted EBITA	159	131
Adjusted EBITA margin	22%	24%

Certain totals and percentages may not reconcile due to rounding.

The following table reconciles Adjusted net income to net income:

	Three months ended March 31,	
	<u>2018</u>	<u>2017</u>
	(\$M, except percentages)	
Total revenue	<u>718</u>	<u>555</u>
Net income	83	40
Adjusted for:		
Amortization of intangible assets	69	52
TSS membership liability revaluation charge	7	13
Bargain purchase gain	(0)	-
Less non-controlling interest in the Adjusted net income of TSS	(7)	(5)
Deferred income tax expense (recovery)	(8)	(6)
Adjusted net income	143	95
Adjusted net income margin	20%	17%

Certain totals and percentages may not reconcile due to rounding.

About Constellation Software Inc.

Constellation's common shares are listed on the Toronto Stock Exchange under the symbol "CSU". Constellation acquires, manages and builds vertical market software businesses.

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SOURCE: CONSTELLATION SOFTWARE INC.

CONSTELLATION SOFTWARE INC.

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

Unaudited

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash	\$ 347,526	\$ 488,964
Accounts receivable	340,444	316,538
Unbilled revenue	87,816	64,109
Inventories	26,930	23,196
Other assets	156,496	100,098
	<u>959,212</u>	<u>992,905</u>
Non-current assets:		
Property and equipment	57,508	53,817
Deferred income taxes	37,640	38,362
Other assets	56,910	21,801
Intangible assets	1,494,193	1,181,333
	<u>1,646,251</u>	<u>1,295,313</u>
Total assets	\$ 2,605,463	\$ 2,288,218
Liabilities and Shareholders' Equity		
Current liabilities:		
CSI Facility	\$ -	\$ -
New CNH Facility	41,234	96,398
TSS Membership Liability	53,100	49,215
Accounts payable and accrued liabilities	362,717	379,573
Dividends payable	21,431	21,575
Deferred revenue	800,702	541,108
Provisions	8,134	10,377
Acquisition holdback payables	67,434	42,867
Income taxes payable	28,773	31,028
	<u>1,383,525</u>	<u>1,172,141</u>
Non-current liabilities:		
TSS Membership Liability	93,408	86,575
Debentures	229,215	236,462
Deferred income taxes	165,657	148,961
Acquisition holdback payables	15,185	6,480
Other liabilities	80,523	33,521
	<u>583,988</u>	<u>511,999</u>
Total liabilities	1,967,513	1,684,140
Shareholders' equity:		
Capital stock	99,283	99,283
Accumulated other comprehensive income (loss)	(30,905)	(26,739)
Retained earnings	569,572	531,534
	<u>637,950</u>	<u>604,078</u>
Total liabilities and shareholders' equity	\$ 2,605,463	\$ 2,288,218

CONSTELLATION SOFTWARE INC.

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

Three months ended March 31, 2018 and 2017

Unaudited

	2018	2017
Revenue		
License	\$ 43,819	\$ 35,132
Professional services	142,170	112,413
Hardware and other	32,770	31,426
Maintenance and other recurring	499,700	376,355
	<u>718,459</u>	<u>555,326</u>
Expenses		
Staff	389,412	289,315
Hardware	17,797	16,320
Third party license, maintenance and professional services	61,471	50,003
Occupancy	19,132	13,436
Travel	18,267	15,824
Telecommunications	6,150	5,068
Supplies	4,610	3,872
Software and equipment	12,912	9,537
Professional fees	10,178	6,925
Other, net	13,266	9,172
Depreciation	6,651	5,299
Amortization of intangible assets	68,632	52,285
	<u>628,478</u>	<u>477,056</u>
Foreign exchange loss (gain)	(13,977)	1,494
TSS membership liability revaluation charge	6,840	13,115
Share in net (income) loss of equity investee	(235)	(49)
Finance and other expense (income)	(8,887)	(21)
Bargain purchase gain	(105)	-
Finance costs	5,216	5,258
	<u>(11,148)</u>	<u>19,797</u>
Income before income taxes	101,129	58,473
Current income tax expense (recovery)	26,492	24,108
Deferred income tax expense (recovery)	(7,907)	(6,068)
Income tax expense (recovery)	<u>18,585</u>	<u>18,040</u>
Net income	<u>82,544</u>	<u>40,433</u>
Earnings per share		
Basic and diluted	\$ 3.90	\$ 1.91

CONSTELLATION SOFTWARE INC.

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

Three months ended March 31, 2018 and 2017

Unaudited

	2018	2017
Net income	\$ 82,544	\$ 40,433
Items that are or may be reclassified subsequently to net income:		
Net change in fair value of available-for-sale financial asset during the period	-	(1,314)
Net change in fair value of derivatives designated as hedges during the period	-	164
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	879
Foreign currency translation differences from foreign operations	(4,166)	2,891
Deferred income tax recovery (expense)	-	8
Other comprehensive (loss) income for the period, net of income tax	(4,166)	2,628
Total comprehensive income (loss) for the period	\$ 78,378	\$ 43,061

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Changes in Equity
(In thousands of U.S. dollars)

Unaudited

Three months ended March 31, 2018

	Capital stock	Accumulated other comprehensive income/(loss)		Total accumulated other comprehensive income/(loss)	Retained earnings	Total	
		Cumulative translation account	Amounts related to gains/losses on available- for-sale financial assets	Amounts related to gains/(losses) on derivatives designed as hedges			
Balance at January 1, 2018	\$ 99,283	\$ (26,739)	\$ -	\$ -	\$ (26,739)	\$ 531,534	\$ 604,078
Impact of change in accounting policy (note 20)	-	-	-	-	-	(23,314)	(23,314)
<i>Total comprehensive income for the period:</i>							
Net income	-	-	-	-	-	82,544	82,544
<i>Other comprehensive income (loss)</i>							
Net change in fair value of available-for-sale financial asset during the period	-	-	-	-	-	-	-
Net change in fair value of derivatives designated as hedges during the period	-	-	-	-	-	-	-
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	-	-	-	-	-	-
Foreign currency translation differences from foreign operations	-	(4,166)	-	-	(4,166)	-	(4,166)
Deferred tax recovery (expense)	-	-	-	-	-	-	-
Total other comprehensive income (loss) for the period	-	(4,166)	-	-	(4,166)	-	(4,166)
Total comprehensive income (loss) for the period	-	(4,166)	-	-	(4,166)	82,544	78,378
Transactions with owners, recorded directly in equity Dividends to shareholders of the Company	-	-	-	-	-	(21,192)	(21,192)
Balance at March 31, 2018	\$ 99,283	\$ (30,905)	\$ -	\$ -	\$ (30,905)	\$ 569,572	\$ 637,950

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Changes in Equity
(In thousands of U.S. dollars)

Unaudited

Three months ended March 31, 2017

	Capital stock	Accumulated other comprehensive income/(loss)			Total accumulated other comprehensive income/(loss)	Retained earnings	Total
		Cumulative translation account	Amounts related to gains/losses on available- for-sale financial assets	Amounts related to gains/(losses) on derivatives designed as hedges			
Balance at January 1, 2017	\$ 99,283	\$ (35,748)	\$ 17	\$ (377)	\$ (36,108)	\$ 394,334	\$ 457,509
<i>Total comprehensive income for the period:</i>							
Net income	-	-	-	-	-	40,433	40,433
<i>Other comprehensive income (loss)</i>							
Net change in fair value of available-for-sale financial asset during the period	-	-	(1,314)	-	(1,314)	-	(1,314)
Net change in fair value of derivatives designated as hedges during the period	-	-	-	164	164	-	164
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	-	879	-	879	-	879
Foreign currency translation differences from foreign operations	-	2,891	-	-	2,891	-	2,891
Deferred tax recovery (expense)	-	-	57	(49)	8	-	8
Total other comprehensive income for the period	-	2,891	(378)	115	2,628	-	2,628
Total comprehensive income for the period	-	2,891	(378)	115	2,628	40,433	43,061
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company	-	-	-	-	-	(21,192)	(21,192)
Balance at March 31, 2017	\$ 99,283	\$ (32,857)	\$ (361)	\$ (262)	\$ (33,480)	\$ 413,575	\$ 479,378

CONSTELLATION SOFTWARE INC.

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

Three months ended March 31, 2018 and 2017
Unaudited

	2018	2017
Cash flows from operating activities:		
Net income	\$ 82,544	\$ 40,433
Adjustments for:		
Depreciation	6,651	5,299
Amortization of intangible assets	68,632	52,285
TSS membership liability revaluation charge	6,840	13,115
Share in net (income) loss of equity investee	(235)	(49)
Finance and other expense (income)	(8,887)	(21)
Bargain purchase gain	(105)	-
Finance costs	5,216	5,258
Income tax expense (recovery)	18,585	18,040
Foreign exchange loss (gain)	(13,977)	1,494
Change in non-cash operating assets and liabilities exclusive of effects of business combinations	147,025	71,217
Income taxes paid	(54,615)	(25,097)
Net cash flows from operating activities	257,674	181,974
Cash flows from (used in) financing activities:		
Interest paid	(5,268)	(5,451)
Increase (decrease) in New CNH Facility, net	(57,677)	-
Dividends paid	(21,192)	(21,192)
Net cash flows from (used in) in financing activities	(84,137)	(26,643)
Cash flows from (used in) investing activities:		
Acquisition of businesses, net of cash acquired	(296,457)	(48,837)
Post-acquisition settlement payments, net of receipts	(16,598)	(5,355)
Proceeds from sale of available-for-sale equity securities	-	2,013
Interest, dividends and other proceeds received	748	19,553
Property and equipment purchased	(4,466)	(4,410)
Net cash flows from (used in) investing activities	(316,773)	(37,036)
Effect of foreign currency on cash and cash equivalents	1,798	2,095
Increase (decrease) in cash	(141,438)	120,390
Cash, beginning of period	488,964	353,499
Cash, end of period	\$ 347,526	\$ 473,889