

Constellation Software Inc. Announces Results for the Second Quarter Ended June 30, 2017 and Declares Quarterly Dividend

TORONTO, July 26, 2017 (GLOBE NEWSWIRE) -- Constellation Software Inc. (TSX:CSU) ("Constellation" or the "Company") today announced its financial results for the second quarter ended June 30, 2017 and declared a \$1.00 per share dividend payable on October 4, 2017 to all common shareholders of record at close of business on September 15, 2017. This dividend has been designated as an eligible dividend for the purposes of the Income Tax Act (Canada). Please note that all dollar amounts referred to in this press release are in U.S. Dollars unless otherwise stated.

The following press release should be read in conjunction with the Company's Unaudited Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2017 and the accompanying notes, our Management Discussion and Analysis for the three and six months ended June 30, 2017 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, 2016, which can be found on SEDAR at www.sedar.com and on the Company's website www.csisoftware.com. Additional information about the Company is also available on SEDAR at www.sedar.com.

Q2 2017 Headlines:

- | Revenue grew 14% (1% organic growth, 2% after adjusting for changes in foreign exchange rates) to \$600 million compared to \$529 million in Q2 2016.
- | Adjusted EBITA increased \$24 million or 18% to \$155 million as compared to \$131 million in Q2 2016.
- | Adjusted Net Income increased 25% to \$112 million (\$5.30 on a diluted per share basis) from \$90 million (\$4.24 on a diluted per share basis) in Q2 2016.
- | Net income decreased 7% to \$51 million (\$2.41 on a diluted per share basis) from \$55 million (\$2.60 on a diluted per share basis) in Q2 2016.
- | Sixteen acquisitions were completed for aggregate cash consideration of \$71 million (which includes acquired cash). Deferred payments associated with these acquisitions have an estimated value of \$14 million.
- | Cash flows from operations were \$60 million, a decrease of 17%, or \$13 million, compared to \$73 million for the comparable period in 2016.

Total revenue for the quarter ended June 30, 2017 was \$600 million, an increase of 14%, or \$71 million, compared to \$529 million for the comparable period in 2016. For the first six months of 2017 total revenues were \$1,155 million, an increase of 14%, or \$140 million, compared to \$1,016 million for the comparable period in 2016. The increase for both the three and six month periods compared to the same periods in the prior year is primarily attributable to growth from acquisitions as the Company experienced organic growth of 1% in both the three and six month periods, 2% after adjusting for the impact of the net appreciation of the US dollar against most major currencies in which the Company transacts business.

For the quarter ended June 30, 2017, Adjusted EBITA increased to \$155 million compared to \$131 million for the same period in 2016 representing an increase of 18%. Adjusted EBITA margin was 26% for the quarter ended June 30, 2017 and 25% for the same period in 2016. For the first six months of 2017, Adjusted EBITA increased to \$285 million compared to \$238 million during the same period in 2016, representing an increase of 20%. Adjusted EBITA margin was 25% in the first six months of 2017 and 23% for the same period in 2016.

For the quarter ended June 30, 2017, Adjusted net income increased to \$112 million from \$90 million for the same period in 2016, representing an increase of 25%. Adjusted net income margin was 19% for the quarter ended June 30, 2017 and 17% for the same period in 2016. For the first six months of 2017, Adjusted net income increased to \$207 million from \$153 million during the same period in 2016, representing an increase of 36%. Adjusted net income margin was 18% in the first six months of 2017 and 15% for the same period in 2016. Excluding the impact of the unrealized foreign exchange loss recorded in each of the three and six month periods ended June 30, 2016 and 2017 the margins would have been 19% and 18% for the respective periods in 2017, and 18% for both the respective periods in 2016.

Net income for the quarter ended June 30, 2017 was \$51 million compared to net income of \$55 million for the same period in 2016. On a per share basis this translated into a net income per diluted share of \$2.41 in the quarter ended June 30, 2017 compared to net income per diluted share of \$2.60 for the same period in 2016. For the six months ended June 30, 2017, net income was \$92 million or \$4.32 per diluted share compared to \$74 million or \$3.48 per diluted share for the same period in 2016.

Cash flows from operations for the quarter ended June 30, 2017 were \$60 million, a decrease of 17%, or \$13 million, compared to \$73 million for the comparable period in 2016. Income taxes paid in the quarter ended June 30, 2017 were \$28 million of which approximately \$14 million were for balances due related to prior year tax return filings. This compares to \$10 million in income taxes paid for the comparable period in 2016 of which approximately \$2 million were for balances due related to prior year tax return filings.

The following table displays our revenue by reportable segment and the percentage change for the three and six months ended June 30, 2017 compared to the same periods in 2016:

	Three months ended June 30,		Period-Over-Period Change		Organic Growth	Six months ended June 30,		Period-Over-Period Change		Organic Growth
	2017	2016	\$	%		2017	2016	\$	%	
	(\$M, except percentages)					(\$M, except percentages)				
Public Sector										
Licenses	24.7	21.3	3.5	16%	-12%	46.5	41.2	5.3	13%	-15%
Professional services	96.0	87.2	8.8	10%	-2%	185.2	163.0	22.2	14%	0%
Hardware and other	34.6	31.9	2.7	9%	2%	59.2	55.4	3.9	7%	3%
Maintenance and other recurring	251.0	213.2	37.7	18%	2%	489.6	417.0	72.6	17%	2%
	406.3	353.5	52.7	15%	0%	780.5	676.5	103.9	15%	1%
Private Sector										
Licenses	16.1	13.8	2.3	17%	7%	29.5	26.6	2.9	11%	1%
Professional services	24.7	24.1	0.7	3%	-5%	47.9	44.6	3.3	7%	-2%
Hardware and other	7.3	7.1	0.2	3%	-8%	14.1	14.2	(0.0)	0%	-8%
Maintenance and other recurring	145.6	130.2	15.5	12%	3%	283.3	253.8	29.6	12%	3%
	193.8	175.1	18.7	11%	2%	374.9	339.1	35.8	11%	2%

For purposes of calculating organic growth, estimated pre-acquisition revenue from the relevant companies acquired in 2016 and 2017 was added to actual reported revenue for the three and six months ended June 30, 2016.

Public Sector

For the quarter ended June 30, 2017, total revenue in the public sector reportable segment increased

15%, or \$53 million to \$406 million, compared to \$354 million for the quarter ended June 30, 2016. For the six months ended June 30, 2017, total revenue increased by 15%, or \$104 million to \$781 million, compared to \$677 million for the comparable period in 2016. Organic revenue growth was 0% and 1% respectively for the three and six months ended June 30, 2017 compared to the same periods in 2016, and 2% for both periods after adjusting for the impact of the appreciation of the US dollar against most major currencies in which the Company transacts business.

Private Sector

For the quarter ended June 30, 2017, total revenue in the private sector reportable segment increased 11%, or \$19 million to \$194 million, compared to \$175 million for the quarter ended June 30, 2016. For the six months ended June 30, 2017, total revenue increased by 11%, or \$36 million to \$375 million, compared to \$339 million for the comparable period in 2016. Organic revenue growth was 2% for both the three and six months ended June 30, 2017 compared to the same periods in 2016, and 3% after adjusting for the impact of the appreciation of the US dollar against most major currencies in which the Company transacts business.

Conference Call and Webcast

Management will host a conference call at **8:00 a.m. (ET) on Thursday, July 27, 2017** to answer questions regarding the results. The teleconference numbers are 416-340-2217 or 800-898-3989. The call will also be webcast live and archived on Constellation's website at www.csisoftware.com.

A replay of the conference call will be available as of 12:30 p.m. ET the same day until 11:59 p.m. ET on August 10, 2017. To access the replay, please dial 905-694-9451 or 800-408-3053 followed by the passcode 9155057.

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 June 30,		Six months ended June 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	600.1	528.7	1,155.4	1,015.7
Net income	51.2	55.0	91.6	73.7
Adjusted for:				
Income tax expense (recovery)	25.4	20.0	43.5	32.1
Foreign exchange (gain) loss	1.9	6.6	3.4	25.8
TSS membership liability revaluation charge	15.4	1.7	28.5	6.9
Share in net (income) loss of equity investees	(0.1)	(0.1)	(0.1)	(0.3)
Finance and other income	(0.4)	(0.3)	(0.4)	(0.3)
Finance costs	5.5	5.3	10.7	11.0
Amortization of intangible assets	55.7	42.2	108.0	89.3
Adjusted EBITA	154.6	130.5	285.1	238.2
Adjusted EBITA margin	26%	25%	25%	23%

The following table reconciles Adjusted net income to net income:

	Three months ended June 30,		Six months ended June 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	600.1	528.7	1,155.4	1,015.7

Net income	51.2	55.0	91.6	73.7
Adjusted for:				
Amortization of intangible assets	55.7	42.2	108.0	89.3
TSS membership liability revaluation charge	15.4	1.7	28.5	6.9
Less non-controlling interest in the Adjusted net income of TSS	(5.3)	(5.1)	(10.6)	(8.8)
Deferred income tax expense (recovery)	(4.7)	(3.9)	(10.7)	(8.6)
Adjusted net income	112.3	89.9	206.8	152.5
Adjusted net income margin	19%	17%	18%	15%

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.

CONSTELLATION SOFTWARE INC.

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

Unaudited

June 30, 2017 December 31, 2016

Assets

Current assets:

Cash	\$ 429,764	\$ 353,499
Equity securities available-for-sale	-	4,236
Accounts receivable, net	262,393	243,554
Work in progress	59,225	56,541
Inventories	30,881	19,667
Other assets	105,475	96,181
	<u>887,738</u>	<u>773,678</u>

Non-current assets:

Property and equipment	50,162	46,395
Deferred income taxes	38,336	49,863
Other assets	21,334	19,782
Intangible assets	1,105,303	993,743
	<u>1,215,135</u>	<u>1,109,783</u>

Total assets	\$ 2,102,873	\$ 1,883,461
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Liabilities and Shareholders' Equity

Current liabilities:

CSI Facility	\$ -	\$ -
CNH Facility	7,424	7,361
TSS Membership Liability	39,478	26,435
Accounts payable and accrued liabilities	273,522	291,697
Dividends payable	21,518	21,051
Deferred revenue	566,150	460,975
Provisions	7,939	7,955
Acquisition holdback payments	29,624	17,056
Income taxes payable	47,429	40,634
	<u>993,084</u>	<u>873,164</u>

Non-current liabilities:

CNH Facility	122,302	115,336
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TSS Membership Liability	69,446	46,502
Debentures	230,233	223,870
Deferred income taxes	137,055	129,585
Acquisition holdback payments	4,576	855
Other liabilities	31,397	36,640
	595,009	552,788
Total liabilities	1,588,093	1,425,952
Shareholders' equity:		
Capital stock	99,283	99,283
Accumulated other comprehensive income (loss)	(28,036)	(36,108)
Retained earnings	443,533	394,334
	514,780	457,509
Total liabilities and shareholders' equity	\$ 2,102,873	\$ 1,883,461

CONSTELLATION SOFTWARE INC.

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

Three and six months ended June 30, 2017 and 2016

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue				
License	\$ 40,872	\$ 35,053	\$ 76,004	\$ 67,825
Professional services	120,705	111,230	233,118	207,592
Hardware and other	41,930	38,995	73,356	69,515
Maintenance and other recurring	396,577	343,390	772,932	670,718
	600,084	528,668	1,155,410	1,015,650
Expenses				
Staff	296,769	260,375	586,084	515,602
Hardware	23,091	21,869	39,411	40,065
Third party license, maintenance and professional services	50,539	46,990	100,542	91,584
Occupancy	14,434	12,502	27,870	24,543
Travel	18,068	15,634	33,892	29,321
Telecommunications	5,267	5,864	10,335	10,822
Supplies	3,608	2,255	7,480	4,687
Software and equipment	9,819	9,109	19,356	17,590
Professional fees	6,768	6,751	13,693	13,494
Other, net	11,814	11,735	20,986	19,766
Depreciation	5,321	5,109	10,620	9,982
Amortization of intangible assets	55,738	42,239	108,023	89,311
	501,236	440,432	978,292	866,767
Foreign exchange loss (gain)	1,865	6,598	3,359	25,804
TSS membership liability revaluation charge	15,415	1,687	28,530	6,867
Share in net (income) loss of equity investee	(77)	(83)	(126)	(307)
Finance and other expense (income)	(408)	(263)	(429)	(272)
Finance costs	5,473	5,266	10,731	11,021
	22,268	13,205	42,065	43,113

Income before income taxes	76,580	75,031	135,053	105,770
Current income tax expense (recovery)	30,108	23,917	54,216	40,671
Deferred income tax expense (recovery)	(4,678)	(3,881)	(10,746)	(8,567)
Income tax expense (recovery)	25,430	20,036	43,470	32,104
Net income	51,150	54,995	91,583	73,666
Earnings per share				
Basic and diluted	\$ 2.41	\$ 2.60	\$ 4.32	\$ 3.48

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Comprehensive Income

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

Three and six months ended June 30, 2017 and 2016

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net income	\$ 51,150	\$ 54,995	\$ 91,583	\$ 73,666
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	-	334	(1,314)	334
Net change in fair value of derivatives designated as hedges during the period	181	84	345	(23)
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	409	-	1,288	-
Foreign currency translation differences from foreign operations	4,956	(692)	7,847	3,037
Deferred income tax recovery (expense)	(102)	(65)	(94)	(37)
Other comprehensive (loss) income for the period, net of income tax	5,444	(339)	8,072	3,311
Total comprehensive income (loss) for the period	\$ 56,594	\$ 54,656	\$ 99,655	\$ 76,977

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Changes in Equity

(In thousands of U.S. dollars)

Unaudited

Six months ended June
30, 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	-	-	-	-	-	91,583	91,583
<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	-	-	-	345	345	-	345
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	-	1,288	-	1,288	-	1,288
Foreign currency translation differences from foreign operations	-	7,847	-	-	7,847	-	7,847
Deferred tax recovery (expense)	-	-	9	(103)	(94)	-	(94)
Total other comprehensive income (loss) for the period	-	7,847	(17)	242	8,072	-	8,072
Total comprehensive income (loss) for the period	-	7,847	(17)	242	8,072	91,583	99,655

Transactions with owners,
recorded directly in equity

Dividends to shareholders of the Company	-	-	-	-	-	(42,384)	(42,384)
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Balance at June 30, 2017 \$ 99,283 \$ (27,901) \$ - \$ (135) \$ (28,036) \$ 443,533 \$ 514,780

CONSTELLATION SOFTWARE INC.

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

Unaudited

Six months ended June
30, 2016

	Capital stock	Accumulated other comprehensive income/(loss)			Total accumulated other comprehensive income/(loss)	Retained earnings	Total
		Cumulative translation	Amounts related to account gains/losses on available- for-sale financial assets	Amounts related to gains/ (losses) on derivatives designed as hedges			
Balance at January 1, 2016	\$ 99,283	\$ (33,614)	\$ -	\$ (705)	\$ (34,319)	\$ 272,318	\$ 337,282
<i>Total comprehensive income for the period:</i>							
Net income	-	-	-	-	-	73,666	73,666
<i>Other comprehensive income (loss)</i>							
Net change in fair value of available-for-sale financial asset during the period	-	-	334	-	334	-	334
Net change in fair value of derivatives designated as hedges during the period	-	-	-	(23)	(23)	-	(23)
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	-	3,037	-	-	3,037	-	3,037
Deferred tax recovery (expense)	-	-	(44)	7	(37)	-	(37)
Total other comprehensive income for the period	-	3,037	290	(16)	3,311	-	3,311
Total comprehensive income for the period	-	3,037	290	(16)	3,311	73,666	76,977
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company	-	-	-	-	-	(42,384)	(42,384)
Balance at June 30, 2016	\$ 99,283	\$ (30,577)	\$ 290	\$ (721)	\$ (31,008)	\$ 303,600	\$ 371,875

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Cash Flows

(In thousands of U.S. dollars)

Three and six months ended June 30, 2017 and 2016

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Cash flows from operating activities:				
Net income	\$ 51,150	\$ 54,995	\$ 91,583	\$ 73,666
Adjustments for:				
Depreciation	5,321	5,109	10,620	9,982
Amortization of intangible assets	55,738	42,239	108,023	89,311
TSS membership liability revaluation charge	15,415	1,687	28,530	6,867
Share in net (income) loss of equity investee	(77)	(83)	(126)	(307)
Finance and other income	(408)	(263)	(429)	(272)
Finance costs	5,473	5,266	10,731	11,021
Income tax expense (recovery)	25,430	20,036	43,470	32,104
Foreign exchange loss (gain)	1,865	6,598	3,359	25,804
Change in non-cash operating working capital exclusive of effects of business combinations	(71,569)	(53,144)	(352)	(11,248)
Income taxes paid	(27,881)	(9,553)	(52,978)	(17,598)
Net cash flows from operating activities	60,457	72,887	242,431	219,330
Cash flows from (used in) financing activities:				
Interest paid	(5,684)	(5,743)	(11,135)	(11,848)
Repayments of CNH facility	(3,929)	(4,495)	(3,929)	(4,495)
Credit facility transaction costs	-	-	-	(1,212)
Dividends paid	(21,192)	(21,192)	(42,384)	(42,384)
Net cash flows from (used in) in financing activities	(30,805)	(31,430)	(57,448)	(59,939)
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired	(65,362)	(42,870)	(114,199)	(66,698)
Post-acquisition settlement payments, net of receipts	(11,533)	(4,688)	(16,888)	(6,233)
Purchases of available-for-sale equity securities	-	(12,694)	-	(12,694)
Proceeds from sale of available-for-sale equity securities	815	-	2,828	-

Interest, dividends and other proceeds received	902	145	20,455	150
Property and equipment purchased	(4,522)	(6,517)	(8,932)	(9,687)
Net cash flows from (used in) investing activities	(79,700)	(66,624)	(116,736)	(95,162)
Effect of foreign currency on cash and cash equivalents	5,923	(2,955)	8,018	274
Increase (decrease) in cash and cash equivalents	(44,125)	(28,122)	76,265	64,503
Cash, beginning of period	473,889	271,096	353,499	178,471
Cash, end of period	\$ 429,764	\$ 242,974	\$ 429,764	\$ 242,974

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