

Constellation Software Inc. Announces Results for the First Quarter Ended March 31, 2021 and Declares Quarterly Dividend

TORONTO, May 05, 2021 (GLOBE NEWSWIRE) -- Constellation Software Inc. (TSX:CSU) ("Constellation" or the "Company") today announced its financial results for the first quarter ended March 31, 2021 and declared a \$1.00 per share dividend payable on July 10, 2021 to all common shareholders of record at close of business on June 19, 2021. 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, 2021 and the accompanying notes, our Management Discussion and Analysis for the three months ended March 31, 2021 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, 2020, 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 2021 Headlines:

- Revenue increased 23% (6% organic growth, 1% after adjusting for changes in foreign exchange rates) to \$1,176 million compared to \$953 million in Q1 2020.
- A \$263 million expense related to the increase in fair value of redeemable preferred securities was incurred in the quarter, \$261 million of which is non-cash related. Fair value of the preferred securities is primarily dependent on the price movement of Topicus.com Inc.'s (TSXV:TOI) Subordinate Voting Shares.
- Net loss for Q1 2021 was \$175 million (\$0.41 on a diluted per share basis), compared to net income of \$83 million (\$3.91 on a diluted per share basis) in Q1 2020.
- A number of acquisitions were completed for total consideration of \$448 million including holdbacks, contingent consideration and amounts related to Topicus.com B.V.
- Cash flows from operations ("CFO") were \$495 million, an increase of 37%, or \$135 million, compared to \$361 million for the comparable period in 2020.
- Free cash flow available to shareholders¹ ("FCFA2S") decreased \$42 million to \$269 million, after accounting for the non-controlling interest in Topicus.com Inc., compared to \$311 million for the same period in 2020 representing a decrease of 14%.
- Subsequent to March 31, 2021, the Company completed or entered into agreements to acquire a number of businesses for aggregate cash consideration of \$187 (which includes acquired cash). Deferred payments have an estimated value of \$11 resulting in total consideration of \$198.

Total revenue for the quarter ended March 31, 2021 was \$1,176 million, an increase of 23%, or \$223 million, compared to \$953 million for the comparable period in 2020. The increase is primarily attributable to growth from acquisitions as the Company experienced organic growth of 6%, 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 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.

In conjunction with the acquisition of Topicus.com B.V., Topicus.com Coöperatief U.A. ("Topicus Coop") issued 5,842,882 Topicus Coop Preference Units (the "Preferred Securities") to Ijssel B.V. for an initial subscription price of \$102 million plus an additional subscription amount of \$34 million which will be owed by Ijssel B.V. to the Company and will be payable in May 2021. The Company (through Topicus Coop) also issued 5,842,882 Topicus Coop Ordinary Units to Ijssel B.V. The Preferred Securities are non-voting and are redeemable at the option of the holder for a redemption price of approximately €19.06 (\$23.28) per security. The redemption price may either be settled in cash or through the issuance of a variable number of Topicus Coop Ordinary Units. The number of Topicus Coop Ordinary Units would be determined based on the terms of the Preferred Securities. The Preferred Securities are 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.com Inc. also at a conversion ratio of 1:1. The Preferred Securities holders will also be 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 will be recorded at fair value at the end of each reporting period. The change in fair value of the Preferred Securities is 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 is primarily dependent on the price movement of Topicus' Subordinate Voting Shares. At March 31, 2021 the market price of Topicus' Subordinate Voting Shares closed at C\$82.54 or approximately \$65.54. The increase in value from \$23.28 to \$65.54 multiplied by the 5.8 million Preferred Securities outstanding equals approximately \$247 million. The difference between \$247 million and the fair value adjustment of \$263 million primarily relates to the impact of share price volatility and optionality and the accrued dividend of \$2 million.

As the threshold for the mandatory conversion or redemption of all Preferred Securities was reached on April 29, 2021, it is expected that the holders will provide their notification for conversion no later than May 29, 2021 at which time the associated liability excluding accrued dividends will be extinguished and reclassified to equity.

Net loss for the quarter ended March 31, 2021 was \$175 million compared to net income of \$83 million for the same period in 2020. On a per share basis this translated into a net loss per diluted share of \$0.41 in the quarter ended March 31, 2021 compared to net income per diluted share of \$3.91 for the same period in 2020.

For the quarter ended March 31, 2021, CFO increased \$135 million to \$495 million compared to \$361 million for the same period in 2020 representing an increase of 37%.

For the quarter ended March 31, 2021, FCFA2S decreased \$42 million to \$269 million compared to \$311 million for the same period in 2020 representing a decrease of 14%.

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

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, accordingly, readers are cautioned that FCFA2S should not be construed as an alternative to net cash flows from operating activities.

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

	Three months ended March 31,	
	<u>2021</u>	<u>2020</u>
	(\$ in millions, except percentages)	
Net cash flows from operating activities	495	361
Adjusted for:		
Interest paid on lease obligations	(2)	(2)
Interest paid on other facilities	(9)	(8)
Credit facility transaction costs	(2)	-
Payments of lease obligations	(20)	(14)
IRGA / TSS membership liability revaluation charge	(61)	(18)
Property and equipment purchased	(4)	(7)
Interest and dividends received	1	0
	<hr/>	<hr/>
	397	311
Less amount attributable to Non-controlling interests	(128)	-
Free cash flow available to shareholders	269	311

Due to rounding, certain totals may not foot.

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.

Consolidated Statements of Financial Position

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

Unaudited

	March 31, 2021	December 31, 2020	March 31, 2020
Assets			
Current assets:			
Cash	\$ 932	\$ 758	\$ 364
Accounts receivable	518	483	455
Unbilled revenue	128	98	104
Inventories	27	27	32
Other assets	288	219	209
	<u>1,892</u>	<u>1,585</u>	<u>1,163</u>
Non-current assets:			
Property and equipment	92	86	78
Right of use assets	266	251	233
Deferred income taxes	57	52	46
Other assets	80	75	70
Intangible assets	2,759	2,325	1,987
	<u>3,254</u>	<u>2,790</u>	<u>2,414</u>
Total assets	\$ 5,147	\$ 4,375	\$ 3,577
Liabilities and Shareholders' Equity			
Current liabilities:			
Debt with recourse to Constellation Software Inc.	\$ 122	\$ 113	\$ 90
Debt without recourse to Constellation Software Inc.	34	28	2
Redeemable preferred securities	390	-	-
Accounts payable and accrued liabilities	637	666	453
Dividends payable	21	21	21
Deferred revenue	1,296	962	1,035
Provisions	15	12	10
Acquisition holdback payables	78	85	78
Lease obligations	77	74	59
Income taxes payable	91	78	60
	<u>2,761</u>	<u>2,040</u>	<u>1,809</u>
Non-current liabilities:			
Debt with recourse to Constellation Software Inc.	527	421	348
Debt without recourse to Constellation Software Inc.	271	199	143
Deferred income taxes	371	285	250
Acquisition holdback payables	31	37	30
Lease obligations	214	201	191
Other liabilities	139	146	87
	<u>1,554</u>	<u>1,288</u>	<u>1,049</u>
Total liabilities	4,315	3,328	2,858

Shareholders' equity:			
Capital stock	99	99	99
Other equity	(165)	-	-
Accumulated other comprehensive income (loss)	(67)	(31)	(70)
Retained earnings	950	980	690
Non-controlling interests	15	-	-
	832	1,048	719

Total liabilities and shareholders' equity	\$	5,147	\$	4,375	\$	3,577
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CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Income

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

Unaudited

	Three months ended March 31,	
	2021	2020
Revenue		
License	\$ 66	\$ 57
Professional services	237	178
Hardware and other	39	42
Maintenance and other recurring	834	676
	1,176	953
Expenses		
Staff	641	510
Hardware	22	23
Third party license, maintenance and professional services	96	79
Occupancy	9	9
Travel, telecommunications, supplies, software and equipment	39	51
Professional fees	15	14
Other, net	5	5
Depreciation	29	25
Amortization of intangible assets	118	94
	975	810
Foreign exchange loss (gain)	(13)	(6)
IRGA/TSS Membership liability revaluation charge	61	18
Finance and other expense (income)	(2)	(0)
Impairment of intangible and other non-financial assets	3	5
Redeemable preferred securities expense (income)	263	-
Finance costs	15	11
	327	28
Income (loss) before income taxes	(126)	115
Current income tax expense (recovery)	64	44
Deferred income tax expense (recovery)	(14)	(12)
Income tax expense (recovery)	49	33

Net income (loss)		(175)		83
Net income (loss) attributable to:				
Equity holders of Constellation Software Inc.		(9)		83
Non-controlling interests		(166)		-
Net income (loss)		(175)		83
Earnings per common share of Constellation Software Inc.				
Basic and diluted	\$	(0.41)	\$	3.91

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Comprehensive Income

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

Unaudited

	Three months ended March 31,	
	2021	2020
Net income (loss)	\$ (175)	\$ 83
Items that are or may be reclassified subsequently to net income:		
Foreign currency translation differences from foreign operations and other	(23)	(30)
Other comprehensive income (loss) for the period, net of income tax	(23)	(30)
Total comprehensive income (loss) for the period	\$ (198)	\$ 53
Total other comprehensive income (loss) attributable to:		
Equity holders of Constellation Software Inc.	(17)	(30)
Non-controlling interests	(6)	-
Total other comprehensive income (loss)	\$ (23)	\$ (30)
Total comprehensive income (loss) attributable to:		
Equity holders of Constellation Software Inc.	(26)	53
Non-controlling interests	(172)	-
Total comprehensive income (loss)	\$ (198)	\$ 53

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

Three months ended March 31, 2021

	Equity Attributable to Shareholders of CSI					Non-controlling interests	Total equity
	Capital stock	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
Balance at January 1, 2021	\$ 99	\$ -	\$ (31)	\$ 980	\$ 1,048	-	\$ 1,048

Total comprehensive income for the period:

Net income (loss)	-	-	-	(9)	(9)	(166)	(175)
<i>Other comprehensive income (loss)</i>							
Foreign currency translation differences from foreign operations and other	-	-	(17)	-	(17)	(6)	(23)
Total other comprehensive income (loss) for the period	-	-	(17)	-	(17)	(6)	(23)
Total comprehensive income (loss) for the period	-	-	(17)	(9)	(26)	(172)	(198)

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 (note 4)	-	(21)	(2)	-	(23)	23	-
Net acquisition of non-controlling interest associated with acquisitions and other movements	-	(3)	-	0	(3)	6	3
Dividends to shareholders of the Company	-	-	-	(21)	(21)	-	(21)
Balance at March 31, 2021	\$ 99	\$ (165)	\$ (67)	\$ 950	\$ 817	\$ 15	\$ 832

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

Three months ended March 31, 2020

	Equity Attributable to Shareholders of CSI					Non-controlling interests	Total equity
	Capital stock	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
Balance at January 1, 2020	\$ 99	\$ -	\$ (40)	\$ 628	\$ 687	\$ -	\$ 687
<i>Total comprehensive income for the period:</i>							
Net income (loss)	-	-	-	83	83	-	83
<i>Other comprehensive income (loss)</i>							
Foreign currency translation differences from foreign operations and other	-	-	(30)	-	(30)	-	(30)
Total other comprehensive income (loss) for the period	-	-	(30)	-	(30)	-	(30)

Total comprehensive income (loss) for the period	-	-	(30)	83	53	-	53
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company	-	-		(21)	(21)	-	(21)
Balance at March 31, 2020	\$ 99	\$ -	\$ (70)	\$ 690	\$ 719	\$ -	\$ 719

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 March 31,	
	2021	2020
Cash flows from operating activities:		
Net income (loss)	\$ (175)	\$ 83
Adjustments for:		
Depreciation	29	25
Amortization of intangible assets	118	94
IRGA/TSS Membership liability revaluation charge	61	18
Finance and other expense (income)	(2)	(0)
Impairment of intangible and other non-financial assets	3	5
Redeemable preferred securities expense (income)	263	-
Finance costs	15	11
Income tax expense (recovery)	49	33
Foreign exchange loss (gain)	(13)	(6)
Change in non-cash operating assets and liabilities exclusive of effects of business combinations	198	136
Income taxes paid	(51)	(38)
Net cash flows from (used in) operating activities	495	361
Cash flows from (used in) financing activities:		
Interest paid on lease obligations	(2)	(2)
Interest paid on other facilities	(9)	(8)
Increase (decrease) in CSI facility	-	(65)
Increase (decrease) in revolving credit debt facilities without recourse to CSI	6	(55)
Proceeds from issuance of term debt facilities without recourse to CSI	79	-
Repayments of term debt facilities without recourse to CSI	(1)	(1)
Credit facility transaction costs	(2)	-
Payments of lease obligations	(20)	(14)
Distribution to the Joday Group	(22)	-
Dividends paid	(21)	(21)
Net cash flows from (used in) in financing activities	6	(167)
Cash flows from (used in) investing activities:		
Acquisition of businesses	(314)	(107)
Cash obtained with acquired businesses	44	14
Post-acquisition settlement payments, net of receipts	(46)	(32)
Purchases of other investments	(0)	(1)
Interest, dividends and other proceeds received	3	0
Property and equipment purchased	(4)	(7)
Net cash flows from (used in) investing activities	(319)	(133)
Effect of foreign currency on		

cash and cash equivalents	(9)	(13)
Increase (decrease) in cash	174	48
Cash, beginning of period	758	316
Cash, end of period	\$ 932	\$ 364