

TOPICUS.COM 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 amounts are expressed in Euros. All references to "€" are to Euros. Due to rounding, certain totals and subtotals may not foot and certain percentages may not reconcile.

Additional information about Topicus.com Inc. (the "Company" or "Topicus") is available on SEDAR at 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 3, 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.

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, dividends paid to redeemable preferred securities holders, 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 and Acquisition of Topicus.com B.V.

On January 4, 2021, Topicus completed a corporate reorganization (the “Combination”) pursuant to which it acquired a controlling interest in Topicus.com Coöperatief U.A. (“Topicus Coop”) (formerly named Constellation Software Netherlands Holding Coöperatief U.A. (“CSNH”). Topicus Coop is an entity incorporated and domiciled in the Netherlands and, prior to the Combination, was controlled by Constellation Software Inc. (“CSI”), Topicus’ parent company and controlling shareholder. The Combination was completed between entities under common control and Topicus has recorded the Combination at carrying value of the net assets recorded in the financial statements of Topicus Coop. Topicus has amended its comparative financial information to reflect the Combination as if it had occurred before the start of the earliest period presented.

In conjunction with the Combination, Topicus issued 1 super voting share (the “Super Voting Share”), 39,412,385 preferred shares (the “Preferred Shares”) and 39,412,385 subordinate voting shares (the “Subordinate Voting Shares”) to CSI. CSI then distributed 39,412,367 Subordinate Voting Shares of Topicus to its shareholders pursuant to a dividend-in-kind previously declared. In addition, Topicus Coop issued 19,665,642 preference units (“Topicus Coop Preference Units”) and 19,665,642 ordinary units (“Topicus Coop Ordinary Units”) to Joday Investments II B.V. and certain individual investors affiliated therewith (being the previous minority owners of CSNH) (collectively known as the “Joday Group”). Topicus has reflected this capital reorganization as if it had occurred on the starting date of the earliest period presented for purposes of Topicus’ basic and diluted earnings per share calculation.

On January 5, 2021, the Company acquired 100% of the shares of Topicus.com B.V. from Ijssel B.V. (“Ijssel”). The Company paid cash of €133.6 million to Ijssel. Furthermore, the Company issued 5,842,882 Topicus Coop preference units to Ijssel for an initial subscription price of €83.8 million plus an additional subscription amount of €27.6 million which was paid by Ijssel to the Company in May 2021. The Company also issued 5,842,882 Topicus Coop Ordinary Units to Ijssel. The aggregate total consideration totalled €217.4 million.

The condensed consolidated interim financial statements of Topicus as at and for the three and nine month periods ended September 30, 2022 and September 30, 2021 comprise Topicus, Topicus Coop and its subsidiaries (together referred to as the “Company”) and the Company’s interest in associates. Topicus’ principal subsidiary is Topicus Coop and Topicus has a common equity interest of 62.04% in Topicus Coop with 37.96% being owned by the non-controlling interests.

Overview

We acquire, manage and build vertical market software (“VMS”) businesses, primarily located in Europe. Generally, these businesses provide mission critical software solutions that address the specific needs of our customers in particular vertical 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 euros, except percentages and per share amounts)

	Three months ended		Period-Over-Period Change		Nine months ended		Period-Over-Period Change	
	September 30, 2022	September 30, 2021	€	%	September 30, 2022	September 30, 2021	€	%
Revenue	228.6	177.1	51.5	29%	653.0	535.0	118.0	22%
Expenses	174.3	131.1	43.2	33%	496.2	396.1	100.1	25%
Amortization of intangible assets	28.9	21.0	7.9	37%	77.9	62.1	15.8	26%
Redeemable preferred securities expense (income)	-	-	-	NM	-	2,302.2	(2,302.2)	-100%
Finance and other expense (income)	1.7	2.2	(0.5)	-21%	3.4	8.1	(4.7)	-58%
Income (loss) before income taxes	23.7	22.9	0.8	3%	75.5	(2,235.1)	2,310.6	NM
Income tax expense (recovery)								
Current income tax expense (recovery)	11.9	9.6	2.4	25%	34.2	28.5	5.7	20%
Deferred income tax expense (recovery)	(6.7)	(4.8)	(1.9)	40%	(17.6)	(14.3)	(3.3)	23%
Income tax expense (recovery)	5.2	4.8	0.5	10%	16.6	14.2	2.4	17%
Net income (loss)	18.4	18.1	0.3	2%	58.9	(2,249.3)	2,308.1	NM
Equity holders of Topicus	11.8	7.4	4.4	59%	35.9	(1,896.1)	1,932.0	NM
Non-controlling interests	6.6	10.7	(4.1)	-38%	22.9	(353.2)	376.1	NM
Net cash flows from operating activities	10.9	8.5	2.4	29%	154.9	133.7	21.3	16%
Free cash flow available to shareholders	(0.5)	(0.5)	(0.0)	9%	35.7	66.3	(30.6)	-46%
Weighted average shares outstanding								
Basic	80.5	79.3			80.2	57.9		
Diluted	129.8	129.8			129.8	129.5		
Net income (loss) per share								
Basic	€ 0.15	€ 0.09	€ 0.05	57%	€ 0.45	-€ 32.78	€ 33.22	NM
Diluted	€ 0.15	€ 0.09	€ 0.06	62%	€ 0.45	-€ 32.78	€ 33.22	NM
Net cash flows from operating activities per share								
Basic	€ 0.14	€ 0.11	€ 0.03	27%	€ 1.93	€ 2.31	-€ 0.38	-16%
Diluted	€ 0.08	€ 0.07	€ 0.02	29%	€ 1.19	€ 1.03	€ 0.16	16%
Free cash flow available to shareholders per share								
Basic	-€ 0.01	-€ 0.01	-€ 0.00	7%	€ 0.44	€ 1.15	-€ 0.70	-61%
Diluted	-€ 0.01	-€ 0.01	-€ 0.00	7%	€ 0.44	€ 0.84	-€ 0.39	-47%

NM - Not meaningful

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

Comparative financial information amended to reflect the Combination as if it occurred before the start of the earliest period presented.

Diluted Free cash flow available to shareholders per share is calculated before deducting the amount attributable to non-controlling interests.

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 €228.6 million, an increase of 29%, or €51.5 million, compared to €177.1 million for the comparable period in 2021. For the first nine months of 2022 total revenues were €653.0 million, an increase of 22%, or €118.0 million, compared to €535.0 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 3% and 4% respectively. 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 the Company. 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,				Q321 Proforma Adj. (Note 1)		Nine months ended September 30,				Q321 Proforma Adj. (Note 2)	
	2022	2021	€	%	€	%	2022	2021	€	%	€	%
	(€ in millions, except percentages)											
Licenses	6.4	4.6	1.8	38%	3.9	-25%	18.3	15.8	2.5	16%	8.3	-24%
Professional services	59.6	45.2	14.3	32%	12.8	3%	166.2	141.4	24.7	17%	23.4	1%
Hardware and other	2.0	1.1	0.9	78%	1.3	-17%	6.6	4.0	2.6	65%	2.2	6%
Maintenance and other recurring	160.6	126.1	34.5	27%	27.2	5%	461.9	373.8	88.2	24%	60.3	6%
	228.6	177.1	51.5	29%	45.2	3%	653.0	535.0	118.0	22%	94.3	4%

€M - Millions of euros

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

Comparative financial information amended to reflect the Combination as if it occurred before the start of the earliest period presented.

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 the Company 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	3%	1%	-14%	23%	-20%	42%	-20%	-27%	-25%	
Professional services	-7%	-3%	10%	9%	5%	11%	-4%	3%	3%	
Hardware and other	-1%	71%	-17%	0%	-36%	-22%	41%	8%	-17%	
Maintenance and other recurring	6%	5%	6%	7%	7%	9%	6%	9%	5%	
Revenue	2%	3%	7%	8%	5%	10%	3%	6%	3%	

Expenses:

The following table displays the breakdown of our expenses:

	Three months ended September 30,				Period-Over-Period Change				Nine months ended September 30,				Period-Over-Period Change			
	2022		2021		€		%		2022		2021		€		%	
	(€ in millions, except percentages)															
Expenses																
Staff	128.7	95.9	32.8	34%	364.4	291.5	72.9	25%								
Hardware	1.6	0.7	0.8	114%	3.8	2.0	1.8	88%								
Third party license, maintenance and professional services	18.6	17.3	1.3	7%	54.7	53.1	1.6	3%								
Occupancy	2.0	1.3	0.8	62%	5.4	4.1	1.3	32%								
Travel, telecommunications, supplies & software and equipment	8.4	4.7	3.7	78%	22.9	13.7	9.3	68%								
Professional fees	4.0	3.4	0.6	17%	11.5	8.4	3.2	38%								
Other, net	3.7	1.4	2.3	168%	12.9	5.0	7.9	156%								
Depreciation	7.3	6.4	1.0	15%	20.5	18.4	2.2	12%								
	174.3	131.1	43.2	33%	496.2	396.1	100.1	25%								

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

Comparative financial information amended to reflect the Combination as if it occurred before the start of the earliest period presented.

Overall expenses for the quarter ended September 30, 2022 increased 33%, or €43.2 million to €174.3 million, compared to €131.1 million during the same period in 2021. As a percentage of total revenue, expenses equalled 76% for the quarter ended September 30, 2022 and 74% for the same period in 2021. During the nine months ended September 30, 2022, expenses increased 25%, or €100.1 million to €496.2 million, compared to €396.1 million during the same period in 2021. As a percentage of total revenue, expenses were 76% for the nine months ended September 30, 2022 and 74% for the same period in 2021.

Staff expense – Staff expenses increased 34% or €32.8 million for the quarter ended September 30, 2022 and 25% or €72.9 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			
	2022		2021		€		%		2022		2021		€		%	
	(€ in millions, except percentages)															
Professional services	33.6	23.7	9.9	42%	93.4	74.1	19.3	26%								
Maintenance	25.0	18.0	6.9	38%	71.1	58.2	12.9	22%								
Research and development	31.9	24.8	7.1	28%	93.1	74.2	18.9	25%								
Sales and marketing	13.0	8.7	4.3	49%	36.8	27.2	9.6	35%								
General and administrative	25.3	20.7	4.7	23%	70.0	57.8	12.2	21%								
	128.7	95.9	32.8	34%	364.4	291.5	72.9	25%								

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

Comparative financial information amended to reflect the Combination as if it occurred before the start of the earliest period presented.

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

Hardware expenses – Hardware expenses increased 114% or €0.8 million for the quarter ended September 30, 2022 and increased 88% or €1.8 million for the nine months ended September 30, 2022 over the same periods in 2021 as compared with the 78% and 65% 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 23% and 42% respectively as compared to 35% and 49% for the comparable periods in 2021.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses increased 7% or €1.3 million for the quarter ended September 30, 2022 and increased 3% or €1.6 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 62% or €0.8 million for the quarter ended September 30, 2022 and increased 32% or €1.3 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 78% or €3.7 million for the quarter ended September 30, 2022 and increased 68% or €9.3 million for the nine months ended September 30, 2022 over the same periods in 2021. The increase is primarily due to expenses relating to 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 17% or €0.6 million for the quarter ended September 30, 2022 and 38% or €3.2 million for the nine months ended September 30, 2022 over the same periods in 2021. There are no individually material reasons contributing to these variances.

Other, net – Other expenses increased 168% or €2.3 million for the quarter ended September 30, 2022 and increased 156% or €7.9 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>2022</u>	<u>2021</u>	€	%
	(€ in millions, except percentages)							
Advertising and promotion	1.8	1.3	0.4	32%	5.9	3.8	2.1	56%
Recruitment and training	2.1	1.2	0.9	77%	6.2	4.3	1.9	44%
R&D tax credits	(1.7)	(1.2)	(0.5)	45%	(4.4)	(3.6)	(0.8)	22%
Contingent consideration	0.7	(0.3)	1.0	NM	2.7	(0.5)	3.2	NM
Other expense, net	0.7	0.4	0.3	82%	1.8	1.0	0.8	83%
	3.7	1.4	2.3	168%	12.9	5.0	7.9	156%

NM - Not meaningful

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

Comparative financial information amended to reflect the Combination as if it occurred before the start of the earliest period presented.

The contingent consideration expense amounts recorded for the periods above relate to an increase (decrease) in anticipated acquisition earnout payment accruals primarily as a result of increases (decreases) 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.

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

Depreciation – Depreciation of property and equipment increased 15% or €1.0 million for the quarter ended September 30, 2022 and 12% or €2.2 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		Period-Over-Period		Nine months ended		Period-Over-Period	
	September 30,		Change		September 30,		Change	
	2022	2021	€	%	2022	2021	€	%
	(€ in millions, except percentages)							
Amortization of intangible assets	28.9	21.0	7.9	37%	77.9	62.1	15.8	26%
Redeemable preferred securities expense (income)	-	-	-	NM	-	2,302.2	(2,302.2)	-100%
Impairment of intangible and other non-financial assets	-	-	-	NM	-	1.6	(1.6)	-100%
Finance and other expense (income)	1.7	2.2	(0.5)	-21%	3.4	8.1	(4.7)	-58%
Income tax expense (recovery)	5.2	4.8	0.5	10%	16.6	14.2	2.4	17%
	35.8	28.0	7.9	28%	97.9	2,388.1	(2,290.2)	-96%

NM - Not meaningful

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

Comparative financial information amended to reflect the Combination as if it occurred before the start of the earliest period presented.

Amortization of intangible assets – Amortization of intangible assets increased 37% or €7.9 million for the quarter ended September 30, 2022 and 26% or €15.8 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.

Redeemable preferred securities expense (income) – On January 4, 2021 and January 5, 2021, the Company completed the Combination (see “Corporate Reorganization and Acquisition of Topicus.com B.V.”). In connection with the Combination, the Company issued 39,412,385 Preferred Shares to CSI and 19,665,642 Topicus Coop Preference Units to the Joday Group, and in connection with the acquisition of Topicus.com B.V. on January 5, 2021, the Company issued 5,842,882 Topicus Coop Preference Units to Ijssel, collectively the “Preferred Securities”. The Preferred Securities were non-voting and under certain conditions were redeemable at the option of the holder for a redemption price of approximately €19.06 per security. The redemption price could either be settled in cash or through the issuance of a variable number of Subordinate Voting Shares or Topicus Coop Ordinary Units, as applicable, of equal value, or any combination thereof. The Preferred Securities were also convertible into Subordinate Voting Shares or Topicus Ordinary Units, as applicable, 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 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 11 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 (loss) up to the date of the Notification of Conversion.

During the three months ended June 30, 2021, the Preferred Securities reached the Mandatory Conversion Moment (as described in Note 9 to the Company's Unaudited Condensed Consolidated Interim Financial Statements for the three and six month periods ended June 30, 2021). As a result of reaching the Mandatory Conversion Moment, the Preferred Security holders notified Topicus that they were electing to convert their Preferred Securities into Subordinated Voting Shares or Topicus Coop Ordinary Units, as applicable, which conversion would become effective on February 1, 2022 ("Notification of Conversion"). On each date that the Company received the Notification of Conversion from the Preferred Security holders, the Preferred Securities were re-classified from a liability to equity because the Preferred Securities were no longer redeemable for cash or through the issuance of Subordinate Voting Shares or Topicus Coop Ordinary Units, as applicable, of equal value, or any combination thereof. Following receipt of the Notice of Conversion, the holders of the Preferred Securities were required to convert their Preferred Securities to Subordinated Voting Shares or Topicus Coop Ordinary Units, as applicable, on February 1, 2022, however, they could have chosen to convert prior to February 1, 2022 pursuant to the Preferred Share Conversion Right or Topicus Coop Preference Unit Conversion Right, as applicable (as defined in Note 9 to the Company's Unaudited Condensed Consolidated Interim Financial Statements for the three and six month periods ended June 30, 2021). On the Notification of Conversion date, the Company accrued the expected dividend to be paid relating to the period from the Notification of Conversion date to the expected conversion date of February 1, 2022. The dividend to be paid relating to this period was recorded directly in equity (non-controlling interest).

As noted above, the fair value of the Preferred Securities had been recorded at fair value at the end of each reporting period until the Notification of Conversion. Based on the Preferred Securities conversion right, the fair value of the Preferred Securities was 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 CAD\$82.54 or approximately €55.89. The increase in value from €19.06 to €55.89 multiplied by the 64.9 million Preferred Securities outstanding equalled approximately €2,391.2 million. The Notifications of Conversion were received from the various securities holders between the dates of May 3, 2021 to May 27, 2021. The weighted average closing market price (based on the number of securities associated with each Notification of Conversion) of Topicus' Subordinate Voting Shares for that period was CAD\$79.98 or approximately €54.16. The decrease in value from €55.89 to €54.16 multiplied by the 64.9 million Preferred Securities outstanding equalled approximately €112.4 million during the quarter ended June 30, 2021. The net increase for the nine months ended September 30, 2021 was therefore €2,278.7 million (€2,391.2 million - €112.4 million). The difference between the increase of €2,278.7 million and the fair value adjustment of €2,302.2 million (increase) for the nine months ended September 30, 2021 primarily relates to the impact of share price volatility and optionality and the accrued dividend of €23.7 million for the period.

On February 1, 2022, all outstanding Topicus Coop Preference Units were converted into Topicus Coop Ordinary Units and all outstanding Preferred Shares were converted to Subordinate Voting Shares.

Impairment of intangible and other non-financial assets – An impairment expense of €1.6 million was recorded for the nine month period ended September 30, 2021 with no similar expense recorded in 2022. The 2021 expense relates to a business acquired in 2020 that was unable to achieve the goals established in the associated investment thesis.

Finance and other expense (income) – Finance and other expense for the three and nine months ended September 30, 2022 was €1.7 million and €3.4 million respectively, compared to €2.2 million and €8.1 million for the same periods in 2021. The interest expense on debt for the three and nine months ended September 30, 2022 was €2.7 million and €6.9 million respectively compared to €2.3 million and €6.4 million for the same periods in 2021. Other finance income for the three and nine months ended September 30, 2022 was €1.6 million and €5.4 million respectively, compared to a cost of €0.3 million and €1.0 million for the same periods in 2021. The other finance income primarily relates to a gain on an interest rate cap instrument.

Income taxes – We operate throughout Europe 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 increased €0.5 million to €5.2 million compared to €4.8 million for the same period in 2021. During the nine months ended September 30, 2022, income tax expense increased €2.4 million to €16.6 million compared to €14.2 million for the same period in 2021. Current tax expense has historically approximated our cash tax expense however the quarterly expense can sometimes fall outside of the annual range due to adjustments to prior period provisions. 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 condensed consolidated statements of income.

The Company is subject to tax audits in the countries in which it carries on business. 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 judgement. If any of these tax authorities are successful with their challenges, the Company’s income tax expense may be adversely affected and the Company could also be subject to interest and penalty charges.

Net Income (Loss) per Share:

Net income for the quarter ended September 30, 2022 increased €0.3 million to €18.4 million compared to €18.1 million for the same period in 2021. On a per share basis, this translated into net income per basic and diluted share of €0.15 in the quarter ended September 30, 2022 compared to €0.09 for the same period in 2021. For the nine months ended September 30, 2022, net income was €58.9 million or €0.45 per basic and diluted share compared to a net loss of €2,249.3 million or €32.78 per basic and diluted share for the same period in 2021. The net loss per basic and diluted share for the nine months ended September 30, 2021 primarily resulted from the €2,302.2 million redeemable preferred securities expense. Diluted shares outstanding increased from 129.5 million to 129.8 million for the nine months ended September 30, 2022.

Net cash flows from operating activities (“CFO”):

For the quarter ended September 30, 2022, CFO increased €2.4 million to €10.9 million compared to €8.5 million for the same period in 2021 representing an increase of 29%. Many of the businesses invoice customers for annual software maintenance fees in Q1 each year resulting in a disproportionate amount of cash being received in the first quarter as compared to the remaining three quarters. For the nine months ended September 30, 2022, CFO increased €21.3 million to €154.9 million compared to €133.7 million for the same period in 2021 representing an increase of 16%.

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

For the quarter ended September 30, 2022, FCFA2S was negative €0.5 million compared to negative €0.5 million for the same period in 2021. For the nine months ended September 30, 2022, FCFA2S decreased €30.6 million to €35.7 million compared to €66.3 million for the same period in 2021 representing a decrease of 46%. The decline is primarily as a result of the dividend paid to the Preferred Securities holders.

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

	Three months ended September 30,		Nine months ended September 30,	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	(€ in millions, except percentages)		(€ in millions, except percentages)	
Net cash flows from operating activities	10.9	8.5	154.9	133.7
Adjusted for:				
Interest paid on lease obligations	(0.3)	(0.3)	(0.9)	(0.9)
Interest paid on other facilities	(3.4)	(3.3)	(7.4)	(5.9)
Credit facility transaction costs	(0.1)	-	(0.1)	(2.4)
Payments of lease obligations	(5.2)	(4.4)	(14.8)	(12.9)
Property and equipment purchased	(1.2)	(1.3)	(4.8)	(3.2)
Dividends paid to redeemable preferred securities holders	-	-	(66.6)	-
	<u>0.6</u>	<u>(0.8)</u>	<u>60.3</u>	<u>108.4</u>
Less amount attributable to non-controlling interests	(1.2)	0.3	(24.6)	(42.1)
Free cash flow available to shareholders	(0.5)	(0.5)	35.7	66.3

Due to rounding, certain totals may not foot.

Comparative financial information amended to reflect the Combination as if it occurred before the start of the earliest period presented.

Quarterly Results

	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>
Revenue	121.2	137.4	179.6	178.2	177.1	207.6	203.8	220.6	228.6
Net income	19.3	12.9	(2,436.1)	168.8	18.1	27.0	20.4	20.1	18.4
CFO	9.5	30.3	159.8	(34.6)	8.5	42.8	176.0	(32.0)	10.9
FCFA2S	2.6	16.0	91.5	(25.4)	(0.5)	21.3	61.4	(26.8)	(0.5)
Net income per share									
Basic	€ 0.33	€ 0.22	-€ 52.40	€ 2.97	€ 0.09	-€ 0.17	€ 0.14	€ 0.16	€ 0.15
Diluted	€ 0.16	€ 0.11	-€ 52.40	€ 0.11	€ 0.09	-€ 0.17	€ 0.14	€ 0.16	€ 0.15
CFO per share									
Basic	€ 0.24	€ 0.77	€ 4.05	-€ 0.64	€ 0.11	€ 0.54	€ 2.20	-€ 0.40	€ 0.14
Diluted	€ 0.08	€ 0.26	€ 1.24	-€ 0.64	€ 0.07	€ 0.33	€ 1.36	-€ 0.40	€ 0.08
FCFA2S per share									
Basic	€ 0.07	€ 0.40	€ 2.32	-€ 0.47	-€ 0.01	€ 0.27	€ 0.77	-€ 0.34	-€ 0.01
Diluted	€ 0.03	€ 0.20	€ 1.17	-€ 0.47	-€ 0.01	€ 0.26	€ 0.77	-€ 0.34	-€ 0.01

In millions of euros, except per share amounts

Comparative financial information amended to reflect the Combination as if it occurred before the start of the earliest period presented.

Weighted average shares (in millions)

Basic	39.4	39.4	39.4	54.4	79.3	79.5	79.9	80.1	80.5
Diluted	118.2	118.2	129.3	129.8	129.8	129.8	129.8	129.8	129.8

Many of the businesses invoice customers for annual software maintenance fees in Q1 each year resulting in a disproportionate amount of cash being received in the first quarter as compared to the remaining three quarters, otherwise we do not generally experience significant seasonality in our operating results from quarter to quarter. Our quarterly results may however 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, and gains or losses on the sale of financial and other assets. The redeemable preferred securities expense was primarily dependent on the price movement of Topicus' Subordinate Voting Shares. Material swings in the price had a material impact on quarterly operating results.

Liquidity

Our net debt position (bank indebtedness excluding capitalized transaction costs plus the loan from CSI less cash) increased by €64.1 million to €164.1 million in the nine months ended September 30, 2022 primarily resulting from the net capital deployed on acquisitions plus dividends paid exceeding the cash flows from operations. Cash increased by €60.5 million to €135.8 million at September 30, 2022 compared to €75.3 million at December 31, 2021, bank indebtedness increased by €120.0 million to €266.2 million at September 30, 2022 compared to €146.2 million at December 31, 2021, and the loan from CSI (see "Related Parties" below) increased by €4.6 million to €33.7 million at September 30, 2022 compared to €29.1 million at December 31, 2021.

Total assets increased €269.8 million, from €1,028.3 million at December 31, 2021 to €1,298.1 million at September 30, 2022. The increase is primarily due to the €152.1 million increase in intangible assets and €60.5 million increase in cash.

Current liabilities increased €135.5 million, from €398.8 million at December 31, 2021 to €534.3 million at September 30, 2022. The increase is primarily due to the €110.5 million increase in the revolving credit facility and €70.3 increase in deferred revenue, offset by a decrease in redeemable preferred securities of €66.6 million. The redeemable preferred securities liability primarily related to the accrued dividend on the Preferred Securities that was paid on February 1, 2022.

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	154.9	133.7
Net cash from (used in) financing activities	24.5	8.8
Cash used in the acquisition of businesses	(154.6)	(148.8)
Cash obtained with acquired businesses	37.5	19.5
Net cash from (used in) other investing activities	(1.8)	(2.2)
Net cash from (used in) investing activities	(118.9)	(131.5)
Effect of foreign currency	0.0	(0.0)
Net increase (decrease) in cash and cash equivalents	60.5	11.0

The net cash flows from operating activities were €154.9 million for the nine months ended September 30, 2022. The €154.9 million provided by operating activities resulted from net income of €58.9 million plus €118.4 million of non-cash adjustments to net income and €8.5 million generated from non-cash operating working capital offset by €30.9 million in taxes paid.

The net cash flows from financing activities for the nine months ended September 30, 2022 were €24.5 million, which is mainly a result of a net increase in bank indebtedness of €105.0 million offset by the €66.6 million dividend paid on the Preferred Securities and €14.8 million of lease payments.

The net cash flows used in investing activities in the nine months ended September 30, 2022 were €118.9 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of €154.6 million (including payments for holdbacks relating to prior acquisitions) offset by €37.5 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.

Related Parties

Transactions with related parties are assumed when a relationship exists between the Company and a natural person or entity that is affiliated with the Company. This includes, amongst others, the relationship between the Company and its subsidiaries, significant shareholders, directors, key management personnel, certain companies affiliated with key management personnel, and companies that are under common control of our controlling shareholder, CSI. Transactions are transfers of resources, services or obligations, regardless whether anything has been charged. There have been no transactions with related parties that were not on a commercial basis, except from financing obtained from the shareholders of the Company, as explained below.

Transactions with CSI

The Company pays management fees to CSI (included within “Other, net” expenses) and reimburses CSI for certain expenses paid on behalf of the Company. The aggregate payments made by the Company to CSI for management fees and reimbursements of expenses during the three and nine months ended September 30, 2022 was €0.7 million and €8.8 million respectively (€0.5 million and €6.5 million respectively for the three and nine months ended September 30, 2021). The Company expensed management fees of €0.5 million and €1.5 million for the three and nine months ended September 30, 2022 (€0.3 million and €0.9 million for the three and nine months ended September 30, 2021).

The ending payable balance to CSI (included within “Accounts payable and accrued liabilities”) as at September 30, 2022 was €0.6 million (December 31, 2021 – €1.1 million).

Transactions with other entities under the control of CSI

The Company also provides professional services to other entities under the control of CSI. The total amount of revenue recognized during the three and nine months ended September 30, 2022 (included within “Professional services revenue”) relating to such arrangements was €1.8 million and €4.8 million respectively (€1.1 million and €3.0 million respectively for the three and nine months ended September 30, 2021). The ending receivable balance (included within “Accounts receivable”) as at September 30, 2022 relating to these arrangements was €1.0 million (December 31, 2021 – €0.6 million).

Transactions with Vela Software Group and CSI in conjunction with the acquisition of Geosoftware

On October 1, 2021, the Company acquired the assets of Geosoftware. In conjunction with the acquisition of Geosoftware, Vela Software Group (“Vela”), an operating group that is owned and controlled by CSI, contributed €18.0 million to acquire a 40% interest in Geosoftware, the remaining 60% is owned by the Company. Furthermore, CSI provided a non-interest bearing loan to the Company in the amount of US\$33.0 million (€33.7 million). The

loan was provided in US dollars (the functional currency of Geosoftware) and is temporary financing until permanent financing is arranged. The loan was originally due on December 31, 2022 and could be repaid by the Company at any time. During the period ended March 31, 2022, the loan agreement was amended. The loan is now due on July 1, 2023, with the loan becoming interest-bearing at an annual rate of 2% starting July 1, 2022. The loan can be repaid by the Company at any time. During the three and nine months ended September 30, 2022, the Company recognized interest expense of €0.2 million relating to this loan. The interest payable as at September 30, 2022 is €0.2 million and has been included within “Accounts payable and accrued liabilities”.

During the nine months ended September 30, 2022, the Company repaid, net of advancements, €1.8 million of the working capital loan which had previously been provided by Vela. The ending balance at September 30, 2022 was €0.4 million (included within “Accounts payable and accrued liabilities”) (December 31, 2021 - €2.2 million). The amount is non-interest bearing and is due on demand.

During the nine months ended September 30, 2022, Geosoftware reimbursed Vela for certain expenses incurred by Vela on behalf of Geosoftware. The amount payable as at September 30, 2022 relating to these amounts was €1.7 million (included within “Accounts payable and accrued liabilities”) (December 31, 2021 - €0.9 million).

Transactions with Vela Software Group in conjunction with the acquisition of Subsurface:

On July 1, 2022, the Company acquired Subsurface and its two interactive software solutions (“Subsurface”) for the oil and gas vertical from Lloyd’s Register. In conjunction with the acquisition of Subsurface, Vela contributed €7.9 million to acquire a 40% interest in Subsurface, the remaining 60% is owned by the Company.

Non-controlling interests

The Company’s non-controlling interest at September 30, 2022 is associated with Topicus Coop, an entity domiciled in the Netherlands. Topicus Coop’s equity consists of Topicus Coop Ordinary Units. As at September 30, 2022 there were 129,841,818 Topicus Coop Ordinary Units outstanding, which were held by Topicus Coop’s unitholders as follows:

- Topicus: 80,549,763 Topicus Coop Ordinary Units, representing 63.07% equity ownership.
- Joday Group: 39,331,284 Topicus Coop Ordinary Units, representing 30.29% equity ownership.
- Ijssel Group: 9,960,771 Topicus Coop Ordinary Units, representing 6.64% equity ownership.

All of the Topicus Coop Ordinary Units held by the Joday Group and the Ijssel Group (collectively the “Topicus Coop Exchangeable Units”) are exchangeable, directly or indirectly, for Subordinate Voting Shares. The Topicus Coop Exchangeable Units comprise non-controlling interests in Topicus Coop.

Topicus Coop also has certain subsidiaries that are not owned 100% by Topicus Coop and have a non-controlling interest. In 2021, the Company acquired a 60% interest in Geosoftware, the remaining 40% is owned by the Vela Software Group. Geosoftware is domiciled primarily in Europe and North America. On May 16, 2022, the Company 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. On July 1, 2022, the Company acquired a controlling interest of 60% in Subsurface, the remaining 40% is owned by the Vela Software Group. Subsurface is domiciled in Scotland.

Summarized balance sheet and financial information relating to the non-controlling interest is included in Notes 4 and 19 to the Company’s Unaudited Condensed Consolidated Interim Financial Statements for the three and nine month periods ended September 30, 2022.

Capital Resources and Commitments

Credit Facility

On July 7, 2017, a subsidiary of the Company entered into a credit facility (the “Credit Facility”) with a number of European financial institutions. Under this facility, the Company is able to borrow up to €300 million under a multicurrency revolving loan facility and up to €50 million under an additional uncommitted term loan facility. The Credit Facility has a term of seven years and bears interest at a rate calculated at EURIBOR plus interest rate spreads based on a leverage table. The Credit Facility is collateralized by substantially all of the assets owned by the Company and its subsidiaries, except for the entities securing amounts outstanding under the “Term Loans” defined below. The Credit 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, €150.0 million had been drawn from the Credit Facility. Transaction costs associated with the Credit Facility are being amortized through profit or loss using the effective interest rate method. On October 28, 2022 the Credit Facility was amended increasing the amount available to borrow to €550 million under similar terms to the existing facility. The revised facility has an initial term of five years with an extension option for two additional one year periods.

Term Loans

Certain of the Company’s subsidiaries have entered into term debt facilities (“Term Loans”) with various financial institutions. Topicus 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.

The Term Loans comprise the following:

(€ in millions)	
Principal outstanding at September 30, 2022 (and equal to fair value)	116.2
Deduct: Carrying value of transaction costs included in debt balance	(3.1)
<u>Carrying value at September 30, 2022</u>	<u>113.1</u>
Current portion	6.9
<u>Non-current portion</u>	<u>106.2</u>

The annual minimum repayment requirements for the Term Loans are as follows:

(€ in millions)

Year	Amount
2022	0.01
2023	6.2
2024	5.4
2025	35.4
2026	7.2
2027	1.2
2028	60.7
	116.2

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 €14.1 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.

Off-Balance Sheet Arrangements

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for short term leases, leases of low value assets, 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.

Members' Equity of Topicus Coop and Share Capital of Topicus

As at November 3, 2022, there were 129,841,818 ordinary units of Topicus Coop outstanding.

As at November 3, 2022, there were 81,889,763 subordinate voting shares and 1 super voting share of Topicus outstanding.

The super voting share is convertible into a subordinate voting share on a one-for-one basis. In addition, certain ordinary units of Topicus Coop are, directly or indirectly, exchangeable for subordinate voting shares of Topicus on a one-for-one basis. As a result, an additional 47,952,055 subordinate voting shares of Topicus would be issuable upon the exercise of these conversion/exchange rights. On a fully-diluted basis, there would be 129,841,819 subordinate voting shares issued and outstanding.

For more information on the capital structure of Topicus, including additional details regarding the terms and conditions relevant to the subordinate voting shares, the super voting share and the preferred shares of Topicus and the ordinary units and preference units of Topicus Coop, see Topicus' final long form prospectus dated December 18, 2020, which is available on SEDAR at www.sedar.com.

Risks and Uncertainties

The Company's business is subject to a number of risk factors which are described in the final prospectus of Topicus dated December 18, 2020. 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 the 2019 novel coronavirus, or 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 some 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 COVID-19 pandemic did not materially impact the Company's results of operations, cash flows or financial position for the three and nine months ended September 30, 2022, however, 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 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. As of the date hereof, there are no known or anticipated COVID-19 related impacts on the Company's business or operations.