

Constellation Software Inc.

TO OUR SHAREHOLDERS

In Table 1, we've updated the Constellation ("CSI") metrics to include the 2012 results. The definitions of Adjusted net income, Average Invested Capital, ROIC, Net Revenue and Maintenance Revenue appear in the Glossary at the end of this document. Several of the statements included below constitute forward looking statements and should not be read as guarantees of future results. See "Forward Looking Statements".

Table 1

	Adjusted Net Income (a.)	Average Invested Capital	ROIC	Organic Net Revenue Growth (YoY)	ROIC + Organic Net Revenue Growth
2002	2	71	2%	6%	8%
2003	22	83	26%	11%	37%
2004	13	84	15%	9%	24%
2005	17	101	17%	18%	35%
2006	26	123	21%	8%	29%
2007	33	154	22%	1%	23%
2008	54	195	28%	5%	33%
2009	62	256	24%	-3%	21%
2010	84	325	26%	-2%	24%
2011	140	394	36%	7%	43%
2012	172	491	35%	2%	37%

a. Historical figures restated to comply with revised definition.

Note: 2010 and subsequent year information is presented in accordance with IFRS

Our Adjusted net income ("ANI") increased by \$32 million when compared with 2011. This 23% increase is far smaller than the 42% average increase achieved in the prior 5 years. The quality of these reported earnings isn't up to our historical standards either, as you'll see by comparing the increase in 2012 ANI with the modest 5% increase in cash flow from operations ("CFOps") for the same period - see Table 3. The major differences were securities gains, which were significant but non-recurring, an \$8 million payment that we made to Canadian taxing authorities while we dispute their assessment, and a \$5 million decrease in contract liabilities associated with previous acquisitions.

Our Average Invested Capital ("IC") increased by 25% during 2012, which was better than we had expected. With the current \$1.00 per quarter dividend, it would not be unreasonable to anticipate that IC will increase at a slower percentage rate in the future.

ROIC in 2012 was 35%. If our conventional license businesses are growing organically, there should be a natural upward bias in ROIC, as those businesses tend to use less and less working capital as they grow their "annual in advance" maintenance streams. Most SaaS businesses tend to have monthly rather than annual payment cycles, and hence are more working capital intensive and are also more fixed asset intensive. As SaaS and other alternative economic models become an ever-larger portion of our maintenance streams, the economics of our businesses will become somewhat less attractive and there will be downward pressure on ROIC. We also tend to see a drop in ROIC when we have had a lot of

recent acquisition activity, since the acquired businesses rarely have strong profits at the time of our initial purchase. It will be a struggle for us to maintain 2012 ROIC levels in the future.

Organic Net Revenue Growth was positive 2% in 2012. We had foreseen a pullback in 2012 from the 2011 post recession pickup, but achieving only 2% was disappointing. We would not be satisfied if our long term Organic Net Revenue Growth rate were maintained at this level.

We still believe that the sum of ROIC and Organic Net Revenue Growth is the best single metric for measuring the short-term performance of our low asset intensity software businesses. At 37%, our 2012 ROIC + Organic Net Revenue Growth was at the high end of the range achieved by CSI during the last decade.

Maintenance Revenue provides an important way to cross check intrinsic value. In Table 2, you can see that CSI's Maintenance Revenue grew 22% in 2012, slower than in prior years. If you believe that intrinsic value is closely correlated with Maintenance Revenue and factor in our unchanging share count, but adjust for CSI's increasingly leveraged balance sheet, then arguably CSI's value per share incremented somewhere in the high teens percent range last year. That seems an attractive increase in intrinsic value for a relatively high dividend yielding stock. Unfortunately, our stock price has increased at over twice that rate during the last year, a differential that would seem difficult to be sustain in future years.

Table 2

	2006	2007	2008	2009	2010	2011	2012
Maintenance Revenue (US\$MM)	116	148	193	252	337	417	510
Growth from:							
Acquisitions	17%	11%	21%	27%	26%	15%	15%
Organic Sources							
a) New maintenance	15%	9%	9%	7%	8%	8%	8%
b) Price increases	5%	8%	8%	3%	6%	6%	5%
c) Attrition - Lost Modules	-2%	-2%	-3%	-3%	-3%	-2%	-2%
d) Attrition - Lost Customers	-4%	-4%	-4%	-4%	-4%	-3%	-4%
Total Organic Growth	14%	11%	10%	3%	8%	9%	7%
Total Maintenance Growth	31%	23%	31%	31%	34%	24%	22%

Growth in Maintenance Revenue due to acquisitions was 15% again in 2012. Without changes to our capital and/or dividend structure, and all other things being equal, CSI cannot continue to finance this rate of acquired Maintenance Revenue growth.

The Total Organic Growth in Maintenance Revenue dropped to 7% in 2012. Attrition edged up by 0.5% during the year. We try to trade lower license and professional services revenues in return for higher Maintenance Revenues in our businesses, so the Total Organic Growth in Maintenance Revenue needs to exceed our targeted organic growth rate for total revenue. If Total Organic Growth in Maintenance Revenue were to drop below 7% for any length of time, it would be difficult for us to achieve a mid-single digit organic growth rate in our overall revenue.

A note of caution with regard to the organic and acquired Maintenance Revenue growth numbers... while the analysis in Table 2 is materially the same as our reported Maintenance Revenue for financial reporting

purposes, the individual components reflected in this table are generated by examining and categorising thousands of records. This analysis isn't perfect, but we believe it is a fair illustration of the trends in our maintenance base and, ultimately, the trends underlying the intrinsic value of our business.

A few years ago we added some GAAP/IFRS metrics to our regular letters to shareholders. We've updated them in Table 3.

In 2012, revenue per share increased 15% and cash flow from operating activities per share increased 5%. 2012 revenue growth was constrained by the limited acquisition activity in late 2011 and our 2% organic growth rate. Our capital deployment stepped up considerably during 2012, and has remained strong into the first half of 2013, so we anticipate much stronger revenue growth in 2013. The growth in 2012 CFOps was disappointing. The aforementioned payment to tax authorities chewed up approximately 38 cents/share of CFOps. We also had operating margin compression as the lower profitability of the recently acquired businesses drove down our average profitability. We don't anticipate that the rate of acquisitions will continue at the pace we've managed during the last 3 quarters, so some of the pressure on operating margins may abate later in 2013.

Table 3

Year	Total Revenue per Share		Cash Flow from Operating Activities per Share		Total Share Count
		YoY Δ		YoY Δ	
2002	3.22	9%	0.43	-11%	19,342
2003	4.16	29%	0.74	72%	19,428
2004	5.49	32%	0.59	-20%	19,891
2005	8.11	48%	1.21	106%	20,392
2006	10.01	23%	1.36	12%	21,065
2007	11.47	15%	1.62	19%	21,192
2008	15.60	36%	2.96	83%	21,192
2009	20.67	32%	3.85	30%	21,192
2010	29.92	45%	5.06	32%	21,192
2011	36.49	22%	6.49	28%	21,192
2012	42.05	15%	6.83	5%	21,192
CAGR		29%		32%	

Note: 2010 and subsequent year information is presented in accordance with IFRS

Having had the chance to review the tables, we hope you'll join us in thanking the CSI employees for a wonderful decade. It is a rare company that consistently increases its per share financial fundamentals at such high rates over such an extended period.

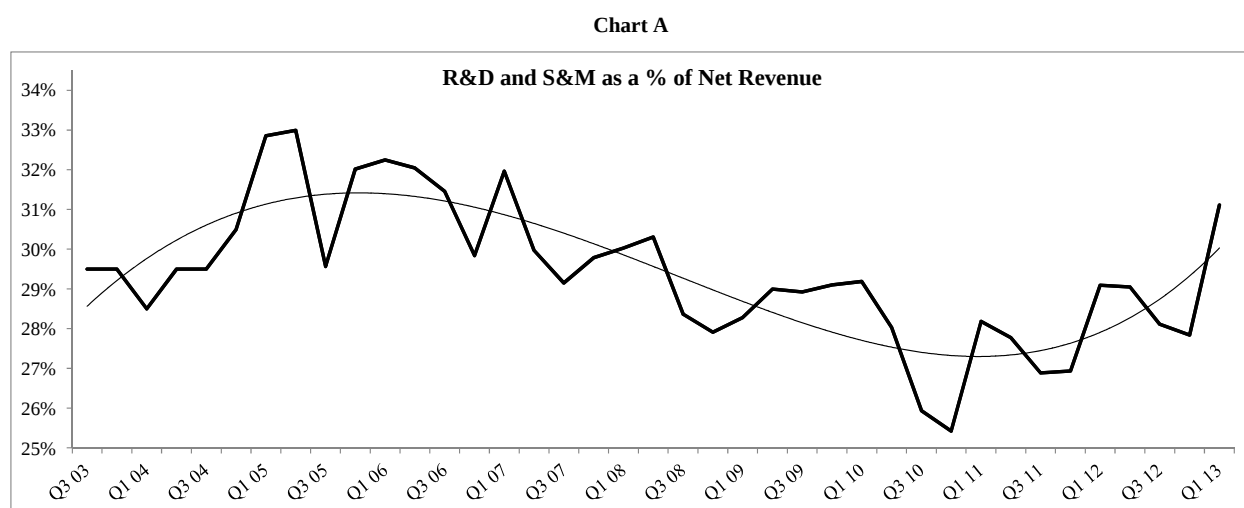
Our long-term shareholders, our board, and our analysts all seem concerned about CSI's ability to scale. I haven't spent a lot of time worrying about the issue, except in response to their enquiries. We've evolved gradually for 18 years, and don't feel like we are facing an impending paradigm shift. Nevertheless, when a number of smart, engaged constituents consistently harp on the same issue, it is worth investigating both their concerns and the mindset of those asking the questions.

CSI's Adjusted net income ("ANI") increased by \$32 million in 2012, from \$140 million to \$172 million. By my calculation the current stock price values CSI at approximately 16 times 2012 earnings. It is sometimes useful to look at marginal rather than average economics. The \$32 million increase in CSI's

ANI in 2012 translates to roughly a buck and a half a share. Concurrent with that increase in ANI, CSI's stock price increased something like \$40/share, (depending on the exact beginning and end points that you choose). My back of the envelope math says shareholders accorded us a better than a 25 times multiple on the 2012 incremental earnings. Those sorts of market multiples create a growth imperative... you have to either rapidly grow into your multiple or disappoint your shareholders, analysts and board. So ultimately, it seems to me that it is our stock price that has catalysed the spate of questions about our "ability to scale", rather than our practices and performance. Irrespective of the questions' genesis, some context for what we do to generate growth seems appropriate.

There are two components to CSI's growth, organic and acquired. Organic growth is, to my mind, the toughest management challenge in a software company, but potentially the most rewarding. The feedback cycle is very long, so experience and wisdom accrete at painfully slow rates.

In 2004 we separated our Research & Development and Sales & Marketing spending ("RDSM"), into two buckets: Initiatives and everything else. Initiatives are significant long-term investments required to create new products, enter new markets etc.. In the mid to high ticket vertical market software business, Initiatives usually require 5-10 years to reach cash flow break-even. We felt that they should be both measured and treated differently than our other, sustaining, RDSM expenditures. The ethos of software companies requires the regular launching of visionary new products by steely-eyed tenacious developers (substitute software architects, product managers or founders in this sentence, as the specific instance requires). CSI was not immune to these archetypes, and it became apparent that there were lots of Initiatives and nascent Initiatives buried in our RDSM groups. Initiatives grew to account for over half of our combined RDSM expenditures by 2005, which, not co-incidentally, was the peak of our RDSM spending (measured as a percent of Net Revenues... see Chart A). As you'd expect for venture-style investments, our initial expectations for these Initiatives were very high. We tracked their progress every quarter, and pretty much every quarter the forecast IRR's eroded. Even the best Initiatives took more time and more investment than anticipated.



As the data came in, two things happened at the business unit level: we started doing a better job of managing Initiatives, and our RDSM spending decreased. Some of the adaptations made were obvious: we worked hard to keep the early burn-rate of Initiatives down until we had a proof of concept and market acceptance, sometimes even getting clients to pay for the early development; we triaged Initiatives earlier if our key assumptions proved wrong; and we created dedicated Initiative Champion positions so an Initiative was less likely to drag on with a low but perpetual burn rate under a part-time leader who didn't

feel ultimately responsible. But the most surprising adaptation, was that the number of new Initiatives plummeted. By the time we stopped centrally collecting Initiative IRR data in Q4 2010, our RDSM spending as a percent of Net Revenue had hit an all-time low.

We believe that CSI is one of the few software companies that takes a somewhat rational approach to long term RDSM investments. We didn't get to that point with central edicts or grand plans. We just had a hunch that our internal ventures could be better managed, and started measuring them. The people involved in the Initiatives generated the data, and with measurement came adjustment and adaptation. It took 6 years, but we have fundamentally changed the mental models of a generation of our managers and employees (though perhaps not of all the steely eyed visionaries).

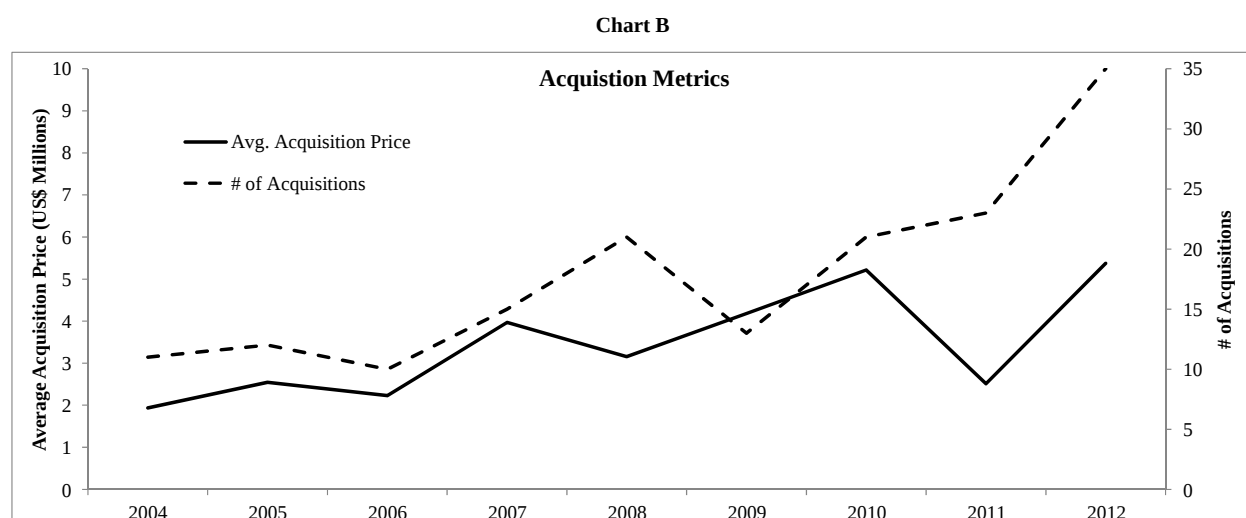
In the last three years, we have been investing more heavily in Initiatives. If you compare the recent uptick in RDSM expenditures with the organic growth rates of our Maintenance Revenue in Table 2, it isn't yet obvious that the increased investment has been successful. We still need another couple of years to see the results at a macro level. Based on our experience to date, I'd place the bounds around the potential organic growth outcomes for the next 5 years as follows: If we are wildly successful, we might average high single digit percentage organic growth, while a reasonable assumption would be mid-single digits, and poor performance would be low single digits, but would likely see us pare back on future RDSM investment.

The other way we grow is via acquisitions. We make a lot of acquisitions (see Chart B below). We haven't heard of another company in Canada that has made as many. We have come across a couple of perennial acquirers in the US with more experience than CSI. They offer some interesting insights, but no clear model to emulate. Our acquisition approaches are pretty much home grown, but tend to use variations on only a couple of basic themes.

Our favourite and most frequent acquisitions are the businesses that we buy from founders. When a founder invests the better part of a lifetime building a business, a long term orientation tends to permeate all aspects of the enterprise: employee selection and development, establishing and building symbiotic customer relationships, and evolving sophisticated product suites. Founder businesses tend to be a very good cultural fit with CSI, and most of the ones that we buy, operate as standalone business units managed by their existing managers under the CSI umbrella. We track many thousands of these acquisition prospects and try to regularly let their owners know that we'd love the chance to become the permanent owners of their business when the time is right for them. There is a demographic element to the supply of these acquisitions. Most of these businesses came into being with the advent of mini and micro-computers and many of their founders are baby boomers who are now thinking about retirement.

The most lucrative acquisitions for us have been distressed assets. Sometimes large corporations convince themselves that software businesses on the periphery of their industry would be good acquisitions. Rarely do the anticipated synergies accrue, and frequently the cultural clashes are fierce, so the corporate parent may eventually choose to sell the acquired software business. The lag is often 5 to 10 years as the proponents of the original acquisition usually have to move on before the corporation will spin off the asset. Our most attractive acquisitions from corporate vendors seem to have happened during recessions. Occasionally, we also acquire portfolio companies from a private equity ("PE") fund that is getting long in the tooth. These will have been well shopped but for some reason will not have attracted a corporate buyer. While both corporate and PE divestitures tend to be much larger than the founder businesses that we buy, they are usually more of a cultural challenge for us post-acquisition.

The historical trends in Chart B are telling. We will be disappointed if we don't acquire a few more companies per annum and the average size doesn't continue to edge up. We don't see a doubling or trebling of our annual acquisition investment unless we fundamentally change what we do.



From time to time, we do flirt with fundamental change. I was recently in the UK, where a couple of very large (by our standards) public sector vertical market software conglomerates are for sale. The "whisper" prices are ones we could just about stomach if we were financing the acquisitions on a stand-alone basis like the other PE firms that are competing for these assets. My sense is that we would be better owners of these assets, and would generate better long term performance from them than their PE suitors. If we could not leverage the transactions on a stand-alone basis, they would not meet our hurdle rates, and they would also exhaust our available acquisition lines. Our current bank facilities do not allow us to make acquisitions which incorporate standalone financing, and hence this opportunity to make substantial acquisitions of attractive assets that are close to our core competence is moot, but intriguing.

One of the issues that the CSI Board, in particular, worries about as CSI gets larger, is the complexity created by our continued growth. We totted up the numbers this quarter, and we had approximately 125 business units which were competing in approximately 50 verticals. We tend to add 10-15 business units and 3-5 verticals each year. The Board rightly asks how they (and CSI management) can expect to understand and manage an ever larger number of business units and verticals.

In response to the Board's concern, I've asked each of our Operating Group General Managers to lead the board through an analysis of how their Operating Group has evolved during the last decade: how they are structured now, what has changed over time, where the business unit, divisional and Operating Group managers have come from, how big the business units are and how big they are likely to become, from whom they were acquired, what their subsequent performance has been, etc..

One early observation is that our business units rarely get large. The biggest is 307 employees, and the average business unit currently has 44 employees. Two thirds of our employees are working in business units with less than 100 employees. When we did a linear regression analysis of performance (a metric composed of growth and profitability) against business unit size for Q1 2013, we found less than a .001 R^2 . This suggests that the size and performance of our business units are almost totally unrelated. I believe that these business units are small for a reason...that the advantages of being agile and tight far outweigh economies of scale. I'm not a proponent of handling our "complexity problem" by creating a

bunch of 400 employee business units to replace our 40 employee units. I'm looking for ways of "achieving scale" elsewhere.

We currently manage our 125 independent business units through 5 Operating Groups. The Operating Groups have accounting, acquisition, and IT functions, and varying degrees of HR, tax, shared R&D and legal capabilities. They also have a number of relatively senior staff who can be parachuted into large new acquisitions or troubled situations. The Operating Groups serve extremely valuable functions as coaches, capital deployers, occasional recruiters and "single point of management failure" insurance. I'm not sure if there's an optimal structure and size for an Operating Group. In the Operating Group reviews that we've done to date with the Board, it is clear that the Groups have evolved differently: they have markedly different appetites for functional integration, diversification, hierarchy, and average business unit size. This is good news, for by any conventional measure, all of our Operating Groups would be considered successful. At the one extreme, I do worry about the Operating Group managers becoming overwhelmed because of constrained resources at the Group level. At the other extreme, I'm concerned that they may hire too many staff at the Group level and take on too much of the business units' activities. This is one of those debates where there are likely no easy answers, but it helps to have a regular dialog and some crisp data. Given the disparity in size of our Operating Groups, bringing our smaller Groups up to the scale of our largest Groups, and continuing our historical organic growth rates would offer us the opportunity to scale up CSI by a factor of two. Our larger Operating Groups are showing no signs of wanting to pare back their acquisition activities, so we'll likely get continued acquisitive growth from them as well.

We have a 14 employee head office staff composed primarily of finance, accounting, acquisition, tax and legal personnel. Head office provides the Operating Groups with capital allocation assistance and decisions, and tries to disseminate some best practices, a few clear rules, a bit of coaching, and coughs up the occasional partly trained employee for the Operating Groups. Compliance, investor relations, and handling the finance function round out the head office duties. Whenever we feel stretched at head office, we download more of our work to the Operating Groups. This delegation to the point of abdication philosophy (first discussed in the 2010 Letter to Shareholders) seems to have worked so far. It also suggests that I could probably work with more than 5 Operating Groups, so there may be yet another way to scale CSI.

Our board considers all sizeable acquisitions and any acquisitions in new verticals. In practice, this translates into considering a dozen or so new acquisitions per annum. We also present to them a quarterly review of our performance prepared by the CFO but which also contains reports from the CSI President, the Vice President, Mergers & Acquisitions, and each of the Operating Group General Managers. These reports are exception oriented and tend to highlight areas of concern. While the ability of the board to monitor all of our business units and/or verticals is long past, I think they can responsibly discharge their key obligations with these tools and this information. The Board doesn't seem to be a limit to our ability to scale, particularly since we have added two new members with intimate knowledge of vertical market software, our management team, and many of our business units.

Back to the original question: Does CSI have the ability to scale? With some tweaks and normal evolutionary changes, without dramatic reorganisations, recapitalisations or a whole lot of angst, I believe that CSI has the management and financial capacity to double its size and profitability per share during the next 5 to 10 years while continuing to pay a dividend. That would be an impressive achievement for any company. Does CSI have the ability to scale at the rates which it achieved during the last decade? I don't think we are sufficiently humble not to try. I do think we will be pushing our luck.

On a related note, we had mentioned previously that the current rate of acquisitions is unsustainable for financial reasons. We ended Q1 with \$109 million drawn on our \$300 million revolving line of credit. If we are spending over 40% of our free cash flow on dividends, and doing considerably in excess of \$100 million in acquisitions per annum (we closed \$78 million of acquisitions in Q1), then we are likely going to go further into the line. Debt is cheap right now, so it is pretty tempting to use it. Unfortunately, it has a nasty habit of going away when you need it most. I think most revolving debt facilities, while notionally long term, are on the brink of technical default most of the time due to clever and/or cumbersome covenants. Hence I consider them to be de facto demand facilities. Long term high coupon bonds equate to much the same thing, because of so-called incurrence covenants. We would test such covenants monthly, perhaps even weekly, if we were a high yield issuer.

Personally, I'd use significant amounts of debt to finance our growth if it were long term, non-callable and the interest payments could be deferred for short periods. We have demonstrated the ability to generate good returns on incremental capital over the long haul, as demonstrated by the track record in Table 1. Unfortunately, investment bankers tell me that this sort of debt doesn't exist. If you are a long-term lender and would like to do business with a company that has consistently generated strong and increasing cash flows, and are willing to work with us to design a novel lending instrument, please give me a call.

Another obvious fix for our cash constraints would be to axe the dividend. The dividend was a tactic, not a strategic move. It broadened the appeal of our stock and thereby helped us find an exit for our private equity investors. We appreciate the confidence in CSI that many of the new investors expressed in buying the PE shares. We recognise that these investors bought, in part, because of the dividend and the implicit promise of continued yield. Eliminating it would disenfranchise a group of shareholders to whom we owe our independence. That wouldn't sit right with me and many of the senior management team, so I don't see it happening.

For the time being, we'll keep an eye on the revolver, and consider increasing our hurdle rate if we start getting too far into the facility.

We will be hosting the annual general meeting on Friday May 3rd. Many of our Directors and Officers and a number of our employees will be in attendance. We look forward to talking about our business and answering your questions. With our increasingly broad institutional and retail ownership, I'm hoping for a record turnout. We hope to see you there.

Mark Leonard
President
Constellation Software Inc.

May 1st, 2013

Glossary

Effective Q1 2008, the term “Adjusted net income” is derived by adjusting GAAP or IFRS net income for the non-cash amortization of intangibles, future income taxes, and charges related to appreciation in common shares eligible for redemption (a charge that we no longer incur now that CSI’s common shares are publicly traded). Prior to Q1 2008, Adjusted net income was derived by adjusting GAAP net income for the non-cash amortization of intangibles and charges related to appreciation in common shares eligible for redemption. The computation was changed to include future income taxes since the majority of future income taxes relate to the amortization of intangible assets, and thus are being added back to more closely match the non-cash future tax recovery with the amortization of intangibles. All previously reported Adjusted net income figures have been restated in the table above to reflect the new method of computations. We use Adjusted net income because it is generally a better measure of cash flow than GAAP or IFRS net income and it is closely aligned with the calculation of net income that we use for bonus purposes.

“Average Invested Capital” is based on the Company’s estimate of the amount of money that our shareholders had invested in CSI. Subsequent to that estimate, each period we have kept a running tally, adding Adjusted net income, subtracting any dividends, adding any amounts related to share issuances and making some small adjustments, including adjustments relating to our use of certain incentive programs and the amortization of impaired intangibles.

“ROIC” represents a ratio of Adjusted net income to Average Invested Capital.

“Net Revenue” is gross revenue for GAAP or IFRS purposes less any third party and flow-through expenses. We use Net Revenue since it captures 100% of the license, maintenance and services revenues associated with CSI’s own products, but only the margin on the lower value-added revenues such as commodity hardware or third party software. “Maintenance 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.

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 CSI or the industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date hereof, including:

Organic Net Revenue Growth will range from low single digit percentages to high single digit percentages.

A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements, including:

Revenue can fluctuate significantly based on the demand for our software products, level of product and price competition, the geographical mix of our sales together with fluctuations in foreign currency exchange rates, changes in mix and pricing of software solutions that our

customers demand, our ability to successfully implement projects, order cancellations, renewal of maintenance agreements with customers, and patterns of spending and changes in budgeting cycles of our customers.

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.

Non-GAAP/IFRS Measures

Adjusted net income and Organic Net Revenue Growth are not recognized measures under GAAP or IFRS and, accordingly, shareholders are cautioned that Adjusted net income and Organic Net Revenue Growth should not be construed as alternatives to net income determined in accordance with GAAP or IFRS as an indicator of the financial performance of the Company or as a measure of the Company's liquidity and cash flows. The Company's method of calculating Adjusted net income and Organic Net Revenue Growth may differ from other issuers and, accordingly, may not be comparable to similar measures presented by other issuers. Please refer to CSI's most recently filed Management's Discussion and Analysis for reconciliation, where applicable, between the IFRS, GAAP and non-GAAP/IFRS measures referred to above.