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Return on Investment

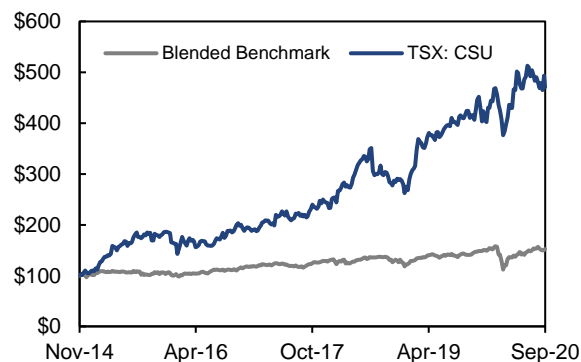
| | |
|-----------------------|------------|
| Current Share Price | \$1,479.63 |
| Target Price | \$1,726.00 |
| Dividend Yield | 0.36% |
| Holding Period Return | 17% |
| Conviction Rating | 2 |

Market Profile

| | |
|-------------------------------|-------------------------|
| 52-Week Range | \$1,144.07 - \$1,631.83 |
| Market Capitalization (US\$m) | \$31,356 |
| Net Debt (US\$m) | \$145 |
| Enterprise Value (US\$m) | \$31,501 |
| Beta (5-Year Monthly) | 0.58 |

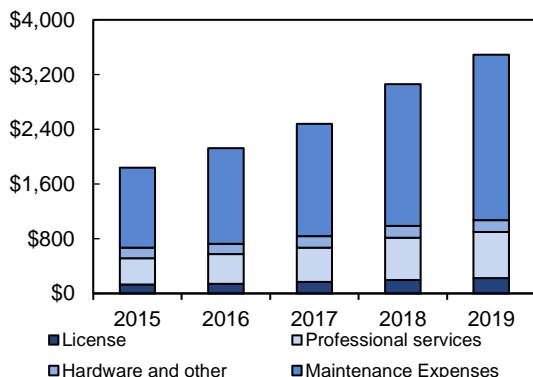
| Metrics | 2020E | 2021E | 2022E |
|-----------------|---------|---------|---------|
| Revenue (US\$B) | \$3,802 | \$4,213 | \$4,692 |
| EBITDA (US\$B) | \$1,063 | \$1,116 | \$1,243 |
| EPS | \$17.71 | \$21.07 | \$26.87 |
| EV/EBITDA | 29.6x | 28.2x | 25.4x |

Holding Period Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

Figure 1: Historical Sales Composition



Source: Thomson Reuters Eikon

Business Description

Constellation Software Inc. (TSX: CSU) develops, installs, and customizes software with a focus on acquiring, managing, and building vertical market software businesses. CSU's market is split into the public and private sector. Its public sector segment is focused on developing and distributing software solutions to government and government-related entities, which is done through the Company's business units: Volaris, Harris, and Total Specific Solutions. Its private sector segment develops and distributes software solutions to commercial entities, which is conducted by the Company's Jonas, Perseus, and Vela business units.

Industry Overview

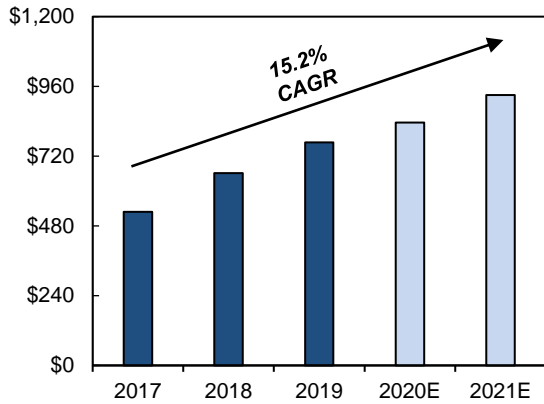
The software industry is very capital intensive and has seen a significant rise in competition. Currently, large market players tend to acquire smaller participants and external competitors that specialize in emerging software markets or unserved industries. Such acquisitions enable dominant companies in the industry to compete in increasingly diverse markets and grow their top-lines with innovative industry-specific solutions. Although the number of enterprises entering the space tends to increase annually, acquisitions are expected to continue as larger players benefit from the accumulation of vast amounts of intellectual property.

Growth in corporate profits and consumer spending tends to drive the industry's growth. In fact, the industry is shifting towards distributing software that utilizes cloud systems and generating more revenue from a subscription-based business model, rather than selling additive software updates. As a result of this shift, companies that distribute products on the internet are expected to be acquisition targets, alongside companies that innovate with new technology, including artificial intelligence and machine learning.

Management Team

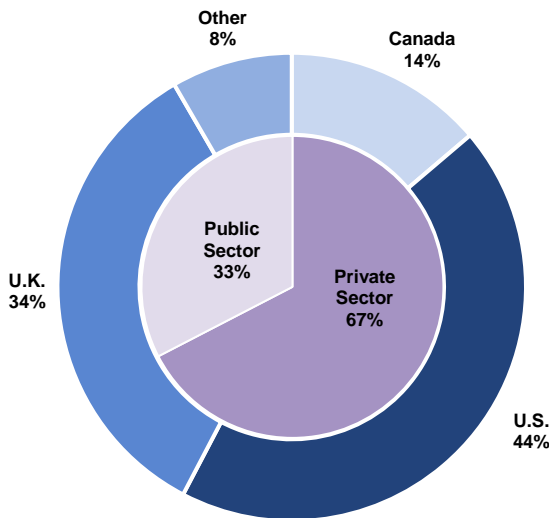
Mark Leonard founded CSU in 1995 and currently serves as the President and Chairman of the Board. He has extensive experience in venture capital, having worked within the field for over 11 years prior to founding the Company. CSU does not have an acting Chief Executive Officer and rather opts to appoint individual leaders of each holding company with Leonard overseeing the overall operation. CSU's executive compensation is heavily tied to the Company's share performance. Notably, Mark Leonard is the Company's sixth-largest shareholder with ~430K shares, representing 2.04% of the total market capitalization. Other significant shareholders within the company include: Mark Miller (Chief Operating Officer), Dexter Salna (President of Constellation Homebuilder Systems), and Barry Symons (member of the Board of Directors) who control 1.32%, 1.18%, and 0.72% of total shares, respectively. CSU has paid a steady annual dividend of US\$4.00 per share, totalling to US\$85mm paid out in each of the last five years. Furthermore, CSU does not have a share repurchase plan in place. By maintaining steady minimal payouts, CSU is able to focus on directing capital towards acquisitions.

Figure 2: Free Cash Flow Generation (US\$m)



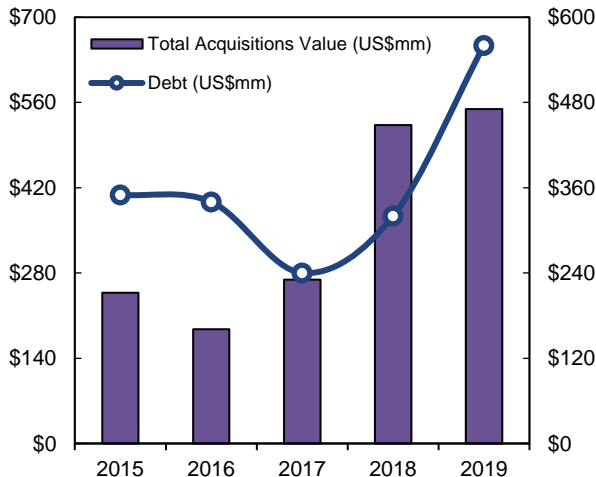
Source: CPMT Estimates, S&P Capital IQ

Figure 3: Q2 2020 Revenue By Region & Sector



Source: Thomson Reuters Eikon

Figure 4: Acquisition Values



Source: Company Filings

Balance Sheet and Growing Free Cash Flows

Historically, CSU has refrained from depending on debt by maintaining a consistent Total Debt/EBITDA multiple of ~0.1x over the last five years. The Company’s disciplined use of debt enables it to have a conservative balance sheet. Furthermore, CSU’s operations require minimal maintenance capital, allowing them to deploy capital towards acquisitions. Additionally, the Company has grown FCFs at a CAGR of ~18% over the last five years, showcasing management’s ability to generate exceptional capital growth at a sustainable rate.

Competitive Advantage and Recent Acquisitions

CSU continues to develop its portfolio of offerings through acquisitions that display an exceptional management team, consistent profitability, and above-average growth. This year’s acquisition of Catalyst Computer Systems, a business management software supplier, is aimed at expanding Perseus’ market share in the U.K. dealership software markets. The deal is expected to increase the Company’s insights into the industries it serves, which will aid the enhancement of new technologies that can better serve its customers’ needs. Moreover, CSU’s May 2020 acquisition of Tune, a Seattle-based marketing startup, is directed at further developing Perseus’ presence in the marketing industry. Tune’s software allows companies to manage their marketing partnerships, which is expected to complement CSU’s June 2019 purchase of Cake Software, Tune’s top competitor. An anticipated merger between Tune and Cake Software should present many opportunities and efficiencies for Perseus in the space. The consistency of quality transactions year-over-year solidifies the Trust’s view that CSU can continue to grow by acquiring exceptional businesses at a reasonable price and improve the acquirees operations to benefit from its cash flows.

Original Investment Thesis

The CPMT’s original investment thesis on CSU was built upon several factors. The Company was expected to have robust growth in future FCFs, coupled with an ability to compound capital at an attractive ROIC. Additionally, the Fund valued how CSU’s management compensation structure aligned management’s interests with shareholders, preventing potential dilutions. Management’s proven track record of delivering shareholders value and the stock’s attractive valuation made CSU a desirable addition to the CPMT’s portfolio.

Revised Valuation, Investment Thesis and Risks

A 50/50 blend of a 10-year DCF analysis and comparable companies’ analysis was used to value CSU. The 10-year DCF followed the Gordon Growth model and incorporated a terminal growth rate of 1.5%, a WACC of 8.0%, and an NTM EV/EBITDA exit multiple of 21.1x, to derive a target price of \$1,726. Moreover, the CPMT maintains its previous thesis on the name, as the Company continues to demonstrate strong management, balance sheet capacity, and growth-oriented acquisition strategies.

Increasing competition among acquisitions in the software industry can subsequently reduce the availability of suitable acquisitions for the Company. CSU’s scope of operations are larger than ever and the Company needs to maintain its acquisition strategy to match its historical growth. Management has indicated that if transactions become too expensive to conduct rationally, they would look to expand to different industries. However, should acquisitions dry up, CSU is expected to return all of its capital back to its shareholders.