



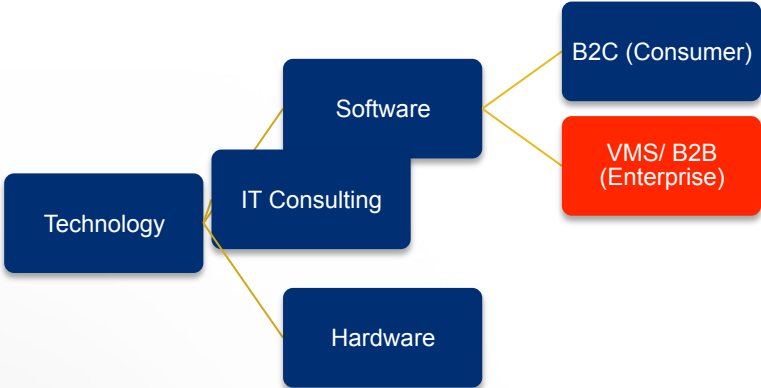
WESTERN INVESTMENT CLUB

VERTICAL MARKET SOFTWARE - OVERVIEW

Market Overview

- Vertical Market Software, or “VMS”, is a sub-sector of the Applications Software sector in the Technology industry. The focus of this sub-sector is to provide software solutions that enable businesses to boost productivity, operate more cost effectively, increase sales and improve customer service and satisfaction
- The VMS sub-sector is highly fragmented. Across many verticals, there are high customer stickiness and switching costs.
- This creates a favorable market structure for Constellation’s strategy; while larger players dominate in specific verticals with little mobility.

Global TMT Industry Overview



Market Segments

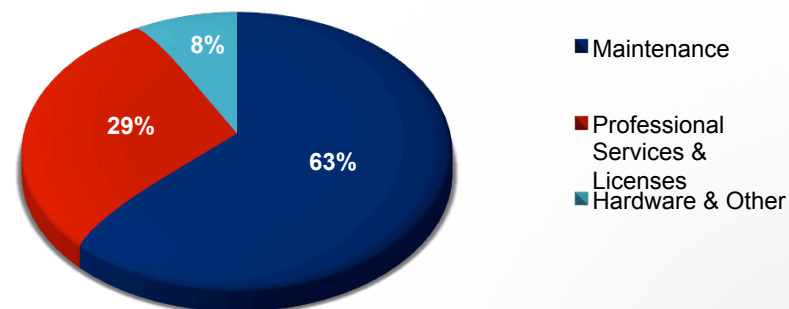
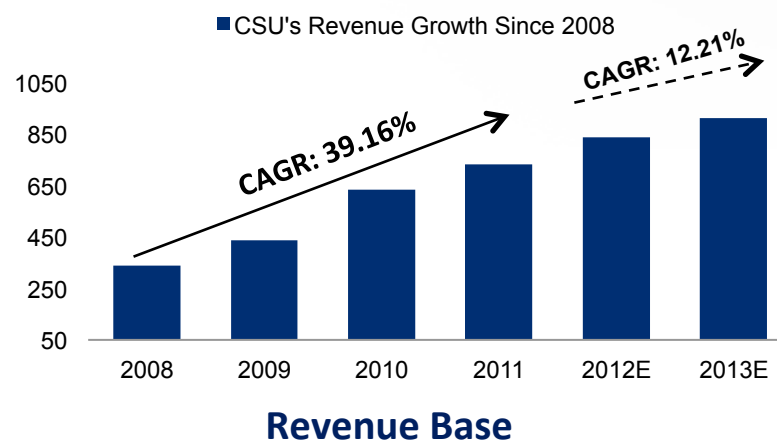
VERTICAL MARKETS	
Public Sector Clients <ul style="list-style-type: none">✓ Public transit operators✓ Local government✓ Criminal justice✓ School administration✓ Electric and water utilities	Private Sector Clients <ul style="list-style-type: none">✓ Construction, homebuilders✓ Outdoor equipment dealerships✓ Manufacturing (windows, cabinets, pulp and paper)✓ Third party logistics, wholesale and multi-channel distribution✓ Leisure attractions, health clubs

Constellation Software (CSU)

CONSTELLATION'S BUSINESS MODEL

Snapshot

- Constellation Software is a global provider of enterprise software solutions serving a variety of distinct vertical markets. CSU acquires, manages and builds vertical market software (“VMS”) businesses and grows enterprise resource planning (“ERP”) businesses that target small medium enterprises (SMEs up to 1,000 employees) within underpenetrated niche markets.
- Constellation has a market capitalization of \$2.1bn and over 3500 employees.
- Smart Synergies
- Opportunity for organic growth
- Cloud Based Software
- Recurring revenue base



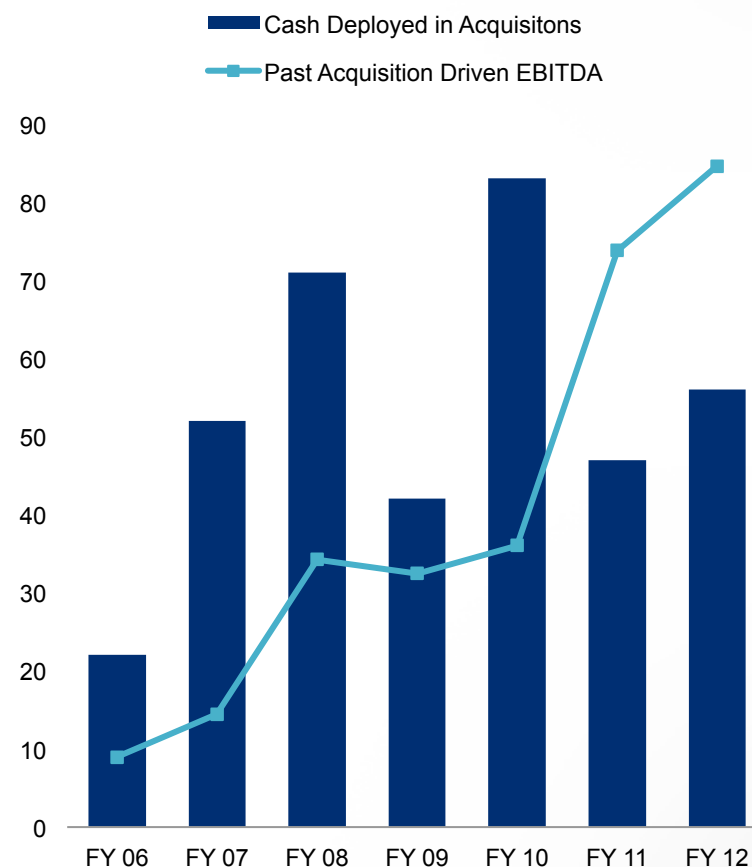
Constellation Software (CSU)

ACQUISITIONS STRATEGY

About the Company

- Constellation Software has built up several businesses across the public (transit, schools, justice, local governments) and private (home builders, golf clubs) markets.
- Since the company's EBITDA is stable, due to the high proportion of maintenance revenue, we view the bulk of incremental EBITDA as a result of acquisitions from previous periods. We assume that approximately 9% of EBITDA growth is organic, and the remaining is a result of acquisitions.
- According to my calculations, the company realized a cash payback between two and five years on its acquisitions between 2004 and 2011.
- In other words, every dollar committed to acquisitions generated an incremental \$0.30 in EBITDA in the following year. The average payback of an acquisition is approximately 3.3 years.

Acquisition Analysis



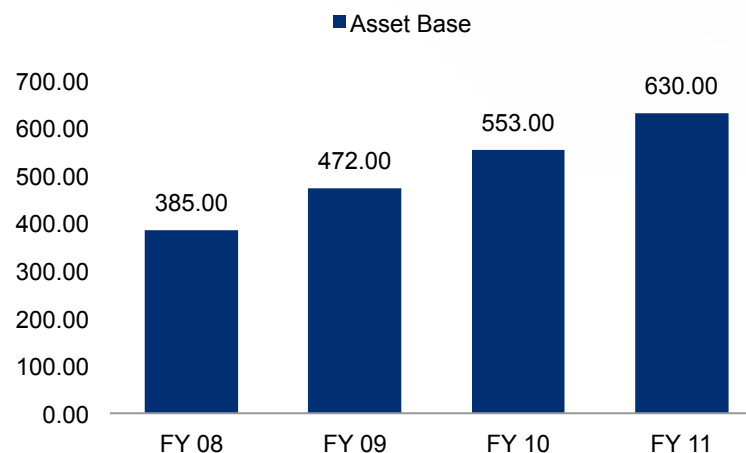
Constellation Software (CSU)

ACQUISITIONS STRATEGY

About the Company

- Constellation remains a well-managed company with a stable recurring maintenance base and a strong management team heading acquisitions.
- About 60% of the company's revenues are generated from annual maintenance contracts. We view Constellation's strengths as follows:
 - Operational discipline - balancing profitability and investment for growth.
 - Acquisition discipline - with Constellation seeking to find synergistic acquisitions at a reasonable price
 - Capital allocation - with the company repatriating excess capital from the operating units to headquarters where the company can redistribute to the highest return opportunities (be they internal investments or acquisitions)

Clean Balance Sheet

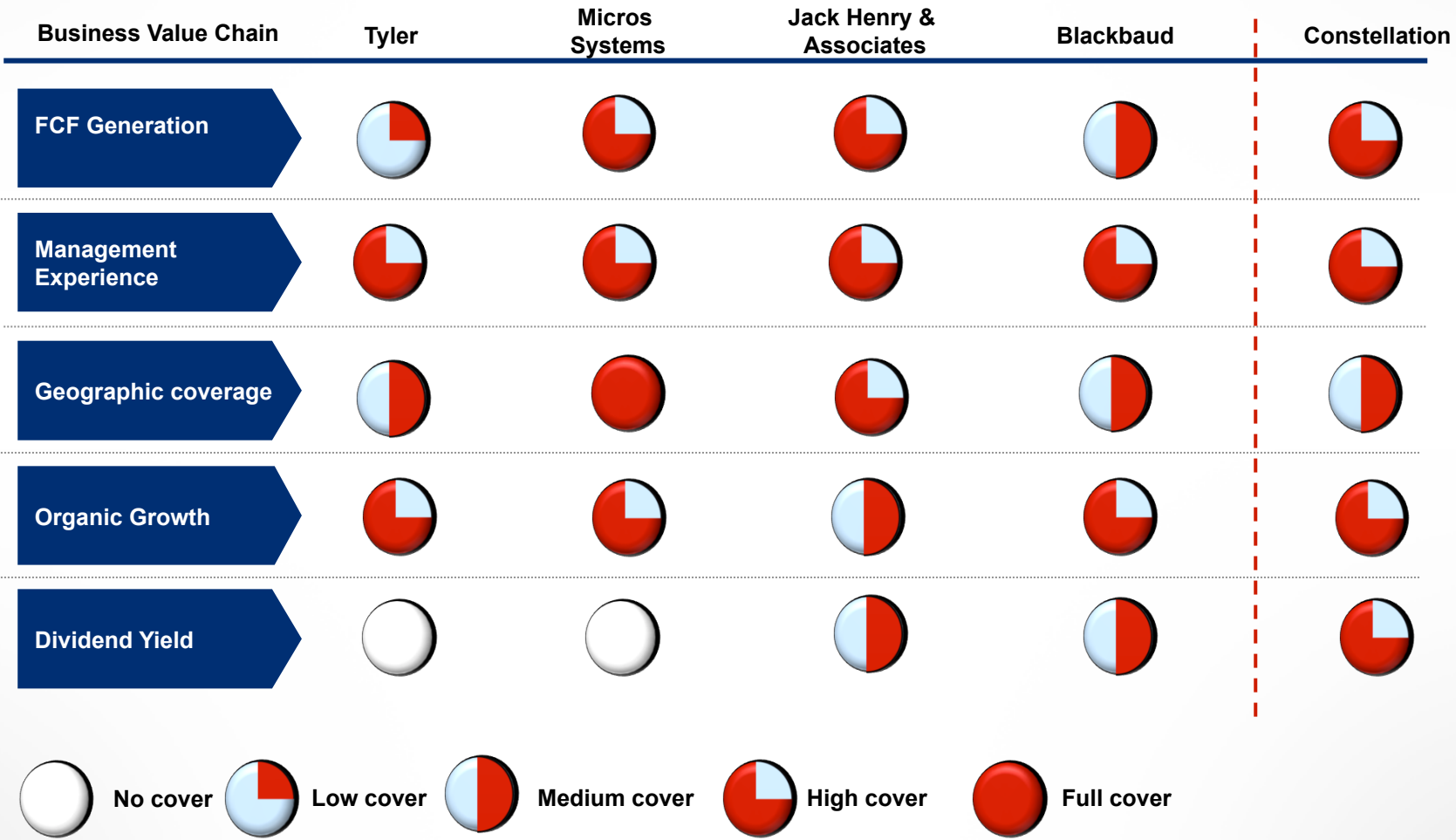


Management

Name	Position	Background
Mark Leonard	Founder and President	<ul style="list-style-type: none">• After years in corporate finance and venture capital, Leonard founded CSU in 1995• Serves as Director of every company CSU acquires
John Billowits	CFO & Interim CEO	<ul style="list-style-type: none">• CFO since 2007; had previously been with Bain, Dell and PwC
Mark Miller	COO	<ul style="list-style-type: none">• Oversees portfolio companies; has been with CSU for 12 years

Constellation Software (CSU)

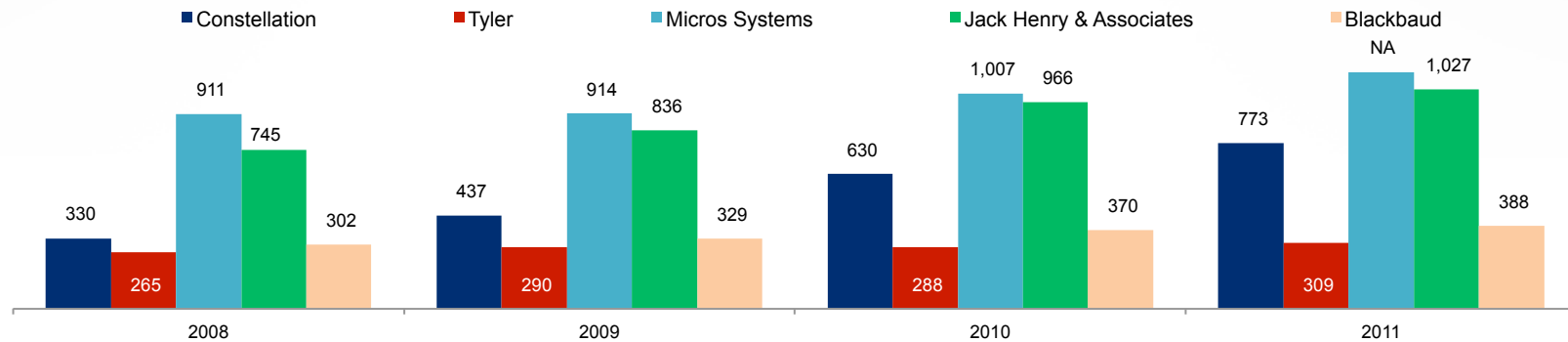
COMPETITIVE LANDSCAPE



Constellation Software (CSU)

VALUATION

Net Revenues for Competitors (C\$ million)



Company	Market Cap	EV	FCF Yield	Div. Yield	P/E		EV / EBITDA		EV / Sales	
					LTM	FY 2013E	LTM	FY 2013E	LTM	FY 2013E
Constellation	2112	1974	8.9%	4.4%	14.8x	10.6x	9.4x	8.7x	2.3x	2.0x
Tyler	1245	1311	4.9%	0.0%	33.6x	30.3x	17.0x	15.9x	3.4x	3.2x
Micros	3879	3067	3.3%	0.0%	20.3x	10.4x	10.4x	10.2	2.5x	2.5x
Jack Henry	3013	3064	4.0%	1.3%	18.3x	16.7x	8.7x	8.2x	2.9x	2.9x
Blackbaud	1158	1158	4.9%	1.8%	21.2x	19.2x	10.1x	9.7x	2.5x	2.4x
Average			4.3%	0.8%	23.3x	19.2x	11.6x	11.0x	2.8x	2.7x

Constellation Software (CSU)

VALUATION

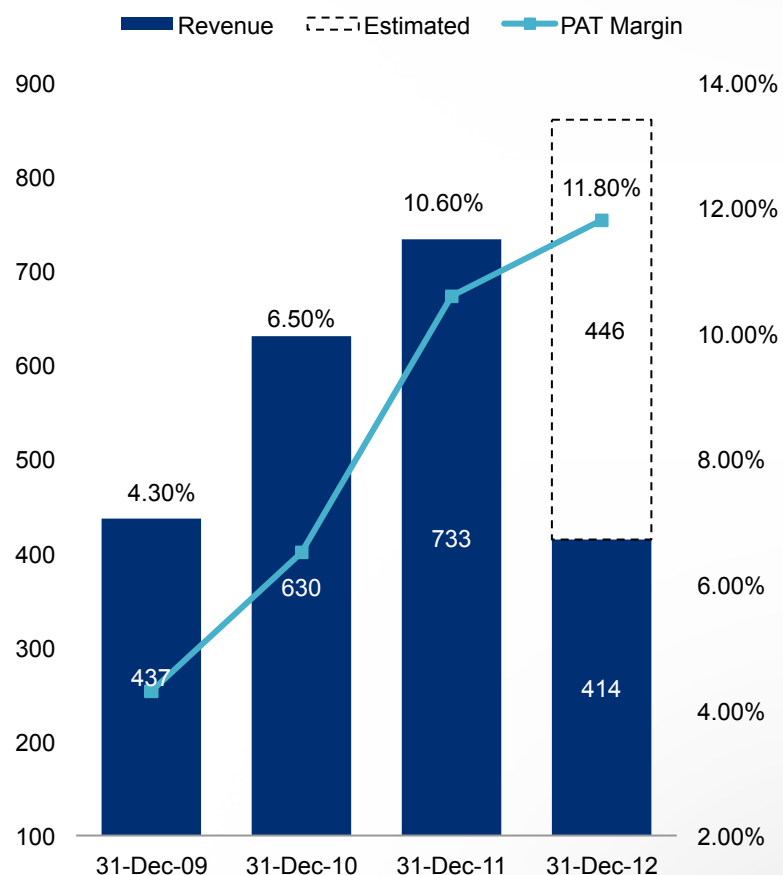
Analysis

- Trading at a discount to its technology peers at 13x 2012 P/E vs. peers at 17x and it offers a 4.5% dividend yield, uncharacteristic of firms in the market.
- Our C\$115 target is DCF-based and equates to 15x FTM P/E (unchanged), vs. peers (21x). Constellation's long-term strategy calls for the maximization of maintenance (60% of revenue), as shown by its 'software for life' strategy; as a result, we characterize hardware, services and license as non-core revenue, which is volatile on timing of new deals and deployments.

Constellation's Equity Value (DCF)

Discounted Cash Flow (Value)	
WACC	9%
Terminal Growth	3%
Free Cash Flow ('14E)	201,057,396
FCF/Share	\$9.47
Terminal Value/Share	\$162.56
PV of TV (Implied Share Price)	\$125.53

Constellation's Expected Performance



Constellation Software (CSU)

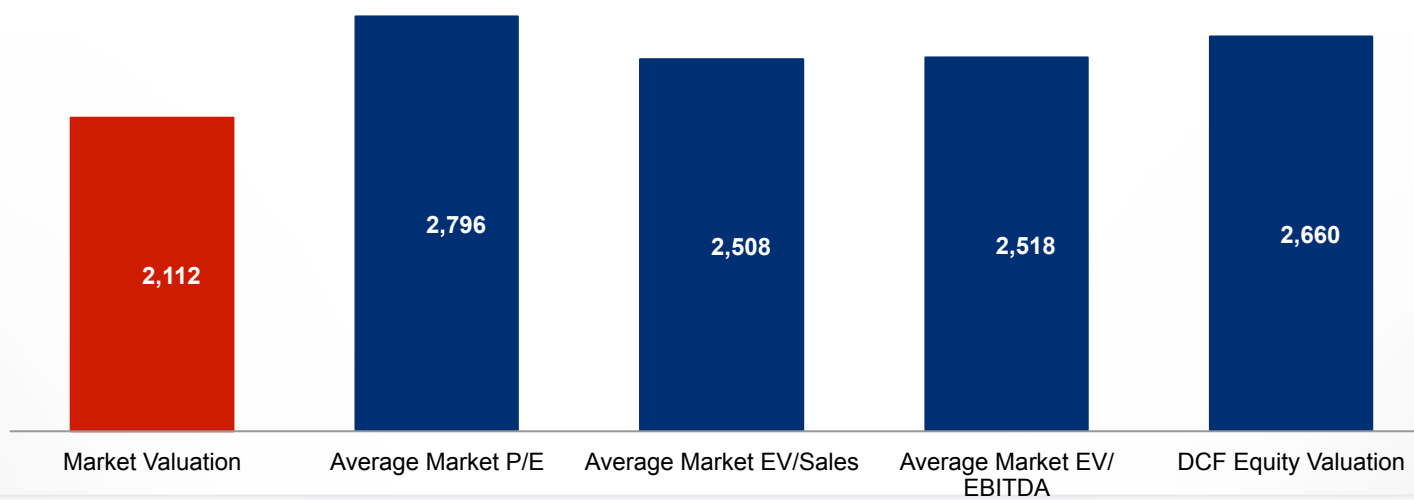
VALUATION RANGE

Valuation Computed By Analysts (RBC, JPM, National Bank Financial)

Year	Price	Avg. Market Price (Last Month)	Market Valuation	Analyst Estimates
2011	\$115.00	\$99.66	2112	2437

Valuation Range

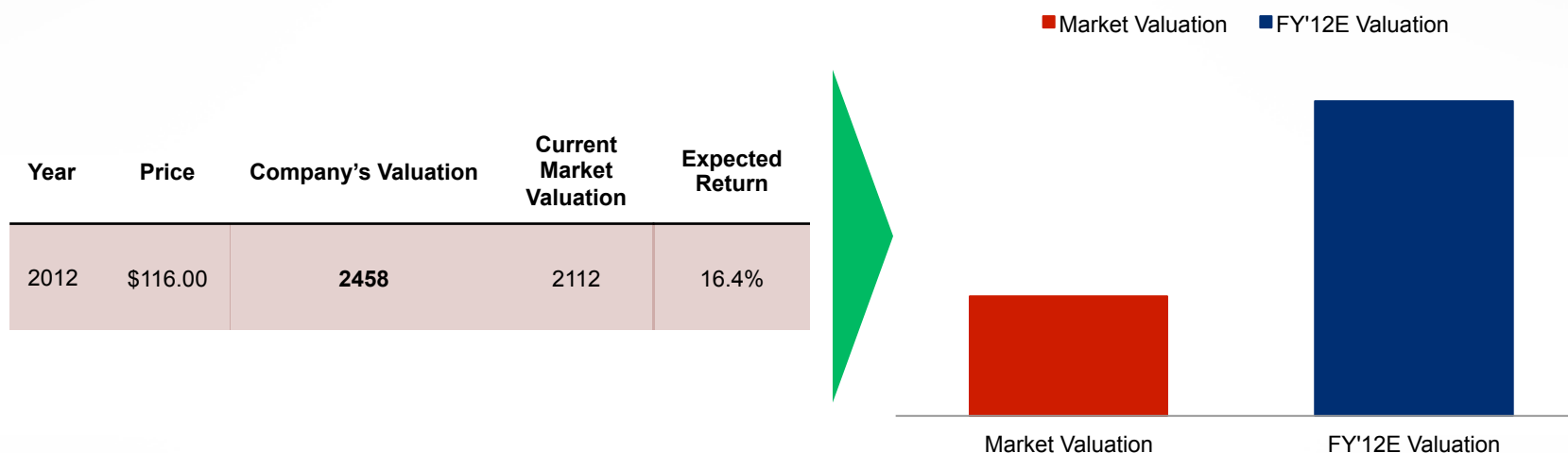
■ Market Valuation ■ Average Market P/E ■ Average Market EV/Sales ■ Average Market EV/EBITDA ■ DCF Equity Valuation



Constellation Software (CSU)

VALUATION, CATALYSTS AND RISKS

Our Valuation in line with an expectation of \$116.00



Investment Argument

- ✓ Proven Acquisition Strategy
- ✓ Unpenetrated VMS Opportunity
- ✓ Strong FCF Creating Dividend Growth
- ✓ Sustainable Acquisition Model
- ✓ Continued growth in dividend yield downsizing risk

Investment Risks

- ✓ Lack of accretive acquisition candidates
- ✓ Ability to scale
- ✓ Vertical market exposure
- ✓ Currency Risk



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