

EQUITY RESEARCH

December 12, 2022

Flash Research

CONSTELLATION SOFTWARE INC.

Acquiring WideOrbit; Spin-out Of Lumine Group

Our Conclusion: Constellation and Lumine Group announced an agreement to acquire media software firm WideOrbit Inc. and filed a prospectus on a potential spin-out of the combined entity. The spin-out appears similar to Topicus, although Lumine focuses on media and communications technology firms and the structure appears slightly less complicated (just two parties). Constellation expects the spin-out to be tax efficient, with the company issuing a special dividend of 3.0003833 Spin-out shares for every CSU share. Following the spin-out, Constellation will retain majority ownership in Lumine (61%), and we expect it to continue to manage the entity as an operating group. The transaction is expected to close by Q1/23. We retain our Outperformer rating on Constellation and C\$2,450 price target.

Key Highlights

Acquiring WideOrbit Inc: Constellation Software and subsidiary Lumine Group announced that it has entered into a binding agreement to acquire WideOrbit Inc., a U.S.-based provider of advertising management technology for cable networks, local television stations and radio stations, for \$490MM or ~13x EBITDA. At least \$181MM of the purchase price will be paid in cash, with up to \$222MM satisfied through the issuance of shares and CSU satisfying any indebtedness (est. ~\$87MM). WideOrbit had revenue of \$167MM in 2021 and EBITDA margins of ~27%. The transaction is expected to close in Q1/23.

Prospectus Filed For A Spin-out: Following the acquisition, Lumine Group and WideOrbit will combine to create a new operating group that will operate as a separate public company. The new spin-out will be focused on the media vertical and will be of similar structure to TOI with preferred shares and ordinary units to optimize tax structure for shareholders. Post the spin-out, Constellation will indirectly own a 61% interest in the SpinCo; Constellation shareholders will own a 25% interest; and management and WideOrbit shareholders will own ~14%.

Lumine Group Financials: The prospectus included financial information for the Lumine operating group, providing rare insight into the individual operating group's performance. The Lumine portfolio consists of over 20 acquisitions completed since January 2014, with an average gross purchase price of ~\$11.7MM. Lumine Group reported revenue of \$187MM and EBITDA of \$34MM at margins of ~18% for the nine months ended Sep 30, 2022. Y/Y revenue growth for the nine months ended Q3/22 was 11% and constant currency organic growth was -3% (adjusted for a Q3/21 customer settlement and known customer attrition - prior to Q3/22 acquisition, YTD constant currency organic growth was 0%).

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Outperformer

CSU-TSX, Sector: Information Technology

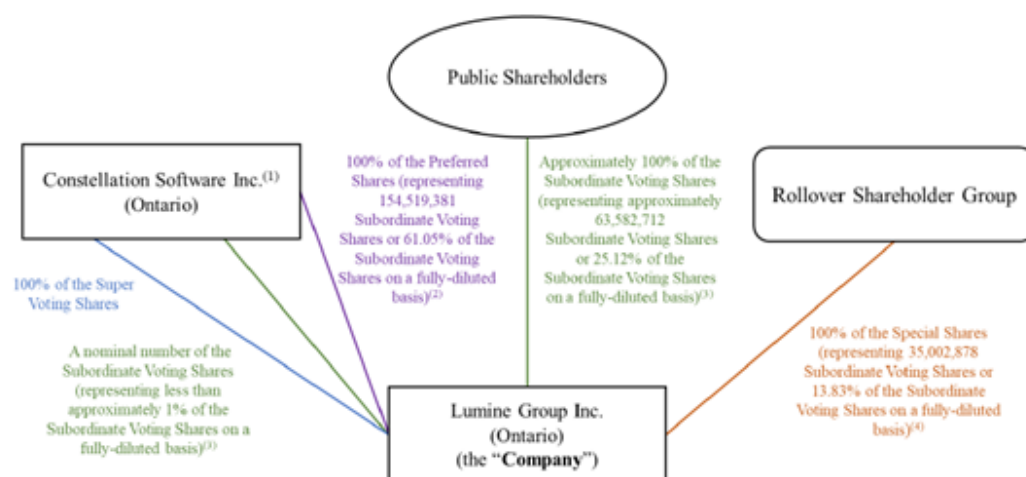
Current Price (12/12/22): C\$2,143.91

Price Target (12-18 mos.): C\$2,450.00

All figures in US dollars unless otherwise stated (C\$1.368:US\$1.00).

Please see "Price Target Calculation and Key Risks to Price Target" information on page 2.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 3.

Exhibit 1: CSU – Organization Structure, Post-transaction Close And Spin-out



Source: Company reports and CIBC World Markets Inc.

Price Target Calculation

Our C\$2,450 price target is based on a sum-of-the-parts methodology. We value CSU (ex-TOI) at 22x forward EBITDA multiple, a premium to enterprise software peers, and CSU's 30.35% ownership of TOI at market value.

Key Risks To Price Target

The primary risks to our price target include the following: 1) ability to scale; 2) ability to acquire; 3) vertical market exposure; 4) lack of detailed disclosure

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None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

For price and performance charts, please visit CIBC on the web at <https://researchcentral.cibccm.com/#/disclaimer-central-new> or write to CIBC World Markets Inc., 161 Bay Street, 4th Floor, Toronto, ON M5H 2S8, Attn: Research Disclosure Chart Request.

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