

# EQUITY RESEARCH

August 3, 2023

Flash Research

## CONSTELLATION SOFTWARE INC.

### Lumine Reports Q2/23 Results

**Our Conclusion:** Constellation and Lumine announced Q2 results for Lumine. The company reported organic revenue growth of 1% Y/Y after adjusting for FX. Margins at Lumine were 500 bps above our expectation for Constellation's consolidated margin of 24.7%, but down ~180bps Y/Y prior to the WideOrbit acquisition. Lumine did not complete any acquisitions in the quarter, likely focusing on the integration process of previous acquisitions, including WideOrbit.

#### Key Highlights:

**Financial Results:** Lumine reported revenue of \$130MM in the quarter, up 112% Y/Y, with the increase entirely driven by acquisitions. Organic growth was 1% after adjusting for FX. We attribute a sequential improvement to the contract run-off at newly acquired businesses.

EBITDA margin was 29.7%, down 180 bps Y/Y, but 540 bps higher Q/Q. Staff expenses comprised 54.9% of revenue (from 51% in Q1/23 and 50.8% in Q2/22 pre-WideOrbit), and third-party license & maintenance at 6.2% (versus 5.0% in Q1/23 and 4.8% in Q2/22) were the two largest expense categories which increased as a percentage of revenue. CFO at \$22.4M increased from \$8.1M in Q2/22, as FCFA2S at \$17.3MM increased from \$7.3MM in Q2/22. The net loss generated in the quarter was equal to \$489.6MM and driven by the increase in fair value of the redeemable preferred and special securities.

**Acquisition Spending:** The company did not execute on acquisitions in the quarter.

**CSU Update:** Separately, CSU announced today a rights offering to purchase up to \$700MM in floating rate debentures. The company intends to use proceeds to pay down indebtedness under its existing credit facility and the remaining proceeds to be used for future acquisitions. Initially the debenture will bear an interest of 13.3% per annum up to but excluding March 31, 2024. From March 31, 2024, the debenture rate will reset on an annual basis and will be equal to 6.5% + CPI during the 12-month period ending on December 31 in the prior year. The debentures have a maturity date of March 31, 2040.

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### Outperformer

CSU-TSX, Sector: Information Technology

Current Price (8/3/23): C\$2,664.50

Price Target (12-18 mos.): C\$3,000.00

All figures in US dollars unless otherwise stated (C\$1.337: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: Lumine – Financial Summary, Q2/22 – Q2/23, \$MM**

	Q2-F2023	Q2-F2022	Y/Y%	Q1-F2023	Q/Q%
<b>Consolidated</b>					
<b>Revenue</b>	<b>130</b>	<b>61</b>	<b>112%</b>	<b>95</b>	<b>36%</b>
License	11	10	15%	11	4%
Maintenance	91	1	nm	63	43%
Professional Services	23	12	90%	17	39%
Hardware and Other	5	38	nm	5	3%
<b>EBITDA</b>	<b>39</b>	<b>19</b>	<b>100%</b>	<b>23</b>	<b>67%</b>
EBITDA Margin%	29.7%	31.5%	(1.8pt)	24.3%	5.4pt

Source: Company reports and CIBC World Markets Inc.

## Price Target Calculation

Our C\$3,000 price target is based on a sum-of-the-parts methodology. We value CSU (ex-TOI and LMN) at 26x forward EBITDA multiple and CSU's 30% ownership of TOI and 61% ownership of LMN at market values.

## Key Risks To Price Target

The primary risks we see 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

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