

EQUITY RESEARCH

August 3, 2023

Flash Research

CONSTELLATION SOFTWARE INC.

Topicus Reports Q2/23 Results

Our Conclusion: Constellation and Topicus announced Q2 results for Topicus. Organic growth of 6% in Q2/23 was down from 8% sequentially, but in-line Y/Y. Margins at Topicus were ~80 bps higher Y/Y and 230 bps above our expectation for Constellation's consolidated margin of 24.7%. Topicus had a relatively low M&A spend (€63.4MM) in the quarter. Overall, we remain comfortable with our Constellation estimates following Topicus results, which were ahead of our expectations.

Key Highlights:

Demand Environment: Topicus reported revenue of €272MM in the quarter, up 23% Y/Y. The Y/Y increase is primarily attributable to growth from acquisitions. Organic growth of 6% was down from 8% sequentially. Organic growth was driven by maintenance (8% Y/Y organic growth) and professional services revenue (4% Y/Y organic growth), with two segments representing ~96% of revenues in Q2/23. Offsetting the organic growth were hardware and licenses, with 15% and 7% organic declines, respectively.

Profitability: EBITDA margin in the quarter was 27%, up 80 bps Y/Y. The margin increase was mostly driven by lower other expenses, which included the reversal of bad debt and contingency provisions. Staff expenses increased 26% Y/Y and represented 57.3% of revenues (from 56.1% in Q2/23).

Cash Flow: Topicus generated free cash flow available to shareholders of -€13.1MM in the quarter, compared to -€26.8MM in Q2/22, following a usual seasonality pattern for Q2 driven by negative working capital adjustments. Cash flow from operations was also negative at -€13.1MM versus -€32.0MM in Q2/22.

Acquisition Spending: Topicus spent €63.4MM on acquisitions in the quarter, with deferred payments associated with these transactions estimated at €7.6MM. The company has not disclosed notable acquired companies.

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Outperformer

CSU-TSX, Sector: Information Technology

Current Price (8/2/23): C\$2,746.48

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

All figures in US dollars unless otherwise stated (C\$1.328: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: Topicus – Financial Summary, Q2/22 – Q2/23, €MM

	Q2-F2023	Q2-F2022	Y/Y%	Q1-F2023	Q/Q%
Consolidated					
Revenue	272	221	23.3%	264	2.9%
License	8	6	22.3%	7	12.5%
Maintenance	189	155	21.3%	185	1.7%
Professional Services	72	56	27.4%	69	3.8%
Hardware and Other	4	2	61.6%	3	38.2%
EBITDA	74	58	27.1%	70	5.6%
EBITDA Margin%	27.0%	26.2%	0.8pt	26.3%	0.7pt

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 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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