

EQUITY RESEARCH

March 22, 2022

Flash Research

CONSTELLATION SOFTWARE INC.

Topicus To Acquire Sygnity S.A.

Our Conclusion

Constellation owned Topicus.com announced its intention to acquire Sygnity S.A. for ~\$65 million. Sygnity is a publicly traded Polish IT solutions firm providing digital transformation services to public and private sector customers. We calculate that Topicus.com is paying 1.3x 2021 sales, slightly above Constellation's average multiple. We view Sygnity as a typical Constellation acquisition - a relatively mature business, with a solid cash flow profile.

Key Points

What Sygnity Does: Sygnity provides digital services to customers in a number of verticals including banking and insurance, capital markets, public administration, retail, energy, utilities and industrials. Within those verticals Sygnity offers a wide variety of traditional digital transformation services, such as customer experience improvement, omnichannel strategy, and CRM/ERP integration. The company recently completed a four-year restructuring, which refocused the business on financial market solutions (capital markets/mandatory reporting) and energy (metering solutions). Sygnity has begun to see the benefits of the restructuring, with low-single-digit revenue growth in Q1/22. The restructuring has also resulted in an improvement in profitability, with operating profits now in the mid-teens.

Transaction Details: The tender offer is being made a price of PLN 12.00 per share, valuing Sygnity at a total enterprise value of approximately US\$65 million. The purchase price implies a multiple of 1.3x LTM sales and 5.5x LTM operating profit. The PLN 12 per share offer price represents a 2% premium to the last close, but a 33% premium to where the shares were trading less than two weeks ago. The acquisition is expected to be completed in Q2/22.

Constellation Has Spent Its Cash On Hand: Post the Sygnity acquisition and the announced acquisition of AHLPP for \$700 million (\$670 million upfront) earlier this month, we calculate that Constellation has used most of its \$760 million cash on hand. However, we expect free cash flow of ~\$475 million in H1/22, suggesting that the company continues to have room for tuck-in acquisitions without leveraging up. With the two announced transactions in Q1, Constellation has invested in one quarter more than its annual M&A spend in any year except 2021.

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Outperformer

CSU-TSX, Sector: Information Technology

Current Price (3/22/22): C\$2,155.61

Price Target (12-18 mos.): C\$2,900.00

All figures in US dollars unless otherwise stated (C\$1.258: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.

Price Target Calculation

Our C\$2,900 price target is based on a sum-of-the-parts methodology. We value CSU (ex-TOI) at a 28x 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, and 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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