Constellation Software (CSU)

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Application Software | TSX | Buy: Reset Valuation, 20% ROIC Compounder

Recommendation: BUY

Price Target: C$3,945 | Upside: +51.0% from C$2,612

Investment Horizon: 12 Months | Risk Rating: Medium-Low

TSX: CSU | 52-wk: C$2,190 - C$4,370 | Mkt Cap: C$55.4bn

All figures are analyst estimates unless otherwise stated.

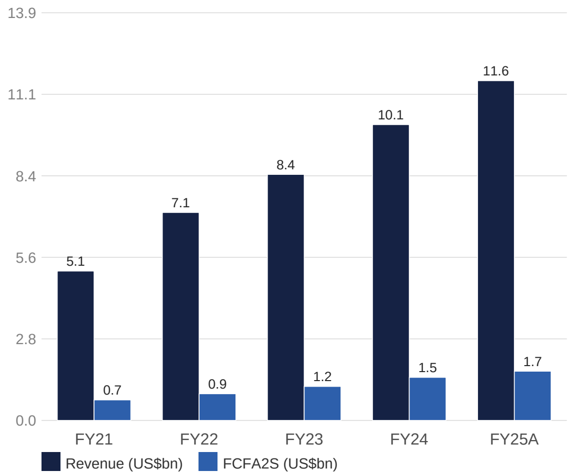
Financial Snapshot

Metric	FY23A	FY24A	FY25A	FY26E
Revenue (US$bn)	8.4	10.1	11.6	13.5E
Revenue YoY (%)	+20%	+20%	+15%	+16%E
EBITDA (US$bn)	2.2	2.7	3.3	3.9E
EBITDA Margin (%)	26.2	26.7	28.4	28.9E
FCFA2S (US$m)	1,160	1,472	1,683	1,950E
FCFA2S/share (US$)	54.7	69.5	79.4	92.0E
Acq deployed (US$m)	~1,400	1,520	1,340	1,500E
ROIC est. (%)	~18	~19	19.5	~20E
Rec. Rev (%)	~73	73.5	74.9	76.3E

Company Overview

Constellation Software (CSU) is the world's premier vertical market software (VMS) acquirer, owning 800+ niche software businesses serving mission-critical functions across 100+ end markets. Founded by Mark Leonard, CSU acquires, manages, and perpetually holds VMS companies, generating highly recurring revenue streams and deploying FCFA2S into incremental acquisitions at a sustained ~20% ROIC. Topicus.com (TOI) extends European VMS exposure at comparable returns. The decentralized operating model runs each acquired business as an independent unit, preserving customer relationships while extracting efficiencies at the corporate level. CSU has completed over 650 acquisitions since 1995 without issuing equity, compounding intrinsic value per share at ~20%+ annually through disciplined capital deployment. The perpetual-hold commitment removes artificial pressure to sell portfolio companies and is a competitive moat against PE-backed alternatives.

Figure 1: Revenue & FCFA2S (US$bn)



Source: CSU company filings, annual reports

Component	YOY FY24	YOY FY25	5Y CAGR	% Total
Maintenance Rev	+16%	+14%	+13%	~56%
Professional Svcs	+21%	+17%	+14%	~12%
License Rev	+15%	+13%	+11%	~7%
Hardware & Other	+18%	+16%	+12%	~25%

Source: CSU annual report, analyst estimates

Maintenance revenue now exceeds 74% of total, providing high-visibility recurring cash flows with near-zero churn (<3% annualized attrition). CSU's acquisition pace of 50-80 businesses per year is well-supported by a global fragmented VMS universe estimated at thousands of potential targets in niche healthcare, government, and industrial verticals.

The vertical market software universe is structurally fragmented across 15,000+ estimated niche businesses globally, with CSU and Topicus collectively addressing a fraction of the total available pool. VMS businesses carry 80-95% gross margins, 70%+ recurring revenue ratios, and mission-critical customer relationships that generate natural switching costs. The PE funding environment has raised acquisition multiples from ~8-10x EBITDA to ~12-15x over the last decade, but CSU's proprietary deal sourcing, founder-friendly perpetual hold, and deep sector expertise allow it to access deals that competitors cannot.

Investment Thesis

1. **ROIC of 19-20% sustained across cycles**
Cumulative ROIC has held in the 19-20% range through rising asset prices, currency headwinds, and management transitions. Each dollar deployed generates ~$1.40-1.50 of intrinsic value at 20% ROIC, and the compounding engine shows no observable degradation over 15+ years and 650+ acquisitions. At the current deployment pace, CSU adds ~$2-3bn of intrinsic value annually without any change in scale or multiple expansion.

2. **Structurally fragmented VMS universe**
Acquires 50-80 businesses per year; global addressable pool is in the tens of thousands. The perpetual-hold commitment is unmatched by PE and creates a compelling pitch to founder-operators who want a permanent home for their business. Topicus adds EU and Australasian market runway at comparable ROIC, extending the runway for decades. The CEO cohort model preserves operator culture.

3. **100% self-funded, zero dilution history**
FCFA2S of US$1.68bn in FY25A funds ~100-125% of annual acquisition deployment; CSU has not issued equity in its 30-year history. Q1'26 FCFA2S of +44% YoY demonstrates the FCFA2S trajectory is re-accelerating after a FY24 pause, providing growing capital for redeployment. The balance sheet remains unlevered and provides ~US$2bn of dry powder for large-scale acquisitions if needed.

4. **Reset creates entry at 14.5x P/FCFA2S**
Versus 5-year average of ~22x P/FCFA2S; also well below Roper ~25x and Tyler ~35x. The market is conflating organic growth (3%) with total value creation driven by 20% ROIC on deployed capital. Our 12-month target of C$3,945 assumes re-rating to 20x P/FCFA2S as deployment normalizes and Q2-Q4'26 FCFA2S prints accelerate, consistent with CSU's historical trading range at comparable FCFA2S growth rates.

Adjusted EBITDA Margin (%)

Company	FY24 (%)	FY25E (%)
CSU	25.7	27.2
Roper Tech	21.3	22.1
Tyler Tech	15.2	16.8
Topicus	18.4	19.1
Peer Median	20.0	21.0

Source: Bloomberg, company filings. Adj. EBITDA as reported.

Cash Flow Metrics

Metric	FY24A	FY25A/E
FCFA2S (US$m)	1,472	1,683
Acq deployed (US$m)	1,520	1,340
Reinvestment rate	103%	80%
FCFA2S/share growth	+27%	+14%

Source: CSU filings, analyst estimates

EQUITY RESEARCH REPORT

Constellation Software

Key Operating Metrics Evolution

Recurring Rev % of Total

~68% -> 75%

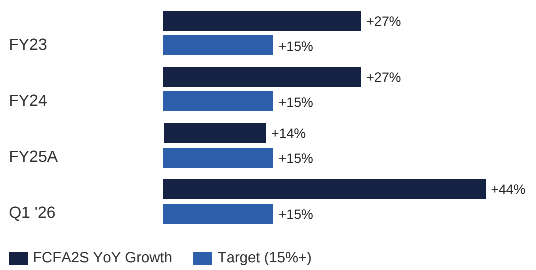
FY19 FY25

ROIC on Deployed Capital

~17% -> 19.5%

FY19 FY25

Figure 4: FCFA2S Annual Growth Rate (%)



Source: CSU filings, analyst estimates

Valuation

CSU trades at 14.5x P/FCFA2S, a near 10-year low vs. the 5-year average of ~22x, driven by a reset in high-multiple software names and slower organic growth optics. We believe the market is conflating organic growth with total ROIC-driven value creation: at 20% ROIC on US$1.5bn+ of annual deployment, the intrinsic value per share grows at ~14-16% annually independent of organic growth. Roper at ~25x and Tyler at ~35x have inferior returns on incremental capital. Our 12-month target of C$3,945 assumes re-rating to 20x P/FCFA2S as deployment normalizes and FY26 FCFA2S prints confirm re-acceleration. At C$3,945, CSU would still trade at a 30% discount to Tyler and 20% discount to Roper on a P/FCFA2S basis.

Peer Valuation

Company	Fwd P/E	Fwd P/FCF	FCF Yield	PEG
CSU	14.5x	14.5x	6.9%	1.1
Topicus	~18x	~18x	~5.6%	N/A
Roper Tech	~25x	~25x	4.0%	2.2
Tyler Tech	~35x	~35x	2.9%	2.8
Peer Median	~28x	~26x	3.8%	N/A

Source: Bloomberg consensus, analyst estimates. FY25A/FY26E.

FCFA2S/Share Growth (%)

Company	FY23A	FY24A	FY25A/E
CSU (FCFA2S/sh)	+27%	+14%	+44% Q1
Roper Tech	+14%	+12%	~+14%E
Tyler Tech	+12%	+10%	~+12%E

Source: Bloomberg, company filings

PT Scenario Analysis (P/FCFA2S)

Scenario	WTI/Key Assumption	Implied Price	Upside
Bear	12x P/FCFA2S, deployment flat	C$2,820	+8%
Base	20x P/FCFA2S, +16% FCFA2S	C$3,945	+51%
Bull	25x P/FCFA2S, +20% FCFA2S	C$5,200	+99%

Source: Analyst estimates. FY26E FCFA2S/share basis.

Business Drivers

Metric	FY23	FY24	FY25A	FY26E
FCFA2S & Deployment Metrics				
FCFA2S growth YoY	+27%	+14%	+14%	+16%E
Acq deployed (US$m)	1,400	1,520	1,340	1,500E
Reinvestment rate	~121%	~103%	~80%	~77%E
Businesses acquired	~68	~74	~58	~65E
ROIC & Returns				
ROIC est. (%)	~18%	~19%	19.5%	~20%E
Rec. Rev (%)	~73%	73.5%	74.9%	76.3%E

Source: CSU filings, Topicus filings, analyst estimates

Risks & Mitigants

Risk	Mitigant
Acq multiple inflation	VMS acquisition multiples have compressed IRR from ~25% to ~20%; however CSU's proprietary deal sourcing, 30-year relationship network, and perpetual-hold pitch continue to secure below-market entry points. Management targets 15%+ IRR as a floor and will not deploy at subthreshold returns.
Reinvestment saturation	FY25A reinvestment rate of ~80% is below the historical 100-120% range; pipeline discussions suggest recovery to 90-100%+ in FY26E as new verticals (energy tech, edtech, GovSaaS) open. Topicus deployment also expanding.
Organic growth moderation	3% organic is below software peers, but organic growth is not the value driver at CSU; capital redeployment at 20%+ ROIC generates the bulk of intrinsic value growth. A sustained negative organic decline would be a risk; flat-to-low-single digits is expected structurally given the maintenance-heavy revenue mix.
Key-person risk	Mark Leonard and CSU's decentralized management culture are difficult to replicate; however, the CEO cohort model and BU manager incentive structure have been designed to distribute decision-making. Succession planning has improved significantly since the 2020 structural reorganization into business units.

Source: Analyst assessment, CSU shareholder letters, annual reports

Catalysts

Q2'26 FCFA2S print: +16%E YoY, confirming acceleration from Q1'26 +44%; key re-rating trigger for multiple expansion.

Large acq >US$500m: Demonstrates ability to deploy at scale in new vertical; would re-rate deployment ceiling and pipeline optionality.

Topicus outperformance: EU VMS adds geographic diversification; Topicus at ~18x vs CSU at 14.5x creates intra-portfolio arbitrage.

ML shareholder letter: Mark Leonard Q2/Q3 commentary on deployment pipeline and ROIC trajectory is a key sentiment catalyst.

Source: Analyst estimates, CSU investor communications

Conclusion

Reiterating BUY at C$3,945 (+51%). CSU is the rarest category of public equity: a recurring VMS compounder generating 20% ROIC on deployed capital, 100% self-funded, with a perpetual-hold philosophy and zero equity dilution in 30 years. At 14.5x P/FCFA2S versus a 5-year average of ~22x, the reset offers a compelling entry for long-duration investors who can tolerate organic-growth headline noise. Q2'26 FCFA2S acceleration and deployment normalization are the near-term catalysts. A re-rating to 20x P/FCFA2S alone delivers +51% return; re-rating to historical average of 22x alongside FCFA2S acceleration would imply ~C$4,800+ over 18 months.

Price Target Derivation

Multiple/Ratio	Weight (%)	Implied Price
P/FCFA2S (50%)	50%	C$3,840
EV/EBITDA (35%)	35%	C$3,700
Consensus (15%)	15%	C$3,945
Current Price		C$2,612
WA Implied Price	100%	C$3,945
Upside / (Downside)		+51.0% Upside