

Constellation Software Inc Annual Shareholders Meeting



TORONTO May 16, 2022 (Thomson StreetEvents) – Edited Transcript of Constellation Software Inc shareholder or annual meeting Thursday, May 5, 2022 at 1:00:00pm GMT

Corporate Participants

Barry Symons Constellation Software Inc. – Director

Bernard Anzarouth Constellation Software Inc. – CIO

Damian McKay Constellation Software Inc. – CEO of Vela Software Group

Dexter Salna Constellation Software Inc. – Director

Jamal Nizam Baksh Constellation Software Inc. – CFO

Jeff Bender Constellation Software Inc. – Director

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

Mark Dennison Constellation Software Inc. – General Counsel & Secretary

Mark Leonard Constellation Software Inc. – Founder, President & Director

Mark Robert Miller Constellation Software Inc. – COO & Director

Robert Terrance Kittel Constellation Software Inc. – Independent Director

Robin Van Poelje Constellation Software Inc. – Director

Conference Call Participants

Howard Leung Veritas Investment Research Corporation – Former Investment Analyst

Will Pan Ruane, Cunniff & Goldfarb Inc. – Investment Professional

Derek Hurst

Presentation

Operator

Hello, and welcome to the Annual Meeting of Shareholders of Topicus.com Inc. Please note that today's meeting is being recorded. It is now my pleasure to turn today's meeting over to Chairman, Mark Dennison. Mr. Dennison, the floor is yours.

Mark Dennison Constellation Software Inc. – General Counsel & Secretary

Thank you, and good morning. I'm Mark Dennison. I'm the General Counsel and the Corporate Secretary of Constellation Software. Mark Leonard, Constellation's President; and John Billowits, Constellation's Chair of the Board have asked me to act as Chairman of today's meeting. Jamal Baksh will act as Secretary of the meeting. I've asked Shirley Tom and Louise Waltenbury of Computershare to act as scrutineers and to compute the votes of any polls that are taken at this meeting.

Due to the COVID-19 pandemic, we are conducting today's meeting virtually via live webcast. Since the meeting is being held virtually, we want to outline a few logistical items regarding the conduct of this meeting.

As indicated in our press release dated March 29, '22, shareholders of Topicus and shareholders of the company have had the opportunity to submit questions in advance of today's meeting. We've received a large number of questions. On behalf of the shareholders, our panel of questioners has collated the questions received and organized them by theme. And following the formal part of this meeting, our panel will pose those questions to our senior managers during the Q&A session of the meeting.

Any additional questions can also be submitted by any meeting attendee using the instant messaging service of the virtual interface. Questions which are already addressed and questions submitted in advance of the meeting or that are redundant or repetitive will not be answered. Any questions regarding procedural matters or directly related to the motions before the meeting may be addressed during the formal part of this meeting.

When asking a question, please indicate your name, which entity you represent, if any, and if applicable, confirm if you are a registered shareholder or a duly appointed proxy holder. For each question we answer, we will summarize the question and read out loud the name of the person who asked the question. And if applicable, the entity such person represents.

For the purposes of the meeting today, voting on all matters will be conducted by electronic ballot. Registered shareholders and duly appointed proxy holders will be asked to vote on each business item after the presentation of all business items.

When you're asked to vote, you will receive a message on the virtual interface requesting you to register your votes. When voting commences, the polls will be open for 3 minutes.

We will now proceed with the formal portion of today's meeting. To expedite the formal part of the meeting, I will move and second all motions other than with respect to the shareholder proposal. The secretary of the meeting has filed with me proof of mailing of the meeting materials, including the notice of availability of proxy materials in the form of proxy and where applicable notice of meeting and the management information circular. The consolidated financial statements of the company for the year ended December 31, 2021, and the auditor's report thereon have also been mailed to all shareholders of the company who have requested them. Copies of these materials are also available on the company's SEDAR profile and on the company's website. We would be pleased to deal with any questions concerning the financial statements subsequent to the completion of the formal business of this meeting.

The scrutineers have reported to me that we have at least 2 shareholders present by electronic means and holding or representing by proxy at least 15% of the votes entitled to be cast at the meeting. As such we declare that a quorum is present for the conduct of business, and this meeting is properly constituted for the transaction of business.

Again, voting today will be conducted by electronic ballot. The balloting will be open to registered holders and appointed proxy holders who are properly logged in with their control number invitation code after the presentation of all business items.

The first item of business is the election of directors. There are 15 directors to be elected at this meeting. The management information circular made available to shareholders contains information about those 15 nominees. The nominees are Jeff Bender, John Billowits, Lawrence Cunningham; Susan Gayner; Claire Kennedy, Robert Kittel, Mark Leonard, Mark Miller, Lori O'Neill, Donna Parr, Andrew Pastor, Dexter Salna; Laurie Schultz, Barry Symons and Robin Van Poelje.

The meeting is open for nominations for the election of directors for the ensuing year or until their successors are elected or appointed.

I will now nominate the directors and second the nominations. I nominate each of the persons whose name appears in the management information circular under the heading, Election of Directors to be a director of the company until the close of the next Annual Meeting of Shareholders or until their successors are appointed, and I also second the nominations.

If there are no further nominations, I declare the nominations closed.

I note that as described more fully in the management information circular, the company adopted a majority of director election policy in May of 2009. This policy enables shareholders to vote separately for each director nominee at meetings of shareholders or directors are to be elected. If a director nominee does not receive the support of a majority of the votes cast at a meeting of shareholders, that director will be expected to tender his or her resignation from the Board following such meeting. The resignation will be effective upon acceptance by The Board and will be disclosed via press release. For more information about our majority director election policy, please see Page 20 of the management information circular.

I will now move and second the resolution appointing the auditors for the current year and authorizing the directors to fix their remuneration. I move that KPMG LLP chartered accountants are appointed auditors of the company to hold office until the close of the next Annual Meeting of Shareholders or until their successors are appointed, as such remuneration may be fixed by the directors and that the directors are authorized to fix such remuneration, and I also second the motion. Unless there are any questions, I will move to the next item of business.

The next item of business is the consideration of the special resolution of the company authorizing the filing of an amendment to the company's articles to increase the maximum number of directors from 15 to 20. The full text of the special resolution to authorize the amendment to the company's articles is included as Schedule A to the management information circular. The resolution must be approved by at least 2/3 of the votes cast by the holders of common shares present or represented by proxy at this meeting. Unless there are any objections, I will dispense with the reading of the special resolution and we'll move and second the approval of the special resolution.

I move that the special resolution of the company set out as Schedule A to the management information circular relating to this meeting be authorized and approved as a special resolution of the shareholders of the company, and I also second the motion.

I now will put the motion to the meeting. Is there any discussion on this motion? There are not. And so I will move to the next item of business.

The next item of business is an advisory resolution to endorse the company's approach to executive compensation as further set out in the management information circular. As the vote is advisory only, it will not be binding on the

company. However, the Compensation Nominating and Human Resources Committee of the Board will take into account the results when considering future executive compensation arrangements.

I will now move and second the approval of the advisory resolution. I move that it be resolved on an advisory basis and not to diminish the role and the responsibilities of the Board of Directors of the company, but the approach to executive compensation disclosed in the management information circular is accepted, and I also second the motion. Unless there are any questions, I will move to the next item of business.

The next item of business is the consideration of the shareholder proposal, which has been submitted by the Pension Plan of United Church of Canada. Representatives of the United Church of Canada are in attendance of today's meeting to present the shareholder proposal on behalf of the United Church. The full text of the shareholders' proposal, including the shareholder statement and the company's response to that proposal has been included as Schedule B to the management information circular mailed to shareholders in connection with this meeting.

I would now like to invite Mr. Derek Hurst on behalf of the United Church of Canada to present the shareholder proposal.

Operator, can I please ask you to unmute the line of Derek Hurst for me, please.

Derek Hurst

Great. Good morning, shareholders. My name is Derek Hurst. I'm the pension fund manager of The United Church of Canada. Advancing and promoting racial equity is fundamental to build the diverse, safe, inclusive, sustainable and productive economy and society. United Church has made a public commitment to becoming an anti-racist denomination. This commitment is part of the church's ongoing work towards racial justice.

As an investor, we want to ensure that our portfolio aligns with the values and objectives of our racial equity commitments and goals. We also want to see companies in which we invest, succeed in the long term, a meaningful and robust approach to racial equity is critical to the success of any company, including Constellation Software.

In the last few years, many companies have proactively developed, implemented and reported on their strategies to ensure that all of their employees are treated equally and have access to the same opportunities. Constellation Software has a history of lagging behind its peers when it comes to equity and diversity. It was only in 2018 that Constellation appointed a woman to its Board, following a shareholder vote on a proposal supported by share. The proposal requested the company adopt a formal policy on Board diversity and disclose plans for increasing number of women on its Board and in its upper management. However, despite the fact that the proposal was supported by over 49% of shareholders, the company has yet to implement a board diversity policy.

Not only does this highlight the company's failure to address a widely supported proposal, but it may also underestimate the importance of diversity, equity and inclusion.

Just like any company, Constellation Software has a responsibility to ensure that its employment practices are not discriminatory to any of its employees. It also has shareholders' prerogative to understand the company plans -- it also has shareholder prerogative to understand the company plans and progress on these issues so that we can make informed investment decisions.

We recognize Constellation Software's unique business model. And we believe that advancing racial equity at Constellation should not go against the company's current business structure, but rather support and work in parallel with existing operations and structures.

Fellow shareholders, I move the proposal and ask for your support. I look forward to a more constructive and meaningful engagement with the company in the coming months. So the Constellation can begin to advance and promote racial equity in the way that it benefits its more than 25,000 employees, shareholders and other stakeholders touched by the company's value chain.

Thank you for your time.

Mark Dennison Constellation Software Inc. – General Counsel & Secretary

Thank you, Mr. Hurst. I will now put the motion to the meeting. Are there any questions on the motion?

There are not. And so I will now move on to the voting process.

As I mentioned earlier, voting today will be conducted by electronic ballot. I will now take a moment to ask that the balloting be opened to registered holders and appointed proxy holders. The polls are now open.

And at this point, all registered holders and appointed proxy holders who have properly logged in with their control numbers or their invitation code and wish to vote, will be able to see on the screen, the election of directors, the appointment of the auditors, the special resolution with respect to the increase of the maximum number of directors, the advisory resolution on executive compensation and the shareholder proposal motions that are brought forth at this meeting. Please register your votes by accessing the voting page and selecting the for or withhold buttons next to the name of each proposed director and next to the resolution with respect to the appointment of KPMG as the company's auditors.

Please select the for or against button next to the special resolution with respect to the increase of the maximum number of directors, the advisory resolution on executive compensation, and the resolution with respect to the shareholder proposal.

The voting will be open for 3 minutes. And while you are submitting your votes, we will begin introducing the speakers for the question-and-answer period.

Once the electronic balloting closes, the voting page will disappear, and your votes will automatically be submitted.

The full voting results will be published on SEDAR following the meeting, but I can report that based on the proxies which we've received in advance of the meeting, all the matters that were put to a vote today have passed.

Based on the proxies received in advance of the meeting, the shareholder proposal made by share on behalf of the Pension Plan of United Church of Canada has been approved by the majority of votes cast.

While the approval of the shareholder proposal is not binding on the company, the company and the Board will, in due course, consider the shareholder proposal further in light of the results of the shareholder vote.

The formal items of business as set out in the notice of meeting have now been dealt with. I move that the meeting be terminated, and I second the motion.

I declare the resolution carried and the meeting is now terminated. The formal agenda for this meeting is now completed.

I will now turn the meeting over to Larry Cunningham, who will be leading the question-and-answer session this morning. I ask that all attendees who would like to ask a question to use the instant messaging feature of the virtual interface to do so. When asking your question, please include your name, the entity you represent, if any, and if applicable, confirm if you are a registered shareholder or a duly appointed proxy holder.

With that, over to you, Larry.

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

Thanks, Mark. Welcome, everyone. Almost 500 people are attending this gathering. We want to welcome, in particular, our employee shareholders, and are grateful for everyone joining us today. I want to give a special thanks to our independent Board Members in live meetings in the past. This is the moment when they all stand up and say hello. The best we'll do instead is recognize them by name, and I want to thank them for their contributions. John Billowits, Chair of the Board, Rob Kittel, who's Lead Independent Director; Andrew Pastor, Susan Gayner, Lori O'Neill, Donna Parr, Claire Kennedy and Laurie Schultz. Special welcome to the latter 2 who have just joined the Board in the last -- well, as of today and this past year. So thanks, everyone.

And while we're at it, we want to bid fond farewell to 2 distinguished directors who rolled off the board this year, Steve Scotchmer, former Lead Independent Director who's been on the Board since 2000 and made enormous contributions to the company; and Paul McFeeters, who's been on the Board since 2014, making great contributions too, including as Chair of the Audit Committee.

For the third year in a row, I'm delighted to be joined for this panel Q&A by 2 other shareholders of the company, to analysts Will Pan of Ruane, Cunniff and Howard Leung, formerly of Veritas and lately of Fiera capital. As background, Howard was an equity research analyst at Veritas covering Constellation since 2016 and recently went over to what some call the dark side at -- earlier this year.

Will has been with Ruane, Cunniff for 12 years, and he's been a shareholder of Constellation since 2014. I joined the Constellation Board in 2017 and was asked to become Vice Chairman of the Board in 2019, and I've been a shareholder throughout that time.

Thanks to everyone for submitting questions. We received a very large number of questions about the same numbers as we've received in the past 2 years. We have collated the questions, trimmed them a little bit, ended them, tried to put them in a thematic sequence. If you hear your topic discussed, and it's not exactly how you wrote it, it's because we've integrated multiple questions around the same topic. Last year and the year before, we were able to ask almost all questions, but we can't guarantee that we will. If we run out of time and yours isn't asked, we apologize. And of course, feel free to use the Constellation shareholder Q&A function that's available all year round on the website.

We have not shared any of the questions ahead of time with the panelists other than 1 or 2 that required some computational work. And for those we only share them with the CFO.

We collated the questions on the categories and divided them up between the 3 of us, the categories are: acquisitions, operations and people. We split the acquisitions into 2 parts -- the operations into 2 parts and got a co

(inaudible) section at the end. So the sequence is going to be we're going to start off Will -- with Will handling acquisitions. Part one, we'll flip over to Howard for explorations Part 1, and then I'll pose some questions about people. And Will do acquisitions, part 2. Howard will do operations, Part 2; and I'll finish up with the (inaudible).

I am monitoring the Q&A, the questions that come in. If you want to use this in messaging, we've already gotten quite a bunch of questions, and periodically, I'll collate synthesize those and pose them probably during my round. So thank you all very much again. Look forward to engaging discussion this morning, which will be led by Will Pan. Will, thank you very much.

Questions and Answers

Will Pan Ruane, Cunniff & Goldfarb Inc. – Investment Professional

Hi, everyone. Thanks for having me. Reacting questions to the group. So my first round of acquisitions questions mostly has to do with smaller acquisitions and returns.

First question, is -- this may differ by groups that's open to everyone. How close are you all in terms of desired coverage for your M&A teams? Are there many gaps remaining? Are we at a point where, for instance, a measure like acquired revenue per M&A employee is increasing?

Mark Leonard Constellation Software Inc. – Founder, President & Director

You want me to take that. Will, I'll start off with that. So thanks for the question. And just before I just want to thank all of the employees across the company for all they did through the pandemic and worked really, really hard through difficult circumstances. So it's really important not to forget that so making sure our customers got what they needed done. And so we really appreciate that.

As far as sort of understanding, looking at like this interesting metric, looking at sort of capital acquired for M&A resource, isn't something I particularly focus on. We really have been, as mentioned previously, focusing on decentralizing our M&A as much as possible. So sort of just making sure that more people understand how to do it. It's been more my focus, at least inside of our group than I think many of the other leaders as well do that, which again allows us to continue to do smaller acquisitions as well. So that would be sort of my cut on it.

Jeff Bender Constellation Software Inc. – Director

Jeff from (inaudible). I could add I'm not sure we'll ever be satisfied with our overall coverage. I think there's -- we're always finding opportunities that I think we would have liked to have seen earlier in the process or perhaps a chance to see it at all.

So I think to Mark's point, we're very focused on building the skills and the discipline and more capital deployers, I think from a coverage perspective, I'm not sure in my lifetime will ever see or I think we'd actually be satisfied with I covered and I think we're always surprised that the number of VMS companies that are available for sale. And I think keeping track of them and building long-term relationships with them is always a challenge. So I think it's something that we're just always continuing to work on as we continue to build out our M&A function.

Will Pan Ruane, Cunniff & Goldfarb Inc. – Investment Professional

Great. Related to that, your outside shareholders are curious about the number of targets in the database. You may not be able to answer a question like that, but can you give us an idea of the trend. Does it continue to grow in number? Is it ascending?

Mark Robert Miller Constellation Software Inc. – COO & Director

Let me take that. Will, -- it's Mark Miller. And excuse my voice. Unfortunately, I contacted COVID over the weekend, which is a good reason where -- or at least the benefit of having a virtual meeting is that I can attend.

So we will always new prospects to the funnel. It's just that the quality is going to go down over time. You're obviously going to find the pretty ones first. And it's like any market, you eventually hit diminishing returns. And we, for sure, will hit diminishing returns as we add less and less attractive prospects to the funnel.

Will Pan Ruane, Cunniff & Goldfarb Inc. – Investment Professional

Thank you. Broader environment is the decline in share prices as many tech companies reflected in valuations you're seeing in the private market. It's open to everybody.

Barry Symons Constellation Software Inc. – Director

It's Barry Symons from Jonas. I'll start. We haven't seen it yet. The decline has only been relatively recent. But obviously, we're watching it. But as far as any of the conversations we're having, we haven't seen a decline in expectations around valuations.

Jeff Bender Constellation Software Inc. – Director

So yes, well, it's Jeff. I would say the same thing. I think we have not seen any noticeable change in the valuation conversations that we're having with. I'd say, at least the majority of the prospects that we're talking to.

Robert Terrance Kittel Constellation Software Inc. – Independent Director

This is a Robert. Yes, here in Europe, the same as well.

Will Pan Ruane, Cunniff & Goldfarb Inc. – Investment Professional

Mark, you're saying?

Mark Leonard Constellation Software Inc. – Founder, President & Director

I was saying, same for us. We haven't seen any noticeable business as well.

Will Pan Ruane, Cunniff & Goldfarb Inc. – Investment Professional

Okay. zooming out a little bit. The next question is, how the rising interest rates and inflation factor into your thinking on investment hurdle rates, I think your hurdle rate for small to midsized acquisitions has been unchanged for a long time. I realize that your focus is on buying assets for life, meaning that short-term fluctuations in the rate environment aren't all that relevant. But if there were a change to your long-term structural outlook for rates, would it not make sense to adjust your hurdle rates?

Mark Robert Miller Constellation Software Inc. – COO & Director

Yes, it would. It makes sense.

Will Pan Ruane, Cunniff & Goldfarb Inc. – Investment Professional

The funny thing is that for a long time, you didn't adjust them down when interest rates were low. So you could argue that you guys were sticking to an absolute hurdle rate that was generally higher than for prevailing rates and didn't move with them. So it's curious to hear you say that you would actually raise them now. Do you think that you're responsive to rates in the past?

Mark Robert Miller Constellation Software Inc. – COO & Director

I think we weren't interested in generating low rates of return. And so I think the sort of downward non-elasticity whereas I think on the upward swing, it works the other way. It's about a bit like owning a home. Very few people like to sell the home at a loss. And so it takes really crushing interest rates to force people to sell them. On the downside, and I'd rather wait it out and own it for a long time even if it isn't ideal until prices come back. And we're kind of the same way with the hurdle rates. We really don't like dropping them. We feel that it's crossing the Rubicon when you draw them.

Will Pan Ruane, Cunniff & Goldfarb Inc. – Investment Professional

Thank you. related to changes in hurdle rate. If you do 1 day change the hurdle rate on smaller investments, will you tell outside shareholders?

Mark Robert Miller Constellation Software Inc. – COO & Director

I don't really see any upside in telling them. If it happens, hopefully, you'll see a change, and it works, you'll see a change in the incremental return on incremental capital in the business, changing hurdle rate isn't the same as getting higher rates of return on investments. It's a precursor to it, but for sure, you won't get higher returns if you don't increase your hurdle rates. But it's still – yes, I don't think there's any advantage to signaling it other than in the results.

Will Pan Ruane, Cunniff & Goldfarb Inc. – Investment Professional

Fair enough. Next question. Revenue in U.S. dollars has grown at a 14% compound rate over the last 5 years, while euro revenue has grown at 23%. Does that reflect a more competitive acquisition environment in the U.S. or something else?

Mark Robert Miller Constellation Software Inc. – COO & Director

Mark, you're operating both sides of the pond or what's your experience be?

Mark Leonard Constellation Software Inc. – Founder, President & Director

I think, yes, just generally, there's been -- our coverage has improved in Europe, and I think that's part of the reason that we're seeing that, would be my sense. And that takes a long time to do. And it isn't something that you do overnight. And I think you've just got a little bit better at that. And I think that's what's made the difference from our perspective. And I think our headcount has shifted to substantially away from being in North America, I think, 67% or 66% of our head count is outside of North America as well. And that was definitely not the case 5 years ago. It would have filled the opposite way. So that's my sense, Mark.

Will Pan Ruane, Cunniff & Goldfarb Inc. – Investment Professional

Great more short-term question. I suppose it would be for Rob and why is this acquisition activity muted at topics during the quarter?

Robin Van Poelje Constellation Software Inc. – Director

Could you please repeat again?

Will Pan Ruane, Cunniff & Goldfarb Inc. – Investment Professional

Yes, I think the question is just about why there was less acquisition activity at topics during the quarter, not a lot of capital deployed.

Robin Van Poelje Constellation Software Inc. – Director

That's correct. But I think -- we don't look at just quarters. We look for years. We look for multiple years. We do this for the long term.

I can already tell you, if you go on our website and we did close more deals in Q2. So it's not something specific. It's just the pattern we always see. It goes up and down, and we try to improve over time, if you look through the quarters. So it's not something specific.

And I think also you can see in our filings last year, we had a tremendous growth as well. So if you take that into account, we monitor a certain growth rate over time, and I still think we're doing what we are planning to do.

Unidentified Participant

Great. So Volaris specifically put out a statement that it would withdraw from Russia. Our understanding though that it was cautious about investing in Russia in the first place. How does the team more broadly think about no-go countries or countries where it's vary to place capital as the company internationalizes?

Mark Leonard Constellation Software Inc. – Founder, President & Director

I think we -- Will, it's a great question and it's a difficult one to answer because there's a little bit of qualitative decision-making involved in it, right? So we look obviously at each opportunity in each of the -- in each geography on an individual basis and make a decision. We felt uncomfortable with what was going on in Russia, and it kind of crossed a bit of a line there from our perspective and decided that, that was the right decision. And so we'll continue to think about other geographies that way, too, based on the situation they're in and opportunities within those geographies.

So I can't tell you that's a very simple answer, but that one just went a little bit, a little bit beyond where I would have liked it to have been. So we made a tough decision on it, which was difficult to make internally, too, because we had varying opinions across the world on how we should approach that.

If you surveyed our leadership team in various countries, we're in 42 countries, they -- you wouldn't necessarily get a consensus opinion on what you should do there. So it's a decision that we sort of made here corporately as to how we should approach it.

So that's pretty much all I can say on it. I think the other you've seen we've released publicly on it. Thank you.

Mark Robert Miller Constellation Software Inc. – COO & Director

My sense will -- it's Mark is that various business unit managers have different positions on this. And we don't have to have the same opinions on everything. And their opinion is covered by the local (inaudible) and in Pennsylvania, the people are trying to help out and involved in some just (technical difficulty).

Anyway, so to continue the response. We let our business units have their own autonomy. It is one of the whole marks what we do. And we try not to burden them with bureaucracy and push down the values of the, for instance, head office [might hold deer] to a place that is far different than we're going to see a kaleidoscope of opinions on issues like Russia.



Will Pan Ruane, Cunniff & Goldfarb Inc. – Investment Professional

In the past, you've mentioned internal debate on keep your capital. The program has certainly spurred acquisition activity across the company. But would you now call it an unmitigated success or does it have tangible or intangible drawback? It's open to anybody.

Mark Robert Miller Constellation Software Inc. – COO & Director

Yes, I think they have pretty balanced views on it, and there are clearly successes and values. And I'm going to be a pressure on something like capital deployment. You're going to get capital deployment, it just may not be at high rates of return and it may not be in a fashion, but makes you proud of how the groups have interacted as they competed for acquisitions.

So it's definitely not an unmitigated success. But as you say, the amount of capital deployed is increasing.

Jeff Bender Constellation Software Inc. – Director

Well, it's Jeff from Harris. I think I would say that as Mark spoke to you before, I think it's a great example of the autonomy that exists within Constellation. So I think each of us in our groups approached it differently. And I think we took the parts of it that we liked and sort of maybe some -- if I didn't like certain parts of it, I chose not to implement those parts of it. But I think overall, we continue to deploy more capital and have more people involved in deploying capital.

So I think that part of it has been a success. I think to Mark's point, with any program and whenever you apply pressure, there is always unintended consequences or things perhaps that they rear their head that maybe you didn't think they would. So I think deeper capital is no different from that perspective. But I think, again, it's just a great example of the autonomy across Constellation where each of us is like applied it differently within our organizations, but still driving for the same success, which is an increase in our disciplined deployment of capital.

Will Pan Ruane, Cunniff & Goldfarb Inc. – Investment Professional

Great. Final question in this section. How is the performance of recent cohorts of acquisitions compared to historical averages in terms of things like realized returns, hit rates versus the underwriting assumptions, organic growth profile, et cetera. What about for the recent larger investments that you've made relative to their historical averages?

Mark Robert Miller Constellation Software Inc. – COO & Director

We're not going to talk about that. And what I can tell you is that we monitor the rates of return and the hit rates and all those other things on at least a quarterly basis at the level of the Board. And obviously, in far more greater detail down at the operating groups, and we're always looking for trends and things that point is 2 ways to improve.

So a, we're aware of it; and b, we're not going to share it.

Will Pan Ruane, Cunniff & Goldfarb Inc. – Investment Professional

Great. Thanks. That's it for my first section on acquisitions. Howard, over to you.

Howard Leung Veritas Investment Research Corporation – Former Investment Analyst

Thanks, Will. So I'm going to talk about spinoffs first, I got a number of questions on those special topics but with other spin-off.

So the first question is the spin-off of topic was an experiment of sorts. It might create a stronger cultural identity and ownership among employees, which might translate into better performance. From your perspective, what have been the results of this experiment thus far? Or is it too early to say?

Mark Robert Miller Constellation Software Inc. – COO & Director

Robin, you're on the hot seat.

Robin Van Poelje Constellation Software Inc. – Director

Well, I think we're now more or less a little bit over 1 year down the road. I think for the concept, the spin-out worked pretty well. So the idea was to acquire larger quality companies, and we succeeded to add a larger quality company to our group. They keep their own autonomy. And we try to learn from them. They try to learn from us. It's a process which takes time. But I think the spinout enabled us to do this to remain disciplined investors, but still at a larger quality companies. So we're evaluating. We're trying to see what we did well, what we could improve if we, 1 day, would consider another spin out. But I think so far, it has worked. And yes, I think it has been satisfying so far.

Howard Leung Veritas Investment Research Corporation – Former Investment Analyst

And how about the goal in last -- I think a few years ago, spinout was talked about at the AGM, and one of the goals was to really align shareholders with better with employees. Has the new structural topic has achieved this goal, do you think? And why or why not?

Robin Van Poelje Constellation Software Inc. – Director

Can I take it, Mark?

Mark Robert Miller Constellation Software Inc. – COO & Director

Yes, please.

Robin Van Poelje Constellation Software Inc. – Director

So yes, I think if you think about aligning shareholders and employee shareholders, it's pretty clear that if you're an employee of Topicus, you feel closer to what we do. We're in Europe, we know the countries, we know the businesses, we know the people. So I think that's an advantage. We did apply the Constellation bonus scheme also to Topicus. So people will as part of their bonus in Topicus. And pretty clear is the stock price is going a little bit more up and down with Topicus than, I think, with Constellation. So that has different elements to it. And that's

something we would like to see that our valuations would run in line with what we think is the long-term intrinsic value of the company going forward.

But we knew that our stock might be a little bit more volatile and that has this impact also, I think, on buying shares for our employees. But I think so far, but again, it's early days. So we will monitor it over time.

Howard Leung Veritas Investment Research Corporation – Former Investment Analyst

Yes. No, I'm sure things are going to change, especially now with the preferred shares conversion. And opening up to the rest of the group on spin-offs -- have -- how is your thinking with possibly future spinoffs with the operating groups within Constellation being pursuing an improvement in employee morale or culture identity if they were to become stand-alone entity?

Mark Robert Miller Constellation Software Inc. – COO & Director

Tell you what, Howard, why don't I interject with a setting of the scene for why we do a lot of these spinouts. Usually, it's an opportunity to buy a very significant company, one that we couldn't justify if we were buying it for cash. And so what we're doing is we're putting in some cash and we're using the shares of the spin-off as partial payment. That creates alignment with the large company shareholders and give them the upside on those shares -- once we spin the business out.

So they get a blended set of proceeds. They are clearly more aligned than they would have been if they sold to us for cash, and we can be more competitive with private equity to do this a lot, where it isn't that they're going to spin out and make it public, but they're going to sell the whole thing hopefully have some huge multiple to the next buyer and the group that has sold to them, a portion of their business will have a the second pay day.

And so our second pay day that the company goes public, and they can continue to be shareholders and the companies that they founded and built and they can feel a sense of pride that it's now an independent company and that is going to remain public and not subject to takeover as long as Constellation is a significant shareholder.

So that's the theme that we're trying to set. That's the dream that we have for these things. We hope it will allow us to buy very large companies that we wouldn't otherwise get the chance to buy. And now maybe the cultural question can be rest with any of the managers feel comfortable talking about it, in the evidence of -- in the -- despite the lack of evidence because all we have right now is Topicus as an example, and you already heard about that. So they'll be speculating and then they want to talk about the cultural implications has been out.

Mark Leonard Constellation Software Inc. – Founder, President & Director

I can maybe just throw in some sort of thinking on it. Just I think what's interesting with an employee base is Constellation has continued to grow over time. And it's probably harder for the employees to identify with what we do as a whole, right? It's -- we're in so many different countries, so many different markets, doing small acquisitions, large acquisitions, and so many different verticals.

So I think that the advantage we had when -- at least when I was smaller, and I was one of the founders of our transit business, the ability of kind of getting the whole team wrapped their head around what transit was all about, which

was getting someone from point A to point B, whether they're going to the doctors, whether they're going to the -- or to go to school, go to work, what have you. And it was kind of a nice message to say to that group of people, right?

So for example, there is -- that's important to a lot of employees. And when you talk to someone coming on board, they cared about maybe reducing the carbon footprint through being part of this tech company that was trying to help all these things happen. So I think that's something that you gain from this. But again, I'm speculating and what advantage that gives you beyond getting a large transaction done, it's hard to quantify them for my earlier days in doing that, which was nice.

So you're trying to explain what Constellation does to average employee. It's a bit of a longer story, right? And so I think there might be some value and some benefit from that. But it's been nice that Robin has done topic is to give us a bit of an idea, it's more of a geographical spin out, of course, than a vertical spin.

So that's, Mark, what I'd add to it.

Howard Leung Veritas Investment Research Corporation – Former Investment Analyst

No, that's pretty interesting, especially I know just throwing it back to Mark for a bit, I know there's been some groups where you've actually put together like (inaudible), you're trying to put together the vertical groups again, right? And is that goal maybe not the end of the out, but just to align what you said culturally, -- is that the main in goal?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Yes, attracting great employees to a mission that we're going to help move people around the world, with our transit, transit piece is very interesting, right? And I think that's helpful regardless of this. So it is a bit of a of does that help you do that. Whereas sometimes you focus on proximity of the company rather than the vertical it's in rather than. So it's been -- and there's a lot involved in doing that, making a decision to create a global brand around the business because we do like having small and focused groups of businesses on specific customer segments, in geographies. So we're seeing some benefits of that. But again, time will tell. It's been a couple of years we've done with (inaudible) right now.

So I do like using that approach. But again, time will tell how valuable it will be for us in the long run. And clearly, having a conversation with someone who's in that industry, who actually I can really see that this makes a lot of sense that to help us maybe get a large investment done in their business would be -- it might allow us to do that because they can kind of get their head wrapped around that rather than be part of Constellation as a whole. So a quality business, for sure.

Howard Leung Veritas Investment Research Corporation – Former Investment Analyst

Makes sense. So the next one is on looking at organic initiatives from Topicus. So when Topicus was acquired, one of the things that would hope to learn from was the success with respect to invest in organic initiatives. Have you had some learnings in this regard that you've been able to apply across other businesses? And there any examples of lessons learned that you're willing to share?

Robin Van Poelje Constellation Software Inc. – Director

Yes. Robin here. So yes, we're -- like I said, it's early days. And so we're trying to collect learning from them, and they are trying to collect learnings from us. And I should say them, and we're now all 1 company. But as you know, we're 3 stand-alone entities within Topicus. And yes, we are studying their organic growth initiatives and trying to find out how they do that. And the group CEO, Dan, is also active on different academies within Constellation or within TSS, so where we try to spread them.

And I think we see that slowly taking up, but again, our approach was we leave those companies as stand-alone companies, and we have curious employees and those who are curious, we hope that they all go over and try to replicate what is replicable within their business units. And yes, we definitely see that they do things differently than we did at CFI or TSS. And that's intriguing, and we have to -- it's also trying to get your head around the first and then we hope to see some business units picking things up.

So yes, I think there is an interest. We try to crack their code and try to make that as quick as possible so that we can really replicate it within other businesses.

Howard Leung Veritas Investment Research Corporation – Former Investment Analyst

And when I looked at the topic of [OGM] and their kind of their track record, one of their success factors was being able to foster the entrepreneurship culture within each company and iterating and testing new ideas. Do you -- in your opinion, Robin, do you think that's very hard to do to TSS employees trying to foster that? Or do you think that can be something that -- it can take a long time to kind of build that? Or do you think it can be something to be achieved in the next year or in the next 2, 3 years.

Robin Van Poelje Constellation Software Inc. – Director

Yes. My guess would be that it will take time to build that and to replicate that. And as you said, I think both companies have entrepreneurial spirits. I think both companies also do things in a different way. We knew that when Topicus joined our group. So different ways of being successful in [critical] markets software, but because it's really different than what we originally did. Some people are in the beginning, maybe curious. Others are maybe scared, I don't know, how you should call it. But I think that's trying to find out. And like I said before, there will always be curious people who will try to find out. And we found out also how that Topicus and TSS on certain projects work together. They won tenders together, try to work in together.

Also, that is something we didn't do usually. And Topicus also does some acquisitions, which are more synergetic in nature, something we don't always do and they do, and they have a proven track record how to make that successful. So we're studying that as well.

So yes, companies have different backgrounds, different skills. So -- it's not always easy to just say, "Oh, we do it like that, and we can be it and we spread it all around. It's something that needs to grow."

Howard Leung Veritas Investment Research Corporation – Former Investment Analyst

Makes sense. And then maybe one for Jamal and Mark on the administrative burden. So this question asks how much of an administrative burden was the topic of spin out on the head office? And how does that influence your thinking when spinning out another operating group.

Mark Leonard Constellation Software Inc. – Founder, President & Director

Go ahead, Jamal.

Jamal Nizam Baksh Constellation Software Inc. – CFO

Yes, I think the largest investment of time of head office is more about structuring of the spin, the preferred shares, et cetera, and that was more legal as opposed to myself and Mark, obviously, as well, the team. (inaudible) the amount of administrative burden, I'd like to say we haven't added any headcount is to do the MD&A or the financial statements, maybe we have to work a little bit harder. But I would say it's not significant.

Yes. So I would say -- and then the structure and all the time and effort to put in place that structure, I'm sure we can leverage off if we ever to do it again.

Howard Leung Veritas Investment Research Corporation – Former Investment Analyst

And Mr. Dennison, how many years did it take off your life?

Mark Dennison Constellation Software Inc. – General Counsel & Secretary

It was an interesting year for sure. It was one of those things where it's -- you have to be careful what you asked for because it was quite a challenge, and it was a good opportunity to learn quite a bit.

Mark Robert Miller Constellation Software Inc. – COO & Director

Yes, we did stuff that had never been done before. My, God, people hate that, whether they're the authorities or the legal establishment. It just makes them feel very uncomfortable.

Howard Leung Veritas Investment Research Corporation – Former Investment Analyst

Well, reading their perspective, I know all the work those put into it and all the diagrams. So thank you for putting that in.

So moving on to the VMS Ventures. So these questions are on that initiative. So first one to Mark, Mark Leonard. With the announcement of the VMS fund, now you returned to the venture capital sector. So what lessons and tools from your first experiences with this venture catalyst are you taking with you into your second quarry? What aspects of VC are you going to avoid?

Mark Leonard Constellation Software Inc. – Founder, President & Director

So we used to call a lot of the participants in the venture industry when I was in it, add venture capitalist and they were often the sons of rich people and that kind of thing. And you get to talk about really cool technologies and it's a lot of fun. And so I'm having a delightful time working on the stuff. And I've also been able to work with them, who is very involved. And so we talk every week. So it's been great.

Do I feel any more confidence than it was 25 years ago? No. The solving, the due diligence and selection process by focusing primarily on internal entrepreneurs is wonderful. It really leverages our time. And so if we have a sponsor who puts up their hand and says this is a really good person. We should seriously think about backing them and their idea. If we get that kind of referral from a portfolio manager or a business unit manager, it's almost certainly going to happen. That is the diligence.

And then obviously, we'll stay close and we'll monitor or more coach. But yes, we're doing venture capital like we're outsourcing diligence and market sizing and most everything else to our business units. And they're gradually figuring that out. But I'm hopeful that it will be a success despite my lack of increased confidence.

Howard Leung Veritas Investment Research Corporation – Former Investment Analyst

And on the investments, it sounds like you've already made some – what have they been like? And any commentary on the pipeline opportunities that the fund is seeing?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Because it's a venture capital, everyone wants to know. This is a rounding error in Constellation from an investment point of view. We have not yet closed an investment. And the vast majority of the investments we look at to date have actually been outside investments.

So for the most part, rapidly grow the companies that are quite small, that are business development people have surfaced that don't want to sell but do on capital. And then the challenge is to explain to those companies that we're going to be shareholders forever if they take our money. And the sad thing is that entrepreneurs have been trained over the last 20 years in the build-to-flip model. Very few people are thinking build world-class companies forever, it is incredibly sad.

I look around for venture groups that even have that as part of that pitch. And the only one I can see who explicitly talked about building world-class companies forever is (inaudible), maybe that's the reason that they are so successful is that building right companies approach as opposed to building great exits approach.

Howard Leung Veritas Investment Research Corporation – Former Investment Analyst

I think we've glorified the unicorns over the past few decades. Is that, in your view, the biggest bottleneck so far? Or would you say it's the lack of willing team leads or the spot in trying to find sponsors? What would you say is the biggest bottleneck right now in terms of trying to close the first investment?

Mark Leonard Constellation Software Inc. – Founder, President & Director

I think it's educating internal entrepreneurs about the opportunity, the chance to build their own business with their own team and educating the business unit managers and portfolio managers about what it means for them because of course losing their most entrepreneurial talent to start up.

Howard Leung Veritas Investment Research Corporation – Former Investment Analyst

Right, right. And is it hard to find team leads to, well, not having to survive on what you call [run and take], have to take a big risk and sacrifice work life balance and put a few ways of exiting the ideas to see. Is that – are you finding that as a challenge?

Mark Leonard Constellation Software Inc. – Founder, President & Director

I've written about it a bit. And I think our entrepreneurs aren't going to be as young as the average back to entrepreneur. I think they're going to be more experienced. I think they're going to be knowledgeable. I think we'll know the vertical, and I think we'll know how to operate in verticals.

So on the one hand, these people that are going to be responsible and their instincts are going to guide them well. And we're not buying options, which is how a lot of venture capitalists think about their investments. We're making investments.

And then the other side of the coin is, I don't think because we're not pushing people on to [round and pay]. I don't think that's all going much the core Constellation bonus, which if you end up staying for a long period of time and you progress well inside the corporation, you can do extremely well with. But you way more upside, starting something. And the degree of interest passion drives fund that you're going to have for giving it a 2 or 3 year shot is going to be enormous. And if you do get traction earning does turn into a corporation. You're going to be so proud of what you've created and the team that you built and the business that serves clients and all those other good things.

So I think the upside is just phenomenal. And the downside is if you want to come back to your vertical after you've given it a shot, and you've learned a ton of stuff, the likelihood of being accepted back is extremely high. You're going to be way more valuable than you were before you went through this crucible. That is hard and new and sharp and new.

Howard Leung Veritas Investment Research Corporation – Former Investment Analyst

Right, right. So trying to get them to see that the same way that you do. I think it's important. And so the VMS effect on organic growth, we have a question here. The initial press release said that really, a \$200 million investment over a 3- to 5-year period. So Constellation does not expect the fund to add meaningfully to overall organic growth. But the fund's objective is to develop and refine organic growth process, which can eventually be rolled out more broadly to Constellation's operating groups. Do you expect these organic growth processes to contribute materially to organic growth in the long term, so 5-plus years from now, even the CC Fund direct impact on organic growth is modest?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Yes, if I didn't think so, I wouldn't be doing it. I go and have a venture capital fund outside of Constellation.

Unidentified Company Representative

Yes. Fair enough. And so maybe this one wraps up this section pretty nicely. You've experimented with spin-offs, venture fund, KYC, what guides your philosophy when deciding what to try and what not to try that experiment?

Mark Leonard Constellation Software Inc. – Founder, President & Director

One of the surprises that came out of our work at VMS Ventures was the number of organic heroes, business unit managers and portfolio managers, who have track record of creating new products and new businesses who have looked at it as another tool for them and approached us with a sort of process orientation. And so that's probably the most exciting thing that happened. And these people have a sense for opportunity spotting.

I think opportunity spotting is a skill set, and it's pretty easy to get focused on tiny incremental improvement. And you do it every day. And you end up getting better and better and better. But when you actually start looking for asymmetric upside opportunities with low downside, it's a different mindset. And it's funny that the Board was asking about bet sizing this quarter. And of course, that all comes to mind. What's the size of bet? What's the probability of payoff? And in the venture world, if you can find those asymmetric upside type opportunities, you can do extremely well. I'm not sure I answered your question, but it was fun talking about it.

Unidentified Company Representative

Well, I get the skew of returns, it's not normally distributed. That's for sure. Maybe I'll wrap up this section, and I'll turn it to Larry to take some questions and to talk about people.

Unidentified Company Representative

Thanks, Howard. A few questions from the instant messaging. One, picking up on one of the points that was just discussed on the ventures fund. This is [Joe Dowling] from Invesco, who submitted this question that starts off by thanking everyone for the exceptional stewardship of shareholder capital. And then he wants to know, there's a sentence in the release on the ventures fund, "Eventually, we hope this will help CSI reach high single-digit organic growth rates." And he just wonders what was the thought process behind high single digit? Is that based on empiric case studies? Is it probabilistic? Is it just possible? Could you just explain a little bit of the background on that high single-digit rate.

Mark Leonard Constellation Software Inc. – Founder, President & Director

You obviously have to take into account a bunch of things like inflation and GNP growth rates. But basically, our thinking was we want to exceed by a reasonable margin GNP growth rates and -- rates. So if we're not doing that, then we're probably losing market share.

Now market share isn't necessarily an objective in and of itself. Often, customer share and customer into are far more important, particularly in our world where we sell a bundle of software and services to customers and allow them to have, for a relatively good price, some pretty good software. And for an increasing services investment, exactly the software that they want.

Now not every customer can afford that. But for our very highest end customers, we can provide them with incredible customization of the core application to meet their strategic needs. And frequently, big customers have IT as a strategic wedge that they use against competitors. And that's only going to come with customer software.

Unidentified Company Representative

Another question from the instant messaging, this one from [Adrian Hernandez], who says the accounting at Constellation has become a bit more complex since the topic of spin-off. And in the last quarter, there were additional noncontrolling interest from the Adapt IT investment. Should we expect more acquisitions with noncontrolling interest going forward?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Well, I certainly hope so. Control is very much in the eye of the beholder or in the eye of the account actually. I, for instance, think that when we have a minority economic interest in a company, we should not be consolidating it even if we have the ability to appoint, for instance. And if we don't like the way things are going, the accounts feel otherwise. So I ignore them, and they ignore me and we have to publish what the accountants make us do.

Unidentified Company Representative

Third instant messaging question, this one from [Mihir Tara]. I guess it's for Jeff, but maybe others can opine. Why finance all scripts with debt given the cash on the Constellation balance sheet? And could we see more of this going forward?

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

Thanks, Ari. I think it's simply just a matter of how you get to the hurdle rate that we were trying to get to. So I think if we were to try and do it using all cash, we would not have been able to do it. So in this case, we use somebody else's cash. So it just helps us, I guess, to the return that we're looking to get to.

So I think for some of the larger transactions that we would be doing, I think it would be relatively common for us to use that structuring to be able to achieve the hurdle rates that we're trying to achieve. I think in all honesty each of us would love just to be writing 100% cash check for those businesses. That would be actually ideal in our capital world where we're trying to deploy lots of capital. But I think fundamentally, it's not always possible. So this is a good, reasonable alternative.

Unidentified Company Representative

And the last instant messaging question before I go back to the submitted questions. This is from [Chris Freed] from Pennsylvania in the U.S. who says, I'm a U.S. shareholder and that means I can only buy Constellation shares over the counter, which he says is not that easy. What prevents Constellation from being listed in the U.S. – on the U.S. Stock Exchange?

Mark Leonard Constellation Software Inc. – Founder, President & Director

It has been a cost and litigation issue. I've talked to people who have been dual listed and they say that they get way more litigation out of the U.S. markets than they do out of Canadian markets and that you add another layer of cost for being public in multiple locations.

There is the ability to buy on the TSXV or for Topicus and the TSX for American shareholders. Interactive brokers, for instance, will operate on those exchanges and is a highly reputed internet broker. If you're looking for a way to buy their shares directly on the Toronto exchanges.

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

See, I'm a U.S. shareholder and I bought the stock. I didn't experience that kind of problem. I'd be happy to talk to you, Chris, if you wish.

So shifting now to the people segment. It's logical then to announce how many people are in our audience. We're now up to nearly 600, which I think is a record for the Constellation Annual Meeting.

Here's the first question. I suppose for any of the operating group managers and it's, do you prefer that – when you acquire a business, do you prefer that the founder stay or leave? Or does it depend? And does the person staying or leaving make it easier or harder to do the integration? And finally, when the founder stays, what's the critical thing for that person to learn to have a good experience within Constellation's culture?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Let's put Damian on the hotspot. We can hear his – Australian voice.

Damian McKay Constellation Software Inc. – CEO of Vela Software Group

Thanks, Mark. So I think for that question, we prefer if somebody wants to stay, if a founder wants to stay and become part of what we're doing in Constellation. We really welcome that. And a lot of founders do stay and thrive. We've got a number of our portfolio managers who have come in when they sold their business to us or they've worked for a company that has been sold to us. So that's something that we value.

Then – but if in other cases, the founders are looking to exit the business, and if they don't want to continue, that's fine as well. And we usually always look within their teams to see who – what the opportunities are for members of those businesses to step up or to take other roles. Our preference is to sort of hire and grow from within. And then in terms of that, there's other opportunities to bring great talent from outside and also share – across the group as well.

Mark Leonard Constellation Software Inc. – Founder, President & Director

And Bernie, you've had pretty good with founders who stayed becoming really important to your group. Maybe talk about that about the founders who left and why they left and that's all of me.

Bernard Anzarouth Constellation Software Inc. – CIO

Yes, sure. Happy to do that. We've obviously had some success both ways. A lot of it comes down to when you actually acquired the company. And if they want – if they're selling to retire or do something different, then obviously, it's never going to work. But if they're selling because they've sort of hit a wall in terms of how much they can grow the company, or how much capital they want to put into the company, or whatever the case may be, and those are ideal situations where you can work with them and get them to take some of our best practices and share with them some of the things we've learned over the years to help them grow. And so we've had a number of successes that way.

And I think the most important thing is their willingness to learn and adapt. And some people say they want to do it and are willing to try, but in the end, aren't really willing to do it. And other people soak it up like a sponge. And when you get someone who soaks it up like a sponge, it's just a wonderful thing, and we have great success with that. And if they don't, then we usually can find a good way to sort of part ways on a good terms and move forward.

Because ultimately, every founder we've come across or virtually every founder we've come across, they've loved their business, love the employees love the customers. And so they want to really make sure it ends up in the right hands. And so as long as we're thinking about that as we work through the journey, then it usually works out in a good way, whether they stay or go. But a lot of times, they do stay and they do enjoy the best practices.

And I think one of the things we've seen is some of these or most of these founders have never really built great networks outside with other founders, CEOs, managers. And so just that ability to talk to other people that are in the same boat has been wonderful for them, and we hear that quite a bit. So that's kind of what I would add to it.

Mark Leonard Constellation Software Inc. – Founder, President & Director

Mark, do you want to talk about quadrants and how that sort of factors into your thinking about bringing along founders and founders replacements?

Unidentified Company Representative

Yes, it's a great, great comment. I think every said too, just right bang on, right? So whatever with founders, we're really happy if they can stay, but we're really proud to say that if the founders are staying, it's usually one of the people who work for them who's promoted to run the business, which I think the founders are appreciative of the ones especially that aren't sticking around.

We're running a big event in London in September, and we're going to have 1,200 of our employees come to it, and we're going to run 1,500 different sessions each 45 minutes long, about 107 simultaneous boardrooms running. And we're going to cover pretty much every aspect of how you would run a vertical market software business. So many of the leaders of the businesses and their reports will be coming to it as well as talking about mergers and acquisitions.

So it's just a great learning environment, right? And it's not the lecturing environment. We're up there speaking to you and telling you what you should do. It's -- no. It's go learn from each other because there's so many different situations we see across our businesses and there's no way we have the answers for everything that can be done, and we're perpetually learning from them as well.

So really sharing those best practices is really important to us. And it's hard as a CEO or a founder of a business to really get that kind of a network that you can learn at that accelerated rate. So yes, I mean, the last time we did in 2019, we had 600 people. They're just the new companies that came to that just wow that's what you say you do at Constellation. It's nice for them to actually see it live in action and get to meet those people.

So that's one of the things we try to do it, and we have a bunch of much of leaders on this call that are coming to, which is wonderful as well on our Board members, so.

Mark Leonard Constellation Software Inc. – Founder, President & Director

And so the objective of this event isn't to give everyone a very large three-ring binder to take home. It's to provide the move a series of small sessions they'll attend and they'll get to meet people who are specialists and hear about how they do, what they do in their specialty and to make personal connections because that's how we think our best practices travel through those personal connections.

Having an M&A session like we do with x hundred people and me and Bernie up on a podium, it's a way of communicating data, but it's not the same intimate interaction that you get with a dozen of your peers who passionately interested in whatever topic it is that you happen to be talking about. And because of the way the sessions are arranged, you're only going to have an audience of people who care and care now.

And the care now is incredibly important because your businesses invariably have bottlenecks. And your bottleneck is the place that you go to address your short-term problem. And your bottleneck is everything and you just need help.

After you debottleneck that bottleneck, you have a new bottleneck, and you move on to that one. And so the specialty that you'll need will be different. You can't go back to the same people. This is just an incredible resource. And so very proud of what is done here.

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

Well, thank you all very much illuminating discussion, which reflects the -- and segues into the next question. Constellation operates through about 1,000 different separate business units, and they operate in 125 countries. The total employee base is above 30,000. Can you give a rough sense of the distribution of the employee base across the world, say, how many in Toronto, Canada, North America, the other continents?

Mark Leonard Constellation Software Inc. – Founder, President & Director

I don't think we track that stuff. We probably could have a rough idea by pulling P&L by geography and dividing by number of the cost per person, that sort of thing. And -- does toss up sort of total population, which I think is 36,000 now, right? Anyone? Or more. Yes. So very hard to sort of do it on the basis that you're asking for.

I love doing ad hoc reports. And so if we had a particular issue, and we really wanted to how many people we have living and working in to it ,I'm sure we can get it. But I despise perpetually required reports that no one ever looks at again. And that's the kind of thing that I think you get when you embed geographic reporting requirements and things of that nature, if that's not the way you organize.

Now obviously, if we had country heads for individual countries, then it would be quite different. But we don't. We have business unit managers. And some of those businesses are international and some are very, very local. Some of them are even state-related individual states.

Unidentified Company Representative

Thank you.

Mark Leonard Constellation Software Inc. – Founder, President & Director

Jim -- Jim, if you happen to have any of those numbers at your fingertips, feel free to spit them out -- employees.

Unidentified Company Representative

Yes, we do have to provide something to our insurance brokers about sort of geographic split. So this be like 2021 numbers. But what you said makes sense. Like 40% of our headcount is in Canada and U.S., and I think 45% of our revenue is in Canada and U.S. So it's -- to use our revenue breakdown seem sort of a similar revenue per head number is probably acceptable. But yes, right now, it's at 15% in Canada, 25% in U.S. Next biggest one would be in [Netherlands] of 11% and then it's small numbers after that.

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

Excellent. Well, the next question is partially answered by that one, but the broad general question was what portion of the workforce can now or soon be expected to work remotely on a permanent basis? And I guess, does that vary by group or geography or other factors?

Mark Leonard Constellation Software Inc. – Founder, President & Director

I think the problem with the question is that you said expected, and we don't have any particular ability to see the future that's better than anyone else. Can maybe the general managers give us a sense of what the current remote employee percentage is in their group? Or is that not an easily knowable number? I see a bunch of head nodding thing. No, it's not easily available.

Unidentified Company Representative

Excited about that while the benefit of being autonomous and having a lot of autonomous businesses is we were able to adapt to the situation per country per state. And we pushed a lot of that autonomy down to how they manage

it and how they interacted whichever the government regulations will earn and as we come back to the office. It's also given us that flexibility -- the autonomy has given us the flexibility to address that on a location-by-location basis as opposed to having a broad edict from above that might not have worked in a number of different countries.

Unidentified Company Representative

Yes, I think, Larry, another way to think about it is we don't specifically have policies that require remote work or in-office work. I think the Harris organization has always tried to be very flexible related to what makes sense for the employee and the business and the customers in that business. So I think we were quite flexible and we had a large remote workforce, pre-pandemic. We probably have a larger remote workforce, post pandemic or currently where we are in the pandemic.

And -- but these decisions, again, back to our decentralization and autonomy. These are decisions that are made by the businesses in the geographies that they're in. So corporately, we might be educating with best practices on some ways to function better remotely or to some best practices for more of a hybrid workforce. But again, these are decisions that we allow and really don't even get involved in that are made locally by business, by country, by individual.

By my general sense is, going forward, there will be more people working outside of offices than in offices. But again, I think if I was to go to Israel right now, I think a lot of our real employees are back in the offices where I was in the Ottawa office yesterday, and it was a big day. I saw five people. So that was a big day versus the 300 that are typically there.

Mark Leonard Constellation Software Inc. – Founder, President & Director

I know Jamal is trying to sublet the head office. So if anyone out there would like to get some -- space on the cheap, we're trying to move it.

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

Thanks again. Now next question turns to challenges of recruiting and retaining employees. And I know it's going to again, vary by geography and by business unit and so on. But the basic thrust of the question is that a lot of software companies in a lot of geographies are intensely competing for talent, and a lot of software companies find retaining and attracting people to be among their greatest challenges. Is this also true for Constellation? Is it true across the border? Does it vary a lot? Do we have any particular advantages in terms of career development opportunities or other things that makes it less of a challenge? And what other tools do you guys use to meet the challenge, to attract and retain talented people?

Unidentified Company Representative

I can take a shot at that. I think it comes back to were a bunch of business units that operate in different countries all over the world. And basically, each of those businesses is faced with this challenge, right? And it isn't something we centrally can have much influence over who they choose to hire and based on where they're located and what their current needs are, is really up to them. And you're not talking about business units with hundreds of people in

most cases. They're business units with dozens of people. So they tend to have some interesting challenges because they might not have a dedicated HR person who are first in charge of, let's say, the recruitment department because there's no recruitment department, maybe every manager is trying to do that.

So I think it's important to realize that when you think about our organization, and we talked about a lot but the decentralized nature of it means those challenges vary by location. I mean, clearly, you'll hear all the usual things, it's really hard to find really good technical resources. And it's also really hard to find good vertical market software people that understand the industry as well. So that can be a challenge because they just aren't even there. That isn't necessarily a question of how much you're willing to pay for them. It's a question of they just don't exist. So that's what I'd add to that.

Unidentified Company Representative

Yes, Larry here, Robin. I agree with Mark. I think when you asked for two, I think our decentralized model with a lot of autonomy. So when people feel at home in the business, when they feel comfortable in the market, work with people they used to work with, I think that is one of the tools as well. So we like to -- and Mark used to call it human scale business units, where you know your colleagues, where you don't have huge [Heracles] and where you can do what you love to do. I think that's one of the strong tools we have as well.

Mark Leonard Constellation Software Inc. – Founder, President & Director

And if I could add, the it might be harder to attract people externally because we don't have a huge brand that others may have. But definitely once people are in the company, I think we touched on earlier, we've got 36,000 employees, wasn't that long ago, it was 10,000. So people can see the growth. They can see the career -- the compounding career opportunities that we have. We've got capital to deploy, but we need to -- well, there are a lot of opportunities for internal people to step up. So I think that helps us retain better-than-industry average, both the autonomy, but also that compounding nature for people to grow their careers within the company.

Unidentified Company Representative

And some people are naturally attracted to the buy and hold forever, right? They're not going to be part of a company that's going to be flipped in a handful of years by some -- by, yes, some folks -- company is trying to do that. So I think that helps us a little bit to attract a certain type of employee.

Unidentified Company Representative

I would have a comment -- and my comment is that it's become harder to retain staff, especially during this pandemic because work has become more a computer and a paycheck and rather than a gathering of friends that you know and the social life that you have and sharing common ideas. So it's actually -- it's been more challenging during the last couple of years, and we've seen higher attrition because of the pandemic. Because you can hire -- Amazon can hire somebody in any one of our operating units in any geography, and it's kind of hard to compete with some of these companies like Amazon and Netflix and LinkedIn. So that's been one of the challenges that we've had.

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

The natural next question is, is there a difference in terms of attracting and retaining and so on between the M&A, or the investment personnel, and the operational software personnel? This question had a preface saying it looks to me like a higher employee turnover in the M&A area, and they say that's very common in consulting firms and investment banks. But is that -- how does that fit in with Constellation expectations or hopes?

Unidentified Company Representative

Larry, I can start there. It's Barry from Jonas. Yes, I don't know where the data is coming from, because I can only talk about and Jonas. I wouldn't say there's a huge difference between our M&A turnover and our operational turnover for lack of a better word, but maybe it's different at different groups.

As far as we think about it, we don't like turnover most of the time. Obviously, some turnover is good and some turnover has to happen because people want to retire and all that stuff. But we really try and mitigate it and make sure we create an environment and culture that people want to be a part of. But it's a challenging market out there as Dexter noted. And we look at the stats every quarter, every year, and we haven't seen a meaningful difference in our turnover going back several years. It's been relatively static. I hope it stays there. I hope it gets better, actually is what I really hope. But -- so we'll see. We'll continue to track it.

And we do all the things that most good companies do. We do exit interviews. We try and find out why things are happening. We look at it on a business-by-business basis because again, we're very decentralized and we're always trying to figure out what we can do better, but it's an ongoing challenge. I don't think we'll ever get to the bottom of and we'll just have to keep working and fighting it.

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

Here's a question I'll just read. You have identified a tension between the decentralized organizational structure, on one hand, and the demands for nonfinancial information from some institutional investors, on the other, such as concerning the racial composition of the workforce. How do you resolve this tension to give investors the information they want without weakening Constellation? In terms of racial disparities in particular, how do you assess whether the businesses have a fair and equitable culture, both before and after they are acquired?

Mark Leonard Constellation Software Inc. – Founder, President & Director

I don't think there's any upside in answering a question like this, Larry. Obviously, we count on the general managers of the businesses to do what's fair and right in those businesses. And if we don't think they are good people, and what was the United Church accused of, being racists and they're anti-racist because we don't publish our numbers. And I think that's just absurd. And to put an obligation on a Pakistani merger to measure the number of particular ethnic groups working in their business because a particular religious pension fund wants us to do so, just doesn't feel right to me.

But we will think through this issue. We're going to consult across the groups. We're going to try and figure out what's the right thing to do. And we're going to come up with our plan and then go back to them and talk about what

we intend to do. But it's just -- it's an issue that just catalyzes divisiveness, I think, in our organization and undermines autonomy and we'll probably leave it about.

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

Okay. Thank you. Final question of this segment before I turn it back over to Will on acquisitions. It's addressed to Mark. If you had to trade roles with another Constellation employee for one year, which role or person would that be? And further, are certain roles more gratifying than others? For instance, would you imagine the business unit leaders are happier than the portfolio managers or vice versa?

Mark Leonard Constellation Software Inc. – Founder, President & Director

So it's me that you're asking?

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

It was directed to you, but I wouldn't want to exclude anybody who wants to volunteer to switch jobs to opine on this.

Mark Leonard Constellation Software Inc. – Founder, President & Director

Yes. Well, obviously, I'd prefer to switch jobs with John. His looks like a pretty easy job, and he could do mine better than I could. So that would be really appealing.

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

John, you're ready to make the trade?

Mark Leonard Constellation Software Inc. – Founder, President & Director

His silence speaks for itself.

Unidentified Company Representative

Yes, silence speaks for itself. Thank you.

Mark Leonard Constellation Software Inc. – Founder, President & Director

So vis-à-vis portfolio managers versus manager, the inherent satisfactions of business unit management would appeal to me in, in retrospect, more than portfolio management. I love investing. That's because you can measure the outcomes so precisely. The actual management of a business unit is soft and fuzzy and has so many different inputs, it's just an amazing [change]. And the closeness that you will have to a small group of people for whom you're carving out a life and whether they be employees or customers, you're helping them design their future. It's incredibly rewarding, I believe.

Probably not as financially rewarding as being a portfolio manager, but in terms of life satisfaction, it's going to be way up there. However, I will point out something that the research shows, which is that if you have an (expletive) as a boss, it undermines everything else. You need to have a good boss. And so if you're going to be a BU manager make sure you've got a great portfolio manager as a boss.

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

Opine on switching roles with some other colleagues?

Unidentified Company Representative

I'd just say, Larry, solving customers' problems, pain points, it's real -- that's just the most fun thing you can do. When you're doing something that really matters to a customer, you can actually see the impact on what you've done to help them do their thing better. And it is nothing better than that. That's for sure because you're making a difference. And you're helping them run their business, grow their business, make some process that was taking a lot of people much simpler to do. So that's hard to beat.

Unidentified Company Representative

I would concur with Mark. And I found it most enjoyable when I was kind of solving problems and making innovations and moving things forward. And at our level now, it's mostly -- at the high level, you don't get to make any real change other than try to inspire other people to be curious and to solve problems in a different way that other people haven't thought of.

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

Well, thanks so much, everyone. That wraps up the segment on people. And we now turn to round two of acquisitions with [Will Pan]. Will, thanks, again.

Unidentified Company Representative

Thanks, Larry. So this next set of questions that we got about acquisitions is mostly to do with large acquisitions and non-VMS acquisitions or the potential thereof. First is CSI seems to have had more success recently with larger investments. To what extent is this a result of changes in the company's behavior approach recently versus lock in a

small sample size? How successful have you been, for instance, on inserting yourself into the broker channel and seeing a greater proportion of large deal flow?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Benny, do you want to talk to?

Unidentified Company Representative

Yes. Yes. It's a great question. We -- as most people already know, we started our initiative for I guess, increasing our coverage with investment bankers so that we can start getting some more deal flow in the larger brackets. And to a very large extent, we haven't inserted ourselves successfully. So we've brought in [Farley Noble], who was working for us for the longest time within the Jonas group, even at the CSI level. And he's managed to reach out to a whole lot of investment bankers that some we've worked with before, but even more so solidified our relationships with them.

So the deal flow has been increasing. We have managed to see far more than we have before. But as we mentioned earlier in the call, expectations are still very high. for large transactions. We haven't really seen much change in that. However, we have managed, as you saw that with the recent announcement, the recent acquisition, we have managed to close one. So will that continue to happen in the future? It's really hard to tell. There's no way to predict that, but we have managed to solidify that relationship. So the deal flows better. We're seeing a lot more, and we'll just take it one at a time.

As far as non-VMS is concerned, Mark, do you want to take that?

Mark Leonard Constellation Software Inc. – Founder, President & Director

I mean the uncertainty of non-VMS is that there are hundreds of thousands of Harvard and Stanford and MIT and God knows what all else, MBAs, hustling around, trying to find places where you can generate alpha. And so the likelihood of us being able to find another place to generate high rates of return on significant amounts of capital in a predictable way for decades is bloody low. And so I would tell you, don't count on it, but we're working on it.

Unidentified Company Representative

Well, maybe return to that with another few questions there sticking on large acquisitions. I might judge from your answer, Bernie, that we already know the answer to this one, but there were a lot of questions about the interest rate increases that we've seen from Central Bank and whether that might cause a pullback on sort of appetite from private equity firms to compete with you, at the same time, I suppose you faced the same issue. Has there been any structural change you think in the market due to higher interest rates or higher interest rate expectations?

Bernard Anzarouth Constellation Software Inc. – CIO

Well, so the math says that when interest rates go up, prices have to come down. I actually just read a report a couple of weeks ago showing that interest rates -- as interest rates drop from the early 2000s to today, the multiple

on EBITDA, on cash flows, increase. So not a completely straight and diagonal line either way, obviously, ups and downs. But I think we're still at record low interest rates right now. I mean they have increased a little bit.

So for the numbers to actually have an impact on acquisitions, still waiting to see that. Don't forget the big issue now is that, what's the number, \$1.7 trillion of dry powder out there amongst private equity? So until that number starts to drop, I don't think we're going to see any major changes unless again, interest rates really start to pop a lot higher than they are today.

Unidentified Company Representative

Great. Thanks. This is actually a question that you've addressed at prior AGMs, but broadly speaking, why have you or the company changed your mind on the use of nonrecourse leverage, maybe a few years back? Was it for philosophical or competitive reasons? How much nonrecourse leverage are you comfortable using in larger investments? And are there any changes to your views on leverage at the HoldCo level?

Mark Leonard Constellation Software Inc. – Founder, President & Director

We use infinite amount of nonrecourse leverage. It's a tool. And if the expected value of the equity that we invest alongside that nonrecourse leverage is attractive, and we get to invest a significant amount of equity, then yes, hallelujah. It's just a tool, another tool, and it's one that our competitors use. And if we don't use it, we're not going to succeed.

The second part to your question, Will, what was it?

Unidentified Company Representative

What about HoldCo leverage?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Right. So HoldCo leverage was really the bet sizing question that we addressed with the Board. And what we said was we would use HoldCo leverage, we would think about it as equity when we put it down into the acquisition vehicle, and we would be willing to leverage the acquisition vehicle. At the HoldCo level, we would limit the amount of leverage we would take on the core business. And we would only do so if it was a very attractive acquisition prospect. And then we looked at the ones that might qualify and there were two companies for investments of that size where the ticket was such that it would put us in that position. So it's a very limited opportunity set that you're talking about.

Unidentified Company Representative

Great, thanks. Next question is the recent acquisition of the business unit from Allscripts was the largest NCS history. Can you provide any additional perspective on it, such as how it came about? How you're able to obtain an attractive price? Ways to potentially stabilize the revenue base or deal with expected long-term decline? And might

you just consider disclosing separate financials for this business for the first year post acquisitions as you've done for some other large acquisitions?

Mark Leonard Constellation Software Inc. – Founder, President & Director

That's Jeff call, whether he, a, answers the questions and b, discloses any information in the future.

Unidentified Company Representative

So I didn't know that was my choice for the future, but I appreciate knowing that now. The -- to answer your first question, Will, was -- the -- honestly, with Allscripts, we've had a relationship with them for probably a decade. It's a great example of how we actually want to nurture. I'd say all of the accounts in our funnel. I'm not sure all of them always meet that bar of that threshold. But again, we had one of our more senior business development professionals, again, making contact, building relationships within that company for, again, for a decade. And then it just came to the right time, right opportunity where there was actually something that we could do.

I think -- I think we were always interested. I think in Allscripts' case, they were thinking about their future and what they wanted their future to look like. So we were happy to be able to put together a transaction that met both of our needs. So I think from a pricing perspective, I just think it's like anything else, I mean, you have to have a price that we're willing to pay and a price there wanting to accept. And in this case, we were able to figure that out. People can judge for themselves they think it was a good financial transaction, and we need some more time to figure out right what our return will be.

I think from an overall revenue perspective, I think we understand the asset that we're acquiring with Allscripts. We now can now call it Altera. I think we hold out a great belief that it has a tremendous customer base and a tremendous product suite, and we're very confident that we can continue to service that existing customer base. I would like to say better than -- maybe better than the prior Allscripts, but again, it's probably a matter of opinion. But we're digging in, again, visiting customers, looking at the product and making sure we can do whatever we can. But I think it would be naive to expect a business in that industry, in that position, for us sort of assume that it won't be declining in the near term.

The decisions that these large hospitals and physician practices make are made years in advance. So you're stepping into a cycle where a lot of decisions have already been made. And really, you're just waiting for them to sort of finish as these systems take a long time to change. So I think really, our impact will be felt in the future years, not necessarily in the next 3 months, 6 months or 12 months, but that's not a very realistic way to do that. So I'm happy to talk to Jim all about whether we think, and the Board, whether we think we should be showing separate disclosures or not.

Unidentified Company Representative

I believe you've had a similar experience perhaps with QuadraMed in the past. Our other health care assets where you foresaw declines. To what extent do they inform what the trajectory may be in the business?

Unidentified Company Representative

I think there's no question that our experience in health care, which actually started with QuadraMed back in 2013. Definitely gave us the comfort and the understanding about how this market works. And I call it the long tail of health care. And I think actually a long tail existence in many of the vertical markets that we operate in. So I wouldn't say it's necessarily unique to health care. But if you've visited a hospital and you understand how critical the EHR solution is to that hospital and how integrated it is into all of their other solutions and how expensive it is for them to replace it and again, how all of the clinicians are using it on a daily basis, you get a much better sense of what it is that you have and again, what you can do with it.

So I think over the course of -- since 2013, I think we've learned a lot about what's important to our customers and how we can, I think, direct our R&D investments to give them the things that really matter to them that really extends the life and the longevity of the solution to give them the real value that they're looking for. So I think, again, we feel very comfortable that we sort of know how to engage them, how to do that, and we believe that the Altera solutions provide us the opportunity to basically to do the same thing.

Unidentified Company Representative

Great. Thanks. I want to throw it open to some of the other operating group managers. Harris was not be the only group with or contemplating assets that are shedding revenue but still expected to post good IRRs. What do the other groups think of acquisitions of this type?

Unidentified Company Representative

Mark, do you want to go first?

Unidentified Company Representative

Yes, I look at it as a mix. We buy small companies. We buy mid-sized companies. Once in a while, we buy large company. We buy great companies to grow with. Sometimes we buy a company stable. And sometimes we buy companies shrinking as well. And even those shrinking companies have different situations. So -- and one day, it depends on how fast it shrinks and how long it takes and how many customers you have and how much value you did deliver. Also there are different kind of companies.

So I see it in the mix. So I wouldn't buy them just having only these kind of companies, but I think in the total mix, and they make good returns. In the extreme, one day, you turned the company into a bag of money, and you have to redeploy that again. So that will require additional effort long term on M&A. But again, in the mix, sometimes we buy them. And overall, we like to have a good quality in our total portfolio. That's what we try to do. For example, a high-quality business we work with a couple (inaudible) by our spinout.

Unidentified Company Representative

I was going to say just generally, whether it's small or if it's large. And one of the things that you need to be thinking about is sometimes you should stop doing some things, right? And there is really good in there, and it's getting it -- finding what that is and stopping doing the things that don't make sense for the business, which is really hard to go through with a leadership team. And I don't think Allscripts might not be the best example of that potentially for us. But I mean the -- definitely I -- that's something we try to get our leaders to think a little bit about.

So it isn't always a bad thing to have the business shrink in size, especially if you can find something in there that's a value and you can build off of when you're buy and hold -- in a buy and hold forever position, it gives you that opportunity might be in there. So when you think about an asset like that.

Unidentified Company Representative

Great. Thanks. Moving on to another large acquisition, GEO software from CGG was another fairly large acquisition that was shared between two operating groups. Can you tell us a little bit about what that negotiation was like? And does the broader group think this could be a template for future shared deals?

Unidentified Company Representative

Can I answer, Damian, or do you want to take this one up? Okay. So I mean -- we -- like Jeff said before, we have been nurturing this prospect for a very, very long period of time. So TSS had contact customer or the seller was looking for a buyer and have faith in us because we had a long-term relationship. Damian is with -- already present in this business. So for me, it was a kind of experiment to see if we could join forces on this. We had the opportunity to buy. They had the knowledge. They also have the global infrastructure in this industry, and how did it work out?

Well, we have a joint Board. And Damian and I decided to keep it very simple. We're part of the same group. We trust each other. So no lengthy shareholders agreement or whatever. As you might recall, I just came out of the spinout, if you read that investor relations and governance agreement, I didn't want to go there again. So we kept it very simple relationship built on trust. We're part of the same group and we try to make happen here that 1 plus 1 is at least more than 2.

And that's what we try to do. It's the first time, I think, at least we did it. I don't know if it had happened before within Constellation, but -- and it's again an experiment, and we like to run those experiments and we will evaluate over time. It's always easy to do things together, but I think being part of the same group and I think to find each other over time, we're moving in the right direction.

Do you want to add something, Damian?

Damian McKay Constellation Software Inc. – CEO of Vela Software Group

Yes. I concur with what you said. I think it's probably a unique situation. We've got great respect for the team at Topicus, and we come together. We're -- the investment is going well, and we're experimenting and working together in most cases, it wouldn't be required, but the investment and the core operation is going well.

Unidentified Company Representative

Great. We look forward to seeing what happens there. So there are some specific questions about non-VMS potential investments. And you mentioned that it was -- it's been difficult to find. There's a lot of competition out there looking. But could you give potentially some update on how far you've gotten over the past year, have you had a close look at any, even been outbid on anything?

Mark Leonard Constellation Software Inc. – Founder, President & Director

I took a hard look at a thermal oil situation. I was looking at close to \$1 billion investment, and it was tax advantaged. So it was clever structure. It was at a time when the sector could not get financing. And unfortunately, the oil prices ran away on me. So I was trying to be opportunistic in a sector that was incredibly beat up. So that is an example.

Unidentified Company Representative

Interesting. And does that fit any sort of template on business characteristics you would be looking for outside of VMS software?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Very large tax assets because we pay an awful lot of cash tax, and it's going up because of the new regulations in the states. And in this particular case, we would have had the return through dividends from a public company. And hence, those dividends would have flowed to us in a tax-deferred way. So from a cash flow perspective, incredibly attractive.

So what are the characteristics there? Complexity. Where it's troubled situation with -- circumstances and there's lots of complexity, I think we can compete better than the average investor, particularly when people are willing to take capital forever.

Unidentified Company Representative

Interesting. And then the other question -- the last question is if larger VMS investments have proved attractive and fruitful, would you still pursue other markets outside of VMS?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Of course, not.

Unidentified Company Representative

Great. That's it for this section. I hand it over to you, Howard.

Unidentified Company Representative

Thanks, Will. So in this section, I'm going to start with some questions about the Board actually. So maybe to Mark and John. So this question is about the board increase in the number of Board members. Could you elaborate on the increase in the number of Board members from 15 to 20, which seems large? Any thoughts on decision-making in an increasingly larger group? How to guard against problems of management by committee, like group think or certain personalities (inaudible) Mark, I think you're on mute.

Mark Leonard Constellation Software Inc. – Founder, President & Director

I guess, I'd throw the question back at you and say, is there any evidence that the larger the group, the more likely you are to have group think or the more likely you are to have diversity. I don't know of any studies that suggest group think is tied to group size, but perhaps there are some -- I think the advantage we have is that we're a fairly contentious board. We prepare literally hundreds of pages of stuff per quarter, and we get it out there with long lead times.

And then we handle questions. And obviously, the Board sees it as its role to question what managements do. And so we spend out a few questions and defending our positions and things of that nature. Obviously, with the insiders, what we have is enormously detailed knowledge of vertical market software. And these people -- the insider Directors are going to ask different questions than the outside of directors. The outside directors more likely to come up with things that are sort of out of the box and very different in terms of questions. But that's fine. That reflects their background, and that's the advantage of diversity of thinking, which has very little to do with diversity of other things.

And we -- in terms of size, I think the way we picked 20 versus the 15 was -- we let the lawyers pick a number. So that was the thinking that went into it. And in terms of having room to add Directors, it -- obviously, if we can find really good directors, and we struggled for years to find really good directives, we're going to jump on them. And so we had no intention of adding a significant number of new Directors this last year, and we didn't have enough seats. And so Steve stepped down early. So we could add Lori and then we were able to convince Claire to hold off until the AGM to join the Board. But these were spectacular adds, I believe, to the Board. And so if we came across someone who we felt had the potential to add value as a director, we would definitely do so. And I've written about what I think directors do. I mean, the obvious question to you, Howard is, do you think directors are important to a company? And if so, why ?

Unidentified Participant

I wasn't expecting to put in the spot, but I guess -- I mean, the governance of the governance rule that you talked about versus the coaching role. And I think it depends on the company whether they need more of the governance or more of the coaching from the Directors.

Mark Leonard Constellation Software Inc. – Founder, President & Director

So that's just the best response ever, Howard. I can talk to portfolio managers across mutual funds throughout the world and get that same response, it depends on the company. D**n right, if you think the Directors add value. And if we have performed well, presumably, we have pretty damn good directors, and I certainly think we do. You saw our published criteria years ago for what we were looking for in Directors. And literally, no one surfaced any Director candidates for us that met the criteria. We managed to find a few eventually. And again, literally years and then the pursuit of such Directors is nontrivial. How do you convince these accomplished people that can't join the Board. They're certainly not going to get rich. They may be able to invest. But as I pointed out in my write-up, it's not like Constellation is cheap. It's not like you can count on having a 10-bagger in 10 years at consideration. It's not going to happen.

And so this competition for director talent is just unbelievably difficult. And we're so lucky to have gotten the people that we've gotten, including the inside directors who, as you know, have enormous amount of their network tied up in the business and real skin in the game. So I'm delighted with our Board. I know it's large and there is some research

that shows the larger Board gets, the less effective it is. And it isn't compelling research. And at the very low end, it suggests that anything above – is it 3 or 5 Directors? I can't remember. It actually deteriorates corporate performance, which I thought was kind of funny. So the big banks, obviously, who run all (inaudible) in Canada and have large Boards seem to have generated very high returns on equity despite having very large perhaps that's a regulatory phenomenon as opposed to a Board phenomenon.

Unidentified Participant

Be finding of Constellation was 1 of the big 5 tech companies regulated by one for the government. But – in any case, another question about the Board. Shareholder wants to know what is the agenda at a typical board meeting look like?

Mark Leonard Constellation Software Inc. – Founder, President & Director

So we – the actual agenda is it usually kicks off with a 1-hour presentation. It's really the only significant presentation at most Board meetings, where we do what's called a mature bar. And we look back at a company that's at least 5 years in our portfolio. We used to pick them randomly. And I love that because one quarter would be looking at a company that had 3 employees when we bought it and what happened to it. And another quarter, we'd be looking at 1 that had 300 employees, and we thought it really drove home to the Directors what we do, which is don't buy world-class companies that are #1 in their market and dominate their space. And are kicking out huge ones cash.

We buy nice businesses that are really good to their customers and really good to their employees, and we help them run the businesses a little bit better by sharing some best practices. And encouraging them to keep learning are growing and applying what they can learn from others inside the group. And that was painfully obvious when we randomly picked the companies for follow-up the mature parts as we call them post-acquisition reviews.

We switched because Directors like to spend their times on things that are important and looking at 3-person acquisitions clearly is below the pay grade of directors. And so now we just look at big good ones and big bad ones. And when I say bad ones, I mean we're talking ones that generate double-digit rates of return, but just not their hurdle rate as a rule. There are a couple below that, but not much. And I have no real fault we're moving to looking at the larger mature acquisitions. I just think we lost something when we did that, which was forcing people to confront. When you do 100-and-something acquisitions a year, they aren't going to all be wonderful businesses that are optimized and performing well.

Unidentified Participant

That make sense. And acquisitions at the heart of Constellation. So reviewing that, I think, makes sense.

Mark Leonard Constellation Software Inc. – Founder, President & Director

So that's first on them on the agenda, and then we usually do minutes, and then it's usually a bit of a slam dunk and then we do questions. And so initially, questions well, no, sorry, we usually approved the financial the quarterly stuff. And then we do questions and Jamal will go through the numbers to the extent that there are questions that

consolidated basis, make sense. If there are questions on the numbers at a lower level than the operating group managers often end up talking to them. And then Bernie talks about M&A and usually pulls together some stats.

On how we're doing, whether we're seeing diminishing returns and marketing activities and things of that nature, what our win ratios are, et cetera, et cetera. So we treat M&A like a business, and we have metrics for it the same way that we do for our operating businesses. And then usually, the Board has asked Larry to pose a series of questions to me, and he iterates with the Board to figure out what the level of interest is in various questions that they posed and he ranks them and sends them to me anonymously, which enables directors to ask questions that I might otherwise roll my eyes at if as important. And so I think it's a really valuable process. And usually, after I cool off a day or 2. I recognize what the directors are asking and that, in fact, I need to emphasize with their concern or what they're interest in it. And then they're trying to address it either with data or pointing them at previous material that we've created around those particular questions and issues.

And then we have a little bit of direct professional development in the package. And if there's questions on that, we feel those. And then there's a whole raft of 1 pages for acquisitions that were done in the quarter, that's part of the package. And there's the IRR material on the older acquisitions. Other than that, there may be a special topic and it varies from meeting meeting. And so if I – got to be above and beyond what the Board has asked about. I may lobe grenade into the meeting to see if anyone is paying attention. And often, we will end up spending some time talking about that.

Unidentified Participant

Sounds like a fun full day after. Thanks for sharing all of that. I'm going to move on to the questions about (inaudible) now. So at the past AGM, this question is about the spending of the VC funded competitors. So their strategy hypothesized was that they would one day go public and be valued at high multiples of revenue, making it rational for them to spend, say, \$5 upfront, generate \$1 of recurring revenue. Given the recent changes in valuations of rapidly growing and profitable software companies, do you expect – I guess maybe it's too early to see any change? But do you expect any changes in this behavior to make more rational competitors? And this is – I'll open this up to everybody. So if you can talk about your experiences with FaaS as well in your business units.

Mark Leonard Constellation Software Inc. – Founder, President & Director

Thank you. Wrote about it this quarter for the Board. And we have in the direct professional development section what we call venture capital-backed disruptors in verticals and we profile one of them and look at how much money has been invested and what they're doing and what their revenue run rates are and things of that nature.

And the underlying thesis and these companies seems to be the switching costs are very, very high and that if you come to dominate the market, you'll literally have the vast majority of the market share. And so a winner takes all kind of idea. And if the market is big enough and you dominate the market by getting out there early and giving the stuff away for free or bringing people to take it because of the switching costs, it will never get ripped out and at some stage, you'll be able to jack up the price once you establish a de facto monopoly. So it's monopolization of micro markets in a very predesigned fashion. But the underlying assumption is that no other VC will try to do the same thing. And so what you end up with is the airline industry, which everyone knew was going to be a big industry, everyone wanted to travel, everyone invested in airlines. Same thing with automobiles.

When we have large and obvious markets, you get way too much money chasing the industry. And if you don't end up with something that is truly high barriers to entry, high profitability, it ends up being a blood bath for everyone who

invest with maybe a exception of 1 or 2. And so if you look at automobiles in North America, there were 3 that survived up until '08 and two, risk -- and so forth is the only 1 of over 2,500, I believe, North American automobile companies. Most of whom went bankrupt before the market really took off. And so that was a fascinating example of the fact that markets are willing to finance activities long before there's evidence of revenues and profitability.

I just gave a lecture at the local business school on the topic of what happened in automobiles and the radio industry and the television industry and newspapers. It was basically (inaudible) and he's one of my business heroes. He loved growth industries, and they swapped them around something fierce. It wasn't until using his that he had any money, and that was because he basically figured out how to run a local newspaper, which was not a rapid growth business, you happen to be picked up alongside of a local radio station. And yes, it's a lovely story about how being early in a rapid growth market can be a prescription to really hurt yourself. So you have to pick your spots. Standing the degree switching costs are significant in these verticals is absolutely critical.

When you have consumerized software with very low adoption cycles, very easy for people to get up to speed on, then the switching costs tend to go down. And I think a lot of the low-end SaaS stuff that we're seeing has those characteristics. Anyway, we'll see. We learn about it every quarter, and we try to figure out where the places to win are.

Unidentified Participant

That makes sense. And just a general question about how much of your business is on-premise versus SaaS? And do you have it kind of from a consolidated view and maybe I'll open it up afterwards to the operating groups, too.

Mark Leonard Constellation Software Inc. – Founder, President & Director

No, they were waving at me because I was talking not because they had consolidated views. I don't think we have any kind of -- well, I know for a fact we don't have any kind of consolidated view. I would say, certainly, we have way more SaaS type technology model software than we ever had before, and it grows much faster than any of the traditional models, et cetera, et cetera, et cetera. Most of the new companies we buy have some sort of SaaS product lines. et cetera. So it's a way you got to ride the wave, and it doesn't mean you have to anticipate a wave be way ahead of it.

Unidentified Participant

And I'm going to ask Barry because I know a few years ago, you had talked about SaaS rewrites in your operating group because there was more -- maybe more pressure there. Are you still seeing that recently? And how are those rewrites going if you're still doing so?

Barry Symons Constellation Software Inc. – Director

Yes, the pressure is always going to be there because we have competitors who are out there with products that are full SaaS-based products. And in certain markets, you can't really compete with an on-premise based products. So the fitness industry is 1 where there's a lot more SaaS, the salon and health and beauty market is another one. And so -- yes, we've continued to invest in those. We have products that are SaaS-based products to compete with our competitors in those markets. And it's case by case. Some of those investments have done okay to good. Some of

them have not. In the end, all of them have sort of found a way to become profitable, but the IRRs on them vary from probably single digits to things that are 30%, 40%, 50% IRRs. So it's all over the map. But depends on the market you're in and if the market has moved to a certain place and it's become the de facto standard, do you have to be there or you will see market share. And it's -- I guess, our job to figure that hopefully, in advance and then make the right rational business decision whether it makes sense to try and compete in that market. And if you can get an economic return that's worthwhile or sometimes your better option is to see share and take that capital and deploy it elsewhere. And so we try and make those decisions. I wish I could say we're 100% perfect, but that would be a lie. And so we do the best we can and sometimes we win, sometimes we lose. But we try and learn every single time and get better for the next opportunity.

Unidentified Participant

I'm going to move to a question that all analysts, I'm sure are asking in the past few months, inflation. So has inflation provided an opportunity to pass-through larger than typical price increases, recognizing and aim to charge customer prices commensurate with value. Does an inflationary environment enabled passing through prices at or above the rate of price inflation?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Jeff, why don't you start and we'll sort of work our way through the GMs. And -- I mean the one comment and making upfront is if you like your customers, you hate putting through price increases, right? It's always hard. And so you've got cultural issues here. We're putting through price increases. Jeff, do you want to talk to what your group is doing?

Jeff Bender Constellation Software Inc. – Director

Yes. So Howard, I think, obviously, pricing is something we encourage the businesses to be thinking about, I would say it's probably 1 of the top best practices that we try and share around all the different ways to look at it, how you might accomplish it, how you might do it, do it differently. So I think this year, for sure, I think we saw more pressure. Although in the end, I think, at least in the (inaudible) maybe I didn't see as much pressure as I thought on wages. So I think we are encouraging the businesses to sort of say, go full circle on your thinking, whereas if your input costs mostly being wages are going up, and then you need to make sure that, that's coming full circle around in your pricing, whether it's your maintenance pricing or your license or service pricing. So I think we're always having those discussions. I think to Mark's point, when you get into decentralized businesses and you get people really, really close to customers, I think those are difficult and delicate conversations. And so I think, again, it's just a constant education and reminder and sharing of stories and data that helps them be comfortable with the decisions. And again, reminding them that it's all about value creation and value capture I think the 1 thing I would say for almost every one of our businesses is we do a phenomenal job of value for our customers. We don't always do a great job of capturing it. So I think pricing is the main mechanisms for us to try and capture it. So I think it's just, again, having those conversations. So I think if inflation remains high, which, I mean, again, I don't try and forecast it. I think these conversations will continue to happen, and they're probably happening I would say, more now than they were in the past perhaps because of the current levels of inflation, both impacting wages and then obviously, for us, trying to make sure it's reflected in that (inaudible)

Unidentified Participant

Do any other operating groups want to -- managers want to chime in?

Dexter Salna Constellation Software Inc. – Director

This is Dexter. It's mostly the same at Perseus. And what I found was that we do have constraints in some of our contracts, especially with the larger institutions, that there's a lag on what the 12-month inflation rate was and what the current inflation rate is, but we pay special attention to it to make sure that we're ahead of inflation and with their customers. And I always tell my managers is that you're making a software bigger every year. And so without inflation, that should reward you with a price increase since you increased the efficiency of their business, and they should be willing to do that. The advantage we have with our products is that we are a minor part of most companies' budgets. And you see an increase. I never have anyone pronounce it as a percent increase because that raises eyebrows. But if it's, let's say, \$1,000 on a \$300 I'm just making something up on the \$3,000 a year product. If you look at that \$1,000 and like it's not a big problem. Although it's a large percentage, it's not a big additional expense.

Unidentified Participant

Great. No, that make sense. And it's good to bring up that point about being a small part of the operating budget of your customer. is the -- now with -- I'm sure the customer is seeing pricing -- their own costs go up. So does it make -- does it -- do you still feel reluctant to pass on the cost if their operating budgets are under pressure?

Jeff Bender Constellation Software Inc. – Director

Well, we provide service. And so we deserve to get compensated for the quality service we provide them that helps them run their company. They have their own customers that they can -- if they choose to also change what they charge or -- and so I -- as long as I feel that we are giving them quality service and a quality product, I have no issue on at least staying even with inflation, if not above.

Unidentified Participant

That make sense. So looking at inflation, I guess, this question is about the cost of the operating groups and observing rising wage inflation, does the corresponding increase in pandemic-induced operating efficiencies, such as travel, office space, remote employment. Jamal sublet -- does that offset the effects? And how much does this vary across CSI's business units? So any operating groups seeing overall expense pressure or, I guess, overall savings is what this question is asking due to the pandemic.

Jeff Bender Constellation Software Inc. – Director

Howard, it's Jeff from Harris. So I think there's no question during the pandemic, we would -- we saw significant cost savings. So I think, again, mostly travel is a large part of what we do. That basically went from, again, full-on run rates to like literally for quite a period of time. I would say it is starting to increase again, if I even look at my own activity, I'm starting to do some trips, there's more events. Mark talked about his London event coming up, right? So these things are starting to return to normal. So I think the costs that had basically gone to 0 will start to show back up in our P&L. So I think that -- so I think we were benefiting from higher margins because of some pandemic-related

expenses. And I think that – I think some savings might materialize. So I think some some people and some groups might change the way that they've done things. I must admit now that I've done a little bit more travel, I forgot how inefficient it is traveling and how efficient it can be when you don't travel. So I think – I mean, we always encourage people to, I think, not just return to what they were doing before, but to again take the opportunity to step back, reflect and learn on what you didn't think was possible as it is now possible. So – but I do think you'll see more expense move back into certainly the Harris P&L as we return to traveling. The inflation and the wage perspective, its overall impact. I think in any short period of time, I think you definitely couldn't see an impact if there's a misalignment in timing. I think the course of time, which again is typically how I would look at it. I think – I don't see any material changes our margin profile is because of it. I think eventually, it will work its way back through the system and back through pricing because, again, it's all about the creation of value capture and I think inflation aside, we're still creating value, and I think we just need to find different ways to capture it. So I think that's the way we see it going forward.

Unidentified Participant

That's great. So moving to a question about cybersecurity. So you have said that at a previous AGM that data security was your biggest risk. Is that still true now? And how do you manage it or mitigate it?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Yes. We've – just from a Volaris perspective, I mean it is something clearly we think about much more than we did a few years ago. And we've just increased the number of resources that spend time on the problem and tried to push them close to the businesses as possible. And so it's something that we do keep an eye on and have tried to provide encourage our leaders to put the right resources and systems in place to manage it. And we're probably a bit better at dealing with issues now when they come up because we've had some experience with situations, albeit they're all slightly to try to resolve the issue, some feedback coming in there. So anyways, that's sort of my comment on it.

Unidentified Participant

Make sense.

Unidentified Company Representative

Yes. I think Howard, from the Harris perspective, I would say back to this, again, decentralization in autonomy. I think if you went back a decade. I think this is an area where we would have just length of the businesses, make their own decisions and their own investments. And I think there is an example of something that over the course of time has changed and the or, I think, corporate oversight and requirements, whether it be for reporting or for systems to be put in place. So I think, again, it's just as that threat went from sort of not that significant to more significant, I think it's something that we sort of adopted the way that we do things. And to Mark's point, there's just a lot more people focused on it, a lot more systems that are in place. we don't typically dictate what business units have to do in all cases, this would be an area where we are much more forceful on what they have to do and how they have to do it.

Unidentified Participant

Okay. Makes a lot of sense, it's similar to accounting standards, you have to -- some things have to be standardized even in a decentralized autonomous corporate structure. So one last one from me is about the culture. And I know -- I think Mark shied away from C word, but the culture of CSI well defined and communicated over the years. As a minority shareholder, this gives us much confidence. How do you maintain or implement this on a level of the latest acquisition as well as future large ones with preexisting cultures, the larger you get, the further you go from the people who helped build the culture.

Unidentified Company Representative

You like to take that one, Mark? You want me to?

Mark Leonard Constellation Software Inc. – Founder, President & Director

I mean, feel free to go ahead and in fact, I think all of you should. And just the 1 point that obviously, we have businesses in disparate geographies with different religions and different cultures and different ethnicity, culture is going to be very different in these places. And so I think prescribing culture, good luck. But then values -- go ahead. How do you share values with your newly acquired business, that is something we have to do pretty quickly.

Unidentified Company Representative

It's been interesting for during the journey he's been doing this with Constellation since '95 and did acquisitions initially in the U.S. and we had a Toronto office, then we have an Arizona office and also then ended up with doing our first international acquisition for Constellation, which was back in '99, 2000 in Denmark, and I moved over there with my family, what have you, and I'm really glad I did because I recognize just how different it was and I was very even careful back in that early stage of my career at Constellation to try not to say we have a culture, we would adjust to each culture that we were as we're moving around and going between Arizona and Denmark was quite a change. In Denmark, we had a chef in the cook actually prepared meals every day and all the staff sat together and had lunch together and in the U.S., they were using the machine that you put quarters into, right, to get stuff to eat, right, and going through the drive-thru. So anyways, and the messaging had to be different, how you communicated how you presented an idea. So I think it's very important to understand, we are a culture of cultures. And it's one of the reasons I think that our performance is what it is because we allow each of these businesses not to become part of Constellation part of Alaris part of any of our operating groups, but to still maintain their own culture and operate within their local country. I think where we have 30 -- 43 offices -- 43 countries offices in -- and everywhere you go, I think you need to be cognizant of that and adjust your messaging. And when you come to a quadrant event, we talked about earlier, where you have from 3 dozen countries there and sit in the room and talk about something like diversity, it's a very interesting discussion. And everybody has a very different opinion on what that actually means to them based on where they're from and what their situation is. And we're very careful not to step over those -- over that line.

And as far as what we do from a, I think, Mark said with our values, I think trust is the biggest one. We need trust and we believe in measuring them all so that they can -- even though they're doing their own thing and running as separate organizations, we measure them all and sort of track how they're doing versus each other. And sort of leader board them and things like that. So -- and those are around very simple metrics growth, the profitability that are easily achieved. So I'll pass it over.

Unidentified Participant

Maybe any other groups want to chime in? Maybe I'll ask Robin because there's TSS and then there's topics, and they obviously have separate cultures. What are your thoughts of whether they're culture should -- will become closer to one another? Or what's kind of your thoughts on the cultures of those 2 or the 3 different companies.

Robin Van Poelje Constellation Software Inc. – Director

Yes. So I just got thrown out and back in, but partially, it's about culture. So yes, I think the nice thing is like Mark said, it's different culture, different countries, different verticals. And nice to see is now we have 2 large businesses in the Netherlands. Very small geographies, very small country. And you clearly see the differences in culture. Like I said before, both companies have been successful in vertical market software, but have their different history, ways of doing things. their own paradigms. And I think that's great. And if you can be successful to the left or we can be successful to the right. I think that's not important to us as long as you meet your brands if you do what you should do and what you -- and it doesn't mean that you should simply stick to what you're doing. I think we all have a general common culture of trying to improve, trying to learn and being curious, I think that's the common culture we like to see being open-minded, but clearly, we could see that there are different cultures we knew it, and we saw it and we still see it.

Mark Leonard Constellation Software Inc. – Founder, President & Director

Then in Europe, probably the person logging the most miles visiting for on business units. What are your observations on the various cultures of your use? I think Mark's comments Mike's comments, I think he described it very well that they be autonomous nature of the cultures in the businesses and that varies country to country and segment to segment from an sort of an industrial business to finance businesses different cultures there. So I think we do allow that brand identity and that culture that each company comes in to continue, but it's enhanced with the probably the financial performance and then also the ability to see what their peers are doing, and that creates a said the high bar for performance and they want -- everyone wants to be in the higher-performing quadrants. So that's all out. I mean obviously, countries from different countries the complexities of culture and just letting against the autonomy in that country deal with what they need to do within the framework of the parent company's values and our wins legal requirements, excess.

Unidentified Participant

That -- those are great perspective. And I think as Mark Miller put it, the metrics are very clear in terms of what the business units need to achieve. So kind of whatever path they take to get there, that makes most sense. So that's it for me. I will turn it back to Larry to take more questions.

Unidentified Company Representative

Thanks, Howard. A couple more questions from the instant messaging today, the first of which comes from Jason Crap. Question is for Mark, and it picks up on the theme, we were just discussing. What have you learned about the Japanese market? And specifically, do opportunities exist there or are there barriers to culture too high to acquire BMS companies in Japan?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Yes. It's probably the highest cultural barrier I've encountered. The advantage of doing business there is they have phenomenal beef. But the -- I have not been very successful in finding lots of businesses for us to acquire. We've acquired the one, and we're floating with a couple of others. But despite quite a bit of effort, we have yet to breakthrough.

Unidentified Participant

The next question from (inaudible) It's coming from Mark Goldby. I think I'm pronouncing it right. And one reason I'm asking it because he's got this wonderful preface that says he is a student of this very special painting you're creating. The question is, I don't know if you're familiar with this or not, but it's on the -- going back to the topic of vet sizing. Do you have any views on the validity or utility of the Kelly criteria as popularized by Edward Thorque?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Well, I don't think there's any question that it makes tremendous sense. I think human nature argues against using it because are so sensitive to downside as individuals. And less motivated by upside. But I think there are some people who managed to logic their way through that and make significant size bets. Now our inherent business model has never really made us confront this issue. When we did the TSS acquisition, we sort of went out on the limit and took down a significant amount of debt, but we refinanced it quickly. And so our exposure was fairly short term. And we have yet to put ourselves in a position where we're going full Kelly. But yes, the nice thing about Kelly is you can actually come at it both theoretically and practically by doing a little bit of mathematical modeling. And so I encourage you to do that because it really makes you a focus on how why the outcomes can be around the optimal Kellie criteria. It's kind of fun.

Unidentified Participant

Back to the submitted questions, the final segment of the session and being mindful of the time, it's 18 minutes until noon. That will take us up to noon, takes us to a 3-hour mark. A few questions then. We call them (inaudible) Eleni otherwise unclassifiable. First of these, on buybacks versus dividends, how do you consider the potential leakage through the DWT, dividend withholding taxes, for some of your investors? Wouldn't buybacks be preferable when your share price is at or below intrinsic value?

Mark Leonard Constellation Software Inc. – Founder, President & Director

So the challenge here is treating all shareholders fairly and dividend withholding tax is an issue. And it's for sure, an issue when we do spin outs, where people who get spun out securities lose 1/3 of them to DWT. And so structuring around these issues is unbelievably difficult. And when you've got a whole pile of nontaxables, they have very different motivations than a bunch of employee shareholders, and they have very different motivations than a bunch of long-term-oriented capital gains, hopeful investors. So I don't think you can make everyone happy. I think the best you can do is signal what your intentions are so that people can do their tax planning. And so if they recognize that there's going to be a series of spin-outs and that they are going to lose a big chunk of value to the Canadian government on DWT or the U.S. government, if they're taxing the dividends on the way in. Or to various other foreign garments, they can make the choice as to whether they want to be a Constellation shareholder when the the spinout

happens or when a significant dividend happens or when a buyback happens. Obviously, one of the things that factored into our thinking when we said no more large dividends was that tax was a burden on a bunch of our shareholders and that we were better to keep that money and deploy it on their behalf, even if we only achieve sort of the S&P type returns with that cash. So yes, tax, obviously, is huge for us, and you can tell from the top of this transaction that we put enormous energy into making it as tax efficient as we could. And one of the things you can do rather than lose 1/3 of your shares if you're a foreign shareholder in a spinout situation when we're deploying a bunch of shares where you think there may be significant upside is you can pay cash tax. And so we've thought about how we might have set up an escrow account to cover off the DWT. And that could well be a possibility in the future for people who have that barrier to tax-free spin-outs, – we can do tax-free spin outs in Canada. There are a bunch of rules around them. We can do, to some extent, tax-free spin outs in the U.S. The rules are even more convoluted. And the further afield we go in terms of geography, et cetera, the harder it is to make all of these rules line up and allow us to thread the needle. So yes, my heart bleeds for you. I hate prepaying the tax man. I don't mind paying the tax man, but I don't like prepaying a whole lot. And we will work really hard to try and serve our taxable shareholders. I have set a less of a sense of affiliation for our shareholders who are indexes and closet indexes but this is a personal opinion and many of our directors don't feel the same way. Because they aren't making a conscious decision to own Constellation, they're owning the index. And so they're concerned about generating a 6% real rate of return over the next 100 years. Not about being a Constellation shareholder. And so it isn't like they're consciously decided, and therefore, I don't feel as responsible for their outcome as I do for people who have a concentrated shareholding in Constellation because they know someone who works there and might be some it might be a nephew. And they're just invested. I mean those people, we have a responsibility to try and optimize their outcomes. It's at least how I think about it. There are obviously other voices around the Board table.

Unidentified Participant

The next topic is high-performance conglomerates that several investors shareholders this year recall the study and the discussion of high-performance conglomerates that you did a couple of years ago and the various tools and strategies that could be discerned from that study to support the durability of such a high performance. And I just wonder if we could be updated or revisit that topic in light of activities at Constellation recently, such as spinouts? Are spinouts a tool that helped to sustain the performance -- the high performance of a conglomerate?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Certainly. Henry Singleton used them several times. John McCain used them several times. Forina use them frequently. They are a tool. There's no doubt that they have contributed to spectacular performance and banking on one of the others that has used them as well.

Unidentified Participant

Danaher?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Yes. Yes. Danaher used them several times. I don't know that the spinouts have been as successful as Danaher per se in that particular case, but they definitely use them.

Unidentified Participant

Next one, can you share some of the board's thinking about Mark ventral successor as President for Mark Winter. They note that the Board has recently separated the functions or the persons who occupy the roles of Chairman and CEO. So we've put in success or in effect to Mark as as Chairman of the Board. But on the rest of the things that Mark does, this this investor says, Berkshire Hathaway's Board just has decided to split Warren Buffett's job into a couple of different Board, Chairman, CEO, CIO and his shareholder position will change. Does the Constellation Board think about splitting Mark Leonard's job into multiple different functions?

Mark Leonard Constellation Software Inc. – Founder, President & Director

Yes. And I have no idea what they intend. What I would observe is that if there are a series of spinouts maybe the job gets smaller and may not need splitting. And then the other point that Mr. Buffer made on the weekend was that he didn't feel that his successor would have the same rain that he had to act quickly and write big checks. And I see the same thing for whatever ball bugger and it's my successor. I get away with a lot because I've been around for a long time. and whoever takes over may not have that same track record benefit.

Unidentified Participant

Final question of the session, and I think anybody is welcome to join in. It's a pre-mortem exercise. So it's -- the data is 2030. And Constellations valuation or share price is half or it's just in line with what it is today. And something has obviously gone wrong? What do you think it was -- what do you think the main contributing factors were?

Mark Leonard Constellation Software Inc. – Founder, President & Director

That's a fun one. And let's start with the most investor oriented of our internal managers. So Robin, flat stock price for a decade.

Robin Van Poelje Constellation Software Inc. – Director

Yes, I think we would a flat stock price for a decade. I think we would look beyond that decade. So if you really look long term, and we continue to build what we've been doing. As I said before, the top share went up and down. It was quite volatile. So we didn't get too much distracted, and I still think we keep our eyes on the ball, and that's what we should do and what we have been doing. And I think experimenting, that's what I believe in -- so continuing to do what we do. And if the stock price is flat, at a certain time, it might be attractive for our employees. So that would be my Q1.

Mark Leonard Constellation Software Inc. – Founder, President & Director

And Jeff said something almost exactly the same yesterday, something to the effect, like our shareholders expect us to keep doing what we've been doing. And I agree totally. If we keep doing what we've been doing, deploying capital at relatively high rates of return, could the stock price be at exactly the same level a decade from now? And the answer is absolutely yes. The prime example, that pops to mind is Jack Henry, which from 2000 to 2010 was flat. And if you look at their results, the business grew and it grew well, and it increased its share of wallet to

increased its breadth of product. It took our competitors just a magnificent company, well, well run whose stock price didn't much. Now the NASDAQ didn't exactly do great during that period either. And so that would likely also be a contributing factor to us having a flat stock price a decade from now. It could well be that the cost of capital that people are applying to equities goes up significantly. And accordingly, even though we grow the free cash flows, they are present valued at a lower number. I don't think it would be all bad. But you've got to look through stock price to intrinsic value and that takes a lot more trust and belief and we'd have to sell that hard to our employee shareholders because we're asking them to buy shares every year. And they've gotten in the habit of those things going up pretty much every year. So I suspect your questioner had more of an operational concern as opposed to a capital markets concern in mind. And so maybe to the other GMs, can you think of a single source of unpleasant juries in our businesses.

Jeff Bender Constellation Software Inc. – Director

I could toss in that if we – we talked a bit about succession market, if the Board selected a successor to you who strongly believed in centralization and reducing cost to drive efficiency over the short term the long-term impact could be very bad for the business because it would structurally change it dramatically. I think it's Constellation single biggest risk is moving to a different model like that where we have much less autonomy and much greater center control as to what happens and eliminate smaller businesses because it just all looks so great in Excel or PowerPoint. In the long term, it would be fundamentally damaged over the next several decades.

Barry Symons Constellation Software Inc. – Director

So this reminds me – your comments remind me of 2 things, Mark. One is ITW, which was my favorite high-performance conglomerative all time during a certain period of its history. And basically what you just described happened to them. They had an activist. They had 2 or 3 CEOs turn over fairly quickly. and they ended up going for margin and they lost their organic growth engine and their M&A engine. And they ended up being a more profitable company, and it is not like it's performed badly, but it lost the magic. And that was said.

Unidentified Participant

Sorry, like it's easily done, I was going to say. It's not something that would require a lot of work to do. You could do it in a very reasonable period of time.

Barry Symons Constellation Software Inc. – Director

Yes.

Unidentified Participant

Over a year, right, let's say.

Barry Symons Constellation Software Inc. – Director

Yes. And the other example of the King of mine was Nick Howley. And I was just down in L.A., he got an award. The Henry Singleton award, that's given to an exceptional CEO. Nick is phenomenal CEO, who runs a company called Trenton, which was one of the ones we studied as part of our high-performance (inaudible) The point that Nick makes is that he leads a volunteer army, and nearly all of his managers are very, very wealthy. And have -- because of the structure of their compensation scheme ended up cashing out a lot of their equity interest because they're sort of set up as either options or dividends or recaps or things of that nature. So a natural not compounding, but definitely financial gain with alongside of shareholders. So good alignment, but poor tax efficiency on the one hand, but lots of cash in your genes on the other. And so as Nick says, he only gets to keep the people who really want to stay and who love what they're doing, not the people who have a big investment that look after. And I think that's one of the differences between what TransDigm has done, and we've done the managers that you hear today have their network tied up in the business. They care a lot. The conversations at the Board and the table are real. It isn't just putting in your time. This is generational wealth that they've created, and they care about it hugely. I think we're very fortunate, incredibly fortunate. Larry?

Lawrence A. Cunningham Constellation Software Inc. – Independent Vice Chairman of the Board

Thank you, sir. It's just about noon, 3 hours. What a wonderful productive session this morning. I want to thank, Will and Howard, and all the people who submitted such good questions in the entire panel here answering them. I learned a lot. I always do with this group. Now is a good time to sign off because we got up to a peak number. Usually after 3 hours, the audience starts to decline, but this audience has increased all the way up until now. It's 645 people -- were here. And again, I'm very grateful to everyone. Thanks for the opportunity. I'll turn the meeting back over to Mark.

Mark Dennison Constellation Software Inc. – General Counsel & Secretary

I think Mark had mentioned in the notes that he didn't need it to turn back over to him. And so we might as well just say goodbye to everyone and thank them for attending.

Mark Leonard Constellation Software Inc. – Founder, President & Director

Okay. Bye-bye, everyone.

Operator

This concludes the meeting. You may now disconnect.