

Decentralized VMS compounder with durable capital-allocation runway

Recommendation: **BUY**

Target price of C\$ 3,945 (51.0% upside)

Time horizon: 12 months | TSX: Software | C\$ 2,612.34 | Market Cap: C\$ 55.4bn

Financial Snapshot

Y/E December	FY23	FY24	FY25
Revenue (US\$ m)	8,407	10,066	11,623
Revenue Growth	27%	20%	15%
FX-Adj. Organic	n.a.	3%	3%
EBITDA (US\$ m)	2,208	2,701	3,293
EBITDA Margin	26.3%	26.8%	28.3%
CFO (US\$ m)	1,779	2,196	2,732
FCFA2S (US\$ m)	1,160	1,472	1,683
FCFA2S / Share	\$54.7	\$69.5	\$79.4
Recurring Rev.	n.a.	73.5%	74.9%

Source: CSU FY2025 shareholder report; StockAnalysis.com

Why now: the market is pricing CSU as scale-limited while the compounding architecture remains intact.**Investment Thesis****Mispricing is reinvestment duration**

The reset discounts saturation risk even as FY2025 FCFA2S and Q1'26 deployment indicate the capital recycling engine remains active.

Fragmentation sustains optionality

Niche VMS markets, tuck-ins and selective larger assets provide acquisition fragmentation beyond near-term organic-growth moderation.

Decentralization creates leverage

Operating-group autonomy keeps incentives local while CSI HQ enforces hurdle-rate discipline and capital-allocation accountability.

Recurring cash funds deployment

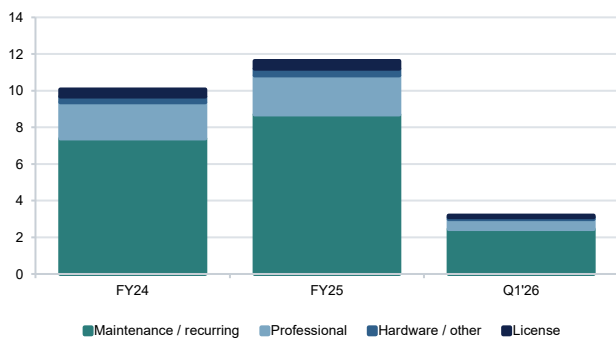
Workflow-entrenched maintenance revenue creates durable cash flow that can be recycled into additional vertical software assets.

Company Overview

Constellation acquires, manages and builds vertical-market software businesses serving niche, mission-critical workflows across more than 100 markets.

The operating model is deliberately decentralized: business units retain local accountability while CSI supplies capital-allocation discipline, benchmarking and acquisition process depth.

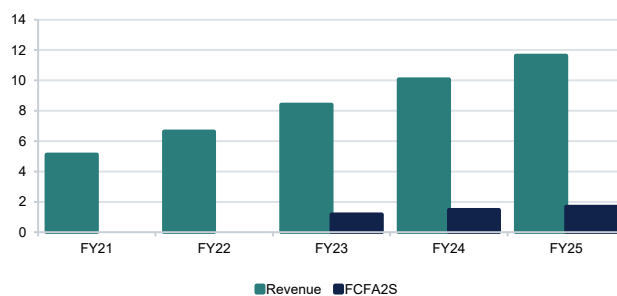
Maintenance and other recurring revenue represented ~75% of FY2025 revenue, supporting reinvestment into a long-duration VMS acquisition runway.

Figure 1: Revenue Mix Reinforces Recurring Economics

US\$ bn; Q1'26 shown as reported quarter. Source: CSU shareholder reports.

Metric	FY24	FY25	Q1'26
Recurring Revenue	\$7.40bn	\$8.70bn	\$2.44bn
Recurring % Revenue	73.5%	74.9%	76.8%
FCFA2S	\$1.47bn	\$1.68bn	\$0.73bn
Acq. Cash Deployed	\$1.52bn	\$1.34bn	\$0.70bn

FCFA2S is company-defined free cash flow available to shareholders.

Revenue & Cash Compounding

US\$ bn; FCFA2S sourced where reported. Source: CSU reports, StockAnalysis.com.

Operating KPI	FY25	Q1'26	Read-through
Revenue Growth	15%	20%	Acq.-led scale
FX-Adj. Organic	3%	2%	Durable, modest
FCFA2S Growth	14%	44%	Cash resilience
Cash Acq. Deployed	\$1.34bn	\$0.70bn	Pace improved
ROIC	19.5%	n.a.	Discipline signal

ROIC from StockAnalysis.com; organic growth is company-reported FX-adjusted revenue growth.

Constellation Software Inc. (TSX: CSU)

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Strategic positioning / investor debate: has CSU's scale matured enough to compress reinvestment returns, or is the market over-discounting a scarce public software capital allocator? The debate is real: asset prices, succession, organic moderation and decentralization limits matter. The offset is an operating system built on fragmented VMS markets, recurring maintenance cash flow and disciplined reinvestment asymmetry.

Fig. 2: Organic Growth Durability

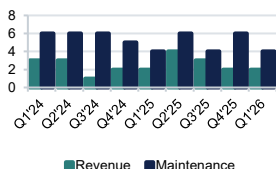
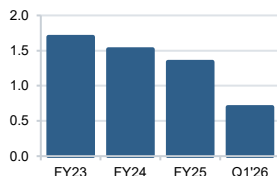
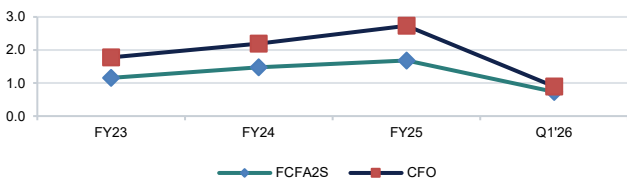


Fig. 3: Acquisition Spend



Source: CSU shareholder reports; StockAnalysis.com for historical cash acquisitions.

Figure 4: FCFA2S & CFO Expansion



US\$ bn; Q1'26 shown as reported quarter. Source: CSU shareholder reports.

Valuation

The premium multiple is a function of reinvestment duration, not near-term organic growth alone. At ~14.5x P/FCF and ~16.7x EV/EBITDA, CSU offers scarce exposure to recurring software cash flows, acquisition optionality and decentralized operating leverage. Multiple durability depends on capital recycling efficiency: maintenance density funds deployment, deployment expands FCFA2S, and FCFA2S reopens the acquisition surface area.

Framework	Current Read	Investment Implication
Consensus target	C\$3,945 / +51%	BUY support
P/FCF	14.5x	Cash-flow durability
EV/EBITDA	16.7x	Allocator scarcity
ROIC	19.5%	Reinvestment discipline

Company	Role	Valuation Read
CSU	VMS capital allocator	Duration scarcity
Topicus	European VMS platform	Runway analogue
Roper	Software compounder	Allocator analogue
Tyler	Vertical gov software	Workflow durability
Descartes	Canadian software peer	Scarcity check

Market data: StockAnalysis.com and MarketBeat, May 2026. Peer multiples should be refreshed before publication.

Capital-allocation architecture

Operating layer	Strategic function	Economic outcome
VMS assets	workflow entrenchment	maintenance density
Operating groups	decentralized accountability	operating discipline
CSI HQ	capital allocation	ROIC optimization
Acquisition engine	fragmented sourcing	compounding expansion

Mechanics: workflow cash flow -> acquisition capacity -> disciplined redeployment -> more VMS assets.

Risks & Mitigants

Risk	Mitigant
Asset-price inflation	Hurdle-rate culture can slow deployment before impairing returns.
Reinvestment saturation	Fragmented VMS niches and operating groups broaden sourcing surface.
Organic moderation	Maintenance density and mission-critical workflows support resilience.
Succession / key-person	Institutionalized playbooks and group autonomy reduce single-person reliance.
Multiple compression	FCFA2S growth and deployment cadence can re-anchor valuation.

Sources: CSU filings, shareholder reports and company risk disclosures.

Catalysts

Deployment recovery	Q1'26 acquisition consideration of \$809m signals improved absorption.
FCFA2S resilience	Q1'26 FCFA2S +44% can redirect debate to cash compounding.
Recurring density	Maintenance / recurring revenue near 75% of FY2025 sales supports visibility.
Scarcity reset	Multiple compression creates a cleaner entry into an elite allocator.
Topicus / PEMS	Minority strategies extend the reinvestment surface area.

Conclusion

BUY: CSU is a scarce public software allocator trading through a reset in sentiment. The upside case is not just multiple recovery; it is the persistence of a capital-allocation architecture that converts recurring VMS cash flow into long-duration deployment and FCFA2S compounding.

Rating	Target	Upside
BUY	C\$3,945	51.0%