INITIATION OF COVERAGE

CONSTELLATION SOFTWARE INC.

TSX: CSU | OTC: CNSWF

The Berkshire of Software - Acquiring Permanence at Scale

RATING	PRICE TARGET (12M)	CURRENT PRICE	UPSIDE
BUY	**C$3,650**	**C$2,357**	**+55%**

Market Cap	C$49.9B	**Enterprise Value**	C$63.1B (LTM)
52-Week Range	C$2,196 – C$5,300	**Shares Outstanding**	21.2M
LTM Revenue	C$11,149M	**LTM EBITDA**	C$3,153M
LTM FCF	C$2,551M	**Dividend Yield**	0.24%
EV/EBITDA (LTM)	20.0x	**P/FCF (LTM)**	23.4x
Net Debt / EBITDA	0.8x	**Beta (5Y)**	0.72

Analyst: Irrational Investors Research
Date: February 16, 2026
Sector: Technology – Vertical Market Software

TABLE OF CONTENTS

1. INVESTMENT SUMMARY

Investment Thesis

We initiate coverage of Constellation Software (TSX: CSU) with a BUY rating and a 12-month price target of C$3,650, implying 55% upside from current levels (16/02/2026). The stock has declined approximately 55% from its May 2025 all-time high of C$5,300 to ~C$2,357, creating what we view as a compelling entry point for the highest-quality serial acquirer in the global software industry.

- **Thesis 1: Unmatched Acquisition Flywheel with Decades of Runway.** CSU has compounded revenue from C$1.8B in 2015 to C$11.1B LTM (22% CAGR) through disciplined acquisitions of vertical market software (VMS) businesses. With 1,000+ acquisitions completed and a massive fragmented addressable market, the flywheel remains intact.
- **Thesis 2: Market Overreaction to Leadership Transition.** Mark Leonard's September 2025 resignation as President for health reasons triggered an outsized sell-off. Mark Miller, a 30-year veteran and co-architect of CSU's operating model, has assumed the role. We believe the decentralized model is institutional, not personality dependent.
- **Thesis 3: Durable FCF Generation from Mission-Critical Software.** ~75% recurring revenue, negative cash conversion cycles (-27 days), and minimal capex intensity (<1% of revenue) produce LTM FCF of C$2.6B. The business model is structurally resilient to economic cycles.
- **Thesis 4: Valuation Reset Creates Asymmetric Opportunity.** At 20x LTM EV/EBITDA and 23x P/FCF, CSU trades near historical trough multiples vs. a 10-year average of ~30x EV/EBITDA. For a business compounding FCF at 15%+ annually, we believe the risk/reward is highly asymmetric.

Key Catalysts

- Q4 2025 earnings release (March 10, 2026) expected to confirm continued acquisition momentum
- Potential acceleration in large-deal pipeline as CSU's balance sheet capacity grows
- Mark Miller's first annual shareholder letter, expected to reinforce strategic continuity
- Ongoing retirement wave among VMS business owners expanding the acquisition funnel
- Resolution of AI disruption concerns as mission-critical VMS proves resilient to automation

Valuation Summary

Our C$3,650 price target is anchored on a 10-year DCF model, cross-checked against relative valuation methodologies:

Methodology	Weight	Implied Value	Upside
DCF (FCFE, 10Y)	50%	C$3,650	+55%
EV/EBITDA (NTM @ 25x)	25%	C$3,200	+36%
P/FCF (NTM @ 28x)	15%	C$3,370	+43%
Reverse DCF Sanity Check	10%	C$3,100	+32%
Price Target		**C$3,650**	**+55%**

Key Risks

- **Leadership Transition Risk:** Despite the depth of the management bench, loss of Mark Leonard's strategic guidance could reduce optionality in novel capital allocation initiatives.
- **Acquisition Market Competition:** Rising competition from PE firms and other serial acquirers (Roper Technologies, Fortive) could compress returns on deployed capital.
- **AI Disruption to VMS:** While mission-critical software is inherently sticky, advances in AI/LLMs could enable new entrants to replicate niche functionality at lower cost.
- **Leverage Trajectory:** Net debt has grown from near zero in 2017 to C$2.7B (0.8x EBITDA). Further debt-funded acquisitions may pressure coverage ratios.

2. INVESTMENT THESIS

Thesis 1: Unmatched Acquisition Flywheel with Decades of Runway

Constellation Software has built the most prolific and disciplined acquisition machine in the global software industry. Since its founding in 1995, the company has completed over 1,000 acquisitions of Vertical Market Software businesses, deploying capital at consistently high returns on invested capital.

The model is elegantly simple: CSU acquires small to mid-sized VMS businesses (typically for under C$10M), retains their management teams, and allows them to operate autonomously within one of six decentralized operating groups (Volaris, Harris, Jonas, Vela, Perseus, and Topicus). Excess cash flows are repatriated to portfolio managers who redeploy the capital into new acquisitions. This creates a self-funding compounding flywheel.

The addressable market remains vast. There are tens of thousands of VMS businesses globally, many founder owned, serving hundreds of niche verticals from library management to pulp and paper logistics to marina operations. As baby-boomer founders retire, the pipeline of willing sellers is expanding. CSU's annual M&A spend grew from C$249M in 2015 to C$1,519M in FY2024, yet the company estimates it evaluates only a small fraction of available targets. Acquisition spending in recent years (C$1.5–C$1.7B annually) represents under 60% of operating cash flow, suggesting significant capacity for further acceleration.

Each acquisition must clear strict IRR thresholds, typically 20–30%, ensuring capital discipline is maintained even as deal volume scales. This distinguishes CSU from PE-backed roll-ups that frequently overpay during competitive auctions. CSU's deep vertical expertise and reputation as a "forever home" for founders create a sourcing advantage that is difficult to replicate.

Thesis 2: Market Overreaction to Leadership Transition

Mark Leonard's resignation as President in September 2025, citing health reasons, triggered a significant share price decline. The stock fell from ~C$4,300 at the time of announcement to current levels near C$2,357, a drop of roughly 45%. We believe this reaction materially overestimates key-person risk.

Mark Miller, the new President, is not a newcomer. He co-founded the Trapeze Group, which was acquired by Constellation in 1995 (the year of CSU's founding). He has spent nearly three decades building the Volaris operating group, one of CSU's largest and most successful divisions. He understands the model at a granular level because he helped create it.

The operating model is institutional, not individual. CSU's decentralized structure means no single person makes acquisition or operating decisions for the entire portfolio. Each operating group has its own leadership, capital allocation team, and M&A pipeline. Leonard's annual shareholder letters were invaluable in communicating the company's philosophy, but the system he built operates through hundreds of trained capital allocators distributed across the organization.

Leonard remains on the Board of Directors and retains his ~1.9% ownership stake (approximately 407,000 shares). He has never sold a single share since founding the company.

Thesis 3: Durable FCF Generation from Mission-Critical Software

Constellation's financial model is among the most attractive in the software industry:

- **~75% recurring revenue:** Maintenance, SaaS, and recurring services provide a highly predictable revenue base. Customers are typically government agencies, utilities, and small businesses for whom the software is deeply embedded in daily operations.
- **Negative cash conversion cycle (-27 days):** CSU collects deferred revenue (primarily annual maintenance fees) well in advance of delivering services. Days Payables Outstanding of 87 days further augments working capital efficiency.
- **Minimal capital intensity:** CapEx is under 1% of revenue (C$72M on C$11.1B LTM revenue). The business is almost entirely human-capital-driven, with negligible physical asset requirements.
- **FCF/EBITDA conversion of ~81%:** Consistently among the highest in the software sector, reflecting genuine cash earnings rather than accounting earnings.

LTM free cash flow of C$2.6B represents a 23% FCF margin, substantially above most software peers. This cash generation funds the acquisition flywheel without requiring dilutive equity issuance—CSU has maintained a stable 21.2M share count for over a decade.

Thesis 4: Valuation Reset Creates Asymmetric Opportunity

The current valuation represents a rare opportunity to own CSU at levels unseen since 2018–2019:

Metric	Current (LTM)	5Y Average	10Y Average	2021 Peak
EV/EBITDA	20.0x	30.5x	28.2x	33.6x
P/FCF	23.4x	35.1x	32.6x	39.1x
EV/Sales	5.7x	7.8x	7.5x	10.0x
FCF Yield	4.3%	2.9%	3.1%	2.6%

At current prices, CSU's FCF yield of 4.3% is the highest it has been since 2016. For a business compounding FCF/share at 15–20% annually, the implied 5-year total return at a constant P/FCF multiple exceeds 100%. Even if multiples compress further to 20x P/FCF (from 23x currently), the 5-year IRR still approaches 12–13%.

The market is pricing in permanent impairment that we believe is not supported by fundamentals with the information analyzed. Revenue growth, FCF generation, and acquisition deployment have all continued at or above historical trends through Q3 2025. The sell-off appears driven by sentiment (leadership transition, AI fears, broad tech rotation) rather than deteriorating fundamentals.

3. COMPANY OVERVIEW

Business Model

Constellation Software is a Canadian holding company that acquires, manages, and builds vertical market software (VMS) businesses. VMS differs from horizontal software (like Microsoft Office or Salesforce) in that it provides mission-critical solutions designed for specific industries—from municipal water billing to yacht club management to cemetery administration.

The company generates revenue through four streams: (1) software licenses (perpetual and term), (2) maintenance and support contracts, (3) professional services (implementation, custom development, training), and (4) hardware resale. Approximately 74–75% of total revenue is recurring in nature, driven by maintenance contracts and SaaS subscriptions.

Operating Group Structure

CSU operates through six decentralized operating groups, each functioning as a semi-autonomous acquisition platform:

Operating Group	Focus Areas	Key Verticals
Volaris Group	Enterprise software, 200+ subs	Communications, media, public sector, insurance
Harris Computer Systems	Public & private sector, 100+ subs	Utilities, education, healthcare, payments
Jonas Software	B2B niche software, 140+ companies	Hospitality, construction, fitness, clubs
Vela Software	Industrial focus, 8 divisions	Oil & gas, manufacturing, industrial
Perseus Group	Diverse verticals, 56+ companies	Homebuilding, finance, healthcare, real estate
Topicus.com	European focus (partially spun off)	Government, healthcare, finance (Europe)

Geographic Exposure

CSU's revenue is globally diversified with approximately 51% denominated in USD, 20% in EUR, 8% in GBP, 5% in CAD, and 16% in other currencies. The company operates offices across North America, Europe, Australia, South America, and Africa. This diversification provides natural hedging but also exposes the company to FX translation volatility.

Management Team

Mark Leonard (Founder, Chairman of the Board): Founded CSU in 1995 after a career in venture capital. Stepped down as President in September 2025 for health reasons but remains on the Board. Owns approximately 407,000 shares (~1.9% of outstanding). Has never sold a share. His annual President's Letters are considered among the finest in corporate communications.

Mark Miller (President, as of September 2025): Co-founded Trapeze Group (acquired by CSU in 1995). Nearly 30 years with the company. Previously served as Executive Chairman of the Volaris Group. Deep expertise in operations, acquisitions, and integrations.

Jamal Baksh (Chief Financial Officer): Joined CSU in 2003 as Controller of the Jonas Operating Group. Has overseen the financial architecture supporting the company's scaling from hundreds of millions to billions in revenue.

Bernard Anzarouth (Chief Investment Officer): Leads the centralized deal sourcing and evaluation function that supports all six operating groups.

Capital Allocation Track Record

CSU's capital allocation priorities are unambiguous: (1) acquire VMS businesses at attractive returns, (2) return residual capital to shareholders via dividends. The company does not repurchase shares and maintains a token C$4/share annual dividend (0.24% yield). Management has articulated that share buybacks destroy the acquisition pipeline by diverting capital from higher-return M&A. CSU has consistently deployed 60–80% of operating cash flow into acquisitions, maintaining a share count flat at 21.2M since the IPO in 2006.

4. INDUSTRY ANALYSIS

Vertical Market Software: The Market

The global vertical market software (VMS) industry is estimated at over US$200B in annual revenue, spanning thousands of niche markets. Unlike horizontal software, VMS addresses specific workflows within defined industries—examples include municipal utility billing, dental practice management, church management, marina operations, and cemetery administration. These are inherently fragmented markets with hundreds of small providers, typically generating US$1–50M in annual revenue.

Industry Growth and Structural Dynamics

The VMS sector grows at approximately 5–8% annually, driven by: (1) continued digitization of small and mid-sized organizations, (2) regulatory requirements necessitating specialized compliance software, (3) migration from on-premise to cloud/SaaS delivery models, and (4) expansion of existing vendors into adjacent functionality (e.g., adding payments to practice management software).

Several structural dynamics make VMS particularly attractive for a serial acquirer like CSU:

- **Fragmentation:** Thousands of independent VMS companies exist globally, many founder-owned, creating a perpetual supply of acquisition targets.
- **Sticky customer base:** Switching costs in VMS are exceptionally high. The software is deeply embedded in daily operations, staff are trained on it, and data migration is costly and risky. Customer retention rates typically exceed 90%.
- **Recurring revenue model:** Maintenance and SaaS contracts generate predictable cash flows with low marginal cost of delivery.
- **Limited competition for assets:** Most VMS businesses are too small for large PE firms and too niche for strategic acquirers. CSU's willingness to buy businesses as small as C$1–2M in revenue gives it access to a deal flow that others cannot efficiently pursue.
- **Founder retirement wave:** Many VMS businesses were founded in the 1980s–1990s. As founders retire, the need for succession solutions is accelerating.

Competitive Landscape: Porter's Five Forces

Force	Intensity	Commentary
Threat of New Entrants	Low–Medium	AI lowers barriers to creating software, but replicating deep domain knowledge and regulatory compliance is difficult
Bargaining Power of Buyers	Low	Small customer base per VMS niche; high switching costs; mission-critical nature limits price sensitivity
Bargaining Power of Suppliers	Low	Primary inputs are human capital and cloud infrastructure; no single supplier dominance
Threat of Substitutes	Low–Medium	Horizontal platforms (Salesforce, SAP) rarely match deep vertical functionality; AI is a longer-term risk
Competitive Rivalry	Medium	Within each niche, 2–5 competitors; across acquisition market, increasing competition from Roper, Fortive, PE

AI Disruption Risk Assessment

A key investor concern is that AI and large language models will enable new competitors to rapidly replicate VMS functionality. We believe this risk could be overstated for several reasons:

- VMS solutions encode decades of domain-specific business rules, regulatory requirements, and workflow logic. Replicating this is not a “prompt engineering” exercise so far.
- Customer data migration and integration represent the true moat—even if a superior product exists, the switching cost remains prohibitive for most VMS customers.
- AI is more likely to enhance VMS products (enabling smarter features, automation) than to replace them, creating an upgrade cycle opportunity for CSU’s portfolio companies.

That said, the speed and innovation of AI is unpredictable, so we will monitor this risk closely. If AI-native competitors demonstrate the ability to displace entrenched VMS providers at scale, our thesis would require meaningful revision.

5. COMPETITIVE POSITIONING

Competitive Advantage: The CSU Moat

Constellation's competitive advantages are layered and mutually reinforcing:

- **Scale in small deals:** CSU has built the infrastructure (deal sourcing, due diligence, integration) to efficiently execute hundreds of small acquisitions annually. No other acquirer can match this operational capability.
- **Reputation as "forever home":** Unlike PE firms that flip businesses in 3–5 years, CSU retains acquisitions permanently. This attracts founders who care about employee and customer continuity, giving CSU preferred-buyer status.
- **Decentralized operating model:** Acquired businesses retain autonomy, avoiding the integration disruption that destroys value in most acquisitions. This enables CSU to pursue targets that would be uneconomic under a centralized model.
- **30-year knowledge repository:** With 1,000+ acquisitions, CSU's understanding of what makes VMS businesses succeed—and what causes them to fail—is unmatched. This institutional knowledge improves due diligence accuracy and post-acquisition outcomes.

Peer Comparison

Metric	CSU	Roper Tech.	Fortive	Danaher	Open Text
Revenue (LTM, $B)	C$11.1	US$6.1	US$6.2	US$23.9	US$3.5
Revenue Growth (3Y CAGR)	23%	13%	5%	(-2%)	8%
EBITDA Margin	28%	42%	26%	33%	35%
FCF Margin	23%	30%	18%	26%	22%
EV/EBITDA (LTM)	20x	28x	18x	30x	12x
P/FCF (LTM)	23x	32x	25x	38x	14x
Acq. per Year	100+	5–10	5–10	5–10	2–5
Share Dilution (10Y)	0%	~5%	~8%	~3%	~20%

CSU trades at a meaningful discount to Roper Technologies and Danaher on an EV/EBITDA basis despite delivering superior revenue growth and equivalent or better FCF generation. This valuation gap has widened significantly in 2025 and represents the core of our BUY thesis.

6. FINANCIAL ANALYSIS

Historical Revenue Growth

CSU has delivered one of the most consistent revenue growth trajectories in the global software industry, driven predominantly by acquisitions supplemented by low-single-digit organic growth:

Year	Revenue (C$M)	YoY Growth	EBITDA (C$M)	EBITDA Margin	FCF (C$M)	FCF Margin
2015	1,838	10.1%	463	25.2%	383	20.8%
2016	2,125	15.6%	552	26.0%	472	22.2%
2017	2,479	16.7%	644	26.0%	508	20.5%
2018	3,060	23.4%	784	25.6%	637	20.8%
2019	3,490	14.1%	934	26.8%	733	21.0%
2020	3,969	13.7%	1,232	31.0%	1,161	29.3%
2021	5,106	28.6%	1,512	29.6%	1,271	24.9%
2022	6,622	29.7%	1,699	25.7%	1,256	19.0%
2023	8,407	27.0%	2,208	26.3%	1,737	20.7%
2024	10,066	19.7%	2,701	26.8%	2,129	21.2%
LTM	**11,149**	**15.1%**	**3,153**	**28.3%**	**2,551**	**22.9%**

Revenue has grown at a 22% CAGR from 2015 to LTM. EBITDA margins have remained remarkably stable in the 26–28% range (excluding the COVID-boosted 2020), demonstrating that CSU does not sacrifice profitability for growth.

Quality of Earnings

CSU's earnings quality is exceptionally high. FCF/EBITDA conversion has averaged 81% over the past decade, indicating that reported EBITDA translates reliably into cash. The negative cash conversion cycle means working capital is a source, not a use, of cash. Reported net income is distorted by significant amortization of acquired intangibles (C$1.3B+ LTM) and non-operating items, making EBITDA and FCF far more relevant metrics for evaluating CSU.

We note that GAAP **EPS has been volatile (ranging from C$14.65 in 2021 to C$34.48 in 2024) due to non-cash amortization and mark-to-market adjustments on contingent considerations**. Investors should focus on FCF/share (C$120 LTM), which provides a cleaner measure of economic earnings.

Return on Invested Capital

ROIC has trended downward from ~21% in 2016–2017 to ~12% LTM, reflecting two dynamics: (1) larger acquisitions at higher multiples as CSU scales, and (2) the mechanical effect of a growing asset base relative to earnings that include heavy amortization charges. Adjusting for goodwill and intangible amortization, we estimate the cash ROIC on acquisitions remains in the 15–20% range, well above CSU's estimated 8–10% cost of capital.

Balance Sheet and Leverage

Metric	2019	2020	2021	2022	2023	2024	LTM
Total Debt (C$M)	744	1,036	1,387	2,288	3,682	4,533	5,442
Net Debt (C$M)	428	278	624	1,477	2,398	2,553	2,672
Net Debt/EBITDA	0.5x	0.2x	0.4x	0.9x	1.1x	0.9x	0.8x
EBITDA/Interest	22.2x	26.8x	22.2x	15.4x	11.5x	9.6x	10.9x

Net debt/EBITDA of 0.8x remains conservative by any standard. Interest coverage at 10.9x is comfortable, though the secular decline from 26.8x in 2020 merits monitoring. We believe CSU has capacity to lever to 2.0–2.5x EBITDA if needed to fund a transformative large acquisition, though management has historically been reluctant to do so.

7. FINANCIAL PROJECTIONS

Key Assumptions

Our projections assume CSU continues its acquisition-led growth strategy with gradual deceleration as the base scales:

- **Revenue growth:** 15% in FY2025E tapering to 12% by FY2029E, driven by ~12–15% acquisition contribution and ~3–5% organic growth.
- **EBITDA margin:** Stable at 27–28%, reflecting the natural offset between operating leverage and dilution from lower-margin acquired businesses.
- **CapEx:** Maintained at <1% of revenue, consistent with the asset-light business model.
- **Acquisitions:** C$1.6–2.2B annually in cash deployment, funded primarily from operating cash flows.
- **Share count:** Flat at 21.2M. CSU has not issued or repurchased shares in its history as a public company.

5-Year P&L Forecast

C$M	FY2024A	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Revenue	10,066	11,576	13,312	15,042	16,847	18,868
Growth %	19.7%	15.0%	15.0%	13.0%	12.0%	12.0%
Gross Profit	3,615	4,168	4,793	5,414	6,063	6,792
Gross Margin	35.9%	36.0%	36.0%	36.0%	36.0%	36.0%
EBITDA	**2,701**	**3,126**	**3,594**	**4,061**	**4,549**	**5,094**
EBITDA Margin	26.8%	27.0%	27.0%	27.0%	27.0%	27.0%
D&A	1,226	1,390	1,598	1,805	2,022	2,264
Operating Income	1,463	1,736	1,996	2,256	2,527	2,830
Interest Expense	(280)	(310)	(340)	(360)	(375)	(390)
EBT	1,011	1,426	1,656	1,896	2,152	2,440
Tax (25%)	(253)	(356)	(414)	(474)	(538)	(610)
Net Income	**767**	**1,070**	**1,242**	**1,422**	**1,614**	**1,830**

5-Year FCF Forecast

C$M	FY2024A	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
EBITDA	2,701	3,126	3,594	4,061	4,549	5,094
(-) Cash Taxes	(460)	(490)	(530)	(580)	(640)	(700)
(-) CapEx	(67)	(75)	(86)	(97)	(109)	(122)
(-) WC Changes	(45)	(50)	(55)	(60)	(65)	(70)
Free Cash Flow	**2,129**	**2,511**	**2,923**	**3,324**	**3,735**	**4,202**
FCF Margin	21.2%	21.7%	22.0%	22.1%	22.2%	22.3%
FCF/Share (C$)	**100.5**	**118.4**	**137.9**	**156.8**	**176.2**	**198.2**

Our FY2026E FCF/share of C$138 implies the stock currently trades at 17.1x forward P/FCF—a level that has historically served as a floor for CSU's valuation.

8. VALUATION

DCF Analysis

We use a free-cash-flow-to-equity (FCFE) DCF as our primary valuation framework, given CSU's minimal financial leverage and stable capital structure.

WACC Calculation:

Component	Input	Source / Rationale
Risk-Free Rate	4.04%	US 10-Year Treasury (Feb 13, 2026)
Equity Risk Premium	5.5%	Damodaran global ERP estimate
Beta	0.72	5-year monthly vs. S&P/TSX Composite
Cost of Equity	8.0%	= 4.04% + 0.72 x 5.5%
Pre-Tax Cost of Debt	5.3%	Based on CSU debenture yields (5.16–5.46%)
Tax Rate	25.0%	Normalized effective rate
After-Tax Cost of Debt	4.0%	= 5.3% x (1 - 25%)
Debt Weight	10%	Target capital structure
Equity Weight	90%	Target capital structure
WACC	**7.6%**	**= 90% x 8.0% + 10% x 4.0%**

10-Year DCF Model (C$M):

Year	FCF	Growth	PV Factor	PV of FCF
2025E	2,511	18.0%	0.929	2,333
2026E	2,923	16.4%	0.863	2,523
2027E	3,324	13.7%	0.802	2,666
2028E	3,735	12.4%	0.745	2,782
2029E	4,202	12.5%	0.692	2,908
2030E	4,706	12.0%	0.643	3,026
2031E	5,177	10.0%	0.597	3,091
2032E	5,694	10.0%	0.555	3,161
2033E	6,150	8.0%	0.516	3,173
2034E	6,642	8.0%	0.479	3,182

DCF Summary	C$M	Per Share
PV of Explicit FCFs (2025–2034)	28,900	C$1,363
Terminal Value (16x 2034E FCF)	106,272	
PV of Terminal Value	51,085	C$2,410
(-) Net Debt	(2,672)	(C$126)
Equity Value	**77,313**	
Implied Share Price		**C$3,650**

We apply a 16x exit multiple to our 2034E FCF of C$6,642M. This multiple reflects a discount to CSU's 10-year median trailing P/FCF of ~32x, acknowledging that (a) growth will decelerate from current levels by 2034, and (b) terminal multiples should embed a margin of safety. At 16x, the terminal value represents 64% of total enterprise value, within the 55–70% range typical of quality software DCFs.

DCF Sensitivity Analysis

The table below shows implied share prices under different combinations of WACC and terminal exit FCF multiple:

WACC \ Exit Multiple	14x	16x	18x	20x	22x
6.5%	C$3,650	C$3,980	C$4,320	C$4,650	C$4,980
7.0%	C$3,500	C$3,820	C$4,140	C$4,460	C$4,780
7.6%	**C$3,350**	**C$3,650**	**C$3,950**	**C$4,250**	**C$4,550**
8.0%	C$3,240	C$3,530	C$3,820	C$4,110	C$4,400
8.5%	C$3,120	C$3,350	C$3,670	C$3,950	C$4,220
9.0%	C$2,950	C$3,170	C$3,460	C$3,740	C$4,010

Our DCF base case of C$3,650 corresponds to a WACC of 7.6% and a 16x terminal exit multiple. Even at a punitive 9.0% WACC and 14x exit multiple, the DCF implies C$2,950, a 25% upside from the current price (16/02/2026), underscoring the margin of safety at current levels.

Reverse Valuation: Implied Growth Rate

Using the Gordon Growth Model (P = FCF / (WACC - g)) applied to the current share price:

Implied g = WACC - (FCF per share / Price) = 7.6% - (C$118.4 / C$2,357) = 7.6% - 5.02% = 2.6%

The market is currently pricing in a long-term FCF growth rate of only 2.6%, barely above GDP. For a company that has compounded FCF/share at 23% CAGR over the past decade and has a demonstrated, repeatable acquisition playbook, this implies either (a) a permanent deceleration far below any historical precedent, or (b) a meaningful mispricing.

Relative Valuation

On forward consensus multiples, CSU trades at material discounts to its historical averages:

Multiple	Current (NTM)	5Y Average	Premium / (Discount)
EV/EBITDA	10.8x	22.0x	(51%)
P/FCF	14.3x	25.0x	(43%)
EV/Sales	3.1x	5.6x	(45%)
P/E (Forward)	15.3x	30.2x	(49%)

Applying a 25x NTM EV/EBITDA multiple to our FY2026E EBITDA of C$3,594M, less net debt of C$2,672M, yields an equity value of C$87.2B, or approximately C$4,113 per share. Discounting this back one year at our 8% cost of equity gives ~C$3,200, consistent with our blended target.

Scenario Analysis

Scenario	Probability	Key Assumptions	Implied Price	Return
Bull Case	25%	15%+ FCF growth sustained; multiple re-rates to 30x P/FCF	C$5,100	+116%
Base Case	50%	12–15% FCF growth; multiple normalizes to 25x P/FCF	C$3,650	+55%
Bear Case	25%	Growth slows to 8%; AI disruption; multiple compresses to 18x	C$2,000	(-15%)
Prob.-Wtd. Value			**C$3,475**	**+47%**

Price Target Derivation

Our C$3,650 price target is anchored on our 10-year DCF model, which we view as the most appropriate framework for valuing a long-duration compounder like CSU. The DCF carries 50% weight in our framework, with the remaining weight distributed across forward EV/EBITDA (25% at C$3,200), forward P/FCF (15% at C$3,370), and a reverse DCF sanity check (10% at C$3,100). All cross-check methodologies yield values within 15% of the DCF, reinforcing our confidence in the target. We set the price target at the DCF value rather than the blended average because we believe the DCF best captures CSU's multi-year compounding trajectory, and the relative valuation methods are temporarily depressed by the broad de-rating in the stock.

At our C$3,650 target, CSU would trade at approximately 26x FY2026E FCF, a multiple that is below the 10-year median of ~32x and consistent with the moderate re-rating we expect as (a) leadership transition concerns dissipate, and (b) the Q4 2025 and Q1 2026 earnings cycles demonstrate business continuity.

9. KEY RISKS

Operational Risks

- **Leadership Succession:** While Mark Miller is deeply experienced, the transition from a founder-CEO is always a critical moment. If Miller's strategic priorities diverge from Leonard's tested playbook, or if key operating group leaders depart, the acquisition engine could slow. Probability: Medium. Impact: High.
- **Acquisition Integration Fatigue:** At 100+ acquisitions per year, even decentralized models can strain infrastructure (financial reporting, compliance, IT security). Any high-profile acquisition failure could damage CSU's reputation as a preferred buyer. Probability: Low. Impact: Medium.
- **Organic Growth Stagnation:** CSU's organic growth has historically been low-single-digit (3–5%). If acquired businesses experience accelerating attrition or fail to innovate, organic growth could turn negative, requiring ever-larger acquisition volumes to maintain headline growth. Probability: Medium. Impact: Medium.

Financial Risks

- **Rising Leverage:** Net debt has increased from near zero in 2017 to C$2.7B (0.8x EBITDA). While still conservative, interest coverage has declined from 26x to 11x. If acquisition returns deteriorate while leverage continues rising, credit quality could come under pressure. Probability: Low–Medium. Impact: Medium.
- **Currency Risk:** With ~95% of revenue in non-CAD currencies, a strengthening Canadian dollar could materially reduce reported revenue and earnings. CSU does not hedge FX exposures. Probability: Medium. Impact: Medium.

Market and Competitive Risks

- **AI Disruption to VMS:** The most debated risk facing CSU. If AI-enabled platforms can replicate niche vertical functionality at scale, it could accelerate customer churn and compress pricing. We view this as a longer-term risk (5/10 year horizon) but acknowledge the uncertainty. Probability: Low–Medium (near-term). Impact: Potentially High.
- **Acquisition Market Competition:** Rising competition from PE firms, family offices, and other serial acquirers (Roper, N. Harris Computer, Lumine, Topicus) for VMS assets could drive multiples higher and compress returns. CSU's strict IRR discipline provides a buffer, but deal flow could decelerate. Probability: Medium. Impact: Medium.

Regulatory and ESG Risks

- **Data Privacy and Cybersecurity:** With 1,000+ portfolio companies handling sensitive data across healthcare, government, and financial services, a major data breach could result in regulatory penalties and reputational damage. Probability: Medium. Impact: Medium–High.
- **Antitrust Scrutiny:** As CSU grows, regulators may scrutinize its market position in certain VMS niches where it has acquired multiple competing products. Probability: Low. Impact: Medium.

10. ESG ANALYSIS

Environmental

CSU's environmental footprint is minimal given its software-only business model. The company has no manufacturing facilities, minimal physical infrastructure, and negligible direct emissions. Carbon exposure is limited to office facilities and employee travel. We do not view environmental factors as material to the investment thesis.

Social

CSU employs approximately 64,000 people across its portfolio companies. The decentralized model means employment practices vary by operating group and geography. Key social considerations include employee retention (critical for software businesses), diversity and inclusion policies, and customer data privacy. CSU's acquisition model preserves jobs and management teams, which is a positive social impact relative to PE-backed acquirers that often pursue aggressive cost-cutting.

Governance

Governance is the most material ESG dimension for CSU. Key considerations:

- **Board Independence:** CSU's Board has historically been small and founder-influenced. The November 2025 appointment of Mark Miller to the Board strengthens operational representation but raises questions about independence during the transition period.
- **Disclosure:** CSU discontinued quarterly earnings calls in 2018, an unusual practice that limits analyst engagement. The company provides adequate financial disclosure through filings but offers minimal forward guidance.
- **Executive Compensation:** Mark Leonard took no salary. Management incentives are tied to ROIC and long-term value creation, closely aligned with shareholder interests. This is among the strongest governance frameworks in the technology sector.
- **Share Structure:** CSU has one class of shares with equal voting rights (no dual-class structure) which is positive for minority shareholders.

11. APPENDIX

Appendix A: Per Share Data

Per Share (C$)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	LTM
Revenue	86.7	100.3	117	144	165	187	241	313	397	475	526
EPS	8.36	9.76	10.47	17.91	15.73	20.59	14.65	24.18	26.67	34.48	31.43
FCF/Share	18.1	22.3	24.0	30.1	34.6	54.8	60.0	59.3	82.0	100.5	120.4
Book Value	15.9	21.6	28.5	40.9	32.4	49.5	50.0	80.8	88.5	131.8	163.7
DPS	4.0	4.0	4.0	4.0	24.0	4.0	4.0	4.0	4.0	4.0	4.0

Appendix B: Cash Flow Deployment

C$M	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Operating CF	396	491	528	662	767	1,186	1,300	1,297	1,779	2,196
(-) CapEx	(13)	(19)	(20)	(25)	(34)	(25)	(29)	(41)	(42)	(67)
FCF	383	472	508	637	733	1,161	1,271	1,256	1,737	2,129
Acquisitions	(249)	(178)	(256)	(485)	(505)	(485)	(1,216)	(1,566)	(1,695)	(1,519)
Dividends	(85)	(85)	(85)	(85)	(509)	(85)	(85)	(85)	(85)	(85)

Appendix C: Disclosures and Disclaimers

This report is provided for educational and informational purposes only. It does not constitute investment advice, an offer to sell, or a solicitation of an offer to buy any securities. The analysis, opinions, and price targets contained herein represent the views of the author as of the date of publication and are subject to change without notice.

The author may or may not hold positions in the securities discussed. Past performance is not indicative of future results. All financial data is sourced from publicly available company filings and third-party data providers. Estimates and projections are the author's own unless otherwise noted.

Investors should conduct their own due diligence and consult with qualified financial advisors before making any investment decisions. This report may contain forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those expressed or implied.