MAY 19, 2024

CARVING OUT GROWTH:

HOW LUMINE GROUP ACQUIRES AND SCALES SOFTWARE BUSINESSES

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Seeking Winners

CARVING OUT GROWTH

INTRODUCTION TO LUMINE GROUP INC.

Lumine Group Inc. (Lumine) is a strategic acquirer and developer of Vertical Market Software (VMS) businesses within the global Communications and Media industry. Their core mission lies in identifying and acquiring high-potential VMS companies with a focus on the specific needs of customers in various Communications and Media segments. Lumine fosters a collaborative environment with a talented team of over 3,500 individuals worldwide. The team members bring a diverse range of skills and perspectives, with a strong presence in North America (33%), Europe (excluding UK: 27%), Asia Pacific (23%), and the UK (9%). The remaining 8% are distributed across other regions globally.

Lumine Group Inc. was originally its own vertical that was part of the Volaris Operating Group owned by Constellation Software until it was uniquely branded “Lumine” in 2020 by Volaris and applied the unique decentralized culture learnt under Constellation.

The company is led by CEO David Nyland. David began his career as a software developer at a Tier 1 systems integrator and quickly moved into entrepreneurial roles at two telecommunications software start-ups, which scaled and were sold to strategic acquirers. David joined Volaris in 2014 to build a communications vertical. Since 2014, they have built a portfolio of 28 companies, acquiring at a rate of 2 to 3 acquisitions per year with an average cost of roughly $11.7 million before the acquisition of WideOrbit.

On average, these businesses operated for 21 years before joining Lumine, bringing a wealth of experience and established customer relationships that primarily serve **enterprise customers**.

The software and services offered by these business units (BUs) are often mission-critical, meaning they are essential for a customer's daily operations. Since these solutions represent a relatively small portion of a customer's overall budget, switching providers becomes a less attractive option. The potential disruption and risk associated with changing such crucial software further strengthens customer loyalty.

The end markets Lumine serves are themselves essential – internet and mobile phone connectivity are no longer luxuries but necessities. This underlying demand suggests that economic fluctuations will likely have minimal impact on the products and services offered by Lumine's BUs.

Business Strategy

Lumine Group differentiates itself through a long-term investment approach. Unlike private equity firms that often employ a buy-and-flip strategy, Lumine Group acquires businesses with the intention of fostering their sustainable growth and profitability. This commitment to the acquired companies fosters a unique environment that incentives business unit managers to focus on generating returns on invested capital above the risk free rate. This targeted approach allows Lumine Group to cultivate deep industry expertise within the Communications and Media space. This translates into direct benefits for the portfolio companies. By understanding the specific challenges and opportunities within these sectors, Lumine Group can provide valuable guidance and resources that propel the acquired businesses forward.

The success of Lumine Group hinges on the decentralized management structure. They provide financial security, strategic guidance, and best-practice knowledge sharing to their operating groups and business units, fostering a collaborative environment that leverages the expertise of each VMS unit. Each unit maintains independent management and financial reporting, enabling them to make focused decisions tailored to their market and customer base. Lumine Group closely monitors performance through operating ratios and metrics to ensure optimal results across all their businesses.

Lumine Group's growth strategy is a two-pronged approach. First, they leverage their expertise to identify and acquire promising VMS companies with strong potential in the Communications and Media space.

As a general guideline, they look for companies that have the following:

- **Communications & Media Market Focus:** Lumine Group acquires businesses that focus exclusively on a vertical market niche inside the communications and media domain where they have #1 or #2 level of market share. Market niches can be based on market segment, software use case, the tier of customer, and geography.

- **Mission-Criticality:** Lumine Group acquires software businesses that have proven mission-critical software that solves a major operational need within their customers' business. As a result, customer attrition (churn) is historically low over a long period of time.

- **Customer Diversification:** Lumine Groups businesses typically have a low-concentration customer base so there is little dependency on a single or a small number of customers. Some businesses are locally focused in a region such as Scandinavia or the UK, and others are truly global with customers on many continents.

- **Range of Profiles:** Lumine Group acquires businesses ranging in size of employees, revenues, and ranges of profitability. Every acquisition is influenced by multiple variables, and they actively seek to learn about a company beyond the initial profile.

Following the acquisition, Lumine Group strategically invests in these businesses, bolstering their core functionalities and unlocking opportunities for international expansion by taking advantage of a playbook of over 250+ best practices that leads to **organic growth**. Some of these include operational leadership, sales and marketing expansion, customer success, financial bootcamps and more.

Because of the operating leverage that you can generate through organic growth in a VMS business, a positive feedback loop is created that generates excess cash from operations that Lumine can use to acquire more of these businesses.

Operating Groups

Lumine has three operating groups – two primarily operating in the **communications vertical** and, after completion of the WideOrbit acquisition, **the media operating group**.

Lumine’s robust communications vertical encompass a network of independently managed software business units strategically located across the globe, with headquarters in key locations like Canada, USA, UK, Switzerland, Sweden, Portugal, Singapore and Australia.

These business units cater to a diverse range of communication sub-verticals, including cable companies, fixed-line operators, mobile network providers, and more. Their solutions address mission-critical areas like data clearing, network roaming, service management, billing, and customer engagement, ensuring clients operate efficiently and deliver exceptional service. Some of the key areas they help their customers address are:

- **Network Management:** offering solutions for network roaming, interconnect, and optimization, ensuring smooth and efficient data flow.

- **Billing and Revenue Management:** From subscription billing to real-time charging, their solutions streamline financial processes for both consumers and enterprises.

- **Customer Engagement:** Lumine equips clients with tools for customer insight and engagement, enabling them to build stronger relationships with their subscribers.

- **Emerging Technologies:** Their solutions embrace advancements like enterprise IoT and mobile financial services, allowing clients to stay ahead of the curve.

Following the strategic acquisition of WideOrbit, the media operating group caters to a diverse range of media entities, including television broadcasters, radio stations, cable networks, regional sports networks, and digital media players. The core offering is a comprehensive advertising sales and operations management system, designed to streamline the entire process from scheduling content to generating invoices. Lumine's media solutions empower businesses to:

- **Manage Advertising Sales Across Channels:** the system caters to both direct and indirect sales channels, ensuring seamless advertising management for any media type.

- **Optimize Inventory and Ad Placement:** With advanced tools for inventory management and ad placement optimization, maximize advertising revenue and ensure audience reach.

- **Streamline Workflows:** From scheduling content to generating invoices, the solutions automates workflows, saving time and boost efficiency.

- **Gain Business Insights:** Leverage data-driven analytics to gain valuable insights into advertising performance and optimize campaigns for maximum impact.

Beyond Short-Term Noise

Lumine shareholders were fortunate to have already seen how the Topicus transaction played out (even though it was ultimately different), but there was still questions from shareholders and other folks on the sidelines related to the diluted vs. basic shares outstanding, the one-time preferred dividend and conversion into ordinary shares. On top of that, investors were caught a bit off guard seeing negative organic growth in the past two quarters for Lumine Group and questioned whether or not this company would follow in the footsteps of Constellation and Topicus. As part of this deep dive, I'll do my best to answer the question for the diluted vs basic shares outstanding, organic growth concerns and why I think they are short-term and discussion on the Redeemable Preferred and Special Securities expense.

Fortunately, the conversion of all of the issued and outstanding preferred shares and special shares of the Company (the "Converted Shares") into subordinate voting shares of the Company (the "Subordinate Voting Shares") was completed on March 25, 2024. In connection with the mandatory conversion, the Company issued an aggregate of 189,114,308 Subordinate Voting Shares. As I'll discuss further on, the main thing investors need to take from this is that this is **anti-dilutive and the expense associated with it is non-cash.**

Going forward the performance of Lumine will always be compared to its parent company, Constellation Software and to a lessor extent Topicus. **The investment thesis for Lumine** is as follows:

- ❖ Acquire VMS businesses in the media and communications verticals while achieving a high ROIC on these acquisitions. Typically the company will aim for 20-25% based on net operating profit after taxes (NOPAT).

- ❖ Over-time have consistent low single digit organic growth rates with limited wasted spend on R&D and sales/marketing.

- ❖ Use the free cash flow generated from their existing businesses and redeploying as much as possible back into M&A.

- ❖ Continue to take advantage of its relatively small market cap to do "carve-out" deals that generate high ROIC like the Nokia assets.

❖ Take advantage of the slowing communication and media industry to acquire cheap companies and use best practices to improve the organic growth rates and margin profiles of those acquired companies.

The Lumine Portfolio (before WideOrbit)

Before we get to the details of the spinout transaction, I think it's important to highlight how the Lumine portfolio was doing as part of Constellation and the Volaris Group. First let's take a look at our estimate of ROIC for the 21 portfolio companies in 2020 and 2021.

LUMINE

Lumine Portfolio. Net Operating Profit After Taxes, 2020-2021
In Thousands of USD

	2020	2021
Operating Income (EBIT)	26,332	37,536
Amortization of Intangibles	18,575	25,521
Interest expense on contingent consideration	501	583
Interest expense on lease obligations	133	153
Foreign exchange loss (gain)	1,792	(277)
Other finance costs (income)	(249)	285
Earnings before interest, taxes, and amortization (EBITA)	47,084	63,801
Cash Taxes Paid	3,501	4,182
Net Operating profit after taxes (NOPAT)	**43,583**	**59,619**
Reinvestment Rate TTM		
CAPEX	616	700
Acquisitions	10,841	15,926
Research & Development*	18,370	25,538
Change in Non-Cash NWC	13,100	17,265
Total	42,927	59,429
Estimated Reinvestment Rate	**98%**	**100%**

* Assume 10% of R&D expense needed as part of day-to-day operations

Lumine Invested Capital, 2020-2021
In Thousands of USD

	2020	2021		
Cash	35,144	27,110		
Accounts Receivable, net	45,394	45,109		
Due from related parties, net	59,837	111,629		
Unbilled Revenue	4,637	7,219		
Inventories	-	26		
Other Current Assets	14,357	16,679		
Total Current Assets	159,369	207,772		
Non-interest-bearing current liabilities	93,333	126,218		
Net working capital	66,036	81,554		
Property & Equipment, net	3,511	2,517		
Right of use assets	4,698	4,503		
Intangible assets	88,880	103,249		
Other long-term assets	10,506	10,365		
Total Invested Capital	173,631	202,188		
ROIC	**25%**	**29%**		
Average ROIC	**27%**			
Reinvestment Rate Scenario's	60%	70%	80%	90%
Theoretical Intrinsic CAGR	**16%**	**19%**	**22%**	**25%**

Source: Seeking Winners & Company Filings

The Lumine portfolio of companies had achieved an 27% average return on its invested capital over this two year period indicating part of the investment thesis was in motion prior to the WideOrbit acquisition.

Next, looking at the organic revenue figures quarter over quarter since December 31, 2020 we see the following:

Quarterly organic growth										Quarters After WideOrbit Acquisition				
	Dec. 31 2020	Mar. 31 2021	Jun. 30 2021	Sep. 30 2021	Dec. 31 2021	Mar. 31 2022	Jun. 30 2022	Sep. 30 2022	Dec. 31 2022	Mar. 31 2023	Jun. 30 2023	Sep. 30 2023	Dec. 31 2023	Mar. 31 2024
Licenses	-22%	21%	30%	50%	15%	-7%	6%	-26%	23%	-4%	-25%	-14%	-34%	-16%
Professional services	-5%	3%	28%	24%	3%	2%	-17%	-23%	-25%	-10%	10%	16%	4%	13%
Hardware and other	48%	-31%	-53%	197%	-7%	-23%	-5%	-55%	-12%	25%	31%	70%	36%	-59%
Maintenance and other recurring	11%	12%	17%	9%	3%	0%	-4%	-11%	-9%	-2%	1%	5%	2%	0%
Revenue	**2%**	**10%**	**16%**	**23%**	**4%**	**-2%**	**-6%**	**-18%**	**-9%**	**-3%**	**0%**	**6%**	**-2%**	**-2%**

Quarterly organic growth (Adjusted for FX)										Quarters After WideOrbit Acquisition				
	Dec. 31 2020	Mar. 31 2021	Jun. 30 2021	Sep. 30 2021	Dec. 31 2021	Mar. 31 2022	Jun. 30 2022	Sep. 30 2022	Dec. 31 2022	Mar. 31 2023	Jun. 30 2023	Sep. 30 2023	Dec. 31 2023	Mar. 31 2024
Licenses	-24%	16%	23%	47%	15%	-5%	12%	-20%	28%	0%	-26%	-16%	35%	-17%
Professional services	-8%	-3%	16%	18%	3%	6%	-9%	-16%	-18%	-5%	10%	12%	2%	11%
Hardware and other	43%	-37%	-58%	176%	-8%	-21%	5%	-47%	-1%	33%	31%	64%	31%	-60%
Maintenance and other recurring	7%	5%	7%	6%	3%	3%	3%	-4%	-3%	1%	1%	3%	1%	0%
Revenue	**-1%**	**3%**	**7%**	**19%**	**4%**	**1%**	**1%**	**-14%**	**-2%**	**1%**	**1%**	**4%**	**-3%**	**-3%**

Source: Seeking Winners & Company Filings

As you can see above the Lumine portfolio of companies was averaging 2% organic growth from the Dec 31, 2020 quarter to the Dec 31, 2022 quarter; and more importantly a 3% organic growth rate in maintenance and other recurring revenue. When you add the 2% average organic growth rate to the average invested capital of 27%, shareholder value has increased at a rate of 29% over this time period. This average over the time period includes and large blip you see there in the September 2022 quarter due to customer churn of a large customer. Over time, Lumine will stabilize the currently low organic growth rate, as they continue to add businesses to the portfolio and improve them over time.

MECHANICS OF THE SPINOUT TRANSACTION

Background and Rationale of the Transaction

Constellation Software (CSI) is pioneering a new approach to mergers and acquisitions (M&A) with the strategic use of spin-outs. This strategy allows them to acquire companies that wouldn't traditionally fit under the CSI umbrella, due to factors like valuation or a desire for the acquired company to maintain its own identity.

The success of the Topicus (TOI) spin-out, which became a thriving independent company, has convinced CSI of the effectiveness of this approach. They believe that by spinning out newly acquired businesses like Lumine Group, these companies can achieve faster growth and stronger performance as independent entities.

This strategy, as indicated by CSI management, has the potential to unlock significant shareholder value through future spin-outs of similar targeted acquisitions. This signals a new chapter in CSI's growth strategy, leveraging the power of independent, focused companies to achieve optimal results.

As you'll see in further detail below, the deal was done through a combination of cash, stock and debt.

- **Debt Restructuring:** Lumine will use some of the new debt they've taken on to pay off WideOrbit's existing debt. This simplifies the financial picture and improves WideOrbit's financial health.
- **Stock as Payment:** A significant portion of the purchase price ($222 million) will be paid using Lumine stock. This reduces Lumine's immediate cash outlay and ties WideOrbit's success to Lumine's shareholders.
- **Strategic Spin-Out:** The high cash portion of the purchase price ($180 million) sheds light on the reason behind Lumine's recent spin-out. Without it, they would not have had the cash themselves to pull this off.

Streamlining the Structure: A Look at Lumine Group's Pre-Spin-Out Steps

Before Lumine Group became an independent company, a series of transactions took place. These steps can be summarized as follows:

1. **Consolidating the Lumine Portfolio:** All businesses currently under Lumine (the Lumine Portfolio) were brought together under one parent company, Lumine Holdings.

2. **Restructuring Lumine Group's Shares:** Lumine Group created different types of shares with varying voting rights. Its share capital will now include the Super Voting Share, the Subordinate Voting Shares, the Preferred Shares and the Special Shares. Lumine also reclassified the common share that was issued to Trapeze (an indirect wholly-owned subsidiary of CSI) in connection with the incorporation of the Company as the Super Voting Share.

3. **Issuing New Shares:** Lumine Group issued new shares (Spin-Out Shares and Preferred Shares) to Trapeze, a subsidiary within the Constellation Software (CSI) group.

4. **Merging Entities:** Lumine Group officially merged with Lumine Holdings, forming a single entity named Lumine Group Inc.

5. **Distributing Shares:** Trapeze distributed the newly acquired Spin-Out Shares to another subsidiary, Volaris as a dividend in kind. Volaris then distributed these shares to CSI in the same manner.

CSI Shareholders Got Lumine Shares (with a Twist)

1. **Indirect Share Issuance:** Lumine Group, through a series of pre-spin-out maneuvers (Pre-Closing Reorganization), issued new shares (Spin-Out Shares) to Constellation Software (CSI), but not directly.

2. **Special Dividend Distribution:** To finalize the spin-out and transfer ownership, CSI distributed these Spin-Out Shares as a special dividend to its own shareholders (CSI Shareholders) on the record date.

3. **Exchange Ratio:** CSI shareholders received Spin-Out Shares in exchange for their existing CSI common shares, but not on a one-to-one basis. There was a specific exchange ratio of 3.0003833 Spin-Out Shares for every single CSI Common Share.

4. **No Fractional Shares:** To avoid complications, any calculations that resulted in a fractional number of Spin-Out Shares for a CSI shareholder were rounded down to the nearest whole number. Three shares in this case.

While CSI is distributing Spin-Out Shares, it's important to understand that they are retaining a significant portion of the total Lumine Group shares. This means CSI still holds a controlling interest in the newly independent Lumine Group Inc.

The result is that CSI shareholders received the main operating businesses of the new spin-out company which include the Lumine portfolio of companies and the business of the acquiree – **WideOrbit Inc**., a U.S – based media vertical market software (VMS) provider.

PURCHASE PRICE ANALYSIS OF WIDEORBIT

WideOrbit is a software company founded in 1999 Eric Mathewson that helps businesses manage their advertising operations. Their software handles tasks like sales, scheduling (traffic), digital media, radio automation, and optimizing promotions. They were until recently acquired a private company headquartered in San Francisco with offices across the US that employed around 460 people.

Most of WideOrbit's income comes from subscriptions to their software boasting a almost 100% renewal rate and 94% of their revenue is recurring, which they earn roughly 70% gross profits and a 26% operating margin. These multi-year contracts can include various services:

- Licenses to use their software
- Software delivered as a service (SaaS)
- Maintenance and support after software is delivered
- Software updates (if available)

The cost of these services is spread out evenly over the length of the contract.

WideOrbit also offers professional services like implementation, training, and custom development. These are billed as they are completed or when the client approves them.

Finally, they recognize revenue from selling software, hardware from other companies, advertising services, and content delivery as these services are delivered.

The purchase price for WideOrbit determined using a discounted cashflow methodology was $490 million which was funded through a combination of cash, debt, and issuance of special shares.

The purchase price consisted of $274,365,000 of cash consideration, including $181,485,000 as required by the agreement less a $10,000,000 adjustment for net indebtedness at the pro forma date and $103,778,000 for the repayment of existing debt. The remaining $221,815,000 of the purchase price was settled as equity consideration in the form of Special Shares in the Company.

To value the goodwill and other intangible assets acquired by Lumine, management used what's known as the **relief-from-royalty method** to value the acquired technology and the **multiple-period excess earnings method** ("MEEM") to value the customer relationship assets.

The underlying premise of the relief-from-royalty method is that the fair value of the technology is equal to the costs savings (or the "royalty avoided") resulting from the ownership of the asset by the avoidance of paying royalties to license the use of the technology from another owner. Accordingly the income forecast reflects an estimate of a fair royalty that a licensee would pay, on a percentage of revenue basis, to obtain a license to utilize the technology.

The MEEM method isolates the cash flows attributable to the subject asset by utilizing a forecast of expected cash flows less the returns attributable to other enabling assets, both tangible and intangible.

This leads to the Wide Orbit technology assets being valued at $253,837,000 and the customer relationship assets being valued at $311,294,000 assuming 0% growth over the projected forecast period. Below in exhibit 1 and 2 is a breakdown of the purchase price summary and pro-forma purchase price allocation for WideOrbit.

Exhibit 1 - Purchase Price Summary
(In thousands of U.S. dollars)

Cash proceeds paid to WideOrbit shareholders	171,485
Settlement of WideOrbit net indebtedness	103,778
Issuance of Special Shares to WideOrbit	221,815
Gross purchase price	**$497,078**

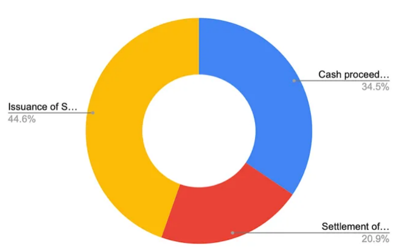


Exhibit 2 - Pro Forma Purchase Price Allocation
(In thousands of U.S. dollars)

Cash	10,000
Accounts Receivable	11,824
Other Current Assets	25,078
Property & Equipment	326
Other Non-Current Assets	17,964
Deferred Income tax assets	9,709
Technology assets	253,837
Customer assets	311,294
	$640,033
Current Liabilities	24,007
Deferred revenue	9,391
Deferred income tax liabilities	146,934
Other non-current liabilities	7,524
	$187,856
Goodwill	**44,901**
Total Consideration	**$497,078**

Exhibit 3 - Pro Forma Condensed Combined Statement of Income
For the year ended December 31, 2021
(In thousands of USD, except share and per share amounts. Due to rounding, numbers presented may not foot.)

	Lumine Group Inc.	Lumine Portfolio	WideOrbit Inc.	Pro Forma Adjustments	Pro Forma Combined
Revenue					
License	$ -	$ 36,745	$ 1,418	$ -	$ 38,163
Professional Services	$ -	$ 49,836	$ 7,425	$ -	$ 57,261
Hardware and other	$ -	$ 8,969	$ 1,974	$ -	$ 10,943
Maintenance and other recurring	$ -	$ 132,806	$ 155,777	$ -	$ 288,583
	$ -	**$ 228,356**	**$ 166,595**	**$ -**	**$ 394,951**
Expenses					
Staff	$ -	$ 120,092	$ 77,101	$ -	$ 197,193
Hardware	$ -	$ 5,166	$ 5,322	$ -	$ 10,488
Third party license, maintenance & professional services	$ -	$ 10,344	$ 18,394	$ -	$ 28,738
Occupancy	$ -	$ 2,102	$ 6,225	$ -	$ 8,327
Travel, telecommunication, supplies, software & equipment	$ -	$ 8,002	$ 512	$ -	$ 8,514
Professional fees	$ -	$ 3,203	$ 12,119	$ 9,104	$ 24,426
Other, net	$ -	$ 10,484	$ 1,811	$ -	$ 12,295
Depreciation	$ -	$ 5,161	$ 323	$ 641	$ 6,125
Amortization of intangible assets	$ -	$ 25,521	$ 708	$ 45,981	$ 72,210
	$ -	**$ 190,075**	**$ 122,517**	**$ 55,726**	**$ 368,318**
Redeemable preferred & special shares expense (income)	$ -	$ -	$ -	$ 80,197	$ 80,197
Finance & other expenses (income)	$ -	$ 744	$ (13,323)	$ (20,960)	$ (33,539)
	$ -	**$ 744**	**$ (13,323)**	**$ 59,237**	**$ 46,658**
Income (loss) before income taxes	**$ -**	**$ 37,537**	**$ 57,401**	**$ (114,963)**	**$ (20,026)**
Current income tax expense (recovery)	$ -	$ 10,829	$ 3,721	$ 4,814	$ 19,364
Deferred income tax expense (recovery)	$ -	$ (759)	$ 11,151	$ (12,139)	$ (1,747)
Income tax expense (recovery)	**$ -**	**$ 10,070**	**$ 14,872**	**$ (7,326)**	**$ 17,616**
Net income (loss)	**$ -**	**$ 27,467**	**$ 42,529**	**$ (107,637)**	**$ (37,642)**
Weighted average shares outstanding					
Basic	1				63,582,712
Diluted	1				253,104,971
Earnings (loss) per share					
Basic	$ -				$ (0.59)
Diluted	$ -				$ (0.59)

Source: Seeking Winners & Company Filings

On a fully diluted basis, there are 253,104,971 shares outstanding however 189,522,259 shares are excluded from the calculation of diluted earnings per share as they are anti-dilutive, thus the diluted earnings per share is presented equivalent to basic earnings per share. The shares excluded are outlined below, each of which is anti-dilutive:

- **Conversion of Preferred Shares** to Subordinate Voting Shares at pre-determined ratio 154,519,381.
- **Conversion of Special Shares** to Subordinate Voting Shares at pre-determined ratio 35,002,878.

Exhibit 4 - Pro Forma Earnings Per Share
For the year ended December 31, 2021
(In thousands of USD, except share and per share amounts. Due to rounding, numbers presented may not foot.)

Basic		
Net income	$	(37,642)
Basic weighted average shares		63,582,712
Basic earnings per share		**(0.59)**
Diluted		
Net income (loss)	$	(37,642)
Add: Redeemable Preferred Shares and Special Shares expense	$	80,197
Net income (loss) before Preferred Shares and Special Shares expense	$	42,555
Diluted weighted average shares		253,104,971
Diluted earnings per share		**(0.59)**

Source: Seeking Winners & Company Filings

I've estimated that **before WideOrbit was acquired** they had an average return on invested capital of **53%**. I estimated NOPAT in 2020 to be roughly $38 million USD and roughly $50 million in 2021. Based on my estimated reinvestment rates, WideOrbit owners had been increased the intrinsic value of the business in 2021 by 25%.

WIDEORBIT Say Hello to a Wider World™

Exhibit 5: WideOrbit Inc. Net Operating Profit After Taxes, 2020-2021
In Thousands of USD

	2020	2021
Operating Income (EBIT)	19,247	57,401
Amortization of Intangibles	5,009	4,637
Interest expense on debt	9,045	20,905
Interest expense on lease obligations	654	613
Amortization of debt issuance costs	673	2,017
Foreign exchange loss (gain)	122	(53)
Gain on sale of cash generating unit	-	(39,060)
Reserve for (recovery of) accounts receivable	663	77
Loss on extinguisment of debt	-	2,619
Loss on fair value of warrants	1,494	2,445
Loss on fair value of preferred shares	2,857	-
Other finance costs (income)	4	(150)
Earnings before interest, taxes, and amortization (EBITA)	39,768	51,451
Cash Taxes Paid	1,498	1,250
Net Operating profit after taxes (NOPAT)	**38,270**	**50,201**
Reinvestment Rate TTM		
CAPEX	410	1,077
Acquisitions	-	-
Research & Development*	30,930	33,161
Sales & Marketing	11,499	10,767
Change in Non-Cash NWC	(19,332)	(21,423)
Total	23,507	23,582
Estimated Reinvestment Rate	**61%**	**47%**

* Assume 10% of R&D expense needed as part of day-to-day operations

Exhibit 6: WideOrbit Invested Capital, 2020-2021
In Thousands of USD

	2020	2021		
Cash	23,427	57,674		
Contract Asset - Current	15,569	16,189		
Accounts Receivable, net	24,372	15,386		
Income Tax Receivable - Current	6,703	16		
Inventories	336	781		
Other Current Assets	6,080	4,190		
Total Current Assets	76,487	94,236		
Non-interest-bearing current liabilities	34,688	36,799		
Net working capital	41,799	57,437		
Property & Equipment, net	1,830	1,483		
Operating lease right-of-use assets	11,703	8,139		
Intangible assets, net & Goodwill	10,355	8,976		
Other long-term assets	9,271	16,222		
Total Invested Capital	74,958	92,257		
ROIC	**51%**	**54%**		
Average ROIC	**53%**			
Reinvestment Rate Scenario's	30%	40%	47%	61%
Theoretical Intrinsic CAGR	**16%**	**21%**	**25%**	**32%**

Source: Seeking Winners & Company Filings

On a Pro-forma basis, in 2021, the WideOrbit would have had total revenue of $167 million and generated EBITDA of around $48.6 million as seen below in exhibit 7 implying that the EV/EBITDA paid was around 10x and a 2.9x EV/Sales multiple paid. While there are limited pure comps for WideOrbit, the table in Exhibit 7 takes a look at comps related to the combined business that are trading at an average multiple of 11x FY1 EBITDA and 3x sales, roughly in line with the multiple paid for the WideOrbit business.

Exhibit 7: WideOrbit Inc. & Lumine Group Comps - Last Completed Fiscal Year

			Valuation EV/ (FY1)				
Company	**Ticker**	**EV (US$M)**	**Sales**	**EBITDA**	**Sales**	**Y/Y Sales Growth %**	**EBITDA Margin**
WideOrbit	**N/A**	**490**	**2.9x***	**10x***	**167**	**10%**	**29%**
Criteo ADR	CRTO-US	1,558	0.74x	7.3x	2,251	8%	11%
Magnite	MGNI-US	1,998	3.55x	17.1x	468	111%	22%
Enghouse	ENGH-CA	2,067	4.68x	14.3x	332	-9%	33%
Oracle	ORCL-US	347,791	7.55x	14.1x	42,440	5%	45%
Amdocs Ltd.	DOX-US	11,797	2.53x	11.1x	4,576	7%	20%
CSG Systems Int.	CSGS-US	2,218	2.06x	9.4x	1,089	4%	18%
RCS Media Group	RCS-IT	367	0.40x	3.1x	1,000	13%	14%
Average			3.07x	10.9x			
Median			2.53x	11.1x			

**Represents take-out multiple paid by Constellation on FY21 results.*

Source: Seeking Winners & CIBC World Markets Inc.

Looking at it in the context of Constellation's larger deals, the WideOrbit purchase price is slightly above the average ~2x sales multiple paid.

Exhibit 8: Historical Large Acquisitions, Metrics

Target	Price (US$MM)	Revenue (US$MM)	EV/Sales	Description
Allscripts	700	928	0.75x	Provider of electronic health record (EHR) and practice management software to hospitals and large physician practices.
Topicus	€217	€101	2x	European developer of vertical market software. Focus on vertical market integration in education, healthcare, municipalities and financial services.
Acceo	CAD$250	CAD$500	2.1x	Canadian IT provider of management, accounting and payment solutions for SMB.
MDS Global	50	88	1.5-2.0x	Provider of business support systems (BSS) to telecom service providers. (Lumine Portfolio Company)
Salvia	50	€15	3x	French provider and integrator of software solutions for private companies, real estate- and local public entities.
Sygnity	65	85	1.5x	Provider of information technology services to corporate and institutional clients.

**Price and revenue figures presented in US$ unless indicated otherwise.*

Caption

While the headline future return estimates for the WideOrbit deal might seem low, it doesn't capture the full picture for Lumine shareholders. Here's why:

- **Hidden Cash Flow:** Reported profits underestimate WideOrbit's actual cash generation because they include amortization of acquisition costs. This is an accounting expense that doesn't involve real cash outflow. There's one exception to this however. In 2021, WideOrbit sold their streaming business unit Audacy, Inc. for a net gain of $28.7 million USD (the "Streaming Divestiture"), which was comprised of a $39.1 million gain on the sale less a $10.4 million accrued income tax expense on the gain, which did improve net income in that year.

- **Sustainable Growth, Low Cash Burn:** WideOrbit's future growth is expected to be slow and steady. VMS businesses typically require minimal cash investment to achieve this kind of organic growth. Therefore, the expenses related to organic growth likely get balanced out by the revenue increases they generate. This is evident as WideOrbit closed a new multiyear $12.9 million USD contract at the end of 2021 for radio product automation, which lead to about half of their 10% organic growth from 2020 to 2021.

- **Stronger Cash Return:** The true return on investment, measured by cash flow instead of reported profits, is likely much higher. Lumine's initial cash outlay for WideOrbit was $274.4 million USD.

CONSOLIDATED CAPITALIZATION AFTER THE ACQUISITION

Just like in the Topicus acquisition, Constellation Software (CSI) utilized a unique financial structure. This structure involved the issuance of Preferred Shares and a Super Voting Share. These shares could be converted into regular common shares if the Lumine Group share price reached certain pre-defined targets, or they could be redeemed by CSI at specific price points.

Directly after the spin-out the capital structure was as follows:

- 63,582,712 Common shares outstanding, mostly owned by **public shareholders**.
- 63,582,712 Preferred shares with 5% cumulative dividend entitlement, **owned by CSI**.
- 1 Super Voting Share, **owned by CSI**.
- 10,204,294 Special Shares, **owned by former shareholders of WideOrbit**.

Holders of the Preferred Shares and the holders of the Special Shares are entitled to receive fixed preferential cumulative dividends at the rate of 5% per annum on the Initial Face Value. The Initial Face Value was based on the enterprise value of the Company initially being **$1.604 billion.**

Lumine Group's share structure might seem complex at first glance. Let's break it down to clarify how voting power is distributed.

- **Subordinate Voting Shares:** These shares will represent a significant portion (86.17%) of the total outstanding shares that have voting rights. However, their voting power is diluted, collectively granting them only 43% of the total votes.
- **Super Voting Share:** This single share will hold minimal ownership (0.0000014% of total outstanding shares) but will carry significant voting power (50.1% of all votes).

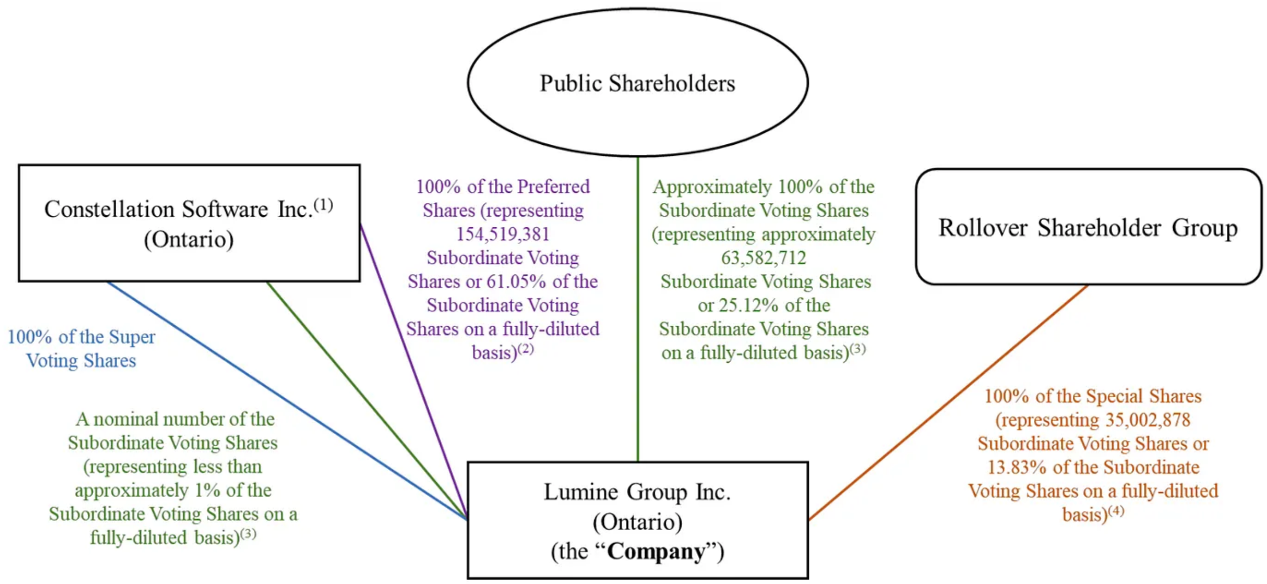
This structure allows Constellation Software (CSI) to maintain control of Lumine Group through the Super Voting Share. The total diluted number of shares of 253,104,971 can be broken down as follows:

- 154,519,381 Common Shares owned by CSI, equivalent to 61.05%
- 63,582,712 Common Shares owned by public shareholders, equivalent to 25.12%

- 35,002,878 Common Shares owned by former shareholders of WideOrbit, equivalent to 13.83% of the total outstanding voting shares and 6.9% of the votes attached to all of the outstanding voting shares.

On March 25, 2024 the Preferred Shares and Special Shares were converted to 189,114,307 Subordinate Voting Shares based on the 60-day volume weighted average trading price of the Subordinate Voting Shares. Subsequent to the conversion, the total issued and outstanding share capital of the Company now reflects **256,620,388 Subordinate Voting Shares and no Preferred Shares and Special Shares outstanding**.

A simplified diagram of the Company's corporate structure after the pre-closing organization and after the Spin-Out and acquisition are as follows:



Source: Seeking Winners & Company Filings

The bottom line is that Constellation indirectly owns a significant portion (60%) of Lumine and whether you hold shares in both Lumine and Constellation or not, you're likely to receive a good portion of the preferred dividend payout from Lumine. The ownership structure is designed to ensure Constellation shareholders benefit from Lumine's performance through these dividends.

SKIN IN THE GAME: ALIGNING INCENTIVES AT LUMINE

Now that we've discussed the details of the WideOrbit transaction above, we can now shift our focus to looking at making sure the management team of the new combined entity Lumine Group Inc. is aligned with shareholders before considering further analysis of the company.

The newly formed Lumine will benefit from the experience of several key Constellation managers appointed as directors. Constellation's selection of 6 out of the 7 board members should come as reassurance to investors as their presence ensures some continuity and allows Constellation to play a vital role in critical decisions, especially regarding acquisitions.

Name and Place of Residence	Position(s) with Lumine Group Inc.	Principal Occupation	Director Since	Subordinate Voting Shares Beneficially Held or Over Which Control is Exercised
MARK MILLER TORONTO, ONTARIO CANADA	Director, Chairman of the Board, and Chair of CNHR Committee	Chief Executive Officer, Volaris Operating Group and Trapeze Operating Group of CSI and Chief Operating Officer, CSI	2022	837,728 (1.32%)
BRIAN BEATTIE[(1)] TORONTO, ONTARIO CANADA	Director and Chief Financial Officer	Chief Financial Officer, Volaris Operating Group	2022	66,548 (0.10%)
DAVID NYLAND LYNDHURST, ONTARIO CANADA	Director and Chief Executive Officer	Chief Executive Officer, Lumine Group Inc.	2022	8,420 (0.01%)
ROBIN VAN POELJE BLARICUM, THE NETHERLANDS	Director	Director, Chairman of the Board, and Chief Executive Officer, Topicus.com Inc.	2022	9,478 (0.01%)
ERIC MATHEWSON[(2)] SAN FRANCISCO, USA	Director	Chief Executive Officer, WideOrbit Inc.	N/A	• (•%)
				•

(1) Member of the Audit Committee.
(2) Will join the Company's board of directors immediately following the Acquisition Closing. Accordingly, the Company does not believe Mr. Mathewson is liable under this prospectus.

Source: Lumine Prospectus

Acquisition Approval Process

- **Under $20 million:** Any acquisition over $20 million requires unanimous Lumine board approval. This sets a high bar for deals in this size range, considering Lumine's typical acquisition size of $11 million. This suggests a cautious approach to larger purchases, which makes sense given the ROIC tends to decrease as deal size increases.
- **Over $100 million:** Acquisitions exceeding $100 million require approval from Constellation's board alone. This gives Constellation significant control over larger purchases. This might be seen as a way to ensure Lumine doesn't take on excessive debt or pursue overly ambitious acquisitions outside of Constellation's established strategy.

Constellation's involvement suggests a focus on careful spending and making sure hurdle rates are met, providing an extra layer of oversight on larger acquisitions. Constellation has a proven track record in the vertical market software (VMS) space, and their guidance will be valuable.

Compensation Structure

The newly formed Lumine is taking a page out of Constellation's playbook with a compensation structure designed to align management's interests with those of shareholders. Here's the breakdown:

- **Employee Ownership:** A significant portion of the after-tax bonus for managers and employees will be directed towards purchasing Subordinate Voting Shares in the company. This incentivizes them to think like owners and share in the company's long-term success.
- **Lock-Up Period:** To ensure long-term commitment, these Subordinate Voting Shares will be subject to a lock-up period of 3 to 5 years. This prevents immediate selling and encourages a focus on building Lumine's value over time.
- **"Encouraged" vs. Reality:** While the program uses the word "encouraged" for employee participation, it's worth noting the similarity to Topicus' structure. In Topicus' case, despite using the same phrasing, management ended up investing their bonuses in shares. This suggests a strong likelihood that Lumine's management will follow suit.
- **Board Member Commitment:** Board members are also incentivized to be long-term thinkers. They are required to invest 50% of their bonus directly into Lumine shares.

- **Performance-Based Bonus:** Importantly, the bonus itself is tied directly to the company's performance. It's calculated based on the difference between the Return on Invested Capital (ROIC) and the cost of capital. This means there's no bonus payout unless the company creates shareholder value.

- **No Dilution:** Similar to Constellation and Topicus, Lumine Group shareholders can sleep well at night knowing that the management team won't dilute shareholders like so many other companies in North America. This alone could add 2-4% to your CAGR to your return vs other software companies in the US.

Overall, this compensation structure creates a strong alignment between Lumine's management team and its shareholders. Everyone benefits when the company performs well and is a welcome sign.

ORGANIC GROWTH DRIVERS & CASH PROFITABILITY

Organic Growth Drivers

Growing a software business organically is arguably the most demanding management task. It necessitates a long-term perspective and a deep understanding of both customer needs and the capabilities of the business unit (BU) leaders.

Lumine Group has three sources of organic growth:

- **New Maintenance:** this is the most important factor for Lumine's organic growth. If maintenance revenue continues to grow organically, there's also reason to believe that the intangible assets are not deteriorating.
- **Price Increases & Other:** I expect price increases to grow at the same pace of inflation at a rate of 2-5% annually.
- **Attrition - Lost Modules & Customers: t**ypically because Lumine is usually buying businesses that are either run poorly or declining in some way, these businesses usually have higher average attrition, lower profitability and require a far higher percentage of new name client acquisition per annum to maintain their revenues. Given this, investors should expect that the attrition will have a negative impact on organic growth going forward.

Although Lumine doesn't break out the sources of their organic growth, what we can do is look back in history to see how this played out for Constellation Software to get a sense of different scenarios that might take place. The following is the organic growth rates and sources for Constellation from 2007-2016:

Exhibit 9: CSI Organic Growth 2007-2016

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Organic Sources										
a) New Maintenance	9%	9%	8%	8%	8%	8%	10%	10%	9%	9%
b) Price Increases & Other	9%	9%	4%	6%	5%	5%	6%	7%	5%	5%
c) Attrition - lost modules	-2%	-3%	-3%	-3%	-2%	-2%	-2%	-4%	-2%	-4%
d) - lost customers	-4%	-4%	-4%	-4%	-3%	-3%	-5%	-5%	-5%	-5%
Total Organic Growth	**12%**	**11%**	**5%**	**7%**	**8%**	**8%**	**9%**	**8%**	**7%**	**5%**

Source: Seeking Winners & Company Filings

In 2011 Constellation (CSI) had maintenance revenue of 417 million USD, which is roughly what Lumine has on an annualized basis in 2024 (assuming no further acquisitions in 2024). In this year CSI had 8% organic growth. Looking to 2015, this is the year where CSI's market cap and Lumine's market cap were roughly the same, however CSI had maintenance revenue of $1.2 billion.

It's unfair to hold any company to CSI's standards and thus I have presented my expectations for Lumine's organic growth below over the next 10 years averaging 2-3%.

Exhibit 10: Lumine Organic Growth Estimates 2024-2033

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Organic Sources										
a) New Maintenance	5%	5%	5%	5%	5%	5%	5%	6%	5%	6%
b) Price Increases & Other	3%	4%	4%	4%	3%	3%	4%	5%	4%	5%
c) Attrition - lost modules	-2%	-3%	-3%	-3%	-2%	-2%	-2%	-4%	-2%	-4%
d) - lost customers	-4%	-4%	-4%	-4%	-3%	-3%	-5%	-5%	-5%	-5%
Total Organic Growth	**2%**	**2%**	**2%**	**2%**	**3%**	**3%**	**2%**	**2%**	**2%**	**2%**

Source: Seeking Winners & Company Filings

Although I've estimated lower organic growth for Lumine compared to Constellation, my guess is it will be more consistent due to the higher percentage of recurring revenue that Lumine has at a similar stage of growth. There will be discrepancy between the overall organic growth rate and the maintenance growth rates, because maintenance revenue as a portion of total revenue will continue to increase. There will also be a small change in the revenue mix over time through the elimination of low-margin, non-maintenance activities and a portion of traded off one-time licenses for increased recurring revenues. Finally, if the 3-5% of lost customers above makes you nervous, let me put it another way. -4% attrition is the equivalent to saying that customers stay with you for at least 26 years. For an annual cost that rarely exceeds 1% of a Lumine's customers' revenues, their products help them run their businesses efficiently, adopt their industry's best practices, and adapt to changing times. I expect Lumine will continue to have customers that stay with them for the long-term.

The Power of '"Human Scale" Business Units

Historically, organic growth has not been a struggle for Lumine's best BU managers. Within the Constellation family of companies, typically what happens is that when most of the current Operating Group Managers ran single BU's, they had strong organic growth businesses. As those managers gave up their original BU management position to oversee a larger Group of BU's (i.e. became Portfolio Managers), the organic growth of their original BU's decreased and the profitability of those BU's increased. I expect this to be no different as Lumine scales.

Growing a company organically can be challenging. While Lumine has developed methods to encourage natural growth, their most effective tool is keeping Business Units (BUs) small.

Small BU's function just like a new VMS company in it's "golden age" with just a handful of departments (marketing, R&D, etc.) led by individual managers, where everyone knows each other, performance is clear, and innovation thrives. This is how many successful startups function.

However, as a company expands (around 30-40 employees), some departments need more staff. While a talented leader might manage a larger team initially, it often leads to splitting the team with new managers. This creates bureaucracy and hinders communication, stifling growth.

Research confirms that complexity skyrockets faster than headcount in growing businesses. Here's where "human-scale" BUs come in.

This strategy isn't uncommon. Illinois Tool Works (ITW) exemplifies this approach. Under CEO John Nichols, they grew revenue by acquiring and splitting businesses into smaller, independent BUs. This fostered a more entrepreneurial environment with clear ownership and communication. Companies like Volaris and Harris regularly split BUs to target specific market segments, increasing differentiation.

"Human Scale", on top of new maintenance and inflation linked price increases will be the key drivers of organic growth over time.

Cash Profitability

The following table of KPI's are what I believe to be the most important profitability factors related to Lumine:

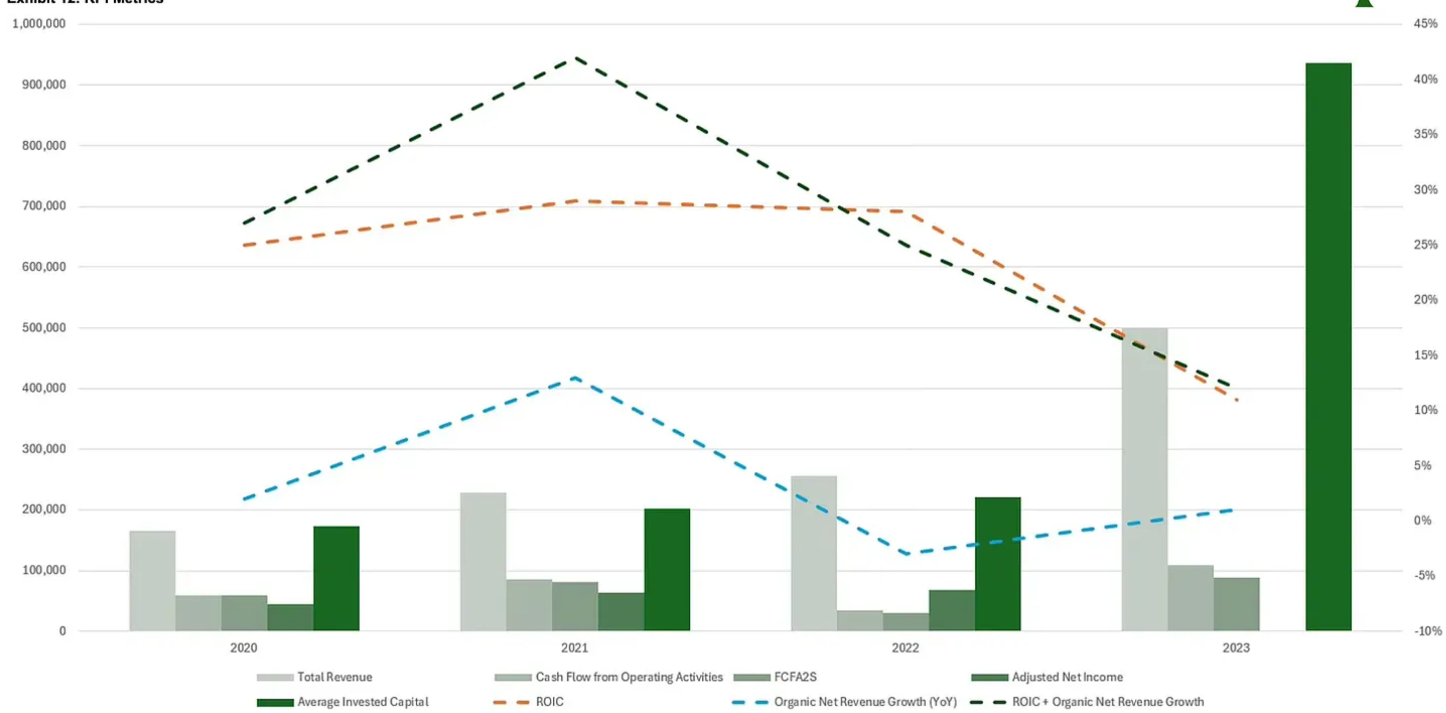
Exhibit 11: Main KPIs

Year	Total Revenue	*YoY Growth*	Cash Flow from Operating Activities	*YoY Growth*	FCFA2S	Adjusted Net Income	Average Invested Capital	ROIC	Organic Net Revenue Growth (YoY)	ROIC + Organic Net Revenue Growth
2020	166,372		59,469		59,190	45,007	173,631	25%	2%	27%
2021	228,355	37.26%	86,027	44.66%	81,638	63,057	202,188	29%	13%	42%
2022	255,745	11.99%	34,625	-59.75%	30,349	67,714	221,706	28%	-3%	25%
2023	499,699	95.39%	108,228	212.57%	88,843	133,615*	936,392	11%	1%	12%

** Adjusted for the Redeemable Preferred and Special Securities expense*

Source: Seeking Winners & Company Filings

Exhibit 12: KPI Metrics



Source: Seeking Winners & Company Filings

Exhibit 13: FCFA2S Reconciliation

In Thousands of USD	2020	2021	2022	2023
Cash from Operations	**59,469**	**86,028**	**34,625**	**108,228**
Interest paid on lease obligations	(133)	(153)	(204)	(626)
Interest paid on other facilities	(501)	(583)	(192)	(10,377)
Credit facility transaction costs	249	-	(316)	(1,935)
Other Finance Costs	-	(285)	-	-
Repayment of lease obligations	(2,278)	(2,669)	(2,781)	(5,282)
Dividends paid	-	-	-	(24)
Property & Equipment Purchased	(616)	(700)	(783)	(1,141)
FCFA2S	**56,190**	**81,638**	**30,349**	**88,843**

Source: Seeking Winners & Company Filings

Adjusted Net Income is the cash profits Lumine generates after paying cash taxes. "Adjusted Net Income'' is derived by adjusting GAAP net income for the non-cash amortization of intangibles and future income taxes. Since the majority of future income taxes relate to the amortization of intangible assets, these are being added back to more closely match the non-cash future tax recovery with the amortization of intangibles.

The most significant variation from GAAP net income, is that there is an assumption that the intangible assets are not diminishing in economic value. The way that Lumine supports the "ever-expanding intangibles value" contention with the board is by regularly forecasting the cash flows for each of the acquired business units and comparing them to the original acquisition costs to calculate acquisition by acquisition IRR's. The key here is to make sure that the maintenance revenue is increasing as it proves the economic value of Lumine's intangibles is increasing.

When looking at **invested capital**, this is the shareholder capital that has been invested in the businesses, plus any Adjusted Net Income less any distributions.

When you divide adjusted net income by invested capital, you get a measure of the return on our shareholders' investment; ROIC.

If you add Organic Net Revenue Growth to ROIC, you get what I believe is a proxy for the annual increase in shareholders' value because Lumine is reinvesting 100% + of its cash flows back into the business. If, in the future, Lumine is not able to deploy 100% of its free cash flow back into the business, then the two metrics that become most important are free cash flow per share and adjusted net income per share.

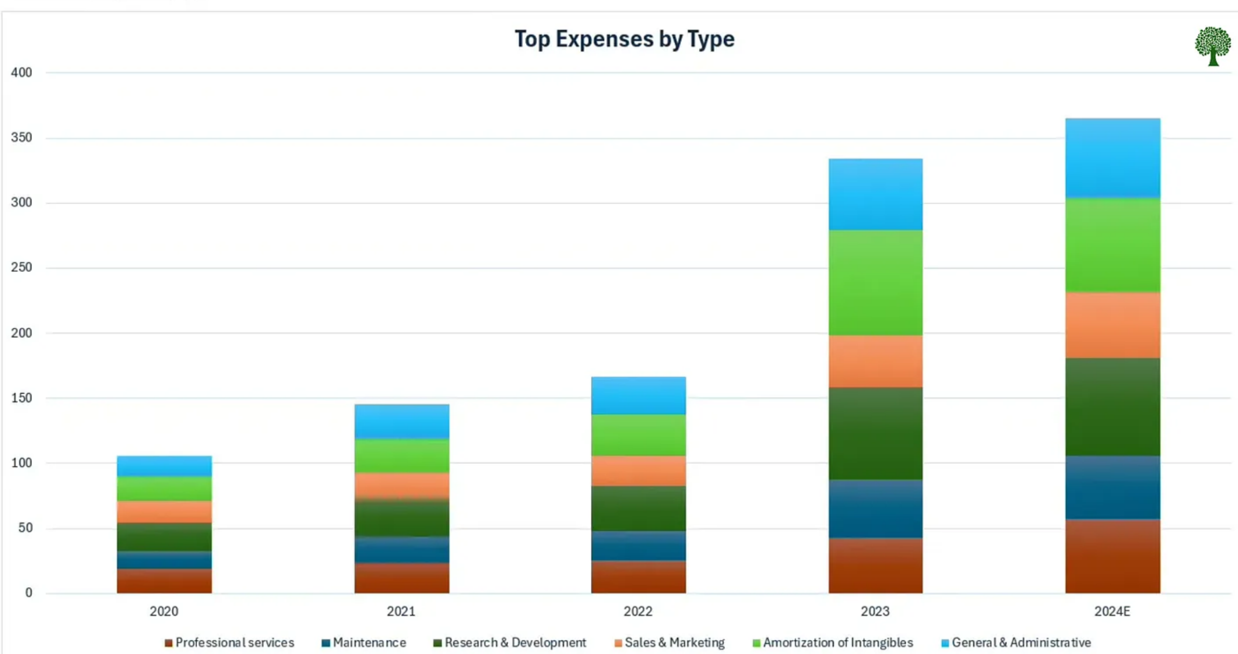
Although the trend has been a little choppy as Lumine progressed through the tough one off comps related the spin-off transaction, the business is moving in the right direction.

When looking at expenses as you can see below, since 2020 around 50% of the expenses are grouped under what Lumine calls "staff expenses", but can be broken down per the table below. In the past, Lumine's software subsidiaries invested a smaller portion of their revenue in R&D compared to other software companies globally and even less so for sales and marketing expenses. This raised concerns that they weren't putting enough resources back into development to fuel organic growth. We tend to agree with Mark Leonard on this point when he says, *"our favourite businesses are those that are growing just slightly faster than their markets, gradually adding market share and customer share (i.e. "share of wallet"), while generating a good return on the capital that they have invested to produce organic growth. Small market share gains are much less likely to trigger a scorched earth competitive response that erodes pricing and triggers wildly unproductive R&D and S&M binges. We believe that we have struck that balance at many of our businesses."*

Exhibit 14: Top Expenses by Type

	2020	% of Revenue	2021	% of Revenue	2022	% of Revenue	2023	% of Revenue	2024E
Revenue	166.4	100%	228.4	100%	255.7	100%	499.7	100%	564.4
Professional services	19.3	11.60%	23.6	10.33%	25.5	9.97%	43.0	8.61%	57.0
Maintenance	13.4	8.05%	20.1	8.80%	22.7	8.88%	45.0	9.01%	48.5
Research & Development	21.9	13.16%	29.0	12.70%	34.2	13.38%	70.4	14.09%	75.2
Sales & Marketing	16.5	9.92%	20.3	8.89%	23.3	9.11%	39.9	7.98%	50.8
General & Administrative	16.2	9.74%	27.1	11.87%	28.7	11.22%	54.6	10.93%	61.7
Amortization of Intangibles	18.6	11.18%	25.5	11.16%	31.8	12.44%	81.2	16.25%	72.0
	105.9	**63.64%**	**145.6**	**63.75%**	**166.2**	**65.00%**	**334.1**	**66.86%**	**365.2**

Exhibit 15 - Top Expenses by Type



Redeemable Preferred & Special Securities Expense

When looking at the financial results of Lumine, you will notice a very odd expense known as a redeemable preferred & special securities expense that swings the company into a huge net loss, **but doesn't impact cash flows**. What is this?

As discussed above, during 2023, the acquisition of Lumine Group (Holdings) Inc finalized. In connection with this acquisition, Lumine issued 55,233,745 Preferred Shares to the parent company, and in connection with the acquisition of WideOrbit Inc. ("WideOrbit"), the company issued 10,204,294 Special shares to the rollover shareholders of WideOrbit and 8,348,967 Preferred Shares to the Parent, collectively the "Preferred and Special Securities". The Preferred and Special Securities, under certain conditions, were redeemable at the option of the holder for a redemption price of $21.74 per share.

The Preferred Shares were also convertible into Subordinate Voting Shares at a conversion ratio of 2.4302106 Subordinate Voting Shares per Preferred Share. The Special Shares were convertible into Subordinate Voting Shares at a conversion ratio of 3.4302106 Subordinate Voting Shares per Special Share. The Preferred and Special Securities holders were also entitled to a fixed annual cumulative dividend of 5% per annum on the **initial face value of $21.74 per share**.

On March 25, 2024, the Preferred and Special Securities were converted to 189,114,307 Subordinate Voting Shares. The accrued dividend payable on the Preferred and Special Securities of $87.4 million at March 25, 2024 was also settled through the issuance of an additional 3,515,418 Subordinate Voting Shares. Subsequent to the conversion and dividend settlement, the total issued and outstanding share capital of the Company now reflects 256,620,388 Subordinate Voting Shares and no Preferred Shares or Special Shares issued or outstanding. The Company recorded $403.3 million in capital stock, $1,200.0 million in contributed surplus and $3,096.0 million in retained earnings on the condensed consolidated interim statement of changes in equity for the three months ended March 31, 2024.

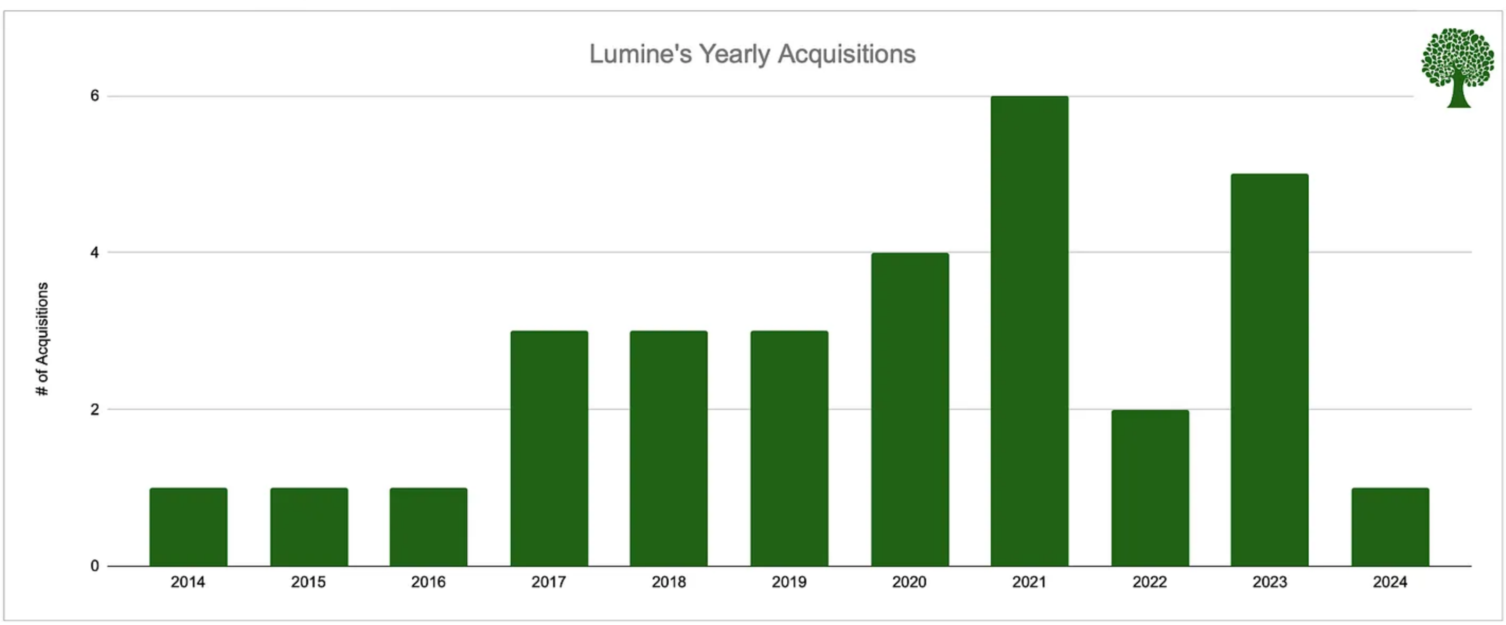
When looking at the most recent Q1 2024 earnings, you can see that Lumine recorded $299.0 million related to mark-to-market adjustments on the fair value of the Preferred and Special Securities (March 31, 2023 – $646.5 million), and $18.7 million related to accrued dividends on the Preferred and Special Securities (March 31, 2023 - $8.1million). These "expenses" are mark-to-market fair value changes between the end of each reporting period and the Mandatory Conversion Date of March 25, 2024 that IFRS requires to be recorded, **but do not impact cash flows.**

ACQUISITIONS & REINVESTMENT POTENTIAL

Lumine has been actively acquiring companies since 2014. They've grown their portfolio to 30 companies, averaging almost three acquisitions annually. While their pace isn't as aggressive as industry leader Constellation, Lumine has steadily increased its acquisition activity over time and has a process in place called a **post-acquisition review, or "PAR"** that is used to evaluate acquisitions after they are completed. They try to schedule the PAR's about a year after the initial investment. The PAR's originated as a head office led process approximately in 2014.

Unlike Constellation Software's historical approach, Lumine focuses on acquiring larger companies. While Lumine's revenue is similar to Constellation's in its early acquisition years, the number of acquisitions tells a different story. For example, between 2005 and 2007, Constellation acquired 37 companies, nearly matching Lumine's current portfolio built over almost a decade. Lumine typically targets companies three times larger than those Constellation historically pursued. From January 1, 2014 to December 31, 2022 the average purchase price paid per acquisition was $11.7 million for Lumine and has since increased with the WideOrbit acquisition.

Exhibit 16: Lumine's Yearly Acquisitions

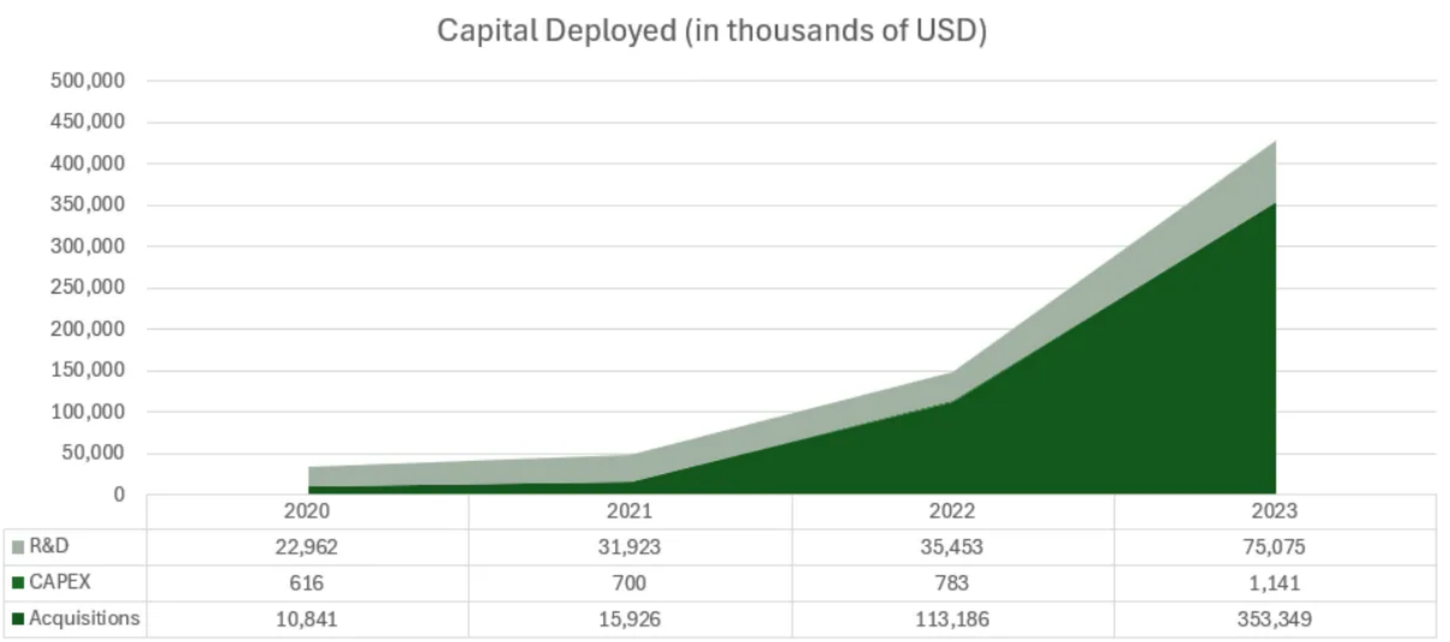


Source: Seeking Winners & Company Filings

Lumine's businesses excel in several areas: low-to-mid single-digit organic growth, high margins, and a light asset footprint. This minimizes the need for significant capital expenditures (capex) to fuel further growth. While R&D presents an opportunity for reinvestment, many of these businesses are already established leaders in their niche markets, mitigating the need for heavy R&D investment. Consequently, acquisitions become the primary avenue for strategic capital allocation, allowing Lumine to expand its reach and capabilities.

Exhibit 17: Capital Deployed

In Thousands of USD	2020	2021	2022	2023
Acquisitions	**10,841**	**15,926**	**113,186**	**353,349**
CAPEX	616	700	783	1,141
R&D	22,962	31,923	35,453	75,075



Source: Seeking Winners & Company Filings

Trying to forecast out Lumine's future reinvestment rates based on the capital they will deploy on acquisitions can be tricky because their acquisition strategy is different than that of Topicus and CSI. They have a heavier tilt towards deals known as "carve outs" or in other words buying orphan companies from from larger companies. The good news here, is there is a lot less competition to do that due to the technical skills required to achieve hurdle rates with these types of acquisitions.

For shareholders who only own Topicus/CSI and don't yet own Lumine, I think this is the toughest hurdle for them to get over. There has been a lot of discussion that because Lumine only operates in one vertical, the runway for growth is lower. This couldn't be further from the truth. The vertical they operate in is enormous. The CEO David has described the pipeline as in the low thousands of potential acquisition targets and they are in conversation with hundreds of them. They currently own 30. There is a lot of runway for growth here well into the future.

VALUATION MODEL, DRIVERS & RISKS

The three main drivers of the valuation over time that have been discussed above are simply the following:

- Lumine's M&A engine.
- Organic Growth.
- EBITA Margins & limited wasted R&D + S&M expenses.

I've performed a discounted cash flow analysis below, which in my opinion is still the most accurate way to get a realistic estimate of what a business is worth. When reading over CSI's presidents letters, I thought it was interesting that they performed their own internal discounted cash flow for value what CSI was worth. You can use this same approach for Lumine as well.

What was interesting when they performed this analysis, was they realized what some of the largest risks to the valuation of their company were, which we can apply to our Lumine analysis here.

Organic Growth: What they determined was that varying the organic growth assumption has a tremendous impact on the intrinsic value of a CSI share. Add in another 2.5% organic growth to the base line assumption and you get more than double the intrinsic value. Subtract 2.5% from the base line organic growth assumption and you lose almost half the intrinsic value of the stock.

Acquisitions: If you assume that Lumine makes no further acquisitions, the Consensus Model calculates an intrinsic value that is roughly half of the current price.

Large Deals make sense: Making large acquisitions adds significant intrinsic value, but not as much as doing "many small" acquisitions at lower purchase price multiples. Based on our discussion above around carve outs, we think Lumine might be able to achieve both if they stay patient.

Use of Debt: They made an assumption that if they raise enough capital to maintain revenue growth rates in excess of 20%, and that they operate with a balance sheet that is not highly levered, huge shareholder value is created even when using high cost debt.

Below is my estimate of the future value of Lumine based on a entry price of $37.84 per share as at May 10, 2024. The two adjustments in the model that you can't see from the exhibit below are the following:

- I'm taking the R&D expenses on the income statement and treating them like capital expenditures, which I chose to amortize over two years. So the amortization from R&D I'm adding back to operating income. I think this is necessary in a world we live in now full of intangible assets.

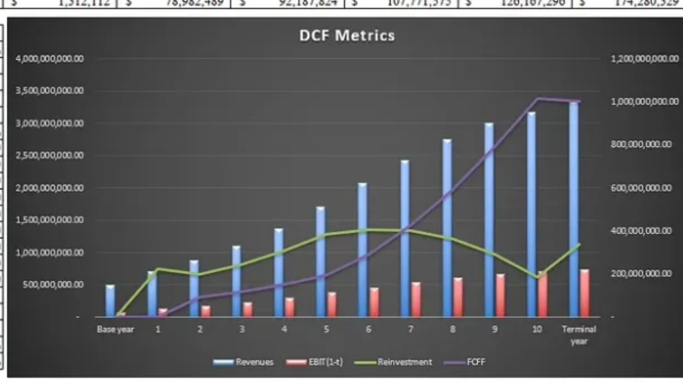
- The second change is the off balance sheet liabilities that are present; specifically future lease expenses that are sitting as a liability on the balance sheet of Lumine. The adjustment here has reduced operating income and increased the debt to normalize the future cash outflows for these lease payments.

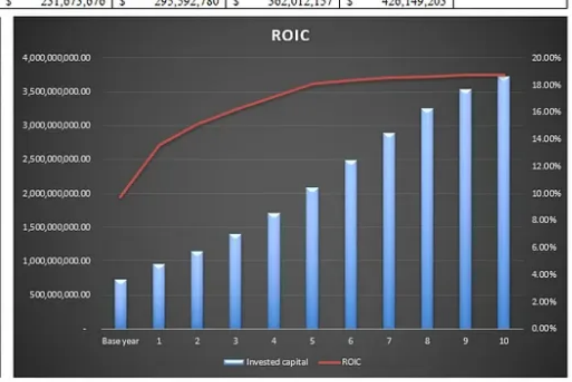
Overall, buying at today's price and assuming the valuation model below is roughly accurate, this would lead to an IRR of 11.38%. Fortunately my cost basis is well below this and as investors you have to take into account that high quality businesses like Lumine tend to surprise you over time by exceeding expectations.

Exhibit 18: Valuation Model

	Base year	1	2	3	4	5	6	7	8	9	10	Terminal year
Revenue growth rate		40.00%	25.00%	25.00%	25.00%	25.00%	21.10%	17.20%	13.30%	9.40%	5.50%	5.50%
Revenues	499,699,000	699,578,600	874,473,250	1,093,091,563	1,366,364,453	1,707,955,566	2,068,334,191	2,424,087,672	2,746,491,332	3,004,661,517	3,169,917,901	3,344,263,385
EBIT (Operating) margin	19.27%	25.00%	27.00%	28.00%	29.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
EBIT (Operating income)	$ 96,278,220	$ 174,894,650	$ 236,107,778	$ 306,065,638	$ 396,245,691	$ 512,386,670	$ 620,500,257	$ 727,226,302	$ 823,947,400	$ 901,398,455	$ 950,975,370	$ 1,003,279,016
Tax rate	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%
EBIT(1-t)	$ 70,764,492	$ 128,547,568	$ 173,539,216	$ 224,958,244	$ 291,240,583	$ 376,604,202	$ 456,067,689	$ 534,511,332	$ 605,601,339	$ 662,527,865	$ 698,966,897	$ 737,410,076
Intangibles amortization	$ 81,223,000	$ 97,467,600	$ 116,961,120	$ 140,353,344	$ 168,424,013	$ 202,108,815	$ 242,530,578	$ 291,036,694	$ 349,244,033	$ 419,092,840	$ 502,911,407	$ 603,493,689
- Reinvestment		$ 224,583,820	$ 196,510,843	$ 245,638,553	$ 307,048,192	$ 383,810,240	$ 404,919,803	$ 399,723,012	$ 362,251,304	$ 290,078,860	$ 185,681,330	$ 337,979,618
FCFF		$ 1,431,348	$ 93,989,494	$ 119,673,034	$ 152,616,404	$ 194,902,778	$ 293,678,465	$ 425,825,014	$ 592,594,068	$ 791,541,844	$ 1,016,196,975	$ 1,002,924,147
NOL	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cost of capital		9.09%	9.09%	9.09%	9.09%	9.09%	9.08%	9.08%	9.07%	9.07%	9.06%	9.06%
Cumulated discount factor		0.9167	0.8403	0.7703	0.7062	0.6473	0.5934	0.5441	0.4988	0.4574	0.4194	
PV(FCFF)		$ 1,312,112	$ 78,982,489	$ 92,187,824	$ 107,771,575	$ 126,167,296	$ 174,280,329	$ 231,673,676	$ 295,592,780	$ 362,012,157	$ 426,149,203	

Terminal cash flow	$ 1,002,924,147
Terminal cost of capital	9.06%
Terminal value	$ 28,172,026,601
PV(Terminal value)	$ 11,814,133,459
PV (CF over next 10 years)	$ 1,896,129,440
Sum of PV	$ 13,710,262,899
Probability of failure =	0.00%
Proceeds if firm fails =	$6,855,131,449
Value of operating assets =	$13,710,262,899
- Debt	$254,638,899
- Minority interests	$0
+ Cash	$259,789,000
+ Non-operating assets	$0
Value of equity	$13,715,413,000
- Value of options	$0
Value of equity in common stock	$13,715,413,000
Number of shares	253,336,755
Estimated value /share	$ 54.14
Price	$ 37.84
Price as % of value	69.89%
IRR	11.38%





	Base year	1	2	3	4	5	6	7	8	9	10	After year 10
Implied variables												
Sales to capital ratio		0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	
Invested capital	$ 725,104,399	$ 949,688,219	$ 1,146,199,062	$ 1,391,837,615	$ 1,698,885,807	$ 2,082,696,047	$ 2,487,615,849	$ 2,887,338,862	$ 3,249,590,165	$ 3,539,669,025	$ 3,725,350,355	
ROIC	9.76%	13.54%	15.14%	16.16%	17.14%	18.08%	18.33%	18.51%	18.64%	18.72%	18.76%	12.00%

Source: Seeking Winners & Company Filings

As always, I encourage you to reach out if you have feedback, questions, or would like to challenge any of my assumptions. Please feel free to share this deep dive with friends and colleagues and/or drop a comment and I'll be happy to get back to you.

Yours sincerely,

Seeking Winners

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