



How High Can Constellation Software Fly?

Description

One year ago, **Constellation Software** ([TSX:CSU](#)) was trading for \$120 per share, a huge win for its longer term shareholders. The company had gone public back in 2006 for \$17 per share, and had grown steadily since then.

But the growth had mainly come through numerous small acquisitions (less than \$10 million), and as the company got larger, it became more difficult to achieve the same level of growth. Making matters worse, the stock continued to trade at very high multiples, and seemed expensive.

The shareholders who held on are glad they did. After reporting fourth-quarter earnings on Friday, Constellation's shares closed at \$265, more than double their price a year ago. Fourth-quarter revenue was up 36% for the year, proving that the company is still able to achieve impressive growth.

Of course shareholders are asking the same question that they were a year ago. Are the shares now too expensive? Can the growth continue? A closer look at the last year provides some clues.

The shares are more expensive

In 2013, Constellation's revenue per share increased by 36%, and cash flow per share increased by an even more impressive 52%. But the stock price more than doubled. The shares, which a year ago were trading at 17 times cash flow, now trade at 26 times cash flow.

Again, this growth came almost entirely from acquisitions. Excluding the acquisitions, growth was only 5%. And now that Constellation is a \$5.6 billion company, this kind of growth will be much harder to come by.

But the story could go on

That said, these same questions were being asked about Constellation a year ago, and the company proved all its doubters wrong. Constellation has also proven it can make much larger acquisitions – at the end of last year, the company took out Total Specific Solutions (TSS) for \$342 million. None of the numbers above include results from TSS.

Foolish bottom line

[A previous article](#) told a similar story about **Valeant Pharmaceuticals** (TSX:VRX)(NYSE:VRX), another high flier that has grown through acquisitions. But a comparison between the two companies would be very unfair to Constellation, which does not have the same [accounting issues](#) as Valeant.

It would be much more appropriate to compare Constellation to **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B), partly because the best time to buy the shares has likely already passed. But at the same time, both companies have a clean history, a fantastic track record, and great management. And with that formula, the sky is the limit.

CATEGORY

1. Investing

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1. NYSE:BHC (Bausch Health Companies Inc.)
2. TSX:BHC (Bausch Health Companies Inc.)
3. TSX:CSU (Constellation Software Inc.)

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