



Why Constellation Software Inc. Fell 3.5% on Thursday

Description

Constellation Software Inc. ([TSX:CSU](#)), one of the leading providers of software and related services to a select group of public and private sector markets, announced its second-quarter earnings results after the market closed on Wednesday, and its stock responded by falling 3.5% in Thursday's trading session. Let's take a closer look at the results and the fundamentals of its stock to determine if we should use this weakness as a long-term buying opportunity or a warning sign.

Breaking down the Q2 results

Here's a breakdown of six of the most notable statistics from Constellation's three-month period ended on June 30, 2017, compared with the same period a year ago:

Metric	Q2 2017	Q2 2016	Change
Public sector revenue	US\$406.28 million	US\$353.53 million	14.9%
Private sector revenue	US\$193.81 million	US\$175.14 million	10.7%
Total revenue	US\$600.08 million	US\$528.67 million	13.5%
Adjusted EBITA	US\$154.6 million	US\$130.5 million	18.5%
Adjusted net income	US\$112.3 million	US\$89.9 million	24.9%
Adjusted earnings per share (EPS)	US\$5.30	US\$4.24	25%

The company noted that these strong results were primarily attributable to growth from its acquisitions, but it also noted that it achieved organic growth of 1% in both the second quarter and first half of 2017.

Should you buy Constellation's stock on the dip?

I think it was a fantastic quarter overall for Constellation. However, the results came in mixed compared with analysts' expectations, which called for adjusted EPS of US\$5.42 on revenue of US\$587.85 million, so that's what caused its stock to fall 3.5%.

Estimates aside, I think the decline in Constellation's stock represents a very attractive long-term

buying opportunity, because it's one of the technology sector's best growth stocks. It reported revenue growth of 13.8% to US\$1.16 billion and adjusted EPS growth of 35.7% to US\$9.76 in the first half of 2017 compared with the year-ago period, and current estimates call for revenue growth of 12.7% to US\$2.4 billion and adjusted EPS growth of 17.4% to US\$21.89 in the full year of 2017, which I think it could easily achieve.

Furthermore, Constellation has been highly active when it comes to making acquisitions, including 16 acquisitions that were completed for aggregate cash considerations of US\$71 million in the second quarter, and I think it will continue to do so going forward, which will help fuel future growth.

With all of the information provided above in mind, I think Constellation Software represents one of the best long-term investment opportunities in the technology sector today. Foolish investors should strongly consider using the post-earnings weakness to begin scaling in to long-term positions.

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