



Should You Buy This \$1,000 Stock?

Description

Most investors have never heard of **Constellation Software** ([TSX:CSU](#)), despite the fact that shares trade at more than \$1,000 apiece, resulting in a market capitalization of \$25 billion.

The company's history is nothing short of amazing.

In 2006, the stock price was just \$18. Over the next 13 years, investors would have made 56 times their original investment!

What's made this stock so special? Is it too late to join the party?

Winning from automation

Automation is killing jobs.

The Brookfield Institute believes that [four out of every 10](#) Canadian jobs will likely be automated over the next 20 years. "Our findings show that a significant percentage of Canadian jobs are at a high risk of being replaced by automation over the next 10 to 20 years," its report read.

What often is ignored, however, is that automation also *creates* jobs. After all, someone has to design and manufacture robots, code new software to run factories, and troubleshoot our increasingly complex technological tools.

Constellation Software is proving that automation can be a boon for workers and investors alike.

Founded in 1995 by former venture capitalist Mark Leonard, Constellation started with a handful of employees. Today, it employs more than 13,000 people. Last year, it generated more than \$3 billion in revenues, resulting in a \$380 million profit.

How exactly is Constellation Software benefiting from automation?

The company owns a portfolio of vertical market software businesses. This sounds complicated — and

it is.

The company's software targets specific industries and processes, helping automate and optimize mission critical processes. It helps improve the operations of thousands of customers across dozens of industries, including agriculture, financial services, education, and more.

Because its software is hyper-focused and mission critical, the company enjoys high profit margins and impressive contract renewal rates.

Under the radar for a reason

In 2018, Constellation Software cancelled one of its quarterly conference calls. The reason: secrecy.

Because it focuses on software for particular industries or markets, as opposed to software targeting a wide variety of businesses, Constellation Software typically buys incredibly small competitors, often for \$5 million or less. By plugging the team and software into its massive network, Constellation Software can triple the value of the acquisition overnight.

This strategy has provided incredible returns for shareholders over the decades. As the company grows, it can be harder to make these deals at attractive prices. To ensure secrecy, and thus reduce competition, the company has been careful with what it has made public.

"In past conference calls, they would be asked about their acquisition process and I think that especially with calls being transcribed and made public for people to search to see what you said, that likely made them uncomfortable," said Howard Leung, an analyst at Veritas Investment Research Corp.

While secrecy can be a red flag, it makes sense given the company's business model. Because management has proven so adept at making accretive acquisitions, it's reasonable to give them the benefit of the doubt.

Just hold this stock

Constellation Software has been perhaps the best-performing stock on the TSX for more than a decade. Its strategy and business model remain sound.

The stock is expensive, but the price is well deserved. Don't be surprised to see this stock continue higher for the next decade and beyond. This is a management team worth betting on. They may not make a lot of noise, but long-term investors likely don't care.

CATEGORY

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2. Tech Stocks

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