



Friday's Biggest Earnings Surprise: Constellation Software (TSX:CSU)

Description

Constellation Software ([TSX:CSU](#)) announced Q2 earnings on Friday for the quarter ended June 30. The company reported earnings per share of \$6.49, missing analyst expectations of \$7.25 by 10.48%. From Q2 2018, revenue grew 12%, and adjusted EBITDA increased by 19%.

As one of Canada's [most profitable](#) exchange-traded stocks, Constellation Software can easily afford an earnings miss, and the market agrees. The stock is currently trading at only 0.32% below Friday's closing price, representing hardly any movement for a stock trading at over \$1,200 per share.

Without argument, lower-than-expected earnings for a company like Constellation is not a reason to sell.

Constellation Software is a global technology company specializing in the development of made-to-order software for government and enterprise sector markets. Constellation's clients work in industries such as communications, finance, and manufacturing in North America, Europe, South America, and Africa.

The earnings report arrives after a string of exciting and long-awaited acquisition announcements. Reportedly, Constellation canceled multiple earnings calls in 2018 due to concerns that competitors may gain too much insight into Constellation's acquisition activities.

The software company acquired two notable technology companies: Salvia Développement SAS and MDS Global.

Salvia Développement SAS acquisition completed

On Thursday, Constellation announced the purchase of a French provider of software solutions, Salvia Développement SAS. Salvia serves private sector industries, including real estate, finance, and energy.

To help large corporations manage financial data, Salvia builds software for fixed assets, loan, cash, and grant management. Salvia's most significant achievements include software to monitor energy

utilization. Geographically dispersed companies use the software to control energy expenses and track the organization's environmental footprint.

MDS Global purchase announced

Last month, Constellation also announced the acquisition of MDS Global, a data analytics software provider serving the telecommunications industry. MDS Global boasts top clients such as British Telecom, ACN Europe, Post Office UK, and ID Mobile.

With the purchase of MDS Global, Constellation acquired its 12th media and communications vertical. Media and communications are in a period of tremendous growth due to cloud computing, 5G, and the Internet of Things (IoT). Thus, the 5G rollout should have a tremendous effect on the profits of telecom service providers like MDS Global in the next year.

Constellation takes on more risk

In May, Constellation's board of directors approved a lower hurdle rate to value acquisition proposals. A hurdle rate is similar to an internal benchmark rate of return. The benchmark represents the required rate of return necessary to break even on a project taking into account risk, inflation, and opportunity cost.

A lower hurdle rate means that the company is willing to pay more to purchase new assets like MDS Global and Salvia. Because acquisitions are competitive in the technology software space, the company needs to accept lower profit margins to succeed in the more aggressive negotiations.

Foolish takeaway

Smart investors interested in giving their Tax-Free Savings Accounts or Registered Retirement Savings Plans a boost should consider investing in Constellation Software.

Constellation Software is one of Canada's most prominent and profitable stocks. Although the company offers only a modest dividend yield of 0.42%, the company is a dominant player in technology, cloud computing, and telecommunications. Besides the cannabis industry, investors will not find [higher growth](#) in any other sector.

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