



The Best Stock Over \$1,000 (Hint: It Isn't Amazon)

Description

I want you to close your eyes for a second and picture Warren Buffett – preferably without a Dairy Queen Blizzard.

Now imagine that you are in Warren Buffett's shoes. As you sit down at your wooden desk you notice a folder on your desk.

As you open the folder, you glance at the About Us section of the company and it says that it focuses on the acquisition of companies that deliver revenue growth of 20% or more per year and companies that are in the number one or number two position in its vertical market.

Would you be interested in purchasing this company? The answer should be a resounding yes!

The company that I'm referring to is **Constellation Software** ([TSX:CSU](#)), an international provider of market-leading software and services to a myriad of industries. Its business model is to [use acquisitions](#) to leverage growth and develop its business.

The company was founded in 1995 as a conglomerate of leading vertical market companies and currently has over 125,000 customers in over 100 countries around the world.

Constellation is a good investment based on its niche target market and its increasing operating income.

Niche target market

It's been a very long time since I've seen a company with the focus of Constellation. Ever since the founding of the company, its mission has remained unchanged.

To this day, it continues “to assemble a portfolio of vertical market software companies that have the potential to be leaders in their particular market.” It’s this philosophy that has allowed the company to be a leader in the vertical market sphere.

For those of you unfamiliar with the term “vertical market,” it describes a market whereby companies offer goods and services specific to an industry. This is the opposite of a horizontal market that offers goods and services to a large group of customers such as all businesses, men, children or women. An example of a horizontal industry is Staples, which offers office supplies.

Constellation’s portfolio of companies include Volaris, Harris, Jonas, Vela Software, Perseus Group and Total Specific Solutions. Each company specializes in a handful of industries but as a whole cover almost all industries in existence.

Increasing operating income

I can’t stress enough how important operating income is to a company’s success. Operating income is income before the deduction of one-off expenses and provides a clearer picture of how a business is doing.

Constellation’s operating income increased from \$199 million in fiscal 2014 to \$530 million in fiscal 2018. Its operating income has increased each year for the past five fiscal years, which is impressive.

Bottom line

Although the stock is trading above \$1,000, I still believe that [Constellation is worth the investment](#).

There are not many companies out there that serve a niche market. Take the restaurant industry as an example. Even though **McDonald’s** and **The Keg** target different customers, both chains serve food.

With Constellation, the company leaves nothing to chance with its acquisition strategy focused on buying the best of the best companies in each market segment, enabling it to achieve stellar growth year-over-year.

This is coupled with an increasing operating income, which indicates that the company is growing. Simply put, Constellation is a solid investment despite the hefty per share price.

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