



Forget Shopify (TSX:SHOP): This Tech Stock Is Even Better

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) is one of the best-performing stocks of all time. Since 2015, shares have exploded higher by more than 1,700%. A \$10,000 investment would have become nearly \$200,000.

Shopify is simply an incredible company. Over the years, it has accrued a dominant lead in one of the biggest markets on the planet: e-commerce. Its software and management team are unparalleled. In 2019, you likely bought something from a digital shop that used Shopify as its backend.

But Shopify isn't the only rapid-growth [tech stock](#). One under-the-radar Canadian stock has increased in value by an astounding 6,600% since 2006. That level of growth is nearly unprecedented.

You may *never* have heard of this company. You almost certainly haven't used any of its products. That's because it focuses on hyper-niche markets. Sometimes, its software only delivers a few functions for a single industry or even a specific company.

But focusing on small opportunities has led to big gains for long-term shareholders. Over the next few years, there's reason to believe the surge will continue.

Perfecting the recipe

Constellation Software ([TSX:CSU](#)) has proven that it has the recipe for success.

In 2014, the company posted sales of \$2.2 billion. Over the last 12 months, they surpassed \$4.5 billion. But that's not the most impressive part. Over the same period, net profit went from \$137 million to \$558 million — a 300% increase.

What's Constellation's secret?

The company was founded in 1995 by venture capitalist Mark Leonard. "Our company was founded ... to assemble a portfolio of vertical market software companies that have the potential to be leaders in

their particular market,” Constellation writes on its website. “Our mission is to acquire, manage and build market-leading software businesses that develop specialized, mission-critical software solutions to address the specific needs of our particular industries.”

While that sounds like a boilerplate description, it perfectly describes what makes this company so special. Pay attention to these words: *acquire*, *specialized*, and *mission-critical*.

The first word, *acquire*, is important because Constellation typically purchases externally developed software. It then plugs the products into its giant portfolio, giving it expanded capabilities, streamlined back office expenses, and cross-selling opportunities.

The second word, *specialized*, is also important. You likely will *never* encounter a Constellation product. Its software is hyper-niche, serving industries and use cases that few people ever deal with. This specialization limits competition, giving Constellation pricing power and outsized market shares.

The final word, *mission-critical*, is perhaps the most important.

Imagine moving from a Mac to a Windows computer, or vice-versa. The switching costs can be painful and annoying. At worst, key files and documents can be lost. Now, imagine how difficult and dangerous it is for a large corporation to make the switch. Constellation’s products are always critical to its customer’s bottom lines. Switching to another provider comes with plenty of risk, meaning they rarely switch at all.

These factors in total make for a lucrative business. Margins are high, competition is low, and customers are locked in for years, if not decades.

Shopify, in comparison, is growing like a weed and margins are high, but competition from multi-billion-dollar peers is starting to ramp considerably. Constellation, meanwhile, still has many markets to itself.

Both stocks should perform well in the years to come, but there are multiple reasons to prefer Constellation over Shopify.

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1. Investing
2. Tech Stocks

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