



Constellation Software (TSX:CSU) Stock Can Turn \$1,000 Into \$81,090

Description

Constellation Software ([TSX:CSU](#)) is one of the best stocks in Canada. Its history of [success](#) is beyond reproach. Since 2006, shares have increased in value by 8,109%. A \$1,000 investment grew to more than \$80,000 in just 14 years.

But this growth story isn't finished. Constellation has created massive shareholder wealth by repeating a proven strategy again and again. Looking ahead, it still has plenty of [runway](#) for additional success.

If you want to buy a rapid growth stock, this pick is for you.

Join the party

To determine whether Constellation Software can continue its impressive run, we must first figure out why the company is so successful in the first place. This isn't the easiest task. Management is notoriously secretive. They recently cancelled annual shareholder conference calls. The company website is sparse. But there's a reason for this.

Constellation is a software company. It focuses on niche automation tools that enable mission-critical processes. The key words here are *niche* and *mission critical*.

A focus on niche software is counterintuitively lucrative. You'd think there would be more money in selling software to 1,000 firms versus just a handful, and it often is. But sometimes, a limited market reduces competition. The biggest markets can have dozens of competitors. Niche markets, meanwhile, may only have one.

The second factor, a dedication to mission-critical tools, is equally important. By embedding itself deeply into its customers' business model, it becomes almost impossible to remove the product and stop paying fees to Constellation Software. And because these are niche products, there may not even be an alternative to implement.

You can likely start to connect the dots here. Constellation's customers need its products to survive,

and they often don't have any other choices. These factors result in industry-leading contract renewal rates and profit margins.

Should You buy Constellation Software stock?

It's possible that the recent downturn will create a long-term growth tailwind for Constellation stock. That's because it'll lower acquisition prices, which the company relies on to expand its product portfolio.

A reliance on acquisitions is the cause of management's secrecy. The cancelled conference calls were to reduce that chances of tipping off the competition. Remember, Constellation Software is focused on niche products. These small businesses often don't have many buy-out offers. If management shows its cards, more bidders may emerge, pushing up acquisition prices and pressuring long-term profits.

This is where a poor economy could *help* Constellation Software. Businesses are scrambling to reduce cash burn. Competition for acquisitions has fallen off a cliff. But with high levels of reliable cash flow, Constellation can continue its acquisition strategy unperturbed. This could lead to dozens of near-term acquisitions that will pay off big in the years to come.

Will Constellation Software replicate the success of its past? Likely not at the same magnitude, as the business now garners a \$30 billion valuation. But with a rinse-and-repeat business model and an opportunity to expand on the cheap, 2020 provides another buying opportunity for long-term investors.

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rvanzo

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