



## Constellation Software (TSX:CSU) Stock: Going to \$2,000

### Description

**Constellation Software** ([TSX:CSU](#)) stock turns long-term investors into [millionaires](#). In 2006, shares were priced at \$16. Today, they're above \$1,500. That's *93 times* your original investment in just 14 years.

Few stocks offer this much upside, yet there's reason to believe the party will continue. After diving into the details, it becomes clear that shares are already on their way to \$2,000.

### This stock is special

When you go to Constellation's website, you'll notice something curious.

In the Investor Relations section, you'll see a list of letters from the company's president, Mark Leonard, who founded the company in 1995 after a career in venture capitalism. He consistently wrote shareholder letters for more than a decade, but mysteriously stopped in 2017. No letters have been published since.

What's going on? The secret can be learned in his final [letter](#).

"I used to write quarterly letters to shareholders. After a few, I switched to annual letters," Leonard wrote. "In the future I will only write to shareholders when I think I have something new and important to communicate."

While this seems inappropriate, long-term Constellation investors likely telegraphed the move.

Since its founding, Constellation has run an acquisition-first growth strategy. It looks for small software companies serving niche-use cases. It acquires the businesses at attractive prices given limited bidding competition. Once plugged into its bigger software portfolio, the acquisition typically gains much more value than as a standalone business.

Given the dramatic rise in CSU stock, however, other companies have attempted to emulate the

strategy. This brought new competition. Maintaining secrecy allows Constellation to continue business as usual.

“For competitive reasons we are limiting the information that we disclose about our acquisition activity,” Leonard concluded. “We believe that sharing our tactics and best practices with a host of Constellation emulators is not in our best interest. We have discussed the matter with many of the large Constellation shareholders, all of whom (despite grumbling) eventually agreed.”

## Should you buy Constellation stock?

While secrecy may be good for business, it's also gift to new investors. Right now, the company has nearly zero communication, apart from its required regulatory filings. This creates a severe lack of awareness.

Lack of awareness is a major reason why this stock is never priced correctly. In 2017, shares rose 22%. The next year they rose 18%, with a 60% spike in 2019. In 2020, shares have already risen by 18% versus a 10% *decline* for the **S&P/TSX Composite Index**.

There is, perhaps, no other company with such a proven record of growth. Yet year after year, shares are priced at a discount, consistently producing double-digit gains on an annual basis. The lack of marketing and investor communication has only exacerbated this disconnect.

Following the coronavirus correction, Constellation stock now trades at 73 times earnings. That's a small discount to its former high of 79 times earnings. These multiples may seem steep, but they've continually proven a bargain. For a company generating 40% returns on invested capital, 73 times earnings is a fair price to pay.

Now armed with a \$32 billion market cap, Constellation's biggest days of growth are behind it. But over the next 12 to 24 months, expect shares to surpass the \$2,000 mark based on the market's inability to assign a proper price to its growth.

### CATEGORY

1. Investing
2. Tech Stocks

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1. TSX:CSU (Constellation Software Inc.)

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rvanzo

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