



Stock Deep Dive: Constellation Software (TSX:CSU)

Description

For those that have been following my articles for quite some time, you may have noticed that I usually cover smaller growth stocks. This is with the exception of **Shopify**, which has grown a lot over the past couple years. **Constellation Software** ([TSX:CSU](#)) is a company that is not quite small, but it certainly has a lot of room to grow in the future. In this article, I will explain why I think Constellation would be a great company to hold in your portfolio.

What is Constellation Software?

As its name suggests, Constellation's business is reliant on the company acquiring smaller technology companies. Since being founded in 1995, Constellation has acquired over 500 businesses. If you look at [the divisions](#) under the company's business, you will see that Constellation operates in many different industries. This makes the company very diversified and less susceptible to negative impacts that may be seen in any industry at a given point in time.

What makes the company so attractive?

As mentioned previously, Constellation's growth mainly comes in the form of acquisitions. If you are familiar with my writing, you will note that I normally suggest that investors find companies that focus on organic growth. From 2016 to 2019, Constellation's organic growth has remained constant at about 4%. However, I think this company is an excellent exception to that line of thinking.

Although Constellation relies heavily on acquisitions for its growth, the company is very particular about which companies it accepts into its family of businesses. In fact, Constellation's checklist looks a lot like my personal investment checklist. First, it prefers to acquire businesses that are founder-led and have excellent management.

Then it requires companies to have consistent profitability and a track record of above average growth. Finally, the candidates for acquisition must be the first or second player in its respective vertical. These are requirements that I place on the companies I invest in as well, since I am a subscriber to two David

Gardner beliefs.

The first is that “winners will continue to win.” The second is that top investments will be companies that are leaders in important and emerging industries. These final two requirements that Constellation places are excellent examples of those beliefs being put into practice.

Once Constellation acquires a company, it will coach and support the newly acquired business such that it can become an exceptional company. Constellation also gives the acquired businesses enough freedom to continue operating as they have in the past.

There are risks that come with this investment

The biggest risk that I can identify with Constellation is the event that Mark Leonard leaves the company. Leonard founded the company in 1995 and has been involved with its management ever since. Currently, he serves as its president and chairman of the board. His leadership and history of capital allocation are among the biggest reasons for Constellation’s outstanding performance in the past. If he were to leave, my investment thesis would have to be reviewed.

Foolish takeaway

Constellation may not be a small, up-and-coming business. However, the company is still set up for a lot of growth in the long run. Constellation focuses on acquiring businesses that lead their respective industries, and this strategy has proven very successful in the past two decades. As long as the company’s management does not change significantly, I would remain [very confident with this company](#) in a growth investor’s portfolio.

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