



Why Does Constellation Software (TSX:CSU) Stock Rise Every Year?

Description

Constellation Software ([TSX:CSU](#)) is a super stock. This year, shares are up 20%. That extends a 15-year streak during which the stock rose nearly every year.

We're not just talking about 20% annual gains either. Since 2006, shares have risen *82 times* in value! Few stocks are capable of delivering this [magnitude](#) of returns.

What's the secret? How can you profit?

I love this business

There's a lot to love about Constellation. To understand its success, you need to go back to its founding.

Mark Leonard founded the company in 1995 after a career in venture capitalism. In his previous work, Leonard learned an important fact: the software industry was ripe for a roll-up.

What exactly is a roll-up? It's where a company aggregates market share by purchasing industry competitors, combining their power into one entity.

This strategy works best when the industry is fragmented. In the enterprise software space, Constellation's specialty, fragmentation was rampant. There were thousands of companies with tiny footprints. We're talking \$1 million to \$20 million in annual sales. These targets were companies you've never heard of.

What Constellation did over the decades is purchase these tiny competitors. Because these deals are small, they don't attract much bidding competition. That means acquisition prices are low.

After the acquisition, Constellation plugs the software into its wider portfolio of offerings and cuts redundant costs, boosting cashflow from day one. It's a win-win situation. Small software entrepreneurs are able to sell their businesses for millions of dollars, while Constellation can earn a

quick multiple on its original investment.

The historical stock performance simply represents the repetition of this strategy: buy small software businesses for an attractive price, reduce costs, and profit.

Should you buy Constellation stock?

It doesn't matter how hard you try to stay under the radar, success brings attention, which ultimately creates competition.

This reality pushed Constellation executives to limit how much information they revealed to the public. They worried additional commentary would give competitors clues on where they planned to make new acquisitions.

"For competitive reasons we are limiting the information that we disclose about our acquisition activity," founder Mark Leonard [wrote](#) in a previous investor letter. "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."

This company has a winning strategy. Its record of success is beyond comparison. But it's *intentionally* trying to keep away from the public eye. That reduces competition for acquisitions, but it also reduces awareness of the stock.

Right now, CSU shares trade roughly in-line with their five-year average valuation. No discount, but no premium either. That's usually the case. With blue-chip stocks like this, you'll wait a long time to score a deal.

If you like the business model, this is likely the best entry point you'll ever get. Just take a look at Constellation's price chart. If you waited for a dip, it never came.

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