



Constellation Software (TSX:CSU) Has Unlocked a New Way to Grow!

Description

Constellation Software ([TSX:CSU](#)) stock is probably the most underrated tech company in North America. While the tech sector dives into glitzy business models and loss-making operations, this sober Canadian giant has been consistently generating profits for decades. This week, the team unlocked a brand-new avenue of growth.

If you're a shareholder or a potential investor in Constellation Software stock, here's what you need to know.

Mark Leonard's strategy

Mark Leonard launched Constellation Software in the 1990s after a successful career as a venture capitalist. His intention was to create a holding company that acquires small- and mid-sized software firms focused on niche enterprise solutions. Over roughly three decades, the holding firm has acquired over 300 firms.

The strategy's success has been reflected in Constellation Software stock, which is up a whopping 8,965% since listing in 2006. That is a compound annual growth rate of roughly 35%. That should cement Mark Leonard's reputation as one of the best capital allocators in the world.

Updated strategy

In a letter sent out to shareholders yesterday, Leonard claimed the team was making three important changes to the strategy that should unlock more value for shareholders.

The first important step is the suspension of the special dividend the company pays. Constellation Software stock currently offers a paltry 0.31% dividend yield, which is a combination of quarterly and occasional payouts. Management wants to stop special dividends to reserve more of its free cash flow for acquisitions.

The team also wants to raise the size of targets they focus on. This means we could see hundred-million-dollar software deals soon.

However, the biggest change was the team's intention of developing "a circle of investing competence outside of the VMS sphere." In other words, the team is vastly expanding its investment universe, which opens up an unlimited avenue of potential growth.

Constellation Software's stock valuation

For a growth stock, Constellation is valued pretty reasonably. It's currently trading at 33.2 times forward earnings per share. The stock is also trading at just 29.6 times free cash flow per share. Compare that to other tech growth stocks that are trading at *60 times sales* and you can see why Constellation is so attractive.

The fact that the team is cutting its dividend, targeting bigger deals, and expanding the investment universe enhances the growth story. If the team can execute this shift in strategy effectively, shareholders could be in for a massive windfall in a few years.

Investors haven't priced in this new growth story yet. The stock is up a mere 2.8% today. That presents an opportunity for savvy investors. If you're a growth investor, I encourage you to take a closer look.

Bottom line

Constellation Software has always been an [excellent growth stock](#) to own. Its strategy of acquiring small- and mid-sized software firms has created immense wealth for shareholders. Now, the company is targeting bigger companies beyond software. This shift could potentially be a gamechanger. Add this to your watch list.

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