



Is Constellation Software in Your Portfolio After Game-Changing News?

Description

While the Canadian stock market may not be as exciting as its American counterparts, that doesn't mean there aren't exceptional companies listed on the **TSX**. On the contrary, I think it's great for Canadian investors. A less exciting exchange lends itself to less activity based on hype and more activity based on business performance. It also allows certain companies to remain undervalued relative to their American peers.

In this article, I will discuss **Constellation Software** ([TSX:CSU](#)). A tech company that doesn't appear as flashy as its peers, this stock actually [checks a lot of boxes](#) that investors look for. This week, the company announced a new strategy that makes its business a bit more exciting and adds a lot of promise.

Still dedicated to growth

The first company I'll be discussing is **Constellation Software**. This company first went public in 2006, closing at a price of \$18.30 on the day of its Initial Public Offering (IPO) day. As of this writing, Constellation Software trades at \$1,670 per share. So, to say it's grown a bit over the past 15 years may be an understatement.

Since October 2007, Constellation Software has returned more than 7,700%. This comes to an average annual return of 38.8%. In other words, a \$10,000 investment made in October 2007 would be worth more than \$780,000 today. This compares to an average return of 2% by the **TSX** over the same period. Clearly, this stock is a compounding monster.

What does Constellation Software do, exactly? Great question. The company is a consolidator of tech software. For most of its history, Constellation Software has focused on acquiring small- and medium-sized tech businesses across a number of verticals. Its strategy has been so successful that new companies have begun to imitate it.

This fact led to Constellation Software President Mark Leonard to announce that he would no longer be writing annual shareholder reports. Instead, Leonard would write to shareholders only when the

company had big news to announce. On Monday, Constellation Software issued the first [shareholder letter in four years](#). It was big news, indeed.

The first key takeaway was that Constellation Software would stop distributing *special dividends*, which will cease the distribution of extra available cash flow. Leonard justifies this by saying it will provide Constellation additional capital to put towards acquisitions.

The second takeaway is that the company will start looking for new opportunities outside of small- and medium-sized businesses. Constellation has acquired three large vertical market software (VMS) businesses in its 26-year history. It plans on building a small team that will be dedicated to finding large VMS businesses that will be suitable for acquisition. It's no secret that much of Constellation's revenue growth comes as a result of its acquisitions. This change in strategy could be huge.

Finally, the third main takeaway from the latest shareholder letter is that Constellation Software would be looking to expand its circle of competence. Mark Leonard acknowledges that this will require “..highly contrarian thinking and is likely to be uncomfortable in the early going.” However, if its history is any indication, it's safe to say the company will not make any rash decisions that harm the company — an amazing development for Constellation Software shareholders.

Foolish takeaway

Like many of the companies listed on the TSX, Constellation Software's business is far from exciting. However, it is an excellent company that deserves attention. Mark Leonard has been an excellent capital allocator throughout Constellation Software's history. With a new strategy in place, the stock could start soaring at even faster rates.

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TICKERS GLOBAL

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Date

2025/08/13

Date Created

2021/02/18

Author

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