



Top TSX Tech Stock to Load Up on Right Now

Description

Constellation Software ([TSX:CSU](#)) acquires, builds, and [manages vertical market software](#) (VMS) businesses globally. The company has six operating groups that currently service customers in more than 100 different vertical markets worldwide. There are many VMS business units within each of Constellation Software's operating groups.

Each VMS business unit has a manager and separately tracked financial reporting. The company monitor and measures each VMS business unit's performance through operating ratios and metrics including profitability and growth. The majority of the company's senior managers' incentive compensation is linked to profitability and growth performance metrics.

Maximizing return on invested capital

Further, each of Constellation Software's VMS business managers are [motivated to administer](#) the business in a highly focused manner. These individuals are encouraged to leverage market knowledge in order to maximize growth opportunities, profitability, and return on invested capital within the manager's business.

However, Constellation Software's corporate head office sets investment return objectives. The company's decentralized management structure allows it to have business unit management teams with strong customer relationships and deep market knowledge that are more focused and responsive than would be the case under a centralized management model.

Pursuing organic initiatives

These teams provide Constellation Software's corporate head office and operating group managers with the ability to concentrate on issues such as capital allocation, identifying best practices, and helping recruit and coach high potential employees, while the VMS business managers concentrate on operating efficiency, and pursuing organic initiatives and acquisitions in the company's existing vertical markets.

The company establishes from time to time, what it considers to be an acceptable after-tax internal rate of return (IRR) as a hurdle rate for all of Constellation Software's new initiatives and acquisitions. All of Constellation Software's operating group cash flow is available to use by the corporate head office. At Constellation

Software, capital is allocated amongst individual management teams based upon projected IRR which is influenced by the relative attractiveness of a market, the strategic position of the VMS business, and the management team's performance.

Focused on shareholder value

In addition, Constellation Software's corporate head office approves all acquisitions that involve an investment of more than \$20 million. In practice, the operating group cash flow is offset against approved investments in acquisitions and internal investment initiatives, and only the remainder is returned to head office.

The objective of Constellation Software's compensation plan is to reward employees for working towards the company's corporate goal of increasing shareholder value. At the company, shareholder value is created by managing two financial components over the long term, including profitability and growth.

Compensation invested in company shares

As such, Constellation Software's bonus plan compensates employees at many levels of the organization based upon the profitability and revenue growth of the business unit.

At Constellation Software, a long-term focus is accomplished by mandating that at least 25% of the incentive compensation for the majority of the company's senior employees be reinvested in shares of the company that is subject to restrictions on resale. This is one of the reasons the company has reported phenomenal returns over the last several decades.

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Date

2025/06/29

Date Created

2021/07/17

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