



Constellation Software: A Venture Capital Play?

Description

Only a handful of stocks on the Toronto Stock Exchange have delivered [growth](#) similar to that of **Constellation Software** ([TSX:CSU](#)) since its IPO. Over the last 15 years, CSU stock has grown at a CAGR of roughly 37%. It gained approximately 43% over the past year.

These metrics suggest that this TSX stock isn't slowing down at all. Indeed, investors who had allocated \$10,000 into CSU stock at its IPO would now have a position worth over \$1 million today. Those are some serious gains.

Let's take a look at yet another reason why Constellation Software is a stock long-term growth investors may want to consider right now.

Constellation: A fast-growing corporate behemoth to bankroll startups

Most investors who have dabbled in Constellation Software know the company's story. This is a software conglomerate that has spent decades acquiring smaller companies. Via integrating these companies into its portfolio, Constellation has been able to increase the return on equity of many of its core holdings. A home-run hitter, Constellation Software is one of the best companies at recognizing untapped value.

Thus, it's perhaps unsurprising to see Constellation step in the venture capital world. In the past few months, several companies, including Constellation, have announced plans to launch venture capital arms. The aim? To back early-stage organizations with tremendous upside potential.

Via early investment, Constellation paves the way for additional add-on investments, or potential takeovers, to take place. This sort of strategic shift aligns well with the company's business model. Accordingly, many investors may be wondering, what took so long?

Constellation recently announced a \$200 million venture capital fund. The fund will be named VMS

Ventures and focus on companies with the potential to be standalone entities within the Constellation portfolio. These companies are ones that may not benefit from the marketing, sales, or other synergistic value-creation aspects Constellation typically relies on with its M&A strategy.

The VMS in this fund's name signifies vertical market software. These are companies that have unexploited verticals, particularly companies with management teams owning a significant portion of the company.

Bottom line

I think this strategic move by Constellation Software makes so much sense, it's not even funny. Like many who have watched Constellation from the sidelines for some time, I'm kicking myself for not getting in sooner into this stock. It's a company that's demanded a premium forever — for good reason. However, each and every year, Constellation performs incredibly well. This company is a giant and is positioning itself to accelerate its growth over time.

This is a top Canadian tech stock I've got my eye on right now. Investors looking for a long-term, proven winner may want to take a hard look at this company as well.

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