



Constellation Software (TSX:CSU): Spending Spree Continues!

Description

Constellation Software ([TSX:CSU](#)) recently released its earnings for the first quarter of 2022. The earnings release contained many items that could be considered good news:

- 22% revenue growth
- \$98 million in net income (up from a \$9 million loss)
- \$498 million in operating cash flow, up \$3 million

Those are pretty strong earnings. But what may have been more interesting than Constellation's operational results were its investments. In Q1, when everybody was panicking and getting out of tech stocks, CSU was busy buying up small tech companies and adding to its portfolio. It was a vote of confidence in the tech startup scene that belies the general bearishness that pervades the market these days.

\$214 million invested

In its [Q1 release](#), CSU revealed that it had invested \$214 million in companies in the first quarter. The acquired businesses paid back \$38 million. It should come as no surprise that CSU started turning profits on its investments quickly. Unlike most other venture capital firms, which invest in "ideas," CSU invests in companies that are already producing revenue. In many cases, the companies it acquires are profitable at the time of acquisition. This is a fairly defensive acquisition strategy — one that will never land CSU the next TikTok. It has, however, produced stellar returns over the decades: since it went public in 2006, CSU has risen over 10,000%!

Why it's spending so much money

If you look at how much money CSU invested in the first quarter, you might be inclined to ask, "Why?"

The world is souring on tech stocks, and that's got to be affecting venture capital too, right?

Wrong.

While venture capital funding fell in Q1, it fell much less than publicly listed tech stocks did. In fact, it grew on a [year-over-year basis](#). Venture investments don't necessarily always correlate with publicly listed stocks. It's a fundamentally different market and is driven by different forces.

If there was a decline in venture investment going on, Mark Leonard and company would probably see it as a buying opportunity. A long-term "buy, hold, and integrate" investor, Leonard seeks to find companies that can synergize with ones he already owns. He isn't looking for a quick "exit." So, he's spending all of this money because he believes he can find good value for the dollars he invests. Based on the cash his investments are already paying out, he is right.

Foolish takeaway

2022 is proving to be a tough year for the tech industry. Tech stocks are falling, sentiment is negative, and investors are heading for the exits. But as Constellation Software shows, that is no reason to stop investments. Markets like this one are buying opportunities for investors with long time horizons. As Mark Leonard has shown, there is no reason to be scared right now. You, the individual investor, may be playing in a different arena than he is, but you can still emulate his practice of buying in down markets.

Certainly, there are more bargains in the tech space today than there were a year ago. And if you aren't confident in your ability to find the winners, you could just buy CSU, and let Mark Leonard do it for you.

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