What's Next for 100-Bagger Constellation Software?

## Description

**Constellation Software** (TSX:CSU) is a classic example of a 100-bagger stock. A "100 bagger" is a stock that rises more than 10,000%. Many stocks that have been around for a long time have become 100 baggers; the term usually refers to companies that rise 10,000% in a short period of time. Constellation Software fits the bill. It has risen 10,600% since its initial public offering in 2006, meaning that it has been a 100-bagger in less than two decades.



CSU is the kind of stock that gets people excited. Its returns over the last 16 years have been much better than those of the market, and the company is still growing. In its most recent quarter, CSU's revenue grew 33%, which is better than most tech stocks in the same period. This year has been a tough one for tech companies, many of which are seeing their revenue decline after years of growth. CSU still has high sales growth, and its operating profit is growing a little bit, too. So, it's doing better than its peers.

The question is, what's next for this 100-bagger stock? Companies don't usually deliver 100-bagger returns twice in a row. That's a 10,000-fold return, or one million percent! It's quite unlikely for a stock to rise that much. However, in some circumstances, companies that have risen 10,000% can still deliver decent gains from that point on; for example, **Amazon** was up 40,000% over 20 years at its peak last year. The question is, will CSU keep growing like Amazon or give up its impressive gains?

# Acquisitions still ongoing

One positive sign that Constellation Software will keep growing is the fact that it's still doing deals. As of 2022, it is closing large deals with major companies. For example, it recently bought **Allscripts's** hospital and large practice software business. Acquisitions don't automatically make companies more valuable, but Constellation chief executive officer Mark Leonard has a good track record of doing deals that contribute to his company's bottom line. So, in CSU's case, more deals are often a good thing.

# Potential for organic growth

Another thing Constellation has going for it is potential for organic growth. “Organic growth” means growth without making acquisitions. CSU has a lot of potential in this area. Most of the company’s businesses are enterprise software companies, meaning that they sell software to other businesses and even governments. Enterprise software has high switching costs, making it difficult for customers to stop using a company’s offerings. So, CSU can easily raise its prices over time.

# Foolish takeaway

Constellation Software has rewarded investors handsomely over its 16 years as a public company. A 100-bagger and then some, its returns have been solid. There are risks here, too, of course. It’s a tech company, after all, and today’s economic climate is not friendly to technology. Potentially, investors might start to question CSU’s valuation. At today’s prices, it trades at 31 times earnings and five times sales. It’s a little pricey. Nevertheless, the company itself is solid and well run, so it should do at least OK over the long term.

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**Date**
2025/08/13
**Date Created**

2022/11/15
**Author**
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