



Better Buy: Shopify vs. Constellation Software

Description

Shopify ([TSX:SHOP](#)) and **Constellation Software** ([TSX:CSU](#)) have historically been among the best-performing TSX stocks. Shopify was at one point up 5,000% in six years, though it lost a lot of its gains in the 2022 tech crash. Constellation Software is up 12,200% from inception and, unlike Shopify, has held on to almost all of its gains.

Between Constellation and Shopify, investors have two illustrious [tech stocks](#) to choose from on the Toronto Stock Exchange (TSX). Both of them could be good buys. However, it helps to understand the securities you're investing in, as an intellectual exercise if for no other reason.

In this article, I will compare Shopify and Constellation Software side by side, so you can decide which is the better buy.

The case for Shopify

The case for buying Shopify instead of Constellation Software rests on the fact that it's easier to understand. CSU is a holding company with hundreds of businesses under the hood, Shopify is an e-commerce company that basically helps people process payments. The latter has a much simpler business model.

To understand Shopify, you need to understand

- The nature of the e-commerce industry (growth, size, competition, etc.);
- How Shopify attracts users; and
- How good Shopify is at keeping users on its platform.

Basically, if you understand what Shopify does (selling platforms that people use to sell products), then you can understand the business. By contrast, understanding Constellation thoroughly is quite a challenge, as it operates in so many different industry segments. Basically, all of CSU's companies are tech companies, most of which are software companies, but there's a lot of difference between the kinds of software that they sell.

To truly become an "expert" on CSU, you'd need to spend many, many months researching the company. You can gain a vague understanding of it in an afternoon, but understanding it at a Warren Buffett level of proficiency would take a long time. This is a potential problem, because "knowing what you own" is one of the keys to successful investing.

The case for Constellation Software

The case for Constellation Software rests on the fact that it's a profitable and fast-growing business. In its [most recent quarter](#), it delivered

- \$1.72 billion in revenue, up 32%;
- \$136 million in net income, up 28%;
- \$321 in cash from operations (a measure of how much cash a company's operations produce), up 10%; and
- \$226 million in free cash flow (a cash-only earnings metric), up 1.32%.

By contrast, Shopify, in the same period, only grew revenue at 22% and actually lost money. The last few quarters' results were similar. Basically, in terms of historical fundamentals, Constellation Software is a better business than Shopify is.

Foolish takeaway

For me, between Shopify and Constellation Software, there's no question:

CSU is the better buy.

It's more profitable, it's growing faster, and it has a cheaper valuation. Really, CSU takes the gold over Shopify on just about every criterion that investors look at. The only area where Shopify scores a win is in being easy to understand. Constellation Software is a pretty complex business but, if you just view it as a fund managed by Mark Leonard, it starts to make sense as a fund-like investment.

CATEGORY

1. Investing

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2. TSX:SHOP (Shopify Inc.)

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