This Canadian Stock is Begging for a Stock Split

**Description**

In 2021, stock splits were all the rage. Stocks were appreciating rapidly at that time, and companies responded to investor demand by splitting their shares. Today, we know how that story ended. The splits were done and still stocks crashed in 2022. It didn't end well for investors.

That doesn't mean that stock splits are never a good idea, though. If a company is performing well, then making the shares cheaper and more accessible to retail investors couldn't hurt. In this article, I will explore one successful TSX company that could be a prime candidate for a stock split in the years ahead.



## Constellation Software

**Constellation Software Inc** (TSX:CSU) is a Canadian software company that owns hundreds of smaller software companies. It operates somewhat like a venture capital (VC) firm, spending most of its time and energy on acquiring companies. The main difference is that CSU acquires whole companies and makes them part of its own business, rather than just buying pieces of them. Also, CSU normally retains interest in the companies that it acquires, instead of selling them. There are exceptions: it recently spun off **Lumine Group,** for example. For the most part, though, Constellation tends to hold onto the businesses it buys.

The strategy has paid off, too. Since going public in 2006, CSU stock has risen 12,000%, making many long-term shareholders wealthy. Certainly, it has made Constellation's founder wealthy: with a net worth of $2.1 billion, Mark Leonard is one of the richest people in Canada. And if his acquisition track record holds up in the future, he will become richer still.

## Why it is a good stock split candidate

Unless it starts out as a penny stock, a share can't rise 12,000% without acquiring a hefty price tag. In Constellation Software's case, a rather expensive stock has indeed been the outcome of the decade-long rally. At today's prices, Constellation Software trades at $2,338. That makes it one of the most expensive stocks on the Toronto Stock Exchange. Many of the big U.S. tech companies like **Alphabet** and **Amazon** used to have big price tags like CSU's, but they eventually split their shares. CSU didn't do so. In fact, it hasn't done a single stock split in its entire history. Today, CSU stock is rather out of reach to retail investors, so should management want to juice their stock's price a little, they may want to do a stock split.

## Why you shouldn't count on it

Despite the fact that Constellation Software looks like a prime candidate for a stock split, there are reasons to think it won't happen.

The first is that some managers actually like high stock prices. If your stock is rather expensive to buy, you tend to attract fewer fickle speculators, resulting in lower price volatility. This can result in a less stressful experience for investors. It's one of the reasons why Warren Buffett has consistently refused to split **Berkshire Hathaway's** stock over the decades, despite many calls for him to do so. Mark Leonard is similar to Buffett in some ways (e.g., he prefers to buy and hold rather than actively trade), so perhaps Buffett's behaviour could provide a clue to his thinking.

Second is the fact that you don't need a stock split to attract retail interest anymore. A lot of brokers offer "fractional share" ownership these days, which means you can buy a small fraction of a stock rather than the whole thing. Not all brokers offer this, but many do, so perhaps stock splits aren't as necessary as they once were.



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