OPINION

It’s time for investors to get greedy and buy the beaten-down shares of Constellation Software

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Royal Bank recently downgraded Constellation Software and noted that the shares were already trading at a multiyear valuation low and that earnings are still expected to grow roughly 20 per cent this quarter.

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Few investing ideas are quoted more often than Warren Buffett's warning to "be fearful when others are greedy, and greedy when others are fearful."

Yet, few are followed as rarely. It sounds simple, almost obvious. In reality, it is anything but. Being greedy usually means buying when headlines are bleak, prices are falling and the prevailing story feels convincing. Today, that discomfort is visible in one corner of the market, in particular: software.

Across the sector, concerns around artificial intelligence and disruption have pushed valuations sharply lower. The common assumption is that products will be commoditized, margins will compress and incumbents will be displaced. Much of the market has responded by selling software as a single category, without distinguishing between the effects of AI. That lack of nuance matters.

Inside the broader sell-off sits vertical market software, a very different kind of business. Unlike consumer apps or general-purpose enterprise tools, vertical market software is built for narrow, specialized industries. These systems are mission-critical, deeply embedded in daily operations and rarely replaced once installed.

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Constellation Software Inc.
CSU-T (/investing/markets/stocks/CSU-T/) -0.08% ▼ and its European spinoff Topicus.com Inc. are clear examples. Together, they own more than 1,000 individual businesses serving municipalities, courts, hospitals, utilities and transportation networks – industries where failure brings real operational, legal and reputational consequences.

The price tag on this kind of software is typically trivial, often a tenth of a per cent of a customer's operating costs. That detail is easy to overlook but important. When software costs are this small, the potential savings from switching are modest, while the operational risk of replacing a trusted provider is high. As Ticketmaster president Saumil Mehta recently put it in a social-media post: "It's foolish to think that I would spend any time saving a few bucks at the opportunity cost to the core business."

Saumil Mehta
@saumil · **Follow**

As someone that manages a P&L with a large software cost line item, this take is right.

It's foolish to think that I would spend any time saving a few bucks at the opportunity cost to the core business.

AI didn't eliminate Core Competencies. And it won't.

> **obsidian capital** @obsidiancap1
> Replying to @k3ithmccullough
> Basically the opposite of everything you read on X. Relying on incumbent software vendors for ai functionality add-ons and paying for it, time to market is critical and want to focus internal developer resources on driving revenue and core business forward not rebuilding 3p apps,

9:57 PM · Jan 23, 2026

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Even when new functionality promises improvements, the complexity of migrating deeply embedded systems makes mistakes costly and slow, reinforcing the value of incumbents.

Constellation founder Mark Leonard warned analysts last September to be cautious about predicting the impact of AI, pointing out that technology frequently develops in ways that differ from popular expectations.

He cited medicine as an example: In 2016, Geoffrey Hinton, the now-Nobel-Prize-winning godfather of AI, predicted that radiologists would soon be replaced. In the years since his remarks, not only has the number of radiologist recruits in the U.S. increased, it has outpaced population growth. AI improved productivity and outcomes in that field, but it augmented expertise rather than replacing it.

A dip too deep? Why Constellation Software is the stock to watch in 2026

Mr. Leonard's point was straightforward. If someone as close to AI as Mr. Hinton could underestimate both the timing and direction of change, it is reasonable to question whether markets are doing the same with vertical market software.

AI is often framed as an existential threat to software incumbents, but in vertical markets, it may be a source of advantage instead. Topicus has described AI as enabling a new layer of software that sits on top of existing systems to automate tasks and improve workflows.

These tools rely on private data sets, established processes and trust built over time – all areas that incumbents already control. Constellation's experience across multiple technology transitions, from mainframes to PCs, and later to mobile and software-as-a-service models, shows that new tools can be adopted in ways that enhance the value and relevance of its portfolio companies rather than undermining them.

What you need to know about the AI bubble – and how it will pop

There is also a practical upside to the current sell-off. As software multiples compress, more high-quality businesses come within reach at reasonable valuations. Roper Technologies Inc. recently noted that private-equity-owned software assets are under unprecedented pressure to provide liquidity. For disciplined buyers such as Constellation and Topicus, this reduces a common long-term concern around the pace of future acquisitions.

An example from 2024 illustrates why customers are reluctant to replace core systems. Seattle Municipal Court attempted to modernize operations with a

US$37-million case management system, but the rollout proved chaotic. Attorneys struggled to access files, public-facing systems went offline, hearings slowed and some individuals in custody waited longer to meet with lawyers. At one point, the court reverted to pen and paper.

The project had been under way since 2016, faced repeated delays and exceeded its original budget by US$17-million. Constellation was not involved; the system was supplied by a competing vertical market software firm. But the episode highlights the real operational risk of replacing deeply embedded software.

Despite this resilience, Constellation and Topicus are being treated like any other software stock. Royal Bank of Canada recently downgraded Constellation, while noting that the shares were already trading at a multiyear valuation low and that earnings are still expected to grow roughly 20 per cent this quarter. Forward year earnings estimates were also left unchanged. The lower valuation instead reflected a higher discount rate, applied to account for perceived uncertainty. The underlying business outlook remained intact, only sentiment shifted.

The company’s new president, Mark Miller, appears to see value in the stock. In December, Mr. Miller purchased $5-million of Constellation stock in the open market at prices well above today’s levels. This was after an earlier $1-million purchase in September, at an even higher market price.

From a valuation perspective, the disconnect is difficult to ignore. While the S&P 500 trades near a 3-per-cent free cash flow yield, and the Nasdaq closer to 2 per cent, Constellation now offers 6 per cent. That’s its highest level in 14 years, even though the stock has historically traded at a large premium to the broader market.

Being greedy when others are fearful does not mean ignoring risk. It means separating businesses that are genuinely under threat from those caught in a broad narrative. Vertical market software falls firmly into the latter category. For investors willing to look past labels and short-term panic, the opportunity lies in owning quiet compounders whose free cash flows can grow for decades, steadily, predictably and well ahead of the market.

Trevor Scott, CFA, is president and portfolio manager of Tidefall Capital. Tidefall owns shares in both Constellation Software and Topicus.