

EQUITY RESEARCH

August 3, 2023

Industry Update

Canadian VC Funding – Bits & Bytes Weekly

Canadian Venture Capital Revival

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Our Conclusion

After an explosive year of venture capital (VC) investing in 2021, start-up funding came to a near standstill in late 2022. The first quarter of 2023 represented a three-year low for Toronto in terms of total venture capital invested, with \$120 million raised, down 94% Y/Y. However, Canadian venture capitalists appeared to return to the playing field in Q2, with tech start-ups in Toronto raising \$1 billion during the quarter, up significantly over Q1 and up 71% Y/Y. The Q2 uptick in Canada contrasts with the broader North American environment, where start-up funding continues to decline Y/Y. The current valuation environment could prove to be an attractive entry point for Canadian venture capitalists; data from the BDC shows that Canadian VC managers that raised funds in 2011-2013 after the financial crisis delivered their best net returns over the last 10 years.

Sector:
Information Technology

Key Points

Deal Volume Remains Low, But Average Deal Size Is Increasing: The \$1 billion raised in Toronto in Q2 was spread over 33 deals, a sharp increase over the 16 deals in Q1/23 but still marking a 27% Y/Y decline in total number of deals. Despite this, the average deal size in Toronto for Q2 was \$33 million, vs. \$13 million in Q2/22. In Vancouver, BC tech start-ups raised ~\$640 million in Q2/23, a 213% increase Y/Y. BC deals totalled 16 in Q2/23, for an average deal size of \$40 million, vs. 21 deals at an average size of \$10 million in Q2/22. Notable large funding raises in Q2 included Cohere's \$360 million Series C and AbCellera's \$300 million raise.

Seed Funding In Canada Remains Relatively Absent: In 2021, Toronto and British Columbia started to see a decline in seed-stage and early-stage deals, and an increase in later-stage investments. That trend has continued, with only five seed-stage deals and five pre-seed deals closed in Toronto in Q2/23, while the remainder of the 33 deals were Series A or later, according to briefed.in data. In BC, only six of the 16 deals in Q2 were pre-seed or seed-stage. Canadian venture capitalists appear to be narrowing their focus to larger investments in Series A or later rounds in a few start-ups vs. small seed-stage investments spread across multiple start-ups.

Canada's Individual Performance Contrasts With Overall North America:

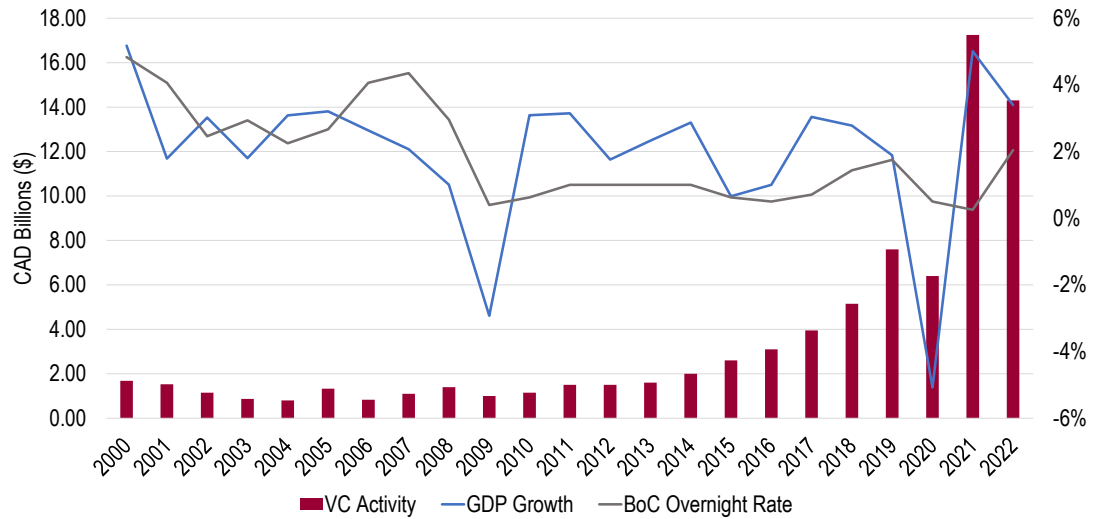
Despite the increase in funding for start-ups in Toronto and BC during Q2, venture funding for the whole of North America decreased Y/Y, according to Crunchbase data. Seed-stage funding fell 39% Y/Y to \$3 billion, representing a decrease of 13% Q/Q. Early-stage funding dipped to \$13.5 billion, decreasing 47% Y/Y, though only 2% Q/Q. The largest Y/Y declines were in late-stage funding, which totaled \$15.3 billion in Q2/23, decreasing 54% Y/Y and 48% Q/Q. Given late-stage valuations are often tied to the IPO market, which has only just begun to recover, the weakness in late-stage funding Y/Y is not necessarily surprising. On the upside, as the IPO market [comes back](#), late-stage funding in pre-IPO rounds should also return.

All figures in U.S. unless otherwise stated.

Canadian VC Historical Activity

Canada’s VC industry has experienced significant growth over the last 10 years, which can be attributed to the government’s incentive programs, including the Venture Capital Action Plan, and the Venture Capital Catalyst Initiative, which was introduced with the 2021 Budget and provides government funding and in 2022 attracted 2.5 dollars of private investment for each government dollar. The line chart in Exhibit 1 showcases Canadian VC activity since 2000, plotted against Y/Y GDP growth and the BoC overnight rate.

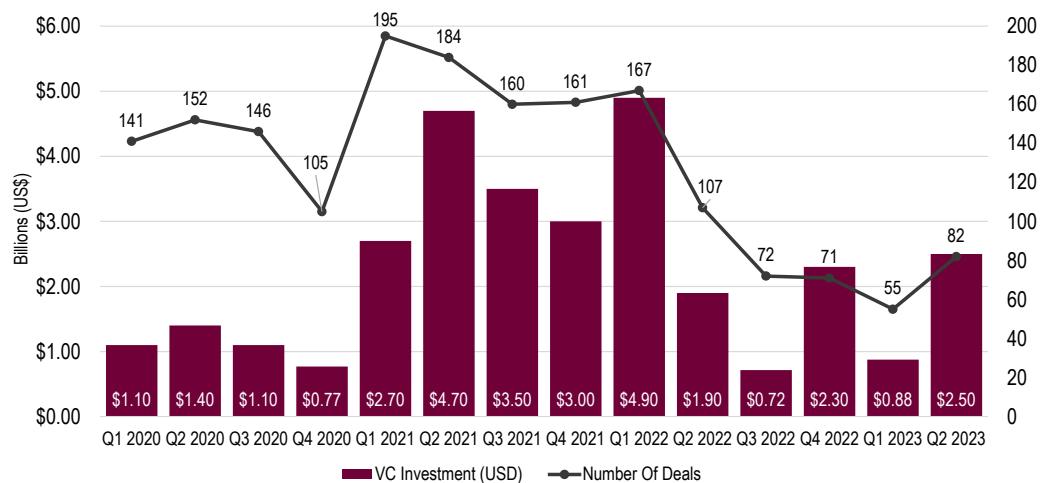
Exhibit 1: Canada – VC Funding, 2000 - Present



Source: BDC and CIBC World Markets Inc.

When the BoC shifted to monetary tightening in 2022, VC activity began to decline, as can be seen by the sharp drop in funding and volume from Q1/22 to Q2/22 in the bar chart in Exhibit 2. Data from briefed.in shows a continuous decline in deal volume from Q1/22 to Q1/23, with Q2/23 marking the first quarter of increased deal volume in Canada since early 2022, and the total investment of \$2.5 billion increasing significantly over Q1/23.

Exhibit 2: Canada – Quarterly VC Funding, Q1/20 - Q2/23



Source: briefed.in and CIBC World Markets Inc.

News Impacting Our Coverage

Research Highlights

TRI – Downgrading To Neutral On Valuation: Waiting For A Better Entry Point: As of August 2, we downgraded Thomson Reuters from Outperformer to Neutral, as strong YTD share price performance has reduced the return to our price target. Our downgrade is not the result of a change in view on TRI's strategy or of concerns about the impact of generative AI on the business, and we continue to believe that TRI remains a high-quality, defensive business with a solid management team. We are positive on TRI's build/partner/buy AI strategy, although meaningful revenue contribution from the technology is unlikely until the back half of 2024 and we expect some level of margin dilution in 2024 once Casetext is added to our model and TRI invests to best position itself. At 21.5x our 2024 EBITDA estimate, TRI shares are trading in line with the average peer multiple and we prefer to await a more attractive entry point rather than bank on additional multiple expansion. Our price target of \$140 remains unchanged, with limited changes to our 2024 estimates.

ISV – Q2/23 First Look: Updated Guidance In Line With Expectations: ISV reported a second quarter that was slightly below expectations, with revenue that was 2% below consensus and adjusted EBITDA 4% below consensus. ISV provided updated 2023 guidance to account for the extended and amended MSA with the Government of Saskatchewan and the updated figures were in line with our expectations. We do not expect the slight miss in the quarter to be viewed overly negatively, particularly with updated guidance in line with expectations.

Kinaxis Enhances Executive Leadership Team

Kinaxis announced the appointment of a new Chief Product Officer and Chief Operating Officer. Andrew Bell, previously the company's VP Product Management, has been promoted to Chief Product Officer. He will oversee the company's engineering, development and product management teams. The Chief Product Officer role had been vacant for the past year. Kinaxis also promoted its former Chief Human Resources Officer, Megan Paterson, to the role of Chief Operating Officer, a newly created role. Ms. Paterson will have responsibility over cloud services, corporate IT, corporate strategy, HR and global real estate.

Enghouse Completes Acquisition Of Lifesize Technologies For \$20.7 Million

Enghouse announced the completion of its acquisition of substantially all the assets of Lifesize, which was previously announced. The acquisition was approved under U.S. bankruptcy court for a purchase price of \$20.7 million. Lifesize's offerings include a cloud contact center solution with workforce management capabilities. Lifesize's offerings are designed for hybrid workforce environments, and include cloud-based video collaboration solutions that management expects to complement Enghouse's existing Vidyo suite of products.

Exhibit 3: CIBC Coverage – Price Returns, For The Period Ending August 3, 2023

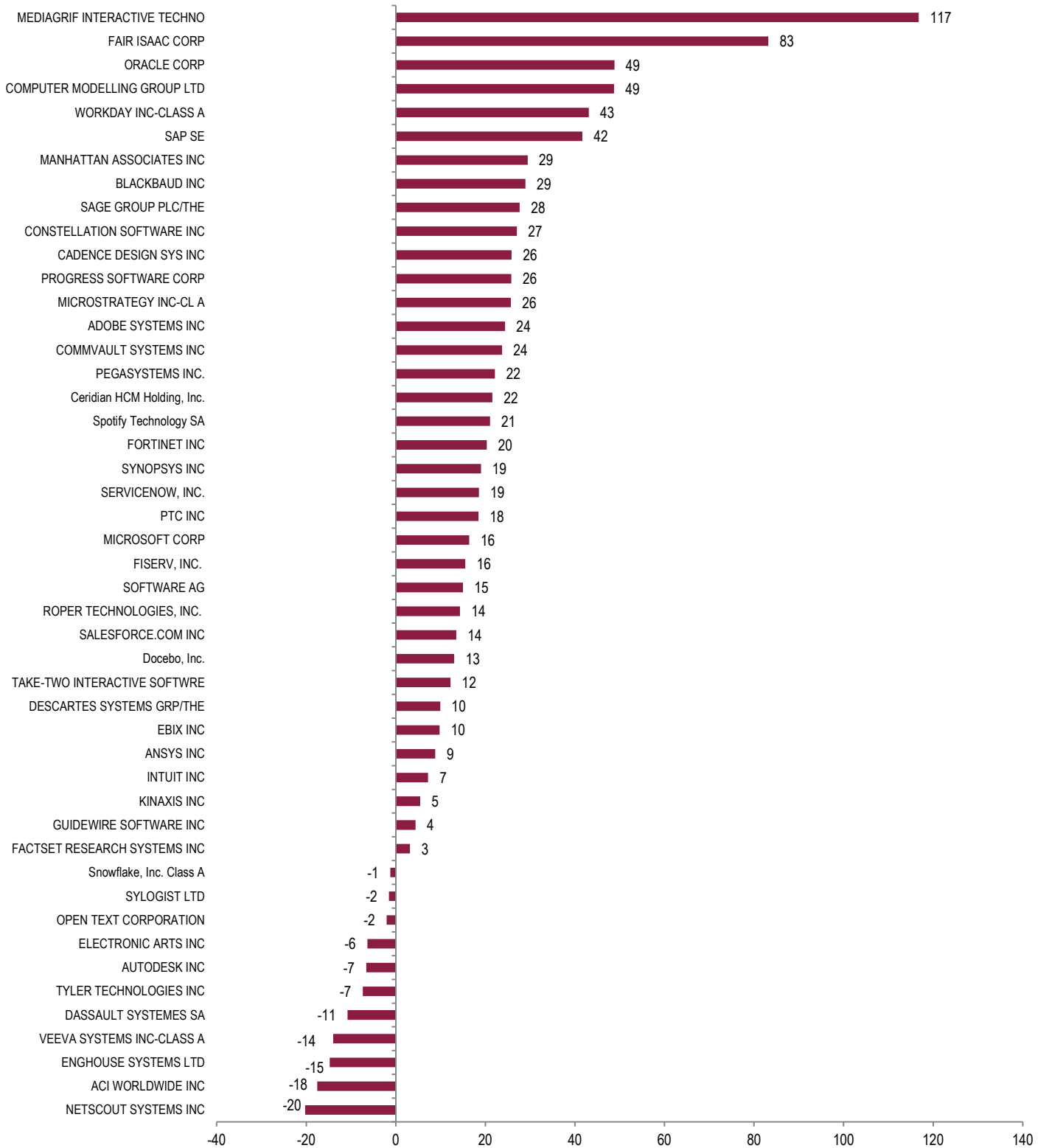
| Software & Systems | Price | 1 Week | 1 Month | 3 Month | 6 Month | 1 Year | YTD | 52W High | 52W Low |
|----------------------------|----------|--------------|--------------|------------|------------|------------|-------------|----------|---------|
| Constellation Software Inc | 2,670.01 | (2.8) | (2.7) | (1.9) | 14.2 | 27.0 | 28.9 | 2829.34 | 1747.83 |
| Descartes Systems | 74.55 | (3.6) | (5.7) | (0.2) | (2.3) | 5.6 | 7.0 | 82.02 | 61.26 |
| Enghouse Systems Limited | 28.21 | (4.8) | (12.4) | (24.6) | (31.0) | (14.8) | (21.6) | 44.59 | 27.30 |
| Open Text Corp | 40.26 | (2.9) | (3.2) | 7.1 | 16.0 | (2.1) | 35.8 | 43.25 | 24.91 |
| Kinaxis | 168.03 | (5.3) | (11.2) | (5.3) | 3.7 | 5.4 | 10.6 | 191.80 | 124.90 |
| Docebo, Inc. | 49.78 | 0.3 | (5.1) | (2.4) | (7.6) | 13.1 | 11.3 | 55.72 | 31.66 |
| Dye & Durham | 18.65 | (2.1) | 3.0 | 32.2 | (15.6) | 1.2 | 13.6 | 23.14 | 11.62 |
| Altus Group | 45.04 | 2.4 | 2.5 | (13.2) | (21.8) | (13.9) | (16.7) | 61.60 | 40.00 |
| Q4 Inc. | 4.12 | 1.2 | 24.8 | 14.4 | 66.1 | NA | 28.3 | 4.85 | 1.88 |
| Average | | (2.0) | (1.1) | 0.7 | 2.4 | 2.7 | 10.8 | | |

| Business Services | Price | 1 Week | 1 Month | 3 Month | 6 Month | 1 Year | YTD | 52W High | 52W Low |
|---------------------------|--------|--------------|---------------|---------------|---------------|---------------|---------------|----------|---------|
| CGI Group Inc | 131.17 | 0.7 | (6.1) | (5.8) | 7.5 | 18.7 | 12.4 | 142.31 | 100.74 |
| Converge Technologies | 3.06 | (0.6) | (4.4) | (5.3) | (48.3) | (50.1) | (33.3) | 7.51 | 2.59 |
| Information Services Corp | 25.79 | (2.7) | 21.7 | 15.3 | 16.7 | 21.7 | 6.7 | 26.98 | 20.16 |
| Softchoice Corporation | 14.89 | (6.0) | (17.7) | (7.4) | (17.7) | (37.6) | (18.5) | 25.56 | 13.57 |
| Telus International | 11.97 | (4.0) | (40.4) | (55.3) | (61.7) | (65.9) | (55.2) | 40.55 | 11.65 |
| Average | | (2.5) | (17.1) | (18.4) | (30.0) | (33.7) | (23.7) | | |

| Indices | Price | 1 Week | 1 Month | 3 Month | 6 Month | 1 Year | YTD |
|-------------------------|-----------|--------|---------|---------|---------|--------|------|
| S&P/TSX Composite Index | 20,149.77 | (1.2) | (0.0) | (1.0) | (2.9) | 3.1 | 3.9 |
| S&P 500 Index | 4,517.69 | (0.4) | 1.4 | 10.4 | 9.2 | 8.7 | 17.7 |
| S&P/TSX Software Index | 182.11 | (2.5) | (4.7) | 7.2 | 10.0 | 22.6 | 33.5 |
| S&P500 Software Index | 5,643.40 | (0.7) | (1.0) | 12.3 | 25.2 | 17.0 | 37.8 |

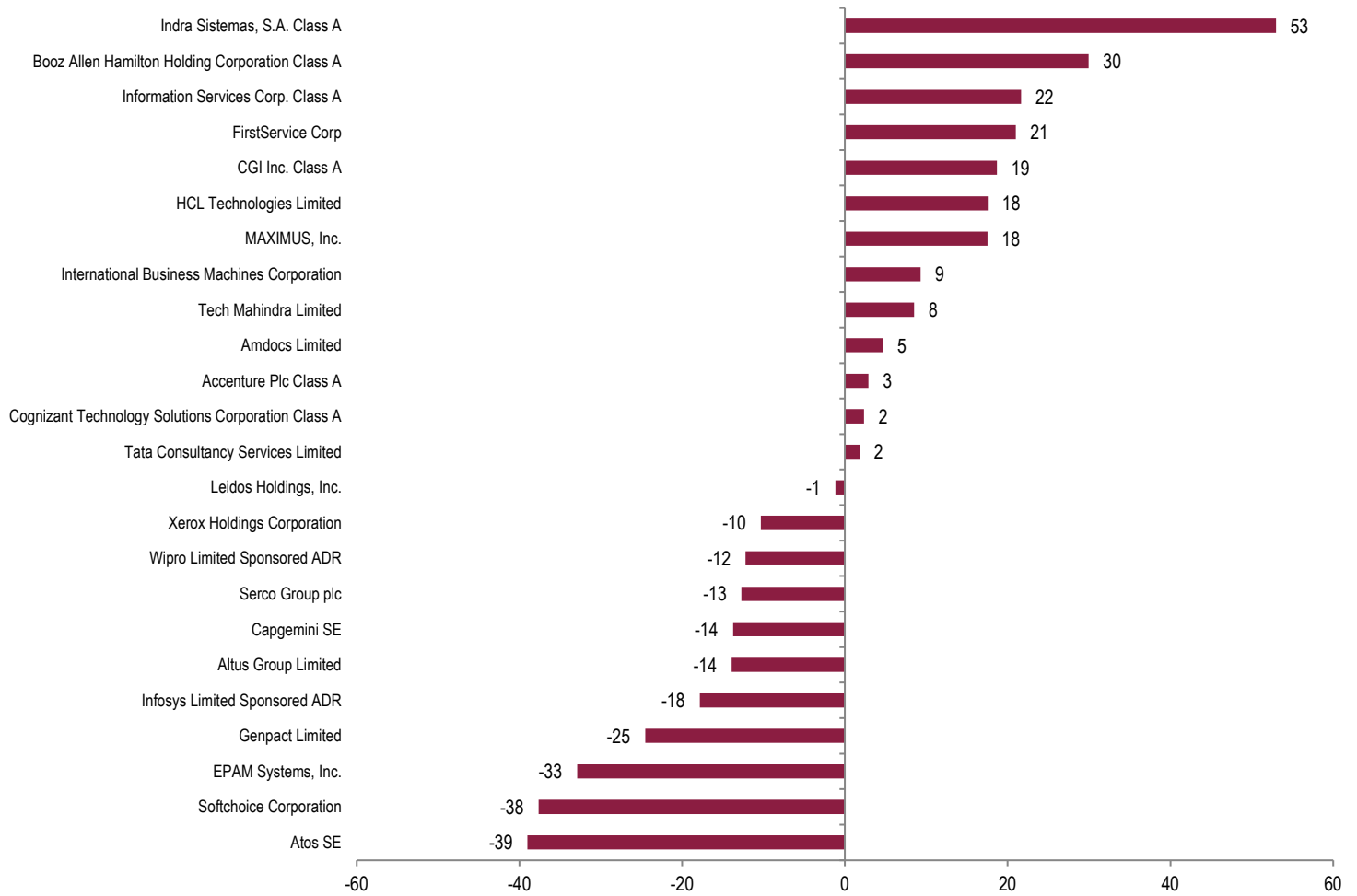
Source: Company reports, FactSet and CIBC World Markets Inc.

Exhibit 4: Software Stocks – Return Performance (%), 8/03/2022 - 8/03/2023



Source: Company reports and CIBC World Markets Inc.

Exhibit 5: Business Services Stocks – Return Performance (%), 8/03/2022 - 8/03/2023



Source: Company reports, FactSet and CIBC World Markets Inc.

Exhibit 6: Software Stocks – Comp Table, 2022 - 2024E

| | Enterprise Value (\$mlns.) | EV/S | | | EV/EBITDA | | | P/E | | |
|--|----------------------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | | C22 | C23E | C24E | C22 | C23E | C24E | C22 | C23E | C24E |
| Enterprise Application Software | | | | | | | | | | |
| Constellation Software Inc.* | 44,177 | 6.7x | 5.6x | 5.0x | 26.0x | 22.0x | 19.5x | 35.1x | 32.4x | 28.3x |
| BlackBerry Limited* | 2,810 | 4.2x | 2.5x | 2.7x | NEG | >50 | >50 | NEG | NEG | NEG |
| Sage Group plc | 10,270 | 5.1x | 4.6x | 4.3x | 22.4x | 19.7x | 17.7x | 34.6x | 28.9x | 25.8x |
| Tyler Technologies, Inc. | 16,879 | 9.1x | 8.6x | 7.9x | 35.5x | 34.6x | 30.6x | >50 | 49.6x | 43.8x |
| Roper Technologies, Inc. | 58,463 | 10.9x | 9.6x | 9.0x | 26.7x | 23.6x | 22.1x | 34.4x | 29.8x | 27.6x |
| Enghouse Systems Limited | 1,342 | 3.2x | 3.10x | 3.05x | 9.7x | 10.0x | 9.21x | 14.2x | 22.0x | 19.56x |
| Oracle Corporation | 397,624 | 8.5x | 7.6x | 7.0x | 17.1x | 15.2x | 13.6x | 22.9x | 21.3x | 19.1x |
| SAP SE | 151,888 | 4.5x | 4.9x | 4.5x | 19.2x | 17.0x | 14.7x | 29.6x | 23.6x | 19.7x |
| Enterprise Application Software Average | | 6.5x | 5.8x | 5.4x | 22.4x | 20.3x | 18.2x | 28.5x | 29.7x | 26.3x |
| Extended ERP | | | | | | | | | | |
| Adobe Incorporated | 239,245 | 13.5x | 12.3x | 10.9x | 27.4x | 25.0x | 22.9x | 38.0x | 33.2x | 29.3x |
| Open Text Corporation | 18,942 | 5.4x | 3.4x | 3.1x | 15.2x | 10.9x | 8.1x | 12.7x | 15.7x | 7.5x |
| Manhattan Associates, Inc. | 11,361 | 14.8x | 12.7x | 11.4x | >50 | 46.6x | 40.8x | >50 | >50 | >50 |
| Pegasystems Inc. | 4,488 | 3.4x | 3.3x | 3.0x | >50 | 25.2x | 17.1x | >50 | 34.9x | 22.4x |
| Software AG | 2,531 | 2.6x | 2.5x | 2.4x | 14.2x | 14.2x | 12.0x | 34.3x | 21.7x | 18.1x |
| Fiserv, Inc. | 97,452 | 5.8x | 5.4x | 5.0x | 13.5x | 12.1x | 11.1x | 19.3x | 16.8x | 14.7x |
| Extended ERP Average | | 7.6x | 6.6x | 6.0x | 17.6x | 22.3x | 18.7x | 26.1x | 24.5x | 18.4x |
| Software As A Service | | | | | | | | | | |
| Descartes Systems Group Inc. | 6,167 | 12.7x | 10.9x | 9.9x | 28.7x | 25.2x | 22.0x | >50 | >50 | 47.7x |
| Kinaxis, Inc.* | 3,344 | 9.1x | 7.7x | 6.5x | 42.1x | 48.4x | 39.8x | >50 | >50 | >50 |
| Docebo, Inc.* | 1,018 | 7.1x | 5.7x | 4.3x | >50 | >50 | 33.3x | >50 | >50 | >50 |
| Lightspeed Commerce Inc* | 1,784 | 2.6x | 2.1x | 1.6x | NEG | NEG | 47.1x | NEG | >50 | >50 |
| Veeva Systems Inc Class A | 28,333 | 13.3x | 12.1x | 10.2x | 34.5x | 34.1x | 27.4x | 46.3x | 43.1x | 36.2x |
| Shopify, Inc. Class A | 71,697 | 12.8x | 10.4x | 8.8x | >50 | >50 | >50 | >50 | >50 | >50 |
| Q4 Inc* | 101 | 1.8x | 1.8x | 1.7x | NEG | NEG | NEG | NEG | NEG | NEG |
| Ceridian HCM Holding, Inc. | 11,901 | 9.5x | 7.9x | 6.9x | 47.5x | 30.9x | 25.4x | >50 | >50 | 44.1x |
| ServiceNow, Inc. | 112,104 | 15.5x | 12.6x | 10.3x | 49.0x | 40.0x | 31.8x | >50 | >50 | 45.7x |
| Workday, Inc. Class A | 57,003 | 9.3x | 8.0x | 6.8x | 36.3x | 29.9x | 24.5x | >50 | 44.3x | 36.5x |
| Software As A Service Average | | 9.4x | 7.9x | 6.7x | 39.7x | 34.7x | 31.4x | >50 | >50 | >50 |
| Infrastructure Vendors | | | | | | | | | | |
| Microsoft Corporation | 2,410,379 | 11.7x | 10.8x | 9.6x | 23.8x | 21.7x | 18.9x | 34.6x | 31.6x | 27.6x |
| Infrastructure Vendors Average | | 11.7x | 10.8x | 9.6x | 23.8x | 21.7x | 18.9x | 34.6x | 31.6x | 27.6x |
| Software Average | | 8.1x | 7.0x | 6.2x | 27.2x | 25.3x | 23.2x | 29.7x | 29.9x | 28.5x |

*Share Price Converted to USD

Source: Company reports, FactSet and CIBC World Markets Inc.

Exhibit 7: Business Services Stocks – Comp Table, 2022 - 2024E

| | Enterprise Value (\$mlns.) | EV/EBITDA | | | P/E | | | EV/S | | |
|---|-------------------------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|-------------|-------------|
| | | C22 | C23E | C24E | C22 | C23E | C24E | C22 | C23E | C24E |
| Business & IT Services | | | | | | | | | | |
| CGI Inc. Class A | 33,168 | 12.8x | 11.7x | 10.8x | 20.9x | 18.0x | 17.0x | 2.5x | 2.2x | 2.2x |
| TELUS International (CDA), Inc. | 4,235 | 7.0x | 6.0x | 5.2x | 7.3x | 7.2x | 6.0x | 1.7x | 1.4x | 1.3x |
| Accenture Plc Class A | 206,065 | 17.9x | 17.1x | 15.8x | 28.8x | 26.7x | 24.7x | 3.3x | 3.2x | 3.0x |
| Booz Allen Hamilton | 19,031 | 19.1x | 17.5x | 16.1x | 27.9x | 25.5x | 22.8x | 2.1x | 1.9x | 1.8x |
| CACI International Inc Class A | 10,092 | 14.9x | 13.7x | 12.9x | 19.6x | 18.5x | 16.8x | 1.6x | 1.5x | 1.4x |
| DXC Technology Co. | 7,484 | 3.1x | 3.4x | 3.4x | 5.4x | 5.6x | 4.7x | 0.5x | 0.5x | 0.5x |
| Genpact Limited | 7,771 | 9.9x | 9.3x | 8.3x | 13.3x | 12.4x | 11.1x | 1.8x | 1.7x | 1.5x |
| International Business Machines | 176,938 | 11.2x | 12.0x | 11.4x | 15.8x | 15.1x | 14.4x | 2.9x | 2.8x | 2.7x |
| Atos SE | 2,603 | 3.0x | 2.3x | 2.4x | NEG | 3.1x | 2.5x | 0.2x | 0.2x | 0.2x |
| Capgemini SE | 33,725 | 9.6x | 9.3x | 8.6x | 14.2x | 14.4x | 13.1x | 1.5x | 1.5x | 1.4x |
| Sopra Steria Group SA | 5,261 | 8.8x | 7.7x | 7.1x | 14.3x | 11.6x | 9.9x | 1.0x | 0.9x | 0.9x |
| Converge Technology Solutions Corp | 956 | 6.7x | 5.7x | 5.2x | 28.9x | 48.2x | 33.2x | 0.4x | 0.4x | 0.4x |
| Business & IT Services Average | | 10.7x | 10.0x | 9.3x | 16.8x | 14.4x | 13.0x | 1.7x | 1.6x | 1.5x |
| HR Outsourcing | | | | | | | | | | |
| Ceridian HCM Holding, Inc. | 11,901 | 47.5x | 30.9x | 25.4x | >50 | >50 | 44.1x | 9.5x | 7.9x | 6.9x |
| Willis Towers Watson | 26,799 | 11.3x | 11.4x | 10.5x | 16.1x | 15.4x | 13.4x | 3.0x | 2.9x | 2.7x |
| Aon Plc Class A | 75,394 | 19.0x | 17.4x | 16.2x | 23.9x | 22.6x | 20.0x | 6.0x | 5.7x | 5.4x |
| Automatic Data Processing, Inc. | 103,752 | 22.4x | 19.9x | 18.2x | 32.5x | 28.6x | 25.9x | 6.0x | 5.6x | 5.2x |
| Paychex, Inc. | 44,349 | 20.7x | 19.1x | 17.8x | 30.8x | 27.8x | 25.7x | 9.2x | 8.5x | 8.0x |
| HR Outsourcing Average | | 24.2x | 19.7x | 17.6x | 25.8x | 23.6x | 25.8x | 6.8x | 6.1x | 5.7x |
| Information Services | | | | | | | | | | |
| Broadridge Financial Solutions, Inc. | 23,449 | 17.9x | 16.6x | 15.5x | 24.9x | 23.0x | 21.0x | 4.0x | 3.7x | 3.5x |
| Dye & Durham Ltd. | 2,281 | 14.4x | 13.0x | 11.9x | >50 | NEG | NEG | 4.8x | 5.0x | 4.7x |
| Deluxe Corporation | 2,228 | 5.3x | 5.5x | 5.4x | 4.9x | 6.3x | 6.0x | 1.0x | 1.0x | 1.0x |
| Information Services Corp | 497 | 7.7x | 7.6x | 7.2x | 12.9x | 12.4x | 11.4x | 2.6x | 2.5x | 2.4x |
| Information Services Average | | 11.3x | 10.7x | 10.0x | 14.2x | 13.9x | 12.8x | 3.1x | 3.1x | 2.9x |
| Financial Services Technology | | | | | | | | | | |
| Fidelity National Information Services | 52,470 | 8.5x | 8.6x | 8.2x | 8.7x | 9.5x | 8.9x | 3.6x | 3.6x | 3.5x |
| Fiserv, Inc. | 97,452 | 13.5x | 12.1x | 11.1x | 19.3x | 16.8x | 14.7x | 5.8x | 5.4x | 5.0x |
| Jack Henry & Associates, Inc. | 12,590 | 20.0x | 18.4x | 17.0x | 34.8x | 33.4x | 30.2x | 6.3x | 5.9x | 5.5x |
| ACI Worldwide, Inc. | 3,578 | 9.6x | 9.3x | 8.6x | 19.0x | 24.7x | 16.2x | 2.5x | 2.5x | 2.3x |
| Temenos AG | 6,053 | 16.5x | 15.7x | 14.0x | 25.1x | 23.1x | 20.3x | 6.4x | 6.1x | 5.6x |
| Global Payments Inc. | 43,933 | 11.3x | 10.1x | 9.3x | 12.9x | 11.6x | 10.2x | 5.4x | 5.1x | 4.7x |
| Financial Services Technology Average | | 13.2x | 12.4x | 11.4x | 19.9x | 19.9x | 16.7x | 5.0x | 4.8x | 4.5x |
| Diversified Real Estate Services | | | | | | | | | | |
| Colliers International Group Inc. | 6,693 | 10.6x | 10.0x | 9.0x | 15.9x | 16.5x | 14.4x | 1.5x | 1.5x | 1.4x |
| Altus Group Limited | 2,208 | 16.3x | 16.5x | 13.3x | 23.6x | 27.7x | 24.8x | 3.0x | 2.8x | 2.6x |
| CBRE Group, Inc. Class A | 28,087 | 9.6x | 11.2x | 9.8x | 14.7x | 18.5x | 14.9x | 0.9x | 0.9x | 0.8x |
| Jones Lang LaSalle Incorporated | 10,256 | 8.2x | 10.1x | 8.1x | 10.4x | 13.9x | 10.0x | 0.5x | 0.5x | 0.4x |
| Diversified Real Estate Services Average | | 11.2x | 12.0x | 10.1x | 16.2x | 19.2x | 16.0x | 1.5x | 1.4x | 1.3x |
| Software Focused IT Solutions/VARs | | | | | | | | | | |
| Softchoice Corporation* USD | 751 | 9.2x | 8.7x | 7.8x | 13.9x | 14.1x | 12.2x | 2.4x | 2.3x | 2.1x |
| Softcat Plc* | 2,837 | 16.5x | 14.6x | 13.3x | 22.0x | 20.5x | 19.2x | 6.8x | 5.8x | 5.2x |
| Crayon Group Holding ASA* | 11,265 | >50 | >50 | >50 | >50 | >50 | >50 | 25.4x | 20.9x | 18.0x |
| Bytes Technology Group Plc* | 1,140 | 16.6x | 14.5x | 12.8x | 22.3x | 20.3x | 18.2x | NA | NA | NA |
| Software Focused IT Solutions/VARs Average | | 14.1x | 12.6x | 11.3x | 19.4x | 18.3x | 16.5x | 11.6x | 9.6x | 8.4x |
| Business Services Average | | 13.6x | 12.5x | 11.3x | 18.5x | 17.6x | 16.4x | 4.1x | 3.8x | 3.5x |

*Share Price Converted to USD

**Software Focused IT Solutions/VARs uses EV/GP metric.

Source: Company reports, FactSet and CIBC World Markets Inc.

Important Disclosures

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