

# EQUITY RESEARCH

February 15, 2023

Flash Research

## ALTUS GROUP LIMITED

Q4/22 Preview

### Our Conclusion

The early returns on Altus' intelligence-as-a-service platform strategy have been strong over the course of 2022, and continued revenue and bookings growth in the Altus Analytics (AA) business in Q4 would further reinforce that strength. Property tax growth should continue in the quarter, benefitting from the extended U.K. tax cycle, while we expect valuation and cost advisory to remain a source of low-single-digit growth. Despite the solid momentum in Analytics, we continue to view Altus shares as fairly valued, trading at a consolidated EV/EBITDA multiple of 21x on F23E EBITDA, in line with analytics and information services peers, despite ~50% of the business generated by the CRE consulting businesses and a consolidated EBITDA margin profile over 20% lower than the average of information services and analytics providers.

### Key Points

**Will Analytics Momentum Continue?:** Altus has seen strong performance from its Intelligence-as-a-service platform strategy, with constant currency (c.c.) organic growth in the recurring Analytics business accelerating in 2022, up 27.2% YTD vs. 12.3% in the prior year. Third quarter c.c. organic Analytics bookings growth was 20.1%, below the YTD revenue growth total, but supportive of continued AA growth in F2023. Starting in Q4, bookings figures will be compared against prior-year periods that benefited from the new AA go-to-market approach, and we expect bookings growth – particularly in the recurring business – to moderate somewhat on the more difficult comps. With Q4 seasonally strong from a bookings perspective, quarterly results should provide additional context on the pace of AA growth we can expect in 2023 and beyond.

**Expecting Y/Y Margin Expansion:** In addition to the acceleration in revenue growth, margins in the AA business have also expanded over the course of 2022. A Y/Y expansion of 590 bps in AA margins in Q3 led to a consolidated Y/Y increase in EBITDA margins of 240 bps. We are forecasting consolidated adjusted EBITDA margins of 18.4% in Q4, up 250 bps Y/Y. Margin expansion will once again be driven by the analytics business, although we expect analytics margin expansion to moderate by 170 bps sequentially, down to 420 bps Y/Y. We expect margin expansion to continue to be driven by the remodeled go-to-market strategy, realizing benefits of the shift to a recurring revenue model, and operating leverage from growth related to the cross-sale of analytics products.

**Property Tax Update:** We expect property tax to be recession resilient in Q4, forecasting 10% Y/Y organic growth as we reach the end of the extended U.K. property tax cycle. We are interested in commentary on the integration and performance of the Rethink acquisition, particularly around the use of property tax data in analytics products. With the annuities related to the U.K. business rate cycle resetting in 2023, growth in Rethink and other geographies will help to offset the decline in 2023 tax revenue.

*All figures in Canadian dollars unless otherwise stated.*

Please see "Price Target Calculation and Key Risks to Price Target" information on page 2. For required regulatory disclosures please refer to "Important Disclosures" beginning on page 3.

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### Neutral

AIF-TSX, Sector: Real Estate

Current Price (2/15/23): C\$59.54

Price Target (12-18 mos.): C\$58.00

## Estimate Summary

### Exhibit 1: AIF – Estimate Summary, Q4/22E

	Q4-F2022 (Ending December)			Fiscal Year (Ending December)		
	CIBCe	Consensus	Year Ago	CIBCe	Consensus	Year Ago
Revenue (\$MM)	190	186	163	741	737	625
Adjusted EBITDA (\$MM)	35	36	26	135	136	110
Adj. EBITDA %	18.4%	19.1%	15.9%	18.3%	18.4%	17.5%
Adjusted EPS (\$)	0.50	0.49	0.42	1.95	1.95	1.90

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

## Price Target Calculation

We value Altus on a sum-of-the-parts basis under the current capital structure, valuing the CRE Consulting business and Analytics business separately. We apply a 13x EV/EBITDA multiple to the Commercial Real business and 23x EV/EBITDA to the Analytics business.

## Key Risks To Price Target

The primary risks to our price target include the following: 1) Integration risk from recent acquisitions; 2) Risks involved with Analytics' strategic shift; 3) Upside risk related to accelerating Analytics Growth; 4) Upside risk related to M&A that creates further revenue synergies; 5) accelerated Argus Cloud Adoption leads to faster than expected revenue growth and margin expansion

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None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

## CIBC World Markets Inc. Price Chart

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