

# EQUITY RESEARCH

November 20, 2022

Company Update

## CONSTELLATION SOFTWARE INC.

### A Deeper Look At Altera Post Q3 Results

#### Our Conclusion

We believe that the acquisition of Allscripts Hospitals and Large Physician Practice (rebranded Altera) is on strategy. While we see the business as mature, it adds significant scale to Constellation's U.S. Healthcare business, with Altera being the third largest electronic medical records provider in the U.S. We see opportunities for Constellation to use its traditional playbook to stabilize the maintenance base of the business while optimizing operating expenses to improve margins and free cash flow. We expect Constellation to disclose Altera's results separately for the next few quarters and will be watching the margin and FCF improvement closely. We reiterate our Outperformer rating and \$2,300 price target.

#### Key Points

**Refresher On Altera:** Altera sells integrated clinical and financial management solutions that include EHR and related installation, support and maintenance, and outsourcing. The segment generated \$928MM in revenue (down 2.3% Y/Y) and adjusted EBITDA of \$145MM in F2021. In Q3, its first full quarter on Constellation's books, the asset saw a 3% organic constant-currency revenue decline and ~16% EBITDA margins.

**Extends Reach In The U.S. EHR Market:** The Altera acquisition adds scale to one of Harris Software's main verticals. Harris began consolidating the U.S. healthcare market with its 2013 purchase of Quadramed and has built a sizeable U.S. healthcare business. We expect that Harris will use its learnings in the sector to focus on stabilizing Altera's maintenance revenue and optimizing R&D spending on solutions that extend the longevity of the solution for existing clients.

**Best Practices To Improve The Business:** Altera's constant-currency organic maintenance revenue declined 3% in Q3 versus growth of 6% at Constellation (ex-Altera). While we expect Altera's maintenance growth to remain below Constellation's consolidated average, we do expect incremental improvement as Constellation puts its own best practices in place. With an industry leading license-to-maintenance ratio and strong free cash flow conversion profile, we expect Constellation to work to stabilize maintenance decline while improving EBITDA margins to the Constellation level. We expect that the restructuring may take more time than a typical acquisition given its size, and expect the transaction to be 16% accretive if Constellation can improve the margins to its own range within the next 18- 24 months.

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### Outperformer

CSU-TSX, Sector: Information Technology

Current Price (11/18/22): C\$2,031.17

Price Target (12-18 mos.): C\$2,300.00

#### CIBC Estimates and Valuation

(Dec. 31)	2020	2021	2022	2023
EPS diluted	20.59A	7.97A	24.49E	40.77E
EBITDA(mln)	1,229.0A	1,511.0A	1,642.1E	1,895.8E

	Q1	Q2	Q3	Q4
EPS diluted	5.24A	6.32A	6.75A	6.18E
2022	(8.26)A	3.68A	5.71A	6.84A

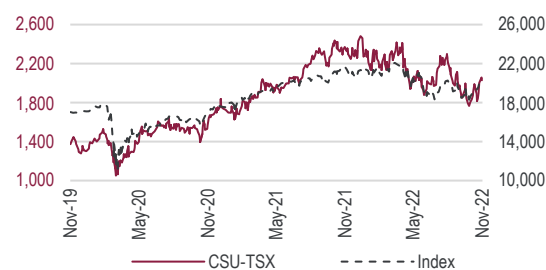
	Q1	Q2	Q3	Q4
EBITDA(mln)	373.0A	410.0A	419.0A	440.1E
2022	348.0A	366.0A	387.0A	410.0A

	2020	2021	2022	2023
Valuation	24.3x	19.8x	18.2x	15.8x
EV/EBITDA				

#### Stock Performance and Key Indicators

Avg. Dly. Vol.:	31K	Shares O/S:	21.2M
Market Cap.:	C\$43,061M	Float:	14.5M
52-wk Range:	1,816.32 - C\$2,372.76	Div. / Yield:	C\$7.18/0.35%

#### TSX Composite Index vs. CSU-TSX



(Source: FactSet)

All figures in US dollars unless otherwise stated (C\$1.339:US\$1.00).

Please see "Price Target Calculation and Key Risks to Price Target" information on page 13.

For required regulatory disclosures please refer to "Important Disclosures" beginning on page 14.

## Constellation Software Inc. (CSU-TSX) — Outperformer

Price (11/18/22) C\$2,031.17 12-18 mo. Price Target C\$2,300.00

Sector: Information Technology

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Peer Comparison	2020	2021	2022E	2023E
P/E - Canadian Consolidators	19.7x	23.4x	21.0x	21.0x
EV/EBITDA - Canadian Consolidat	29.4x	25.3x	22.4x	22.4x
P/FCF - Canadian Consolidators	0.0x	-	-	-
P/FCF - Constellation	0.0x	-	-	-
EV/Sales - Canadian Consolidators	12.8x	11.1x	10.0x	10.0x
Key Financial Metrics	2020	2021	2022E	2023E
Free Cash Flow	1,161	1,271	1,308	1,487
Sales Growth	13.7%	28.6%	28.2%	13.0%
Per Share Data	2020	2021	2022E	2023E
FCFPS	54.79	59.98	61.72	70.16
Diluted EPS	20.59	7.97	24.49	40.77
Adj. EPS Dil.	39.40	31.14	55.16	58.37
Wgt Avg # of Shares	21.2	21.2	21.2	21.2
FD Number of Shares	21.2	21.2	21.2	21.2
Income Statement	2020	2021	2022E	2023E
Revenue	3,969	5,106	6,544	7,393
Gross Profit	3,969	5,106	6,544	7,393
Gross Margin %	100.00%	100.00%	100.00%	100.00%
Tot Operating Exp	1,478	1,964	2,677	2,991
OpEx (% of Revenue)	37.24%	38.46%	40.92%	40.46%
EBITDA	1,229	1,511	1,642	1,896
EBITDA Margin	30.97%	29.59%	25.10%	25.64%
EBIT	643	437	804	1,324
Pretax profit	601	373	708	1,234
Tax Expense	165	206	189	370
Adjusted Net Income	835	660	1,169	1,237
Adjusted Net Margin	21.0%	12.9%	17.9%	16.7%
Cash Flow Statement	2020	2021	2022E	2023E
Net CFO	1,186	1,300	1,342	1,511
Capex	(25)	(29)	(34)	(24)
Acquisitions	(485)	(1,216)	(1,529)	(800)
Free Cash Flow	1,161	1,271	1,308	1,487
Balance Sheet	2020	2021	2022E	2023E
Cash & ST Investment	758	763	883	1,485
Intangible Assets	2,326	3,428	4,392	4,392
Goodwill	75	0	100	500
Total Assets	4,375	5,766	7,599	8,662
ST Int-Bearing Debt	28	210	598	598
LT Int-Bearing Debt	199	915	1,230	1,230
Total Liabilities	3,327	4,245	5,789	6,073
Shareholders' Equity	1,048	1,521	1,810	2,589

Source: FactSet, company reports & CIBC World Markets

### Price Target (Base Case): C\$2,300.00

Our C\$2,300 price target is based on a sum of the parts. We value CSU (ex-TOI) at 22x forward EBITDA multiple, a premium to enterprise software peers, and CSU's 30.35% ownership of TOI at market value.

### Upside Scenario: C\$3,100.00

Our C\$3,100 upside scenario is based on a sum of the parts. We value CSU (ex-TOI) at 25x forward EBITDA multiple, with 15% revenue growth, 27% EBITDA margins.

### Downside Scenario: C\$1,500.00

Our C\$1,500 downside scenario is based on a sum of the parts. We value CSU (ex-TOI) at 19x forward EBITDA multiple, with 5% revenue growth, 19% EBITDA margins.



## Acquired Altera

In May, Constellation closed its largest acquisition to date, acquiring the third largest provider of electronic health records (EHR) from Allscripts for \$700MM.

In 2021, the Allscripts Hospitals and Large Physician Practice business (rebranded Altera) generated \$928MM in revenue (down 2.3% Y/Y) and adjusted EBITDA of \$145MM (15.7% margins). Pro forma, Altera increases CSU's F2021 revenue by 18% and EBITDA by ~10%.

### Exhibit 1: Pro-forma Revenue – CSU And Altera

	Constellation	Altera	Pro Forma Combined
Revenue	5,106	928	6,034
Revenue Y/Y Change	29%	-2.4%	23%
Adjusted EBITDA	1,511	145	1,656
Adjusted EBITDA Margin	29.6%	15.7%	27.4%
Net Debt	1,206		1,455*
Net Debt/ EBITDA	0.8x		0.9x

Source: Company reports and CIBC World Markets Inc.; \*CSU Q3 Actual

With Altera, Constellation has acquired a scaled EHR provider that offers integrated solutions and services that support the clinical, financial and operational needs of healthcare organizations of all sizes. The Altera business is mature, with the company experiencing revenue declines over the past several years given a competitive EHR market.

### Exhibit 2: HLPP – Solution Offerings, Description

Solution	Description
Sunrise	Delivers a single patient record that supports inpatient and outpatient care and provides advanced decision guidance and supportive workflows for clinicians.
Paragon	Integrated clinical, financial and administrative EHR solution tailored for community hospitals and health systems. The solution supports the full scope of care delivery and business processes, from patient access management and accounting through clinical treatment.
Touchworks	An EHR solution for larger single and multispecialty practices that is built on an open platform which brings data sources together. Enables clinical staff to effectively coordinate and deliver both primary and specialized care.
Professional EHR	EHR solution for small- to mid-size physician practices.
Opal	Electronic document management solution that digitizes paper for EHR customers and serves as a digital health record solution for emerging markets with low digital maturity.

Source: Company reports and CIBC World Markets Inc.

Constellation's Harris Software subsidiary has focused on healthcare and EHR software as one of its main software verticals, and it has been an active consolidator within the U.S. healthcare space, as noted in Exhibit 3. Harris entered the U.S. healthcare space with its 2013 purchase of Quadramed for an estimated \$80MM-\$100MM. Quadramed is an EHR and healthcare software vendor that provides solutions to roughly 300 healthcare facilities. Quadramed is a mature business with a very sticky revenue stream and had roughly 70% recurring revenue on acquisition. Since Quadramed, Harris has continued to consolidate the space.

**Exhibit 3: CSU – History Of Healthcare Transactions, 2010-2022**

Closing Date	Acquisition	Price (\$MM)	Revenues (\$MM)	Note
<b>2-May-22</b>	<b>Allscripts</b>	<b>700</b>	928	Sells integrated clinical and financial management solutions that include EHR and related installation, support and maintenance.
22-Sep-21	Innovative Health System	NA	NA	Provides high-tech revenue cycle management (RCM) solutions geared towards emergency departments.
29-Jun-21	Ingenious Med Inc.	NA	NA	Point-of-care platform that optimizes physician performance through revenue optimization, data intelligence, and workflow automation.
9-Apr-21	Medi-Serv Inc	NA	NA	Joined Harris business Ultimate Billing, which provides advanced billing and revenue cycle management advisory services.
6-Jan-21	Clinical Computer Systems, Inc.	NA	NA	Development of the OBIX Perinatal Data System and works to incorporate changes in technology, regulations, and standards in the obstetrical department that support hospitals' strategic initiatives.
13-Nov-20	Genial Genetic Solutions Ltd.	NA	NA	Specializes in the Document Control and Compliance Management system - has more than 35,000 software product user licenses in use in over 40 territories worldwide.
27-Oct-20	K2 Medical Systems Holdings Ltd.	NA	NA	Suite of software solutions for prenatal clients, including electronic health records, labour and delivery risk reduction, fetal and blood pressure monitoring systems, and interactive e-learning perinatal training programs.
5-Oct-20	Meridian Health Informatics Pty Ltd.	NA	NA	Health care solutions to public and private institutions across Australia. Meridian's maternity products have monitored over one million births in Australia.
8-May-19	Uniphy Health Holdings LLC	NA	NA	Enterprise mobile software platform that facilitates collaboration and engagement of healthcare professionals.
4-Jun-18	Integrated Medical Delivery LLC	NA	NA	Provides outsourced business solutions to healthcare entities in centralized off-site location.
22-Sep-17	MorCare LLC	NA	NA	Provider of care, quality and risk and performance management solutions to the healthcare industry.
26-Jul-17	Diamedx	NA	NA	Supplier of software solutions for medical imaging centres, cardiology and radiology facilities, fertility clinics, and mobile diagnostic imaging services.
28-Nov-16	iMD Soft, Inc.	NA	NA	Clinical information systems provider.
16-Aug-16	Digichart, Inc.	NA	NA	Provider of electronic medical records and practice management solutions for Obstetricians and Gynecologist practices in the U.S.
29-Dec-14	CareTracker, Inc.	NA	NA	Expands existing U.S. healthcare business into adjacent ambulatory market. SaaS platform continues expansion into the U.S. HCIT market.
<b>3-Jun-13</b>	<b>QuadraMed Corp.</b>	<b>80-100</b>	100	Provider of mission critical information tech solutions such as revenue cycle and access management. Provides Harris with a platform to support its entry into the U.S. healthcare information technology.
4-Sep-09	Medisolution Ltd.	30	18	Financial management, human capital management, and business intelligence solutions suites (Quebec).

Source: Company reports and CIBC World Markets Inc.

### Q3 The First Full Quarter With Altera

Altera contributed -3% constant-currency organic growth and 16% EBITDA margins in Q3. These results were below unconsolidated Constellation at 3% constant-currency organic growth and 25.4% margins, respectively.

#### Exhibit 4: CSU & Altera - Financial Summary, Q3/22

For The Three Months Ended Sep 30, 2022	CSU (Ex. Altera)	Altera	Consolidated
Revenue (\$MM)	1,506	219	1,725
EBITDA (\$MM)	383	36	419
EBITDA Margin	25.4%	16.4%	24.3%
Organic Growth (Constant Currency)	3%	-3%	2%
Free Cash Flow Available To Shareholders (\$MM)	206	24	230

Source: Company reports and CIBC World Markets Inc.

Altera's Q3 revenue decline was in line with Allscripts prior 2022 guide for the Altera business, which had incorporated a 3%-4% Y/Y revenue decline. By contrast, Q3 EBITDA margins of 16.4% were 240 bps above the midpoint of Allscripts prior 13.8% to 14.5% F2022 guidance range. Management did note roughly \$10MM in one-time expense adjustments (bonuses, customer benefits), which suggests that margins may not be sustainable at these levels in the near term. Free cash flow in the quarter was \$24MM, versus an Allscripts 2022 guide of between \$50MM to \$60M for the full year.

#### Exhibit 5: Allscripts – Financial Summary, F2020A To F2022E

	F2020A	F2021A	Q3/22 (Actual)	F2022E (Guidance)
Revenue	950	928	219	895
Revenue Y/Y		-2.4%	-3%	Down 3%-4%
EBITDA	100	145	36	127
EBITDA Y/Y		46%	3%	Down 10%-15%
EBITDA Margin %	10%	16%	16.4%	14%
EBITDA Margin Y/Y	NA	500 bps	-80 bps	Down 150 to 215 bps
Free Cash Flow	NA	NA	24	Between \$50MM to \$60MM

Source: Company reports and CIBC World Markets Inc.

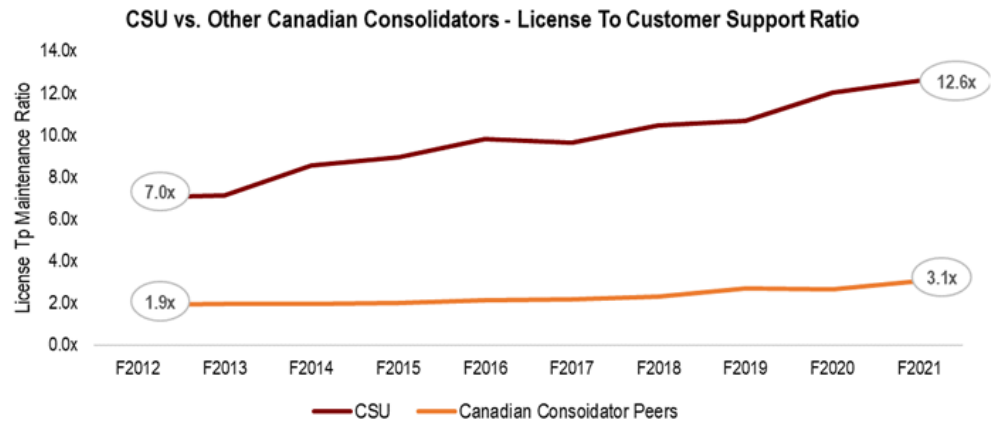
We see several opportunities for Constellation to wring synergies from the Altera business, with the company starting to see progress in Q3.

1. Stabilize organic maintenance.
2. Improve overall EBITDA margin.
3. Improve FCF conversion.

### Stabilizing Maintenance Revenue

We expect that post acquisition, Constellation will focus on serving Altera's existing customer base, as opposed to spending aggressively on new-customer acquisition. Constellation knows the hospital and large physician market well, and we expect the company to look to incrementally improve maintenance revenue growth while factoring overall organic declines into its IRR calculation for the acquisition.

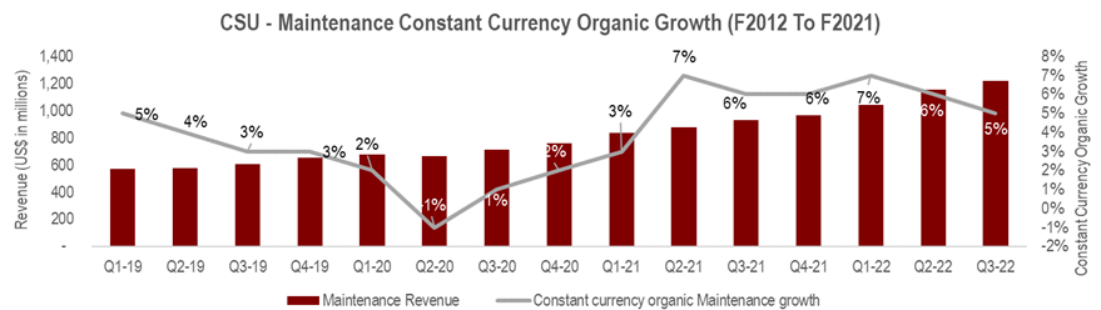
Constellation has a very efficient maintenance business that focuses on long-term customer retention. The company's license to customer support ratio of 13x in F2021 is well above Canadian consolidator peers (ENGH+OTEX) at 3.1x. We expect CSU will apply its best in class methodology to the Altera business, incrementally improving growth in Altera's maintenance base.

**Exhibit 6: CSU vs. Canadian Consolidators – License To Customer Support, F2012 To F2021**

Source: Company reports and CIBC World Markets Inc.

Other Canadian Consolidators include Open Text and Enghouse

Constellation has seen solid low to mid- single-digit increases in its maintenance and other recurring revenue over time as the company engages in annual price increases and looks to optimize maintenance pricing within sticky customer bases.

**Exhibit 7: Constellation – Constant Currency Organic Maintenance Growth, F2012 To F2021**

Source: Company reports and CIBC World Markets Inc.

We expect that these maintenance best practices can be applied to Altera, which saw a maintenance decline of 3% in Q3/22. By contrast, Constellation's constant-currency maintenance base grew by 6% in the quarter.

**Exhibit 8: CSU & Altera – Constant-currency Organic Growth, Q3/22**

For The Three Months Ended June 30, 2022	CSU (ex. Altera)	Altera	Consolidated
Licenses	-5%	-63%	-11%
Professional Services	-3%	1%	-2%
Hardware/ Other	1%	-19%	-1%
Maintenance and other Recurring	6%	-3%	5%
<b>Revenue</b>	<b>3%</b>	<b>-4%</b>	<b>2%</b>

Source: Company reports and CIBC World Markets Inc.

Allscripts management was forecasting a 3%-4% decline in revenue for Altera in F2022, which at its midpoint is 100 bps lower than the 2.5% Y/Y decline in F2021. We view it as unlikely that Constellation would be able to generate organic growth in the business, given the maturity of the market and the aggressive competitive environment. We believe that the



overall U.S. healthcare market operates at slightly negative organic growth and assume that Constellation would generate similar organic growth from Altera. If Constellation could stabilize the maintenance revenue at Altera, it will stabilize the overall revenue of the business, assuming that maintenance represents roughly 70% of overall revenue at Altera, with the remaining segments declining 3.5% Y/Y as per management guidance. Exhibit 9 illustrates our best case of how flat Y/Y growth in Altera's maintenance revenue will impact overall revenue growth.

**Exhibit 9: Altera Constant-currency Maintenance Revenue – Scenario Analysis**

	Management Guidance	3% Y/Y Decline	1% Y/Y Decline	0% Y/Y Growth
	F2022	F2022	F2022	F2022
Maintenance Revenue	627	630	643	650
Y/Y Growth	-3.5%	-3%	-1%	0%
Other Revenue (3.5% Y/Y decline)	268.5	268.5	268.5	268.5
Total Revenue	895	899	912	918
Overall Y/Y Growth	-3.5%	-3%	-2%	-1%

Source: Company reports and CIBC World Markets Inc.

While we do have some concerns about clients moving to more modern solutions, we believe that these risks are lower than with other types of software given how critical the EHR solution is to a hospital and how integrated it is into other hospital software (billing, scheduling, etc.). We see high barriers to replacement given physician training and the overall cost of a new system. All of these factors combine to provide a long implementation life for EHR solutions, which fits well with Constellation's "software for life" mentality.

## Improve Margins

Altera's mid-teens EBITDA margins are well below Constellation's, which are in the mid- to high-20% range. We expect that Constellation will use its traditional playbook to improve margins post acquisition by optimizing expenses as a percentage of revenue and focusing on maintenance (as opposed to new sales) growth. This focus on margins and increasing scale has led Constellation to improve its own EBITDA margins by 950 bps over the past 8 years, as illustrated in Exhibit 10.

**Exhibit 10: Constellation - EBITDA Margins, F2013 To F2021**

	F13	F14	F15	F16	F17	F18	F19	F20	F21
EBITDA Margin	20%	21.8%	25.1%	26.0%	26.0%	25.6%	26.8%	31.0%	29.6%
Y/Y Change (bps)	NA	170	331	84	(2)	(35)	115	420	(137)

Source: Company reports and CIBC World Markets Inc.

We expect that a portion of the margin improvement will also be leveraging Harris' significant expertise in the space and best practices that the company has developed over time. We expect that Constellation will look to make some targeted R&D investments at Altera within its typical R&D spend (~14% of revenue). We expect that investments will include solutions that extend the life and longevity of the solution for existing clients.

We do expect that the restructuring will potentially take longer than typical given the size of the transaction. If Constellation can improve margins to its own range within 18-24 months, we expect it will be 16% accretive, despite the potential for declining organic growth.

### Exhibit 11: Constellation – Accretion Analysis

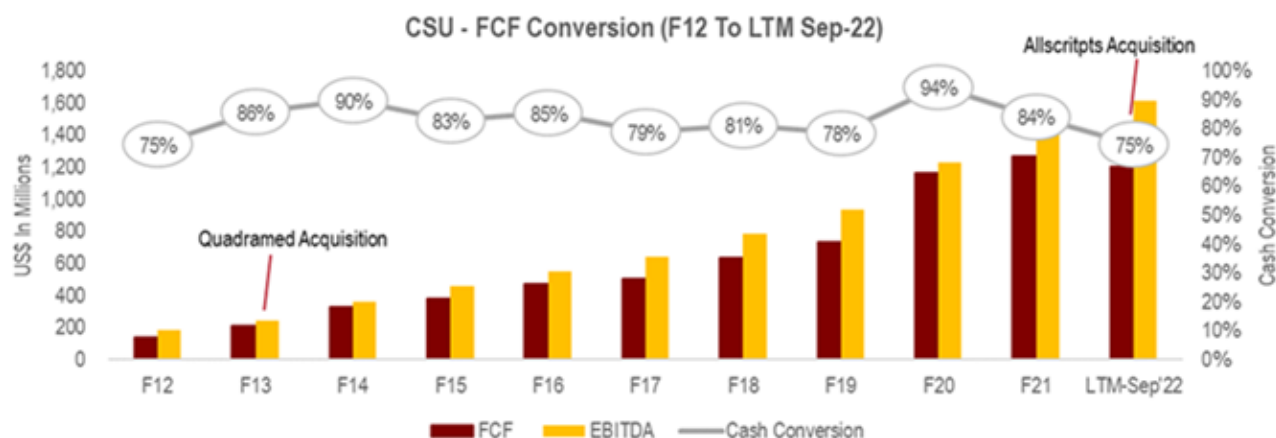
Assumption	Year 1	Year 2
Takeout EBITDA	5x	
EBITDA margins	14%	25%
Cost of debt	5%	
Tax rate	19%	
Acquisition	\$ 700	
<b>Incremental (In US\$ Millions)</b>	<b>Year 1</b>	<b>Year 2</b>
Revenue (management guidance)	895	EBITDA 224
EBITDA	125	Depreciation 19
Depreciation	19	Interest 0
Interest	0	Tax 43
Tax	24	Adj. Net Income 163
Adj. Net Income	83	
Incremental EPS (Year 1)	\$ 3.91	10% accretive
Incremental EPS (Year 2)	\$ 7.68	16% accretive

Source: Company reports and CIBC World Markets Inc.

## Improve Free Cash Flow

We expect improving margins will flow through to improving free cash flow at Altera. Allscripts F2022 guide for Altera implied a 42% cash conversion from EBITDA, well below Constellation's five year average of 82%.

### Exhibit 12: Constellation – FCF Conversion, F2012 To LTM Ending Sep 2022

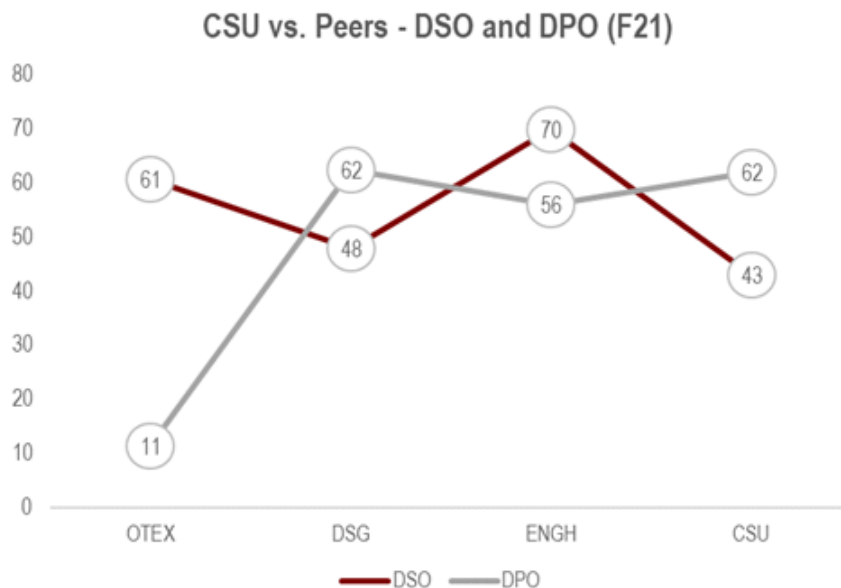


Source: Company reports and CIBC World Markets Inc.



While we don't expect Altera's FCF profile to change materially for the balance of the year, we believe Constellation will be able to right size the cost structure in the next 18 to 24 months to boost the free cash flow of the business. Constellation currently has the best DSO (43 days) and DPO (62 days) out of all Canadian consolidators (OTEX/ENGH/DSG – average 60 days DSO /45 days DPO) reflecting the company's ability to use its positioning to collect cash faster from customers while negotiating favourable terms with its suppliers.

#### Exhibit 13: CSU Vs. Consolidator Peers – DSO And DPO, F2021



Source: Company reports and CIBC World Markets Inc.

### A Traditional Constellation Acquisition – On A Much Larger Scale

We view the Altera acquisition as in line with Constellation's M&A strategy and a notable ramp-up in terms of deal size. While the AHLPP acquisition is an outlier in terms of size, the acquisition is otherwise entirely in line with Constellation's acquisition strategy. Paying 0.75x revenue for a business with a clear vertical market focus, a sticky customer base, a recurring maintenance-revenue base, and solid cash flow fits Constellation's acquisition criteria. As noted above, we believe that the deal could be 16% accretive to EPS in F2023 if Constellation can get the business to its own 25% EBITDA margin target. This would reflect a 31% EBITDA return on invested capital. We continue to like Constellation in the current environment and see upside as it integrates Altera and continues to strengthen its best practices on the integration of larger, transformational M&A.

## Appendix 1 – What Is Altera

Allscripts is a Health Care IT provider (HCIT) that sells electronic health record (EHR) and practice management software to a variety of healthcare consumers. The company is the third largest player in the electronic health record (EHR) and billings software space in the U.S. behind Cerner and Epic. The HLPP segment sells integrated clinical and financial management solutions that include EHR and related installation, support and maintenance, outsourcing and private cloud hosting.

### Allscripts EHR solutions consist of the following:

- **Sunrise** - a comprehensive Platform of Health for hospitals and health systems. Delivers hospitals and health systems a single patient record that supports inpatient and outpatient care and provides advanced decision guidance and supportive workflows for clinicians.
- **Paragon** - an integrated clinical, financial and administrative EHR solution tailored for community hospitals and health systems. The solution supports the full scope of care delivery and business processes, from patient access management and accounting through clinical assessment, documentation and treatment.
- **Allscripts TouchWorks** - an EHR solution for larger single and multispecialty practices, also offered on mobile devices. Enables clinical staff to effectively coordinate and deliver both primary and specialized care.
- **Allscripts Professional HER** - an EHR solution for small to mid-size physician practices.
- **Allscripts Opal** - an electronic document management solution that digitizes paper for EHR customers and serves as a digital health record solution for emerging markets with low digital maturity. The solution currently has a large customer base in Australia and is now expanding across other geographies.

# Appendix 2 – Competitive Landscape

The global electronic health records market size was estimated at US\$27.2B in 2021, and it is anticipated to expand at a CAGR of 4.0% from 2022 to 2030. North America dominated the market for electronic health records and accounted for the largest revenue share of about 45.4% in 2021. The major factor contributing to the growth of this region is the policies that support the adoption of electronic health records and the availability of infrastructure with high digital literacy. In May 2020, the federal government proposed the Federal Health IT Strategic Plan 2020 - 2025 that mandates the meaningful usage of electronic health records by healthcare providers.

The top players in the EHR space include Cerner (recently acquired by Oracle), GE Healthcare, Epic Systems and Allscripts.

The EHR market is mature, slow growing and highly competitive. The main competitors in the EHR space are Cerner, Epic, and Meditech. A 2021 report from KLAS Research noted that 72% of U.S. hospitals were using EHR systems from one of those three vendors. The same report estimates that Allscripts has 5% of the hospital EHR market. Large players in the industry have seen slowing growth, with consensus expecting publicly traded peer Cerner to grow at 5% in 2022 and 2023, similar to its pre-COVID growth rates. Slowing growth has led to consolidation in the space, highlighted by Oracle’s agreement to acquire Cerner for \$28B.

Exhibit 14: EHR, Market Share, 2021

Vendor	Market Share
EPIC	31%
Cerner	25%
Meditech	16%
Allscripts	5%
Other	23%

Source: KLAS Research and CIBC World Markets Inc.

Source: Klas Research and CIBC World Markets Inc.

## Environmental, Social and Governance (ESG) Metrics for CSU-TSX

### CIBC ESG Metrics

Governance Metrics	2017	2018	2019	2020	2021
Insider Ownership	6.1%	6.0%	7.1%	7.8%	6.0%
Board Gender Diversity	10.0%	10.0%	17%	20%	33%
Separation of Chair & CEO	NO	NO	NO	NO	NO
Dual-class Ownership?	NO	NO	NO	NO	NO
Disclose ESG Data?	NO	NO	NO	NO	NO
Social Metrics	2017	2018	2019	2020	2021
CEO Comp./Mkt Cap*	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Diversity Targets	NO	NO	NO	NO	NO
Women Managers	0%	0%	0%	0%	0%
Environmental Metrics	2017	2018	2019	2020	2021
Emissions Intensity**	NA	NA	NA	NA	NA
Net-zero Targets?	NO	NO	NO	NO	NO

\*CEO Compensation is shown as per thousand dollars of market capitalization

\*\*Emissions Intensity calculated as total emitted CO2e divided by million \$ of CAD revenue

### Sustainalytics ESG Risk Rating

**27.6** **+3.6** **Medium Risk**

Updated on  
Sep 28, 2022

Momentum



### Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK (1 <sup>st</sup> = lowest risk)	PERCENTILE (1 <sup>st</sup> = lowest risk)
Global Universe	8271/14667	57th
Software & Services INDUSTRY	903/1000	90th
Enterprise and Infrastructure Software SUBINDUSTRY	412/419	98th

### Sustainalytics Material ESG Issues

These are the Material ESG Issues driving the ESG Risk Report

Issue Name	ESG Risk Exposure Score   Category	ESG Risk Management Score   Category	ESG Risk Rating Score   Category	Contribution to ESG Risk Rating
Corporate Governance	9.0 High	48.2 Average	4.7 Medium	16.9%
Human Capital	8.0 High	19.5 Weak	6.5 High	23.6%
Product Governance	2.2 Low	0.0 Weak	2.2 Low	8.0%
Resource Use	2.0 Low	7.3 Weak	1.9 Negligible	6.8%
Business Ethics	3.0 Low	10.0 Weak	2.7 Low	9.8%
Data Privacy and Security	8.0 High	5.0 Weak	7.7 High	27.8%
Carbon -Own Operations	2.0 Low	4.0 Weak	1.9 Negligible	7.0%
Overall	34.2 Low	20.9 Weak	27.6 Medium	100%

### CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	8	0	Value	181	+3
Momentum	4	0	Momentum	111	-17
Quality	1	0	Quality	1	0
Market	2	+1	Market	38	+3
Low Volatility	3	+1	Low Volatility	99	+6
Growth	9	-1	Growth	96	0

Note: Ranking out of 14 stocks

Note: Ranking out of 235 stocks

#### General Notes Behind the Quantitative Scorecard

Delta refers to the change in the ranking over the past month. Number of stocks "Within Sector" is defined by the number within the GICS. In the "Within S&P/TSX" category, we use all stocks in the S&P/TSX Composite. For detail on the Quant Factors included in each style above, please contact the CIBC Portfolio Strategy Team.

The table above is based upon quantitative, statistical, and mathematical analysis and is not intended to serve as a fundamental recommendation.

### CIBC Technical Scorecard

Factor	TSM Score	Factor	TSM Score
TSM	-4	Momentum	C
Beta	0.99	MACD	C
Volatility	↑	Alpha (Sector)	A
Trend	↓	Alpha (Index)	B
RSI	Neutral		

#### General Notes Behind the Technical Scorecard

**TSM:** The Trendspotting Matrix uses technical factors to score uptrend durability.

**Momentum and alpha** metrics compare performance over one-month, one-quarter and one-year timeframes, outputting a rating from A to D.

**Trend/Volatility** metrics measure price deviations relative to underlying moving averages.

**RSI** is an oscillator that provides mean-reversion estimations.

**MACD** is a momentum indicator rated from A to D based off the strength of its signal.

The table above is based upon a technical methodology that examines the past trading patterns and trades and is not intended to serve as a fundamental recommendation.

Source: Sustainalytics, Compustat, FactSet, Bloomberg and CIBC World Markets Inc.

## Price Target Calculation

Our C\$2,300 price target is based on a sum-of-the-parts methodology. We value CSU (ex-TOI) at 22x forward EBITDA multiple, a premium to enterprise software peers, and CSU's 30.35% ownership of TOI at market value.

## Key Risks To Price Target

The primary risks to our price target include the following: 1) ability to scale; 2) ability to acquire; 3) vertical market exposure; 4) lack of detailed disclosure

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Stock Ratings	Abbreviation	Description
Outperformer	OP	Stock is expected to outperform similar stocks in the coverage universe during the next 12-18 months.
Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
Underperformer	UN	Stock is expected to underperform similar stocks in the coverage universe during the next 12-18 months.
Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
Not Rated	NR	CIBC World Markets does not maintain an investment recommendation on the stock.
Restricted	R	CIBC World Markets is restricted (due to potential conflict of interest) from rating the stock.

Sector Ratings	Abbreviation	Description
Overweight	O	Sector is expected to outperform the broader market averages.
Marketweight	M	Sector is expected to equal the performance of the broader market averages.
Underweight	U	Sector is expected to underperform the broader market averages.
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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Neutral	133	44%	Neutral	133	100%
Underperformer	6	2%	Underperformer	6	100%
Tender	3	1%	Tender	3	100%
Restricted	11	4%	Restricted	11	100%

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