

EQUITY RESEARCH

April 28, 2023

Company Update

ALTUS GROUP LIMITED

Altus Connect 2023 Takeaways: Improve Alpha & Reduce Beta

Our Conclusion

We had the opportunity to attend the Altus Connect user conference as it returned in-person for the first time since 2019. Previously branded as ARGUS Connect, the conference had an expanded focus in 2023, highlighting Altus' efforts to build out its data and analytics solutions with a goal of becoming a commercial real estate (CRE) Information-as-a-Service (IaaS) provider. Over the course of the conference we sat in on a variety of breakout sessions and keynotes tailored to both investors and users, getting direct feedback on the impact of recent acquisitions, the updated go-to-market strategy and early impressions on the soon-to-be-released Premium Market Insights product. Overall, we left the conference impressed with management's vision for Analytics, as well as product demos of new capabilities and details of the go-to-market strategy. While the heavy strategic and internal work to shift to an IaaS approach is complete, the critical step of selling these new capabilities will ultimately determine the success of the strategy. With CRE markets facing a downturn and CRE investors having been slow to adopt external data/analytics, we expect it will take some time for customers to fully embrace the new solutions.

Key Points

Data & Analytics In Focus: The primary focus of Altus' presentations and breakouts was the data and analytics strategy and how Altus is leveraging its unique market position to become an industry leader in data science. Altus has embraced the idea of "Improving Alpha and Reducing Beta" by providing clean, easy-to-use data from multiple sources that enhances customers' data strategies. Altus provided an overview of its Premium Market Insights offer, a predictive analytics tool powered by recent acquisitions that Altus believes can drive 50–150bps of outperformance relative to the benchmark.

New Go-To-Market Highlighted: Over the last year Altus has re-designed its sales strategy, going to market with a cohesive set of offers and levels of services that are designed to introduce customers to Altus' full suite of capabilities, rather than individual products. The new sales approach has already been a success in accelerating Analytics growth, and it will be critical in communicating the value of the new analytics tools and illustrating how Altus can help improve alpha and reduce beta.

Weak CRE Sentiment: Many on-stage and informational discussions at the conference were centered on CRE being at the bottom of a market cycle. Weakness in the office sector is weighing on overall sentiment, and there remains a wide spread between buyer and seller expectations. A lack of industry-wide liquidity has led to a slowdown in transactions, limiting price discovery in an industry that relies heavily on comparable transactions. Altus shares have underperformed software peers as a result, and we expect that to continue until investors have more confidence in the CRE space.

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Neutral

AIF-TSX, Sector: Real Estate

Current Price (4/27/23): C\$52.56

Price Target (12-18 mos.): C\$62.00

CIBC Estimates and Valuation

(Dec. 31)	2021	2022	2023	2024
Adj. EPS	1.90A	1.90A	2.05E	2.36E
Adj. EBITDA(mln)	109.7A	135.3A	136.6E	174.4E
Adj. EPS	Q1	Q2	Q3	Q4
2023	0.33E	0.72E	0.43E	0.57E
2024	0.38E	0.85E	0.49E	0.64E
Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2023	27.9E	35.9E	37.0E	35.9E
2024	34.2E	48.4E	44.7E	47.0E
Valuation	2021	2022	2023	2024
P/E	27.6x	27.6x	25.6x	22.3x
EV/EBITDA	25.5x	20.7x	20.5x	16.1x

Stock Performance and Key Indicators

Enterprise Value:	C\$2,800M	Shares O/S:	44.6M
Market Cap.:	C\$2,345M	Float:	44.4M
52-wk Range:	C\$41.52 - C\$61.00	Div. / Yield:	C\$0.60/1.14%

TSX Composite Index vs. AIF-TSX



(Source: FactSet)

All figures in Canadian dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 7.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 8.

Altus Group Limited (AIF-TSX) — Neutral

Price (4/27/23) C\$52.56 12-18 mo. Price Target C\$62.00

Sector: Real Estate

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Peer Comparison	2021	2022	2023E	2024E
EV/EBITDA - Real Estate Services	10.6x	10.4x	10.0x	10.0x
EV/EBITDA - Analytics Peers	31.7x	28.6x	28.2x	28.2x
EV/EBITDA - Altus Group	25.5x	20.7x	20.6x	20.6x
Key Financial Metrics	2021	2022	2023E	2024E
Net Debt/EBITDA	2.1x	-	-	-
Sales Growth	11.4%	17.6%	6.9%	12.0%
Per Share Data	2021	2022	2023E	2024E
FCFPS	1.10	1.18	1.53	2.04
Adj. EPS Dil.	1.90	1.90	2.05	2.36
Wgt Avg # of Shares	41.7	44.5	45.9	45.9
FD Number of Shares	38.4	38.4	38.4	38.4
Income Statement	2021	2022	2023E	2024E
Revenue	625	735	786	880
Tot Operating Exp	532	624	647	724
OpEx (% of Revenue)	85.10%	84.83%	82.31%	82.25%
Adj. EBITDA	110	135	137	174
Adj EBITDA Margin	17.5%	18.4%	17.4%	19.8%
D&A	(47)	(60)	(56)	(56)
Interest Expense	(6)	(7)	(16)	(15)
Pretax profit	34	4	63	85
Tax Expense	9	5	11	15
Net Income	26	(1)	51	70
Net Margin	4.1%	(0.1%)	6.5%	7.9%
Cash Flow Statement	2021	2022	2023E	2024E
Net CFO	56	77	97	121
Capex	(11)	(24)	(27)	(27)
Free Cash Flow	46	53	70	94
Balance Sheet	2021	2022	2023E	2024E
Cash & ST Investment	51	55	80	129
Intangible Assets	287	293	274	255
Goodwill	467	498	498	498
Total Assets	1,199	1,264	1,241	1,288
ST Int-Bearing Debt	0	0	0	0
LT Int-Bearing Debt	287	318	318	318
Total Liabilities	610	664	617	622
Shareholders' Equity	589	600	624	666

Source: Factset, Company Reports and CIBC World Market Inc.

Company Profile

Altus is a provider of independent advisory services, software and data solutions to the global commercial real estate industry, with more than 2,300 employees.

Investment Thesis

Altus' strategy has been to consolidate the real estate services business through acquisitions and to cross-sell and expand its information services offering.

Price Target (Base Case): C\$62.00

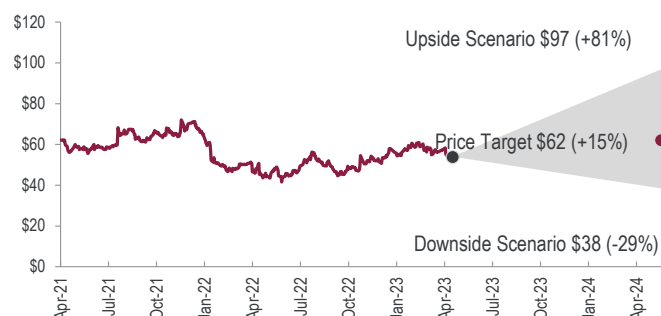
Our price target of \$62 is calculated using a sum-of-the-parts valuation that uses a 13x EV/EBITDA multiple on the CRE Consulting business and a 20x EV/EBITDA multiple on the analytics division.

Upside Scenario: C\$97.00

Our upside is calculated using a 28x EV/EBITDA multiple on the Analytics Revenue, and CRE Consulting growth of 3% and a 16x EV/EBITDA multiple.

Downside Scenario: C\$38.00

Downside is calculated using 2% revenue growth and a 17x EV/EBITDA multiple on the Analytics business and -5% growth and a 10x EV/EBITDA multiple on the CRE Consulting business.



Takeaways From Our Conversations With Customers

Over the course of the conference we sat in on a number of breakout sessions and spoke with customers about their experiences with Altus and what their initial reactions were to the new capabilities on display. The majority of our conversations were positive, although there was certainly some hesitation around willingness to spend further on data and analytics tools. While some of that is likely due to the current state of the CRE market, it also speaks to our belief that Altus has work to do to sell customers on its new offers. Below are summaries of some of the more frequent topics of discussion.

Reonomy Data Stands Out: Multiple Altus customers spoke highly of their experiences with Reonomy. Consensus among users was that the Reonomy data was much more accurate than CoStar data or other datasets provided by brokers or other market participants. Reonomy relies on machine learning and artificial intelligence to aggregate CRE data and restructure the data into a common universal language. One customer specifically noted that its fund had recently made an investment in an opportunity that was identified using Reonomy data.

Tough To Ask For More After The Cloud Upgrade: Altus finished Q4 with 64% of customers converted to a cloud deployment, and we expect the conversion to reach 90% levels by the end of 2023. The cloud transition has led to increased pricing for customers, and when asked about their interest in purchasing analytics tools there were a handful of customers who said it would be difficult to commit to more spending so soon after the price increase. While this may not be the prevailing sentiment, Altus may face some difficult upsell/cross-sell conversations with customers who have recently moved to the cloud.

Consolidated Services Are A Differentiator: To get an idea of the competitive environment, we asked investors what stood out about Altus and why they would use Altus' data and analytics tools over competing offers. As discussed above, the quality of the Reonomy data, for those who had used it, was one standout but a more frequently mentioned differentiator was the ability to purchase multiple services from the same vendor, with shared data across the services making that even more valuable. The concept of the 'Altus ID' where data on the APP is linked to a common identifier will make it easier for in-house data science teams to analyze data from multiple Altus solutions such as ARGUS Enterprise, Valuation Management, Reonomy, StratoDem and Finance Active, as well as users' own in-house data.

Need To See It To Believe It: While Altus customers generally agreed that a predictive analytics tool that could offer them 50–150bps would be of significant value, there was some skepticism on whether that level of alpha was realistic. While the back-testing methodology appears to be sound, some customers questioned whether it was really possible to realize that outperformance in reality, especially in an asset class where investment decisions are made relatively infrequently. Upselling to premium editions of the new offer structure is going to be a process, and there is likely to be an adjustment period in which Altus has to work to convince its customers of the value of its new tools.

Moving Into Predictive Analytics

The most frequently discussed topic over the course of the conference was how Altus is making strides towards providing predictive analytics, not just on an ad-hoc, customer-by-customer basis, but fully automated predictive analytics at scale. With a goal of “Improving Alpha and Reducing Beta”, Altus cites its unique ability to combine customer data with its own proprietary datasets and third-party data to provide CRE investors with tools and professional services to improve/enhance their data strategies and optimize investment decisions.

During the investor relations session we were shown a brief demo of the Premium Market Insights Offer (see Exhibit 1), Altus’ first move into commercializing predictive analytics. By combining ARGUS Enterprise/customer/proprietary data and the capabilities acquired through Reonomy and StratoDem, Premium Market Insights attempts to show customers exactly which property attributes, (location, economic, demographic, etc.) could be expected to drive alpha and reduce beta.

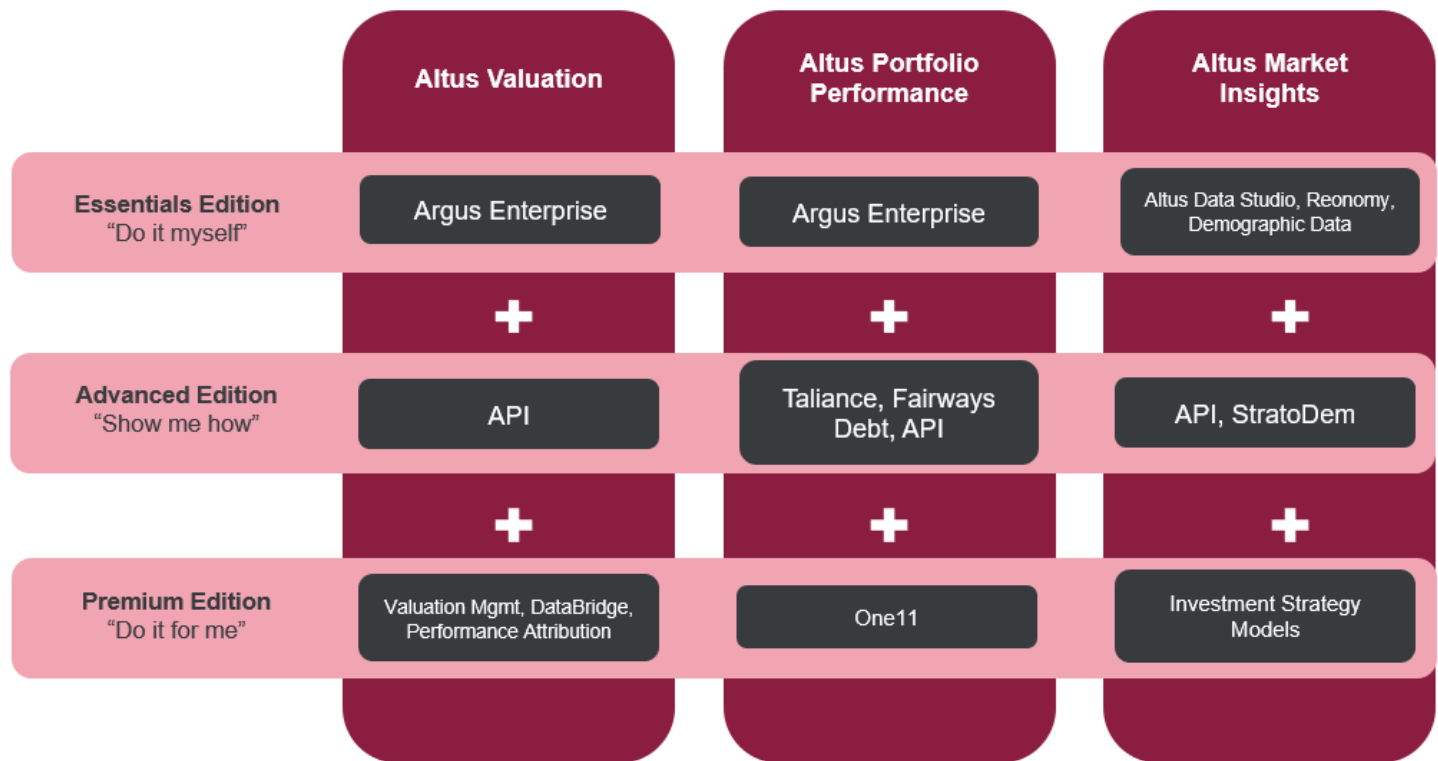
Altus’ data team has back-tested the effectiveness of its predictive analytics and found that if an investor was to invest in a portfolio of assets identified by the model, the portfolio would have outperformed the NCREIF benchmark by 50 bps–150bps. If Altus is able to convince customers that they could realize similar returns it would likely make for a compelling sales pitch. The Premium Market Insights option is expected to be released in Summer 2023, and we expect to hear more details on the offer as it is released.

Updated Go-To-Market Overview

Another frequent topic of discussion at Altus Connect was the work Altus has put into redesigning its sales organization. Management has frequently discussed the nature of the shift, but presentations at the conference and informal conversations with members of the sales organization helped tie together the sales strategy with the new analytics offerings.

Altus has moved to a sales model built around four core offers, each of which can be sold at a different level of service, or “edition”. A visualization of a sample combination of offers and editions for three of the four offers is included in Exhibit 1. Exhibit 1 may not capture exactly how Altus will sell the offers but helps to visualize the general offers and editions approach. The fourth offer, Property Tax, was not covered in detail but also will be sold in multiple editions. The editions make use of a standard technology “good, better, best” pricing model, with the Essentials edition priced at approximately 15% of the full service Premium edition.

By selling via offers rather than individual products, Altus is looking to create multiple touchpoints with customers to facilitate upsell and cross-sell into a customer base that already relies on Altus for critical valuation services. Altus began selling using the offer strategy in late 2021 with the results readily apparent over the course of 2022 through accelerated revenue growth and new bookings growth in the Analytics division.

Exhibit 1: Altus Group – New Offer & Edition Structure

Source: Company reports and CIBC World Markets Inc.

As demonstrated by the early results, the logic behind the shift to an offer-based strategy is based in sound strategy, in our view. As Altus looks to offer more innovative, data-focused solutions it needs to show customers how those new solutions complement their existing services and how they can combine different solutions to take advantage of Altus' unique position in the industry.

While the design of the new sales model makes strategic sense to us, we expect initial efforts to sell more expensive premium tools into the customer base will be met with some customer resistance. Whether it is reluctance to contribute proprietary data to the Altus Performance Platform, skepticism around the ability to truly generate alpha, unwillingness to commit to additional spending after cloud upgrades, or a lack of demand from an industry that has been slow to adopt data, we expect it will take time for Altus to reframe the value it is able to provide to customers.

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

CIBC ESG Metrics

Governance Metrics	2017	2018	2019	2020	2021
Insider Ownership	1.7%	1.7%	1.1%	1.0%	0.5%
Board Gender Diversity	37.5%	37.5%	37.5%	37.5%	37.5%
Separation of Chair & CEO	YES	YES	YES	YES	YES
Dual-class Ownership?	NO	NO	NO	NO	NO
Disclose ESG Data?	NO	YES	YES	YES	YES
Social Metrics	2017	2018	2019	2020	2021
CEO Comp./Mkt Cap*	\$1.2	\$1.0	\$1.5	\$1.3	\$0.7
Diversity Targets	NO	NO	NO	NO	YES
Women Managers	22%	22%	19%	20%	30%
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



Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK (1 st = lowest risk)	PERCENTILE (1 st = lowest risk)
Global Universe	115/15536	2nd
Real Estate INDUSTRY	25/1069	3rd
Real Estate Services SUBINDUSTRY	4/30	11th

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	60.5 Strong	3.6 Low	40.2%
Human Capital	4.0 Medium	34.5 Average	2.7 Low	30.4%
ESG Integration -Financials	3.2 Low	17.8 Weak	2.6 Low	29.3%
Overall	16.2 Low	45.9 Average	8.8 Negligible	100%

CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	18	0	Value	164	+14
Momentum	4	-2	Momentum	52	-30
Quality	5	+1	Quality	104	+21
Market	13	0	Market	184	-5
Low Volatility	19	+1	Low Volatility	105	-1
Growth	5	+11	Growth	91	+69

Note: Ranking out of 21 stocks

Note: Ranking out of 233 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	8	Momentum	A
Beta	1.09	MACD	B
Volatility	↓	Alpha (Sector)	B
Trend	↑	Alpha (Index)	A
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.

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 20x EV/EBITDA to the Analytics business.

Key Risks To Price Target

The primary risks we see 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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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.
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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	130	44%	Neutral	129	99%
Underperformer	7	2%	Underperformer	6	86%
Tender	0	0%	Tender	0	0%
Restricted	10	3%	Restricted	10	100%

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