CIBC CAPITAL MARKETS

EQUITY RESEARCH

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December 9, 2021 **Earnings Update**

ALTUS GROUP LIMITED

Investor Day Outlines Plans For An Integrated Platform

Our Conclusion

Altus hosted an Investor Day in New York on December 9. We provide a summary of key takeaways below. The day focused on Altus' plans to create an integrated platform that will allow the commercial real estate industry to digitize and modernize its processes. While we appreciate the longer-term strategy, the investor day did not alter our thesis on Altus and we continue to see it as fairly valued at these levels. Altus derives only ~45% of revenue from software yet it trades at 25x F22E EBITDA, materially above some pure-play software firms. We retain our Neutral rating, with our price target increasing to $73 (prior $63) as we roll over our valuation year to F23E.

Key Points

F2023 Targets – Revenue Reiterated, Margins Will Take Longer: When asked about the feasibility of reaching the previously stated 2023E target of $400 million in Analytics revenue and 30% EBITDA margins, management noted that it believes it has the ability to reach the revenue target with the existing assets, with future M&A making the target even more reasonable. Management was less clear on the margin front, noting that longer-term margins are expected to reach the 30%-35% range, but a change in the mix of business (higher cloud revenue), and limited EBITDA contribution from Reonomy are likely to push the timing beyond 2023.

Updated Capital Allocation Priorities: CFO Angelo Bartolini reiterated that free cash flow will continue to be invested in the business in an effort to drive double-digit organic growth, balanced with spending on strategic technology M&A and property tax tuck-ins. The company also noted the possibility of share buybacks to offset equity dilution. We don't expect any near-term changes to the dividend, but believe that management is focused on growth versus dividend maintenance. On leverage, Altus is comfortable to use debt to fund future M&A, and is targeting a funded debt to EBITDA ratio of 2.5x – 3x. Currently debt to EBITDA is ~3.0x with plans to deleverage to 2.0x by the end of 2022.

Focus on M&A As The Platform Is Expanded: After completing three notable acquisitions in 2021, management remains focused on M&A in a consolidating market. Future acquisitions will remain focused on adding technology companies that are within core verticals or close adjacencies. We remain concerned about valuations in the space, with Altus spending ~11x LTM sales on Reonomy, while trading at ~5x. The company notes that it could execute on $250 million-$300 million in F22 without additional equity.

Introducing 2023 Estimates: We are expecting Analytics organic growth of 9%, in line with pre-COVID growth, and relatively flat revenue growth in the Tax division given the end of the U.K. tax cycle. We expect that adjusted EBITDA margins will also be impacted by the end of the U.K. tax cycle and are forecasting consolidated margins of 18% in F23, roughly flat Y/Y.

Neutral

AIF-TSX, Sector: Real Estate

Current Price (12/9/21):	C$67.63
Price Target (12-18 mos.):	↑C$73.00
Previous:	C$63.00

CIBC Estimates and Valuation

(Dec. 31)	2020	2021	2022	2023
Adj. EPS	1.66A	1.64E	1.40E	1.45E
Prior			1.37E	
Adj. EBITDA(mln)	98.9A	106.0E	126.1E	130.3E
Prior			121.7E	

Adj. EPS	Q1	Q2	Q3	Q4
2023	0.26E	0.38E	0.37E	0.44E
2022	0.24E	0.37E	0.36E	0.42E
Prior			0.35E	0.41E

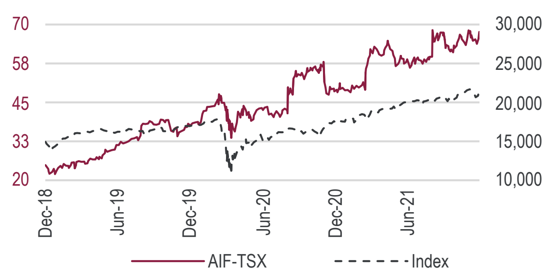
Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2023	22.4E	39.9E	32.8E	35.2E
2022	18.9E	47.4E	28.9E	30.9E
Prior	17.9E	46.5E	27.9E	29.3E

Valuation	2020	2021	2022	2023
P/E	40.8x	41.2x	48.4x	46.6x
EV/EBITDA	32.5x	30.4x	25.5x	24.7x

Stock Performance and Key Indicators

Enterprise Value:	C$3,218M	Shares O/S:	41.0M
Market Cap.:	C$2,776M	Float:	19.5M
52-wk Range:	C$48.24 - C$68.16	Div. / Yield:	C$0.60/0.89%

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 5.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 6.

Altus Group Limited (AIF-TSX) — Neutral

Price (12/9/21) C$67.63   12-18 mo. Price Target C$73.00
Sector: Real Estate
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Peer Comparison	2020	2021E	2022E	2023E
P/E - Real Estate Services	40.0x	24.3x	22.3x	-
P/E - Altus	41.3x	41.7x	49.0x	-
EV/EBITDA - Real Estate Services	23.7x	17.3x	14.9x	-
EV/EBITDA - Altus	32.5x	30.4x	25.5x	-
P/FCF - Real Estate Services	8.7x	10.1x	-	-
P/FCF - Altus	40.5x	44.8x	-	-
Key Financial Metrics	**2020**	**2021E**	**2022E**	**2023E**
Net Debt/EBITDA	0.5x	3.4x	-	-
Sales Growth	(1.1%)	11.0%	13.7%	4.4%
Per Share Data	**2020**	**2021E**	**2022E**	**2023E**
FCFPS	1.60	1.51	1.35	1.31
Adj. EPS Dil.	1.66	1.64	1.40	1.45
Wgt Avg # of Shares	40.1	41.5	44.7	45.9
FD Number of Shares	38.4	38.4	38.4	38.4
Income Statement	**2020**	**2021E**	**2022E**	**2023E**
Revenue	**561**	**623**	**708**	**739**
Tot Operating Exp	465	522	595	621
OpEx (% of Revenue)	82.82%	83.84%	83.98%	83.98%
Adj. EBITDA	**99**	**106**	**126**	**130**
Adj EBITDA Margin	17.6%	17.0%	17.8%	17.6%
D&A	(42)	(33)	(34)	(34)
Interest Expense	(7)	(8)	(31)	(30)
Pretax profit	**38**	**43**	**49**	**54**
Tax Expense	11	12	9	10
Net Income	**22**	**31**	**40**	**44**
Net Margin	4.8%	5.0%	5.6%	6.0%
Cash Flow Statement	**2020**	**2021E**	**2022E**	**2023E**
Net CFO	**72**	**72**	**76**	**76**
Capex	(8)	(9)	(16)	(16)
Free Cash Flow	**64**	**63**	**60**	**60**
Balance Sheet	**2020**	**2021E**	**2022E**	**2023E**
Cash & ST Investment	70	8	47	86
Intangible Assets	78	170	143	115
Goodwill	261	584	584	584
Total Assets	**735**	**1,122**	**1,171**	**1,202**
ST Int-Bearing Debt	0	0	0	0
LT Int-Bearing Debt	122	369	369	369
Total Liabilities	**352**	**652**	**683**	**691**
Shareholders' Equity	**383**	**469**	**487**	**511**

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

Company Profile

Altus is 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$73.00

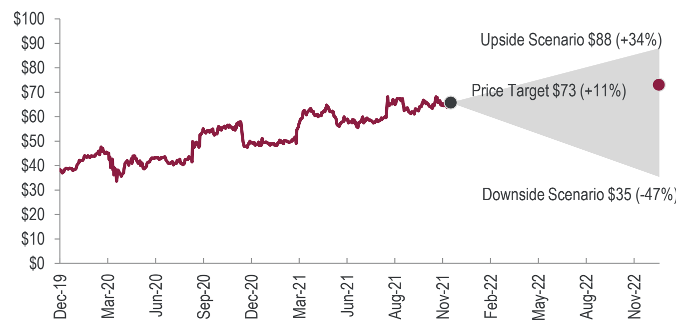
Our price target of $73 is calculated using a sum-of-the-parts valuation that uses a 15x EV/EBITDA multiple on the CRE Consulting business and a 30x EV/EBITDA multiple on the Analytics division.

Upside Scenario: C$88.00

Based on 12% revenue growth, 20.0% EBITDA margins using a 24.0x multiple.

Downside Scenario: C$35.00

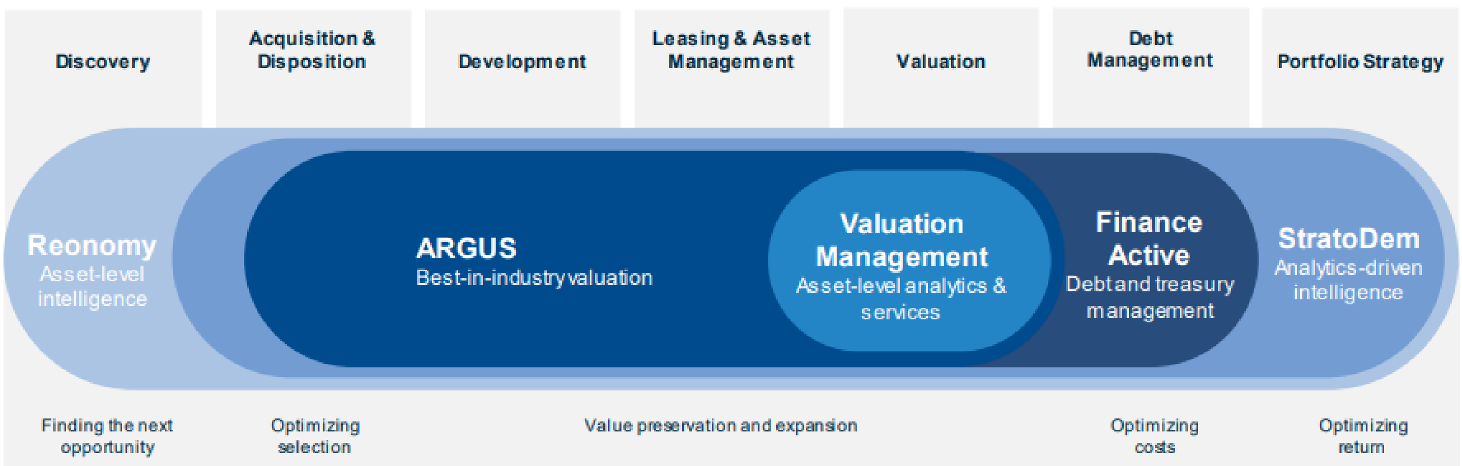
Based on 2% revenue growth, 16.00% EBITDA margins using a 14x multiple.



U.S. Listing A Possibility: When asked about the potential for a U.S. listing, CEO Mike Gordon was clear that the company was interested in the possibility and had started to evaluate potential options. While it may be somewhat early in the process, Mr. Gordon did note that the time was 'nearing' while declining to provide a firm timeframe.

Building An Integrated Analytics Platform: The Altus Analytics division includes a number of point solutions, including the recent acquisitions of Finance Active, StratoDem, and Reonomy. Altus' vision is to develop a platform that offers a seamless delivery of expertise and technology across the CRE value chain, from discovery (Reonomy) to portfolio strategy (StratoDem). Aiming to be the CRE industry's first "intelligence-as-a-service provider", Altus believes it can capture market share by centralizing its offerings in a cloud-hosted environment. Instead of multiple product teams, Analytics will move to single teams organized under: 1) business advisory; 2) consulting services (strategy, implementation and implementation; and, 3) global solutions (managed services). The company expects to have an integrated solution in the market in 2022.

Exhibit 1: Altus Analytics – Integrated Platform Strategy



Source: Company reports

Positioning Tax For Scalable Growth: The Tax division is looking at a similar unified offering, with Tax looking to move from a national, consultant-led model to a global, unified model that uses tech-enabled services to drive additional value. The company is looking to digitally enable property tax management to enhance the client experience and automate internal processes, allowing consultants to focus on higher-value work.

Changes To Our Model: We are rolling over our forecast to F2023. We are expecting $333 million in Analytics revenue, up 9% organically and in line with pre-COVID growth. We view the path to $400 million in Analytics revenue in F23 as difficult without further M&A. We do not model future M&A given the difficulty in predicting the timing and magnitude of future acquisitions. We are expecting the Tax division to see flat revenue growth in F23 as the U.K. tax cycle resets. Our consolidated estimates are noted in Exhibit 2.

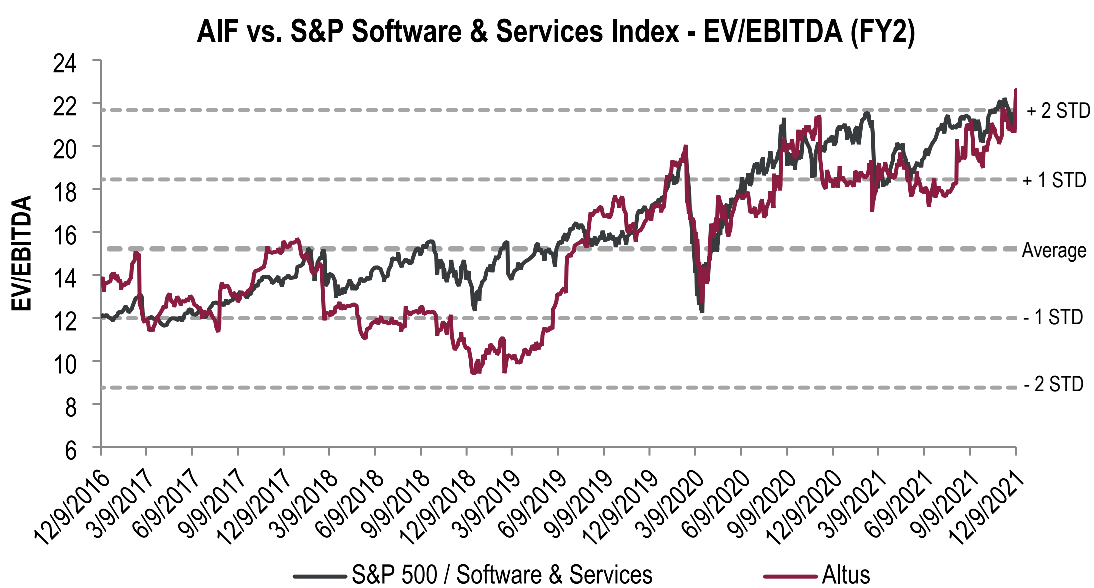
Exhibit 2: Altus Group – Model Updates – 2020 – 2023E

	Revenues ($MM)	Adj. EBITDA ($MM)	Adjusted EPS ($)	CFO ($MM)
2020	561	99	1.66	72
2021E				
CIBC est. – new	623	106	1.64	72
CIBC est. – prior	623	106	1.64	72
Consensus	624	108	1.79	74
2022E				
CIBC est. – new	708	126	1.40	76
CIBC est. – prior	699	122	1.37	76
Consensus	727	140	2.00	114
2023E				
CIBC est. – new	739	130	1.45	76
Consensus	782	157	2.38	NA

Source: Company reports and CIBC World Markets Inc.

Valuation: While we appreciate Altus' strategy of developing an integrated platform for the commercial real estate industry, we believe that the company is relatively fairly valued at these levels, trading roughly in line with the S&P Software and Services Index and over two standard deviations from its historical valuation.

Exhibit 3: Altus Group –Valuation vs. S&P Software Index – 12/9/2016 – 12/9/2021



Source: 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 15x EV/EBITDA multiple to the Commercial Real business and 30x EV/EBITDA to the Analytics business.

Key Risks To Price Target

The primary risks to our price target include the following: 1) reliance on key employees; 2) acquisition risk; 3) exposure to oil & gas industry; 4) exposure to residential condo market; and 5) accelerated Argus Cloud Adoption leads to faster-than-expected revenue growth and margin expansion

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