Van Berkom JMSB Qualification Case

TO: Eda Tuzunatac

FROM: Josh Misir Adrian Harris Anthony Pomara and Adlyslater Dacius

DATE: January 20th, 2020 RE: Analysis of ALT Group



Based on extensive research conducted and data found from various sources our recommendation would be to sell the position in this company because doubling your investment would be unlikely to see in the near future.

All the models were created have multiple assumptions. See appendix for the spreadsheets.

About Altus Group:

Source: Annual report 2018

Altus Group Limited is a leading provider of software, data solutions and independent advisory services to the global commercial real estate ("CRE") industry. Our businesses, Altus Analytics and Altus Expert Services, reflect decades of experience, a range of expertise, and technology-enabled capabilities. Our solutions empower clients to analyze, gain insight and recognize value on their real estate investments. Headquartered in Canada, we have approximately 2,500 employees around the world, with operations in North America, Europe and Asia Pacific. Our clients include some of the world's largest commercial real estate industry participants.

We have three reporting business segments - Altus Analytics, Commercial Real Estate Consulting ("CRE Consulting") and Geomatics

Altus Analytics

Our Altus Analytics segment consists of revenues from software sold under the ARGUS brand (which includes license sales, maintenance, subscriptions, and related technology services) and from data solutions (that are made available to clients through our Appraisal Management offering, as well as through data subscription products). Altus Analytics clients predominately consist of large owners, managers and investors of CRE assets and CRE funds, as well as other CRE industry participants including service providers, brokers, and developers

Commercial Real Estate Consulting

Our CRE Consulting services consist of the Property Tax and Valuation and Cost Advisory business segments. Through our various practice areas, we are well equipped to serve clients with an end-to-end solution that spans the life cycle of CRE assets - from feasibility, development, acquisition, management and disposition. Our professionals possess extensive industry, market and asset-specific knowledge that contribute to our proprietary internal data systems. We have long-standing relationships with the leading

CRE market participants - including owner operators, developers, financial institutions, and various CRE asset holders and investors.

Geomatics

Our Geomatics business operates primarily in Western Canada, with a significant number of clients in the oil and gas exploration and development sector. Geomatics is the practice of recording and managing spatially referenced information, including land surveying, geographic information systems, global positioning systems and light detection and ranging. Our services, performed by highly qualified certified professionals, include land surveys and mapping for setting of property boundaries, route and corridor selection, land settlement, construction developments, and oil field and well-sites. Our competitive advantages include the depth of our team's experience and specialized training, our strong track record of safety, the timeliness and quality of our work, and our geographic strength in Western Canada. Our services are primarily charged on a time and materials fee basis.

Long term Objective:

Our long-term objective is to transition Altus Analytics from a collection of high value point solutions to an enterprise-grade software and data analytics market leader that unifies valuation and asset management capabilities into a single, cloud-based platform for the CRE industry. To achieve this, we will continue to expand the global adoption of AE while developing a product roadmap aimed at integrating our solutions onto a cloud-based platform that will further enhance recurring revenues

Pursuit of financially accretive acquisitions when opportunities arise - specifically in the U.S. where the market remains fragmented; and c) Enhancement of our service offering with technology and data through our Tax Analytics Platform ("TAP") to enhance client value while improving internal efficiencies by automating workflows. In 2019 we plan to leverage TAP in Canada to drive improved performance, while continuing to tailor functionality for the U.S. and U.K. markets for broader adoption in 2020.

Analysis

Management Overview:

Source: LinkedIn, Glassdoor, and Indeed.

Managers have stayed for a significant amount over the company's life. We are making the assumption that management turnover isn't an issue.

Looking at employee reviews on third party websites there were some issues that were made present. Current distrust in upper management from the entry-level to senior positions. This has to be taken with a "grain of salt". Altus group spends on average of 132,000 on compensation for employees. Another issue that arises was the below-average pay. These problems could arise in the future resulting in high employee turner over. This can lead to brain drain from this company. These are all factors to consider when looking into a company to invest in but not telltale sights of trouble. Investor relations couldn't be reached at the time of analysis.

Competitive advantages in the industry:

Their competitors in the industry include CoStar, Cougar Software, MRI Software, Altus, Intuit and SiteCompli in real estate portfolio management software solutions. And Accruent, Tririga, Manhattan Software, Lucemex and AMT in real estate lease management and administration software solutions. The field isn't saturated with companies in the same industry but the companies that are in the industry are major players with much more assets to gain more revenue and expand it to different markets. With companies such as CoStar is expanding into Canada this means a major American company that can compete with Altus Group Ltd. on their own territory. Altus Group Ltd. also doesn't have a competitive advantage in any country besides the Canada. But companies such as Costar are not clear-cut ways to benchmark against Altus Group Ltd. For example, looking at Costars cash flows, they have income coming from other sources other than making money other than offering data solutions in real estate. This can also be a contributing factor to them dominating the future market in this industry. Their research and development funding alone this year is 10 percent of the total market capitalization of Altus Group Ltd. Altus Group Ltd. can't compete with companies like CoStar in developing new software if they don't spend close to the amount of money on research and development. Inuit's increasing its working capital over the years with also increasing revenues and assets. They are also decreasing their long-term debt as well. IBM TRIRIGA is another example of a company that is back with capital (IBM).

Free Cash Flows:

Altus Group Ltd. free-cash flows both improve and decline quite sporadically and has not demonstrated a record of steady growth. The free-cash-flow results are influenced heavily by cash-flow from operating activities which is also very volatile. In summary, free-cash-flow growth is in recent years non-existent thus not improving.

AIF: Altus Group Ltd							
	2013	2014	2015	2016	2017	2018	
Cash-flow from operating activites:	42,973	49,455	48,137	67,236	57,842	49,491	
CapEx + Change in wk capital:	3,866	7,713	12,320	4,230	11,789	11,545	
Free Cash Flow:	<u>39,107</u>	41,742	<u>35,817</u>	63,006	<u>46.053</u>	<u>37,946</u>	
Y/Y % change:	7%	-14%	76%	-27%	-18%		

High returns on Capital:

The company's return on equity, return on assets, net margin and the pre-tax margin is all negative which demonstrates the company has been having a difficult time taking advantage of their leverage. The firms operating margins are 3.12% which indicates that the firm has high operating expenses that are unavoidable.

Trading below intrinsic value:

This discounted cash-flow analysis forecasts an intrinsic value share price of \$30.58, assuming shares outstanding remain at constant levels. See excel spreadsheet for model with assumptions.

ROIC	2.0%
Discount rate	10.0%
NPV	1,156,081
Cash	56,014
Total value	1,212,095
Shares	39,642
Intrinsic value per share	30.58
Share price	42.45

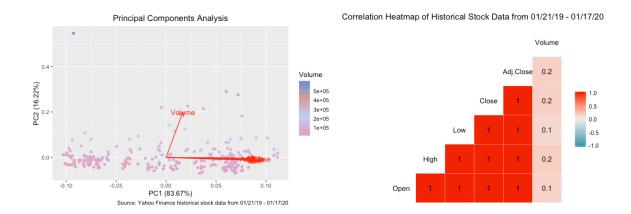
Future outlook:

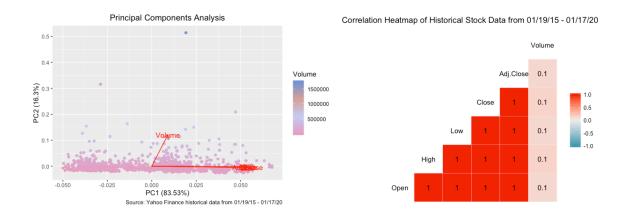
Systematic risk factors as incoming recession roadblocks in the way of Altus group from expanding into different markets such as the United States or the U.K. Along with agreements between nation-states, these can all play a deciding role in the future of this company's growth.

Looking at the debt to GDP of Canada they have 89.7 in 2018. This good in regard to that Canada doesn't owe a lot of money. And the stock has a current beta of .8 this means that this does not move with the volatility of the stock market.

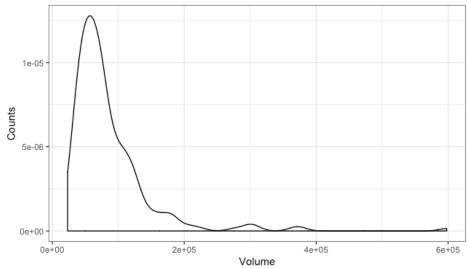
Looking forward if you go against our recommendation to sell your position in Altus Group here is something to consider when looking into the future outlook of the company.

These graphs explain that the volume of the shares traded in the stock market has little correlation to the highs and lows of the stock. It's intuitive that the stock price isn't going to change significantly between the open and closing of the stock market during a given day. Your analyst shouldn't worry about how much of the Altus Group stock is being traded on a given day. Also, the majority of trading volume for this stock in the last year is between 0 and 200,000. Taking the historical data, we compressed the data into two Principal components to see the correlation in between the high, low, close, volume for a stock on a given day. The Principal Component Analysis graph is respected in a correlation heat map.





Looking deeper into last years frequncy of trading for this company Historical Stock Volume Data from 01/21/19 - 01/17/20



Majority of the volume for this stock is between 0 and 200,000 shares traded

Appendix:

Sources

https://www.marketwatch.com/investing/stock/aif/profile?countrycode=ca

https://tradingeconomics.com/canada/government-debt-to-gdp

https://finance.yahoo.com/quote/AIF.TO/key-statistics?p=AIF.TO

 $\frac{https://www.costargroup.com/insights/insights-article-detail/insights/2019/07/30/CoStar-Group-Signs-Agreement-with-Marcus-Millichap-for-Commercial-Real-Estate-Services-in-Canada}{\mathcal{C}}$

https://finance.yahoo.com/quote/AIF.TO/history?p=AIF.TO