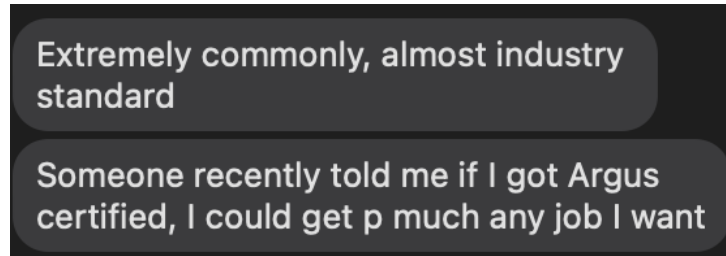


Long Altus Group (AIF.TO) - \$61

**Summary:** Altus (AIF.TO - \$2.5Bn MC) at first glance seems like a consultancy that happens to own mission-critical (think AutoDesk) software used by the vast majority of the CRE industry. In less than 5 years they will be a SaaS company that happens to own a consultancy as they transition Argus from on-prem to subscription-based. It's a SOTP today, a long-runway compounder tomorrow.

**Business:** Altus has been a solutions provider to the CRE industry since 2005 through the merger of three different consultancies. The company today has 2 main businesses - a consultancy and a software suite.

Argus, their software solution, is what's interesting here. The company acquired it in 2011 and has built it into a suite that provides property and investment management, modeling, and fund reporting. It's useful to almost all CRE entities, including developers, owners, managers, and investors. In 2019 the company completed the transition to a cloud offering and has begun to move its 7,000 customers to the new subscription license. Accompanying the product shift was a change in CEOs, from software-minded (ex-SAP) to sales minded. Mike Gordon, the current CEO of Altus, has experience as VP of EMEA operations and company Sales & Marketing at FICO.

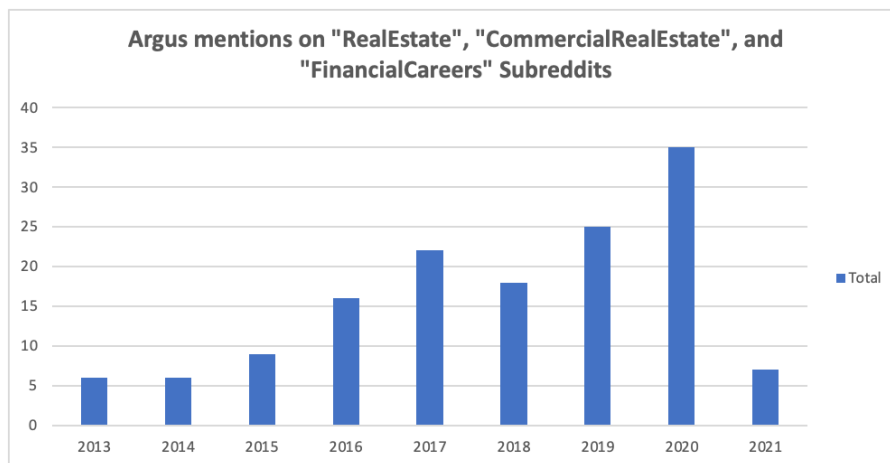


Asked my friend at Marcus & Millichap if Argus is commonly used

Want to break into commercial real estate? Here's what the LinkedIn description probably reads: "Proficiency in Argus, Microsoft Office Suite". CRE lives on Argus. The software is also championed at the top and bottom of the market. It's used by 84% of the top 25 (JLL, C&W, Newmark...) office real estate businesses, 52% of retail, and 68% of industrial plus is taught at over 200 schools. Compare this to AutoDesk (\$60B MC) and you can see that both have a large market, something that students/junior employees are trained on, and solutions that make life much easier for their customers. You can maintain some of the data in Excel, but by nature of how tailored this is to CRE workflows, it is the logical choice for all professionals. It can compliment workflows by exporting data into Excel or other endpoints using their APIs, but can also be a one stop shop. Either way, it is effectively "Step 1" in any CRE workflow.

For example, imagine you have a property that you need to model the cash flows of. Easy to do in Excel. But you need to stress different cap rates, occupancy rates, and NOIs. Do-able. Then you need a holistic view of your portfolio, spanning different geographies and asset types, and then standardize, monitor, and report on a quarterly basis. And then you keep getting sent custom Argus file types by your developer. Eventually you should choose to work smarter and pay for Argus.

I have confirmed with users at larger firms that the data starts in Argus and only later moves to Excel, often with a desk dedicated to the use of the software. But what happens if it is democratized, and becomes as common as a Bloomberg Terminal license, but for CRE? The company has begun to offer a certification in their software as a way of signaling competence to employers at a cost of \$350 that must be renewed every 2 years, similar to the CFA. To get an idea of how common the software has become I scraped the data on the subreddits dedicated to discussing topics related to commercial real estate - places people would go to as experienced peers for advice.



As a soft proxy, given that it isn't rated against total users or software mentions, we can see that for those in the industry, awareness of the software has steadily grown with the total number of users.

The strategy for the analytics side of the business has been built around the ubiquity of Argus. What began as a simple DCF modeling tool has expanded via acquisition and development. A timeline of the major bolt-ons:

- RealNet (2014): Canadian residential and commercial databases.
- Voyanta (2014): Portfolio data standardization, market surveillance, and reporting.
- Taliance (2018): Complex fund modelling and risk analysis.
- Finance Active (2021): Debt, forex, and treasury management.

That data, vis-a-vi Voyanta, is what is powering a nascent potential in the Data and Analytics segment. It's a virtuous cycle. Argus proves useful. Customers use it to input their data. Altus is able to amalgamate the data of all of their customers and sell it back to them (or third parties) for unique

insights into valuations, financials, and demand dynamics on a micro and macro level. And then that attracts more customers, and more data.

Their most recent acquisition is also exciting. Finance Active provides a similar suite of tools for the debt side of things. CRE is built on debt; 100% equity properties are rare. This complementary product offers a lot to borrowers and introduces a whole other subset of users to the platform's potential user base, expanding the TAM by 50-75% according to management. Step 1 is the cross-sell to Finance Active's 3,000 customers and to Argus' 7,000, step-2 is the integration with the existing tools, and step 3 is bringing the product into Argus-branded umbrella offering.

And then we have the legacy businesses.

In the tax segment, the majority of revenues are on a contingency basis since the purpose of the segment is to reduce the tax burden of their customers. As a result, if they are successful, they share in the economics. Taxes obviously are ever-present, relentless even, but the revenue streams can be lumpy in accordance with the cases they get and their success in them. Appraisals must be refreshed in accordance with local laws in order to adjust the tax basis (every 1-6 years). As such, revenue here repeats and they share an incentive with their clients. Within Canada, the property tax business has 60% market share. In the UK 20%, with a focus on SMBs. In the US they are one of the 5 largest in a much more fragmented market. Their strategy is rolling up smaller offices in these counties.

Their valuations business operates in Canada and APAC, primarily as a second pair of eyes for acquisitions, operation, and disposals. This area is stable and has good margins but lacks growth and scalability. I would not be surprised if they spun this off like they did for their O&G land surveying business given that it's their lowest contributing segment and doesn't operate in the US, where 38% of total revenues are derived.

**Valuation:** Level 1 is the sum of the parts and how the market is incorrectly discounting the revenue streams of the business.

	2019	2020	2021e	Standalone Fwd Value
Argus* Rev	202	204	230	<b>11x</b>
Argus EBITDA	37	36	46	<b>54x</b>
Consulting Rev	324	358	386	<b>6x</b>
Consulting EBITDA	76	92	92	<b>27x</b>
*Argus includes data & analytics				
SOTP	2021 P/S	Value	2021 EV/EBITDA	Value
Argus	8	1,840	<b>25</b>	1,150
Consulting	4	1,545	15	1,374
Altus Whole	5x	3,385	18x	2,524
Discount		<b>35%</b>		<b>1%</b>

Observe that either segment comes close to justifying the \$2.5Bn market cap alone. Applying a soft transition to P/S for the business, we find a major discount without breaking the bank on EV/EBITDA.

Level 2 is what we are paying for Argus. Management has guided \$400m in revenue by 2023 (25% CAGR). Put a 30% EBITDA margin on that and you've justified the entire business today with just half of its revenue. As such, the 2021 multiple is not going to fully reflect what the business can be in just 3 years but may demonstrate the margin of safety, since we don't count on excessive growth to buy the business.

	2020	2021	2022	2023	2024	2025	Comp	EV/2023 EBITDA
Argus Revenue	204	255	319	400	460	529	AutoDesk	31x
Argus EBITDA	35	56	86	120	138	159	CoStar	31x
Margin (%)	17%	22%	27%	30%	30%	30%	IHS	20x
Standalone Value	116x	71x	46x	33x	29x	25x	RealPage	18x
+Consulting	32x	25x	20x	16x	15x	13x	Altus	17x
							Target Price	\$ 100.43
							Upside	65%
							IRR	18%

If we value the business based on their guidance, and at a lower multiple than all comps, there is still 65% upside (TP:\$100). It's not a hard strategy to underwrite either. They need a simple majority of their 7,000 clients to make a switch from on-prem to cloud. JLL and Newmark saw the value in late 2020. But what if something else goes right?

### What if:

- Adoption is faster than expected. They are able to get closer to all 7,000 customers on the cloud due to attractive offerings.
- Finance Active's TAM expansion into debt provides increased pricing power and more customers.
- The data business that begins contributing later this year turns it into a segment of its own.
- Seats within their current clientele grows with analysts learning to use it..
- The legacy businesses we are wilfully ignoring, with topline at a consistent 10% CAGR & 20-30% EBITDA margins in a predictable market with repetitive demand, proves accretive.
- The market sees value in line with CoStar's 15x sales, INFO's 23x NTM EBITDA takeout, or AutoDesk's 15x sales and 40x EBITDA.

There are many paths for things to go right which we don't have to pay for today.

**Buy Altus (AIE.TO) today for the sum of the parts and the SaaS rerate or simple earnings upside. Don't sell it and sleep well for a decade knowing you own the most mission-critical software in the CRE industry.**