**Research Report on Canalyst**

## Overview and Origin

Canalyst is a financial technology company that utilizes the Software as a Service (SaaS) platform. It is based on a subscription service.

They build financial models and track close to 5,000 companies, mostly domiciled in North America. They provide comprehensive financial statements – balance sheet, income statement, and cash flow statement – that are as comprehensive as they are in a company’s quarterly (10-Q) and annual (10-K) filings. Most large data providers – Bloomberg and Refinitiv – do not place much emphasis on providing in-depth company financials.

The perception is that an investment analyst spends their day examining companies by reading reports, analyzing or scrutinizing financial data, writing research reports or recommendations, and meeting with company management teams. The truth is many investment analysts can spend up to 40% of their time building financial models, cleaning the financial data (scrubbing), and routinely updating the data on a monthly or quarterly basis.

Canalyst wants to take this task off the analyst plate so they can spend more time talking to companies and explore new investment ideas. Investment firms are essentially outsourcing this to Canalyst at an attractive subscription fee.

Canalyst provides these services in excel format (excel add-in) so analysts can easily download the information into their own excel spreadsheets.

Canalyst provides over 4,000 different financial models since each sector and industry has different key metrics that are needed analyze a company. As well, upon request Canalyst can customize a financial model for you at no extra charge.

The main customer base are asset management (buy-side) firms.

Canalyst is based out of Vancouver, they have over 100 employees including engineering, equity research, and product management. It also opened a sales office in New York.

\* Name of company

Canalyst

\* When was the company incorporated?

The company was incorporated in Vancouver 2015 in a basement office.

\* Who are the founders of the company?

Founders are Damir Hot (CEO) and James Rife (Head of Equities). Both became friends during their university days at University of British Columbia (UBC).

Damir Hot has a Sales background working for software companies.

Interestingly, Mr. Hot has worked for three prior start-up software companies. All three start-ups were bought out.

* He worked at Meta Software – acquired by Splunk in 2015
* He worked at Pulse Energy (a data analytics software provider to energy companies) – acquired by EnerNOC in 2014.
* He worked at Bycast (cloud storage software) – acquired by NetApp in 2010.

**His background indicates to me that Canalyst is likely to be acquired (bought out) in the next few years.**

James Rife has an equity research background. He worked as an equity analyst and a portfolio manager for 10 years in Boston and Toronto. He moved back to Vancouver to start Canalyst.

While working as an equity analyst, James Rife felt there a gap for asset managers in obtaining accurate, timely, and comprehensive financial statements needed for analysts to do their job. He had the vision for this product to fill this gap. He built the beta version of this product.

As a footnote, it is interesting to note that the Chair of the Board is John Montalbano. He is former head of RBC Global Asset Management. He ran one of the largest asset management firms in Canada. He is very well known in industry circles and has the rolodex (contact names of his peers) to reach out and help setup initial meetings for Canalyst. This is a smart move by Canalyst in having Mr. Montalbano as Chair – for his experience in asset management and his contacts list.

\* How did the idea for the company (or project) come about?

Working in equity research, Mr. Rife realized how time consuming it was in creating financial models in excel. From downloading the raw data from a financial data provider, to making sure the data is clean and accurate, to linking up financial spreadsheets, to updating (downloading) the data on a monthly, quarterly, and annual basis. This took a large part of his time.

\* How is the company funded? How much funding have they received?

The company is funded by Venture Capital (VC) firms. The two largest VC funding came from Vanedge Capital (Vancouver-based) and ScaleUP Ventures (Toronto-based).

Canalyst has raised a total of $28 million in two rounds of VC funding. Their last round, Series B financing raised $20 million in 2020.

## Business Activities:

\* What specific financial problem is the company or project trying to solve?

Canalyst is helping investment firms in two ways:

1. Help reduce cost structure for investment firms
2. Reduce administration work for investment analysts.

Help reduce cost structure for investment firms

The mutual fund industry is under pressure from Exchange Traded Funds (ETFs). ETFs are outgrowing mutual funds in terms of asset gathering (sales growth).

ETFs assets are growing faster than mutual funds as they offer competitive (similar) performance to mutual funds at a much lower cost.

The average fee for a passive Canadian equity ETF is about 0.20%. The average fee for a Canadian equity mutual fund is 1.76%, according to Morningstar.

Example:

If a client invests $10,000 in a Canadian equity ETF, the average fee is ($10K \* 0.20%) = $20.

If a client invests $10,000 in a Canadian equity mutual fund, the average fee is

($10K \* 1.76%) = $1,760.

Mutual fund fees are very high compared to ETFs. To remain competitive with ETFs, mutual funds are reducing their fees. The mutual fund industry is facing margin compression. Thus, mutual fund companies need to also reduce their cost structure.

Asset management firms use a financial data service provider, the two most popular providers are Bloomberg and Refinitiv Eikon. These two firms provide real-time stock quotes, news wire services, articles and basic company financial statements and ratios. Though the annual cost for Bloomberg or Refinitiv Eikon can range from US$20,000 to US$60,000 per user depending on the package, which is roughly CAD$25,600 to CAD$76,800 per user (per subscription).

Canalyst offers three advantages:

1. Canalyst costs only CAD$24,000 annually and allows up to 8 users on one subscription.
2. Canalyst offers much more comprehensive financial statements and ratios on companies than the larger data service providers. For the larger data service providers, financial statements and ratios are not a main priority for them.
3. Canalyst provides a wide range of forecasting and financial models (over 4,000), specifically designed for different sectors and industries. They also offer to create customized models specifically for your firm upon your request at no extra charge. The larger data service providers offer very basic models that most analysts find rudimentary.

Reduce administration work for investment analysts:

Part of the investment analysts’ role includes:

* analyzing financial statements and ratios
* calculating the firm’s intrinsic value versus market value
* create financial models to forecast future annual growth, i.e. revenues, earnings, and free cash flow.

Analysts create financial (forecasting and valuation) models in excel, then download the raw data from a financial data providers, usually Bloomberg or Refinitiv Eikon, then they need to clean up the data (scrubbing) and upload it into their models. Depending on the model, most uploads are monthly and quarterly. It is advantageous if the analyst is knowledgeable in excel macros and excel VBA (Visual Basic for Applications).

Most equity analysts who are hired are not expert excel programmers, especially dealing with excel macros or Excel VBA. This can take a lot of time to become proficient in macros and VBA.

In an interview last year in the Globe & Mail, award winning Portfolio Manager Brandon Snow, who is also chief financial officer of Cambridge Global Asset Management. Cambridge has over $20 Billion in assets under management. Mr. Snow says “’We’ve contemplated how we can potentially reduce our need for Bloomberg data terminals with this.’ His investment staff spends 40% of their time building and updating models. Using Canalyst, they’ve reclaimed two-thirds of that, freeing time to talk to customers and companies and explore investment ideas. ‘It is a pretty clear benefit,’ he said.”[[1]](#footnote-1)

\* Who is the company's intended customer? Is there any information about the market size of this set of customers?

The primary customers are asset management (buy-side) firms including:

* Pension funds,
* Sovereign Wealth Funds,
* Hedge Funds,
* Mutual Funds,

The buy-side of research is the main client but I believe it can also be offered to sell-side research, i.e., brokerage firms and investment banking. The research division of brokerage firms, can use Canalyst’s data and forecasting models to assist them in evaluating and recommending them as a Buy, Sell, or Hold. Also, investment banking can use Canalyst’s forecasting models to assist them with a company’s IPO evaluation.

The market size worldwide is enormous since there are tens of thousands of asset management firms. According to Boston Consulting Group, at the end of 2020, asset managers totalled $103 Trillion in assets under managment.

\* What solution does this company offer that their competitors do not or cannot offer? (What is the unfair advantage they utilize?)

The competitive advantage for Canalyst is comprehensive data, accuracy, thousands of financial models, and a quick turnaround.

Canalyst provides comprehensive financial data on public companies. The data is 99.9% identical to the financial statements seen in the quarterly and annual statements, i.e. the 10-Q and 10-K filings. No major data service provider offers these types of wide-ranging financial data at that level. For example, when a company files its 10-Qs/10-Ks, analysts’ must go through the footnotes and disclosures to arrive at popular numbers such as EBITDA and cash EPS. Finding and scrubbing this data is time consuming work. If you’re a sector analyst covering 50 companies in your sector, this one task alone consumes a lot of time on a quarterly basis.

As well, the accuracy is second to none. Canalyst has two or more people verify that the data is correct. This avoids common errors such as fat-fingers (entering in the wrong numbers) and skipping a line or a row of data. Data service providers do not provide accuracy at this level.

Canalyst offers over 4,000 financial models covering industries and sectors. Also, they will customize or personalize a financial model upon your request at no charge.

The turnaround is quick. Once a company releases their latest quarterly report. Canalyst will update the financials within 1-3 hours and it is ready for the analyst to view. For major data service providers, the turnaround for some reported companies can be the next day.

\* Which technologies are they currently using, and how are they implementing them? (This may take a little bit of sleuthing–– you may want to search the company’s engineering blog or use sites like Stackshare to find this information.)

Unfortunately, I could not gather this information.

## Landscape:

\* What domain of the financial industry is the company in?

The domain is data service provider to the asset management (buy-side) field.

\* What have been the major trends and innovations of this domain over the last 5-10 years?

The major trends has been quantitative models, machine learning, and artificial intelligence.

Quant models on the ETF side are called ‘smart beta’ strategies. Smart beta strategies are used to create a portfolio based on historical equity factors such as volatility, [momentum](https://www.blackrock.com/us/individual/investment-ideas/what-is-factor-investing/factor-commentary/factor-perspectives/facts-about-momentum-investing), earnings or dividends.

With the amount of financial data readily available today. Asset managers are increasingly using quant models via machine learning (ML) and artificial intelligence (AI), to create a competitive advantage in trying to generate alpha (outperforming the index).

\* What are the other major companies in this domain?

The major financial service dataset providers are:

* Bloomberg
* Refinitiv Eikon
* S&P Capital IQ
* FactSet

## Results

\* What has been the business impact of this company so far?

This is a private company thus there is no public financial statements available.

According to growjo.com: Canalyst's estimated annual revenue is currently $32.1M per year.

As of 2020, Canalyst has more than 400 users at over 250 asset management firms. Mostly in North America, including 8 of the top ten asset managers in North America.

\* What are some of the core metrics that companies in this domain use to measure success?

This is a Software as a Service (SaaS) Company. Some of the core metrics for a SaaS company are:

* Monthly Recurring Revenue – SaaS providers rely on recurring monthly subscriptions for their revenue.
* Customer Retention Rate – the percentage of customers who continue to use the subscription.
* Churn Rate – the percentage of customers who cancel the subscription.

How is your company performing, based on these metrics?

Unfortunately, it is a private company and I cannot gain access to these metrics.

\* How is your company performing relative to competitors in the same domain?

Unfortunately, it is a private company and I cannot gain access to these metrics. As mentioned earlier, according to growjo.com: Canalyst's estimated annual revenue is currently $32.1M per year. As of 2020, Canalyst has more than 400 users at over 150 asset management firms. Mostly in North America, including 8 of the top 10 asset managers in North America.

## Recommendations

\* If you were to advise the company, what products or services would you suggest they offer? (This could be something that a competitor offers, or use your imagination!)

My three recommendations are:

1. Emerging Market coverage,
2. ESG ratings,
3. macro quant models.

First, Canalyst offers financial data on companies that are listed in the major indices: S&P/TSX Composite, S&P500, Russell 2000, and MSCI World Indices. There is no coverage in Emerging Markets. I’d recommend company coverage in the Emerging Markets space. This can expand their customer base in Emerging Market countries, especially in China where asset management growth remains high. Chinese consumers have a significant amount of their wealth in bank deposits which are paying very little interest. By offering financial data on Chinese companies in local currency and language, Catalyst can expand their business platform.

Second, ESG investing – Environmental, Social, and Governance – has gained much momentum during the pandemic as we have witnessed social unrest in the U.S. Many institutional firms, especially pension funds are incorporating ESG in their investment process and hiring outside money managers that also incorporate ESG. Catalyst should start providing ESG ratings on companies in its coverage.

Third, quant models and artificial intelligence is growing rapidly in the hedge fund space. Hedge funds are also facing margin compression. Instead of hiring a high-salary programmer, hedge funds can outsource it to Canalyst at a much cheaper rate. These quant models can reduce their internal costs and yet still have an edge in creating alpha. Catalyst should start customize factor models and also macro models using macro-economic factors and customize them for hedge fund managers.

\* Why do you think that offering this product or service would benefit the company?

This is SaaS business model. As Mr. Hot, the CEO says, “the cost to analyze a company or create a model is a ‘do-it-once-and-sell-many-times’ strategy.” The margins and potential revenue streams are very attractive.

\* What technologies would this additional product or service utilize?

For the quant models, I’d recommend Python.

\* Why are these technologies appropriate for your solution?

Python is widely used for quant models and quant traders (hedge funds). Python has the ability to process and analyze large datasets.

1. Globe & Mail, January 20, 2020, “Canalyst Financial Modelling Corp. raises $20-million in venture capital” [↑](#footnote-ref-1)