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Return on Investment

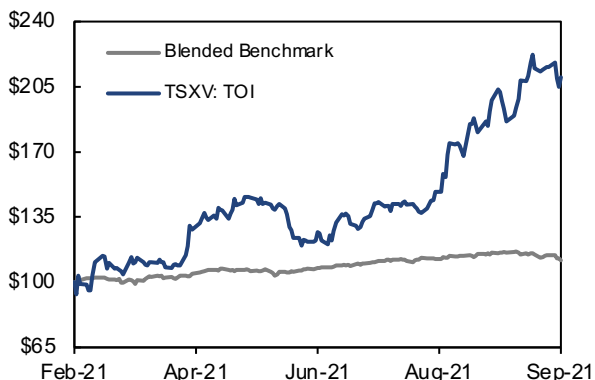
Current Share Price	\$132.99
Target Price	\$145.00
Dividend Yield	0.00%
Implied Return	9%
Conviction Rating	1

Market Profile

52-Week Range	\$57.00 - \$143.00
Market Capitalization (\$mm)	\$5,302
Net Debt (\$mm) (FX Adjusted)	\$89
Enterprise Value (\$mm)	\$9,882
Beta (Daily)	5.87

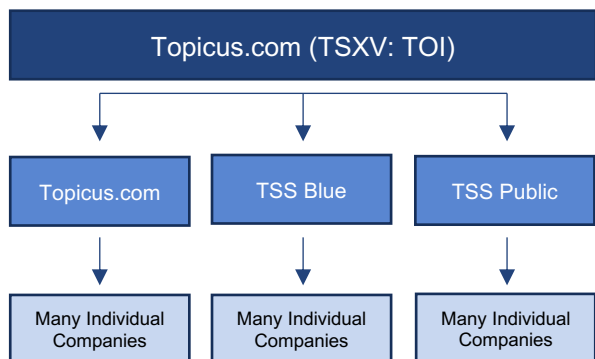
Metrics	2021E	2022E	2023E
Revenue (€mm)	€699	€924	€1,256
EBITDA (€mm)	€192	€261	€358
EV/EBITDA (FX Adjusted)	35.7x	26.3x	19.2x

Holding Period Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

Figure 1: Organizational Structure



Source: Company Filings

Topicus.com

Business Description

Topicus.com (TSXV: TOI) is a Dutch-based provider of vertical market software (VMS) that builds, acquires, and manages industry specific software businesses. The Company services clients in a select group of public and private sectors. TOI is a leading VMS provider in Europe, with over 100,000 customers across 14 European countries. The Company focuses on providing specialized, mission-critical, and high-impact software solutions that address client-specific needs. TOI is headquartered in Deventer, Netherlands, and has offices across Europe with ~5,000 employees.

CSU Spin-Off

In 2021, Constellation Software (TSX: CSU), a CPMT holding, spun-off its European operating group, Total Specific Solutions (TSS), and its recent acquisition of Topicus.com (Dutch-based VMS provider) as a separate publicly listed company. The combined entity is now called Topicus.com. As a result of the spin-off in December 2020, CSU shareholders of record received ~1.86 subordinate TOI voting shares as a dividend-in-kind. However, CSU holds a super voting share that controls 50.1% of TOI's aggregate voting shares. CSU's equity interest in TSS was ~67% prior to the spin-off, which has now fallen to ~30% in TOI after the spin-off.

Organizational Structure

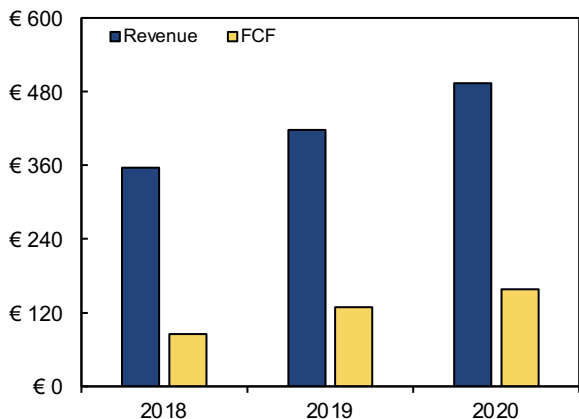
TOI oversees three operating groups, which includes the original VMS provider Topicus.com, TSS Blue, and TSS Public. TSS Blue oversees businesses that mainly serve customers in the private sector, while TSS Blue oversees businesses that mainly service customers in the public sector. Each of these three operating groups manages many individual businesses that have been acquired. Individual businesses have full autonomy regarding their own customer and product decisions. However, capital allocation decisions are deferred to their respective operating groups and TOI. This is a self-sustaining model whereby TOI and the operating groups redeploy the FCF that the individual businesses generate to fuel further acquisitions.

Mandate Fit

Quality Management: CEO Daan Dijkhuizen leads the combined entity (TOI), having been with Topicus since 2013. Prior to this, Dijkhuizen was a technology executive at the ING Group, which is a multinational banking and financial services corporation in the Netherlands. Han Knooren is the CEO of TSS Public. Knooren has decades of experience working in multinational private equity and start-up firms focused on VMS companies. Lastly, Ramon Zanders is the CEO of TSS Blue. Zanders has previously held software consulting positions within the Netherlands, Thailand, and the U.S.

Competitive Advantage: The Company provides mission-critical software that represents a small share of its customers' expenditures. This prevents customers from leaving during difficult economic conditions and reinforces a level of stability for the Company's recurring maintenance revenue. TOI's pricing power and low churn rate exemplifies this fact well (most of its customer relationships have lasted for over 20 years).

Figure 2: Revenue and FCF Growth (€mm)



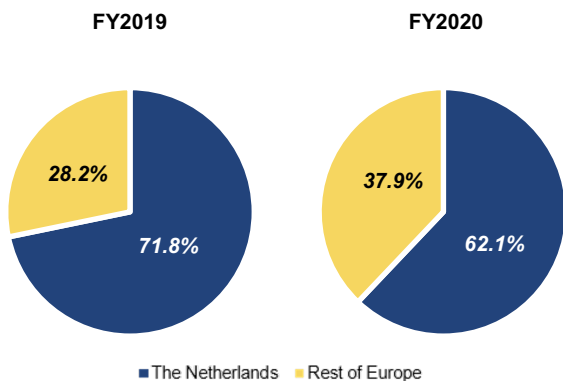
Source: Company Filings, CPMT Estimates

Figure 3: Geographic Exposure



Source: Company Filings

Figure 4: Revenue Breakdown by Region



Source: Company Filings

Additionally, TOI operates in a decentralized structure like CSU. Specifically, this is important for the Company’s M&A activities as it maintains its acquired business’ autonomy, resulting in better product development and higher customer loyalty. Powering this dynamic is TOI’s ability to reduce acquired businesses’ overhead costs, which provides its team with more time to create innovative solutions for its customers and become a leader in a given vertical.

Strong Balance Sheet: TOI has a strong balance sheet, with an interest coverage ratio of ~19x during the past six quarters (adjusted for one-time charges). Also, the Company has maintained its current and quick ratios at ~0.5x over the past three years and manages its capital with sufficient liquidity so that it can pursue its strategy of organic growth and strategic acquisitions. Moreover, most of the Company’s accounts receivable position is from public sector government agencies. The credit risk associated with such parties has been low historically and TOI typically requires up-front deposits from customers to protect against credit risks.

Growing Free Cash Flow: Throughout the past three years, TOI has grown its FCF at a 23% CAGR. The CPMT expects that the strong FCF growth will be used as a source of funds for the Company’s M&A strategy. In addition, TOI anticipates that it can grow the Company organically without additional funding; however, management is open to additional external funding should the size and timing of potentially large acquisitions require it.

European VMS Landscape

Since many European countries have different regulations and systems for a given industry, the European VMS market is quite fragmented. Therefore, as TOI acquires more businesses across the region, it would be able to improve the communication between its portfolio companies (that operate in different countries) such that those who share a vertical can share information with each other and improve their offerings. This is expected to enhance each businesses’ churn rate and market share, given that the portfolio companies in different countries likely do not share the same customers. Lastly, Europe’s private equity market is less active than its North American counterpart, supporting the narrative that TOI faces less competition for VMS acquisitions than CSU has.

Risks

A considerable rise in long-term interest rates can serve as a headwind for TOI’s high growth profile and expensive valuation (currently 26.3x 2022E EV/EBITDA as per CPMT estimates). Additionally, the Company generates most of its revenue from the Netherlands. Such a high concentration imposes idiosyncratic risks on its operations. However, it is important to note that TOI is focused on reducing this exposure by expanding across continental Europe more rapidly.

Investment Thesis and Valuation

The CPMT used a five-year DCF with a 7.9% WACC and a 2.5% terminal growth rate to derive a \$145 target price for TOI. This provides an implied return of 9.0%. Nonetheless, the CPMT believes that TOI represents an attractive investment opportunity with its robust top-line and future FCF growth, coupled with its ability to compound this capital through further acquisitions across Europe. Lastly, TOI’s strong operations and reputable status in the European VMS industry reinforce the Fund’s confidence in management’s ability to execute and grow.