RESEARCH REPORT

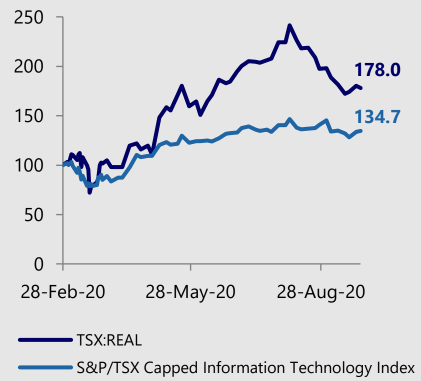
September 28, 2020

Stock Rating	HOLD
Price Target	CAD $33.02

Bear Case	Price Target	Bull Case
$11.22	$33.02	$57.62

Ticker	REAL
Market Cap (MM)	$2,056.3
EV/EBITDA (LTM)	23.2x
P/BV	8.0x

52 Week Performance



Real Matters Inc.

Getting Real

Real Matters (TSX: REAL) is a fast-growing Canadian technology company that provides appraisal and title and closing services to mortgage lending clients. The TMT team decided to assess this company given the team's goal to analyze smaller companies with less coverage to uncover hidden gems within the Canadian tech universe.

This report breaks down REAL's business and dives into how the company makes money, its differentiating factors, and the strength of its position within the industry. The team further explores the attractive industry dynamics and the merits and risks of potentially investing in REAL.

The TMT team believes REAL plays in a defensible, insulated, and mature industry with high barriers to entry. There are a number of risks facing REAL's business, given the highly cyclical nature of the industry and REAL's dependence on sale transactions to generate revenue. Although we like the industry and business, the valuation indicates that the risk/reward ratio is not opportune for entry at the moment.

The TMT team will place REAL on our watchlist and assess company developments closely.

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Company Analysis

Real Matters is a technology company that services certain niche markets of the real estate industry. They operate a network of professionals within appraisal, title, and insurance fields within real estate. They have tens of thousands of professionals who are ready to be hired.

This network of professionals is then made accessible through their software platforms so that lenders may access the professional and contract him to do work. Their customers are lenders, all the way from small single shop lenders to the largest banks in the Canada and US. The company makes money by taking a fee from the transaction. The TMT team finds that the company is an above average business that is run by a management team with a good track record. We believe the expansion strategy is also closely aligned with the investment philosophy at QUIC.

Segment Overview

The company operates a network of professionals within three niche markets: appraisals, title and closing, and insurance inspection. Below are descriptions of the services.

1. Appraisal

An appraisal is a service where some professional will come by and determine a fair price for your property. Real Matters offers multiple ways to appraise property and determine a market value. They offer on-site, desktop, model generated methods for appraisals, and also offer additional value-adds like flood determination services. This is offered through their Solidifi platform.

2. Title & closing

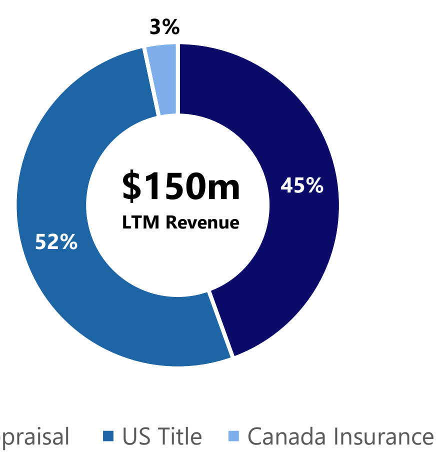
Title and closing services are performed as a result of a mortgage origination, very much like an appraisal. Real Matters entered the title & closing business in 2016. Now it is their fastest growing business and contributes to half the company's EBITDA. The titles and closing business generally deals with gathering and verifying documents related to the origination. Services performed include background activities such as verifying that the seller is the legal owner of the property, verifying the escrow transaction, making sure that are no unpaid debts, and that no other creditors have any claims. This is also done through the Solidifi platform.

3. Insurance inspections

The insurance business is similar to the appraisal in that a price estimate is provided, but not the value, rather the replacement cost. Essentially just determining the replacement cost of the property. The replacement cost is needed to determine the liability for the insurance company, so the lender may calculate an accurate premium.

EXHIBIT I

Revenue Breakdown (LTM)



Source(s): Company Filings

Company Analysis

The company services lenders in both Canada and the US. The majority of revenues are derived from the US. The company made $150m in net revenues LTM, about $145m from the US and $5m from Canada.

The company the real estate service business when the founder saw a need for more technology-powered solutions in these niche markets. Management is focused on the professional's network model, a solution unique to the industry due to the vast amount of data empowering the decisions of lenders. The company currently has a 12% market share in the U.S. appraisal segment, and a fast growing 1% market share in the U.S. Title & Closing segment.

All these services offered by Real Matters are performed by professionals, who join the network, but are not considered employees of the company. Real Matters manages this network of professionals on their cloud-based technology called Redihive. This technology collects and presents valuable data related to the professional's performance, which is useful for lenders. This network is provided to lenders through their B2B software platform called Solidifi.

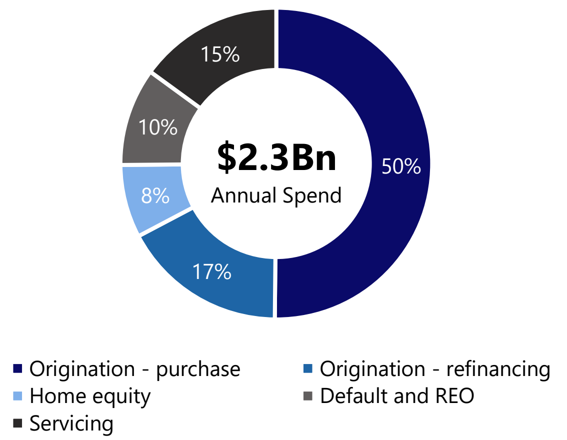
The company first began operating exclusively in the appraisal business. As new areas of disruption are found, the company can leverage Redihive to onboard a new set of professionals within their own niche fields.

In recent years, management identified a huge potential within the Titles & Closing market. The company acquired Solidifi in 2016 and leveraged the Redihive platform to essentially sell the same professional network service, only with different types of agents.

The U.S. Title and Closing business is Real Matters' fastest growing and most profitable segment. Since Solidifi was acquired, management has been highly focused on winning new customers and growing wallet share in this segment. We believe that management has identified a strong opportunity in the Titles & Closing market and has identified a sales strategy to win customers that has been working exceptionally well.

EXHIBIT II

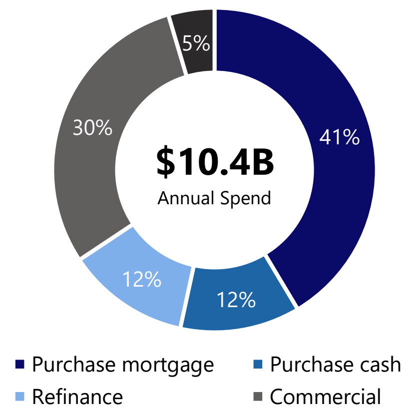
U.S. Appraisal Market Annual Spend



Source(s): Company Filings

EXHIBIT III

U.S. Titles & Closing Market Annual Spend



Source(s): Company Filings

Company Analysis

Takeaways

The TMT team finds that Real Matters is an above average quality business. There are several things we do like about the platform, and there are equally several things about the nature of the business that makes it vulnerable.

We like the managements focus on building and managing the expert network which is developing economic moats. We believe in their long-term strategy of growing market share through new customer wins, and then wallet share gains. While we do think that the business is hampered by the nonrecurring revenues and heavy ties to real estate activity, we still think there is value to be created for shareholders through market share gains.

Here are some investment highlights below:

1. Scalable Business Model

The company possess a scalable business model. As revenue grows, the operating costs remain relatively fixed. This translates to EBITDA growing at a faster rate than revenue.

2. Well Capitalized Balance Sheet

Management operates a very well capitalized ship. The company holds $100m in cash and has no debt. Management is currently using this to build reputation to win Tier 1 banks, as they look for vendors that are reputable, licensed, well capitalized, and have national coverage. Management has said that they plan on distributing cash to shareholders in the future through buybacks. In addition, all FCF forecasts in the future will be directly building the equity value of the company.

3. Network Effect Being Built

The company is also building a powerful network effect. The network of professionals that they manage also comes with another large value-add, tons of data on each appraiser, ranking their performance through a scorecard. As the company continues to grow the network and data as a result, this will continue to create compelling reasons for lenders to choose REAL.

4. Strong Tailwinds in the Short-term

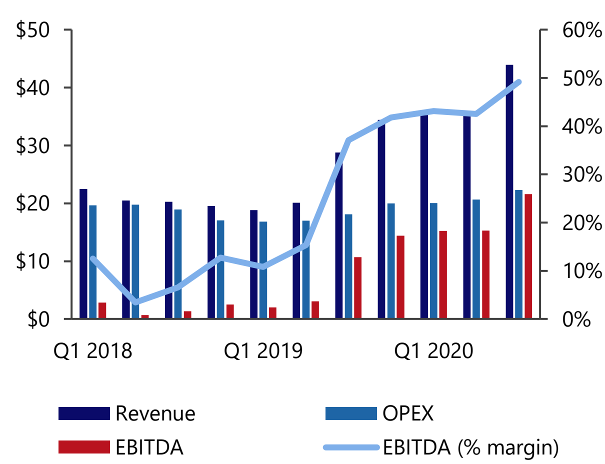
There are several strong tailwinds ahead. Refinancing volumes have surged and backlogged. Mortgage rates still have room to go down. US long term average spread over the 10 year is 1.7%, and since the 10year is at 0.66%, mortgage rates may still keep falling. The same holds true in Canada.

5. Strong Runway for Growth in Titles & Closing

Additionally, the US title business is REAL's fastest growing segment and generates half the company's EBITDA. This segment is managements main focus right now, and they have significant market share left to grab. They currently have a 2% share out of a $10bn annual spend in titles and closing.

EXHIBIT IV

Scalable Business Model



Source(s): Capital IQ

Industry Analysis

Industry Overview

The mortgage origination industry is heavily regulated with high barriers to entry. In the early 2000s, mortgage lenders focused on finding the lowest-cost appraisers, leading to poor quality property appraisals, which subsequently led to regulatory and lender challenges. Since then, as accelerated by the financial crisis, there has been a focus on high quality appraisal and additional mortgage underwriting services to ensure a smooth underwriting process. Banks have shifted from internal valuation operations to third party service providers such as REAL, and we expect this to stay consistent moving forward.

Mortgage lenders require appraisal and title and closing services for purchase mortgages, refinancing, home equity, and default and REO transactions. The lenders allocate their volumes to service providers like REAL based on previous performance.

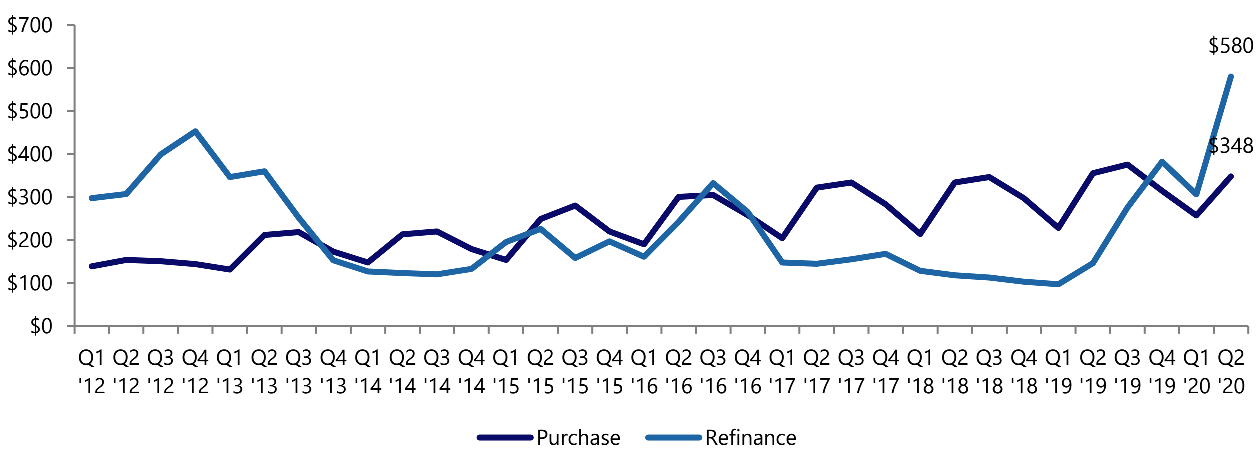
Although REAL is present in both the U.S. and Canadian markets, the company is primarily focusing on expanding its market share in the U.S. and maintaining its position in Canada. REAL competes within a Total Addressable Market (TAM) of roughly $13 billion, with the U.S. appraisal market (Exhibit II) and U.S. Title and Closing Market (Exhibit III) valued at $2.3 billion and $10.4 billion, respectively.

Appraisers in the U.S.

There are 78,015 active appraisers in the U.S., declining roughly 2.2% every year. In 2019, 70.4% of appraisers have worked in the industry for over 15 years. 40.7% of appraisers work for an appraisal services firm such as REAL, with the rest working in government, financial institutions, or real estate services/brokerage firms.

EXHIBIT V

U.S. Mortgage Originations for Family Properties, by type ($B)



Source(s): Mortgage Bankers Association

Industry Analysis

Key Industry Drivers

Homes sold

Every time a home is purchased with a mortgage, an underwriting process occurs, where both appraisal and title and closing services are required. Total home sales in the U.S. have remained relatively flat over the past 5 years at roughly 6 million homes sold, with a sharp decline in H1 2020 due to COVID-19 (trough of 4 million, a roughly 34% decline). This was followed by a swift recovery, with August 2020 hitting a 14-year high of existing homes sold (Exhibit VI shows estimates at July 2020). With the shift to remote work, homeowners may be looking to upgrade or move to a more suitable location.

Refinancing

After the Fed's interest rate cut to zero and the announcement of its quantitative easing program for COVID-19, mortgage interest rates have also dropped favorably for homeowners (Exhibit VII), leading to an influx of refinancing mortgage originations.

Defaults

Defaults and REO appraisal transactions account for roughly 10% of the U.S. Appraisal Market (and nearly 0% of the U.S. Title and Closing market). Although short term mortgage delinquency rates have skyrocketed to over 10% by June 2020, the TMT team believes this may increase market volumes in the short term but should not have a material medium to long term affect.

Synthesis

The industry appears to be positively impacted in the short term by COVID-19, leading to an increase in home sales and mortgage refinancing (Exhibit V). Although a positive impact, the team remains cognizant that this industry is not insulated from cyclical trends affecting the economy.

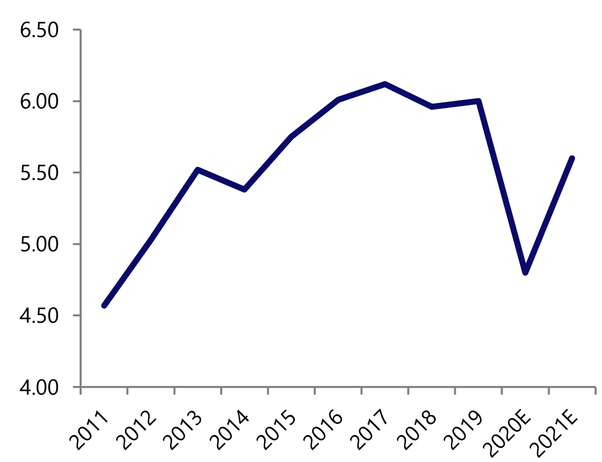
Key Competitors

For the U.S. Appraisal business, REAL's primary competitors are Corelogic, ServiceLINK (of Fidelity National Financial), and Clear Capital. REAL has a strong presence and is quickly gaining share in the U.S. market, a result of organic growth and acquisitions. For the U.S. Title and Closing business, REAL's primary competitors are Fidelity National Title, First American Title Insurance Company, Stewart Title Guaranty Company, and Old Republic National Title Insurance Company.

While REAL may have better technology and provide a larger breadth of offerings than some of its competitors, sticky customers will prevent REAL from aggressively growing organically. Certain competitors within the Title and Closing space are 5 – 10x larger than REAL in size (volume).

EXHIBIT VI

Total Home Sales in the U.S. ($M)



Source(s): Freddie Mac, July 2020

Industry Analysis

Industry Characteristics

Customer Captivity

Incumbents such as REAL enjoy strong customer captivity due to the relationship-driven aspect of the business and client's reliance on existing relationships. As a mortgage lender, switching appraisal/title providers is incredibly risky, especially if it is a provider the lender has never worked with before. Poor appraisals lead to a lengthy and costly remediation process, so the easiest and safest path forward is to stick to what is already working for the lender. Larger mortgage providers tend to rely on large, well-established appraisal and title service providers with little movement between providers.

Network Effect

Appraisal services such as REAL manage an extensive network of "Field Professionals" (i.e. individual, certified appraisers). The more Field Professionals that join a network such as REAL's, the more optionality and competitive pricing provided to lenders browsing appraisal and title services. Likewise, a stronger network means more customers for REAL, and in turn, providers a more attractive value proposition to individual appraisers to work with REAL.

High Barriers to Entry

The industry is also heavily regulated through multiple levels of regulatory oversight: appraising businesses (and the individual appraisers) must meet strict regulations from Federal banking regulators and state appraisal boards.

Volume-centric Growth Focus

High levels of competition between appraisal and service providers as well as between individual appraisal agents place downwards pressure on price. Pricing power is weak; incumbents focus on expanding volume market share through acquisition of new clients and cross-selling to existing clients.

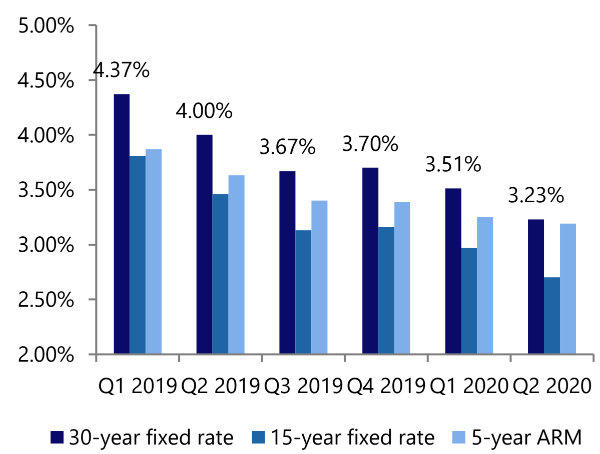
Conclusion

The U.S. residential appraisals and title and closing industry is a lucrative, highly insulated industry that is defensible with high barriers to entry. This due to extremely sticky customers with high switching costs and strict regulation. The TMT team believes the industry itself is highly insulated, and REAL is likely to retain and grow its market share.

Competitors compete on expanding market share through volume, and macro conditions have led to a favorable market in the short to medium term. The TMT team is confident in the industry but believes it will be an uphill battle for REAL to actively grow volume market share in the Title and Closing segment, although the company's historical performance is very encouraging.

EXHIBIT VII

U.S. Mortgage Interest Rates



Source(s): US Department of Housing & Urban Development

Historical Financial Analysis

Real Matters' principle focus has been on expanding market share within each of its three niche segments. As volumes on its various platforms increase, more consumers are partnered with field professionals via a proprietary network, making processes increasingly efficient and strengthening the firm's reputation.

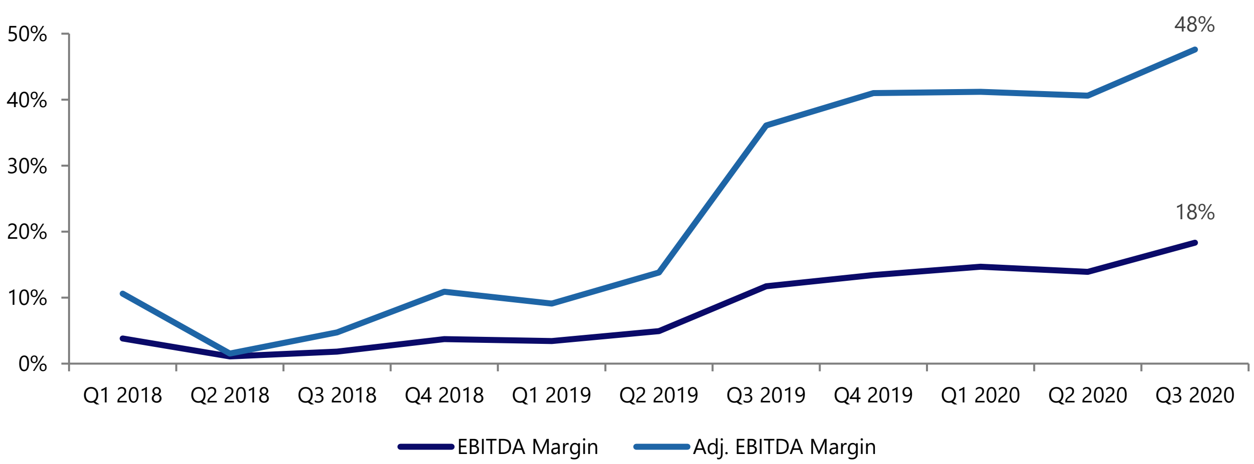
Real Matters has experienced consistent net revenue margin expansion due to its growing shares, specifically within the lucrative U.S. titles & appraisals market. Currently, the firm holds a 1.2% share of the $16.4B market and is targeting 3% over the next 5 years. The TMT team used a conservative baseline market share of 2% to project future revenue growth considering little guidance is provided on the market share expansion strategy. With a reasonably mature market and a concentrated consumer base, Real Matters will have to either siphon customers from its competitors or engage in inorganic growth to remain competitive.

Much of the bottom-line growth is attributed to Real Matters' increasing scalability and low-cost structure. Profitability is driven through incremental volumes, which is why operating margin improvements are aligned with EBITDA margin growth. As Real Matters continues to expand its market share within the U.S. titles segment, and diverges away from the contracting Canadian markets, the TMT team expects margins to grow incrementally as volumes increase.

The difference between historical EBITDA and Adjusted EBITDA is substantial, as displayed in Exhibit VIII. Management targeted 30% Adjusted EBITDA margins for the end of FY2019, implying +400.2% YoY growth. Contrastingly, the actuals paint a rather conservative picture. While EBITDA growth is on an upward trajectory, the discrepancy between the two figures is alarming. The TMT team opted to stick to the lower bound, the actual margins, considering the lack of visibility on what these adjustments are.

Exhibit VIII

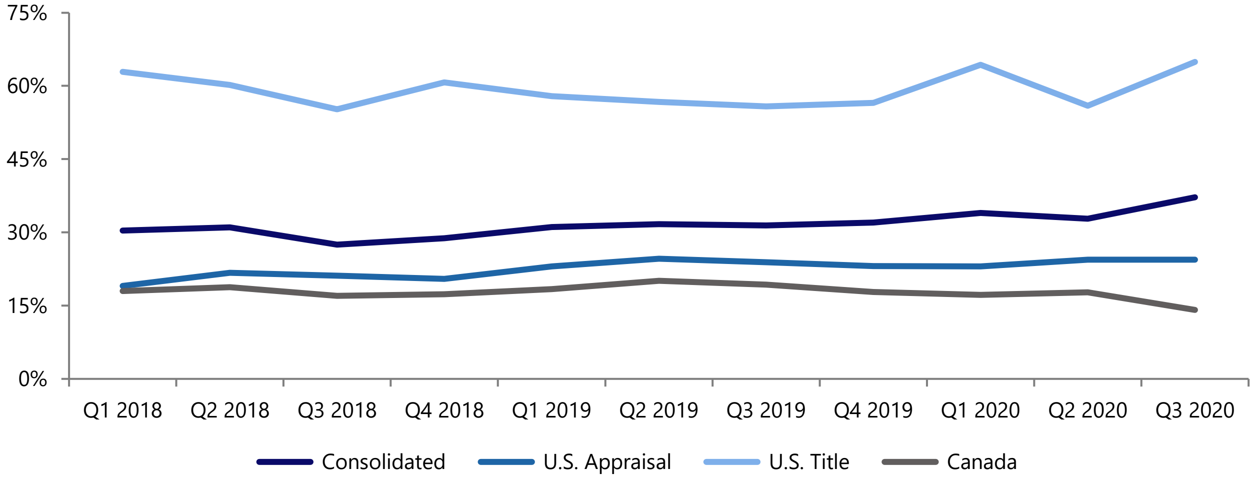
Historical 3Y EBITDA Versus Adjusted EBITDA Margin Growth



Source(s): Company Filings

Exhibit IX

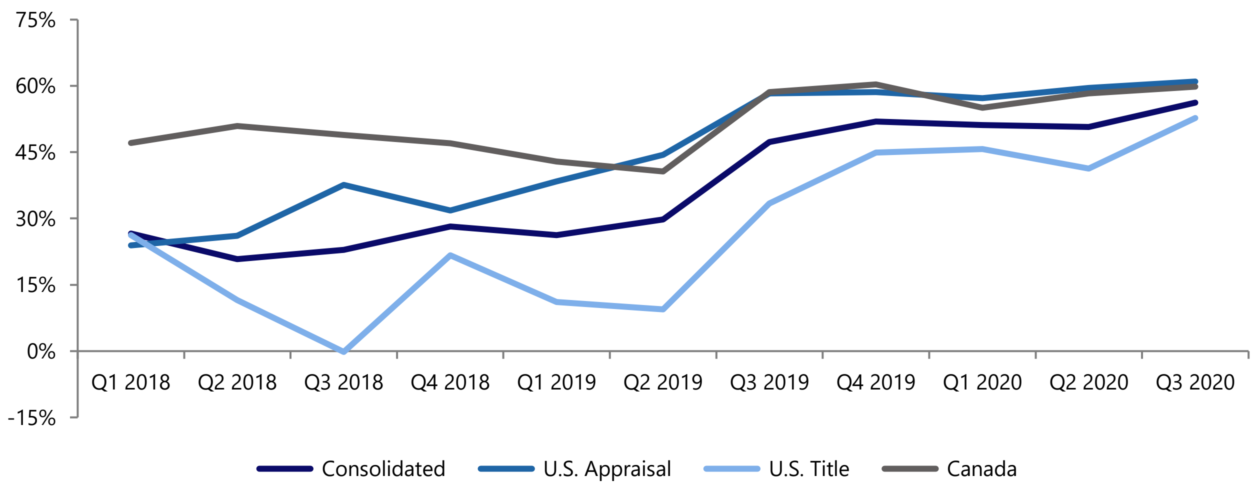
Historical 3Y Net Revenue Growth



Source(s): Company Filings

Exhibit X

Historical 3Y Operating Margin Growth



Source(s): Company Filings

Valuation

The TMT team values Real Matters on a DCF and IRR basis due to the business' volumes-driven nature. Real Matters has built a sustainable moat in an insulated industry; however, a large part of future shareholder value is contingent on expectations of extraordinary growth. This valuation sought to compare the risks and rewards of investing in Real Matters across a base, bear, and bull case.

The base case assumes a baseline revenue growth rate of 11.6%, derived from a combination of analyst estimates assuming an average 2% share of the U.S. titles market and a 17.5% share of the U.S. appraisals market. The bear case uses a haircut of these figures, while the bull case assumes a greater portion of market share can be achieved in the long-run due to the multiplicative effects of increasing scale.

The base case projects gross margin and EBITDA margin growth rates to be in line with the LTM average, with incremental increases resulting from volume growth. Bear case margins are more in line with slower revenue growth, while the bull case margins are a closer reflection of adjusted EBITDA margin growth.

Our valuation arrives at a base discount to intrinsic value of 27%, with a bear case discount of -116%, using an 8% discount rate and a 2% terminal growth rate. The IRR model indicates a 12.1% return over a 5-year holding period, assuming a 15.0x terminal multiple. The exit multiples are based on lower double-digit growth in volumes. Real Matters' offers a healthy upside with relatively conservative growth rates; however, a wholly plausible bear case indicates a loss in the triple digits. The TMT team is not comfortable with where this investment sits on the risk to reward scale.

Present Value Summary - Sep 25, 2020	DCF Base Case	DCF Bear Case	DCF Bull Case
REAL Share Price @ Sep 25, 2020	$ 24.19	$ 24.19	$ 24.19
Present Value Output	$ 33.02	$ 11.22	$ 57.62
Discount to Intrinsic Value	**27%**	**-116%**	**58%**

Key Assumptions	
Tax Rate	20.0%
Discount Rate	8.0%
Terminal Growth Rate	2.0%

Future Growth Summary - Sep 21, 2020	5Y IRR	10Y IRR
REAL Share Price @ Sep 25, 2020	$ 24.19	$ 24.19
Implied Equity Value per Share (Dec 2025 / Dec 2029)	$ 39.32	$ 59.33
Implied Rate of Return	**12.1%**	**10.2%**

Key Assumptions	
Tax Rate	20.0%
Terminal PE Multiple	15.0x
Terminal Shares Outstanding	85m

REAL IRR Summary [Base Case]													
(Figures in $US millions)	Historical Period			Projection Period									
	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Revenue	**303**	**282**	**323**	**456**	**570**	**636**	**709**	**792**	**883**	**986**	**1,100**	**1,228**	**1,370**
YoY Revenue Growth	*21.9%*	*-7.1%*	*14.6%*	*41.4%*	*25.0%*	*11.5%*	*11.6%*	*11.6%*	*11.6%*	*11.6%*	*11.6%*	*11.6%*	*11.6%*
Cost of Goods Sold	211	199	220	296	368	407	450	499	552	611	677	749	829
Gross Profit	92	83	102	160	202	229	259	293	331	375	424	479	541
Gross Margin	*30.5%*	*29.4%*	31.7%	*35.0%*	*35.5%*	*36.0%*	*36.5%*	*37.0%*	*37.5%*	*38.0%*	*38.5%*	*39.0%*	*39.5%*
SG&A Expenses	81	75	72	96	120	133	145	158	172	187	204	221	240
EBITDA	**11**	**7**	30	**64**	**83**	**95**	**113**	**135**	**159**	**187**	**220**	**258**	**301**
EBITDA Margin	*4%*	*3%*	9%	*14.0%*	*14.5%*	*15.0%*	*16.0%*	*17.0%*	*18.0%*	*19.0%*	*20.0%*	*21.0%*	*22.0%*
Depreciation & Amortization	26	23	13	9	11	13	14	16	18	20	22	25	27
EBIT	**-15**	**-16**	**17**	**55**	**71**	**83**	**99**	**119**	**141**	**168**	**198**	**233**	**274**
EBIT Margin	*-5.0%*	*-5.5%*	*5.3%*	*12.0%*	*12.5%*	*13.0%*	*14.0%*	*15.0%*	*16.0%*	*17.0%*	*18.0%*	*19.0%*	*20.0%*
Interest & Other	16.8	-12.3	2.7	3.1	3.8	4.3	4.8	5.3	5.9	6.6	7.4	8.2	9.2
% of Sales	*5.54%*	*-4.37%*	*0.84%*	*0.67%*	*0.67%*	*0.67%*	*0.67%*	*0.67%*	*0.67%*	*0.67%*	*0.67%*	*0.67%*	*0.67%*
Taxes	2	3	1	10	13	16	19	23	27	32	38	45	53
Tax Rate	-6%	-88%	7%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Net Income	-34	-6	13	41	54	63	76	91	108	129	153	180	212
Diluted Shares Outstanding	113	124	133	85	81	77	73	69	66	62	59	56	54
Earnings Per Share	$ (0.30)	$ (0.05)	$ 0.10	$ 0.49	$ 0.67	$ 0.82	$ 1.04	$ 1.31	$ 1.65	$ 2.06	$ 2.57	$ 3.19	$ 3.96
P/E Multiple								30.0x					15.0x
Implied Share Price								**$ 39.32**					**$ 59.33**

EXHIBIT XI

REAL DCF Summary [Base Case]													
(Figures in $US millions)		**Historical Period**						Projection Period					
	FY2017	**FY2018**	**FY2019**	**FY2020E**	**FY2021E**	**FY2022E**	**FY2023E**	**FY2024E**	**FY2025E**	**FY2026E**	**FY2027E**	**FY2028E**	**FY2029E**
Revenue	**303**	**282**	**323**	**456**	**570**	**636**	**709**	**792**	**883**	**986**	**1,100**	**1,228**	**1,370**
YoY Revenue Growth	*21.9%*	*-7.1%*	*14.6%*	*41.4%*	*25.0%*	*11.5%*	*11.6%*	*11.6%*	*11.6%*	*11.6%*	*11.6%*	*11.6%*	*11.6%*
Cost of Goods Sold	211	199	220	296	368	407	450	499	552	611	677	749	829
Gross Profit	92	83	102	160	202	229	259	293	331	375	424	479	541
Gross Margin	*30.5%*	*29.4%*	*31.7%*	*35.0%*	*35.5%*	*36.0%*	*36.5%*	*37.0%*	*37.5%*	*38.0%*	*38.5%*	*39.0%*	*39.5%*
SG&A Expenses	81	75	72	96	120	133	145	158	172	187	204	221	240
EBITDA	**11**	**7**	**30**	**64**	**83**	**95**	**113**	**135**	**159**	**187**	**220**	**258**	**301**
EBITDA Margin	*4%*	*3%*	*9%*	*14.0%*	*14.5%*	*15.0%*	*16.0%*	*17.0%*	*18.0%*	*19.0%*	*20.0%*	*21.0%*	*22.0%*
Depreciation & Amortization	26	23	13	9	11	13	14	16	18	20	22	25	27
EBIT	**-15**	**-16**	**17**	**55**	**71**	**83**	**99**	**119**	**141**	**168**	**198**	**233**	**274**
EBIT Margin	*-5.0%*	*-5.5%*	*5.3%*	*12.0%*	*12.5%*	*13.0%*	*14.0%*	*15.0%*	*16.0%*	*17.0%*	*18.0%*	*19.0%*	*20.0%*
Interest & Other	16.8	-12.3	2.7	3.1	3.8	4.3	4.8	5.3	5.9	6.6	7.4	8.2	9.2
% of Sales	*5.54%*	*-4.37%*	*0.84%*	*0.67%*	*0.67%*	*0.67%*	*0.67%*	*0.67%*	*0.67%*	*0.67%*	*0.67%*	*0.67%*	*0.67%*
Taxes	2	3	1	10	13	16	19	23	27	32	38	45	53
Tax Rate	-6%	-88%	7%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
NOPAT	-17	-19	16	44	58	67	80	96	114	135	160	188	221
Plus: D&A	26	23	13	9	11	13	14	16	18	20	22	25	27
Less: Changes to NWC	-8	-12	3	3	4	5	5	6	7	7	8	9	10
Less: Capital Expenditures	2	2	0	7	11	13	14	16	13	15	17	18	21
Unlevered Free Cash Flow	**16**	**14**	**26**	**43**	**53**	**62**	**75**	**90**	**112**	**133**	**157**	**185**	**218**
Discount Period				0.25	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25
Present Value Factor				0.98	0.91	0.84	0.78	0.72	0.67	0.62	0.57	0.53	0.49
PV of UFCF				**42**	**49**	**52**	**58**	**65**	**75**	**82**	**90**	**98**	**107**

EXHIBIT XII

REAL DCF Summary [Base Case]													
(Figures in $US millions)		**Historical Period**						Projection Period					
	FY2017	**FY2018**	**FY2019**	**FY2020E**	**FY2021E**	**FY2022E**	**FY2023E**	**FY2024E**	**FY2025E**	**FY2026E**	**FY2027E**	**FY2028E**	**FY2029E**
Revenue	**303**	**282**	**323**	**419**	**470**	**502**	**538**	**575**	**615**	**659**	**705**	**754**	**807**
YoY Revenue Growth	*21.9%*	*-7.1%*	*14.6%*	*30.0%*	*12.0%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*
Cost of Goods Sold	211	199	220	285	317	337	358	380	406	435	465	498	532
Gross Profit	92	83	102	134	153	166	180	196	209	224	240	256	274
Gross Margin	*30.5%*	*29.4%*	*31.7%*	*32.0%*	*32.5%*	*33.0%*	*33.5%*	*34.0%*	*34.0%*	*34.0%*	*34.0%*	*34.0%*	*34.0%*
SG&A Expenses	81	75	72	88	99	106	110	118	123	132	141	151	161
EBITDA	**11**	**7**	**30**	**46**	**54**	**60**	**70**	**78**	**86**	**92**	**99**	**106**	**113**
EBITDA Margin	*4%*	*3%*	*9%*	*11.0%*	*11.5%*	*12.0%*	*13.0%*	*13.5%*	*14.0%*	*14.0%*	*14.0%*	*14.0%*	*14.0%*
Depreciation & Amortization	26	23	13	8	9	10	11	12	12	13	14	15	16
EBIT	**-15**	**-16**	**17**	**38**	**45**	**50**	**59**	**66**	**74**	**79**	**85**	**90**	**97**
EBIT Margin	*-5.0%*	*-5.5%*	*5.3%*	*9.0%*	*9.5%*	*10.0%*	*11.0%*	*11.5%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*
Taxes	2	3	1	7	8	9	11	12	14	15	16	17	18
Tax Rate	-6%	-88%	7%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
NOPAT	-17	-19	16	31	36	41	48	54	60	64	69	73	79
Plus: D&A	26	23	13	8	9	10	11	12	12	13	14	15	16
Less: Changes to NWC	-8	-12	3	4	5	5	5	6	6	7	7	8	8
Less: Capital Expenditures	2	2	0	6	9	10	11	12	9	10	11	11	12
Unlevered Free Cash Flow	**16**	**14**	**26**	**29**	**32**	**36**	**43**	**48**	**57**	**61**	**65**	**70**	**75**
Discount Period				0.25	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25
Present Value Factor				0.98	0.91	0.84	0.78	0.72	0.67	0.62	0.57	0.53	0.49
PV of UFCF				**28**	**29**	**30**	**33**	**35**	**38**	**38**	**37**	**37**	**37**

EXHIBIT XIII

REAL DCF Summary [Base Case]													
(Figures in $US millions)		Historical Period						Projection Period					
	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Revenue	**303**	**282**	**323**	**468**	**608**	**699**	**804**	**925**	**1,063**	**1,223**	**1,406**	**1,617**	**1,860**
YoY Revenue Growth	*21.9%*	*-7.1%*	*14.6%*	*45.0%*	*30.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
Cost of Goods Sold	211	199	220	281	362	412	470	536	611	697	794	906	1,032
Gross Profit	92	83	102	187	246	287	334	388	452	526	612	712	828
Gross Margin	*30.5%*	*29.4%*	*31.7%*	*40.0%*	*40.5%*	*41.0%*	*41.5%*	*42.0%*	*42.5%*	*43.0%*	*43.5%*	*44.0%*	*44.5%*
SG&A Expenses	81	75	72	98	128	143	161	180	202	226	253	283	316
EBITDA	**11**	**7**	**30**	**89**	**119**	**143**	**173**	**208**	**250**	**300**	**359**	**429**	**511**
EBITDA Margin	*4%*	*3%*	*9%*	*19.0%*	*19.5%*	*20.5%*	*21.5%*	*22.5%*	*23.5%*	*24.5%*	*25.5%*	*26.5%*	*27.5%*
Depreciation & Amortization	26	23	13	9	12	14	16	18	21	24	28	32	37
EBIT	**-15**	**-16**	**17**	**79**	**106**	**129**	**157**	**190**	**229**	**275**	**330**	**396**	**474**
EBIT Margin	*-5.0%*	*-5.5%*	*5.3%*	*17.0%*	*17.5%*	*18.5%*	*19.5%*	*20.5%*	*21.5%*	*22.5%*	*23.5%*	*24.5%*	*25.5%*
Taxes	2	3	1	15	20	25	30	37	44	53	64	77	92
Tax Rate	-6%	-88%	7%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
NOPAT	-17	-19	16	64	86	104	126	153	184	222	266	319	382
Plus: D&A	26	23	13	9	12	14	16	18	21	24	28	32	37
Less: Changes to NWC	-8	-12	3	4	5	5	6	7	8	9	11	12	14
Less: Capital Expenditures	2	2	0	7	12	14	16	18	16	18	21	24	28
Unlevered Free Cash Flow	**16**	**14**	**26**	**63**	**81**	**99**	**120**	**146**	**182**	**219**	**263**	**315**	**377**
Discount Period				0.25	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25
Present Value Factor				0.98	0.91	0.84	0.78	0.72	0.67	0.62	0.57	0.53	0.49
PV of UFCF				**62**	**74**	**83**	**94**	**105**	**121**	**135**	**150**	**167**	**185**

EXHIBIT XIV

WACC Calculation

Assumptions & Output	
WACC	8.00%
Terminal EBITDA Multiple	12.5x
Terminal Growth Rate	2.0%
Multiples Method Weighting	25.0%
Terminal Growth Weighting	75.0%
Terminal Value	$3,717
PV Terminal Value	$2,680
Sum of PV of Cash Flow	$267
Enterprise Value	$2,947
Implied Equity Value	$2,806
FDSO (in millions)	85.0
Implied Share Price	**$33.02**
Current Share Price	$24.19
Discount to Intrinsic Value	**26.73%**

Catalysts

Refi backlog a volume tailwind

Real Matters pointed to Black Knight data forecasting 17-20M backlog of US households with an incentive to refinance their mortgage at current rates. Based on US lender capacity of 2-3M originations per quarter, Real Matters can see a potential 2-3 year backlog. In the event that the 30-year mortgage spreads tighten or the US 10-year drops further, there is potential for the backlog to grow further

Current macro remains supportive

The Mortgage Bankers Association September survey noted a 6% increase in mortgage loan volume on an adjusted basis. The report highlighted momentum in purchase activity, up 1% WoW and 22% YoY. Application strength continues to be driven by refi volumes which the MBA reported is up 9% WoW and 47% YoY. These trends suggest backlogged lenders are dealing with heightened level of demand

Potential Data Opportunity

Real Matters continues to eye a suitable go-to-market opportunity for a data play, likely gated by an acquisition to bolt-on capability. Data offers an ability to have a revenue stream not exposed to seasonality nor cyclicality in the underlying mortgage market. We expect REAL to unveil more details in the Winter Investor Day.

EXHIBIT XV

Merits	Risks
Defensive Industry Protected By Regulation- REAL's business model in the value chain cannot be disintermediated as a result of regulatory protection. In addition to its client-relationship intermediary nature the industry possesses high barriers to entry	**Highly Cyclical Business Model-** REAL Matters revenue drivers are tied entirely to the U.S. housing market. As such, there is no downside protection on the company's revenues to fluctuations within a seasonal & cyclical market.
Asset-Light Business Model- The company has few maintenance obligations, permitting for a well-capitalized balance sheet and high cash flow generation permitting for bolt-on acquisitions	**Small Scale Infrastructure for Large Scale Clients**- Relative to other players, REAL can be at a scale disadvantage in regards to meeting infrastructure needs with Tier 1 lenders
Clear Value Proposition in the Customer Value Chain- REAL offers a convenient marketplace for customers to find appraisers, which is an essential step in refinancing a mortgage. This ease of access to a vast network is one that is valued within consumer behaviour.	**Sticky Customers Base Does Not Transition to Pricing Power-** Despite being a mission critical element in the value chain with high barriers to entry, REAL does not appear to possess pricing power over its clients and is solely dependent on volume transactional growth.
Short Term Positive Macro Trends- As interest rates are reaching an all-time low, there is robust research supporting the mortgage refinancing market that will result in large gains in volumes for FY2020	**Only Clear Runway Appears to be Through Acquisition-** There is little discourse provided on how REAL actually wins clients or market share, mostly only citing new acquisition revenue growth.

Source(s): Black Knight, Mortgage Bankers Association

Recommendation: Watchlist

Our recommendation is to watchlist the company for now. Despite attractive industry dynamics and a clear customer value proposition, it is still unclear how whether this translates into bargaining power with clients or new client wins.

In the case of REAL, there are very clear downside risks. Primarily, 100% of REAL's sales volumes are dependent on transactions occurring within the industry. A bet on REAL is resulting in a bet on the refinancing market in the U.S.

In the short term, this may result in being a favourable play. However the team does not believe it yields a fundamental value proposition to consistently win clients over the long term while additionally exposing the team to significant downside risks. In running our base case analysis which already utilizes analyst projections, upside appears limited. In further assessing our bear case analysis, the team has concluded this scenario is one that appears likely and from a risk/reward perspective is not one we are willing to enter for the time being.

Ultimately, REAL is a revenue-driven business, meaning in order for the TMT team to fully have conviction of the name, we would have to believe REAL can grow at mid-double digit growth for the next ten years in an industry that already appears mature.

Source(s): Black Knight, Mortgage Bankers Association

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