

## Reis, Inc. (REIS: NASDAQ)

Financial Analysis By: Mark Papuzza – Information Technology

### Company Profile as of 2/18/2015

Market Price: \$23.23

Industry: Internet Software and Services

Market Cap: \$276.06M

52-Week: \$16.36-28.82

Beta: 1.1

<u>Source</u>	<u>Target Price</u>	<u>Recommendation</u>
Siena	\$ 28.00	Buy
Capital IQ	\$ 30.00	Buy
Yahoo Finance	\$ 30.00	Buy
Bloomberg	\$ 30.00	Buy



### Thesis

- Unique Proprietary Databases
- Subscription Business Model
- Financials: Increasing revenue, increasing EBITDA margins, no debt
- Significant Growth Opportunities

I am recommending a buy on Reis, Inc. because I am confident that these theses will contribute to the growth of the stock to the target price of \$28.00. In a real estate market that is growing in size and complexity, Reis offers a carefully constructed and maintained database that provides real estate professionals with up to date and accurate information and analytical tools. Their subscription based business model allows them to maintain their customer base and work with them to improve their services,

in turn bringing more subscribers in. Along with their growing revenue margin, EBITDA margin, and potential growth opportunities, the stock price should grow to the target price of \$28.00.

## **Company Overview**

Reis, Inc., through its subsidiary, Reis Services, provides commercial real estate market information and analytical tools to real estate professionals in the United States. It maintains an exclusive database which provides information on commercial properties, such as apartment, office, retail, warehouse/distribution, flex/research and development, self-storage, and seniors housing properties in the metropolitan markets and neighborhoods. Real estate investors, lenders, and other professionals utilize the data from the database to make the best buying, selling, and financing decisions possible. The company's products provide online access to their database of commercial real estate information and analytical tools designed to facilitate debt and equity transactions, and ongoing asset and portfolio evaluations.

## **Management**

Reis, Inc. is led by their CEO Lloyd Lynford. He has been in charge since the company's creation over thirty years ago, proving his dedication and commitment to it. Reis co-founder and Executive Vice President Jonathon Garfield has also been with the company since it began. Their experience in the real estate market can be viewed as a huge plus to the value of this company. Rounding out management is Vice President/Chief Financial Officer Mark Cantaluppi, a Villanova graduate and certified public accountant. Besides their long term experience with Reis, perhaps the most notable aspect of the management team is their investment in the company. Management owns 22.41% of the company's stock. They care greatly about the movement of the stock, because it directly effects their own financial situations. Shareholders should feel confident in this stock because of the confidence and trust the management team has in it.

## **Unique Proprietary Databases**

Reis, Inc. maintains three highly developed databases that provide information on property performance, new construction and sales comparables. On a daily basis, Reis surveys and receives data from building owners, leasing agents and managers. The databases are unique due to several key characteristics, such as breadth, geography, depth, history, and frequency. As for breadth, the database covers six property types which include apartments, office, retail, warehouse, research and development and self-storage properties. As for geography, the database covers up to 275 of the largest U.S. metropolitan commercial real estate markets, and over 6,800 isolated market areas with submarket boundaries proprietary to Reis. As for depth, it provides real estate professionals with accurate and up to date information that is essential for their work. This information includes, but is not limited to, occupancies, rents, rent discounts, tenant improvement allowances, lease terms, expenses, buyer, seller, purchase price, capitalization rate, financing details, etc. As for history, the databases contain data from up to 34 years through numerous cycles of economic/market peaks and troughs. As for frequency, the databases provide information in a timely manner. The market reports are available monthly or quarterly, while sales comparables and new, critical information is updated daily. Reis is continually working to expand these databases, specifically by adding more coverage of new areas. Having strong relationships with thousands of data sources, combined with their solid reputation in the industry, the database should continue to improve and fit the needs of real estate professionals everywhere.

## **Subscription Based Model**

Reis, Inc. has approximately 1,000 subscribers to the "Reis Subscriber Edition," which is their primary web-based delivery platform for their market reports. The annual subscription fee costs between \$35,000-\$40,000, but depending on usage and what the subscriber is entitled too, the fee can surpass \$1,000,000. A large percentage of Reis's revenue can be credited to their large subscribers. These large subscribers include banking institutions, property owners, brokers, lessors, builders, pension funds, insurance companies, developers, and government institutions. Reis's revenue model is predominantly based on these annual subscriptions. The contracts they have with their subscribers guarantee steady revenue – and combined with their high renewal rates provides an explanation for their growing revenue year by year. Reis controls more submarket

information both by property type and geography than any of its competition. Their information is thorough and accurate, and so subscribers will have an easy decision to make when it is time to renew their subscription. The subscription based model has been very successful for Reis, and they will continue to keep their current subscribers content as well as bring in new subscribers.

## Financials

Reis, Inc. has a very attractive balance sheet, especially when viewing their revenue growth, EBITDA growth, and net debt. Their revenue has seen continual growth year by year, as illustrated in the chart below. Their most recent earnings call posted the best third quarter results in the company's history, and reported revenue growth at 19.2% for the quarter, consistent with the growth they have been seeing over the years. Also shown in the chart below is the company's growing EBITDA margin. This proves that Reis is becoming a more profitable company, as they are finding ways to eliminate operating expenses that are eating into their bottom line. The growth in the EBITDA margin has generated value for shareholders, and is expected to continue to do so. In the company's latest earnings call, Lynford acknowledged the historic growth rates they have achieved, and stated that they plan to continue this growth. Another prominent aspect of Reis's financials is their net debt. As illustrated below, the company possesses more cash than debt. The fact that they have enough liquidity to cover their liabilities should be very encouraging to investors. Reis is proud of its debt-free balance sheet, and will work to keep it that way.

In Millions of USD	FY 2011	FY 2012	FY 2013	Current/LTM	FY 2014 Est	FY 2015 Est	FY 2016 Est
12 Months Ending	2011-12-31	2012-12-31	2013-12-31	2014-09-30	2014-12-31	2015-12-31	2016-12-31
Revenue	27.2	31.2	34.7	39.8	40.9	46.3	52.5
Growth %, YoY	12.3	14.9	11.2	16.8	17.8	13.2	13.4
Gross Profit	20.9	24.6	27.7	32.0	32.8	37.5	43.2
Margin %	76.8	78.8	79.9	80.3	80.3	81.1	82.2
EBITDA	6.1	7.7	9.4	12.0	12.1	14.3	16.9
Margin %	22.5	24.6	27.1	30.0	29.6	30.9	32.2

## Net Debt

FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
2008-12-31	2009-12-31	2010-12-31	2011-12-31	2012-12-31	2013-12-31
4.0	-3.3	-8.9	-16.5	-5.0	-10.6

## Significant Growth Opportunities

In order to sustain the growth they have achieved, Reis has several plans to adapt to market trends to keep the company moving forward. One of their primary opportunities lies in content expansion. A short-term goal in this field is to take advantage of the senior housing facilities sector. In May of 2015, coverage will expand by an additional 86 submarkets in 53 cities. The new coverage of independent living, assisted living, memory care and skilled nursing senior housing facilities is a sector that is in demand, and Reis will provide the information desired by senior housing investors. Following their expansion into the senior housing sector, Reis's next priority is expanding into the student housing sector. Potential additions after these two sectors include data centers, hotels and land. Reis is confident that no competitors can support better analytical products than they have. In order to increase the gap between themselves and the field they will enhance their products, specifically Mobius, in the short-term. They recently updated their Mobius product to feature interactive real-time credit and market

analytics, and are working to use granular data when analyzing real estate trends and credit risk. The real estate market is growing in size and complexity, and Reis appears to be keeping up with the game.

## **Conclusion**

I am recommending a buy on Reis, Inc. because their consistent financial growth should continue as a result of their unique databases, subscription business model, and their actions to grow and adapt to market trends. Reis is an industry leader in providing real estate information, with a management team that is both experienced and very invested in the company themselves. Owning 22.41% of shares, Reis management demonstrates great faith that their stock price will rise, and investors should feel confident about that.

<b>Reis, Inc.</b>		<b>reis</b>		<b>Mark Papuzza</b>		<b>Current Price: 23.23</b>		<b>Lower Bound Intrinsic Value: \$25.1</b>		<b>Lower Bound 1y-Target: \$28</b>		<b>Dividend Yield: 2.35%</b>		<b>22.7%</b>			
<b>General Info</b>		<b>Market Data</b>		<b>Symbol</b>		<b>NAME</b>		<b>Market Cap</b>		<b>TEV/EBITDA</b>		<b>Peers P/B</b>		<b>EBITDA Margin/Total Debt/TEV EBIT/lat. Exp. Altman Z</b>			
Sector: Information Technology		Enterprise value: \$242.31		AIM:DGGS		CoStar Group Inc.		\$5,992.01		41.3x		4.0x		27% 7% 8.4x			
Industry: Internet Software and Services		Market Capitalization: \$333.35		IQ1324068		Digital Globe Serv		\$39.05		16.3x		5.1x		10% 3% 662.0x 13.54			
Description: Reis, Inc., through its subsidiary, Reis Services, provides commercial real estate market information and analytical tools to real estate professionals in the United States. It maintains a proprietary database containing information on commercial properties, such as apartment, office, retail, warehouse/distribution, flex/research and development, self storage, and senior housing properties in the metropolitan markets and neighborhood. The company's data is used by real estate investors, lenders, and other professionals to make informed buying, selling, and financing decisions; and debt and equity issuers to assess, quantify, and manage the risks of default and loss associated with individual mortgages, properties, portfolios, and real estate-backed securities. Its product portfolio features Reis SE, a flagship delivery platform aimed at larger and mid-sized enterprises; ReisReports, aimed at processors and smaller enterprises; and Makino Portfolio CRE or Makino, aimed primarily at risk managers and credit administrators at banks and non-bank lending institutions. The company's products provide value across its proprietary database of commercial real estate information and analytical tools designed to facilitate debt and equity transactions, and equity asset and portfolio evaluation; and offer market trends and forecast analysis at metropolitan and neighborhood levels, as well as		Daily volume: 0.85851		Shares outstanding: 11.4		World Energy Soluti		\$219.24		21.2x		3.7x		18% 0% (3.2x) 3.27			
		Diluted shares outstanding: 11.53		% shares held by instituti: 77.0%		MeetMe, Inc.		\$76.29		82.7x		0.8x		2% 6% (3.2x) 3.27			
		% shares held by insiders: 20.8%		TSE:2492		Zix Corporation		\$37.60		13.4x		3.3x		1% 24% 0.5x -5.81			
		52-week high: \$28.82		NasdaqGS:RP		Infomart Corporatio		\$58,426.56		21.6x		0.0x		54% 1% 486.5x 23.20			
		52-week low: \$16.36		JASDAQ:3633		RealPage, Inc.		\$1,527.34		43.6x		4.3x		3% 3% (3.2x) 4.22			
		5y Beta: 0.73		reis		ARI Network Servis		\$7,117.29		4.9x		3.4x		19% 0% 2.3x -1.14			
		6-month volatility: 30.33%				GMO Pepabo, Inc.		\$211.94		21.6x		3.6x		11% 3% 2.3x 3.59			
								\$258.70		23.8x		2.7x		26% 0% 60.2x 6.01			
<b>Management</b>		<b>Comp. FY2011</b>		<b>Comp. FY2012</b>		<b>Comp. FY2013</b>		<b>reis</b>		<b>Performance Peers</b>		<b>Industry</b>		<b>All U.S. firms</b>			
Lynford, Lloyd		Chief Executive \$1,130,325.00		\$1,119,510.00		\$1,181,662.00		Last		10y Med.		Last		10y Med.			
Contaluppi, Mark		Chief Financial \$530,803.00		\$539,720.00		\$555,304.00		7.4%		2.8%		7.09%		4.25%			
Garfield, Jonathan		Executive Vice \$362,249.00		\$354,650.00		\$362,874.00		24.6%		8.5%		23.16%		15.68%			
Sander, William		President of Reis \$700,682.00		\$693,418.00		\$686,723.00		0.32		0.33		0.55		0.78			
Richardson, Michael		Executive Vice \$-		\$-		\$-		10.74%		N/A		23.39%		40.64%			
								41.18%		45.35%		31.50%		58.03%			
								ROIC		24.6%		8.5%		23.16%			
								EBITDA Margin		0.32		0.33		0.55			
								Imputed Rev./Invested cap.		10.74%		N/A		23.39%			
								Excess Cash/Total Cash		41.18%		45.35%		31.50%			
								Total Cash/Rev.		41.18%		45.35%		31.50%			
<b>Current Capital Structure</b>		<b>Past Earnings Surprises</b>		<b>Last Guidance</b>		<b>May-01-2014</b>		<b>Next earnings: 3/6/2015</b>		<b>Last Earning Call Transcript:</b>		<b>www.reis.com</b>					
Total debt/market cap: 0.00%		Revenue: 3.3%		EBITDA: 11.2%		Norm. EPS: 25.0%		Reis, Inc. announced unaudited consolidated financial results for the first quarter ended March 31, 2014. Income from continuing operations was \$1,046,980, or \$0.10 per basic share and \$0.09 per diluted share, for the quarter ended March 31, 2014. For the quarter ended March 31, 2013, the company had income from continuing operations of \$402,066, or \$0.04 per basic and diluted share. On a consolidated basis, the company had net income of \$659,102, or \$0.06 per basic and diluted share, for the three months ended March 31, 2014. For the three months ended March 31, 2013, the company had net income of \$250,434, or \$0.02 per basic and diluted share. Subscription revenue was \$9,946,045 against \$8,234,328 a year ago. Income before income tax and discontinued operations was \$1,651,980 against \$667,066 a year ago. EBITDA was \$2,922,000 against \$1,906,000 a year ago. Adjusted EBITDA was \$3,387,000 against \$2,487,000 a year ago. Cash generation of \$5,228,000 in the quarter. During the first quarter, the company had CapEx of nearly \$1.1 million, related to the expansion of database and website.		Far 2014, The company anticipator that 2014 annual revenue growth will exceed 2011 through 2013 compound annual growth rate of 12.8%. In fact, based upon most current view of the year, The company expect that revenue growth will range between 15% and 16% of maintaining an EBITDA margin of approximately 40%. The expectation of additional spending in 2014 may result in margin for future quarters being below the 40.9% 2014 first quarter Services EBITDA margin.							
Cost of Borrowing: 0.00%		Last Quarter: 3.3%		Last Quarter-1: 2.3%		Last Quarter-2: 7.5%		Last Quarter-3: 0.3%		Last Quarter-4: -0.7%							
Interest Coverage: 60.20		Last Quarter-1: 2.3%		Last Quarter-2: 7.5%		Last Quarter-3: 0.3%		Last Quarter-4: -0.7%									
Debt Rating: AA		Last Quarter-2: 7.5%		Last Quarter-3: 0.3%		Last Quarter-4: -0.7%											
5y Beta: 2.17		Last Quarter-3: 0.3%		Last Quarter-4: -0.7%													
WACC (based on market value weights): 7.3%		Last Quarter-4: -0.7%															
<b>Continuing Period Assumptions</b>		<b>LT Op. Costs/Rev</b>		<b>LT WACC</b>		<b>LT Term ROIC</b>		<b>Growth in PPE</b>		<b>Equals to Maintenance</b>							
Money market rate as of today: 0.43%		Risk-Free rate: 2.6%		LT Op. Costs/Rev: 70.0%		LT WACC: 8.3%		LT Term ROIC: 11.1%		Growth in PPE: 4.5%							
Annual increase (decrease) in interest rates: 0.10%		Op. Cash/Rev.: 0.00%		LT WACC: 8.3%		LT Term ROIC: 11.1%		Growth in PPE: 4.5%									
Yield Spread acceleration: 1.2		Op. Cash/Cash: 0.0%		LT WACC: 8.3%		LT Term ROIC: 11.1%		Growth in PPE: 4.5%									
Marginal Tax Rate: 37.5%		LT Growth: 4.5%		LT WACC: 8.3%		LT Term ROIC: 11.1%		Growth in PPE: 4.5%									
<b>Weights are either implied from the stability of each time-series--i.e., median/max./min./, or estimated based on the "uniqueness" of its competitive power--i.e., buyers power, suppliers power, competitors rivalry, threat of substitution.</b>		<b>Rev./Capital</b>		<b>LT Imputed Growth</b>		<b>LT Op. Costs/Rev.</b>		<b>Unlevered Beta</b>		<b>TEV/Rev.</b>		<b>TEV/EBITDA</b>		<b>TEV/EBITDA</b>		<b>TEV/UCF</b>	
		Last		Last		Last		Last		Last		Last		Last		Last	
reis		0.32		0.33		2.3%		78.3%		81.60%		0.94		0.85		3.0x	
Peers		0.55		0.78		11.0%		16.2%		82.7%		84.01%		0.88		6.1x	
Primary Industry		1.32		1.02		11.2%		12.4%		82.9%		81.37%		1.14		19.3x	
Industry		1.32		1.32		11.2%		12.4%		82.9%		81.37%		1.07		16.7x	
Industry Group		1.46		1.53		11.0%		9.3%		81.5%		80.94%		1.04		3.4x	
Sector		1.44		1.56		9.3%		8.4%		82.7%		82.80%		1.15		2.8x	
All U.S. Firms		1.72		2.02		6.6%		6.0%		80.4%		81.20%		0.98		2.4x	
GDP		N/A		N/A		3.3%		3.2%		N/A		N/A		N/A		N/A	
<b>reis long-run estimate</b>		<b>1.30</b>		<b>4.50%</b>		<b>70.00%</b>		<b>0.85</b>		<b>5.0x</b>		<b>8.0x</b>		<b>18.0x</b>		<b>30.5x</b>	
<b>Explicit Period Assumptions</b>		<b>FY2013</b>		<b>FY2014</b>		<b>FY2015</b>		<b>FY2016</b>		<b>FY2017</b>		<b>FY2018</b>		<b>FY2019</b>		<b>FY2020</b>	
Growth		11.2%		17.8%		13.2%		12.5%		12.0%		11.0%		10.0%		10.0%	
Op.Costs/Rev.		78.3%		70.0%		70.0%		70.0%		70.0%		70.0%		70.0%		70.0%	
WACC		7.27%		7.33%		7.42%		7.52%		7.62%		7.70%		7.80%		7.90%	
<b>Valuation</b>		<b>LTM</b>		<b>LTM+1Y</b>		<b>LTM+2Y</b>		<b>LTM+3Y</b>		<b>LTM+4Y</b>		<b>LTM+5Y</b>		<b>LTM+6Y</b>		<b>LTM+7Y</b>	
NOPLAT		\$8.0		\$9.4		\$10.4		\$11.6		\$12.8		\$14.0		\$15.2		\$16.2	
Invested capital		\$104.3		\$117.4		\$119.7		\$121.6		\$123.3		\$128.4		\$131.1		\$132.3	
ROIC		7.4%		8.4%		8.3%		9.3%		10.6%		11.8%		12.4%		13.1%	
UFCE		\$12.16		\$5.82		\$8.21		\$9.63		\$11.22		\$8.89		\$12.42		\$15.04	
EVA		\$0.97		\$1.12		\$1.66		\$2.55		\$3.55		\$4.62		\$5.14		\$5.83	
<b>Terminal value</b>		<b>LTM+8Y</b>		<b>LTM+9Y</b>													
Enterprise value (mid-year adj.)		\$278.06		\$298.57		\$314.40		\$329.04		\$343.49		\$359.05		\$375.68		\$391.62	
Total Debt		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00	
Minority Interest		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00	
Preferred Equity		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00	
Capitalized Operating Leases		\$15.14		\$26.76		\$28.95		\$31.11		\$33.01		\$38.41		\$41.24		\$42.45	
V of Unfunded Pension Plan Liabilities		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00	
act of options,warrants, and converts		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00	
Other claims on operating assets		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00	
Non-operating cash and LT investments		\$16.40		\$35.28		\$49.44		\$61.93		\$74.11		\$87.38		\$101.59		\$116.75	
Equity value		\$279.32		\$307.10		\$334.90		\$359.86		\$384.60		\$408.02		\$436.04		\$465.93	
Shares outstanding		111.4		111.4		111.4		111.4		111.4		111.4		111.4		111.4	
Price per share as of 2/18/2015		\$26.04		\$28.62		\$30.93		\$33.16		\$35.34		\$37.70		\$40.18		\$42.87	
<b>Monte Carlo Simulation Assumptions</b>		<b>Base</b>		<b>Stddev</b>		<b>Min</b>		<b>Max</b>		<b>Distribution</b>		<b>Mean est.</b>		<b>0(E)</b>		<b>Adjusted price</b>	
Revenue Variation		0%		10.0%		N/A		N/A		Normal		\$26.04		\$28.62		\$30.00	
Op. Costs Variation		0%		10.0%		N/A		N/A		Normal		\$26.04		\$28.62		\$30.00	
Market Risk Premium		5.5%		N/A		5.0%		7.0%		Triangular		\$26.08		\$27.96		\$30.00	
Long term Growth		4.50%		N/A		3.2%		16.2%		Triangular		\$26.08		\$27.96		\$30.00	
Terminal Value		0%		10.0%		N/A		N/A		Normal		\$26.04		\$28.62		\$30.00	





