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BJORKLUND FUND

April 5, 2019

Colliers International Group Inc: (CIGI)

Sector: Real Estate
Industry: Real Estate Management and Development
Current Price: $67.23
Target Price: $88.32

Nick Sapienza

Colliers International Group Inc. is a leading global real estate services and investment management company. With operations in 68 countries, Colliers works to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. Colliers had more than $26 billion in assets under management in 2018 and are continuing to grow.

BUY

Current Price:	$67.23
Target Price:	$88.32
Market Cap:	$2.64B
Beta:	1.54
WACC:	9.7%
ROIC:	15%

Thesis:

I rate Colliers International Group Inc. as a BUY. This recommendation comes from an analysis of the company's strengths, which I believe far outweigh its weaknesses. CIGI has been growing their revenue at a fast pace, and should maintain this growth over the next year. Expanding margins and the recent acquisition of Harrison Street are going to be the foundation of CIGI's growth moving forward.

Catalysts:

- **Success of Harrison Street Real Estate Capital, LLC:** The acquisition of Harrison Street should lead to increasing operating margins for CIGI.
- **5-Year Plan:** CIGI is currently in the fourth year of a five-year growth plan to double the size of the company and are on track to achieve this target.
- **Strong International Growth:** Being one of only five global players (Colliers, CBRE, JLL, C&W and Savills), CIGI can take advantage of opportunities in foreign markets that smaller companies can't.

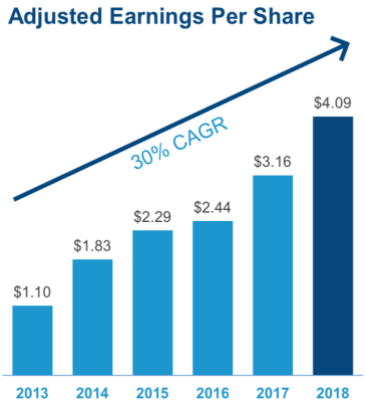
Market Outlook:

Over the past few months there has been an increased amount of speculation in the US economy and more specifically the US real estate market. Inverted yield curves and declining GDP growth are causing individuals to panic. Although it is late in the economic cycle, the outlook does not look to be as devastating as many people believe. There are still real estate divisions that will remain solid over the next 12 months, but investors will most likely see slightly slower growth. However, if the market does tank within the next 12 months, Colliers' impressive balance sheet will allow them to pick up extremely discounted deals that will provide large returns for the future. Although Colliers stock did not react well to the market crash in 2008,

the company has grown significantly since then and are better positioned to endure another economic downturn.

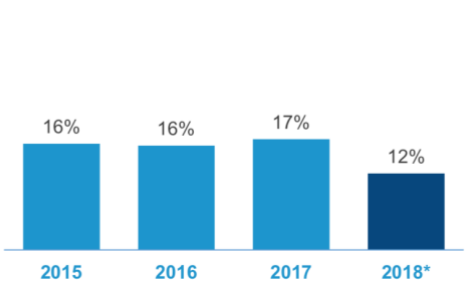
Earnings Performance:

Since 2013, Colliers has been growing their earnings per share at a compound annual growth rate of 30%. This has been accomplished despite an increase in shares outstanding over the same period. This shows that CIGI has become more profitable over time, and this is a testament to the management's decision-making ability. CIGI's established track record of growth in both revenues and EPS provides a positive outlook for the company and will continue to position them well for the future.



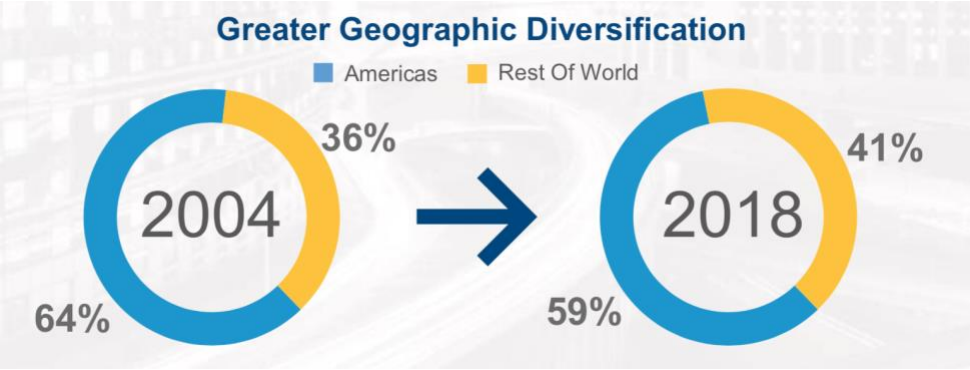
Acquisition Strategy:

Colliers has shown a strong interest in using acquisitions to grow their business on a global scale. Since 2015 they have shown a disciplined approach to their acquisitions and focus on major market growth. Over the past four years Colliers has spent a modest amount on capital expenditures, usually ranging from about 11-17% of EBITDA. With a focus on efficient capital deployment and a high hurdle rate for acquisitions, Colliers has produced peer group leading returns with about a 15% average return on invested capital. In July of 2018, Colliers made their biggest acquisition of $450 million for a 75% stake in Harrison Street Real Estate Capital, LLC. This is a major acquisition for Colliers because of the growth potential, the recurring revenues, and the high operating margins of the investment management industry. Harrison Street AUM in 2018 were $26 million, and Colliers management are bullish on future growth in AUM. In their most recent earnings call, Senior Vice President and CFO John Friedrichsen mentioned "I think when you speak to the management team, Harrison Street in particular, they have aspirations for better than (low double-digits)." Currently the Investment Management division accounts for 15% of Colliers pro forma EBITDA. With expected operating margins of Harrison Street to be around 40-45% moving forward, the growth of this division is going to steadily increase the margins of Colliers International as a whole, which the market has not yet priced into the stock. Additionally, Colliers will be able to take advantage of supply chain efficiencies and lower marginal costs as they scale upwards.



Global Presence:

Colliers operates in a $240 billion and growing market and is one of only five major global players including CBRE, JLL, C&W and Savills. This position allows Colliers to take advantage of opportunities all around the globe and focus on the fastest growing markets without many consequences or additional costs. Although the management of Colliers has a priority to continue strengthening their position in the United States, they recognize the potential in EMEA and Asia Pacific and are willing to skew their business towards those opportunities. As we can see, Colliers has changed their geographic mix from 64% Americas and 36% international to 59% Americas and 41% international since 2004. Management has expressed that they will most likely keep the Americas at about 55-60% of their geographic mix in the long-term but are willing to adjust this to take advantage of any opportunities that arise.



Enterprise 2020:

In 2013, Colliers launched its five-year plan, "Enterprise 2020", that was supposedly going to double their company size. Most investors believed this to be too aggressive and an unachievable target for this company. Now in their fourth year of the plan, Colliers executives have announced that they are still very much on track to achieve this goal. The future growth through 2020 is dependent on two factors:

- **5% internal/organic growth**: The 5% growth is an admittedly conservative estimate by Colliers, and I believe this will be in the higher single digits under the assumptions of a stable market over the next 12 months.
- **10% through acquisitions**: Colliers has shown their ability to invest in successful companies in the past. I believe their plan to expand their investment management division through Harrison Street was a smart move and will prove to be successful within the next 12 months.

If the five-year plan is successful, Colliers should see revenues of $3.4 billion and adjusted EPS greater than 5 by 2020, which will be expected to cause a large jump in the already undervalued stock price. Given the management's track record of successful acquisitions and modest revenue growth targets, I am confident that they will be able to carry out this plan.

Relative Valuation:

In the fourth quarter of 2018, Colliers stock price took a hard plunge from about $79 to $57 per share. This large price decrease was largely due to the large amount of acquisitions by Colliers in 2018 and the overall decline in market prices within the real estate management and development industry. The recent acquisitions, specifically Harrison Street, are shaping out to be successful investments and should continue to drive the stock price upwards. Although Colliers has recovered back to a price of about $67 per share, price multiples are showing that it is still trading at a discount relative to its peers. Price to earnings growth (PEG) is a significant measure in comparable analysis as it shows if the P/E multiple that the stock is being traded at is justified by its long-term growth rate. CIGI is trading at .3x PEG compared to its peers of .96x. Additionally, CIGI is trading at 10.31x compared to its peers of 16.10x with respect to its P/CF ratio. Although market multiples are not always indicative of intrinsic values, when combined with the fundamental factors that have been covered, they show that Colliers can still be bought at a generous discount compared to their peers.

Risk Factors:

As with any company, Colliers faces several risk factors that could potential divert the stock price away from the intrinsic value calculated. The main factors relating to their business include the following:

- **Economic Conditions:** Especially as it relates to credit conditions and business spending, Colliers is exposed to overall market conditions that are out of their control. Tightening credit conditions affect commercial real estate transactions, which reduces the demand for their services. Business spending directly impacts their Outsourcing & Advisory division because as businesses spend less on services, their revenues will decline.
- **Commercial Real Estate Property Values & Vacancy Rates:** As property values deteriorate, Colliers will get proportionately lower commissions earned on sales transactions. Similarly, vacancy rates affect market lease rates and duration of lease commitments, which are the basis for leasing commissions earned
- **Ability to Generate Sufficient Cash Flows to Pay Debt Obligations:** Although 2018 Q4 saw a slight de-levering of their balance sheet, Colliers is still a very leveraged company given their acquisition strategy. Colliers had a net debt of $545.1 million on their balance sheet as of December 31, 2018 to be paid over the next 9 years. To date they have been able to meet all debt obligations, but a slowdown in their business could lead to a shortage of cash flows and an inability to pay off debt.

Conclusion:

I believe that Colliers International Group Inc. is undervalued based on their strong earnings growth, management capabilities, and global presence. Colliers is the fastest growing global real estate and investment firm and is one of only five major global players in their industry. They have consistently shown that they are able to make smart investment decisions and return invested capital at much higher rates than their cost of capital. Additionally, 40% of the company's shares are owned by their leadership members, which shows they have a greater likelihood of increasing returns to investors. After an analysis of each of these individual factors, along with the potential risk factors, I believe a BUY rating of CIGI is justified at its current price of $67.23.

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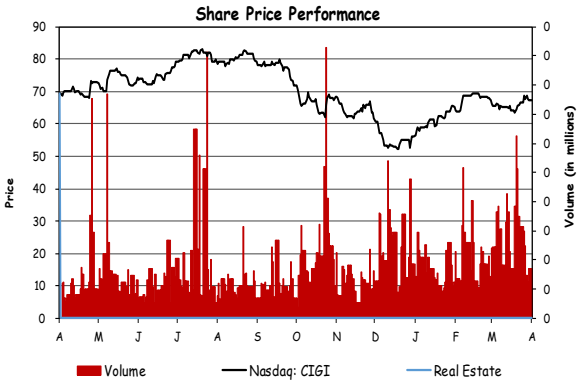
Colliers International Group Inc.	Symbol: Nasdaq: CIGI
Analyst	Nick Sapienza
Buy below	$70.75
Sell above	$98.08
Probability of Price Increase	61%
Last Price	$67.23
Intrinsic Value	$78.58
Target Dividends	$0.12
Target Price	$88.32



Description

Colliers International Group Inc. provides commercial real estate services to corporate and institutional clients in the Americas, Europe, the Middle East, Africa, Asia, Australasia, and internationally.

Sector	Real Estate
Industry	Real Estate Management and Development
Last Guidance	December 11, 2018
Next earnings date	April 26, 2019

People

Hennick, Jay, Founder, Global Chairman & CEO
Friedrichsen, John, Chief Financial Officer
Hemming, Robert, Senior VP & Chief Accounting Officer
Mulamoottil, Elias, Head of Strategic Investments & Corporate Devel
Taylor, Dylan, Chief Executive Officer of Colliers Real Estate
Hawkins, Matthew, VP, Legal Counsel & Corporate Secretary

Top Competitors

FirstService Corporation	Savills plc
Newmark Group, Inc.	HFF, Inc.
Marcus & Millichap, Inc.	CBRE Group, Inc.
Jones Lang LaSalle Incorporated	Open House Co., Ltd.
Cushman & Wakefield plc	Realogy Holdings Corp.

Market Statistics

Market Capitalization (mil)	$3,538.03
Last Price per share	$67.23
52 week high	$84.20
52-week low	$52.01
Volatility	37.10%
Daily volume (mil)	0.03
Short interest	0.53%
Days to cover short interest	0.00
Beta	1.50

Investment Thesis

GLOBAL OPPORTUNITIES AND MARGIN EXPANSION

I am initiating coverage of Colliers International Group Inc. with a BUY at $67.23 and a $98 price target. Colliers International is a industry leading real estate services company with strong growth potential. Being one of only five global players in the industry, Colliers can take advantage of opportunities that their smaller competitors cannot. Additionally, I see potential in their abilitity to increase their margins, as well as total revenues through their current acquisition strategy. The leadership team at Colliers owns about 40% of the company, showing that they care about the returns to their shareholders.

For the long:

1. Increasing Margins:

The recent acquisition of Harrison Street Real Estate Capital, LLC has significant upside potential for CIGI's revenue growth, as well as margin expansion. Although CIGI's operatinng margins are only about 11%, which is already well above their main competitors, Harrison Street's margins are in the range of 30-40%. Currently, Harrison Street only represents about 4% of total revenues, but management is extremely optimistic in regards to the potential expansion of this investment management division.

2. Successfully Implementing 5-Year Plan:

Beginning in 2015, Colliers rolled out a five year plan that would double the size of their company. Although this plan was very aggresive, they are now in the fourth year of the plan and are still on track to successfully complete their goal. There is still more than a year left, but if the company continues to grow, the stock price will reflect this.

3. Strong International Growth:

Colliers is the fastest growing global real estate and investment firm. Since there are only five global players in their industry, Colliers has been able to take advantage of opportunities in growing markets and will continue to do so. Their geographic mix has changed from about 64% Americas and 36% international in 2004 to about 59% Americas and 41% international in 2018. This shows that they are engaging in greater geographic diversification and are taking advantage of growing markets.

For the short:

1. High Leverage:

Since Colliers is in the middle of their five-year growth plan, they have made a lot of acquisitions and have become highly leveraged. Their current ratio has dipped below 1 in recent years, but has increased to about 1.13 in 2018. Management has mentioned that they will naturally unlever the balance sheet if no opportunities come their way, but are currently focused more on potential acquisitions.

Key Catalysts for price change

- Success of Harrison Street and other acquisitions.
- Continuation of five-year plan to double the company
- Strong international growth

Valuation

My $88.32 price target is derived from a blended mix of Discounted Unlevered Free Cash Flow estimates and market multiples.

Ownership		Change in Ownership ("Input"month)
Shares outstanding (mil)	38.00	
Diluted shares outstanding (mil)	39.80	
Options and Warrants (Shares equivalent)	0.64	
% shares held by institutions	53%	"INPUT from BB"
% shares held by investments Managers	0%	"INPUT from BB"
% shares held by hedge funds	0.00%	"INPUT from BB"
% shares held by VC/PE firms	0.000%	"INPUT from BB"
% shares held by insiders	0.00%	0.00%
Poison Pill Type	NONE	

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Buy below	$70.75
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Probability of Price Increase	61%
Last Price	$67.23
Intrinsic Value	$78.58
Target Dividends	$0.12
Target Price	$88.32

Quarterly Earning Surprises (Actual Vs. Median Estimates)

Revenue	
12/31/2017	16.98%
3/31/2018	18.35%
6/30/2018	3.38%
9/30/2018	2.40%
12/31/2018	2.38%
Mean (Standard Error)	8.7% (1%)
EBITDA	
12/31/2017	-23.76%
3/31/2018	-2.33%
6/30/2018	-18.90%
9/30/2018	-16.42%
12/31/2018	-18.06%
Mean (Standard Error)	8.7% (4.95%)

Financials

Profitability	Nasdaq: CIGI (LTM)	Nasdaq: CIGI Historical	Peers' Median (LTM)
Return on Capital	10.4%	17.83%	9.49%
Adjusted EBITDA Margin	9.0%	8.01%	13.74%
Return on Equity	27.3%	-4.8%	27.6%
Adjusted Net margin	3.5%	3.1%	5.0%
Invested Funds	**Nasdaq: CIGI (LTM)**	**Nasdaq: CIGI Historical**	**Peers' Median (LTM)**
Cash/Capital	7.4%	14.4%	14.3%
NWC/Capital	-9.9%	-17.8%	9.6%
Operating Assets/Capital	50.9%	59.7%	41.1%
Goodwill/Capital	51.5%	43.4%	39.5%
Capital Structure	**Nasdaq: CIGI (LTM)**	**Nasdaq: CIGI Historical**	**Peers' Median (LTM)**
Total Debt/Market Cap.	0.33	0.24	0.36
Reported Cost of Borrowing	4.5%		5.4%
Cash Interest/Total Debt	3.0%		7.0%
CGFS Credit Rating	BBB		BBB
Credit Model Rating	bbb-		bbb-
Probability of Default	0.05%		0.02%

Cost of Capital

	CGFS Credit Rating	Credit Model Rating	Probability of Default
Implied Cost of Borrowing (Nasdaq: CIG	4.9%	5.7%	4.1%
Implied Cost of Borrowing (Peers)	4.9%	5.6%	5.2%
Cost of New Debt Estimate	5.0%		
Market Risk Premium Estimate	7.4%		
Cost of Equity Estimate	12.4%		
WACC Estimate	10.2%		

Valuation

DCF Valuation

	Revenues	EBITDA Margin	UFCF	WACC	ROIC	Price Per Share
Base Year (Actual)	$2,825.43	9%	-$526.31	9.69%	10.44%	$83.17
year 1	$3,079.72	12%	$214.75	10.17%	12.19%	$93.11
year 2	$3,356.89	12%	$217.81	10.19%	12.07%	$103.68
year 3	$3,659.01	12%	$242.74	10.20%	12.03%	$114.93
year 4	$3,988.32	12%	$270.41	10.22%	11.96%	$126.86
year 5	$4,325.67	12%	$302.93	10.25%	11.82%	$139.49
year 6	$4,668.11	12%	$337.14	10.28%	11.62%	$152.82
year 7	$5,012.39	12%	$372.82	10.32%	11.38%	$166.87
year 8	$5,354.90	12%	$409.42	10.36%	11.09%	$181.64
year 9	$5,691.81	13%	$446.91	10.41%	10.79%	$197.12
year 10	$6,019.09	13%	$485.18	10.45%	10.47%	$213.33
year 11	$6,332.59	13%	$523.85	10.50%	10.13%	$230.26
year 12	$6,628.11	13%	$562.49	10.56%	9.80%	$247.90
year 13	$6,901.52	13%	$600.29	10.61%	9.45%	$266.28
year 14	$7,148.82	13%	$636.78	10.67%	9.10%	$285.37
year 15	$7,366.27	13%	$675.57	10.72%	8.78%	$320.65
Continuing Period	$7,550.42	13%	$739.61	10.78%	10.78%	

Relative Valuation

Multiple	EV/Rev (FW)	EV/EBITDA (FW)	P/BV (TTM)	P/E (FW)
Median (Peers)	0.8x	8.3x	2.8x	13.4x
Base	Revenue (NTM)	EBITDA (NTM)	Book Value (LTM)	Net Income (NTM)
Nasdaq: CIGI	$3,153.38	$379.70	$432.69	$179.35
Implied EV	$2,605.60	$3,145.21		
Total Net Claims	$1,268.08	$1,268.08		
Implied EQ	$1,337.52	$1,877.13	$1,209.60	$2,397.39

Asset Based Valuation

Recovery Rate	100%
Capital	$4,388.53
Intangibles	$1,385.82
Claims	$1,532.17

Valuation Summary

Model	Intrinsic Value	Target Price	Weight
DCF Valuation	$83.17	$93.11	95.00%
EV/Rev (FW)	$33.08	$36.31	0.00%
EV/EBITDA (FW)	$46.42	$51.02	0.00%
P/BV (TTM)	$29.91	$32.83	0.00%
P/E (FW)	$59.29	$65.19	5.00%
Asset Based Valuation	$36.37	$39.94	0.00%
Price per Share	$81.97	$91.72	100%