



CPPIB backs Vancouver capital markets data upstart Canalyt's US\$70-million venture funding

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A fast-growing Vancouver startup that has become a key data provider to investment professionals has raised US\$70-million in venture capital led by Dragoon Investment Group and backed by Canada Pension Plan Investment Board (CPPIB).

Canalyt Financial Modeling Corp., which builds financial models used by investment professionals to track 5,000 equities, says it has roughly doubled revenues in each of the past two years and is now generates between US\$15-million and US\$20-million annually. It has benefited from strong word-of-mouth, expanding to 2,500 individual users at 400-plus investment firms, banks and corporations, up from 400 and 150, respectively, in early 2020.

Damir Hot, chief executive officer of Canalyt, has big ambitions for his seven-year-old company. It's one of several "capital markets technology" startups, including AlphaSense, YipitData and Tegus, that have raised more than US\$700-million combined in recent months from the likes of Goldman Sachs and Carlyle Group. Collectively, they're going after a market served by market data giants Bloomberg, Refinitiv, S&P Global and FactSet Research Systems.

"People are figuring out there are a number of potential winners out there ... that [could] challenge the big terminals one day," Mr. Hot said in an interview. "We believe we have a differentiated fundamental data set. Customers are validating that."

While the startups compete for the same budgets that investment research departments earmark for data and analytics tools, Canalyt is unique in its approach. Canalyt, conceived by Mr. Hot's friend James Rife, a former investment professional (he is now head of research), functions somewhat like a business process outsourcing operation with the economics of a cloud-based subscription software, but it is neither.

Its 185 employees include 110 equity researchers – not cheap overseas workers, but employees in Vancouver and New York. They manually enter data from public company

regulatory filings into spreadsheets to build and update core financial models that customers would typically produce themselves to assess stocks. Canalyt delivers its models through online software that customers can then put to work in their analyses.

Canalyt puts a premium on accuracy, with two or more people verifying the data before they are further checked by its software. The labour that goes into the product means “Canalyt’s data moat is substantial and will continue to compound,” Christian Jensen, partner and co-head of private investments at Dragoneer, said in a statement.

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Ottawa startup Unreserved aims to reduce blind-bidding in Canadian real estate with online auctions

Key to the Canalyt’s appeal is the fact that it saves time and money for organizations that do investment research, which has prompted several customers to invest in this round, including CPPIB, Texas hedge fund Alta Fox Capital and Boston’s HighSage Ventures. Canalyt previously raised US\$20-million backed by ScaleUp Ventures and Vanedge Capital, which are both investing in the latest round.

Rather than a one-size-fits-all presentation, Mr. Hot said one of Canalyt’s strengths is it can present data in more bespoke ways that target how different industries assess financial results.

“Canalyt represents an opportunity to invest in a differentiated financial technology company with a unique product offering,” Delaney Brown, managing director and head of funds and secondaries with CPPIB, said in a statement.

Owen Wurzbacher, managing director with Boston-based HighSage, said he learned of Canalyt from Colorado hedge fund manager George Livadas, who raved in a July, 2019, newsletter to customers of his Upslope Capital Management that the Vancouver company’s product “has provided me with significant leverage – similar to suddenly having an analyst on-staff that produces and updates models for current and prospective positions in real-time.”

Mr. Wurzbacher said using Canalyt has saved his firm hundreds of thousands of dollars annually, while delivering financial information “you can trust, and the trust piece is absolutely essential ... the human-in-the-loop part of the business is a competitive advantage.” After recommending the product himself to others, he asked to invest. “If they continue to execute as they’re doing now, I think this can be a public company one day,” he said.

Alta Fox founder Connor Haley said Canalyt saves his firm “tens of hours” weekly and hundreds of thousands of dollars a year. He said it’s “among the very most essential financial data products in our process.” He invested because “it’s just scratching the surface of its potential.”

Mr. Hot said the company plans to add hundreds of employees in the next few years and to double the number of equities it covers globally. Canalyst is looking to expand its client base beyond public equity managers to encompass global investors and corporations focused on credit, private equity and venture capital. It also added seasoned executives including Birgit Troy, former chief financial officer of one of Constellation Software's operating groups, as chief financial officer and chief operations officer; and chief product officer Jeremy Payne, former global head of foundational data with Bloomberg. Former Merrill Lynch research head Aron Miodownik is a director and Canalyst's incoming chairman.

Mr. Miodownik said Canalyst can grow substantially just by expanding within firms now using the product. "The question will turn from, 'Why would you use Canalyst?' to 'Why wouldn't you?' We're not there yet, we have a lot of work to do."

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