



Canalyst Financial Modeling Corp., a key data provider to fund managers, raises \$20-million in venture capital

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A Vancouver startup that has become a key data provider to fund managers has raised \$20-million in venture capital.

Canalyst Financial Modeling Corp., which builds financial models used by fund analysts and portfolio managers to track 4,000 North American public equities, has attracted little notice outside its “nichest of niche” business, as chief executive officer Damir Hot calls it.

But it has struck a chord with investment pros as their industry faces pressure from the rise of exchange traded funds (ETFs) and robo-advisers. Canalyst, whose directors include John Montalbano, former CEO of RBC Global Asset Management, and ex-Merrill Lynch managing director Aron Miodownik, has more than 400 users at 150-plus investment organizations – including eight of North America’s top 10 asset managers – each paying US\$10,000 to US\$20,000 annually. Revenues exceed \$5-million and are doubling annually.

The financing came from Vancouver’s Vanedge Capital, ScaleUP Ventures of Toronto and an unidentified Asian financial-services company. ScaleUP partner Dubie Cunningham said she was surprised to find “there are not any strong competitors that do [what Canalyst does] exactly.” Others, including Bloomberg and FactSet, provide market data and consensus forecasts, “but if you’re looking for someone providing high quality base models, it doesn’t exist.”

“We’ve contemplated how we can potentially reduce our need for Bloomberg [data terminals] with this,” said Brandon Snow, chief investment officer with Cambridge Global Asset Management, a division of CI Investments Inc. that has used Canalyst for a year.

Canalyst functions somewhat like a business process outsourcing (BPO) operation with the economics of a cloud software firm, but is neither. At the heart of the 100-person startup are 60 equity researchers – not cheap overseas labour, but employees in Vancouver – who manually enter numbers from regulatory filings into spreadsheets to

build and update core financial models their customers would typically produce themselves to assess stocks. Canalyist puts a premium on accuracy: Two or more people enter and verify the data, which is further checked by its software.

The product isn't custom work, but standardized data built by humans and delivered into its customers' workflows through a suite of Canalyist's software tools, accessed online by subscription. That helps clients who typically take five or more hours to build models and two-plus updating them per year per stock, and don't want to give that task to a machine.

"We could probably do everything they do," said Drew Wilson, co-manager with Fenimore Asset Management, a customer from Cobleskill, N.Y. "What they give us is a hell of a lot of time we can use to do other things." Mr. Snow said his investment staff spend 40 per cent of their time building and updating models. Using Canalyist, they've reclaimed two-thirds of that, freeing time to talk to customers and companies and explore investment ideas. "It's a pretty clear benefit," he said.

Canalyist should generate high, software-like margins as it expands, as the cost to analyze a company is the same no matter the number of clients. "It's a 'do-it-once-and-sell-many-times,' and the marginal customer is relatively free," Mr. Hot said. "The downside is that to actually wow the first customer and have them trust our model, we [need] 4,000 models built and updated in a timely manner." He expects Canalyist to be cash-flow positive next year.

Canalyist was conceived by James Rife, who spent a decade as an investment professional in Boston and Toronto before moving home to Vancouver in 2014. While investing his own money, he hired interns to build a database of high-quality financial models, with the idea of "taking that swing at building a product I thought the industry needed," he said. That evolved into a business when he joined with Mr. Hot, a friend from his University of British Columbia days, who had gone on to work for a series of startups before deciding to found one. In Mr. Rife, Mr. Hot found the co-founder he was looking for: an industry expert aiming to solve a problem in "a killer narrow niche."

They expected small fund managers would go for their ready-made models, but were surprised when industry giants bought, too. As passively managed ETFs steal market share from actively managed funds, "commissions have gone away [while] brokerage houses have cut back on research dramatically," Vanedge managing partner Paul Lee said. Added Mr. Rife: "Both sides of the street are facing these pressures where they're now eagerly looking for tools that help them with their process."

"The model of money managers is now being challenged, so products [such as Canalyist] that allow them to be efficient [in guiding investment decision] will be highly valued," Mr. Montalbano said.

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