

Pure Technologies Ltd. (TSE:PUR)

Industry: Software & Services – Water, Wastewater, and Oil & Gas

Rating: Buy

Target: \$9.23

Date: 1/14/2015



Executive Summary

Business Summary

Pure is a Canadian firm which develops technologies for the global markets of water, wastewater, oil and gas pipeline infrastructure, bridges, and other structures. Pure utilizes its technology pool, in tandem with proprietary software developments for the purpose of inspecting, monitoring, and managing infrastructure. The value in Pure's business model is derived from the cost-savings of risk-averse infrastructure management – enabling municipalities and other clients to detect and remedy any future leaks, or potential breaks in their respective property before they occur. Traditional pipeline management methods are reactive, replacing pipe sections due primarily to age, or after a break has already occurred. Realistically, for any explanation other than general wear and tear, there only exists a correlation between age and pipeline integrity; damage is instead caused by pressure, above ground activity, ground conditions (acidity, soil contents), weather, and installation issues. Pure highlights that only 4% of water and wastewater pipe sections are in a distressed state, and that less than 1% of those sections require any immediate repair efforts. The consequences of pipe breaks are also significant. If, for example, a municipality were to face a water pipe burst, they risk the service interruption from compromised water quality, and subsequent flooding. Pure has successfully moved its tech offerings into the larger municipal markets of North American water and wastewater. The next stage of Pure's strategy is to move their business into newer markets, spanning different pipe materials, smaller municipalities, and oil & gas pipelines

Thesis

Opportunity for Pure exists due to the company's favorable market position, the future demands and potential for the global water, wastewater, and oil & gas utilities market, the immense and multifaceted future growth strategy for the company, and the potential applications of Pure's existing product pool and asset management services.

Valuation

Buy rating for the company at a target price of \$9.23, based on the valuation methodology of a combined, weighted discounted cash flow model and comparable companies analysis of forward EV/EBITDA multiples. With a price today of \$6.56, there exists 40.7% upside potential.

Key Statistics

	Current	(\$CAD, millions)	2012	2013	LTM
Price	\$6.56	Enterprise Value	\$198.72	\$198.72	\$293.42
Date	1/15/2015	EV/EBITDA	7.73	17.94	31.02
52 Week Range	\$6.35-\$8.67	EV/EBIT	15.68	39.98	102.1
Shares Outstanding	52,270,000	Price / Book Value	4.12	3.79	3.78
Market Capitalization	\$334,005,300	Price / Earnings	23.71	95.54	126
Enterprise Value	\$293,421,300	Cash	\$33.25	\$41.44	\$40.58
Beta	1.01	Debt/Equity	0	0	0

Balance Sheet (\$CAD, thousands)	2010	2011	2012	2013	LTM
Cash & Cash Equivalents	\$14,172	\$17,260	\$33,249	\$41,438	\$40,584
Current Assets (Excluding Cash)	\$46,647	\$53,894	\$45,210	\$42,412	\$54,006
Total Assets	\$101,635	\$118,746	\$123,126	\$128,405	\$131,193
Current Liabilities	\$14,122	\$9,731	\$8,083	\$8,604	\$10,237
Total Debt	-	\$5,212	\$1,932	-	-
Total Liabilities	\$14,122	\$14,943	\$10,016	\$8,604	\$10,237
Total Equity	\$87,513	\$103,802	\$113,110	\$119,800	\$120,301

Income Statement (\$CAD, thousands)	2010	2011	2012	2013	LTM
Revenue	\$48,351	\$43,151	\$58,005	\$60,864	\$67,429
EBITDA	\$3,732	-\$1,192	\$12,510	\$11,073	\$9,460
Depreciation & Amortization	\$3,291	\$6,692	\$6,638	\$6,104	\$6,586
Interest	-	-	-	-	-
Tax	-\$1,908	-\$1,279	\$716	\$2,890	\$2,873
Net Income	\$2,348	-\$6,875	\$5,456	\$2,079	\$2,655

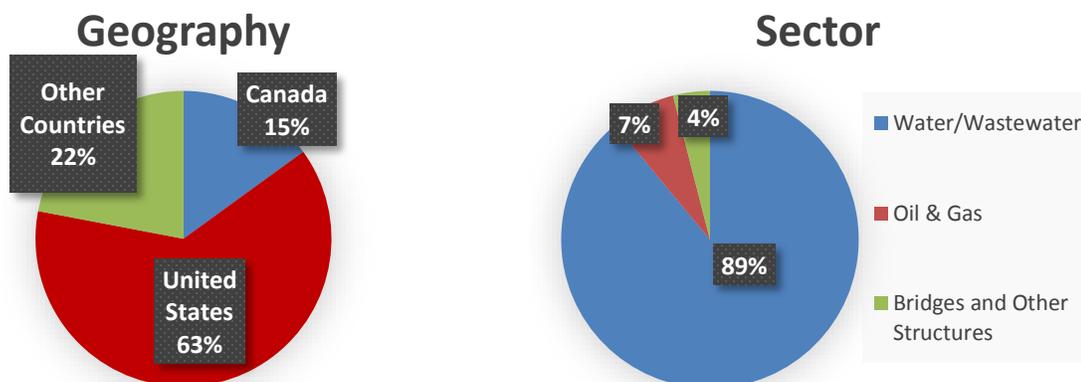


Company Basics – Products, Services, and Revenue Streams

Revenues:

Utilizing the revenue breakdown below, Pure’s revenues for 2013 have been focused primarily in the water and wastewater infrastructure of North American municipalities. In North America, Pure’s primary target market has been the major municipalities, servicing upwards of 500,000 people. Pure has maintained a 37% revenue CAGR since 2009. The company reports its revenues broken down into equipment sales, inspection, monitoring, and consulting. Inspection has historically been the primary producer of revenues for Pure at 57% of their 2013 revenues, but the company has promoted that all four methods are to be viewed as one whole in the process of fulfilling client contracts.

Revenue Breakdown (2013)



Product Offering:

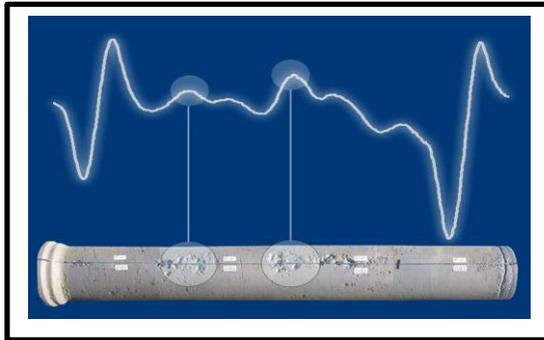
Pure offers an extensive portfolio of patented technologies for various purposes in their business model. For infrastructure monitoring, Pure offers its Soundprint Acoustic products, which monitor the state of infrastructure in real-time, detecting deterioration and wire breaks. For leak detection, Pure’s primary product offering is the Smartball: a free-flowing ball-shaped tool that can detect leak locations to within 6-feet of the actual location. The condition assessment capabilities of Pure come from a variety of products that can work non-intrusively within pipes of various materials, with a focus on concrete and metal, to determine their condition.

Asset Management – PureNet:

With its 2013 software acquisition of what is now known as PureNet, Pure has indicated its intentions to move into the management of complete pipeline systems. PureNet offers a full consulting package for bigger, or smaller clients. PureNet works to effectively manage the data for managing infrastructure from the house of the utilities being aided. The software collects data from the utilities and consolidates it in financial models and engineering applications, closing the information gap for client companies. The system allows for the mapping of prospective Capex for utilities, giving a view of the economic feasibility of their management methods, and how to best go about proactively managing pipelines – assessing pipeline condition and repairing select troubled pipe sections.

Smartball:

Smartball is the Pure's most innovative product and is key to revenues moving forward. It operates by flowing freely through pipes and detecting acoustic irregularities. The acoustic data is tracked by receivers from above ground, and collected. Smartball is advantageous because it is non-interruptive, small -- for handling applications in pipe sizes as low as 4", has exceptional battery power, and collects all the necessary data for pipe assessment. The battery life starts as low as 12 hours in smaller pipes (4 inch diameter), and is as high as 430 hours in larger pipes (16 inch diameter). Smartball can detect leaks as small as 0.03 gallons/minute or 1 barrel/week, in other words. Smartball sensors also work to detect information on potential trouble spots for pipe sections, such as pressure and temperature.



Pure's Smartball for Oil & Gas (left) and the acoustic irregularities of a damaged cast-iron pipe (right)

Source: Company Website

Macro Environment

Funding Gaps and the State of North American Infrastructure:

Water and Wastewater in North America suffers from severe underinvestment. The United States currently houses up to 170,000 public water systems, summing up to over a million miles of water main. The Environmental Protection Agency (EPA) estimates that 4,000 – 5,000 water mains are replaced each year in the United States, and that rate should peak at 16,000 -20,000 by 2035. According to the American Water Works Association (AWWA), which gives United States water infrastructure a ‘D’ rating, the urgent investment needs for pipe replacement in the United States could feasibly reach \$1 trillion over a 25 year period. It should be noted that the AWWA highlights that their numbers are not as conservative as the estimates from the EPA, which set \$334.8 billion as the target for a 20 year capital investment plan. For the United States, this means a need to catch up on the financial support of municipalities. The situation in Canada is similar, according to the Canadian Society of Civil Engineers, with most water pipelines past their designed life expectancy. Regardless of the exact capital needs of North American water infrastructure, there is no doubt that there is a significant opportunity for Pure. Because of Pure’s focus on cost-saving technology, as well as their expertise in consulting, they are poised to take advantage of this large, critical, emerging market.

Despite the need for new water infrastructure, a funding gap presents a risk for Pure: will the funding gap be closed, and will it be closed fast enough? Recently, the Obama administration has passed the Water Resources Reform and Development Act of 2014, permitting 34 water engineering projects to take place at a cost estimate of \$12.8 billion. The Harper administration, similarly, has just announced the New Building Canada Plan for future infrastructure investment, inclusive of water and wastewater projects. Both of these examples aren’t conclusive as to the future of North American Infrastructure investment, but they may be a microcosmic indication of what is to come.

Changing Demographic Landscape:

In 2010, the Water Research Foundation of the United States released the Water Sector Workforce Sustainability Initiative which details the age trends within Water and Wastewater utilities. The report details that the average age of a United States water and wastewater employee is 44.7 and 45.4 respectively as of 2010, while the average age of retirement for an American utilities worker is 56. A few years later, and the forces of the baby boomer exodus will continue and intensify the cycle of employment replacement in the water utilities sector. This means three things: first, United States water utilities firms will begin to feel the pains of legacy costs as retirees take full benefits; second, on average, a retiring water utilities employee will spend 24 years with their firm, which translates to an immense degree of knowledge and expertise escaping from the workforce; third, a youthful demographic makeup entering the sector brings with it a higher degree of tech-savviness.

For Pure, these are positive market dynamics for their offerings and their focus. The PureNet software offering is an ideal fit as to meet both the critical loss of expertise, and the tech-savvy demographic makeup of the upcoming workforce. Pure’s value proposition of products and services also applies in terms of cost-cutting efforts for water utilities.

Sustained Competitive Advantage

Niche Market Position:

Pure remains a market leader in its product and service offering for its current desired customer base of major United States and Canadian municipalities. Though other companies do exist in the space for assessing the state of water and wastewater pipeline systems, their presence in the market is relatively insignificant compared to Pure. The most prominent example is that of Mueller Systems, which is now offering its Mi-Echo product for the acoustic monitoring of leaks within water pipelines. The product itself, however, fails to identify problems pre-emptively, which is where Pure's pipe condition assessment capabilities are superior. The important takeaway from Mueller is that the market is not immune to competition, and Pure's leading position will likely become challenged in the medium to long-term as the need for replacement and maintenance of water infrastructure continues to increase. Nonetheless, it is our belief that Pure will continue to hold their market leading position through the medium-term of the next 5 or more years due to the gap in developed technology, patent protection, and a previous track-record of success in their target markets.

Client-Base:

Pure maintains a strong client base of primarily major United States and Canadian municipalities including Washington DC, Baltimore, Miami, and Saskatoon. Because contracts have become longer and greater in size through the years, and are often extended, this means Pure's revenue streams are very secure, at least for their North American client-base. If Pure continues to stretch their business outside of North America and Europe additionally, they pose to lose contract revenues, such as the major equipment contract which was almost lost with Libya and the Great Man-Made River Authority in 2011/12 because of the Libyan revolution.

Market Penetration:

Pure has shown an excellent track record of moving its services into its target market with an 86% market penetration rate with the large municipal clients in North America. The high degree of user adoption is indicative of Pure's capability to move its services into broader markets, alongside the value seen in Pure's solutions offerings. It should be noted that penetration is a measure of user adoption, and doesn't equate to the percentage of the market for which service has been completed.

Municipal Clients – North America		
Population Base Served	Number of Clients	Pure's Market Penetration
1K to 10K	49,500	0.00%
10K - 50K	3,630	0.33%
50k - 100K	605	0.99%
101k - 500K	405	7.16%
500K Plus	64	85.94%

Source: Company Presentation – Capital Markets Day

Recurring Revenues and Project Backlog:

Pure has grown its backlog to over \$80 million – mostly stemming from the North American market, and its recurring revenue stream (which is separate from the backlog) to over \$8 million annually from installed monitoring equipment and leased equipment. Pure defines their backlog as the value of orders not yet included in revenue that management deems highly likely to be performed; as such, it follows that the backlog is indicative of the growing demand for Pure's services. Combined with a strong balance sheet consisting of \$40.6 million in cash and no long-term debt, Pure is in a position of financial security for the near to medium term, and is poised to continue paying and growing its annual dividend of \$6.3 million, or \$0.12/share at a yield of 1.9%

Management

Pure was founded in 1995 by brothers James and Peter Paulson. Both have stayed with the company since its inception. James holds a position as the executive chairman of the board. Peter holds the position as the Vice Chairman and the Chief Technology officer for the firm. Insider ownership of the company totals 13.3% of shares outstanding¹, and all members of upper management are participating in share-ownership compensation plans and executive stock option payment in 2013 was at 13.17% of their total compensation- *indicating that management incentives are in alignment with that of the shareholders.*

Two recent changes in management mark a healthy transition forward for the company. First, the movement of John Elliot into a position as the CEO of the company is a wise move, as it leaves previous CEO Peter Paulson to focus creatively on his role as the CTO for the company. As Pure will continue to derive much of its success from the improvement of its existing product and service pool, and any future developments, the freedom for Peter Paulson to work and develop the tech-based advantage in Pure's business is a distinct positive. John Elliot's extensive track record with the company's business development and sales indicates a good fit for the CEO role. Hiring internally is also generally a positive in maintaining the critical knowledge and experience present within the company. Second, Pure has brought in an experienced CFO in Geoff Krause, bringing past experience from serving as the CFO for two TSX listed companies and expertise in finances for a service environment.

James Paulson – Executive Chairman: Member since 1995

- B.Comm from the University of Calgary in 1970, and an MBA from Western Ivey in 1972
- President or VP of Yellowbird Product Ltd, a private holding company, since 1976

Peter Paulson – Vice Chairman and CTO – Member since 1995

- B.Sc(Physics) from the University of Calgary in 1969.
- The foremost developer of Pure's technology pool. He is the inventor of the Pure's Soundprint technology.

John Elliot – President and CEO – Member since 1996

- Professional Engineer – Civil Engineering degree from National University of Ireland
- Specifically responsible for Pure's business development, sales, and operations.
- Extensive past credentials from working with Structural Diagnostics Limited (SDL) , CCD Western Limited, Cana Construction, and the American Concrete Institute

Mark Holley – Executive VP and COO –Member since 1996

- Diploma in Chemical Engineering Technology from Sheridan College.
- Primarily responsible for the running the corporate sales program for Pure.
- Prior experience with M2 Digital Interactive, Cathodic Technology Ltd, and Structural Diagnostics Limited. With SDL he carried responsibility for regional market and business development

Geoffrey D. Krause – Vice President and CFO – Member since 2014

- CA, CPA, B.Admin from University of Regina in 1992
- Previous CFO experience with 4 companies, totalling 20 years public and private finance experience.

¹ This number was taken from Mona Nazir's research from Laurentien Bank Securities

Strategic Opportunities and Objectives

At Pure's Capital Markets day in 2014, the company presented its strategic objectives for the coming years. Broader target markets have become the focus, with action taking place to penetrate into the oil and gas assessment and monitoring market, international markets, the metallic pipeline market, and the small and medium sized North American municipalities for water and wastewater. Pure is also poised to further develop its PureNet Asset management offering. The future for Pure is ambitious, but the company is following the logical next steps for growth in the application of their product and service pool.

Water and Wastewater International Markets:

Pure's expansion into international markets is a maturing initiative. Recent contracts for Pure have been in Australia, Scotland, England South Africa, Qatar, and the United Arab Emirates. In particular, Pure has engaged in a contract with WRc plc, a sizable infrastructure consulting agency out of the United Kingdom, to implement a combination of their tech offerings with that of Pure's to access the infrastructure management markets of England and Scotland. Opportunity exists in the United Kingdom similarly to that of the United States, where water pipeline infrastructure is aging significantly, and the need for better capital replacement plans are rising. One third of London's water pipelines, for example, are over 150 years old and will need to be addressed. The contract with WRc plc is further evidence of Pure's capability to expand into developed infrastructure markets globally, and again, emphasizes the strength of being able to successfully apply their offering to large-scale municipalities.

Nonetheless, Pure still indicates that a great opportunity exists in developing international water markets, where they are plagued by the costs of non-revenue water (NRW), defined as water produced for consumption that is lost before reaching its destination. In order to address the causes of non-revenue water, Pure faces the challenge of closing a prevalent knowledge gap amongst these international clients in their understanding of the location and directionality of their pipes, adding further value to the PureNET network management offering.

Pure's international operations amounted to 22% of total revenues for the company in 2013. Since then, the company has seen 26.7% in the non-African international revenues from Q1/2 2013 to Q1/2 2014 and 11.9% growth in total international revenues in Q1-3 2014 over Q1-3 2013. The latter growth is important when considering that Pure is moving away from the revenues from the Great Man Made River Authority in Libya, which has dropped in revenue production into 2014 after weighing significantly in 2013. As Pure continues growing its global footprint, so does the overall potential application of Pure's growing offering package in the assessment and management of water and wastewater pipe networks.

Oil and Gas - Hunter McDonnell Acquisition:

On Oct. 1st, 2014, Pure completed the acquisition of Hunter McDonnell Pipeline Services (HM) as the key piece in expanding Pure's business into the oil and gas pipeline market. The acquisition cost Pure \$8 million, composed of \$6 million in cash and the difference in common shares of the company. Using the acquisition report financial statements for HM, Pure purchased HM at a price of roughly 3.43x 2014 ended March 31st EBITDA. In other words, it was cheap for Pure, especially considering how quickly HM has integrated into Pure's business in terms of combining their respective Armadillo tracking products with the Smartball for Oil and Gas and participating in Pure's capital markets day presentations.

During capital markets day, HM presented the addressable market for Pure and HM as being primarily 302,825 miles of gas transmission pipeline, and 190,371 of commodities pipeline, though there exists 2.65 million miles of total oil and gas pipeline being federally mandated for inspection over regular intervals. The acquisition works to synergistically combine HM's pig-tracking Armadillo technologies with Pure's Smartball technology to allow oil and gas pipelines to reduce costs and efficiently pig² previously unpiggable oil and gas pipelines. The accuracy and cost-savings of the Oil and Gas solutions from HM and Pure are solutions to the same issue that plagued ExxonMobil in their 2013 Arkansas leak that failed detection from their "new leak detection technology".

Metallic Pipeline Initiative:

Pure's business has historically focused on the market for concrete pipelines (PCCP) in North America. The market for metallic pipelines is 20 times larger than that of PCCP, and is another area for Pure to expand. Pure believes they can take their existing technology platform and expand upon its configurations for use in Metallic pipe sections, and have completed 14 inspection projects in metallic pipelines in 2014.

SMED Market and Asset Management Evolution:

Pure has put forth its intentions to enter the market for small to medium-sized municipalities in North America (SMED). After conducting surveys, Pure is working to develop a solution that focuses on the data management of these municipalities, and will likely create a mutually beneficial solution, to the best of our logic, that budgets and identifies the ideal plan for future capex for each client, receiving payment as a proponent of the cost-savings. To accomplish this, Pure will utilize its PureNet asset management capabilities. SMED customers pose to gain exceptionally from this offering. With debt related issues, poor management, and legacy costs hitting many United States municipalities, for example, PureNet could be used to fully budget and support the finances of the SMED market. Planning for economic feasibility could in theory carry value as a means of generating capital flexibility through improved credit ratings, and Pure's asset management services are logically the next step in unlocking that benefit. The difficulty here is in speculating whether it is economically feasible for Pure to move its services into the SMED market and create worthwhile value for their own business, as opposed to just their clients.

² Piggings is the process of uninterruptedly using devices (pigs) to perform maintenance operations on a pipeline

Risks

Customer & Contract:

In 2011, Pure faced the material risk of losing out on \$17.7 million in revenue through a contract with the Great Man Made River authority in Libya because of the Libyan revolution. While revenues were later realized through the year in 2012, and service with the client resumed, the contracts for Pure's efforts in unstable political environments cannot be guaranteed. This is less of a concern currently as Pure's revenues are currently derived mostly from secure North American markets, but it still poses a risk in the company's desired expansion into international markets. The size concentration of the receivables from contractual obligation is also a concern: in particular, at year-end 2013, one customer accounted for 37% of accounts receivable.

Revenue Recognition:

Pure operates on a percentage of completion based accounting method for revenue recognition. Therefore, management is capable of manipulating their values for revenue, for which investors are limited on their understanding. Subsequently, if the business were to actually struggle and deteriorate, management could mask the results for an extended period. For Pure, it appears unlikely for the need to fraudulently present their numbers given the increased demand for their services, as indicated by the 60% increase in project backlog from year end 2013.

Exchange Rate:

With 63% of Pure's revenues coming from the United States (2013), and CAD expenses, the company faces significant exchange rate risk. In the 2013 annual report, Pure indicated that a 5% positive change in the USD relative to the CAD would affect net income and equity by \$864,000. Currently, with a strong USD, Pure sits favorably in the near-term, but any future depreciation in the USD will hurt profitability. The markets general outlook here is that the CAD will continue to depreciate through most of 2015, which is in line with Stephen Poloz' support of a low CAD for the benefit of manufacturing and exports. With ongoing stimulus programs in Asia and Europe, United States bonds remain the most attractive for foreign capital investment, driving a demand for the USD through the near to medium foreseeable term.

Regulation and International Markets:

22% of Pure's business still lies in international economies. With international business comes localized risks pertaining to the political regions. Extending from the contract risk seen in Libya, Pure also faces risks for different infrastructure regulations, intellectual property laws and capabilities, and import/export legislation.

Missing the Boat – Funding Gap, Technology Advantage:

Competitive advantage for Pure, albeit as strong as it is, is liable to erode over time as competitors innovate and position themselves ahead of what is potentially a trillion dollar market. The growth potential for Pure may falter as a result of poor timing, as the aforementioned funding gap in North American water infrastructure may not close substantially until after Pure's premium market position is compromised.

Valuation

Financials:

DCF projections for Pure's revenue growth are based on previous y/y revenue growth of ~20%. With the acquisition of Hunter McDonnell, project backlog growth of 60% from year-end 2013, and the strong growth prospects of the SMED market, metallic pipe market, and international markets, 2015 and 2016 and 2017 revenue growth are projected at 35%, 30%, and 25% respectively. Revenue growth for 2014 is projected at 20% despite only 11% LTM Revenue growth, as the fourth quarter has historically been the best for Pure. EBITDA margins are projected to grow from 20-25% over the next 5 years due to cost-savings in G&A expenses, and economies of scale. Research and Development expenses are expected to return to 4% of sales from their current 2% LTM level, primarily due to the need to move the product-pool into a broader market, and because of increased capitalization of R&D expenses in 2014.

Valuation Methodology:

Valuation of pure is based off a weighted enterprise valuation from both a Discounted Cash Flow (DCF) valuation and Comparable Companies Analysis (CCA). The DCF utilizes a Weighted Average Cost of Capital (WACC) of 10.5%, and yields a price target of \$9.79/share. The WACC is calculated with a beta of 1.01 and a size premium of 3%. The CCA gives a price target of \$8.19 based off a blended forward 2015/2016 EV/EBITDA multiple of 18x which we believe is justified by Pure's increasing margins and impressive revenue growth. The 18x multiple is also a reasonable premium to its peer multiple both because of a more mature group of comparable and due to the immense potential for growth over the coming years.

The final share price estimate of \$9.23 is weighted as 65% DCF, and 35% CCA. The reason for the weightings is because of the granularity in assessing Pure with a CCA, as there are no excellent candidates for comparison. Pure is also relatively undercovered in market coverage, which gives more reason for the market to be underpricing it. Nonetheless, the CCA does carry some merit for understanding how the market will continue to perceive Pure, and that gives reason for some significant weighting

Inherently Speculative - Valuation Complications:

Pure, is, and will continue to be perceived as an expensive stock through and potentially beyond the medium term. As a niche market leader, Pure doesn't effectively have any true comparables, and carries immense potential for growth over the coming years. That said, valuing Pure is a process of balancing market perceptions, and cash flow projections, which is why, with limited capability to reasonably grasp market projections, we have placed more weight on our DCF than on our CCA. We have also concluded that the 18x blended multiple is a reasonable premium to its current blended multiple (15.2x) and our peer multiple (12.1x) due to a lack of foreseeable finite growth potential for Pure's products, and its considerable competitive advantage in innovation and a proven track record.

Appendix 1: Discounted Cash Flow and Final Valuation

Period	Projection Period					
	2014	2015	2016	2017	2018	2019
<i>Period</i>		1	2	3	4	5
REVENUE	73,037,600	98,600,761	128,180,989	160,226,236	192,271,483	230,725,780
COGS	17,163,836	21,692,167	26,918,008	32,045,247	38,454,297	46,145,156
GROSS PROFIT	55,873,764	76,908,593	101,262,981	128,180,989	153,817,186	184,580,624
SG&A	43,822,560	54,230,418	67,295,019	80,113,118	96,135,742	115,362,890
R&D	1,460,752	3,944,030	5,127,240	4,806,787	3,845,430	4,614,516
EBITDA	10,590,452	18,734,145	28,840,722	43,261,084	53,836,015	64,603,218
DEPRECIATION & AMORTIZATION	6,320,415	5,876,711	6,124,815	5,439,057	5,874,333	6,133,899
OPERATING INCOME (EBIT)	4,270,037	12,857,433	22,715,907	37,822,027	47,961,683	58,469,319
TAXES	298,903	2,571,487	4,543,181	7,564,405	11,702,066	14,617,330
NOPAT	3,971,135	10,285,947	18,172,726	30,257,621	36,259,617	43,851,989
Plus: Depreciation & Amortization	6,320,415	5,876,711	6,124,815	5,439,057	5,874,333	6,133,899
Less: Capital Expenditures	6,573,384	4,930,038	6,409,049	4,005,656	4,806,787	5,768,144
Less: Increase in Net Working Capital -	546,626	7,482,302	6,850,051	5,006,521	5,252,348	5,249,275
Unlevered FCF	4,264,791	3,750,318	11,038,440	26,684,501	32,074,815	38,968,469
Year Remaining	1,066,197.78	Y/Y Discount				
		3,392,933	9,034,876	19,759,723	21,487,861	23,618,354
PV	1,039,835	3,309,041	8,811,484	19,271,152	20,956,560	23,034,376
YTD Discount Rate	0.975274377					
Terminal Value	435,185,621					
Intrinsic Value	511,608,069					
Shares outstanding	52,270,000					
Valuation Weights:						
Share Price	\$	9.79	65%			
Comps Share Price	\$	8.19	35%			
Share Price Estimate:			\$	9.23		

Appendix 2: Comparable Companies Analysis

Comparable Companies Values as of Dec. 31, 2014										
<i>\$ in thousands</i>										
Company	Ticker	Price/Share	Mkt Cap	Enterprise Value	L12M EV/EBITDA	2015E EV/EBITDA	2016E EV/EBITDA	Trailing P/E	Forward P/E	Price/Book
					x	x		x	x	x
Stantec Inc.	TSE: STN	\$ 31.91	3,020,000	3,203,000	11.1	9.2	8.2	18.5	15.5	2.9
Badger Meter	NYSE:BMI	\$ 59.94	858,000	909,000	14.6	12.8	11.3	28.2	23.7	6.7
Mueller Water Products	NYSE:MWA	\$ 10.24	1,645,000	2,032,000	11.3	9.4	8.1	30.0	21.4	4.7
Pentair Inc.	NYSE:PNR	\$ 67.25	12,538,000	15,351,000	12.6	11.5	10.7	20.8	15.6	2.5
PROS Holdings	NYSE:PRO	\$ 28.02	826,000	785,000	28.9	20.1	n/a	NEG	52.7	8.6
WSP Global	TSE:WSP	\$ 34.80	3,121,000	3,874,000	20.2	9.4	8.6	23.7	16.2	1.7
Computer Modelling Group	TSX:CMG	\$ 12.11	959,000	894,000	21.4	20.8	18.4	32.4	31.9	15.3
Mean					17.16	13.31	10.87	25.60	25.29	6.06
Median					14.60	11.50	9.63	25.95	21.40	4.70
Pure Technologies	TSE: PUR	\$ 6.39	334,005	293,421	31.02	15.66	10.17	126	32	3.78
Blended 2015/2016 Forward EV/EBITDA										
Blended 2015/16 Peer					12.09					
PUR					12.92					
Projection					18x					
		2015E	2016E							
EBITDA		18,734,145	28,840,722							
Est. EV		428,173,803								
Shares O/S		52,270,000								
Share Price:		\$ 8.19								

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