

EQUITY RESEARCH

June 15, 2022

Transferring Coverage

DYE & DURHAM LTD.

Transferring Coverage: Attractive Risk/Reward Set-up

Our Conclusion

As of June 15, we are transferring coverage of Dye & Durham from Stephanie Price to Scott Fletcher in a realignment of analyst coverage responsibilities. While Dye & Durham has had a turbulent calendar year in the aftermath of management's \$50.50 take-private offer, we believe the shares are trading at an attractive level on a stand-alone basis amidst the unresolved Link Group and TM Group regulatory reviews. Further, while we acknowledge that there is significant uncertainty around the pending Link Group transaction, we see Link Group and its 43% stake in Pexa as potentially adding 2x upside to our price target. With the transfer we are upgrading Dye & Durham from Neutral to Outperformer as we believe the risk/reward set-up is compelling. We also reduce our price target from \$50 to \$30 to reflect a more volatile market and incremental risks in the DND story.

Key Points

Valuation Is Compelling: The Dye & Durham base business is trading at 8.4x on our F2023 adjusted EBITDA (ex-AIR) estimate. At 8.4x, DND is trading below the historical average of a registry services peer, an average we view as a solid proxy for a floor valuation given DND's geographic diversity and stronger growth prospects and EBITDA margins. By applying a peak peer multiple of 11x to our current estimates we arrive at a price target of \$30, an attractive upside of ~40% to the current share price with limited downside risk.

Link Group As Upside: While the market is certainly discounting the possibility of a successful merger, we regard the deal as upside if it does go through. Link Group would more than double DND's pro forma adjusted EBITDA to over \$600 million, increase the percentage of recurring revenue, and reduce DND's reliance on housing transactions. The deal would also increase pro forma leverage by nearly three turns to 7.4x. We see the incremental EBITDA from Link and Link's 43% stake in Pexa (itself worth \$12.24/DND share) as upside even at the cost of elevated leverage. We calculate that the consolidated business could be worth up to twice as much as the DND stand-alone business at \$61/share.

Risks To Stand-alone Business: In reducing our target multiple from 15x to 11x we acknowledge that DND's base business is now facing additional risk to its growth prospects. Competition authority reviews may make it difficult to continue to acquire workflow and conveyancing software in target geographies and impact DND's ability to meaningfully increase e-conveyancing prices. We also see increased risk from a slowdown in housing market transactions in the wake of interest rate hikes, particularly if price increases can no longer offset those slowdowns. Understanding those potential impacts, we believe that the reduction in our target multiple, and the exclusion of TM Group from our price target calculation, appropriately reflects increased risk levels.

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↑ Outperformer

DND-TSX, Sector: Information Technology

Current Price (6/15/22): C\$21.57

Price Target (12-18 mos.): ↓ C\$30.00

Previous: C\$50.00

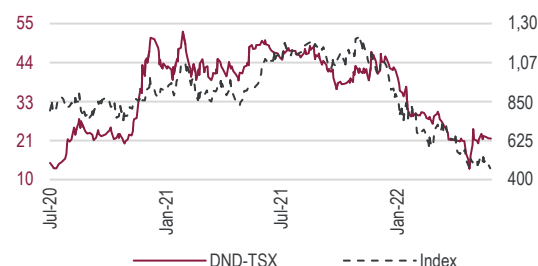
CIBC Estimates and Valuation

(Jun. 30)	2020	2021	2022	2023
Revenue(mln)	65.51A	208.95A	482.93E	639.23E
Prior				642.46E
EBITDA(mln)	21.7A	52.9A	201.8E	274.9E
Prior			195.6E	264.6E
Adj. EBITDA(mln)	36.7A	116.4A	265.5E	346.9E
Prior			269.3E	348.6E
Revenue(mln)	Q1	Q2	Q3	Q4
2023	149.17E	160.66E	163.88E	165.52E
Prior			165.48E	167.14E
2022	112.62A	109.63A	122.88A	137.80E
Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2023	79.8E	86.8E	89.3E	91.0E
Prior	80.6E	85.6E	90.3E	92.0E
2022	62.4A	62.6A	66.8A	73.7E
Prior				77.5E
Valuation	2020	2021	2022	2023
EV/EBITDA	67.2x	21.2x	9.3x	7.1x

Stock Performance and Key Indicators

Avg. Dly. Vol.:	306K	Shares O/S:	69.1M
Market Cap.:	C\$1,491M	Float:	56.2M
52-wk Range:	C\$13.18 - C\$50.11	Div. / Yield:	NIL/NIL

Inf. Tech. Index vs. DND-TSX



All figures in Canadian dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 8.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 9.

Dye & Durham Ltd. (DND-TSX) — Outperformer

Price (6/15/22) C\$21.57 12-18 mo. Price Target C\$30.00

Sector: Information Technology

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Key Financial Metrics	2020	2021	2022E	2023E
Sales Growth	49.4%	219.0%	131.1%	32.4%
Per Share Data	2020	2021	2022E	2023E
EPS	(0.55)	(0.72)	0.25	0.70
Diluted EPS	(0.55)	(0.72)	0.24	0.66
Wgt Avg # of Shares	20.5	56.4	68.9	69.5
FD Number of Shares	20.5	56.4	73.1	74.2
Income Statement	2020	2021	2022E	2023E
Revenue	66	209	483	639
Cost of Goods Sold	7	28	60	77
Gross Profit	59	181	423	563
Tot Operating Exp	24	65	158	216
OpEx (% of Revenue)	36.88%	30.99%	32.64%	33.73%
EBITDA	22	53	202	275
EBITDA Margin	33.18%	25.33%	41.79%	43.01%
Adj. EBITDA	37	116	265	347
Adj EBITDA Margin	56.0%	55.7%	55.0%	54.3%
Net Income	(11)	(41)	17	49
Net Margin	(17.2%)	(19.6%)	3.6%	7.6%
Cash Flow Statement	2020	2021	2022E	2023E
Net CFO	33	79	168	243
Capex	1	2	1	1
Acquisitions	4	767	872	0
Free Cash Flow	32	78	166	242
Balance Sheet	2020	2021	2022E	2023E
Cash & ST Investment	3	429	259	501
Intangible Assets	88	564	963	816
Goodwill	53	494	978	978
Total Assets	167	1,558	2,371	2,497
LT Int-Bearing Debt	181	222	859	859
Total Liabilities	236	807	1,579	1,636
Shareholders' Equity	(69)	751	789	838
Tot Liab & SE	167	1,558	2,368	2,474

Source: Company Reports, FactSet, and CIBC World Markets Inc.

Company Profile

Dye & Durham Corporation is a leading provider of cloud-based software and technology solutions designed to improve efficiency and increase productivity for legal and business professionals.

Investment Thesis

1) Longer-term positive view on strategy; 2) Pace of M&A leads to integration and regulatory risk; 3) Upside from future M&A; and, 4) Fairly valued at current levels.

Price Target (Base Case): C\$30.00

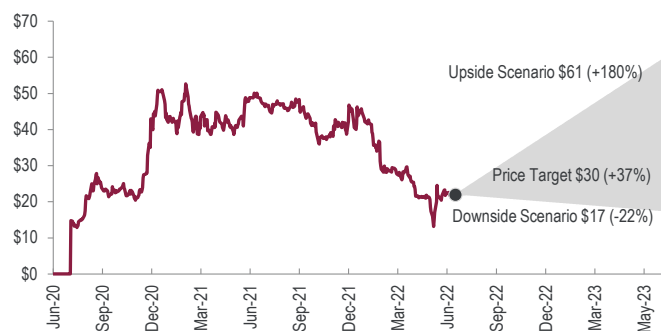
Our base case is calculated using 32% revenue growth, 46% EBITDA (ex-AIR) margins and an 11.0x EV/EBITDA multiple.

Upside Scenario: C\$61.00

Our upside scenario is calculated using 2023E revenue inclusive of the Link acquisition, 41% EBITDA margins and an 11.0x EV/EBITDA multiple.

Downside Scenario: C\$17.00

Our downside scenario is calculated using 20% revenue growth, 40% EBITDA margins and an 8.5x EV/EBITDA multiple.



Valuing The Base Business

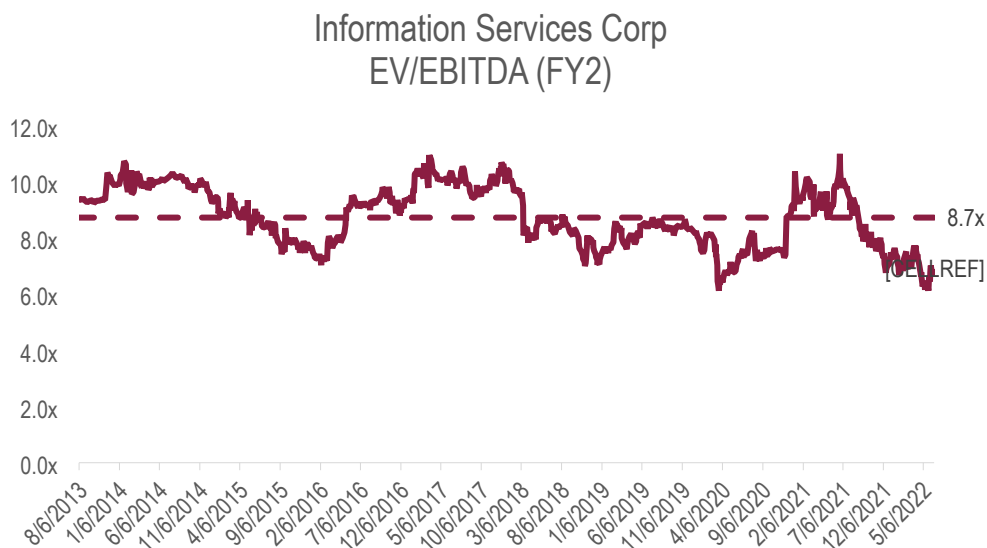
Amidst the uncertainty related to the closing of Link Group, we ultimately believe that a decision to own DND shares comes down to an investor's confidence in Dye & Durham's base business and the price they are willing to pay for it.

The Link Group transaction faces a number of remaining hurdles, resulting in a real possibility that the deal is not completed. Link shares are now trading well below the A\$4.33 levels at which they were trading prior to the initial Carlyle Group bid in November 2021. The dislocation between the A\$5.50 offer price and the current share price of \$3.74 underscores the market's lack of confidence in a successful transaction at A\$5.50/share.

Given the lack of clarity around the Link Group transaction, we continue to value DND based on its existing base business. Based on our current estimates for the base business, DND is trading at 7.2x F2023E adjusted EBITDA and 8.4x F2023E adjusted EBITDA when excluding ~\$52 million in adjustments for AIR costs.

To anchor our valuation expectations we view Information Services Corporation (ISV) as a solid proxy for a floor valuation multiple. ISV's business is similarly tied to housing market transactions, and DND and ISV do overlap in a handful of the services they provide. We view ISV as a floor for valuation rather than as a direct comparable given ISV's narrower geographic scope, the fact that ISV has not aggressively pursued M&A and price increases in the same manner as DND, and the fact that ISV has operated with a margin profile well below that of DND.

Exhibit 1: ISV – EV/EBITDA Valuation History, 2013 - Present (As Of 6/15/2022)



Source: FactSet and CIBC World Markets Inc.

DND has been significantly more aggressive than ISV in terms of both organic and inorganic growth, and that aggressiveness has led to DND growing revenue at an 86% CAGR from 2018-2021 vs. 12% at ISV over the same time frame. While there is risk around DND's continued ability to pursue the same levels of acquired and organic growth, we expect that DND management remains focused on sourcing acquisition targets and driving organic growth through price increases in both the existing base business and at new acquisitions. Average adjusted EBITDA margins from 2018-2021 are nearly 25% stronger at DND, further supporting ISV as a low-end valuation marker. We do note that the debt used to fund M&A has resulted in much higher leverage at DND, with leverage 3.3x higher than at ISV. While leverage of 3.6x adjusted EBITDA is certainly elevated, we still model DND generating \$242 million in free cash flow in F2023 after a projected \$61 million in F2023 interest costs.

Exhibit 2: DND/ISV – Financial Comparison, 2018 - 2021

	Revenue CAGR (2018-2021)	Organic Growth Outlook (Est.)	Average Adj. EBITDA % (2018-Current)	# Acquisitions (2018-Present)	Leverage – Current
Information Services Corp.	12.4%	Low-Mid Single Digits	33.4%	15*	0.3x
Dye & Durham	85.9%	High Single Digits	57.7%	4	3.6x

*Total excludes TM Group and Link Group transactions.

Source: Company reports, FactSet and CIBC World Markets Inc.

As shown in the line chart in Exhibit 1, ISV has traded at an average EV/EBITDA multiple of 8.7x since its IPO in 2013, hitting peak multiples of 11x and lows of 6.1x. In a scenario where the Link Group transaction is not completed, Dye & Durham is trading below ISV's historical multiple, limiting the downside risk in the stock.

We arrive at our updated \$30 price target by applying an 11x EV/EBITDA multiple to our 2023 adjusted EBITDA estimate. We use the upper end of ISV's historical trading range given the geographic diversity, better growth prospects and notably better margin profile at Dye & Durham. We note that the 11x target multiple is at a discount to the 15x multiple that we used previously to value DND, a discount that reflects the additional leverage resulting from the \$1.52 billion term loan as well as incremental risks to the story (covered on page 5).

Viewing Link Group As Upside

While the market has clearly discounted the possibility of a Link Group transaction, we still consider the transaction as upside to our current price target. The table in Exhibit 3 provides an overview of the combined DND/LNK business in 2023E using our estimates for DND and consensus estimates for Link Group. The acquisition of Link Group would expand DND's service offerings, moving them into the Australian, New Zealand and U.K. financial and corporate services markets. Link's businesses do not provide any clear overlap with DND's existing real estate and legal workflow products, but do broadly provide information services to specialized end-markets.

Acquiring Link Group would more than double DND's 2023E revenue by adding two new business segments. However, we expect these segments to result in limited, if any, revenue synergies while also materially increasing DND's leverage. We calculate that the business would be 6.3x leveraged on pro forma consolidated adjusted EBITDA and 4.5x leveraged on F2023E consolidated adjusted EBITDA. With the lack of clear synergies between DND and Link Group, we remain of the opinion that Link Group's 43% stake in Pexa is the driving factor behind the acquisition given the overlap between Pexa's and Dye & Durham's core e-conveyancing business.

Exhibit 3: DND – Stand-alone Vs. Combined Comparison, F2023E
(\$MM, except where noted)

	Stand-alone	Combined
F2023E Revenue	639	1,474
F2023E Adj. EBITDA	347	665
F2023E Adj. EBITDA (ex-AIR)	295	603
F2023E Adj. EBITDA Margins	54%	45%
F2023E Adj. EBITDA (Ex-AIR) Margins	46%	41%
F2023E Free Cash Flow	242	228
F2023E Adj. EBITDA --> FCF Conversion	70%	34%
F2023E Free Cash Flow Per Share	\$3.50	\$3.21
F2023E Free Cash Flow Margin	38%	15%
F2023E Free Cash Flow Yield	16%	15%
Net Debt/Adj. EBITDA (ex-AIR) – Pro Forma	4.5x	7.4x
Net Debt/ Adj. EBITDA – Pro Forma	3.6x	6.3x
Net Debt/Adj. EBITDA (ex-AIR) – F2023E	3.3x	4.9x
Net Debt/Adj. EBITDA – F2023E	2.8x	4.5x
Recurring Revenue	14%	53%

Source: FactSet and CIBC World Markets Inc.

While we do view the deal – and the impact of the Pexa stake – as upside, a key takeaway from the table in Exhibit 3 is the impact of the additional debt on free cash flow in the combined scenario. In the second scenario, the impact of increased interest payments results in free cash flow below what we expect the stand-alone entity will generate on an absolute and per share basis. While we do not have concrete terms on the proposed \$3.25 billion term loan, we have assumed a rate of 5% on the term loan to estimate the incremental interest costs that will result from the new financing package. Looking at the limited operational synergies and the impact to free cash flow, the importance of the Pexa stake to DND is made even clearer.

In the two tables in Exhibit 4 we outline what DND's current share price implies on an EV/EBITDA basis under two scenarios. In this comparison we have backed out the value of Link's 43% stake in Pexa at its current market value to provide a better idea of what the current DND share price implies about the combined business. At the current Pexa share price, the 43% stake would represent \$12.24/share to DND. Adjusting for the Link Group EBITDA, additional debt and the value of the Pexa stake, DND's EV/2023E adjusted EBITDA valuation multiple would sit at 5.4x rather than 7.2x.

Exhibit 4: DND – Standalone Vs. Combined Valuation Comparison, F2023E
(\$MM, except where noted)

1) Stand-alone		2) With Link Group	
DND Market Cap	1,515	DND Market Cap	1,515
Net Debt	970	Net Debt	2,961
Pexa Stake	-	Pexa Stake	(872)
Enterprise Value	2,484	Enterprise Value	3,604
F2023E Adj. EBITDA (ex-AIR)	295	F2023E Adj. EBITDA (ex-AIR)	603
F2023E Adj. EBITDA	347	F2023E Adj. EBITDA	665
EV/Adj. EBITDA (ex-AIR) – F2023E	8.4x	EV/Adj. EBITDA (ex-AIR) – F2023E	6.0x
EV/Adj. EBITDA – F2023E	7.2x	EV/Adj. EBITDA – F2023E	5.4x

Source: FactSet and CIBC World Markets Inc.

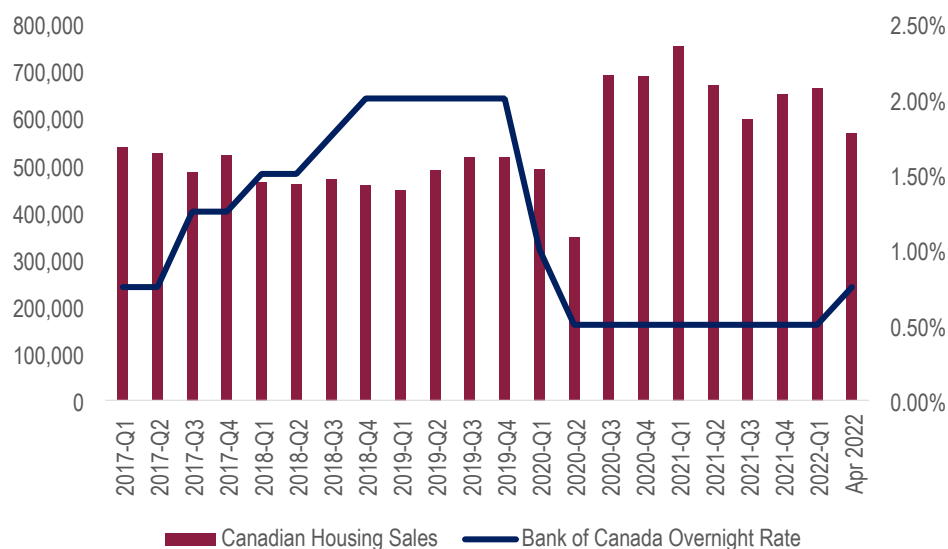
Risks To The Stand-alone Business

While we see value in buying DND shares at current levels, we also acknowledge that there are incremental risks to the DND story that need to be considered. We see competition authority reviews as an ongoing risk to DND's ability to grow via acquisition, and note that the company's focus on select geographies and reliance on post-acquisition price increases have only increased regulatory scrutiny around acquisitions. Regulatory risk at DND is elevated in the wake of the U.K. Competition and Markets Authority's (CMA) preliminary finding that a sale of TM Group would be the only effective way to address the acquisition's impact on competition.

Prior to the CMA investigation DND had been highly successful in both identifying a market where price increases could be passed through to customers with little pushback and identifying acquisition targets where the strategy could be carried out. Going forward, the increased regulatory scrutiny raises concerns about the ongoing viability of this strategy, both from an acquisition sourcing perspective and from a price increase perspective.

We also consider a stand-alone Dye & Durham's direct ties to housing market activity and its reliance on price increases to offset declines in transaction volumes. In the period since Dye & Durham's IPO, low central bank rates have led to elevated transactions in the housing market. As we quickly move into a rising interest rate environment, housing market activity has already started to slow. With FQ3 results DND noted that price increases more than offset a decline in transaction volumes, but there is some risk to forward growth estimates as housing transactions slow and to DND's ability to continue raising prices without creating further churn. We do expect that the pass-through nature of e-conveyancing costs and the minimal portion of a housing transaction they represent will continue to allow DND to grow through price increases, but note that competition authority reviews and negative media attention may limit the extent of those increases.

Ultimately, we believe that our lowered target multiple on the DND business appropriately captures the incremental regulatory and housing market risks associated with a scenario where the Link Group transaction doesn't go through, and that the risk/reward set-up remains compelling at current levels. We illustrate in the line and bar chart in Exhibit 5 Canadian housing sales and the Bank of Canada Overnight rate.

Exhibit 5: Canada – Housing Sales, Q1/17 - Q2/22

Source: Bank of Canada, CREA and CIBC World Markets Inc.

Price Target Comparisons

To arrive at our \$30 price target, we use an 11x multiple on our 2023 adjusted EBITDA (ex-AIR adjustments) estimate for DND's base business (as shown in the table in Exhibit 6). Our price target is also based on the assumption that TM Group is divested for proceeds equal to the \$156 million that DND paid for the business in July 2021.

Exhibit 6: DND – Stand-alone Price Target Calculation (\$MM, except where noted)

Price Target Calculation – Stand-alone	
F2023E Adjusted EBITDA (ex-AIR)	295
Less: TM Group EBITDA	(31)
Multiple	11.0x
Enterprise Value	2,901
Net Debt – Balance Sheet	970
Proceeds From TM Group Sale	(156)
Equity Value	2,087
Shares Outstanding (MM)	69.1
Price Target	\$30

Source: CIBC World Markets Inc.

In an attempt to quantify the upside value of the Link Group transaction, we have also calculated a price target using our pro forma combined DND/LNK estimates, as shown in the table in Exhibit 7. The key differences in the combined scenario are the increased net debt resulting from the deal, ~2 million additional shares from the financing package, and the impact of the mark-to-market value of the Pexa stake. Using the same 11x multiple and assuming the full \$100 million in synergies that management has indicated are possible results in an upside scenario of \$61.

Exhibit 7: DND – Upside Scenario With Link Group (\$MM, except where noted)

Price Target Calculation – Link	
F2023E Adjusted EBITDA (Ex-AIR)	603
Less: TM Group EBITDA	(31)
Multiple	11.0x
Enterprise Value	6,288
Net Debt – Balance Sheet	2,961
TM Group Sale	(156)
Equity Value	3,483
Pexa Stake – Mark-to-market	866
Shares Outstanding (MM)	71.2
Upside Scenario Price	\$61

Source: FactSet and CIBC World Markets Inc.

We also include a scenario analysis in the table in Exhibit 8 that adjusts the target multiple downward to account for investors' comfort level with the additional leverage and also adjusts for potential synergies resulting from the Link Group deal. This scenario analysis results in a range of share price scenarios from \$21 to \$61. If full synergies are assumed, the combined EV/EBITDA multiple could fall to 7x, with the per share value remaining close to our \$30 base case price target. We consider the lower end of the scenario analysis as capturing the risk of the increased leverage and reduced cash flow that results from elevated debt levels.

Exhibit 8: DND/LNK – Combined Scenario Analysis

		EV/EBITDA Multiple				
		7.0x	8.0x	9.0x	10.0x	11.0x
Link EBITDA Synergies	20	\$ 21	\$ 28	\$ 35	\$ 42	\$ 49
	40	\$ 23	\$ 30	\$ 38	\$ 45	\$ 52
	60	\$ 25	\$ 33	\$ 40	\$ 48	\$ 55
	80	\$ 27	\$ 35	\$ 43	\$ 50	\$ 58
	100	\$ 29	\$ 37	\$ 45	\$ 53	\$ 61

Source: FactSet and CIBC World Markets Inc.

Price Target Calculation

We derive our price target of \$30 by applying an 11x EV/EBITDA multiple to our F2023 EBITDA (ex-AIR) estimate based on the current capital structure and sale of TM Group. The 11x multiple is in line with the peak trading multiple of comparable registry services providers. The 11x multiple is also a 20% discount to Canadian consolidator peers as a result of DND's ties to the housing markets and risk to the consolidation strategy from competition authority reviews.

Key Risks To Price Target

The primary risks to our price target include the following: 1) competition and regulatory reviews impact the ability to acquire; 2) regulatory reviews and negative media coverage limit the ability to increase prices on e-conveyancing and transactional services; 3) slowdowns in housing market sales impact transactional revenues, putting organic growth at risk; 4) risks around integration of M&A given the pace of acquisition; and 5) governance concerns in the wake of the stock option grant post the take-private process.

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Outperformer	OP	Stock is expected to outperform similar stocks in the coverage universe during the next 12-18 months.
Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
Underperformer	UN	Stock is expected to underperform similar stocks in the coverage universe during the next 12-18 months.
Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
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Overweight	O	Sector is expected to outperform the broader market averages.
Marketweight	M	Sector is expected to equal the performance of the broader market averages.
Underweight	U	Sector is expected to underperform the broader market averages.
None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

For price and performance charts, please visit CIBC on the web at <https://researchcentral.cibccm.com/#/disclaimer-central-new> or write to CIBC World Markets Inc., 161 Bay Street, 4th Floor, Toronto, ON M5H 2S8, Attn: Research Disclosure Chart Request.

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- 2a These companies are clients for which a CIBC World Markets company has performed investment banking services in the past 12 months: Dye & Durham Ltd.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from these companies in the past 12 months: Dye & Durham Ltd.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from these companies in the next 3 months: Dye & Durham Ltd.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by these companies: Dye & Durham Ltd.

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(as of 15 Jun 2022)	Count	Percent	Inv. Banking Relationships	Count	Percent
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Neutral	122	39%	Neutral	121	99%
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Tender	3	1%	Tender	3	100%
Restricted	2	1%	Restricted	2	100%

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