

EQUITY RESEARCH

September 13, 2023

Earnings Update

DYE & DURHAM LTD.

Targeting Growth From M&A

Our Conclusion

Dye & Durham reported FQ4 results that narrowly exceeded the upper end of guidance while slightly topping the low end of the guidance range on Adjusted EBITDA. Revenue in the quarter was 3% below our above-guidance estimate as improving Q/Q housing transaction revenue appears to have been offset by slightly lower-than-expected non-housing transaction revenue. While housing transactions remain a substantial piece of DND's business (58% of FQ4 revenue), ARR growth has been strong as new go-to-market efforts and M&A have focused on adding recurring revenue. Looking forward, management is targeting 20%-25% growth in Adjusted EBITDA in 2024, split 50/50 between organic and acquired growth. With Canadian housing showing signs of stabilizing over the summer and strong momentum in ARR growth, we retain our Outperformer rating and increase our price target to \$28 (from \$25) as we roll our estimates forward to fiscal 2025.

Key Points

Revenue At The Top End Of Guidance Range: DND reported revenue of \$120.2MM for FQ4, exceeding the top end of the guidance range of \$115MM-\$120MM and in line with consensus of \$120MM, but below our estimate of \$124.1MM. We had previously highlighted the potential for DND to surpass guidance for FQ4 given an improvement in Canadian housing transactions during calendar Q2. FQ4 housing transaction revenue was roughly in line with our forecast of \$61MM; however, revenue from non-real estate transactions appears to have been slightly below our expectations.

Unity Global Rollout: The newly announced rollout of Unity Global was a focus on the earnings call, with management discussing the merits of the new solution. The Unity Global platform will give all customers a single sign-on point for all DND solutions, which management expects will improve the company's ability to cross-sell. DND's full product suite will be accessible from a single destination with a single customer bill. We expect the new platform to drive incremental revenue growth and margin improvement as it is rolled out over the course of 2023/2024 in DND's end markets.

Growth Targets Require Further M&A: Management disclosed that it is targeting annual adjusted EBITDA growth of 20%-25%, with half of the growth generated organically and half from acquisitions. Despite stated goals to delever below 4x, management remains committed to M&A and spent an additional \$55MM subsequent to quarter end on the acquisition of a U.K.-based practice management businesses. Assuming these acquisitions and future deals are completed at DND's typical mid-teens EBITDA multiple, DND will still need to spend somewhere in the range of \$240MM to acquire the annualized adjusted EBITDA required to reach the midpoint of the growth target. We have not included any unannounced M&A in our forecast and as such are currently forecasting Adjusted EBITDA growth of 16% in F2024.

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Outperformer

DND-TSX, Sector: Information Technology

Current Price (9/13/23): C\$19.70

Price Target (12-18 mos.): ↑ C\$28.00

Previous: C\$25.00

CIBC Estimates and Valuation

(Jun. 30)	2022	2023	2024	2025
Revenue(mln)	474.81A	451.11A	495.25E	557.15E
Prior		455.03E	477.84E	
EBITDA(mln)	193.4A	89.1A	218.3E	253.6E
Prior		162.4E	225.6E	
Adj. EBITDA(mln)	266.9A	243.8A	282.3E	317.6E
Prior		250.4E	279.6E	

Revenue(mln)	Q1	Q2	Q3	Q4
2024	121.57E	122.11E	115.11E	136.45E
Prior	121.44E	113.25E	114.53E	128.61E
2023	120.17A	106.65A	104.09A	120.19A
Prior				124.12E

Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2024	67.8E	68.8E	64.7E	81.1E
Prior	70.8E	63.8E	66.4E	78.6E
2023	64.4A	57.6A	56.1A	65.7A
Prior				72.4E

Valuation	2022	2023	2024	2025
EV/EBITDA	11.8x	25.6x	10.5x	9.0x

Stock Performance and Key Indicators

Avg. Dly. Vol.:	107K	Shares O/S:	55.6M
Market Cap.:	C\$1,095M	Float:	45.2M
52-wk Range:	C\$11.77 - C\$22.55	Div. / Yield:	NIL/NIL

Inf. Tech. Index vs. DND-TSX



(Source: FactSet)

All figures in Canadian dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 5.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 6.

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

Price (9/13/23) C\$19.70 12-18 mo. Price Target C\$28.00

Sector: Information Technology

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Key Financial Metrics	2022	2023	2024E	2025E
Free Cash Flow	156	104	176	207
Sales Growth	127.2%	(5.0%)	9.8%	12.5%
Per Share Data	2022	2023	2024E	2025E
EPS	0.11	(2.76)	(0.95)	(0.71)
Diluted EPS	(0.32)	(2.76)	(0.95)	(0.71)
Wgt Avg # of Shares	68.9	61.9	55.6	55.6
FD Number of Shares	75.5	61.9	55.6	55.6
Income Statement	2022	2023	2024E	2025E
Revenue	475	451	495	557
Cost of Goods Sold	58	52	54	61
Gross Profit	417	399	441	496
Tot Operating Exp	150	156	158	178
OpEx (% of Revenue)	31.66%	34.49%	31.99%	31.99%
EBITDA	193	89	218	254
EBITDA Margin	40.73%	19.76%	44.09%	45.52%
Adj. EBITDA	267	244	282	318
Adj EBITDA Margin	56.2%	54.0%	57.0%	57.0%
Net Income	8	(171)	(53)	(39)
Net Margin	1.7%	(37.8%)	(10.6%)	(7.1%)
Cash Flow Statement	2022	2023	2024E	2025E
Net CFO	185	141	219	251
Capex	1	4	2	2
Acquisitions	883	116	(21)	0
Free Cash Flow	156	104	176	207
Balance Sheet	2022	2023	2024E	2025E
Cash & ST Investment	224	36	54	125
Intangible Assets	957	861	730	589
Goodwill	970	1,005	995	995
Total Assets	2,250	2,124	1,907	1,860
LT Int-Bearing Debt	861	1,064	1,017	1,010
Total Liabilities	1,487	1,701	1,593	1,558
Shareholders' Equity	763	423	313	302
Tot Liab & SE	2,250	2,124	1,907	1,860

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) High-margin business that generates strong cash flows; 2) Strong track record of realizing synergies on M&A targets; 3) Current valuation providing an attractive entry point; 4) Upside from future M&A

Price Target (Base Case): C\$28.00

Our base case is calculated using 12.5% revenue growth, 55% EBITDA margins, and 10.0x EV/EBITDA multiple.

Upside Scenario: C\$54.00

Our upside scenario is calculated using revenue growth of 20%, 60% EBITDA margins and a 12.0x EV/EBITDA multiple.

Downside Scenario: C\$7.00

Our downside scenario is calculated using 0% revenue growth, 40% EBITDA margins and an 8.5x EV/EBITDA multiple.

Scenario Analysis:

Financial Summary

Capital Allocation: Capital allocation priorities were also a focus of the call, with management highlighting its intention to drive total leverage (including the convertible debenture) below 4x, repaying net \$41MM in debt subsequent to the quarter. Balancing these two goals presents a challenge, and as such we expect DND to prioritize M&A over deleveraging in the near term. Leverage stands at 5.4x, up Q/Q from 4.9x.

Cash Flows: CFO was \$43.8MM and DND invested ~\$9.5MM in capex and intangibles, leading to FCF of \$3.9MM, down 82% Y/Y. In FQ4, DND invested ~\$42MM for acquisitions in the quarter and an additional ~\$55MM subsequent to quarter end. Adjusted EBITDA to free cash flow conversion was 5.9% in FQ4, below the 29.6% converted in the prior year. Net debt was \$1.3B, inclusive of \$266MM in convertible debt.

Exhibit 1: DND – Financial Summary, Q4/F23

	Q4/F23			Q4/F22	Y/Y%	Q3/F23	Q/Q%
	Actual	CIBCe	Cons				
Consolidated							
Revenue (\$MM)	120.2	124.1	120.0	129.7	-7%	104.1	15.5%
Gross Profit (\$MM)	106.0	110.8	NA	115.4	-8%	93.0	14.0%
Gross Margin	88.2%	89.3%	NA	89.0%	-1%	89.3%	-1.2%
Adjusted EBITDA (\$MM)	65.7	72.4	69.0	75.2	-13%	56.1	17.2%
Adjusted EBITDA Margin (%)	54.7%	58.3%	57.5%	58.0%	-6%	53.9%	1.5%
Basic EPS	(1.60)	(0.21)	(0.10)	(0.05)	3308%	(0.63)	154.3%
FCF (\$MM)	3.9	17.3	47.7	22.2	-82%	(17.9)	-121.8%
FCF As % Of Adjusted EBITDA	5.9%	23.9%	69.1%	29.6%	-80%	-31.9%	-118.6%

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

Changes To Our Model: We have updated our model for the F2023 results and increased our F2024 revenue estimates to reflect acquisition spending in the quarter and strong ARR growth.

Exhibit 2: DND – Changes To Our Model, 2023A-2025E

	Revenues (\$MM)	EBITDA (\$MM)	Adj. EBITDA (\$MM)	Adjusted EPS	FCF (\$MM)	FCF Conversion
2023	451	89	244	-2.76	104	43%
2024E						
CIBC est. – new	495	218	282	-0.95	176	62%
CIBC est. – prior	478	226	280	-0.60	181	64%
Consensus	481	NA	283	-0.16	240	85%
2025E						
CIBC est. – new	557	254	318	-0.71	207	65%
CIBC est. – prior	557	254	318	-0.71	207	65%
Consensus	515	NA	310	0.30	140	45%

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

Environmental, Social and Governance (ESG) Metrics for DND-TSX

CIBC ESG Metrics

Governance Metrics	2017	2018	2019	2020	2021
Insider Ownership	NA	NA	NA	31.8%	21.4%
Board Gender Diversity	NA	NA	NA	0%	0%
Separation of Chair & CEO	NA	NA	NA	YES	YES
Dual-class Ownership?	NA	NA	NA	NO	NO
Disclose ESG Data?	NA	NA	NA	NO	NO
Social Metrics	2017	2018	2019	2020	2021
CEO Comp./Mkt Cap*	NA	NA	NA	NA	\$4.6
Diversity Targets	NA	NA	NA	NO	NO
Women Managers	NA	NA	NA	13%	13%
Environmental Metrics	2017	2018	2019	2020	2021
Emissions Intensity**	NA	NA	NA	NA	NA
Net-zero Targets?	NA	NA	NA	NO	NO

*CEO Compensation is shown as per thousand dollars of market capitalization

**Emissions Intensity calculated as total emitted CO2e divided by million \$ of CAD revenue

Sustainalytics ESG Risk Rating

28.1 **+4.1** **Medium Risk**

Updated on
Sep 2, 2023

Momentum



Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK	PERCENTILE
	(1 st = lowest risk)	(1 st = lowest risk)
Global Universe	9143/15361	60th
Software & Services INDUSTRY	968/1063	91st
Enterprise and Infrastructure Software SUBINDUSTRY	409/435	94th

Sustainalytics Material ESG Issues

These are the Material ESG Issues driving the ESG Risk Report

Issue Name	ESG Risk Exposure	ESG Risk Management	ESG Risk Rating	Contribution to ESG Risk Rating
	Score Category	Score Category	Score Category	

CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	1	+1	Value	57	+10
Momentum	1	0	Momentum	5	-1
Quality	6	+2	Quality	85	+35
Market	11	0	Market	220	-2
Low Volatility	8	0	Low Volatility	161	+15
Growth	9	-1	Growth	150	-6

Note: Ranking out of 11 stocks

Note: Ranking out of 227 stocks

General Notes Behind the Quantitative Scorecard

Delta refers to the change in the ranking over the past month. Number of stocks "Within Sector" is defined by the number within the GICS. In the "Within S&P/TSX" category, we use all stocks in the S&P/TSX Composite. For detail on the Quant Factors included in each style above, please contact the CIBC Portfolio Strategy Team.

The table above is based upon quantitative, statistical, and mathematical analysis and is not intended to serve as a fundamental recommendation.

CIBC Technical Scorecard

Factor	TSM Score	Factor	TSM Score
TSM	3	Momentum	C
Beta	0.99	MACD	D
Volatility	↔	Alpha (Sector)	C
Trend	↗	Alpha (Index)	C
RSI	Neutral		

General Notes Behind the Technical Scorecard

TSM: The Trendspotting Matrix uses technical factors to score uptrend durability.

Momentum and alpha metrics compare performance over one-month, one-quarter and one-year timeframes, outputting a rating from A to D.

Trend/Volatility metrics measure price deviations relative to underlying moving averages.

RSI is an oscillator that provides mean-reversion estimations.

MACD is a momentum indicator rated from A to D based off the strength of its signal.

The table above is based upon a technical methodology that examines the past trading patterns and trades and is not intended to serve as a fundamental recommendation.

Source: Sustainalytics, Compustat, FactSet, Bloomberg and CIBC World Markets Inc.

Price Target Calculation

We derive our price target of \$28 by applying a 10x EV/EBITDA multiple to our F2025 EBITDA estimate. The 10x multiple is a 1x discount to the peak trading multiple of comparable registry services providers.

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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Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
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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

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