

EQUITY RESEARCH

December 22, 2021

Company Update

DYE & DURHAM LTD.

Proposal To Acquire Link Group For \$3.2 Billion

Our Conclusion

With the proposed acquisition of Link Group for \$3.2 billion, DND has announced \$3.7 billion in acquisitions in the past month and committed to ~\$125 million in synergy realization versus its current adjusted LTM EBITDA of \$166 million. If successful, we see significant upside for DND. However, the aggressive deal-making carries notable integration risks and results in increased leverage (we estimate ~5x post Link). With a number of regulatory hurdles to pass and a mid-2022 expected closing for Link, we retain our Neutral rating and \$50 price target on DND.

Key Points

What is Link?: Link Group administers financial ownership data across several divisions, the largest of which are retirement and superannuation solutions and corporate markets. The company also has two divisions, Fund Solutions and Banking & Credit Management, which DND considers non-core and will look to divest. Link owns a 43% interest in e-conveyancer PEXA. Link operates primarily in Australia, the U.K. and Ireland.

Strategic Rationale: The acquisition will broaden DND's service offerings into the corporate and financial services sectors and will add 43% of PEXA into the fold. Link has a strong base of 85% recurring revenues and an average client tenure of 10 years. Post acquisition, DND will derive over half of its revenue from recurring sources.

Financial Model Implications & Synergies: We expect the acquisition to add \$792 million in revenue and \$206 million in EBITDA, excluding PEXA and non-core (soon to be divested) divisions. DND anticipates ~\$125 million in cost synergies, primarily public company cost savings, third-party service provider reductions and headcount optimizations. These synergy targets seem somewhat aggressive and do not include revenue synergies, which are typically one of DND's primary methods to integrate acquisitions. We calculate a 10x pre-synergy EBITDA multiple, in line with DND's historic range and a 6.2x post-synergy multiple, slightly above its historical 5x.

Funded From Leverage & Share Issuance: The transaction will be funded through a new \$3.25 billion term loan that eliminates all existing balance sheet debt. We estimate 5x leverage post the close of the transaction. Ares Capital will provide additional funds of up to \$841 million of exchangeable preferred shares (exchangeable into common shares at \$60/share) and subscribe to \$109 million in new common equity at \$53/share.

Regulatory Hurdles Still To Clear: The transaction is subject to approval of 75% of Link shareholders, the Australian Foreign Review Board, Australian Competition Authority and the Financial Conduct Authority in the U.K. Recall that DND's TM Group continues to undergo a Phase 2 competitive review with the U.K. CMA.

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Neutral

DND-TSX, Sector: Information Technology

Current Price (12/22/21): C\$48.08

Price Target (12-18 mos.): C\$50.00

CIBC Estimates and Valuation

(Jun. 30)	2020	2021	2022	2023
Revenue(mln)	65.51A	208.95A	501.61E	646.64E
EBITDA(mln)	21.7A	52.9A	183.2E	266.3E
Adj. EBITDA(mln)	36.7A	116.4A	272.5E	350.3E

Revenue(mln)	Q1	Q2	Q3	Q4
2023	156.09E	162.97E	162.97E	164.60E
2022	112.62A	114.87E	129.47E	144.65E

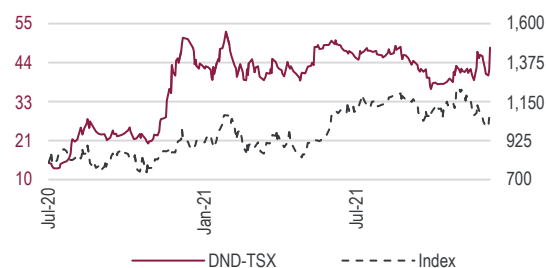
Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2023	83.6E	86.6E	89.2E	90.9E
2022	62.4A	62.2E	67.5E	80.3E

Valuation	2020	2021	2022	2023
EV/EBITDA	NM	31.9x	13.6x	10.6x

Stock Performance and Key Indicators

Avg. Dly. Vol.:	284K	Shares O/S:	68.7M
Market Cap.:	C\$3,305M	Float:	55.9M
52-wk Range:	C\$35.99 - C\$52.63	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 8.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 9.

Dye & Durham Ltd. (DND-TSX) — Neutral

Price (12/22/21) C\$48.08 12-18 mo. Price Target C\$50.00

Sector: Information Technology

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Key Financial Metrics	2020	2021	2022E	2023E
Sales Growth	49.4%	219.0%	140.1%	28.9%
Per Share Data	2020	2021	2022E	2023E
EPS	(0.55)	(0.72)	0.33	1.27
Diluted EPS	(0.55)	(0.72)	0.30	1.14
Wgt Avg # of Shares	20.5	56.4	68.8	69.2
FD Number of Shares	20.5	56.4	76.1	76.5
Income Statement	2020	2021	2022E	2023E
Revenue	66	209	502	647
Cost of Goods Sold	7	28	73	91
Gross Profit	59	181	429	556
Tot Operating Exp	24	65	221	275
OpEx (% of Revenue)	36.88%	30.99%	44.12%	42.49%
EBITDA	22	53	183	266
EBITDA Margin	33.18%	25.33%	36.52%	41.19%
Adj. EBITDA	37	116	272	350
Adj EBITDA Margin	56.0%	55.7%	54.3%	54.2%
Net Income	(11)	(41)	23	88
Net Margin	(17.2%)	(19.6%)	4.5%	13.5%
Cash Flow Statement	2020	2021	2022E	2023E
Net CFO	33	79	138	221
Capex	1	2	2	1
Acquisitions	4	767	798	0
Free Cash Flow	32	78	136	220
Balance Sheet	2020	2021	2022E	2023E
Cash & ST Investment	3	429	1,300	1,520
Intangible Assets	88	564	841	785
Goodwill	53	494	952	952
Total Assets	167	1,558	3,272	3,420
LT Int-Bearing Debt	181	222	1,781	1,781
Total Liabilities	236	807	2,501	2,562
Shareholders' Equity	(69)	751	770	858
Tot Liab & SE	167	1,558	3,272	3,420

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 4) Fairly valued at current levels

Price Target (Base Case): C\$50.00

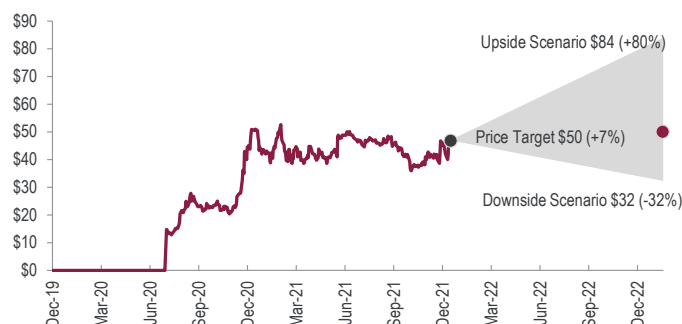
Our base case is calculated using 29% revenue growth, 41% EBITDA margins and a 15.0x EV/EBITDA multiple

Upside Scenario: C\$84.00

Our upside scenario is calculated using 35% revenue growth, 43% EBITDA margins and a 18.0x EV/EBITDA multiple

Downside Scenario: C\$32.00

Our downside scenario is calculated using 15% revenue growth, 26% EBITDA margins and a 11.0x EV/EBITDA multiple

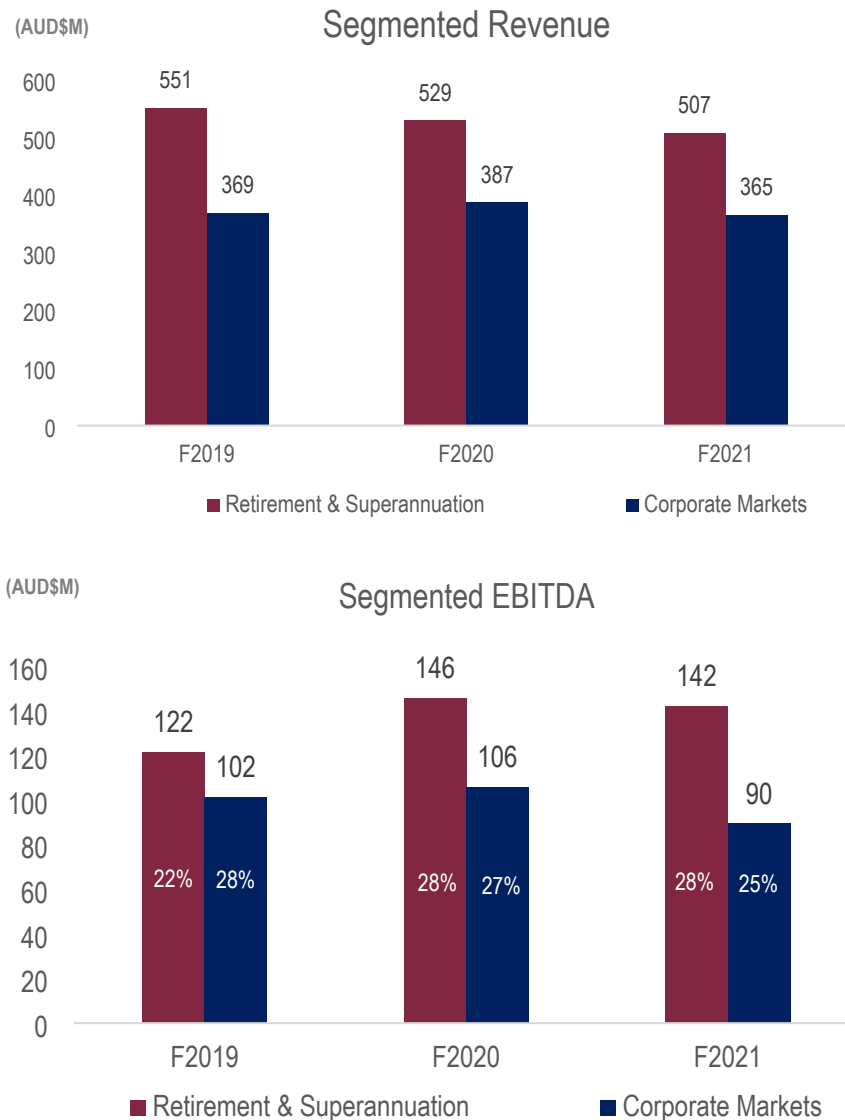


Announces Proposed Acquisition Of Link Group

DND announced the proposed acquisition of Link Group for \$3.2 billion. Link is a provider of financial data administration to a variety of corporate and pension fund users. As part of the transaction, DND will also indirectly acquire Link's ~43% ownership stake in Australian e-conveyancer PEXA.

The acquisition adds Link's pension and corporate markets administration businesses, which had FY21 revenue of \$792 million and ~26% EBITDA margins. We expect that the Banking & Credit Management business will be divested pre-close and the Fund Solutions division will be divested post-close. The acquired businesses are extremely sticky, with 85% recurring revenue in F21 and an average client tenure of 10+ years.

Exhibit 1: Link Group – Segmented Revenue & EBITDA – 2019 - 2021



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

A Focus On Cost Synergies

In addition to the \$206 million in acquired adjusted EBITDA from the Link divisions, DND expects to realize ~\$125 million in cost synergies. DND expects the cost synergies to come from a lack of public company costs (\$15 million-\$20 million), a reduction of third-party service providers and headcount optimization. DND expects to realize \$100 million in cost synergies in F2023 and an additional \$25 million in F2024.

We were surprised by the lack of revenue synergies expected in the transaction. Given the net new customer bases (pension/corporate markets), it may be that DND sees less revenue synergy potential versus the pass-through revenue at its traditional legal client. However, with negative press in Canada on recent price increases and the ongoing CMA competitive review in the U.K., we expect that DND may also be adjusting its typical integration strategy.

Exhibit 2: Dye & Durham – Margin/Synergy Overview

	F21			
	DND	LNK (Retained Businesses)	Synergies	Combined
Revenue	300	792		1,091
Adjusted EBITDA	166	206	125	497
Adjusted EBITDA Margins	55%	26%		46%

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

Acquisition Multiples Roughly In Line – If Adjusted For PEXA

DND typically looks to acquire at a pre-synergy valuation of less than 10x EBITDA. Subtracting the market value of PEXA (which is not consolidated by the company), we arrive at a pre-synergy valuation of 10x EBITDA. If we do not factor in PEXA, the valuation rises to 15.5x pre-synergy EBITDA. Post synergy, DND has historically looked for a valuation closer to 5x. With Link, we calculate a valuation slightly above this, at 6.2x EBITDA.

Exhibit 3: Dye & Durham – Link Group Acquisition Multiple

Adjusted for PEXA Value		Post-Synergy (Ex-PEXA Value)	
Purchase Price	3,200	Purchase Price	3,200
PEXA Market Value	1,143	PEXA Market Value (43%)	1,143
Link Group	2,057	Business Value	2,057
Acquired EBITDA (CAD)	237	Acquired EBITDA (CAD)	237
Divested EBITDA	(31)	Divested EBITDA	(31)
EBITDA	206	Cost Synergies	125
		EBITDA	331
EBITDA Multiple	10.0x	Post Synergy EBITDA Multiple	6.2x

Source: Company reports and CIBC World Markets Inc.

Increases Leverage To 5x NTM EBITDA

The Link acquisition will be financed through a combination of debt & equity. The debt portion consists of a seven-year, U.S. dollar denominated term loan equal to A\$3.5 billion. The new term loan will replace the existing term loan and delayed-draw term loan that were closed earlier in the month in support of the acquisition of TELUS' financial services business. We calculate leverage of ~5x NTM EBITDA, inclusive of the EBITDA contribution from Link. Prior to the transaction, we calculate leverage of ~3x.

The financing includes a commitment from Ares Capital to acquire up to \$841 million in exchangeable preferred shares that bear interest at 6.5% annually for the first five years, before increasing by 1% annually to a maximum of 12%. The preferred shares are exchangeable for common shares at a price of \$60. Ares also committed to acquire \$109 million of common shares at a price of \$53/share.

Exhibit 4: DND NTM Leverage Calculation

Debt	\$	3,228
Cash	\$	(950)
Net Debt	\$	2,278
NTM EBITDA		266
Link Group EBITDA		206
		472
Leverage		4.8x

Source: CIBC World Markets Inc.

A Number Of Hurdles To Close The Transaction

Management is expecting the transaction to close by the end of Dye & Durham's fiscal year at June 30, 2022. Before the deal can close, there are number of approval and regulatory reviews that need to be completed. Primarily, the deal must be approved by 75% of Link's shareholders, although the board has already given unanimous approval for the deal. Regulatory approval will need to be reached from the Australian Foreign Investment Review Board, the Australian Competition & Consumer Commission and the U.K.'s Financial Conduct Authority. While we believe there should be fewer concerns around competitive impact given Dye & Durham is not currently active in the acquired business areas, the size of the deal does add some level of risk.

We also believe that there is risk of an additional buyer entering the process and completing the deal at a higher price or forcing Dye & Durham to increase its offer price. Media reports in November surfaced that U.S. private equity firm The Carlyle Group had offered to acquire the company for A\$5.38, ~2% less than Dye & Durham's eventual acquisition price. Given the relative proximity of Carlyle's offer, there is some risk that the deal with Dye & Durham is not completed as currently constructed. Management at DND did note that the purchase agreement included a break free as well as the right to match any competing offer .

Acquisition In Line With DND's Strategy

We view the acquisition of Link as in line with DND's strategy, adding recurring revenue with a potential for significant synergies, while also acquiring 43% of Australian e-conveyancer PEXA.

Adds Pension And Corporate Markets Businesses

The Link Group acquisition adds two net new businesses to DND. An overview of the acquired businesses and management's view on their key strengths are included below.

Exhibit 5: Link Group – Business Overview

Retirement And Superannuation Solutions		Corporate Markets		Other Interests	
C\$466M	C\$131M	C\$336M	C\$82M	Link has a 43% ownership stake in PEXA (market cap C\$2.6B)	
FY21 Revenue	FY21 Operating EBITDA	FY21 Revenue	FY21 Operating EBITDA		
Product Offering: - Provides comprehensive financial data solutions to Superannuation funds and members in AUS, NZ, UK - Core services include data management, member communication and digital member and partner interactions Key Strengths: - Highly sticky customer base - 3-5 year customer contracts with 90% recurring revenue in FY21		Product Offering: - Provides cloud-based software and technology solutions for corporate issuers connecting them with their stakeholders - Capabilities include shareholder management and analytics, stakeholder engagement and employee share plans Key Strengths: - Highly complimentary product offering with opportunities to cross sell - Strong blue-chip customer base		Banking & Credit Management Business - Contributed 12% of group revenue and 2% of group EBITDA in FY21 - Transaction structured for sale of business prior to closing Fund Solution Business - Contributed 14% of group revenue and 11% of group EBITDA in FY21 - To be sold after closing	

Source: Company reports and CIBC World Markets Inc.

Expands Geographic Presence

The Link Group acquisition would result in a majority of Dye & Durham's revenue being generated from Australia & New Zealand. A breakdown of the pro forma geographic revenue is included in the below table.

Exhibit 6: Dye & Durham – Pro Forma Geographic Breakdown

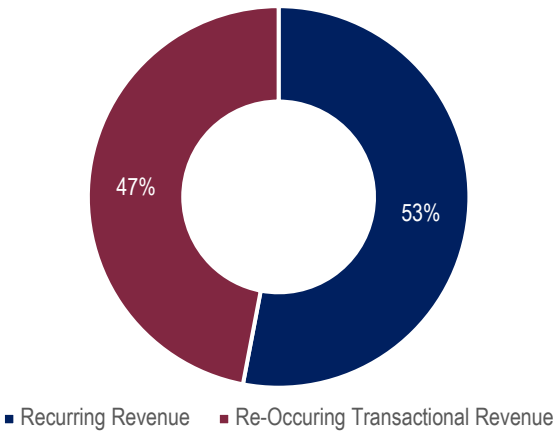
(In C\$M)	Canada	Australia & NZ	UK & Ireland	Other
DND	\$225	\$78	\$147	NA
RSS	NA	\$461	\$5	NA
Corporate Markets	NA	\$148	\$137	\$51
Combined Revenue	\$225	\$687	\$290	\$51

Source: Company reports and CIBC World Markets Inc.

Expands Recurring Revenue

Eighty-five percent of Link Group’s revenue is recurring, supported by contracts that range between one to three years. This differs from Dye & Durham’s re-occurring transactional revenue, which depends somewhat on transaction volumes.

Exhibit 7: Dye & Durham – Pro Forma Recurring Revenue



Source: Company reports and CIBC World Markets Inc.

Price Target Calculation

We derive our price target of \$50 by applying a 15x EV/EBITDA multiple to our F2023 EBITDA estimate based on the current capital structure. The 15x multiple is a discount to Canadian software consolidator peers given governance concerns and uncertainty resulting from the U.K. CMA review.

Key Risks To Price Target

The primary risks to our price target include the following: 1) ability to acquire; 2) ability to scale; 3) ability to integrate; and, 4) retention of key personnel.

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

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