CIBC CAPITAL MARKETS

EQUITY RESEARCH

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December 12, 2021 **Initiating Coverage**

CONVERGE TECHNOLOGY SOLUTIONS CORP.

Rolling Up The ITSP Market

Neutral

CTS-TSX, Sector: Information Technology

Current Price (12/8/21): C$11.82

Price Target (12-18 mos.): **C$12.50**

Our Conclusion

We hold a positive long-term view on Converge's strategy of rolling up the IT Service Provider (ITSP) market, which we expect to lead to significant cost synergies. Converge has a sticky, mid-market customer base that has access to limited internal IT talent. We see upside from recurring managed services as this client base transitions to the cloud. That being said, as of December 12, we initiate coverage on Converge with a Neutral rating and $12.50 price target as we watch for synergies from record M&A spending in 2021 and Converge's ability to navigate hardware-related supply chain disruptions. We are factoring in $300 million in M&A spending in 2022 and foresee upside to $20/share if Converge can execute on additional acquisitions.

Key Points

Acquisitions Make Strategic Sense: Converge is rolling up smaller, hardware-focused ITSPs. The company vies with few competitors for deals and can typically acquire a regionally focused ITSP for 5x EV/EBITDA. Post acquisition, Converge looks to centralize back-office functions and extend volume rebates, reducing the multiple on a typical ITSP acquisition to ~2.5x EV/EBITDA post-synergy. From there, the company seeks additional synergies from improved payment terms and cross-selling. Converge has built out a broad footprint in the U.S. and is now looking to follow the same strategy in Europe.

Expanding Into Europe: Converge increased its M&A activity in 2021, spending $322 million versus a prior annual high of $99 million. The 2021 spend includes Converge's largest acquisition to date, the $143 million acquisition of Rednet, which will become its platform for European expansion. With this capital deployed, our near-term focus will be on how well Converge can translate its North American strategy into Europe.

Organic Growth Important: We consider Converge's ability to cross-sell cloud and software into its mid-market base as key, with the pandemic accelerating the move from on-premise (hardware) solutions to cloud solutions. Given the financial metrics available for acquired firms and required assumptions, our calculations suggest that organic gross profit growth has been in the low single digits. We assume that the pandemic has played a factor in slower organic growth, with hardware shortages another potential near-term headwind.

Valuation: We value Converge at 15x EV/EBITDA, in line with reseller/IT Services peers, to reach our $12.50 price target. We foresee upside if Converge can execute on its strategy to grow to $5 billion in sales by 2025. Running a discounted cash flow (DCF) on this scenario yields a value of ~$20/share, which we view as our upside scenario.

CIBC Estimates and Valuation

(Dec. 31)	2019	2020	2021	2022
Adj. EPS	(0.28)A	(0.05)A	0.12E	0.40E
Adj. EBITDA(mln)	28.6A	59.4A	88.2E	150.7E

Adj. EPS	Q1	Q2	Q3	Q4
2021	0.02A	0.01A	0.02A	0.07E
2022	0.10E	0.10E	0.09E	0.11E

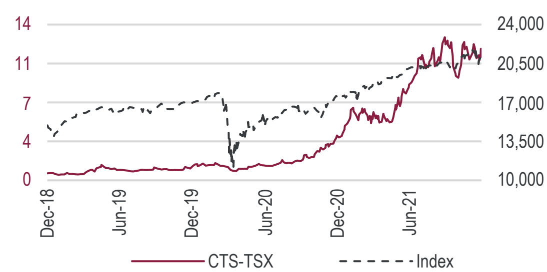
Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2021	18.8A	21.7A	18.9A	28.8E
2022	37.3E	38.0E	35.7E	39.7E

Valuation	2019	2020	2021	2022
P/E	NM	NM	97.0x	29.6x
EV/EBITDA	57.2x	27.5x	18.6x	10.9x
FCF Yield	NM	NM	NM	NM

Stock Performance and Key Indicators

Enterprise Value:	C$1,635M	Shares O/S:	197.0M
Market Cap.:	C$2,329M	Float:	195.8M
52-wk Range:	C$3.72 - C$12.85	Div. / Yield:	C$0.00/0.00%

TSX Composite Index vs. CTS-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 11.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 13.

Converge Technology Solutions Corp. (CTS-TSX) — Neutral

Price (12/8/21) C$11.82 12-18 mo. Price Target **C$12.50**

Sector: Information Technology

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Key Financial Metrics	2019	2020	2021E	2022E
Net Debt	136	74	(176)	39
Total Debt	157	139	1	39
Net Debt/EBITDA	4.9x	1.2x	(2.0x)	0.3x
Free Cash Flow	(39)	(16)	(227)	(215)
Sales Growth	49.8%	37.9%	59.3%	47.3%
Per Share Data	**2019**	**2020**	**2021E**	**2022E**
FCFPS	(0.50)	(0.16)	(1.23)	(1.08)
Adj. EPS Dil.	(0.28)	(0.05)	0.12	0.40
Wgt Avg # of Shares	77.4	103.0	181.0	196.2
FD Number of Shares	77.4	103.0	184.5	199.3
Income Statement	**2019**	**2020**	**2021E**	**2022E**
Revenue	**688**	**949**	**1,511**	**2,227**
Cost of Goods Sold	526	716	1,164	1,692
Gross Profit	**162**	**233**	**347**	**534**
Gross Margin %	23.49%	24.56%	22.96%	24.00%
Tot Operating Exp	137	178	262	384
Adj. EBITDA	**29**	**59**	**88**	**151**
Adj EBITDA Margin	4.2%	6.3%	5.8%	6.8%
D&A	13	21	35	41
Interest Expense	27	20	6	(1)
Pretax profit	**(24)**	**(4)**	**32**	**111**
Tax Expense	(2)	2	9	31
Adjusted Net Income	**(22)**	**(5)**	**22**	**80**
Adjusted Net Margin	(3.2%)	(0.6%)	1.5%	3.6%
Cash Flow Statement	**2019**	**2020**	**2021E**	**2022E**
Net CFO	**24**	**51**	**44**	**91**
Capex	(2)	(5)	(4)	(6)
Free Cash Flow	**22**	**46**	**40**	**85**
Balance Sheet	**2019**	**2020**	**2021E**	**2022E**
Cash & ST Investment	21	65	177	0
Goodwill	172	219	566	825
Total Assets	**489**	**721**	**1,251**	**1,564**
LT Int-Bearing Debt	15	6	1	26
Total Liabilities	**499**	**619**	**630**	**863**
Shareholders' Equity	**(10)**	**102**	**621**	**701**

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

Company Profile

Converge has built out a network of regional IT Service Providers (ITSPs) that provide IT solutions into a sticky mid-market customer base.

Investment Thesis

1) Roll-up of under-capitalized ITSPs at attractive multiples with synergies; 2) Scale drives operational and financial efficiencies; 3) Solid North American base with a successful entry into Europe.

Price Target (Base Case): C$12.50

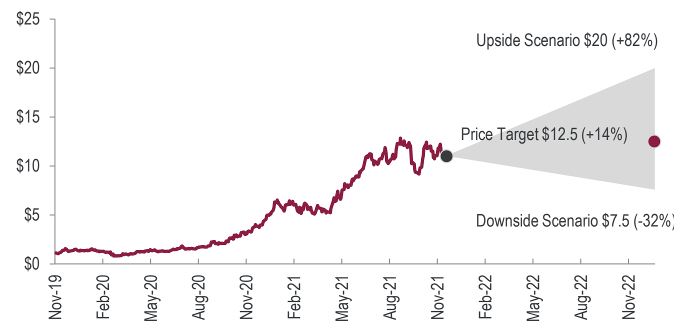
Our price target is calculated using 47% revenue growth, a 6.8% EBITDA margin, and a 15.0x EV/EBITDA multiple.

Upside Scenario: C$20.00

Our upside scenario assumes sales reach $5B by 2025 and is calculated using a DCF with an 8.6% WACC and an EBITDA margin in the high-6% range, growing 10 bps annually.

Downside Scenario: C$7.50

Our downside scenario is calculated using 15% revenue growth, a 6.0% EBITDA margin and a 12.0x EV/EBITDA multiple.



Investment Thesis

Converge has built out a network of regional IT Service Providers (ITSPs) that provide IT solutions into a sticky mid-market customer base. The majority of the company's growth is driven by acquisition, as it looks to acquire hardware-focused ITSPs at a low multiple, centralize back-office capabilities, extend volume rebates, and add software and managed services capabilities. It has built out a solid footprint in the U.S. and recently expanded into Europe with the $143 million acquisition of Rednet. Converge has a proven, repeatable, North American M&A strategy and we will be watching for Converge's ability to translate it into Europe.

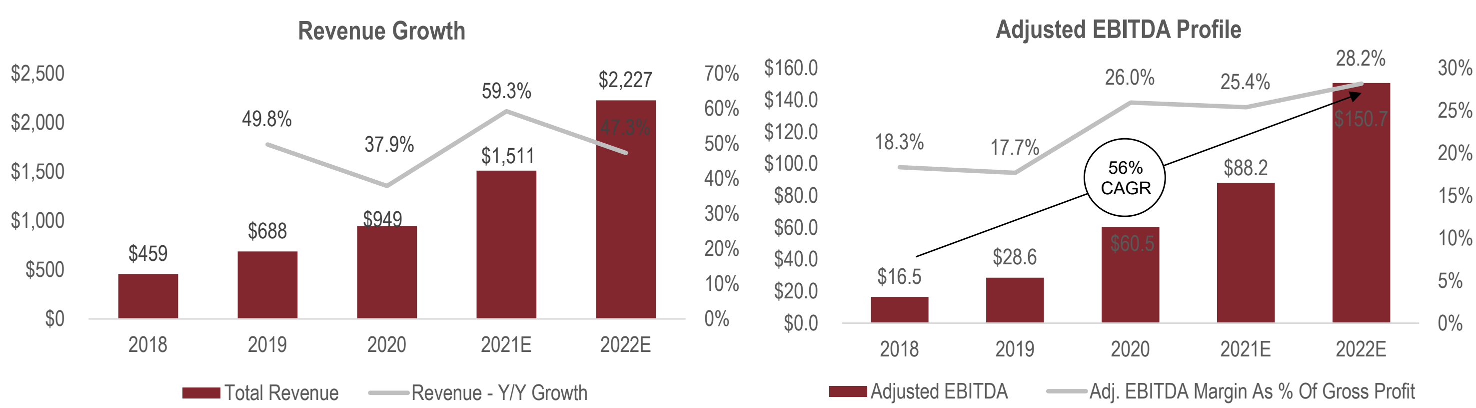
We are initiating coverage on Converge with a Neutral rating and $12.50 price target. We value Converge in line with reseller and IT Services peers at 15x EBITDA. We consider this valuation as reasonable as Converge focuses on the integration of recent acquisitions. That being said, we foresee upside from future M&A above our $300 million estimate for 2022. If Converge can execute on its strategy to build to $5 billion in revenue by 2025, we see an upside scenario of $20/share.

Rolling Up The Market

Key Takeaway: Converge's approach of acquiring under-capitalized ITSPs at attractive multiples and driving synergies makes strategic sense. The market is fragmented, with many regional providers looking to exit as consumer demand shifts more to cloud-based solutions. In response to this shifting demand, Converge accelerated its M&A activity in 2021, spending over $300 million as it looks to replicate its North American strategy in Europe.

The company's acquisition strategy has yielded impressive growth. It has grown revenue at a 32% CAGR between 2018 and 2022E. Adjusted EBITDA has grown even faster, at a 56% CAGR, with adjusted EBITDA margins rising 770 bps to 26% (as a percentage of gross profit) between 2018 and 2020.

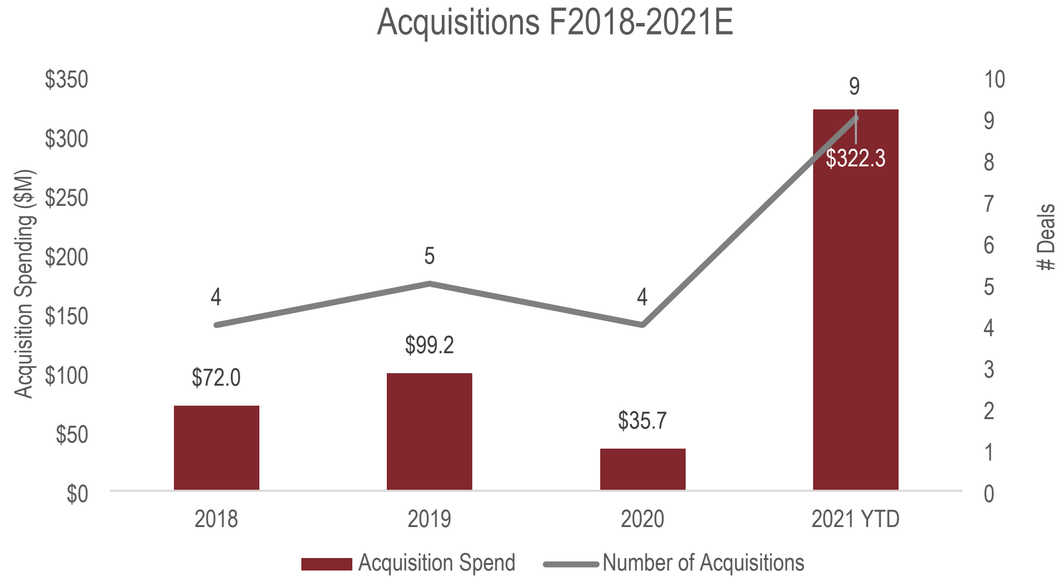
Exhibit 1: CTS – Revenue Growth (left) And Adjusted EBITDA (right) Profiles, 2018 - 2022E ($MM)



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

Converge focuses on acquisitions with a valuation of roughly 5x EBITDA and a post-synergy valuation below 3x EBITDA. The company targets hardware-focused regional ITSPs through which it can then sell recurring revenue solutions (software/cloud/hardware) while consolidating back-office functions and driving volume rebates. We believe that Converge can acquire these targets on attractive terms (low valuation, large earn-outs) given the lack of M&A demand for smaller hardware-focused VARs (value-added resellers). Please refer to the table in Appendix 1 for a full list of Converge's acquisitions.

Exhibit 2: CTS – M&A Activity, 2018 - 2021E



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

Revenue Synergies: Converge's typical VAR acquisitions are 80% hardware focused. Converge adds software, cloud and services capabilities post acquisition, transforming a standard ITSP into a hybrid ITSP. It has 280+ centralized salespeople who have the ability to cross-sell services across the North American and European customer base. After acquiring an ITSP, the sales team is automatically qualified to sell the products and services of the newly acquired company. By organizing the sales team into a "Services Group of Experts" in each of the core service areas, the team is designed to efficiently target customers, with acquired sales forces acting as client relationship managers.

Consolidate Back-office Functions: Converge leverages its scale to drive operational and financial efficiencies in newly acquired companies. Benefits to scale in the back-office include best-of-breed systems, purchasing power, and centralized staff and processes that can be shared across the newly acquired companies. Converge consolidates all back-office functions (finance, operations, etc.) under the company's Chief Operating Officer.

Volume Rebates: Volume rebates are pooled and shared across all of the companies within Converge's network. Post acquisition, the acquired company is immediately eligible to share vendor certifications and pool hardware volumes to receive increased pricing incentives and volume rebates. This relationship works both ways, as certifications and hardware volumes from the acquired company can also be shared with the rest of the network. Converge has centralized purchasing through Ingram Micro, with over 90% of spend going through it. The company's largest partner is IBM, which accounts for roughly one-third of Converge's sales. Converge is seeing strong growth through this partner channel, which we believe grew +20% in 2020 as clients looked to add Red Hat and Watson capabilities.

Acquisition Case Study: The table in Exhibit 3 illustrates the impact of post-acquisition synergies. The initial cost synergies from scale are quickly realized, helping to rapidly cut the post-synergy acquisition multiple in half. By gaining access to Converge's improved payment terms and by cross-selling broader offerings (including managed services) there are also longer-term benefits to scale that can be implemented over time.

Exhibit 3: Converge Technology – Acquisition Template

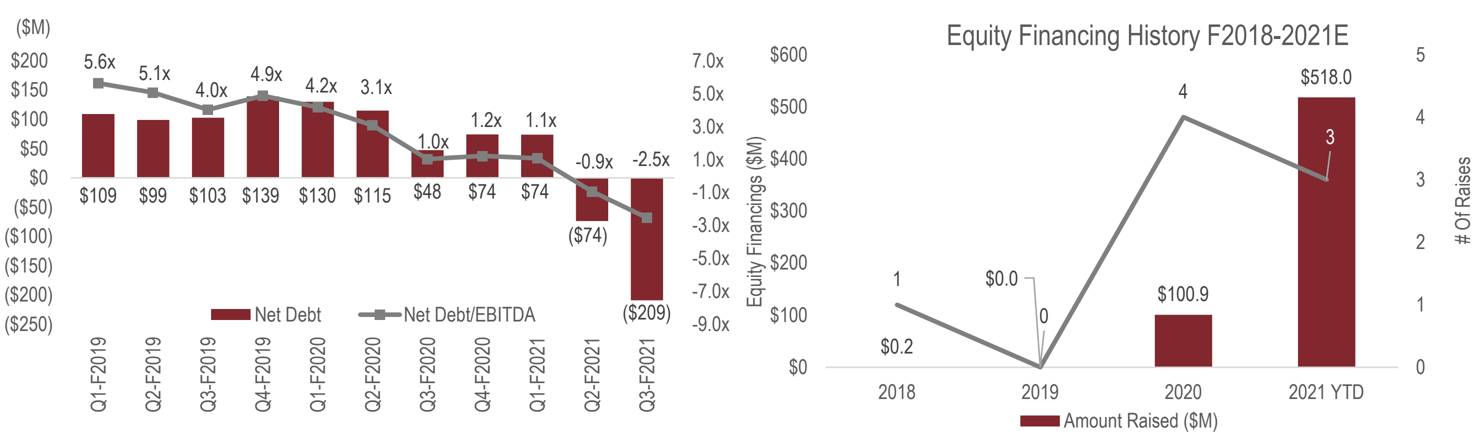
Target Metrics	
Gross Revenue ($MM)	$100
Pre-acquisition EBITDA Margins	3.0%
EBITDA ($MM)	$3
Acquisition Multiple	5.0x
Acquisition Price ($MM)	**$15**
Cost Synergies – Scale	
Volume Discount (EBITDA Margin)	+1.5%
Cost Savings (EBITDA Margin)	+2.0%
Post-acquisition EBITDA Margins	6.50%
Post-acquisition EBITDA ($MM)	$6.50
Post-synergy Multiple	2.3x
Additional Benefits	
Better Payment Terms (NWC) ($MM)	+ $3 - $7
Cross-sell Offerings (EBITDA) ($MM)	+ $3 - $4

Source: Company reports and CIBC World Markets Inc.

Earn-outs Reduce Risk: Converge structures acquisitions with a ~60% upfront payment and the remainder of the purchase price paid through a three-year earn-out. We believe that this structure reduces the acquisition risk.

Acquisition Funding: Converge has funded acquisitions through a combination of cash flow, debt and equity. Recently, the weighting has shifted to equity, with Converge raising over $500 million in equity in 2021. We believe that Converge is now targeting leverage in the 2x-3x range and ended Q3 with $209 million in net cash.

Exhibit 4: CTS – Leverage, 2019 - 2021E (left) And Financing History, 2018 - 2021E



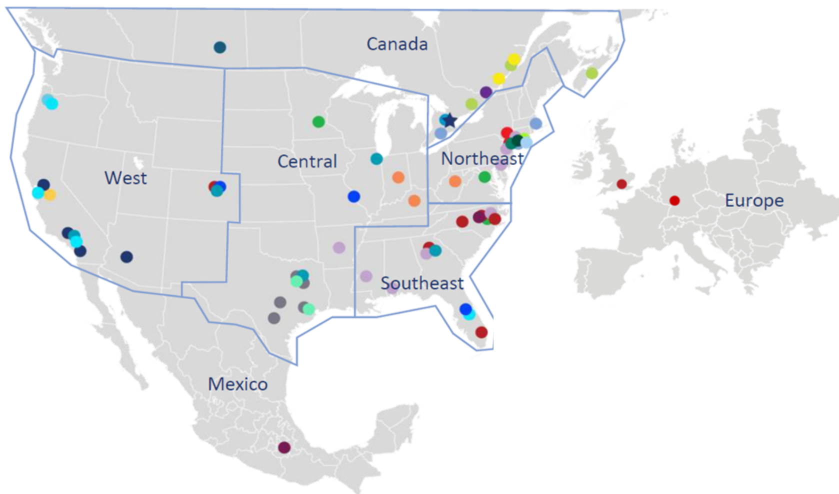
Source: Company reports, Bloomberg, FactSet and CIBC World Markets Inc.

Acquisitions Have Built Out A Solid North American Base

Key Takeaway: Converge's roll-up strategy has led to a strong North American base. We consider Converge's ability to cross-sell cloud and software solutions into this base as crucial given the ongoing client transition to cloud solutions. Organic growth calculations are difficult given assumptions of the financial metrics of the acquired firm and of revenue synergies, but we calculate low-single-digit organic gross profit growth since 2018. We believe that the pandemic and recent supply chain disruptions have acted as headwinds to organic growth.

Converge went public in 2018 and has rolled up a portfolio of 24 regional ITSPs in locations across North America. This coast-to-coast coverage model allows Converge to centralize sales capabilities and facilitate network integration and data center capabilities. An overview of Converge's geographic presence is included in the map graphic in Exhibit 5. With the recent acquisition of Rednet, Converge has also established an initial presence in Europe.

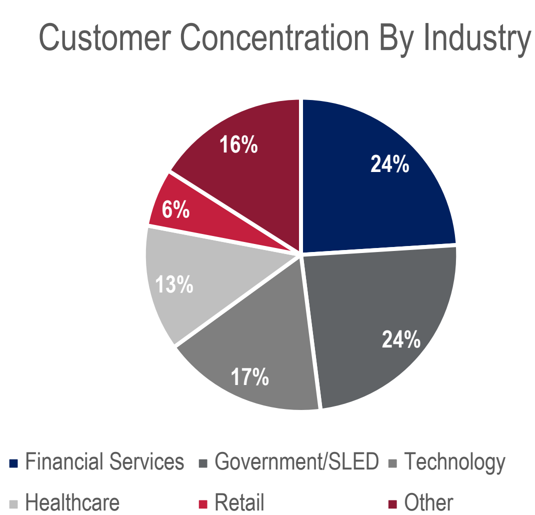
Exhibit 5: CTS – Geographic Footprint, August 2021

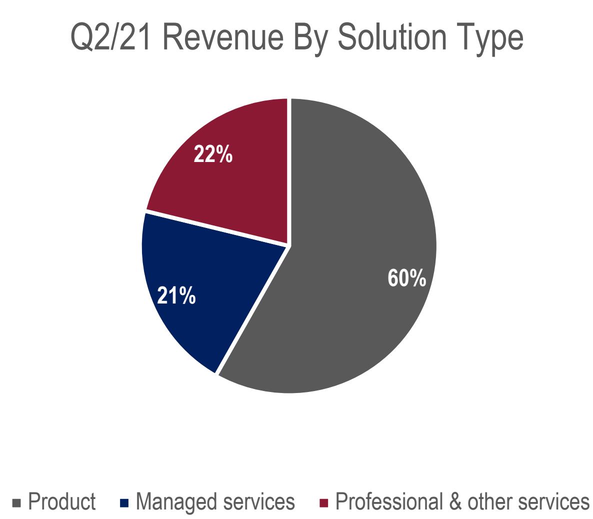


Source: Company reports.

Converge's ITSPs provide hardware, software, and managed services solutions with a specific focus on the mid-market space. Converge looks to differentiate itself by providing mid-market companies with products and services that are typically available only to larger customers, including over 400 vendor certifications and established relationships with over 250 key IT Solutions vendors. Mid-market customers typically do not have the internal IT capabilities to deploy and maintain advanced IT solutions, and we regard the tight IT labour market as a further headwind for IT staffing at these clients. By contrast, given Converge's M&A strategy, the company has not felt any impact from IT talent shortages.

Exhibit 6: CTS – Customer Concentration By Industry (right) And Revenue Mix By Solution Type (left), Q2/21





Source: Company reports and CIBC World Markets Inc.

To gain a foothold as a software and services partner, a typical Converge project starts with lower-margin cloud work, such as Red Hat and VMWare enablement, to begin the shift from a product-based relationship to a software-based one. By establishing relationships with its customers' infrastructure decision makers, Converge can better understand a customer's specific IT needs, positioning it to provide more tailored support. Upon establishing itself as a trusted software partner, Converge can advise clients on the best path for their specific cloud-hosted environment, be it public, private or hybrid. Ideally, Converge will become a managed service provider for the client, adding high-margin, multi-year recurring revenue contracts.

Organic Growth

Given the financial metrics available for acquired firms and the required assumptions, our calculations suggest that net revenue growth has been roughly flat. However, we believe that gross profit is a better metric for evaluating organic growth given the netting down of certain cloud/software revenue, as noted in the table in Exhibit 7. We calculate that organic gross profit has grown, on average, in the low single digits since 2018.

Exhibit 7: Technology – Illustrative Examples Of Netting Down By IT Solutions Type

	Software	Software	Hardware	Hardware	Services
Example IT Solution	On-premise software license	SaaS subscription/support-assurance (i.e. O365)	Laptop	Hardware Warranty	Professional and managed services
Gross Sales (Total Invoiced Amount To Customer)	$100	$100	$100	$100	$100
Adjustment For Sales Transacted As Agent	Nil	($85)	Nil	($85)	Nil
Net Sales	$100 Principal Relationship	$15 Agent Relationship	$100 Principal Relationship	$15 Agent Relationship	$100 Principal Relationship
COGS	($85)	Nil	($85)	Nil	($75)
Gross Profit	$15	$15	$15	$15	$25

Increasing percentage of gross sales are netted down stemming from growth of Software & Cloud solutions, and the industry trend towards more software sold as SaaS

Source: Company reports and CIBC World Markets Inc.

Looking To Replicate The Strategy In Europe

In 2021 Converge made its first acquisition in Europe, acquiring 75% of Germany-based Rednet AG for $143 million. Rednet is an IT Services provider specializing in the education, healthcare and government/public sector markets. It is especially strong in cloud-based education solutions, rendering it well positioned to take advantage of the German government's €5 billion commitment to digitizing education. Converge will use the acquisition as its platform in Germany, with future acquisitions in the market reporting into the Rednet team. We believe that Converge paid slightly more for Rednet than a typical ITSP (~8x EBITDA) given that the platform acquisition will create a European base with a strong management team. The purchase agreement allows Converge to acquire the remaining 25% of Rednet after three years.

From here, we expect Converge to extend into other parts of Germany and to also look for a platform acquisition to gain a foothold in the U.K. market. Longer term, we expect Converge to expand into other areas of Europe. We believe that the European market is similar to North America in terms of fragmented, mid-market ITSP providers and will watch for Converge's ability to replicate its North American M&A strategy in Europe.

Potential Upside From M&A

Our model assumes $300 million in M&A spend, consistent with record spending in 2021E. However, Converge has an ambitious plan to grow the business from $2 billion in run-rate net revenue to $5 billion over the next four years. Under this aggressive strategy, Converge is looking to add ~$600 million in annual acquired North American revenue and ~$400 million in annual acquired European revenue.

Converge's growth targets include the continued conversion of clients to cloud and managed services, with Converge targeting $1 billion in managed services sales and a continued decline in the percentage of revenue from hardware (from ~60% today to ~40%). This shift in mix would also improve margins, as managed services are the highest-margin business (~25% EBITDA margins). If we assume $5 billion in sales by 2025 and run a DCF with an 8.60% WACC and EBITDA margins in the high-6% range and growing 10 bps annually, we arrive at an upside valuation of ~$20/share.

Exhibit 8: CTS – Upside Scenario Based On $5 Billion In Sales

Terminal Growth Rate	Discount Rate: 7.10%	7.85%	8.60%	9.35%	10.10%
-1.00%	$23.43	$21.02	$19.00	$17.30	$15.84
-0.50%	$24.36	$21.74	$19.57	$17.75	$16.21
0.00%	$25.41	$22.54	$20.20	$18.25	$16.61
0.50%	$26.63	$23.46	$20.91	$18.81	$17.06
1.00%	$28.04	$24.52	$21.71	$19.44	$17.55

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

Environmental, Social, And Governance

Converge does not publish an annual sustainability report, leading to limited disclosure around its ESG metrics.

- Converge has one woman on its board of directors and four on the executive leadership team, representing 17% of Converge's directors and 33% of its senior management team, respectively. Four of Converge's six board members are independent. Board Chair Thomas Volk is not an independent director.
- With Converge graduating to the TSX in 2021 and attracting additional investor attention we expect the company will begin to provide additional disclosures on its ESG performance. We view this as an opportunity to differentiate itself from smaller-cap peers.

Financials

We are forecasting 46% revenue growth and 71% adjusted EBITDA growth in 2022E driven by the $322 million spent on acquisitions in 2021.

Exhibit 9: CTS – Key Financial Summary, 2020 - 2022E

	2020A	CIBC 2021E	% Growth	CIBC 2022E	% Growth
Net Revenue ($MM)	949	1,511	64%	2,227	46%
Gross Profit ($MM)	233	347	49%	534	54%
Gross Profit Margin	24.6%	23.0%		24.0%	
Adjusted EBITDA ($MM)	59	88	46%	151	71%
EBITDA Margin – % Of Rev	6.4%	5.8%		6.8%	
EBITDA Margin – % Of GP	26.0%	25.4%		28.2%	

Source: Company reports and CIBC World Markets Inc.

Revenue: We assume relatively flat organic revenue growth through our forecast period, with the vast majority of growth from acquisitions. We include $300 million in future M&A in 2022E, roughly in line with the company's 2021E spend. We assume M&A is undertaken at 0.7x revenue, in line with the historical average.

Gross Profit: We expect gross profit to decline 160 bps Y/Y in 2021E as Converge integrates more hardware-focused (lower gross profit) acquisitions. We expect margins to return to previous levels in 2022E once the integrations are complete.

Adjusted EBITDA: We estimate 2022 EBITDA margins of 6.8% as a percentage of revenue and 28.2% as a percentage of gross profit. We expect margins to improve as the company integrates recent acquisitions and continues to shift its gross margin mix towards higher-margin software and services revenue. We expect adjusted EBITDA to grow at a faster rate than revenue given the cost savings that Converge is able to recognize with new acquisitions and the netting down of certain software revenue.

Valuation

We are valuing Converge at 15x EV/2022E EBITDA of $151 million, inclusive of net cash of $209 million. Our 15x EV/2022E EBITDA multiple is in line with the IT Solutions and IT Services peers set. Peer group multiples can be found in the table in Exhibit 10.

Exhibit 10: CTS – Comp Table, 2020 - 2022E

	Ticker	Share Price	Shares Out (mlns.)	Market Cap ($mlns.)	Net Debt ($mlns.)	Enterprise Value ($mlns.)	EV/EBITDA C20	EV/EBITDA C21E	EV/EBITDA C22E	EV/GP C20	EV/GP C21E	EV/GP C22E	P/E C20	P/E C21E	P/E C22E
Software Focused IT Solutions/VARs															
Softchoice Corporation*	SFTC	16.55	63	1,050	128	1,178	18.0x	17.7x	11.8x	4.9x	4.3x	3.7x	25.8x	29.4x	20.3x
Softcat Plc*	SCT	23.28	199	4,640	(63)	4,577	36.7x	26.9x	26.6x	15.4x	11.9x	10.9x	48.6x	35.6x	35.6x
Crayon Group Holding ASA*	CRAYN	19.38	88	1,699	174	1,873	>50	27.4x	20.2x	>50	5.6x	4.3x	>50	>50	33.6x
Bytes Technology Group Plc*	BYIT	7.53	239	1,803	(57)	1,745	42.2x	29.6x	27.3x	17.8x	12.8x	11.6x	>50	39.6x	37.5x
SoftwareONE Holding Ltd.*	BYIT	20.07	159	3,183	(596)	2,587	13.4x	10.0x	8.4x	11.6x	2.8x	2.5x	16.5x	21.6x	17.0x
Software Focused IT Solutions/VARs Average							**30.8x**	**23.4x**	**20.6x**	**15.0x**	**8.3x**	**7.3x**	**32.5x**	**32.3x**	**30.9x**
IT Solutions/VARs															
CDW Corp.	CDW	194.50	136	26,398	4,321	30,719	19.0x	17.9x	17.3x	9.6x	8.8x	8.3x	35.7x	24.9x	23.2x
Bechtle AG*	BC8	69.75	126	8,788	156	8,945	22.5x	18.6x	17.7x	9.8x	8.2x	7.5x	40.0x	33.5x	31.8x
ePlus inc.	PLUS	111.87	14	1,511	21	1,532	16.4x	10.4x	10.0x	4.3x	3.6x	3.4x	21.7x	14.8x	14.3x
CANCOM SE*	COK	69.73	39	2,688	(675)	2,013	15.0x	14.7x	13.3x	16.0x	4.3x	3.9x	38.2x	44.6x	37.3x
Insight Enterprises, Inc.	NSIT	102.22	35	3,566	823	4,389	12.5x	11.1x	10.1x	3.6x	3.1x	2.9x	21.0x	14.5x	13.3x
Computacenter Plc*	CCC	36.4	114	4,152	41	4,193	14.0x	12.6x	12.4x	4.6x	3.7x	3.5x	21.2x	18.2x	18.2x
PC Connection, Inc.	CNXN	44.45	26	1,165	(79)	1,086	12.5x	10.7x	9.7x	2.7x	2.3x	2.2x	21.0x	17.7x	15.2x
IT Solutions/VARs Average							**16.0x**	**13.7x**	**12.9x**	**7.2x**	**4.9x**	**4.6x**	**28.4x**	**24.0x**	**21.9x**

	Ticker	Share Price	Shares Out (mlns.)	Market Cap ($mlns.)	Net Debt ($mlns.)	Enterprise Value	EV/EBITDA C20E	EV/EBITDA C21E	EV/EBITDA C22E	EV/GP C20E	EV/GP C21E	EV/GP C22E	P/E C20E	P/E C21E	P/E C22E
IT Services															
CGI Inc. Class A*	GIB.A	85.19	245	20,881	1,956	22,838	13.7x	11.5x	11.2x	NA	NA	NA	27.3x	19.2x	17.9x
Accenture Plc Class A	CAN	378.36	632	238,988	(4,666)	234,322	28.1x	23.6x	21.3x	16.7x	13.7x	12.4x	47.9x	40.9x	36.1x
Capgemini SE*	CAP	232.87	169	39,305	6,776	46,082	16.7x	13.8x	12.6x	10.0x	8.5x	7.8x	36.8x	24.8x	21.4x
Atos SE*	ATO	40.78	111	4,515	2,900	7,415	4.0x	5.7x	5.1x	NA	NA	NA	7.1x	9.5x	7.5x
TietoEVRY Oyj*	TIETO	29.71	118	3,518	854	4,372	7.2x	7.4x	7.4x	NA	NA	NA	32.7x	11.6x	10.9x
IT Services Average							**14.0x**	**12.4x**	**11.5x**	**13.4x**	**11.1x**	**10.1x**	**30.4x**	**21.2x**	**18.7x**
Overall Peer Average							**18.3x**	**15.9x**	**14.2x**	**9.8x**	**6.7x**	**6.1x**	**29.4x**	**25.0x**	**23.0x**
Converge Technology Solutions Corp.	**CTS**	**11.75**	**197**	**2,314**	**(209)**	**2,105**	**35.4x**	**23.9x**	**14.0x**	**9.0x**	**6.1x**	**3.9x**	**NEG**	**>50**	**29.4x**

* Share Price converted to USD

*Share price converted to US$. Share prices as of December 10, 2021.

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

Using DCF As A Secondary Valuation Metric

We use DCF as a secondary valuation metric, incorporating future M&A. Given the inputs, we arrive at valuations in the $10.65 to $18.50 range. Our DCF assumes:

- $300 million in M&A initially, growing at 5% per year through our forecast period. We assume a 1x revenue multiple paid. We assume relatively flat organic growth.
- EBITDA margins of 6.8% at the beginning of our forecast period, rising 10 bps a year as Converge integrates M&A and realises economies of scale.
- A discount rate of 8.6%, reflecting the market risk premium and volatility.

Exhibit 11: Converge – DCF Scenario Analysis

Terminal Growth Rate \ Discount Rate	7.10%	7.85%	8.60%	9.35%	10.10%
-1.00%	$15.47	$13.94	$12.66	$11.58	$10.65
-0.50%	$16.06	$14.40	$13.02	$11.87	$10.89
0.00%	$16.74	$14.91	**$13.42**	$12.19	$11.15
0.50%	$17.51	$15.50	$13.88	$12.54	$11.43
1.00%	$18.42	$16.17	$14.39	$12.94	$11.75

Source: Company reports and CIBC World Markets Inc.

Upside/Downside Scenarios

We summarize our base case and upside/downside scenarios for Converge in the table in Exhibit 12. Our base case assumes 47.3% acquired revenue growth and EBITDA margins in the high-6% range.

Our **upside scenario** is based on Converge growing its business to $5 billion in sales by 2025, as outlined in Exhibit 8. This scenario yields a value of $20.

In our **downside scenario**, we assume the company's M&A activity slows and EBITDA margins remain flat. In this scenario we assume that Converge would trade at a discount to IT Solutions providers. This scenario yields a value of $7.50.

Exhibit 12: CTS – Base Case And Upside/Downside Scenarios

	Revenue Growth	EBITDA Margins	EV/EBITDA Multiple	Scenario Price
Base Case	47.3%	6.8%	16.0x	$12.50
Upside Case	DCF in Exhibit 8			$20.00
Downside Case	15.0%	6.0%	12.0x	$7.50

Source: CIBC World Markets Inc.

Price Target Calculation

We derive our price target of $12.50 by applying a 15x EV/EBITDA multiple to our 2022 EBITDA estimate based on the current capital structure. The 15x multiple is in line with software resellers and IT services peers. We use DCF as a secondary valuation metric, incorporating future M&A, using an 8.6% WACC and an EBITDA margin in the high-6% range, growing 10 bps annually.

Key Risks To Price Target

The primary risks to our price target include the following: 1) the company's ability to acquire ITSPs at a reasonable valuation; 2) increasing competition from other IT solutions providers; 3) volatility in the global IT environment; 4) the company's ability to partner with leading technology providers; and, 5) the loss of key management or other employees.

Appendix 1. Acquisition History

Exhibit 13: CTS – Acquisition History, 2/2/2018 - 10/4/2021

Acquisition	Closing Date	Price (C$MM)	LTM Revenue (C$MM)	LTM EBITDA (C$M)	Multiple (LTM EBITDA unless specified)	Target Industry
OPIN Digital Inc.*	December 1, 2021	$6.23	$3.60	-	1.73x revenue	Software-focused ITSP
LPA Software Solutions	October 4, 2021	$11.40	$17.00	$2.10	5.5x	Software-focused ITSP
REDNET AG**	August 5, 2021	$142.90	NA	$16.00	8x	Hardware-focused ITSP
Vicom Infinity, Inc.	August 31, 2021	$18.90	$118.80	$8.50	2.2x	Hardware-focused ITSP
ExactlyIT, Inc.	June 22, 2021	$35.19	$4.7 for six months	-	~3x ARR	Managed Services Provider
Dasher Technologies, Inc.	April 1, 2021	$61.00	$220.00	$12.60	4.8x	Hardware-focused ITSP
Accudata Systems	February 12, 2021	$27.33	$89.00	NA	NA	Hardware-focused ITSP
CarpeDatum Consulting, Inc.	January 6, 2021	$6.40	$6.70	$1.80	3.6x	Software-focused ITSP
Vicom Computer Services, Inc.	January 4, 2021	$31.90	$128.00	$6.60	4.85x	Hardware-focused ITSP
Vivvo Application Studios Ltd.	December 22, 2020	$5.50	$1.85	NA	NA	Software-focused ITSP
Workgroup Connections, Inc.	December 2, 2020	$1.40	$14.70	NA	-	Software-focused ITSP
Unique Digital Technology, Inc.	October 1, 2020	$12.40	$70.00	$2.80	4.4x	Hardware-focused ITSP
PCD Solutions, Inc.	February 10, 2020	$16.36	$33.00	$2.30	5.0x	Hardware-focused ITSP
VSS LLC	November 18, 2019	$61.50	$106.50	$7.59	8.2x	Managed Services Provider
Essex Technology Group, Inc.	October 9, 2019	NA	NA	NA	NA	Software-focused ITSP
Datatrend Technologies, Inc.	October 3, 2019	$27.85	$112.23	$4.13	5.7x	Hardware-focused ITSP
Nordisk Systems	July 3, 2019	$9.83	$25.69	$2.00	5.1x	Hardware-focused ITSP
Software Information Systems LLC	January 21, 2019	$15.20	$118.48	$3.46	4.4x	Software-focused ITSP
Lighthouse Computer Services, Inc.	December 4, 2018	$30.70	$107.37	$6.15	4.9x	Software-focused ITSP
BlueChip Tek, Inc.	May 18, 2018	$13.16	NA	NA	NA	Hardware-focused ITSP
Key Information Systems, Inc.	April 3, 2018	$12.33	NA	NA	NA	Hardware-focused ITSP
Becker- Carroll	February 2, 2018	$0.58	NA	NA	NA	Blockchain, Privacy, Access & Identify Mgt.
Average		**$26.1**	**$73.3**	**$5.8**	**5.1x**	

*CTS' 53%-owned subsidiary Portage acquired OIN.
**Converge acquired 75% of Rednet AG.
Source: Company reports, FactSet and CIBC World Markets Inc.

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