

EQUITY RESEARCH

January 10, 2022

Flash Research

CONVERGE TECHNOLOGY SOLUTIONS CORP.

Acquires Paragon Development Systems

Our Conclusion

Converge announced the acquisition of Paragon Development Systems (PDS), an IT & Cloud solutions provider based in Milwaukee, WI. The PDS acquisition is in line with CTS' strategy and builds out its digital transformation, virtualization, and managed services solutions. CTS is acquiring PDS for US\$52 million or 5.8x TTM EBITDA, a slight premium to historical acquisition multiples (~5x), which we view as reasonable given PDS' mix of business. We are making no changes to our model, given an expected 2022 M&A spend of \$200 million, and retain our Neutral rating as well as our \$12.50 price target.

Key Points

Paragon Overview: The Milwaukee-based provider specializes in enterprise solutions (hybrid cloud, modern data center, cybersecurity), digital workplace platforms (work from anywhere, virtualization) and managed services. The business looks to advise and assist with IT needs and modernization of infrastructure across three distinct verticals: Healthcare, Corporate and Public Sector. Over the twelve-month period ending November 30, PDS generated revenue of \$239 million and adjusted EBITDA of \$11.4 million (4.7% margins).

Adds Healthcare Strength; Scale In Central U.S.: PDS' healthcare capabilities are expected to enhance Converge's ability to deliver enterprise solutions and managed services to healthcare clients across the North America, while its presence in the central region provides additional scale in Wisconsin, Illinois and Minnesota.

Transaction Details: Converge is paying US\$52 million (~\$66 million) in cash for PDS, representing an EV/EBITDA multiple of 5.8x TTM EBITDA. The 5.8x multiple is slightly higher than CTS's historical average of 5.0x, likely as a result of the portion of Paragon's revenue that is generated from higher-margin managed services. For context, Paragon's 4.7% EBITDA margins are higher than the ~3% margins generated by a typical hardware-focused VAR.

Services Offerings Resemble Post-acquisition Model: Converge has historically sought to create value through acquisitions by enabling software and services capabilities, rolling out volume discounts and additional cost savings. With PDS already providing software and managed services and operating under a similar model, the extent to which CTS will realize its standard ~350 bps margin improvements is not immediately clear. We expect that PDS technical staff and managed services (Service Desk, Managed Detection & Response, Managed Cloud Monitoring), will be made available across the Converge network.

Stephanie Price, CFA
+1 416-594-7047
Stephanie.Price@cibc.com

Scott Fletcher, CPA, CA
+1 416-956-3229
Scott.Fletcher@cibc.com

Natalie Zhang, CFA
+1 416-581-2120
Natalie.Zhang@cibc.com

Neutral

CTS-TSX, Sector: Information Technology
Current Price (1/10/22): C\$10.36
Price Target (12-18 mos.): C\$12.50

All figures in Canadian dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks To Price Target" information on page 2.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 3.

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.

Important Disclosures

Analyst Certification: Each CIBC World Markets Inc. research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

Potential Conflicts of Interest: Equity research analysts employed by CIBC World Markets Inc. are compensated from revenues generated by various CIBC World Markets Inc. businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets Inc. generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets Inc. generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets Inc. may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

CIBC World Markets Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that CIBC World Markets Inc. may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Analysts employed outside the U.S. are not registered as research analysts with FINRA. These analysts may not be associated persons of CIBC World Markets Corp. and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

CIBC World Markets Inc. Stock Rating System

Stock Ratings	Abbreviation	Description
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.
Not Rated	NR	CIBC World Markets does not maintain an investment recommendation on the stock.
Restricted	R	CIBC World Markets is restricted (due to potential conflict of interest) from rating the stock.

Sector Ratings	Abbreviation	Description
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.

Important Disclosure Footnotes

- 1b CIBC WM Inc. makes a market in the securities of these companies: Converge Technology Solutions Corp.
- 2a These companies are clients for which a CIBC World Markets company has performed investment banking services in the past 12 months: Converge Technology Solutions Corp.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for these companies in the past 12 months: Converge Technology Solutions Corp.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from these companies in the past 12 months: Converge Technology Solutions Corp.
- 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: Converge Technology Solutions Corp.

For important disclosure footnotes for companies mentioned in this report that are covered by CIBC World Markets Inc., click here: [CIBC Disclaimers & Disclosures](#)

Companies mentioned in the report but not listed are not covered by fundamental research at CIBC.

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 10 Jan 2022)	Count	Percent	Inv. Banking Relationships	Count	Percent
Outperformer	169	57.3%	Outperformer	169	100.0%
Neutral	117	39.7%	Neutral	116	99.1%
Underperformer	9	3.1%	Underperformer	9	100.0%
Tender	0	0.0%	Tender	0	0.0%
Restricted	10	3.4%	Restricted	10	100.0%

Important disclosures for each issuer can be found by visiting the Research Central website at <https://researchcentral.cibccm.com/#/disclaimer-central-new> and then entering the issuer name. Access to our research dissemination policy can be found on the same website at <https://researchcentral.cibccm.com/#/dissemination-policy>. These important disclosures can also be obtained by writing to CIBC World Markets Inc., 161 Bay Street, 4th Floor, Toronto, ON M5H 2S8, Attention: Research Disclosures Request.

Access to CIBC Equity Research

Clients may access CIBC Equity Research online at Research Central at <https://researchcentral.cibccm.com/>, or at the following research aggregators: Bloomberg, Refinitiv, Capital IQ, and FactSet.

Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, is Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer). CIBC World Markets Corp. accepts responsibility for the content of this research report.

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of Retail investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to "institutional investors" (within the meanings of the Financial Advisers Act (Chapter 110 of Singapore)).

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Legal Disclaimer (Continued)

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and / or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2022 CIBC World Markets Inc. and CIBC World Markets Corp. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.