

EQUITY RESEARCH

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Flash Research

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**CONVERGE TECHNOLOGY SOLUTIONS CORP.**

Integration And AI Opportunities At Coffee With Converge

**Our Conclusion**

Converge hosted a “Coffee And Converge” event today, to discuss its AI/analytics and cybersecurity offerings. With Converge focused on cross-selling higher margin services to its acquired customer base, AI could provide a gateway to more holistic discussions with clients about IT modernization. However, we expect that a material revenue contribution from AI is still many years away. We see upside if Converge is able to execute on its organic growth and integration activities more quickly than anticipated. We retain our Neutral rating and \$3 price target.

**Key Points**

**AI Is A Gateway To Bigger Discussions:** CTO Chris Foster spoke in detail about trends Converge is seeing in terms of client interest in AI, including key themes around AI design, synthetic data and optimization. Converge described AI as a gateway to engage customers in broader discussions about their IT needs, including IT infrastructure modernization and cybersecurity. Some of these are inbound conversations where clients proactively reach out to Converge to engage in discussions around AI, while others are outbound where Converge hosts workshops with clients to identify potential use cases for AI or other IT solutions. The CTO highlighted a few use cases, including a natural gas company that originally reached out to Converge looking to revamp its financial planning system. Through these discussions Converge was able to cross-sell broader data infrastructure modernization services as well.

**Integration Ongoing:** Integration has been a focus for Converge, with 12 acquisitions completed in 2022. The company has integrated its sales teams into the appropriate regions, where its sales representatives can maintain close relationships with clients in the region and reach out to centralized technical resources as needed. Converge has also integrated its technical resources. Given client interest in AI solutions, Converge is working on communicating a playbook across its practices and at all levels of its organization, so that clients can receive consistent messaging. With Converge’s sales teams and technical resources integrated into the correct regions and platforms, we expect a renewed focus on enabling cross-sell opportunities.

**Cross-selling Initiatives:** As Converge works to cross-sell higher margin managed services to its acquired (mainly VAR) customer base, its centralized technical resources are running eight-week sprints in certain regions to train sales reps on different solutions, such as analytics or cybersecurity. Currently, 60%-80% of sales reps are selling four or more practice areas and sales incentives encourage cross-selling. The typical timeline to ramp up cross-selling in its sales teams is two to three years, with approximately one year spent integrating and educating sales reps followed by a sales cycle of about six to nine months.

*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.

**Neutral**

CTS-TSX, Sector: Information Technology  
Current Price (9/13/23): C\$2.91  
Price Target (12-18 mos.): C\$3.00

## Price Target Calculation

We derive our price target of \$3.00 by applying a 5.0x EV/EBITDA multiple to our 2024E EBITDA estimate based on the current capital structure. The 5.0x multiple is in line with the company's hardware VAR acquisitions.

## Key Risks To Price Target

The primary risks to our price target include the following: 1) the company's ability to acquire ITSPs at 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; 5) the loss of key management or other employees.

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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

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