

EQUITY RESEARCH

September 12, 2022

Flash Research

CONVERGE TECHNOLOGY SOLUTIONS CORP.

To Acquire Newcomp Analytics For \$20 Million

Converge announced the C\$20.3MM acquisition of Newcomp Analytics for ~6x TTM EBITDA. Headquartered in Toronto, Newcomp Analytics is an IT consulting provider that enables organizations to gain data-driven insights through its advanced analytics solutions. The 6x EV/EBITDA multiple is slightly above Converge's typical 5x, although we view the multiple as reasonable given Newcomp's business mix, which is skewed towards data analytics and artificial intelligence. Post the transaction, we calculate that CTS will have net debt of ~\$28MM or 0.2x leverage and view the company as on track to meet its \$1B in acquired gross revenue target for 2022.

Key Highlights

Target Overview: Headquartered in Canada, Newcomp focuses on IT services and consulting for clients across Canada, U.S. and the Caribbean. The company offers a range solution offerings across AI & machine learning, data engineering, BI & data visualization, financial planning & analytics, and the cloud. This acquisition will strengthen the solution offering for Converge's North American customers. The company generated revenue of C\$36.4MM and EBITDA of C\$3.4MM in the TTM period (9% EBITDA margin). In addition to the cash purchase price of C\$20.3MM, Converge expects to pay out positive net working capital at transaction close.

On Track To Reach \$1B in Acquired Gross Revenue in 2022: With this acquisition, CTS has acquired ~\$965MM in gross revenue YTD, approaching management's \$1B target. We expect the focus for the remainder of the year to be on integration, logo growth, and cross-selling. We see Newcomp as providing an analytics offering that can be cross-sold to its existing client base.

Cash Position: Post this acquisition, we calculate that Converge will have net debt of ~\$28MM with leverage of 0.2x. However, the transaction is expected to be immediately accretive and we are forecasting \$43MM in free cash flow for the remainder of the year, suggesting the company will continue to have room for acquisitions without leveraging up aggressively.

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Neutral

CTS-TSX, Sector: Information Technology
Current Price (9/12/22): C\$5.85
Price Target (12-18 mos.): C\$8.00

Price Target Calculation

We derive our price target of \$8.00 by applying a 9x EV/EBITDA multiple to our 2023E EBITDA estimate based on the current capital structure. The 9x multiple is in line with hardware VAR peers.

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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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.
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Overweight	O	Sector is expected to outperform the broader market averages.
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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

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.

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