

# EQUITY RESEARCH

September 7, 2022

Earnings Update

## DYE & DURHAM LTD.

### ACCC Approves Link Group Acquisition

#### Our Conclusion

The Australian Competition & Consumer Competition (ACCC) has accepted Dye & Durham's proposed undertaking to divest its Australian businesses in order to facilitate the closing of the Link Group acquisition. After identifying its [concerns](#) around the vertical integration of DND's Australian assets and Australian e-conveyancer Pexa – 42.77% owned by Link Group – the ACCC is satisfied that the sale of the Australian businesses will address competitive concerns. While the ACCC approval removes the most significant regulatory hurdle facing the deal, a September 30 deadline is fast approaching and approvals from regulators in the U.K., Ireland and Luxembourg remain outstanding. We retain our view that DND is currently undervalued on the base business alone, and believe that a successful Link Group acquisition is further upside to our \$30 price target.

#### Key Points

**DND/LNK Pro Forma:** If the Link deal closes, we calculate the combined business – post divestiture of TM Group and DND's Australian businesses – would double in size from a revenue perspective to \$1.3B and increase Adjusted EBITDA by nearly 70% to \$575MM. At DND's current share price, the business is trading at only 3.7x 2023E Adjusted EBITDA on a combined basis. The combined entity would also see a substantial uptick in leverage, with Net Debt/Adj. EBITDA of ~5.5x on LTM results, although that number reduces to ~3.9x when calculated on 2023E Adj. EBITDA estimates. We expect that the debt associated with the deal will result in an additional ~\$170MM in annual interest payments, accounting for nearly all of the incremental free cash provided by Link. We also note that Link's 43% stake in Australian e-conveyancer Pexa would be worth ~\$14/share to DND.

**Australian Divestitures:** The undertaking accepted by the ACCC would see DND divest its entire Australian businesses, including the SAI Global and GlobalX businesses it acquired in 2021. DND paid a combined \$255MM for the two businesses, and we believe that the Australian businesses were expected to contribute ~\$50MM to our 2023E adjusted EBITDA forecast. In calculating DND's post-deal leverage, we assume DND is able to sell the businesses for the \$255MM price at which they were acquired.

**Timeline Remains Tight:** Post the ACCC approval, DND still requires Australian approval from the Supreme Court of New South Wales and Foreign Investment Review Board, as well as regulatory approval in the U.K., Ireland and Luxembourg in advance of the September 30 expiry date of both the debt related to deal and the merger agreement itself. Australian news reports have indicated that junior lenders in the lending syndicate are unhappy with the terms of the debt and could potentially walk away from the deal if approvals aren't received by the end of September. With just over three weeks until the end of the month, we see the expiry of the scheme document and financing as a notable risk to the completion of the deal.

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### Outperformer

DND-TSX, Sector: Information Technology

Current Price (9/7/22): C\$13.67

Price Target (12-18 mos.): C\$30.00

#### CIBC Estimates and Valuation

(Jun. 30)	2020	2021	2022	2023
Revenue(mln)	65.51A	208.95A	480.47E	629.10E
EBITDA(mln)	21.7A	52.9A	200.5E	281.4E
Prior				
Adj. EBITDA(mln)	36.7A	116.4A	264.2E	341.4E

Revenue(mln)	Q1	Q2	Q3	Q4
2023	146.69E	158.16E	161.32E	162.93E
2022	112.62A	109.63A	122.88A	135.34E

Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2023	78.5E	85.4E	87.9E	89.6E
2022	62.4A	62.6A	66.8A	72.4E

Valuation	2020	2021	2022	2023
EV/EBITDA	67.2x	21.2x	9.3x	7.2x

#### Stock Performance and Key Indicators

Avg. Dly. Vol.:	169K	Shares O/S:	69.1M
Market Cap.:	C\$945M	Float:	56.2M
52-wk Range:	C\$13.18 - C\$46.77	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 7.  
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 8.

## Dye & Durham Ltd. (DND-TSX) — Outperformer

Price (9/7/22) C\$13.67 12-18 mo. Price Target C\$30.00

Sector: Information Technology

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Key Financial Metrics	2020	2021	2022E	2023E
Sales Growth	49.4%	219.0%	130.0%	30.9%
Per Share Data	2020	2021	2022E	2023E
EPS	(0.55)	(0.72)	0.25	0.82
Diluted EPS	(0.55)	(0.72)	0.23	0.77
Wgt Avg # of Shares	20.5	56.4	68.9	69.5
FD Number of Shares	20.5	56.4	73.1	74.2
Income Statement	2020	2021	2022E	2023E
Revenue	66	209	480	629
Cost of Goods Sold	7	28	60	75
Gross Profit	59	181	421	554
Tot Operating Exp	24	65	157	212
OpEx (% of Revenue)	36.88%	30.99%	32.63%	33.73%
EBITDA	22	53	200	281
EBITDA Margin	33.18%	25.33%	41.73%	44.73%
Adj. EBITDA	37	116	264	341
Adj EBITDA Margin	56.0%	55.7%	55.0%	54.3%
Net Income	(11)	(41)	17	57
Net Margin	(17.2%)	(19.6%)	3.5%	9.0%
Cash Flow Statement	2020	2021	2022E	2023E
Net CFO	33	79	167	228
Capex	1	2	1	1
Acquisitions	4	767	872	0
Free Cash Flow	32	78	165	227
Balance Sheet	2020	2021	2022E	2023E
Cash & ST Investment	3	429	234	370
Intangible Assets	88	564	970	853
Goodwill	53	494	978	978
Total Assets	167	1,558	2,353	2,419
LT Int-Bearing Debt	181	222	844	785
Total Liabilities	236	807	1,562	1,551
Shareholders' Equity	(69)	751	792	868
Tot Liab & SE	167	1,558	2,353	2,419

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\$30.00

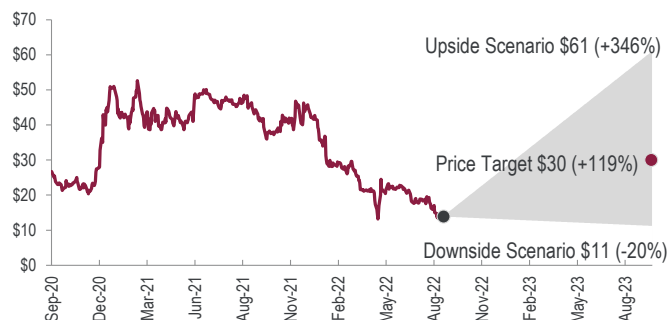
Our base case is calculated using 32% revenue growth, 46% EBITDA (ex-AIR) margins and an 11.0x EV/EBITDA multiple applied to our F2023 EBITDA estimate based on the current capital structure and sale of TM Group

### Upside Scenario: C\$61.00

Our upside scenario is calculated using estimated 2023E revenue inclusive of Link acquisition, 41% EBITDA margins and an 11.0x EV/EBITDA multiple

### Downside Scenario: C\$11.00

Our downside scenario is calculated using 10% revenue growth, 35% EBITDA margins and an 8.5x EV/EBITDA multiple



## Pro Forma Business

Exhibit 1 below contains a pro forma estimate of what Dye & Durham and Link Group would look like on a combined basis. Our analysis assumes that DND had successfully implemented its standard M&A and integration playbook for TM Group, GlobalX and SAI Global, and the businesses were contributing 2023E adjusted EBITDA at a level that would equate to 5x Adj. EBITDA on the original purchase price. We also assume that the divested businesses were operating at a margin equal to our 2023E Adj. EBITDA margin forecast of 54.4%. We have included an estimate of acquisition, integration and restructuring costs for DND and Link given we calculate our price target excluding M&A adjustments to EBITDA.

For the 2023E Link Group estimates, we assume that Link's Fund Solutions and Banking & Credit Management solutions are divested. The two businesses contributed a combined 26% of revenue and 10% of Adj. EBITDA in F2022, and we have reduced consensus 2023E estimates by an equivalent amount. We have included \$100MM in Adjusted EBITDA synergies that were identified by DND at the time the deal was announced. We have also included an estimate of the deal's impact on Free Cash Flow, assuming FCF conversion at the divested DND assets and Link are in line with the projected performance of each of DND and Link. Our incremental interest calculation is based on an interest rate of 7.5%, similar to the rate on DND's existing long-term debt.

### Exhibit 1: DND/LNK - Pro Forma Estimates, 2023E

#### Revenue/Adjusted EBITDA

	CIBCe	CIBCe	CIBCe	CIBCe	CIBCe
	DND Base Business	TM Group	Australian Businesses	Link Group (Post Divestiture)	Total
Revenue	629	(57)	(94)	806	1,284
Adjusted EBITDA	341	(31)	(51)	323	582
% Margin	54.3%			40.1%	45.4%
M&A Adjustments	52			10	62
EBITDA (Ex-M&A Adjustments)	289	(31)	(51)	313	520
EBITDA (ex-M&A Adjustments) Margin	42.8%				40.5%

#### Link Group

	Consensus	CIBCe	CIBCe
	Total	Divested /Synergies	Net
Revenue	1,089	(283)	806
Adj. EBITDA	248	(32)	216
Total Cost Synergies		100	100
Post-Deal Adj. EBITDA			316
Adjusted EBITDA Margin	22.8%		39.2%

#### Free Cash Flow

	CIBCe	CIBCe	CIBCe	CIBCe	CIBCe	
	DND Base Business	TM Group	Australian Businesses	Link Group (Total)	Incremental Interest Payment	Total
Free Cash Flow	195	(17.8)	(29.1)	175	(168)	154
FCF Conversion	54.4%	54.4%	54.4%	54.1%		26.5%

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

With DND taking on an additional \$2.9B in debt as well as \$841MM in interest bearing exchangeable preferred shares, we calculate post-deal net debt of \$2.26B. Exhibit 2 walks through the pro forma net debt as well as the implied trading multiples based on DND's current share price. Based on \$2.3B in net debt, the combined business would be 5.5x levered, using Link Group's LTM Adjusted EBITDA and DND's Q3 Adj. EBITDA annualized to give full credit for completed M&A. If we look out to 2023E Adj. EBITDA, the business would be 3.9x levered on a Net Debt to Adjusted EBITDA basis as illustrated in Exhibit 2.

## Exhibit 2: DND/LNK – Pro Forma Leverage & Trading Multiple, 2023E

DND/LNK Pro Forma Leverage (ex-TM, SAI, GlobalX)	
DND Market Cap	945
Net Debt	2,262
Pexa Stake	(1,032)
Enterprise Value	2,174
2023E Adj. EBITDA (ex-M&A Adjustment)	520
2023E Adj. EBITDA	582
EV/Adj. EBITDA (ex-M&A Adjustment) - 2023	4.2x
EV/Adj. EBITDA - 2023	3.7x
<b>Net Debt</b>	
Long Term Debt	2,920
Convertible Debt/Exchangeable Preferred Shares	1,139
Current Cash Balance	(218)
Proceeds from FS/BCM Sale	(218)
Cash From Ares Equity Financing	(950)
Proceeds From TM/SAI/GlobalX Sales	(411)
	2,262

Leverage - Pro Forma (DND FQ3 Annualized)	
Net Debt/Adj. EBITDA (ex-M&A Adjustment) - PF	6.7x
Net Debt/Adj. EBITDA - PF	5.5x

Leverage - 2023E	
Net Debt/Adj. EBITDA (ex-M&A Adjustment) – 2023E	4.3x
Net Debt/Adj. EBITDA - 2023E	3.9x

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

## Remaining Regulatory Hurdles

The transaction has now received two key approvals, with Link Shareholders voting in favour of the deal and ACCC accepting DND's proposal to sell its Australian assets. While the ACCC approving DND's undertaking was perhaps the most difficult regulatory approval to gain, the deal still requires regulatory approval from the U.K. Financial Conduct Authority, the Central Bank of Ireland, the Luxembourg Commission de Surveillance du Secteur Financier, the Australian Foreign Investment Review Board and the Supreme Court of New South Wales. The Supreme Court of New South Wales does have a court hearing scheduled for September 15 (recently pushed out from September 9), but the hearing cannot proceed prior to the U.K., Ireland and Luxembourg approvals.

All of these regulatory approvals will need to be received prior to September 30 when the revised Scheme Implementation Deed agreed to by DND and Link expires. We do not expect the parties to be able to push out the timeline of the scheme given that the debt financing associated with the transaction also expires on September 30, and news reports have suggested that lenders included in the syndicate may be willing to walk away from the deal. At this point, there is still time to receive regulatory approval prior to September 30, but any further delays would make meeting the deadline highly unlikely.

## Thesis Reiterated

Our view on DND remains unchanged since our [transfer of coverage](#) in mid-June. We believe that DND shares present an attractive risk/reward opportunity, with the base business trading at 6.3x 2023E standalone Adjusted EBITDA (excluding M&A adjustments). The business continues to trade at a discount to registry services peer, Information Services Corp, despite a stronger margin profile, broader geographic scope, and the ability to offset slowdowns in transaction activity through contracted transaction levels and price increases.

We also continue to view the completed Link Group transaction as upside to our target. As shown in Exhibit 1, the combined business would see DND's revenue more than double while adjusted EBITDA increases by nearly 75%. The acquisition of Link Group would expand DND's service offerings, moving them into the Australian, New Zealand and U.K. financial and corporate services markets. Link's businesses do not provide any clear overlap with DND's existing real estate and legal workflow products but do broadly provide information services to specialized end markets. Based on DND's share price, the combined business would be trading at 4.3x 2023E Adjusted EBITDA (ex. M&A Adjustments) after adjusting for Link Group EBITDA, additional debt and the value of Link's Pexa stake.

One factor that is at least equally as important to the transaction as the Link business is Link's 43% ownership of Australian e-conveyancer Pexa. DND's willingness to divest its Australian assets in order to facilitate the transaction emphasizes how important the large stake in Pexa is to the transactions. Based on Pexa's current market cap of ~CAD\$1B, Link's 43% stake is worth nearly \$14/share, more than DND's current standalone share price.

## Environmental, Social and Governance (ESG) Metrics for DND-TSX

### CIBC ESG Metrics

Governance Metrics	2017	2018	2019	2020	2021
Insider Ownership	NA	NA	NA	31.8%	21.4%
Board Gender Diversity	NA	NA	NA	0%	0%
Separation of Chair & CEO	NA	NA	NA	YES	YES
Dual-class Ownership?	NA	NA	NA	NO	NO
Disclose ESG Data?	NA	NA	NA	NO	NO
Social Metrics	2017	2018	2019	2020	2021
CEO Comp./Mkt Cap*	NA	NA	NA	NA	\$4.6
Diversity Targets	NA	NA	NA	NO	NO
Women Managers	NA	NA	NA	13%	13%
Environmental Metrics	2017	2018	2019	2020	2021
Emissions Intensity**	NA	NA	NA	NA	NA
Net-zero Targets?	NA	NA	NA	NO	NO

\*CEO Compensation is shown as per thousand dollars of market capitalization

\*\*Emissions Intensity calculated as total emitted CO2e divided by million \$ of CAD revenue

### Sustainalytics ESG Risk Rating

24.0

Medium Risk

Updated on  
Aug 12, 2022

Momentum



### Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK (1 <sup>st</sup> = lowest risk)	PERCENTILE (1 <sup>st</sup> = lowest risk)
Global Universe	5747/14482	40th
Software & Services INDUSTRY	570/985	58th
Enterprise and Infrastructure Software SUBINDUSTRY	264/413	64th

### Sustainalytics Material ESG Issues

These are the Material ESG Issues driving the ESG Risk Report

Issue Name	ESG Risk Exposure Score   Category	ESG Risk Management Score   Category	ESG Risk Rating Score   Category	Contribution to ESG Risk Rating
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### CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	2	-1	Value	56	+18
Momentum	11	-2	Momentum	214	-29
Quality	7	+3	Quality	86	+37
Market	14	0	Market	227	-5
Low Volatility	9	0	Low Volatility	197	-8
Growth	3	0	Growth	48	+4

Note: Ranking out of 14 stocks

Note: Ranking out of 237 stocks

#### General Notes Behind the Quantitative Scorecard

Delta refers to the change in the ranking over the past month. Number of stocks "Within Sector" is defined by the number within the GICS. In the "Within S&P/TSX" category, we use all stocks in the S&P/TSX Composite. For detail on the Quant Factors included in each style above, please contact the CIBC Portfolio Strategy Team.

The table above is based upon quantitative, statistical, and mathematical analysis and is not intended to serve as a fundamental recommendation.

### CIBC Technical Scorecard

Factor	TSM Score	Factor	TSM Score
TSM	NA	Momentum	D
Beta	1.31	MACD	D
Volatility	↑	Alpha (Sector)	D
Trend	↓	Alpha (Index)	D
RSI	Oversold		

#### General Notes Behind the Technical Scorecard

**TSM:** The Trendspotting Matrix uses technical factors to score uptrend durability.

**Momentum and alpha** metrics compare performance over one-month, one-quarter and one-year timeframes, outputting a rating from A to D.

**Trend/Volatility** metrics measure price deviations relative to underlying moving averages.

**RSI** is an oscillator that provides mean-reversion estimations.

**MACD** is a momentum indicator rated from A to D based off the strength of its signal.

The table above is based upon a technical methodology that examines the past trading patterns and trades and is not intended to serve as a fundamental recommendation.

Source: Sustainalytics, Compustat, FactSet, Bloomberg and CIBC World Markets Inc.

## Price Target Calculation

We derive our price target of \$30 by applying a 11x EV/EBITDA multiple to our F2023 EBITDA (Ex-Acquisition, Integration & Restructuring costs) estimate based on the current capital structure and sale of TM Group. The 11x multiple is in line with the peak trading multiple of comparable registry services providers. The 11x multiple is also a 20% discount to Canadian Consolidator peers as a result of DND's ties to the housing markets and risk to the consolidation strategy from competition authority reviews.

## Key Risks To Price Target

The primary risks to our price target include the following: 1) competition and regulatory reviews impact the ability to acquire; 2) regulatory reviews and negative media coverage limit the ability to increase prices on e-conveyancing and transactional services; 3) slowdowns in housing market sales impact transactional revenues, putting organic growth at risk; 4) risks around integration of M&A given the pace of acquisition; and 5) governance concerns in the wake of the stock option grant post the take-private process.



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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.
Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
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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.



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Tender	3	1%	Tender	2	67%
Restricted	2	1%	Restricted	2	100%

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