

EQUITY RESEARCH

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Flash Research

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DYE & DURHAM LTD.

Dye & Durham Updates Link Group Proposal In Response To FCA's Requirement; Link's Board Does Not Recommend

Our Conclusion

Following the UK Financial Conduct Authority's (FCA) requirement for DND to cover a potential £306 million redress payment associated with the Woodford Equity & Income Fund ([link](#)), Dye & Durham has revised its offer for Link to account for the potential redress payment. The new deal structure reduces upfront consideration by the maximum potential redress, with the balance of the payment structured as contingent consideration. Link Group's Board has stated it is unable to recommend the revised offer to shareholders, a sign in our view that we may be nearing an end of the drawn-out acquisition process without a deal being agreed to.

Key Points

Restructured Terms: DND restructured its acquisition bid, offering A\$3.81/share of upfront considerations plus a contingent payment tied to a potential Woodford redress. This reduced the previous upfront consideration of A\$4.81/share by A\$1.00/share, an amount equal to the £306 million (C\$465 million) maximum potential redress outlined by the FCA. If Link Fund Solutions is found not liable, Link's shareholders would receive a cash payment of A\$1.00/share. If Link Fund Solutions is found liable, but the redress is less than £306 million, Link shareholders would receive a cash payment from DND making up the difference between the actual redress and the £306 million maximum. DND's revised proposal is subject to approval from DND's lenders, court approval to an extension of the scheme (currently expires September 30th), and court and shareholder approvals of the revised terms.

Link Group Response: In a response to the new offer, the Link Group Board noted it is **unable** to recommend the new proposal for matters related to value, structure and alternatives available to Link. If the scheme is not completed, the company plans to evaluate alternatives, including a special distribution of 80% of its shareholding in PEXA to its shareholders. In its response, Link also noted that DND has informed it that it is unlikely it will be able to accept the FCA's conditions which led to the revised offer.

Debt Refinancing A Key Hurdle For Deal Consummation: The September 30th expiry of the deal's debt financing has long been a primary risk to the deal closing. Link's response to the revised proposal noted that DND's lenders were a factor in DND's reluctance to agree to the FCA's terms. DND also noted that the revised proposal remains subject to approval from its lenders, approval that may come with unfavourable renegotiated terms given the original financing was agreed to in a more stable macroeconomic environment at the end of 2021.

Outperformer

DND-TSX, Sector: Information Technology

Current Price (9/16/22): C\$12.88

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

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 \$30 by applying an 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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None	NA	Sector rating is not applicable.

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CIBC World Markets Inc. Price Chart

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