

EQUITY RESEARCH

June 19, 2023

Flash Research

DYE & DURHAM LTD.

Preliminary Results Of \$15MM Substantial Issuer Bid

Our Conclusion

Dye & Durham announced the preliminary results of its substantial issuer bid (SIB). DND expects to repurchase and cancel 882,352 shares or 1.59% of the shares outstanding, for a total of \$15 million. Shares are expected to be repurchased at a price of \$17/share, the lower end of the SIB's \$17 - \$20 range. Following the offer DND will have 54,887,039 shares issued and outstanding.

Key Points

Capital Allocation Priorities: DND finished its most recent quarter with net debt : LTM adj. EBITDA (inclusive of preferred shares) of 4.9x. Despite the elevated leverage, DND continues to prefer to allocate capital towards share buybacks as management sees the shares as trading at a significant discount to peers. With acquisition multiples on DND's M&A targets typically falling in the mid-to-high teens, at \$17/share DND does trade at a notable discount (7.8x EV/F2024E Adj. EBITDA). We note that annual interest costs on DND's floating rate term loan and convertible debt are expected to be ~\$115 million, or 66% of our F2024 free cash flow estimate.

Canadian Housing Markets Continue To Improve: Last week the Canadian Real Estate Association (CREA) released national housing data for May 2023, which included a 5.1% month/month increase in seasonally adjusted sales, the fourth consecutive month of m/m improvements. More importantly, the actual (not seasonally adjusted) number of transactions in May was up 1.4% Y/Y, the first national Y/Y increase since June 2021. With at least 25% of revenue driven by Canadian housing market transactions, the Y/Y improvement in transaction levels should help DND return to organic revenue growth in F2024.

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Outperformer

DND-TSX, Sector: Information Technology

Current Price (6/16/23):	C\$17.58
Price Target (12-18 mos.):	C\$25.00

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 \$25 by applying a 10x EV/EBITDA multiple to our F2024 EBITDA estimate based on the current capital structure and sale of TM Group. The 10x multiple is a 1x discount to the peak trading multiple of comparable registry services providers.

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.
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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.

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