

# EQUITY RESEARCH

July 20, 2022

Flash Research

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## DYE & DURHAM LTD.

Link Group Agrees To Revised Offer Of A\$4.81/Share

### Our Conclusion

DND and Link Group announced that the two companies have agreed to reduce the purchase price of their pending acquisition from A\$5.50/share to A\$4.81/share. The 12.5% reduction brings the offer in line with the lower end of the independent valuation range provided by Deloitte at the time of the initial acquisition offer. A 12.5% reduction in the purchase price would take the total purchase price of the acquisition down from \$3.2 billion to ~\$2.8 billion. The deal still requires regulatory approval, specifically the Australian Competition & Consumer Commission (ACCC), which has already [filed a statement of issues](#) related to the transaction. We view the reduced purchase price as a positive for DND, as the lowered purchase price will reduce the leverage associated with the transactions and reflects, to some extent, the broader sell-off in equity markets post the December 22, 2022 deal announcement.

### Key Points

**New Offer Satisfies Independent Valuation:** The newly agreed-upon terms of A\$4.81/share come after DND had twice attempted to reduce its offer, first to A\$4.30/share and then to A\$4.57/share. News reports in The Australian at the time of the second offer noted that Link was unwilling to accept an offer outside of Deloitte's independent valuation range of A\$4.81–A\$5.97/share. That appears to have been the case, with the new price directly in line with the lower end of the range.

**Regulatory Hurdles Remain:** The transaction still faces the key regulatory hurdle of ACCC approval before it can be approved. The ACCC is specifically concerned with the risk posed by the potential vertical integration of DND's Australian legal workflow solution and Australian e-conveyancer Pexa, 43% owned by Link Group. Along with its previously revised offers, Dye & Durham had noted that it would provide an undertaking to the ACCC in response to its statement of issues. We continue to believe that a remedy would need to include the sale of its Australian legal workflow solutions given ACCC concerns around vertical integration between Pexa and DND.

**DND To Sell BCM Business Post Deal:** Under the revised agreement, DND will remain obligated to divest Link's Banking & Credit Management (BCM) business, with Link shareholders entitled to up to A\$0.13/share from the proceeds. DND has agreed to appoint financial advisors to sell the BCM business immediately following the deal's completion.

**Reduced Leverage A Positive:** We calculate that a 12.5% reduction in the purchase price would result in post-deal leverage of 5.4x pro forma LTM EBITDA, down nearly one turn from 6.3x. On 2023E EBITDA numbers, the reduction in price would take leverage from 4.5x to 3.8x.

### Outperformer

DND-TSX, Sector: Information Technology

Current Price (7/20/22): C\$18.80

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 a 11x EV/EBITDA multiple to our F2023 EBITDA (excluding 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.

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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