

# EQUITY RESEARCH

February 1, 2022

Earnings Update

## DYE & DURHAM LTD.

FQ2 Results Roughly In Line, No Change To Guidance

### Our Conclusion

Dye & Durham reported roughly in-line FQ2 results, with revenue ~3% below consensus but adjusted EBITDA 3% above. We believe that the near-term focus will be on execution, after DND deployed \$3.7 billion on M&A in December. We see significant upside if DND is able to close the Link Group transaction and execute on its proven synergy model. That said, we see a number of near-term uncertainties including the regulatory and shareholder approvals required for the Link Group transaction, the outcome of the ongoing U.K. competition review, and potential churn from Unity price increases. We retain our Neutral rating and \$50 price target.

### Key Points

**FQ2 Results In Line, Guidance Unchanged:** DND reported revenue of \$110 million, 3% below consensus (\$113 million). Adjusted EBITDA of \$62.6 million was 3% above consensus (\$61 million). The company had \$32 million in free cash flow in FQ2, for a free cash flow conversion of 51%.

**Link Group Timeline To Close Roughly Unchanged:** Link is expected to close early in calendar Q3, slightly later than prior guidance of late calendar Q2. Management is guiding to \$364 million in F23 Link adjusted EBITDA and cost synergies versus our prior expectation of \$331 million. That said, the transaction has a number of hurdles to go through prior to close, including approvals from 75% of Link shareholders, the Australian Foreign Review Board, Australian Competition Authority and the Financial Conduct Authority in the U.K. Recall that DND's TM Group continues to undergo a Phase 2 competitive review with the U.K. CMA.

### After Committing To \$3.7B In M&A, Expect A Focus On Integration:

After acquiring TELUS Financial Services and committing to acquire Link, we expect a near-term focus on integration and the completion of the Link transaction. With leverage of ~4x expected post Link, we believe that M&A will be limited to tuck-ins in the near-term. We expect that M&A-related add-backs to adjusted EBITDA could make peer comparability more difficult in the near-term, with DND adding back more to adjusted EBITDA than Canadian software consolidator peers (29% in FQ2 vs. an average 1% at peers).

**Real Estate Market Slowed In FQ2:** With DND's transactional revenues linked to real estate transaction volumes, it is seeing an impact from the ongoing housing market slowdown with volumes down both year-over-year and quarter-over-quarter in FQ2. To offset the revenue headwind, DND has been relying on price increases. We view the sustainability of the strategy as unclear, especially given the negative press around the most recent Unity price increases. That said, DND has seen little attrition from prior price increases given limited competition, high switching costs and the pass-through nature of the fees.

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Neutral

DND-TSX, Sector: Information Technology

Current Price (2/1/22): C\$36.50

Price Target (12-18 mos.): C\$50.00

### CIBC Estimates and Valuation

(Jun. 30)	2020	2021	2022	2023
Revenue(mln)	65.51A	208.95A	485.26E	647.37E
Prior			501.61E	646.64E
EBITDA(mln)	21.7A	52.9A	180.4E	266.7E
Prior			183.2E	266.3E
Adj. EBITDA(mln)	36.7A	116.4A	268.9E	350.7E
Prior			272.5E	350.3E

Revenue(mln)	Q1	Q2	Q3	Q4
2023	150.37E	161.87E	166.73E	168.40E
Prior	156.09E	162.97E	162.97E	164.60E
2022	112.62A	109.63A	124.02E	138.98E
Prior		114.87E	129.47E	144.65E

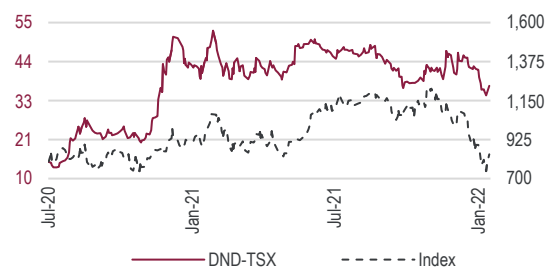
Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2023	81.2E	86.1E	90.9E	92.6E
Prior	83.6E	86.6E	89.2E	90.9E
2022	62.4A	62.6A	66.0E	78.0E
Prior		62.2E	67.5E	80.3E

Valuation	2020	2021	2022	2023
EV/EBITDA	84.1x	26.5x	11.5x	8.8x

### Stock Performance and Key Indicators

Avg. Dly. Vol.:	287K	Shares O/S:	68.6M
Market Cap.:	C\$2,505M	Float:	55.8M
52-wk Range:	C\$34.00 - C\$52.63	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 5.  
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 6.

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

Price (2/1/22) C\$36.50 12-18 mo. Price Target C\$50.00

Sector: Information Technology

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Key Financial Metrics	2020	2021	2022E	2023E
Sales Growth	49.4%	219.0%	132.2%	33.4%
Per Share Data	2020	2021	2022E	2023E
EPS	(0.55)	(0.72)	0.28	1.39
Diluted EPS	(0.55)	(0.72)	0.27	1.39
Wgt Avg # of Shares	20.5	56.4	68.7	69.1
FD Number of Shares	20.5	56.4	70.5	69.1
Income Statement	2020	2021	2022E	2023E
Revenue	66	209	485	647
Cost of Goods Sold	7	28	69	91
Gross Profit	59	181	417	557
Tot Operating Exp	24	65	199	275
OpEx (% of Revenue)	36.88%	30.99%	40.96%	42.48%
EBITDA	22	53	180	267
EBITDA Margin	33.18%	25.33%	37.17%	41.20%
Adj. EBITDA	37	116	269	351
Adj EBITDA Margin	56.0%	55.7%	55.4%	54.2%
Net Income	(11)	(41)	19	96
Net Margin	(17.2%)	(19.6%)	4.0%	14.8%
Cash Flow Statement	2020	2021	2022E	2023E
Net CFO	33	79	136	231
Capex	1	2	2	1
Acquisitions	4	767	791	0
Free Cash Flow	32	78	135	229
Balance Sheet	2020	2021	2022E	2023E
Cash & ST Investment	3	429	957	1,186
Intangible Assets	88	564	929	873
Goodwill	53	494	963	963
Total Assets	167	1,558	3,023	3,187
LT Int-Bearing Debt	181	222	1,457	1,457
Total Liabilities	236	807	2,229	2,296
Shareholders' Equity	(69)	751	794	890
Tot Liab & SE	167	1,558	3,023	3,187

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\$50.00

Our base case is calculated using 29% revenue growth, 41% EBITDA margins and a 15.0x EV/EBITDA multiple

## Upside Scenario: C\$84.00

Our upside scenario is calculated using 35% revenue growth, 43% EBITDA margins and a 18.0x EV/EBITDA multiple

## Downside Scenario: C\$32.00

Our downside scenario is calculated using 15% revenue growth, 26% EBITDA margins and a 11.0x EV/EBITDA multiple



## Financial Results

**FQ2 Results:** DND reported revenue of \$110 million, 3% below consensus and 5% below CIBCe (\$113 million/\$115 million, respectively). Adjusted EBITDA of \$62.6 million was 3% above consensus and 1% above CIBCe (\$61.1 million/\$62.2 million, respectively).

**Profitability:** Adjusted EBITDA margins of 57.1% were 320 bps above consensus and 290 bps above CIBCe (54.2%). The company added back \$18.3 million in adjustments to arrive at its adjusted EBITDA including acquisition, restructuring and other of \$9.8 million, and stock-based compensation of \$8.5 million. Unadjusted EBITDA was \$44.3 million (40.4% margin) and came in above our \$43.2 million (37.6%) expectations.

**Cash Conversion:** Cash flow from operations was \$39.4 million and the company invested \$7.7 million in capex and intangibles, leading to free cash flow of \$31.7 million. DND invested \$492 million in acquisitions (in addition to \$5.7 million in holdback payments) during the quarter. The company had adjusted EBITDA to free cash flow conversion of 51% in FQ2. We calculate net debt of \$905 million, inclusive of \$342 million convertible debt.

### Exhibit 1: DND – Financial Summary, Q2/F22

	Q2 2022			Q2-F2021	Y/Y%	Q1-F2022	Q/Q%
	Actual	CIBCe	Cons.				
Consolidated							
Revenue (\$MM)	109.6	114.9	113.4	33.7	225%	112.6	-2.7%
EBITDA (\$MM)	44.3	43.2	NA	(9.0)	NA	48.1	-7.9%
EBITDA Margin	40.4%	37.6%	NA	-26.8%	NA	42.7%	-5.4%
Adjusted EBITDA (\$MM)	62.6	62.2	61.1	17.1	267%	62.4	0.4%
Adjusted EBITDA Margin (%)	57.1%	54.2%	53.9%	50.6%	13%	55.4%	3.1%
Adjusted EPS	(0.06)	0.08	(0.01)	(0.41)	86%	0.29	-119.9%

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

**Changes To Our Model:** We have updated our forecast with FQ2 results and reduced our near-term revenue estimate slightly given current real estate volumes. With F23 guidance unchanged we have made minimal adjustments to our forward estimates.

### Exhibit 2: DND – Changes To Our Model, F2021-F2023E

	Revenues (\$MM)	EBITDA (\$MM)	Adj. EBITDA (\$MM)	Adjusted EPS	CFO (\$MM)	FCF Conversion
<b>2021</b>	209	52.9	116.4	-0.72	79.4	60%
<b>2022E</b>						
CIBC est. – new	485	180	269	0.27	136	51%
CIBC est. – prior	502	183	272	0.30	138	51%
Consensus	507	NA	278	0.44	164	59%
<b>2023E</b>						
CIBC est. – new	647	267	351	1.39	231	66%
CIBC est. – prior	647	266	350	1.14	221	63%
Consensus	639	NA	359	1.11	221	62%

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

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

### CIBC ESG Metrics

Governance Metrics	2016	2017	2018	2019	2020
Insider Ownership	NA	NA	NA	NA	31.8%
Board Gender Diversity	NA	NA	NA	NA	0%
Separation of Chair & CEO	NA	NA	NA	NA	YES
Dual-class Ownership?	NA	NA	NA	NA	NO
Disclose ESG Data?	NA	NA	NA	NA	NO
Social Metrics	2016	2017	2018	2019	2020
CEO Comp./Mkt Cap*	NA	NA	NA	NA	NA
Diversity Targets	NA	NA	NA	NA	NO
Women Managers	NA	NA	NA	NA	13%
Environmental Metrics	2016	2017	2018	2019	2020
Emissions Intensity**	NA	NA	NA	NA	NA
Net-zero Targets?	NA	NA	NA	NA	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  
Oct 26, 2021

Momentum



### Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK (1 <sup>st</sup> = lowest risk)	PERCENTILE (1 <sup>st</sup> = lowest risk)
Global Universe	5583/15124	38th
Software & Services INDUSTRY	566/999	57th
Enterprise and Infrastructure Software SUBINDUSTRY	278/406	69th

### CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	7	0	Value	190	+2
Momentum	6	+8	Momentum	146	+52
Quality	12	0	Quality	119	0
Market	14	0	Market	200	-6
Low Volatility	12	-1	Low Volatility	201	-4
Growth	10	-1	Growth	110	-4

Note: Ranking out of 16 stocks      Note: Ranking out of 241 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	B
Beta	NA	MACD	D
Volatility	↔	Alpha (Sector)	B
Trend	↓	Alpha (Index)	C
RSI	Neutral		

#### 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.

## Price Target Calculation

We derive our price target of \$50 by applying a 15x EV/EBITDA multiple to our F2023 EBITDA estimate based on the current capital structure. The 15x multiple is a discount to Canadian software consolidator peers given governance concerns and uncertainty resulting from the U.K. CMA review.

## Key Risks To Price Target

The primary risks to our price target include the following: 1) ability to acquire; 2) ability to scale; 3) ability to integrate; and, 4) retention of key personnel.

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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.
Not Rated	NR	CIBC World Markets does not maintain an investment recommendation on the stock.
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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.

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Tender	0	0.0%	Tender	0	0.0%
Restricted	7	2.3%	Restricted	7	100.0%

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