This Tech Stock Is a Confirmed Acquisition Target

Description

Acquisitions are great. When a buyer swoops in and takes a publicly traded company private, they need to pay a hefty premium to existing shareholders. These strategic moves usually result in swift double-digit price appreciation.

Now, the team at **Dye & Durham** (TSX:DND) has confirmed that the company could be acquired — by the management itself. The leadership team has partnered with a group of shareholders to bid $3.4 billion for the Toronto-based company. The final bid could potentially be higher.

Dye & Durham stock has been on an impressive run ever since it emerged as an acquisition target for a group led by the management. The stock has erased all the losses, having turned bullish in recent days. While the bounce back has been fueled by the takeover news, solid underlying fundamentals have also played a part in the rebound.

Here's a closer look at the company's fundamentals and the chances of this acquisition going through.

Core business

Since going public last year, Dye & Durham has rewarded investors with multi-bagger gains as a niche Software-as-a-Service play. The company boasts of reliable revenue streams, given that some of its biggest clients are legal firms, government agencies, and financial services institutions.

These clients operate in industries that offer essential services, which is what made Dye & Durham stock so appealing during last year's bull run. This year, however, the stock dropped significantly, losing roughly a fifth of its market value by mid-May. That made it an ideal acquisition target.

Valuation

In the most recent quarter, Dye & Durham reported a 300% increase in revenue to the same quarter last year. In addition, EBITDA was up 267% year over year. The impressive numbers underscore underlying growth and are expected to continue, given the nature of the company's core business.

After the recent spike high amid the acquisition chatter, Dye & Durham is no longer cheap. The stock is trading at a P/S multiple of 24 and enterprise value to EBITDA ratio of 87.5. That's objectively too pricey. However, now that the acquisition looks increasingly likely, investors need to focus on the price tag of the deal rather than the present valuation.

The management team has bid $50.5 per share in their initial deal. That represents an upside of roughly 5.8% from the current stock price. That's not bad for a nearly sure deal. There's also a chance that the bid could be raised, which would enhance the return considerably.

At this point, Dye & Durham stock looks like a low-risk, clear-reward target for investors looking to make a quick bet.

Bottom line

The acquisition of a public company unlocks tremendous value. Usually, the acquirer needs to offer a significant premium to convince shareholders to give up their shares. That results in a lucrative liquidity event for investors who got in early.

If you'd bought Dye & Durham stock when it was first listed, your capital has appreciated 223% by now. Now, the management team wants to take it private at a price 5.8% higher than the current market value. This means there's an opportunity for a quick, low-risk, single-digit profit. That's not bad considering the current market environment.

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