Why Did Dye & Durham (DND) Stock Fall 15% in a Week?

Description

Dye & Durham (TSX:DND), the tech IPO that doubled during the pandemic high, has dipped 58% from December 2021. The stock has fallen 15% in a week since the company's acquisition of Link Group came into doubt. Why is this acquisition so important? Is Dye & Durham stock worth buying? Let's find out.

Dye & Durham – The growth phase

At the helm of the tech bubble, many IPOs launched and flourished. Among them was DND, which surged 250% in five months to $50.55. The company has a strong business model as a cloud-based platform provider helping legal and financial professionals and corporates manage information and workflow efficiency. Its platform is sticky as it gives users access to legal registries and public records.

DND has an impressive adjusted EBITDA of 54%, the highest among several software-as-a-service (SaaS) providers. It is among the few cloud-based companies that pay dividends as it enjoys stable cash flows. The company faces a class action lawsuit from a group of clients for raising the prices of its Unity platform, but it has not impacted its cash flows. It has continued with its 'Build to a Billion' strategy to achieve $1 billion of adjusted EBITDA through acquisition.

Earlier this year, DND acquired Australian software company GlobalX and a UK-based real estate due diligence solutions provider TM Group. But then came the fears of a global recession that pulled down the price of all tech stocks and brought many acquisitions into question, including DND's acquisition of another Australian firm Link.

Dye & Durham and the Link acquisition

In December 2021, DND signed an agreement to make its biggest acquisition of Link Group for around $3.2 billion. This was a transformational acquisition for DND as it would have more than doubled its EBITDA to approximately A$257 million. This acquisition was supposed to be financed through aseven-year term loan of A$3.5 billion and equity financing at $53 per DND share.

But shortly after the acquisition was announced hedge funds began the tech stock sell-off. DND stock halved. Central banks worldwide started increasing interest rates at an accelerated pace, making debt financing difficult. To top it off, the Australian competition regulator raised concerns about the DND-Link deal.

Amid this pressure, DND reduced its bid for Link by 27% to A$4.3 a share, then upped it to A$4.57. Link rejected both offers. The Dye & Durham-Link acquisition is in the doldrums, pulling DND stock down 15% in a week.

Should you buy DND stock?

The Link acquisition was a key factor driving up DND stock. But the tech stock sell-off pushed DND into an oversold category with a forward price-to-earnings (PE) ratio of 14.6x. The stock is trading closer to its IPO price. A question haunting analysts last year was whether Dye & Durham would be privatized. The management gave a buyout offer of $50.5 per share in 2021. However, the company rejected the offer and chose to remain publicly listed.

If the Link acquisition doesn't go through, the stock is at an attractive valuation to buy. The cancellation of the Link acquisition won't impact DND's current EBITDA. Moreover, recession encourages corporates to invest in information technology (IT) to improve efficiency. This IT budget shift to digital transformation could work in DND's favour. Even if the company succumbs to the pressure from clients and reduces its subscription price, it has a lot of room to operate profitably. The revenue outlook is bright for DND.

If the management returns with another buyout offer, it could offer a high premium per stock. That could push the stock price up. In any scenario, investors could benefit from buying on this dip.

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