



## Stock Alert: This Recent IPO Could Give You Insane Returns

### Description

Due diligence is a phrase that all investors should be familiar with. Recently, a Canadian company specializing in due diligence and related services for governmental agencies, law firms, and financial service companies started trading on the TSX. In this article, I will discuss a stock that could become the next big Canadian growth story.

### Company background

**Dye & Durham** ([TSX:DND](#)) was founded in 1874, but its IPO was not until July 17, 2020. [The company provides](#) a cloud-based platform, which is designed to improve the efficiency and productivity of legal and business professionals. Dye & Durham's platform automates the due diligence process, document creation, and electronic filing.

The company's primary method of growth has been through acquisitions. It attempts to acquire companies with strong recurring revenues and a large market share in their respective industries. [Growth by selective acquisition](#) should not be a new concept for Canadian investors, as well-known companies have shown success through similar strategies (e.g., **Constellation Software** and **Enghouse Systems**).

### The opportunity

There are four key tailwinds that will help Dye & Durham's growth moving forward. First, its total addressable market is large and continuing to grow. In 2018, the global legal industry grew to approximately \$12.6 billion from \$9.2 billion the previous year. This market is comprised of the addressable market represented by Canada, the United States, the United Kingdom, and Australia.

The second tailwind that works in favour of the company is the fragmentation in terms of geography and product lines within its industry. Because Dye & Durham prioritizes acquisitions, it can consolidate the products of leading companies across different countries. This could lead to the company becoming a behemoth in global legal services.

Third, there is a very high barrier of entry with regards to the consolidation of many companies. While consolidation is an ideal method of growth for companies in this industry, it will require a lot of capital, and few will be able to replicate those operations. With Dye & Durham's lead in this area, it can grow its market share much quicker than all other competitors.

Finally, in recent years, there has been a large increase in regulation and compliance standards worldwide. This will require more corporations and firms to turn to companies such as Dye & Durham in the future. Dye & Durham has been able to grow its revenue between 30-70% annually since 2017. With the increase in regulation requirements, this growth could be sustained for the next few years.

## Risks

Of course, investing in a company does not come without risks. For starters, Dye & Durham is still a very new IPO. Because of this, expect the company to remain very volatile for the next little while. The company also carries a lot of debt on its balance sheet and does not currently have the cash required to cover all of it. This will be an added challenge to the company, especially given the current economic conditions.

## Foolish takeaway

Investing in new IPOs can be very lucrative, especially if the company is currently experiencing many tailwinds in its business. Dye & Durham has all the makings to be the next big Canadian growth story, although investing in it does come with certain risks. This company should, at the very least, be on the top of your watch list.

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## **TICKERS GLOBAL**

1. TSX:DND (Dye & Durham Limited)

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## **Date**

2025/08/18

## **Date Created**

2020/08/03

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