

# Engine Capital Sends Letter to Dye & Durham's Board of Directors Regarding its Concerns About the Company's Rising and Excessive Leverage

2024-09-11

Highlights How the Company's Two Recently Announced Acquisitions Totaling C\$69.3 Million Go Against the Board and Management's Previous Commitment to Reducing the Debt Load

Pro-Forma Leverage Is Back to Approximately the Same Level as It Was Prior to the February 2024 Dilutive Equity Offering Despite Leadership's Repeated Promises to Drive Leverage Below 4x

NEW YORK--(BUSINESS WIRE)-- Engine Capital LP (together with its affiliates, "Engine" or "we"), which owns approximately 7.1% of Dye & Durham Limited's (TSX: DND) ("Dye & Durham" or the "Company") outstanding shares, today issued the below letter to the Company's Board of Directors (the "Board").

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September 11, 2024

Dye & Durham Limited  
1100-25 York Street  
Toronto, Canada  
M5J 2V5  
Attention: Board of Directors

Members of the Board:

We were incredibly disappointed by the Company's recent Q4 2024 earnings announcement on September 4, 2024, which included news of two additional acquisitions for a total consideration of C\$69.3 million. <sup>1</sup> These acquisitions are significant, representing around 7.5% of the Company's market capitalization. While the Company is trying to minimize the size of these acquisitions by highlighting that the upfront payment is "only" C\$21 million, the reality is that the total consideration is much larger and includes C\$44 million in deferred consideration which is just another form of leverage. We felt blindsided because for the last few months that we have interacted with Chair Colleen Moorehead, she has repeatedly assured us that "the Board has no appetite for M&A" and that "the Board's priority is to reduce debt." The Company's latest announcement flies in the face of these statements and compounds its credibility issues with shareholders.

These new acquisitions are even more disappointing considering the Board has consistently received feedback from many shareholders since at least 2022 that the Company should prioritize debt reduction over M&A. We know this feedback has been shared with the Board based on presentations filed as part of the ongoing litigation between the Company and one of its significant shareholders, OneMove Capital, in the Ontario Superior Court of Justice in Toronto (the "Court"). We have included some of those slides, all of which are publicly accessible in the Court file, in Appendix A. These slides make clear shareholders' concerns regarding Dye & Durham's level of debt, the need to rapidly reduce debt, the leverage profile, and the pace of acquisitions. In a section titled "Broad investor concern regarding CEO communications," the second slide cites an example where management publicly indicated a focus on debt reduction (including telling the market the TM Group proceeds would be used to pay down debt) only to announce acquisitions shortly thereafter. The bottom line is that the Board is well aware of shareholders' concerns but simply does not care.

The example mentioned in this slide is very similar to recent actions taken by the Board. After repurchasing 14.7 million shares for an average price of C\$15.22 per share in fiscal year 2023 (including through two Substantial Issuer Bids), the Board just a few months later completed a highly dilutive equity issuance of 11.96 million shares at C\$12.10 per share in February 2024. The stated reason for this dilutive financing was to reduce debt. In reality, shareholders were diluted to allow the Board to continue its M&A spree, as just months later in August 2024, the Company used some of those proceeds for new acquisitions. As a result of these acquisitions, the Company's level of debt has increased, and its leverage profile has worsened despite the Board and management's claims that they are focused on reducing debt and leverage. <sup>2</sup>

We also want to highlight the Company's leverage ratio over the last few quarters. Incredibly, pro-forma leverage following these two acquisitions is now back to around the same level as it was prior to the February 2024 dilutive equity offering despite management's repeated commitment to drive leverage below 4x as quickly as possible. <sup>3</sup>

This M&A is also irresponsible, in our opinion, given the heightened turnover of the management team. Over the

last few months alone, the following senior executives have departed the organization:

- David Nash – Chief Product Officer (hired in July 2023)
- Aaron Eichenlaub – Chief Revenue Officer (hired in July 2023)
- John Robinson – CEO Financial Solutions Business, formerly Global COO
- Wojtek Dabrowski – Chief People and Communications Officer (hired in June 2022) 4
- Charlie MacCready – Chief Legal Officer
- John Sulja – Chief Information Officer (hired in June 2022)

We wonder how the Board can continue to approve acquisitions when the management team is in such turmoil, no matter how compelling the purchase opportunity may seem. These are just a few reasons why the Company's shares continue to trade at a significant discount to other technology companies or technology consolidators. 5 We contend that meaningful changes are required to close this valuation gap. Shareholders deserve a Board and management team that are patient, disciplined, rational – and receptive to their feedback.

We believe documents filed with the Court as part of the litigation explain why it has been so difficult to reach an agreement with the Company. In an email summarizing an interaction with a shareholder, former Chair Brian Derksen explained that the Company's CEO, Matthew Proud, would not agree to increase the size of the Board because he was concerned about "dilution of influence." 6 Given this comment, it is ironic that the Board has accused Engine of trying to "take control of the Board" without paying a premium (despite the fact that if Engine's principal were to be elected, he would only be one out of seven directors).

Dye & Durham under the leadership of the Board has become a laughingstock of the Canadian capital markets. We are surprised the Company's directors are not concerned about their own personal reputation and potential personal liability, as they continue to fund more acquisitions and frivolous litigation against Dye & Durham's own shareholders, instead of focusing on reducing leverage, as shareholders have now been asking for a while. We urge the independent directors (Ms. Moorehead, Mr. Derksen, Ted Prittie, Peter Brimm, and Ronnie Wahi) to stop the shenanigans and set a date for the Special Meeting as soon as practically possible so that shareholders can have their say.

Sincerely,

Arnaud Ajdler  
Managing Partner

No Solicitation

This press release does not constitute a solicitation of a proxy within the meaning of applicable laws, and accordingly, DND shareholders are not being asked to give, withhold or revoke a proxy.

## About Engine Capital

Engine Capital LP is a value-oriented special situations fund that invests both actively and passively in companies undergoing change.

1 Includes C\$4.5 million in contingent consideration.

2 This analysis includes deferred payments that were part of the consideration for these acquisitions since these deferred payments are a liability for the Company.

3 Leverage includes convertible debentures and deferred considerations. Assumes acquisitions were made at 10x EBITDA, per management's commentary.

4 Mr. Dabrowski may still work with the Company as a consultant.

5 " DND shares currently trade at 8.3x C2024E EBITDA vs. legal SaaS at 19.3x and tech consolidators at 18.8x. "

Canaccord Genuity report published by Robert Young and Max Ingram on September 5, 2024.

6 Court filings.

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