

# Converge Technology Solutions Corp.

21<sup>st</sup> & 22<sup>nd</sup> On-Strategy, Accretive Acquisitions; Copy/Paste/Accrete/Repeat Formula Supports Bullish View: Returning Top Pick for Q321 - PT +\$1.50 to \$12.00

CTS-TSX: \$10.22  
Speculative Buy

\$12.00 ↑ (prev. \$10.50) Target

**Thesis:** We look for CTS's well-proven copy/paste/accrete/repeat formula to maintain its cadence in N. America while it enters the UK. While gains of 106% YTD and 651.5% y/y suggest moderating outperformance, the remaining valuation gap versus prospective LSE peers and prospects of further accretive acquisitions leaves room for further outperformance driven by organic and inorganic growth.

**2025 Targets:** At its AGM, CTS introduced a target of taking its revenue run-rate from \$2B exiting 2022 to \$5B exiting 2025. This growth target reflects the acquisition of three to five companies in N. America adding \$400M annually with three to five acquisitions in Europe adding revenues of €400M annually. CTS targets 10% EBITDA margins or \$500M of annualized EBITDA exiting 2025. Management is looking to advance software and services including managed services to 60% of revenues from roughly 45%. The Company is looking to achieve 55-60% gross margins and 25% EBITDA margins on Managed Services that are targeted to exit 2025 at \$1B in revenues or 20% of revenues.

Simple calculations on the segment targets would suggest the \$5B/\$500M revenue/EBITDA exit rate would break down around Managed Services revenue/EBITDA at \$1B/\$250M, Software at \$2B/\$180M (margin 9%), and Hardware at \$2B/\$70M (margin 3.5%).

**PT Support:** We have moved our PT from \$10.50 to \$12.00, where it reflects 16.9x/10.2x EV/EBITDA against our 2021/22 forecasts. We see room for further positive PT moves with accretive, on-strategy acquisitions building on the 22 to date. The public versus private valuation gap supports continued value creation with M&A cadence building.

**DCF Support:** Our baseline scenario supports a one-year target DCF valuation of \$12.18/shr using a discount rate of 12.5% and terminal EV/EBITDA multiple of 8.5x. Our bullish scenario where CTS adds ~\$800M of revenues annually through acquisitions supports a comparable DCF target of \$13.41/shr ([Exhibit 1 Scenario](#) highlights on page 5). We note our bullish scenario where acquisitions add \$800M of annual revenues compares with the Company's target of roughly \$1B annually. Our scenario reflects an average acquisition valuation put at 0.5x and 7.5x revenues and EBITDA, respectively. We have 2025 revenues/EBITDA at \$4.7B/\$478M with an EBITDA margin put at 10.1%.

**DFC Sensitivity Analysis:** Moving our terminal EV/EBITDA from 8.5x to 9.5x adds \$1.22/\$1.26 to our base and bullish DCFs taking them to \$13.41/\$14.67. We further note that taking our assumed EV/EBITDA of 7.5x for acquisitions to 6.5x would add \$0.51/\$0.63 to our base and bullish DCFs.

**Top Pick Portfolio Inclusion:** We are pleased to confirm the return of CTS to Echelon's Top Pick Portfolio. We highlight that our Top Pick Portfolio returned 25.1% for Q121, 10.8% for Q221, and 74.0% for 2020, with our three-year (2018-2020) and five-year (2016-2020) returns at 109.7% and 431.2%, respectively.

**Forecasts Revision:** With the announcement, we have raised our 2021 revenue/EBITDA by \$57.5M/\$3.1M to \$1,532.9M/\$112.4M from our prior estimates of \$1,475.4M/\$108.5M (consensus \$1,475.7M/\$104.1M). For 2022, we moved our revenue/EBITDA by

Projected Return: 17.4%

## Converge Technology Solutions Corp.

Market Capitalization - Basic (\$M)	1,633.1
Net Debt - FD (\$M)	(83.3)
Enterprise Value - FD (\$M)	1,603.6
Basic Shares O/S (M)	159.8
FD Shares O/S (M)	165.1
Avg. Daily Volume (000)	609.2
52 Week Range	\$1.36 - \$10.22

## Financial Metrics

FYE - Dec 31 (\$M)	2020A	2021E	2022E
Revenue	948.8	1,532.9	1,913.9
Gross Profit	233.0	380.4	496.2
Adj. EBITDA	60.5	112.4	163.3
EPS	(\$0.04)	\$0.36	\$0.72

## Valuation Data

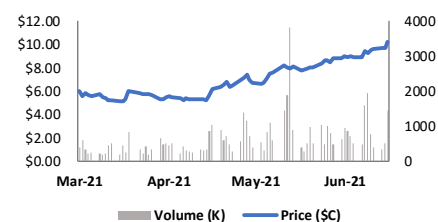
	2020A	2021E	2022E	
DCF - Current/Target (\$)		\$10.64	\$12.19	
EV/Revenue	Current	1.7x	1.0x	0.8x
	Peers	1.5x	2.5x	2.2x
	Target	2.2x	1.2x	0.9x
EV/EBITDA	Current	26.5x	14.3x	9.8x
	Peers	24.8x	16.7x	14.3x
	Target	34.6x	16.9x	10.2x

## Quarterly Data

(\$M)		Q121	Q221	Q321	Q421
Revenue	2021	310.2	360.3	354.5	507.9
Gross Profit	2021	67.8	88.5	91.8	132.3
EBIT	2021	5.1	14.5	13.5	31.6
Adj. EBITDA	2021	18.8	26.7	24.5	42.5

## Company Description

Converge Technology Solutions Corp. is a North American IT solution provider focused on delivering industry-leading solutions and services. Its regional sales and services organizations deliver advanced analytics, cloud, cybersecurity, and managed services offerings to our clients. The Company supports these solutions with talent expertise and digital infrastructure offerings across all major IT vendors in the marketplace. Currently, Converge Technology Solutions serves clients in Canada and the United States. The Company was founded on November 29, 2016 and is headquartered in Toronto, Canada.



\$125.0M/\$9.4M from \$1,788.8M/\$153.9M to \$1,913.9M/\$163.3M against the pre-announcement consensus at \$1,743.1M/\$153.3M.

**Performance & Valuations:** CTS shares have returned an impressive 106% YTD against their US and Canadian peer groups at 17% and 15%, respectively. CTS shares are currently trading at 14.3x/9.8x 2021/22 EV/EBITDA against US IT Solution Provider peers averaging 12.4x/11.4x (median 11.1x/10.1x), Canadian peers at 17.7x/12.6x (median 16.8x/12.1x), and European peers at 20.1x/18.0x (median 12.3x/11.6x). Please see Exhibit 2.

**Peer Valuation Perspectives:** US peers average 1.6x/1.5x and 12.4x/11.4x 2021/2022 revenues and EBITDA, respectively, where 2021/22 revenue and EBITDA growth average 6%/5% and 6%/8% (median 6%-6%), respectively. We note industry giants CGI Inc. (CGI-TSX, NR) are valued at 2.5x/2.4x and 12.4x/12.0x 2021/22 revenue and EBITDA, respectively, and Accenture (ACN-NYSE, NR) at 3.5x/3.2x and 18.6x/16.9x where their scale supports lower-growth profiles evidenced by their consensus revenue and EBITDA margin of 1%/4% and 20%/21% for 2021/22 for CGI and 12%/9% and 19%/21% for Accenture.

Turning to European IT providers, their valuations are at 2.9x/2.5x and 20.1x/18.0x 2021/2022 revenues and EBITDA, respectively, as growth expectations reflect revenue growth of 9%/9% for 2021/2022 and average EBITDA margin of 11%/12% as margins expand. (Please refer to Exhibit 2 for additional information.)

**Event:** CTS announced that it has signed definitive agreements to acquire Vicom Infinity & Infinity Systems Software, (Private) for ~C\$18.4M (USD\$15M) reflecting a multiple of 2.5x LTM EBITDA. It should be noted that LTM organic revenue growth rates across the two companies were strong double digits. **We would expect continued double-digit growth prior to considering cross-selling synergies.** We note that a significant portion of the selling Vicom Infinity & Infinity Systems Software shareholders were previously shareholders in Vicom Computer Services purchased by CTS for \$31.9M on [January 4, 2021](#). That deal was completed at 0.2x/4.8x revenue/EBITDA of \$128M/\$6.6M.

#### **Vicom Acquisition Perspectives**

- With \$106.1M of LTM revenues, the Vicom acquisition fit into the lower end of CTS's sweet spot of US\$100-200M in revenues for N. American acquisitions.
- We see the acquisition strengthening CTS's position with IBM (IBM-NYSE, NR). We see the partnership with IBM as critical where IBM is looking to outsource a greater share of its sales and where IBM is supportive of CTS moving into the UK where it has a significant strength with IBM's I-Series. We look for IBM to communicate plans to leverage third-party distribution post its July split into two entities.
- The mainframe business within Vicom will provide further opportunities to leverage the IBM relationship.
- With the lumpiness of its sales, there is likely to be less of the Working Capital free-up from the acquisition. The business is very Q4 weighted at ~40%, with Q3 as its lightest quarter at closer to 10%, and with Q1 greater than Q3 and Q2 ahead of Q1.
- Where CTS has been securing mainframe equipment through other vendors, it will have the flexibility to insource through Vicom. We note that the acquisition(s) were made on a non-competitive basis.
- With eyes on Germany's acquisitions, we continue to look for CTS to announce an acquisition in Germany within Q3/21.

**AGM Highlights – Vision 2025:** At its AGM on [June 23](#), the Company outlined aggressive 2025 revenue/EBITDA targets where the revenue mix shifts towards higher-margin cloud, software and managed services. Margins are expected to increase along with the mix shift where Managed Services EBITDA is forecast at an annualized \$250M exiting 2025 where it is put at ~50% of overall EBITDA from our current estimate of closer to 20%. The recently announced ExactlyIT (Private) acquisition was highlighted as a low-cost global hub for customer support for managed services and as a key component of overall margin expansion.

Management supported a bullish outlook for ongoing N. American acquisitions and establishing itself in the UK. Below, we present highlights.

- The full discussion on the European acquisition pipeline was encouraging in terms of both the depth of targets and the ability to leverage key vendor relationships. Recently appointed, Board Chairman Thomas Volk's relationships and profile in the market were highlighted.
- CTS presented a target revenue run-rate moving from \$2B exiting 2022 to \$5B exiting 2025. The growth target reflects the acquisition of 3-5 companies in N. America adding \$400M annually with 3-5 acquisitions in Europe adding revenues of €400M annually.
- CTS targets 10% EBITDA margins or \$500M of annualized EBITDA exiting 2025.
- Management is looking to advance software and services including Managed Services to 60% of revenues from roughly 45%.
- The Company is looking to achieve 55-60% gross margins and 25% EBITDA margins on managed services that are targeted to exit 2025 at \$1B in revenues or 20% of revenues.
- The target EBITDA of \$500M would include a split of roughly 50/50 between managed services and non-managed services.
- Simple calculations on the segment targets would suggest the \$5B/\$500M revenue/EBITDA exit rate would break down around Managed Services revenue/EBITDA at \$1B/\$250M, Software at \$2B/\$180M (margin 9%), and Hardware at \$2B/\$70M (margin 3.5%).

**Organic Growth:** The Company's tier 1 awards across vendors continue to empower cross-selling customers higher-value managed and cloud services where it has recognized domain expertise. The Company's strategy of targeting medium and mid-sized clients (\$1-10M) in annual billings supports its strategy of vendor-sponsored sales events complementing internal service expertise not typically available within smaller peers. We see 10%+ organic growth while expanding margins support targets of 15% profit growth.

CTS looks to reach annualized managed services revenues of \$100M for Q421 while improving the related gross margins from its existing 40%+ (up ~10% y/y) to 50%+ with three-year margins targeted at 55-60%. **Annualized managed services revenues for Q121 were \$65M, ahead from \$54M for Q420. The Company's privileged relationship with IBM represents a critical underpinning for UK and managed services expansions. IBM's focus on increasing its mix of distribution through third-party vendors represents a strong tailwind.**

**Inorganic Growth:** We look for ongoing N. American acquisitions where the pool of VARS with a mix skewed towards hardware sales are often considering exits or alignments where the move to managed and cloud services challenges their internal capabilities. We look for CTS to continue successfully executing accretive acquisitions against its well-established playbook. We look for the N. American acquisition candidates to typically support revenues of \$75-200M.

The May 20 appointment of Thomas Volk, who was previously the CEO of the UK ITSP, CANCOM SE (COK-ETR, NR), to the CTS Board strengthened its profile and network across the UK. **With an initial acquisition in the UK, we could see the Company pursue an LSE listing prior to the end of the year that would complement its UK expansion while we hope capturing a measure of its valuation gap versus European peers.** CTS has previously indicated that beachhead acquisitions in Germany/UK are likely to be larger in the range of 75M-200M €/£ (C\$110-300M, C\$130-350M). Acquisition targets are focused on mid-market clients with a heavy mix of product sales. We note the same formula

successfully executed in N. America is expected to apply in Germany/UK including working capital considerations. CTS has been encouraged by its UK pipeline where valuations are likely to average in the 6-7x EV/EBITDA range depending on scale, mix, and growth prospects.

The Company's prospectus indicated that it is in advanced discussions with at least three acquisition candidates. *"The Company is in advanced negotiations in connection with the acquisitions of (a) a solutions provider, (b) a supplier of software and IT services for IBM platforms, and (c) a managed IT services provider for an aggregate purchase price payable on closing of approximately \$53,000,000 plus additional earn-out payments."* Source: Converge May 2021 Prospectus Supplement.

**Recent Acquisition of ExactlyIT:** Just ahead of its AGM, CTS announced its 20<sup>th</sup> acquisition with the purchase of ExactlyIT for US\$26.4M. The company was founded in 2019 with headquarters in North Carolina. The company's operational offices in Mexico provide its managed IT services across a breadth of services with the following referenced in the release: Azure Cloud Services (MSFT-NASDAQ, NR), Google Managed Services (GOOG-NASDAQ, NR), Remote Managed Infrastructure Services, Microsoft Solutions, Cybersecurity Services, SAP Managed Services (SAP-NYSE, NR), ITSM, and End-User Client Services.

The US\$26.4M was given as 3.0x annualized monthly recurring revenues based on May results. We understand that the company's run-rate revenues are double y/y. There is an undisclosed earnout linked to financial performance and quality measures including Net Promoter Scores.

**Pointing to Germany?** Beyond the release, it is notable that the three co-founders previously posted in their LinkedIn profiles that in 2019 they were building Germany's GAB Enterprise IT Solutions in North America. It's worth highlighting that GAB Enterprise IT Solutions was recognized in 2019 as Microsoft's Country Partner of the Year for Germany. We see the opportunity to leverage ExactlyIT's customer services as part of CTS's ongoing N. American and expected UK expansion. ExactlyIT's founders' profile in Germany with GAB Enterprise IT Solutions and Freudenberg IT LP suggests a potential role as CTS looks to enter the German market. We further highlight CTS's newly appointed Board Member, Thomas Volk's profile in the German and UK market more broadly as a significant asset.

**Investment Considerations:** We look for CTS to move forward executing against its deep pipeline of strategic, accretive acquisitions. Our frequent positive PT moves have often coincided with accretive acquisitions where the Company's ability to source and execute accretive deals (now 20 since Q317) has enabled it to achieve a scale where its cross-selling revenue generation, vendor advantages, and platform efficiencies support continued accretive inorganic growth. The most recent extension of its A/P terms to 75 days from 65 reflects its vendor leverage. We note acquisitions typically work with ~45-day payable terms. We look for both tuck-in acquisitions and modestly larger targets in N. America while we anticipate the Company to execute on its stated goal of acquiring in Germany/UK.

**Exhibit 1 – Scenarios**

Acquisitions Scenario Summary	Base Case	Bull Case
<b>Revenues (\$M)</b>		
2021	1,533	1,689
2022	1,914	2,325
2023	2,306	3,187
2024	2,745	4,106
2025	3,272	5,126
<b>EBITDA (\$M)</b>		
2021	112	139
2022	163	215
2023	209	303
2024	262	409
2025	319	516
<b>Acquisitions (\$M)</b>		
2021	82.5	183
2022	82.5	370
2023	82.5	370
2024	82.5	370
2025	82.5	370
<b>DCF Parameters</b>		
Discount Rate	12.50%	12.50%
Terminal Growth	3.20%	3.30%
1-year Target DCF (C\$)	\$12.19	\$13.41

Given the Company’s drive to expand in Germany/UK, we could see our aggressive scenario forecasts shown to be significantly understated.

**Baseline Scenario:** We take our baseline scenario and layer on acquisition expenditures of \$82.5M annually over the period with baseline acquisition valuations at 6.5-7.0x EBITDA. Our Baseline Scenario generates a CAGR revenue growth of 19.8% in five years with EBITDA margins for 2021 of 7.4% advancing to 9.1% (\$209.4M) and 9.7% (\$318.9M) in 2023 and 2024, respectively.

**Aggressive Scenario:** We take our baseline scenario and layer on acquisition expenditures of \$370M annually over the period with acquisition valuations at 6.5x-7.0x EBITDA. Our bull scenario generates CAGR revenue growth of 29.5% five years with EBITDA margins for 2021 of 8.3% advancing to 9.5% (\$302.5M) and 10.1% (\$515.6M) for 2023 and 2025, respectively.

Source: Echelon Capital Markets

**Exhibit 2 – US/Canadian/European Comps**

Company	Ticker / Exchange	Price	Currency	EV (\$M)	2021 CY				2022 CY														
					1 Month	3 Month	YTD	2020	Revenue Growth	EV / Revenue	Gross Margin	EV / Gross profit	G. Profit Growth	EV / EBITDA	EBITDA Margin	Revenue Growth	EV / Revenue	Gross Margin	EV / Gross profit	G. Profit Growth	EV / EBITDA	EBITDA Margin	
<b>IT Solution Providers - US</b>																							
Oracle Corporation	ORCL-US	77.84	USD	258,513.3	(1%)	11%	20%	22%	4%	6.2x	80%	7.7x	4%	13.2x	44%	4%	6.0x	80%	7.4x	4%	12.1x	51%	
Accenture plc	ACN-US	294.79	USD	180,922.3	4%	6%	13%	24%	12%	3.5x	32%	10.8x	13%	18.5x	19%	9%	3.2x	32%	10.0x	9%	16.8x	21%	
Perficient, Inc.	PRFT-US	80.42	USD	2,809.8	12%	37%	69%	3%	15%	4.0x	38%	10.4x	17%	19.5x	20%	9%	3.7x	39%	9.5x	10%	17.5x	23%	
ManTech International Corporation	MANT-US	86.54	USD	3,635.1	(0%)	0%	(3%)	11%	6%	1.4x	15%	9.2x	4%	14.8x	9%	5%	1.3x	15%	8.6x	7%	14.0x	10%	
CDW Corporation	CDW-US	174.65	USD	28,048.5	6%	6%	33%	(8%)	9%	1.4x	17%	8.3x	5%	17.0x	8%	5%	1.3x	17%	7.7x	7%	16.3x	9%	
ePlus inc.	PLUS-US	86.69	USD	1,222.8	(8%)	(13%)	(1%)	4%	6%	0.8x	25%	3.1x	6%	9.5x	8%	6%	0.7x	25%	2.9x	6%	9.0x	9%	
SYNNEX Corporation	SNX-US	121.76	USD	6,228.5	(4%)	6%	50%	(37%)	(11%)	0.3x	6%	4.8x	(54%)	8.6x	3%	1%	0.3x	n/a	n/a	n/a	8.1x	4%	
PC Connection, Inc.	CNXN-US	46.27	USD	1,132.0	(5%)	(1%)	(2%)	(5%)	7%	0.4x	16%	2.5x	8%	11.1x	4%	3%	0.4x	17%	2.4x	5%	10.0x	4%	
Cognizant Technology Solutions Corporation	CTSH-US	69.26	USD	36,085.5	(3%)	(12%)	(15%)	32%	8%	2.0x	37%	5.5x	9%	10.8x	18%	6%	1.9x	37%	5.2x	6%	10.0x	20%	
Arrow Electronics, Inc.	ARW-US	113.83	USD	10,494.9	(5%)	4%	17%	15%	20%	0.3x	11%	2.7x	20%	7.0x	4%	3%	0.3x	11%	2.7x	3%	6.7x	5%	
ScanSource, Inc.	SCSC-US	28.13	USD	894.1	(8%)	(8%)	7%	(29%)	2%	0.3x	11%	2.5x	2%	7.6x	4%	4%	0.3x	12%	2.3x	7%	6.7x	4%	
Insight Enterprises, Inc.	NSIT-US	100.01	USD	4,120.0	(4%)	5%	31%	8%	7%	0.5x	15%	3.0x	6%	10.7x	4%	6%	0.4x	16%	2.8x	6%	9.7x	5%	
Booz Allen Hamilton Holding Corporation	US:BAH-US	85.18	USD	13,255.9	1%	6%	(2%)	23%	8%	1.6x	47%	3.3x	114%	15.0x	11%	7%	1.5x	55%	2.7x	23%	14.0x	11%	
Avnet, Inc.	AVT-US	40.08	USD	5,168.5	(9%)	(2%)	14%	(17%)	7%	0.3x	11%	2.3x	7%	9.6x	2%	3%	0.3x	12%	2.2x	6%	8.4x	3%	
Mean (ex. CTS):				39,466.5	(2%)	3%	16%	3%	7%	1.6x	26%	5.4x	12%	12.3x	11%	5%	1.5x	28%	5.1x	8%	11.4x	13%	
Median (ex. CTS):				5,698.5	(4%)	5%	14%	6%	7%	1.1x	17%	4.1x	6%	11.0x	8%	5%	1.0x	17%	2.9x	6%	10.0x	9%	
<b>IT Solution Providers - Canada</b>																							
CGI Inc.	GIB.A-TSX	112.39	CAD	30,468.3	4%	8%	11%	(7%)	1%	2.5x	20%	12.3x	(29%)	12.2x	20%	4%	2.4x	20%	11.8x	4%	11.9x	21%	
Stewart Information Services Corporation	STC-US	56.69	USD	1,387.5	(6%)	9%	17%	19%	17%	0.5x	n/a	n/a	n/a	4.3x	12%	(5%)	0.5x	n/a	n/a	n/a	5.3x	10%	
Qusitive Technology Solutions, Inc.	QUIS-TSXV	1.60	USD	516.6	18%	1%	47%	336%	80%	5.8x	43%	13.4x	91%	32.1x	18%	38%	4.2x	48%	8.8x	52%	17.7x	33%	
Alithya Group Inc.	ALYA-TSX	3.50	CAD	357.1	38%	9%	30%	(25%)	24%	1.0x	30%	3.4x	27%	21.6x	(1%)	14%	0.9x	31%	2.9x	17%	11.5x	8%	
Softchoice Corporation	SFTC-TSX	21.99	USD	1,573.8	4%	n/a	n/a	n/a	73%	1.1x	21%	5.2x	27%	24.0x	5%	10%	1.0x	22%	4.5x	16%	17.3x	6%	
Open Text Corporation	OTEX-TSX	62.95	USD	16,188.5	11%	6%	9%	1%	5%	4.8x	75%	6.4x	5%	12.4x	39%	1%	4.7x	76%	6.3x	2%	12.1x	40%	
Martello Technologies Group Inc.	MTLO-TSXV	0.14	CAD	47.8	(21%)	(27%)	(34%)	(32%)	15%	2.6x	91%	2.8x	12%	NM	(2%)	15%	2.2x	92%	2.5x	16%	NM	(9%)	
Mean (ex. CTS):				7,220.0	7%	1%	13%	49%	31%	2.6x	47%	7.2x	22%	17.8x	13%	11%	2.3x	48%	6.1x	18%	12.6x	15%	
Median (ex. CTS):				1,387.5	4%	6%	14%	(3%)	17%	2.5x	37%	5.8x	20%	17.0x	12%	10%	2.2x	39%	5.4x	16%	12.0x	10%	
<b>IT Solution Providers - Europe</b>																							
Softcat plc	SCT-GB	17.76	GBP	3,459.7	(3%)	(1%)	29%	19%	13%	2.7x	21%	12.9x	9%	28.4x	10%	10%	2.4x	21%	11.8x	9%	27.3x	10%	
Capgemini SE	CAP-FR	162.00	EUR	33,500.3	7%	13%	28%	16%	8%	2.0x	29%	6.8x	19%	12.3x	16%	6%	1.9x	29%	6.3x	8%	11.6x	17%	
Endava plc	DAVA-US	113.38	GBP	6,121.0	11%	33%	48%	65%	27%	12.1x	36%	33.9x	40%	49.4x	25%	24%	9.7x	36%	27.1x	25%	40.2x	31%	
Cancom SE	COK-DE	51.00	EUR	1,728.8	6%	1%	12%	(14%)	(13%)	1.2x	30%	4.1x	(8%)	12.0x	10%	7%	1.1x	29%	3.9x	4%	10.6x	11%	
Bechtle AG	BCB-DE	156.65	EUR	6,695.4	(1%)	(0%)	(12%)	42%	10%	1.0x	15%	7.0x	12%	16.3x	6%	9%	1.0x	15%	6.4x	9%	15.3x	7%	
Computacenter plc	CCC-GB	25.72	GBP	2,862.2	(3%)	10%	5%	38%	16%	0.5x	14%	3.4x	19%	9.6x	5%	3%	0.4x	14%	3.2x	4%	9.4x	5%	
Atea ASA	ATEA-NO	167.40	NOK	19,745.9	2%	17%	38%	(6%)	5%	0.5x	21%	2.3x	5%	11.4x	4%	3%	0.5x	21%	2.2x	5%	10.4x	5%	
Mean (ex. CTS):				10,587.6	3%	10%	21%	23%	9%	2.8x	23%	10.0x	14%	19.9x	11%	9%	2.4x	23%	8.7x	9%	17.8x	12%	
Median (ex. CTS):				6,121.0	2%	10%	28%	19%	10%	1.2x	21%	6.8x	12%	12.3x	10%	7%	1.1x	21%	6.3x	8%	11.6x	10%	
<b>Converge Technology Solutions Corp.</b>				<b>10.22</b>	<b>CAD</b>	<b>27%</b>	<b>98%</b>	<b>106%</b>	<b>255%</b>	<b>57%</b>	<b>1.1x</b>	<b>24%</b>	<b>4.5x</b>	<b>53%</b>	<b>15.3x</b>	<b>7%</b>	<b>19%</b>	<b>0.9x</b>	<b>27%</b>	<b>3.3x</b>	<b>35%</b>	<b>10.3x</b>	<b>10%</b>
<i>Echelon Estimates:</i>				<i>1,603.6</i>					<i>62%</i>	<i>1.0x</i>	<i>25%</i>	<i>4.2x</i>	<i>63%</i>	<i>14.3x</i>	<i>7%</i>	<i>25%</i>	<i>0.8x</i>	<i>26%</i>	<i>3.2x</i>	<i>30%</i>	<i>9.8x</i>	<i>9%</i>	

Source: Echelon Capital Markets, S&P Capital IQ



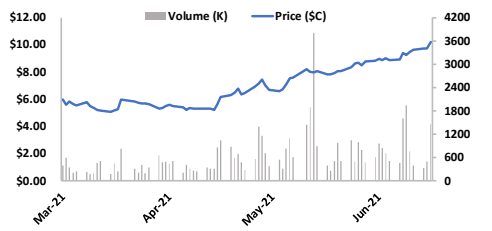
**Exhibit 3 – CTS: Baseline Financials and Forecast**

CTS-TSX	2017A	2018A	2019A	2020A	Q121	Q221E	Q321E	Q321E Prev.	Q421E	Q421E Prev.	2021E	2021E Prev.	2022E	2022E Prev.
<i>In \$M except per share</i>														
Revenue	52.8	459.2	687.8	948.8	310.2	360.3	354.5	342.5	507.9	462.4	1,532.9	1,475.4	1,913.9	1,788.8
Growth %		769.9%	49.8%	37.9%	28.4%	58.1%	86.7%	80.4%	75.4%	59.7%	61.6%	55.5%	24.9%	21.2%
		Consensus		934.2	287.9	370.6	346.1	346.1	462.6	462.6	1,475.7	1,475.7	1,743.1	1,743.1
		Growth %		35.8%	19.2%	62.6%	82.3%	82.3%	59.8%	59.8%	58.0%	58.0%	18.1%	18.1%
Incremental revenue		406.4	228.6	261.0	68.7	132.5	164.6	152.6	218.3	172.8	584.1	526.6	381.0	313.5
Gross profit	52.7	90.0	161.6	233.0	67.8	88.5	91.8	88.8	132.3	120.9	380.4	366.0	496.2	465.5
Gross profit margin	99.9%	19.6%	23.5%	24.6%	21.9%	24.6%	25.9%	25.9%	26.1%	26.2%	24.8%	24.8%	25.9%	26.0%
		Consensus		232.1	72.2	91.8	84.3	84.3	114.4	114.4	353.2	353.2	476.7	476.7
		Margin %		24.9%	25.1%	24.8%	24.4%	24.4%	24.7%	24.7%	23.9%	23.9%	27.4%	27.4%
Gross profit flow through %		9.2%	31.3%	27.4%	18.9%	25.4%	23.9%	23.9%	28.1%	28.9%	25.2%	25.3%	30.4%	31.7%
EBIT	38.1	(15.6)	(12.8)	(2.5)	5.1	14.5	13.5	12.7	31.6	28.5	64.6	60.8	127.0	117.7
EBIT margin %	72.1%	(3.4%)	(1.9%)	(0.3%)	1.6%	4.0%	3.8%	3.7%	6.2%	6.2%	4.2%	4.1%	6.6%	6.6%
Adjusted EBITDA	41.8	16.5	31.6	60.5	18.8	26.7	24.5	23.7	42.5	39.4	112.4	108.5	163.3	153.9
Growth %		(60.5%)	91.5%	91.3%	69.9%	128.7%	69.6%	64.2%	81.8%	68.7%	85.7%	79.4%	45.3%	41.8%
Adjusted EBITDA margin	79.1%	3.6%	4.6%	6.4%	6.1%	7.4%	6.9%	6.9%	8.4%	8.5%	7.3%	7.4%	8.5%	8.6%
		Consensus		57.0	19.2	24.9	22.5	22.5	36.4	36.4	104.1	104.1	153.3	153.3
		Growth %		80.1%	73.4%	113.7%	56.3%	56.3%	55.8%	55.8%	82.7%	82.7%	47.3%	47.3%
		Margin %		6.1%	6.7%	6.7%	6.5%	6.5%	7.9%	7.9%	7.1%	7.1%	8.8%	8.8%
Adjusted EBITDA flow through %		(6.2%)	6.6%	11.1%	11.2%	11.3%	6.1%	6.1%	8.8%	9.3%	8.9%	9.1%	13.4%	14.5%
Capex	0.3	2.1	1.2	0.4	0.5	0.5	3.7	3.7	5.0	5.0	1.8	1.8	1.8	1.8
Intensity	0.6%	0.5%	0.2%	0.0%	0.2%	0.1%	1.0%	1.1%	1.0%	1.1%	0.1%	0.1%	0.1%	0.1%
Cash		10.5	20.6	64.8	68.4	140.3	147.3	147.9	238.0	232.3	238.0	232.3	453.4	328.4
EPS (FD)	\$0.78	(\$0.24)	(\$0.13)	(\$0.04)	\$0.02	\$0.09	\$0.08	\$0.07	\$0.18	\$0.16	\$0.36	\$0.33	\$0.72	\$0.67
		Consensus		\$0.03	\$0.05	\$0.07	\$0.06	\$0.06	\$0.10	\$0.10	\$0.25	\$0.25	\$0.44	\$0.44
<b>Segmented revenue</b>														
Product revenue	n/a	386.2	537.3	749.5	252.5	277.2	283.0	271.0	434.7	389.2	1,247.5	1,189.9	1,548.2	1,423.2
Growth %		n/a	39.1%	39.5%	33.1%	58.2%	97.3%	88.9%	80.3%	61.4%	66.4%	58.8%	24.1%	19.6%
Share %	n/a	84.1%	78.1%	79.0%	81.4%	76.9%	79.8%	79.1%	85.6%	84.2%	81.4%	80.7%	80.9%	79.6%
Service revenue	n/a	71.8	35.8	50.9	57.7	83.1	73.2	73.2	75.6	285.4	285.4	365.7	365.7	
Growth %	n/a	n/a	105.2%	34.7%	13.4%	58.1%	54.0%	54.0%	51.0%	51.0%	43.9%	43.9%	28.1%	28.1%
Share %	n/a	15.6%	21.4%	20.9%	18.6%	23.1%	20.2%	20.9%	14.4%	15.8%	18.6%	19.3%	19.1%	20.4%
<b>Operating expenses</b>														
Employee compensation and benefits	60.7	112.2	154.2	42.9	56.0	59.6	57.5	85.5	77.4	244.1	233.9	305.6	285.1	
Growth %	n/a	84.7%	37.5%	12.8%	45.4%	82.7%	76.3%	90.4%	72.3%	58.3%	51.7%	25.2%	21.9%	
Margin %	13.2%	16.3%	16.2%	13.8%	15.6%	16.8%	16.8%	16.8%	16.7%	15.9%	15.9%	16.0%	15.9%	
Professional fees	3.1	1.2	.5	1.4	1.6	2.5	2.5	6.0	6.0	2.2	2.2	1.8	1.8	
Growth %	n/a	(60.4%)	(61.2%)	11.1%	(10.9%)	23.9%	23.9%	(8.4%)	(8.4%)	358.6%	358.6%	(18.7%)	(18.7%)	
Margin %	0.7%	0.2%	0.1%	0.5%	0.5%	0.7%	0.7%	1.2%	1.3%	0.1%	0.2%	0.1%	0.1%	
Office and travel	10.3	2.8	6.6	3.9	4.4	1.3	1.3	16.2	16.2	3.8	3.8	4.0	4.0	
Growth %	n/a	(72.8%)	135.8%	30.3%	39.1%	(78.5%)	(78.5%)	2.2%	2.2%	(42.4%)	(42.4%)	4.7%	4.7%	
Margin %	2.2%	0.4%	0.7%	1.3%	1.2%	0.4%	0.4%	3.2%	3.5%	0.2%	0.3%	0.2%	0.2%	
Other SG&A	.3	n/a	.2	n/a	.1	.6	.6	.9	.9	.7	.7	n/a	n/a	
Growth %	n/a	(100.0%)	n/a	(100.0%)	103.8%	731.9%	731.9%	211.5%	211.5%	226.8%	226.8%	(100.0%)	(100.0%)	
Margin %	0.1%	n/a	0.0%	n/a	0.0%	0.2%	0.2%	0.2%	0.2%	0.0%	0.0%	n/a	n/a	
Depreciation and amortization	5.1	2.6	5.4	5.6	5.2	5.3	5.3	21.5	21.5	6.5	6.5	10.0	10.0	
Growth %	n/a	(48.9%)	107.1%	118.4%	60.6%	13.2%	13.2%	64.4%	64.4%	20.1%	20.1%	53.8%	53.8%	
Margin %	1.1%	0.4%	0.6%	1.8%	1.4%	1.5%	1.5%	4.2%	4.6%	0.4%	0.4%	0.5%	0.6%	
Other	17.3	3.4	(1.2)	5.3	2.4	10.2	10.2	16.7	16.7	4.1	4.1	n/a	n/a	
Growth %	n/a	(80.2%)	(135.7%)	678.0%	(31.3%)	1029.6%	1029.6%	100.6%	100.6%	(440.5%)	(440.5%)	(100.0%)	(100.0%)	
Margin %	3.8%	0.5%	(0.1%)	1.7%	0.7%	2.9%	3.0%	3.3%	3.6%	0.3%	0.3%	n/a	n/a	
Total operating expenses	98.0	35.7	50.9	60.3	71.8	76.2	74.0	98.6	90.2	306.8	296.3	341.3	319.8	
Growth %	n/a	(63.6%)	42.8%	72.8%	88.8%	53.2%	48.8%	(37.7%)	(43.0%)	502.5%	481.8%	11.2%	7.9%	
Total operating expense margin		21.3%	5.2%	5.4%	19.4%	19.9%	21.5%	21.6%	19.4%	19.5%	20.0%	20.1%	17.8%	17.9%

Source: Company Reports, Echelon Capital Markets, S&P Capital IQ

**Converge Technology Solutions Corp. (TSX:CTS C\$10.22) - Data Sheet**

**Speculative Buy | PT: C\$12.00**



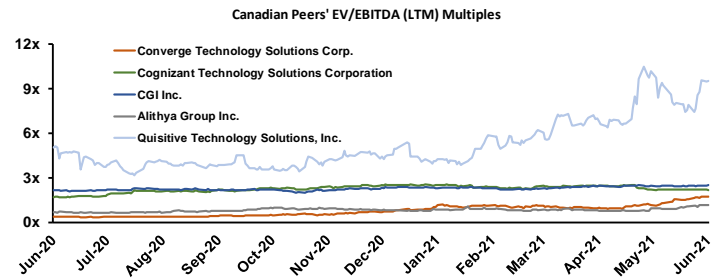
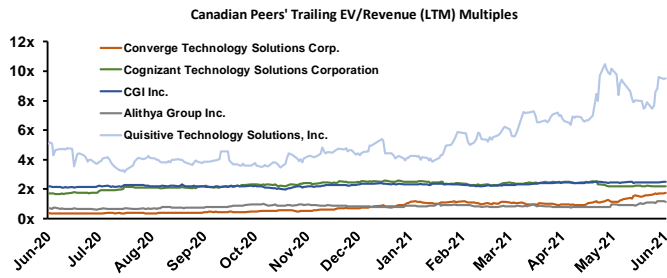
**Company Description**  
Converge Technology Solutions Corp. is a North American IT solution provider focused on delivering industry-leading solutions and services. Its regional sales and services organizations deliver advanced analytics, cloud, cybersecurity, and managed services offerings to our clients. The Company supports these solutions with talent expertise and digital infrastructure offerings across all major IT vendors in the marketplace. Currently, Converge Technology Solutions serves clients in Canada and the United States. The Company was founded on November 29, 2016 and is headquartered in Toronto, Canada.

Consensus	3M Ago	Current	Return
<b>Rating:</b>	Outperform	Outperform	
<b>Target:</b>	9.275	\$10.94	7%
<b>Median:</b>	9.25	\$11.00	8%
<b>High:</b>	10.5	\$11.75	15%
<b>Low:</b>	8.2	\$10.50	3%

Consensus Distribution			
Sector Outperform/Buy	8		
Sector Perform/Hold	0		
Sector Underperform/Sell	0		
# Est	8		

**Historical Valuations**



**Company Financials**

Fiscal year/quarter	2017A	2018A	2019A	2020A	Q121A	Q221E	Q321E	Q421E	2021E	2022E	2023E
<i>In \$M except per share</i>											
<b>Revenue</b>	53	459	688	949	310	360	355	508	1,533	1,914	1,789
<i>Growth %</i>	n/a	769.9%	49.8%	37.9%	28.4%	58.1%	86.7%	75.4%	61.6%	24.9%	21.2%
<b>Consensus Growth %</b>				934	288	371	351	476	1,489	1,771	1,743
<i>Growth %</i>				35.8%	19.2%	62.7%	84.8%	64.3%	59.4%	19.0%	18.1%
<b>Gross profit</b>	53	90	162	233	68	88	92	132	380	496	466
<i>Margin %</i>	99.9%	19.6%	23.5%	24.6%	21.9%	24.6%	25.9%	26.1%	24.8%	25.9%	26.0%
<b>Consensus Margin %</b>				232	72	92	85	118	357	484	477
<i>Margin %</i>				24.9%	25.1%	24.8%	24.4%	24.7%	24.0%	27.3%	27.4%
<b>Adj. EBITDA</b>	42	17	32	60	19	27	24	42	112	163	154
<i>Growth %</i>	n/a	(60.5%)	91.5%	91.3%	69.9%	128.7%	69.6%	81.8%	85.7%	45.3%	41.8%
<i>Margin %</i>	79.1%	3.6%	4.6%	6.4%	6.1%	7.4%	6.9%	8.4%	7.3%	8.5%	8.6%
<b>Consensus Growth %</b>				57	19	25	23	37	105	156	153
<i>Margin %</i>				80.1%	73.4%	113.7%	59.1%	60.3%	84.6%	47.9%	47.3%
<i>Margin %</i>				6.1%	6.7%	6.7%	6.5%	7.9%	7.1%	8.8%	8.8%
<b>Capex Intensity</b>	0.6%	2.1	1.2	0.4	0.5	0.5	3.7	5.0	1.8	1.8	1.8
<i>Intensity</i>	0.6%	0.5%	0.2%	0.0%	0.2%	0.1%	1.0%	1.0%	0.1%	0.1%	0.1%
<b>Net debt</b>	n/a	89	180	110	74	(93)	(90)	(172)	(65)	(313)	(188)
<b>Cash</b>	n/a	10	21	65	68	140	147	238	238	453	328
<b>EPS (FD)</b>	\$0.78	(\$0.24)	(\$0.13)	(\$0.04)	\$0.02	\$0.09	\$0.08	\$0.18	\$0.36	\$0.72	\$0.67
<b>Consensus</b>				\$0.03	\$0.05	\$0.07	\$0.06	\$0.10	\$0.26	\$0.45	\$0.44
<b>FCFPS (FD)</b>	(\$0.50)	(\$0.12)	(\$0.02)	\$0.32	\$0.18	\$0.17	(\$0.39)	(\$0.06)	\$0.04	\$0.85	\$0.22

Key Statistics	
52-Week High:	\$10.22
52-Week Low:	\$1.39
Avg. Vol (000):	611.1
Shares Outstanding (M):	165.1
Market Cap (\$M):	1633.1
Net Debt (\$M):	(83.3)
Enterprise Value (\$M):	1603.6
Div Yield:	0.0%
Fiscal Year End:	Dec-31
Employees:	340

Top Institutional Ownership	
Mawer Investment Management I	9.7%
McMillan Family Foundation, Endc	1.8%
AGF Management Limited	1.1%
<b>Total</b>	<b>12.6%</b>

**Canadian Peer Group**

Company	Ticker / Exchange	Price	EV (\$M)
Cognizant Technology Solutions Corporation	CTSH-US	\$69.84	36,391.4
CGI Inc.	GIB.A-TSX	\$112.39	30,468.3
Alithya Group Inc.	ALYA-TSX	\$3.50	357.1
Qusitive Technology Solutions, Inc.	QUIS-TSXV	\$1.60	516.6
Softchoice Corporation	SFTC-TSX	\$21.99	1,573.8
<b>Converge Technology Solutions Corp.</b>	<b>CTS-TSX</b>	<b>\$10.22</b>	
<b>Echelon Estimates:</b>			<b>1,603.6</b>
<b>Mean (ex. CTS)</b>			<b>13,861.5</b>
<b>Median (ex. CTS)</b>			<b>1,573.8</b>

2021 CY				
Revenue Growth	EV / Revenue	Gross Margin	EV / Gross profit	EBITDA Margin
8.1%	2.0X	36.6%	5.5X	18.5%
1.4%	2.5X	20.1%	12.3X	20.2%
23.6%	1.0X	30.1%	3.4X	4.7%
79.7%	5.8X	43.1%	13.4X	18.0%
73.4%	1.1X	20.9%	5.2X	4.5%
<b>57.0%</b>	<b>1.1X</b>	<b>24.0%</b>	<b>4.5X</b>	<b>7.1%</b>
61.6%	1.0X	24.8%	4.2X	63.2%
37.2%	2.5X	30.1%	8.0X	13.2%
23.6%	2.0X	30.0%	5.5X	18.0%

2022 CY				
Revenue Growth	EV / Revenue	Gross Margin	EV / Gross profit	EBITDA Margin
6.1%	1.9X	36.7%	5.2X	18.9%
3.8%	2.4X	20.1%	11.8X	20.0%
14.5%	0.9X	30.7%	2.9X	7.7%
38.1%	4.2X	47.6%	8.8X	23.6%
10.3%	1.0X	22.0%	4.5X	5.7%
<b>19.0%</b>	<b>0.9X</b>	<b>27.3%</b>	<b>3.3X</b>	<b>8.8%</b>
24.9%	0.8X	25.9%	3.2X	30.5%
14.6%	2.1X	31.4%	6.6X	15.2%
10.3%	1.9X	30.7%	5.2X	18.9%

Source: S&P Capital IQ, Echelon Capital Markets

**Note - EV calculated on the basis of fully dilutes shares o/s and fully diluted debt. Market Cap is on the basis of basic shares o/s.**  
Source: Consensus Data - S&P Capital IQ, Historicals - Company Filings, Forecasts/Estimates - Echelon Capital Markets



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**Company: Converge Technology Solutions Corp. | CTS-TSX**

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The name of any partner, director, officer, employee or agent of the Dealer Member who is an officer, director or employee of the issuer, or who serves in any advisory capacity to the issuer.	No
Does Echelon Wealth Partners Inc. or the Analyst have any actual material conflicts of interest with the issuer?	No
Does Echelon Wealth Partners Inc. and/or one or more entities affiliated with Echelon Wealth Partners Inc. beneficially own common shares (or any other class of common equity securities) of this issuer which constitutes more than 1% of the presently issued and outstanding shares of the issuer?	No
During the last 12 months, has Echelon Wealth Partners Inc. provided financial advice to and/or, either on its own or as a syndicate member, participated in a public offering, or private placement of securities of this issuer?	Yes
During the last 12 months, has Echelon Wealth Partners Inc. received compensation for having provided investment banking or related services to this Issuer?	Yes
Has the Analyst had an onsite visit with the Issuer within the last 12 months?	No
Has the Analyst or any Partner, Director or Officer been compensated for travel expenses incurred as a result of an onsite visit with the Issuer within the last 12 months?	No
Has the Analyst received any compensation from the subject company in the past 12 months?	No
Is Echelon Wealth Partners Inc. a market maker in the issuer’s securities at the date of this report?	No

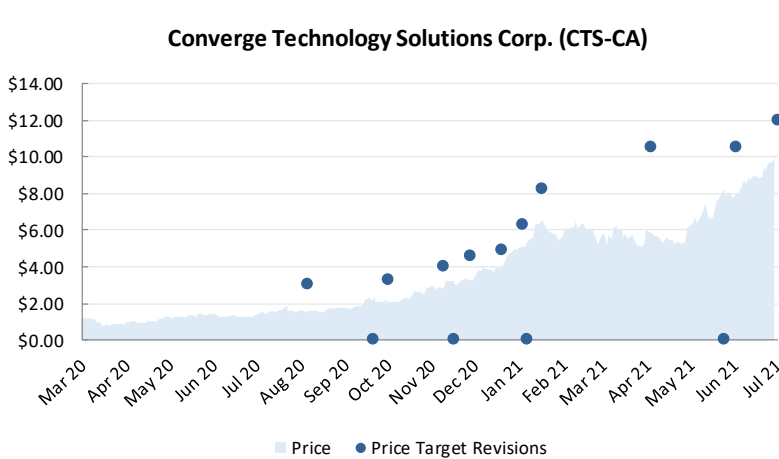
**RATING DEFINITIONS**

<b>Buy</b>	The security represents attractive relative value and is expected to appreciate significantly from the current price over the next 12 month time horizon.
<b>Speculative Buy</b>	The security is considered a BUY but in the analyst’s opinion possesses certain operational and/or financial risks that are higher than average.
<b>Hold</b>	The security represents fair value and no material appreciation is expected over the next 12-18 month time horizon.
<b>Sell</b>	The security represents poor value and is expected to depreciate over the next 12 month time horizon.
<b>Under Review</b>	While not a rating, this designates the existing rating and/or forecasts are subject to specific review usually due to a material event or share price move.
<b>Tender</b>	Echelon Wealth Partners recommends that investors tender to an existing public offer for the securities in the absence of a superior competing offer.
<b>Dropped Coverage</b>	Applies to former coverage names where a current analyst has dropped coverage. Echelon Wealth Partners will provide notice to investors whenever coverage of an issuer is dropped.

**RATINGS DISTRIBUTION**

Recommendation Hierarchy	Buy	Speculative Buy	Hold	Sell	Under Review	Restricted	Tender
Number of recommendations	25	34	1	0	50	1	0
% of Total (excluding Restricted)	23%	31%	1%	0%	45%		
Number of investment banking relationships	14	26	0	0	14	1	0
% of Total (excluding Restricted)	26%	48%	0%	0%	26%		

**PRICE CHART, RATING & PRICE TARGET HISTORY**



Date	Target (C\$)	Rating
7 Aug 2020	\$3.00	Spec Buy
22 Sep 2020	RESTRICTED	RESTRICTED
2 Oct 2020	\$3.30	Spec Buy
10 Nov 2020	\$4.00	Spec Buy
17 Nov 2020	RESTRICTED	RESTRICTED
29 Nov 2020	\$4.60	Spec Buy
21 Dec 2020	\$4.90	Spec Buy
4 Jan 2021	\$6.25	Spec Buy
7 Jan 2021	RESTRICTED	RESTRICTED
18 Jan 2021	\$8.20	Spec Buy
4 Apr 2021	\$10.50	Spec Buy
25 May 2021	RESTRICTED	RESTRICTED
3 Jun 2021	\$10.50	Spec Buy
2 Jul 2021	\$12.00	Spec Buy

Initiated: Aug 7, 2020

Data sourced from: FactSet

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