



Source: Stockwatch, CTS-V started trading November 13, 2018.

Market Data (C\$M)

Share Price	\$ 0.56
Market Capitalization (f.d.)	\$ 54.2
Net Debt (as of Sept 30/18)	\$ 59.0
Enterprise Value	\$ 113.3
Shares O/S (f.d.)	96.9
Avg. Daily Volume (M)	0.031
52 Week Range	\$0.92 / \$0.48
Dividend Yield	0.0%
EV/Sales (TTM)	0.2
EV/EBITDA (TTM)	5.4

Management

Chairman	Gord McMillan
CEO	Shaun Maine
COO	Don Cuthbertson
CFO	Mary Anne Palangio

Total Insider Ownership (f.d.) **29.7%**

Business Description

Converge Technology Solutions (CTS-V) combines innovation accelerators and foundational infrastructure solutions to deliver best-of-breed solutions and services to customers. CTS is building a platform of regionally-focused Hybrid IT solutions providers to enhance their ability to provide multi-cloud solutions, blockchain, resiliency, and managed services, enabling CTS to address the business and IT issues that public and private-sector organizations face today. CTS was founded in 2016, and has offices across the US, Canada and the UK.



SIS ACQUISITION BRINGS CONVERGE CLOSER TO IBM; APOLLO BUYING INGRAM MICRO?; CDW BUYS SCALAR

Highlights

- CTS announced the acquisition of SIS, a leading managed cloud services and solutions provider in the South-Central US (HQ in Lexington, KY) focused on delivering competitive advantage to customers through innovative technology strategy and solutions.
- CTS paid US\$11.5M in cash, and will issue 8M shares to the sellers. For the TTM ending Nov 30/18, SIS generated revs of ~US\$89M (including ~US\$13.7M of managed services), gross profit of ~US\$24.3M and Adj. EBITDA of ~US\$2.6M.
- CTS is at the end of Phase 1 of its three-phase growth strategy – having built a national footprint across the US and Canada; with a national Managed Services/Recurring Revenue offering and a revenue/Adj. EBITDA run-rate of ~\$700M/\$28M.
- SIS adds full scale managed services and cross platform cloud solutions, which when combined with the capabilities of Microsoft Azure from Corus; Amazon Web Services from BlueChip Tek; cloud, cognitive and cybersecurity (C³) from Essex; and software and Red Hat from Lighthouse, add significant capabilities to the Hybrid IT solutions Converge can offer to its customers.

Catalysts

- Consolidation continues in the VAR channel as Apollo has been rumoured to be buying Ingram Micro; and CDW is acquiring Scalar Decisions.
- We expect CTS to continue on its pace of 4 to 6 acquisitions per year; and should become much more attractive to larger vendors when CTS approaches \$3B in revenue.

Valuation

On a run-rate TTM adjusted EBITDA basis, CTS is trading at an EV/EBITDA of 5.4x versus its North American IT Services and Global VAR comparables trading at 10.7x/9.2x, respectively.

Recently, CDW (CDW-US) acquired Toronto-based Scalar Decisions at an EV/EBITDA of ~15x TTM (our estimate).

ACQUISITION OF SIS PROVIDES MORE SCALE IN IBM

CTS announced the acquisition of SIS, a leading managed cloud services and solutions provider in the South-Central US (HQ in Lexington, KY) focused on delivering competitive advantage to customers through innovative technology strategy and solutions. CTS paid US\$11.5M in cash, and will issue 8M shares to the sellers. For the TTM ending Nov 30/18, SIS generated revenues of ~US\$89M (including ~US\$13.7M of managed services), gross profit of ~US\$24.3M and Adj. EBITDA of ~US\$2.6M. CTS is at the end of Phase 1 of its three-phase growth strategy – having built a national footprint across the US and Canada; with a national Managed Services/Recurring Revenue offering and a revenue/Adj. EBITDA run-rate of ~\$700M/\$28M. SIS adds full scale managed services and cross platform cloud solutions, which when combined with the capabilities of Microsoft Azure from Corus; Amazon Web Services from BlueChip Tek; cloud, cognitive and cybersecurity (C³) from Essex; and software and Red Hat from Lighthouse, add significant capabilities to the Hybrid IT solutions Converge can offer to its customers. **We believe CTS is a now a Top 3 IBM partner in North America.**

BUILDING A HYBRID IT SOLUTIONS PROVIDER WITH SCALE

Converge Technology Solutions (CTS) was founded in 2016 and is focused on a “roll-up” strategy to create a leading North American Hybrid IT Solutions Provider (ITSP) selling public cloud, hardware, software, and managed services solutions to Corporate and Government customers. CTS has done eight transactions to date: Corus360, Northern Micro, Key Information Systems, Becker-Carroll, BlueChipTek, Lighthouse Computer Services and Software Information Systems (SIS); and made a strategic investment in Essex Technology Group (“Essextec”) - **facilitated by Ingram Micro.**







SIS has built a partner ecosystem that consists of leading IT manufacturers and business partners to deliver world-class, innovative solutions, including: IBM (Platinum), Dell EMC (Gold), VMware, Pure Storage, Cisco, Palo Alto Network, Nvidia, AWS, and Microsoft. SIS has 30+ years of experience, 400+ technology certifications, 1300+ clients, and 30 technology and service partners.

Exhibit 1 – CTS has been busy since last summer.....



Source: CTS, Company documents

Exhibit 2 – ...and CTS Overview on a TTM Basis Looks Solid

Company	Acquired	Revenue (C\$ M)				Adj. EBITDA (C\$ M)				EBITDA %
		2016	2017	LTM*^	Last 9M to Sep/18	2016	2017	LTM*^	Last 9M to Sep/18	
 CORUS360 A CONVERGE COMPANY	Oct 2017	\$175.6	\$179.1			\$ 3.2	\$ 2.0			1.1-1.8%
 NORTHERN MICRO A CONVERGE COMPANY	Nov 2017**	\$107.1	\$118.6			\$ 5.1	\$ 5.5			4.6-4.8%
 keyinfo A CONVERGE COMPANY	Apr 2018	\$ 97.2	\$ 98.7			\$ 3.4	\$ 4.3			3.5-4.4%
 BlueChipTek A CONVERGE COMPANY	May 2018	\$ 85.8	\$ 78.3			\$ 4.6	\$ 2.9			3.7-5.4%
 LIGHTHOUSE COMPUTER SERVICES	Dec 2018			\$109.1				\$ 6.3		5.8%
 SIS	Jan 2019			\$119.3				\$3.4		
Consolidated***				\$323.1				\$10.7		3.3%

Source: CTS, Company documents, *LTM = Last Twelve Months to Oct 31, 2018 for Lighthouse, ^LTM to Nov 30, 2018 for SIS, **years ended July 31; US\$/C\$ = 1.333, ***excludes Lighthouse and SIS

CONVERGE'S GROWTH OBJECTIVES

Converge's success has been based on acquiring strategic, accretive ITSPs in North America; focusing on revenue, financial and cost synergies; and building a high-margin and scalable hybrid IT business. Assuming 4-6 acquisitions per year, the goal is to reach \$3B in revenue and \$100M in EBITDA by 2021. The goal is to continue doing accretive acquisitions by buying at 3x-5x EBITDA (or a bit higher if target has a managed services/hybrid IT business) while trading at public company multiples. The revenue synergies will come from cross-selling products and getting higher rebates through top-tier certifications (eg., moving from Premier to Gold status as a Cisco partner). By growing its managed services and hybrid IT business, margins should improve from the 1-2% level to the 3-5% range.

CTS is at the end of Phase 1 of its three-phase growth strategy – having built a national footprint across the US and Canada; with a national Managed Services/Recurring Revenue offering and a revenue/Adj. EBITDA run-rate of ~\$700M/\$28M.

Exhibit 3 – A FOCUSED M&A STRATEGY (WE ARE AT THE END OF PHASE 1)

	PHASE 1 ⁽¹⁾	PHASE 2	PHASE 3
TIMING	2018	2019 / 2020	2020 / 2021
STRATEGY	<ul style="list-style-type: none"> Build national footprint across the U.S. and Canada Create a National Managed Services / Recurring Revenue Offering 	<ul style="list-style-type: none"> Tactical acquisitions to expand coverage to 30+ largest U.S. cities Scale our Managed Services offering, growing monthly recurring revenue 	<ul style="list-style-type: none"> Enhance our scale with larger acquisitions Potential to spin out the Managed Services / Recurring Revenue business
RUN-RATE REVENUE	\$600M – \$750M	\$1.0B – \$1.5B	\$2.0B – \$3.0B
EBITDA	\$25M – \$30M	\$35M – \$55M	\$80M – \$120M+
Managed Services / Recurring Revenue	\$50M – \$60M	\$100M – \$150M	\$240M – \$360M

Source: CTS, Company documents

CONVERGE REACHES IBM PLATINUM STATUS

CTS recently announced that it has achieved Platinum status in IBM's Partner World Program. This significant achievement for CTS is a direct result of both strategy and visionary alignment to IBM. CTS's recent investments in Keyinfo, Lighthouse, SIS, Corus Group and Essex Technology Group, bring together North American IBM Business Partners with deep skills in hybrid cloud, open source, software, blockchain, AI, IoT and IBM systems to provide customer reach across the continent.

CONVERGE REACHES DELL GOLD STATUS

CTS recently announced that all US members of the Converge family of companies are DELL/EMC Gold partners. This announcement is a testament to Converge's strengthening relationship with DELL/EMC in the US that compliments the Dell/EMC Titanium partner status of its Canadian subsidiary, Northern Micro. The Gold status allows CTS to resell DELL/EMC product lines across all of its US entities, with a particular emphasis on offering additional value to customers around Server, Storage, and Core Client technologies.

INDUSTRY CONTINUES TO CONSOLIDATE

Apollo Rumoured to be Buying Ingram Micro

Ingram Micro (IM) was acquired by Chinese distributor HNA in 2016 for \$6.1B, valuing it at an EV/Sales of and EV/EBITDA of 0.1x/7.8x, respectively. Recently, the WSJ reported that HNA Group was in discussions with Apollo Global Management to sell Ingram Micro for \$7.5B. This transaction makes sense, in our opinion, as Apollo has deep experience investing in the IT services sector (including the MSP, cloud services and IT solutions provider segments) through previous acquisitions such as Rackspace and Presidio.

NTT DATA Acquires Sierra Systems Group

NTT DATA Services acquired Sierra Systems Group in October 2018. Vancouver-based Sierra Systems is a leading IT services and consulting firm offering a full range of IT consulting, systems integration, and application managed services across Canada. The acquisition: (1) expands NTT DATA's North American footprint with a significant Canadian presence (~700 employees); and (2) expands NTT DATA's digital services capabilities and bolster its talent in core areas, such as Microsoft Dynamics, Oracle and ServiceNow. We estimate that Sierra Systems had ~\$100M in revenue. In a recent Gartner report, NTT DATA was ranked the 8th largest worldwide IT services provider in 2017, based on market share.

CDW Acquires Scalar Decisions

CDW is a leading multi-brand technology solutions provider to business, government, education and healthcare organizations in the United States, the United Kingdom and Canada. CDW is a Fortune 500 company founded in 1984, with 8,900+ employees and TTM revs (ended Sept 30, 2018) of ~\$16B. CDW recently announced the acquisition of Toronto-based Scalar Decisions, a leading technology solutions provider in Canada, with locations across the country and ~350 employees, and TTM net sales of ~C\$250M. Scalar offers a solutions-based approach that will enhance CDW Canada's technical capabilities and expertise in areas such as professional and managed services, infrastructure, security and cloud. We estimate that the deal valued Scalar at an EV/EBITDA of ~15x on a TTM basis.

VALUATION

On a run-rate TTM adjusted EBITDA basis, **CTS is trading at an EV/EBITDA of 5.4x** versus its North American IT Services and Global VAR comparables trading at 10.7x/9.2x, respectively.

We note that recently, Computacenter (CCC-GB) acquired FusionStorm (private) for an enterprise value (EV) of US\$135M, valuing the transaction at an EV/EBITDA of ~8.5x – 9.0x (10 – 11x trailing). We estimate that 95% of FusionStorm sales came from Products, with minimal Managed Services revenue.

Exhibit 4 – North American IT Services Providers

	Ticker	Price (Local)	Mkt Cap. (US\$)	LTM Rev (US\$)	EV/Sales			EV/EBITDA			P/E		
					2018	2019	2020	2018	2019	2020	2018	2019	2020
Accenture Plc Class A	ACN	155.18	98,919	42,154	2.5	2.3	2.1	14.3	13.6	12.6	23.0	21.5	19.7
CGI Inc. Class A	GIB.A-CA	88.61	18,330	8,992	2.3	2.2	2.2	12.8	12.1	11.6	21.1	19.0	17.7
DXC Technology Co.	DXC	64.61	18,098	21,767	1.1	1.1	1.1	4.9	4.7	4.4	7.9	7.1	6.3
Leidos Holdings, Inc.	LDOS	62.72	9,393	10,063	1.2	1.1	1.1	11.5	10.9	10.4	14.4	13.2	11.8
Booz Allen Hamilton	BAH	54.13	7,583	6,560	1.4	1.3	1.2	13.7	12.9	12.0	19.9	18.2	16.3
EPAM Systems, Inc.	EPAM	144.40	7,799	3,200	4.1	3.4	2.8	22.5	18.3	15.1	33.5	27.8	23.3
MAXIMUS, Inc.	MMS	70.72	4,512	2,434	1.9	1.6	1.5	13.1	12.0	12.8	21.1	19.5	17.7
CACI International Inc Class A	CACI	175.62	4,366	4,642	1.2	1.1	1.0	13.2	11.7	10.3	14.7	17.1	15.9
Science Applications International Corp.	SAIC	70.77	4,188	4,595	0.8	0.8	0.8	11.8	8.5	7.9	20.0	16.4	15.2
Conduent, Inc.	CNDT	13.00	2,747	8,600	0.7	0.8	0.8	5.9	6.0	5.4	12.3	11.7	9.7
ManTech International Corporation Class A	MANT	58.19	2,312	1,924	1.2	1.1	1.0	13.8	12.5	11.8	28.0	25.2	23.6
Presidio, Inc.	PSDO	15.85	1,305	3,200	0.8	0.8	0.8	10.4	10.0	9.4	12.1	10.3	9.4
Perficient, Inc.	PRFT	26.08	865	3,200	1.9	1.8	1.7	13.7	12.2	10.7	17.0	15.7	14.3
Calian Group Ltd.	CGY-CA	29.06	226	309	0.7	0.6	0.6	8.7	7.7	6.8	14.0	13.7	12.0
Alithya Group inc Class A	ALYA	2.81	122	200	NM	NM	NM	NM	NM	NM	NM	NM	31.2
Quisitive Technology Solutions, Inc.	QUIS-CA	0.24	15	13	NM	1.1	0.7	NM	NM	NM	NM	NM	NM
Averages:					1.5	1.4	1.3	12.0	10.7	9.9	18.2	16.5	16.0

Source: FactSet, Consensus estimates, as of February 7, 2019

Exhibit 5 – Global Value Added Resellers (VARs)

	Ticker	Price (Local)	Mkt Cap. (US\$)	LTM Rev (US\$)	EV/Sales			EV/EBITDA			P/E		
					2018	2019	2020	2018	2019	2020	2018	2019	2020
Pivot Technology Solutions, Inc.	PTG-CA	0.95	28	1,471	0.1	0.1	0.1	8.5	8.2	6.3	NM	NM	NM
Converge Technology Solutions Corp	CTS-CA	0.56	41	431	0.2	NM	NM	4.5	NM	NM	NM	NM	NM
Tech Data Corporation	TECD	98.89	3,690	37,867	0.1	0.1	NM	5.7	5.6	NM	9.1	8.7	8.2
CDW Corp.	CDW	91.08	13,661	16,241	1.0	1.0	0.9	13.1	12.3	11.7	17.6	16.1	14.8
Computacenter Plc	CCC-GB	10.72	1,224	5,300	0.3	0.2	0.2	8.2	7.5	7.2	14.5	13.3	12.8
Datatec Limited	DTC-ZA	29.00	6,557	3,811	0.2	0.2	NM	9.8	5.7	NM	NM	14.6	NM
Insight Enterprises, Inc.	NSIT	46.87	1,663	3,200	NM	0.3	NM	NM	7.1	NM	NM	10.3	NM
PC Connection, Inc.	CNXN	33.61	898	2,699	0.3	0.3	0.3	8.4	7.9	NM	15.0	13.9	11.8
PCM, Inc.	PCMI	26.31	321	2,164	0.2	0.2	NM	7.3	6.8	NM	11.1	10.3	NM
ManTech International Corporation	MANT	58.19	2,312	1,924	1.2	1.1	1.0	13.8	12.5	11.8	28.0	25.2	23.6
ePlus inc.	PLUS	83.39	1,137	1,370	0.8	0.7	0.7	10.5	9.6	NM	16.1	15.3	14.3
Softcat Plc	SCT-GB	7.15	1,417	1,206	1.2	1.1	1.0	18.9	17.1	16.1	24.8	22.9	21.7
Virtusa Corporation	VRTU	48.20	1,442	1,201	1.5	1.3	1.2	17.8	12.8	10.6	21.3	17.2	13.9
Navigant Consulting, Inc.	NCI	26.13	1,113	806	1.3	1.2	1.2	15.6	10.7	NM	52.0	27.9	25.4
Perficient, Inc.	PRFT	26.08	865	500	1.9	1.8	1.7	13.7	12.2	10.7	17.0	15.7	14.3
QSC AG	QSC-DE	1.34	166	369	0.7	0.7	0.7	6.4	5.9	5.6	44.7	20.6	14.1
Computer Task Group, Incorporated	CTG	4.29	61	340	0.1	0.1	NM	4.8	3.8	NM	15.3	10.3	NM
CSP Inc.	CSPI	9.43	38	73	NM	NM	NM	NM	NM	NM	NM	NM	NM
WidePoint Corporation	WYY	0.41	34	79	0.4	0.3	0.3	NM	9.4	8.1	NM	NM	27.4
Averages:					0.7	0.7	0.8	11.0	9.2	10.2	22.0	16.2	16.9

Source: FactSet, Consensus estimates, as of February 7, 2019

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