

EQUITY RESEARCH

February 1, 2023

Earnings Update

CGI INC.

IP & Managed Services Driving Growth

Our Conclusion

CGI's solid FQ1 results illustrate the company's resiliency in an uncertain market, with client demand accelerating for its cost-savings and digitization initiatives. CGI continues to post organic growth well above historical rates as it benefits from investments in IP and managed services capacity. While margins were down 80 bps Y/Y, we expect margin improvement through F2023 as recent bookings flow through to revenue, global delivery centres drive cost savings, and the company benefits from merger synergies from the \$600MM in M&A completed last year. We regard CGI as well positioned to continue to execute on M&A, with management planning to allocate \$1B in capital to M&A in F2023 and noting a pipeline that includes larger deals. We retain our Outperformer rating and increase our price target to \$146 (prior \$140).

Key Points

Demand Solid Despite The Uncertain Environment: CGI is seeing demand for cost-savings initiatives (managed services/IP), including digitization, with demand actually shortening the sales cycle for these types of deals. Bookings of \$4B were at a record high, amid solid demand from government and financial institutions. One-third of bookings were new customer wins, demonstrating the company's ability to take share as clients look to consolidate their tech stack. CGI is seeing some lengthening of the sales cycle on the consulting side, although these deals typically have a relatively short sales cycle and management had anticipated the shift and aligned its staffing to it.

Managed Services & IP Drive Organic Growth: Managed services and IP were the leading drivers of organic growth, with book-to-bill ratios of 1.23x and 1.28x, respectively. We expect CGI to continue to invest organically in both segments (\$93MM invested on internal initiatives in FQ1) and through M&A, with management noting an increasing pipeline of IP deals.

Inflationary Pressures Start To Subside: CGI added headcount in the quarter at a much slower pace than in previous quarters, primarily due to lower turnover and the shift towards more IP and managed services deals, which come with longer-term contracts and lower headcount requirements. Further, government clients (35% of revenue) have highly predictable schedules, allowing for CGI to plan ahead and structure workforce to boost utilization. We expect the company's headcount growth to moderate over F2023 and foresee tailwinds for margins from growth in global delivery centres and a shift in bookings mix to more managed services and IP, which also allows for higher price elasticity.

M&A Outlook: CGI plans to allocate \$1B in capital to M&A in F2023. The pipeline includes targets from North America and Europe with a mix of public and private companies, including IP solution targets. We do not include future M&A in our model and foresee upside as CGI executes on its M&A pipeline.

All figures in Canadian dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 5. For required regulatory disclosures please refer to "Important Disclosures" beginning on page 6.

Stephanie Price, CFA
+1 416-594-7047
Stephanie.Price@cibc.com

Scott Fletcher, CPA, CA
+1 416-956-3229
Scott.Fletcher@cibc.com

Natalie Zhang, CFA
+1 416-581-2120
Natalie.Zhang@cibc.com

Javeria Gaya, CPA
+1 416-594-7261
Javeria.Gaya@cibc.com

Outperformer

GIB.A-TSX, Sector: Information Technology

Current Price (2/1/23): C\$118.99

Price Target (12-18 mos.): **↑C\$146.00**

Previous: C\$140.00

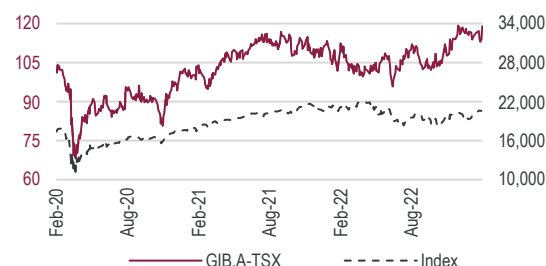
CIBC Estimates and Valuation

(Sep. 30)	2021	2022	2023	2024
Adj. EPS	5.44A	6.10A	6.89E	7.33E
Prior			6.67E	7.07E
Adj. EPS	Q1	Q2	Q3	Q4
2023	1.66A	1.74E	1.74E	1.75E
Prior	1.62E	1.69E	1.69E	1.67E
2022	1.49A	1.53A	1.54A	1.54A
Valuation	2021	2022	2023	2024
P/E	21.9x	19.5x	17.3x	16.2x

Stock Performance and Key Indicators

Enterprise Value:	C\$30,100M	Shares O/S:	272.7M
Market Cap.:	C\$32,449M	Float:	251.7M
52-wk Range:	C\$95.89 - C\$119.23	Div. / Yield:	NIL/NIL

TSX Composite Index vs. GIB.A-TSX



(Source: FactSet)

CGI Inc. (GIB.A-TSX) — Outperformer

Price (2/1/23) C\$118.99 12-18 mo. Price Target C\$146.00

Sector: Information Technology

Stephanie Price, CFA +1 416-594-7047 Stephanie.Price@cibc.com

Peer Comparison	2021	2022	2023E	2024E
P/E - Business Services	23.5x	17.2x	15.9x	15.9x
P/E - CGI	21.3x	19.1x	17.7x	17.7x
EV/EBITDA - Business Services	14.5x	-	-	-
EV/EBITDA - CGI	16.7x	-	-	-
Key Financial Metrics	2021	2022	2023E	2024E
Sales Growth	(0.3%)	6.1%	8.9%	3.1%
Per Share Data	2021	2022	2023E	2024E
FCFPS	7.28	6.21	7.69	8.86
Adj. EPS Dil.	5.44	6.10	6.89	7.33
Wgt Avg # of Shares	249.2	239.3	233.1	228.5
FD Number of Shares	253.0	242.9	236.4	231.8
Income Statement	2021	2022	2023E	2024E
Revenue	12,127	12,867	13,967	14,449
Tot Operating Exp	9,664	10,306	11,313	11,560
OpEx (% of Revenue)	79.69%	80.09%	81.00%	80.00%
EBITDA	2,463	2,561	2,654	2,890
EBITDA Margin	20.31%	19.91%	19.00%	20.00%
D&A	511	475	375	515
EBIT	1,952	2,087	2,279	2,375
Interest Expense	107	92	90	95
Other Pretax Income	7	28	19	0
Pretax profit	1,838	1,967	2,170	2,280
Tax Expense	469	501	556	581
Adjusted Net Income	1,375	1,486	1,628	1,698
Adjusted Net Margin	11.3%	11.5%	11.7%	11.8%
Cash Flow Statement	2021	2022	2023E	2024E
Net CFO	2,116	1,865	2,096	2,303
Capex	(122)	(156)	(131)	(120)
Free Cash Flow	1,994	1,709	1,965	2,183
Balance Sheet	2021	2022	2023E	2024E
Cash & ST Investment	1,699	966	2,043	3,317
Intangible Assets	507	616	635	635
Goodwill	8,140	8,481	8,785	8,785
Total Assets	15,021	15,175	17,078	18,138
ST Int-Bearing Debt	393	93	755	955
LT Int-Bearing Debt	3,009	3,174	2,419	2,219
Total Liabilities	8,035	7,903	8,523	8,635
Shareholders' Equity	6,986	7,273	8,555	9,503

Source: FactSet, Company Report, and CIBC World Markets Inc.

Company Profile

CGI Inc. is Canada's largest independent IT service, consulting and outsourcing company.

Price Target (Base Case): C\$146.00

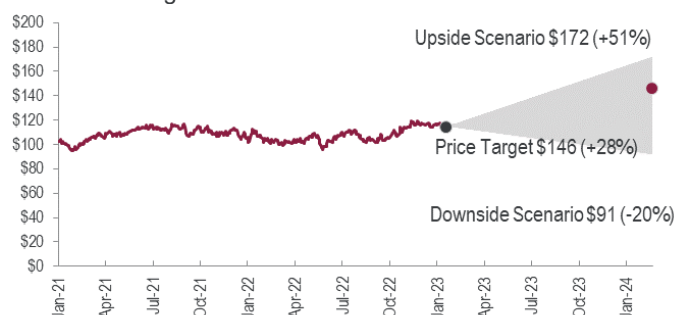
Our price target of \$146 is based on 3.0% revenue growth, 10.8% net margins and 20x EPS.

Upside Scenario: C\$172.00

Our upside scenario of \$172 is based on 9% revenue growth, 11.5% net margins and 25.0x EPS.

Downside Scenario: C\$91.00

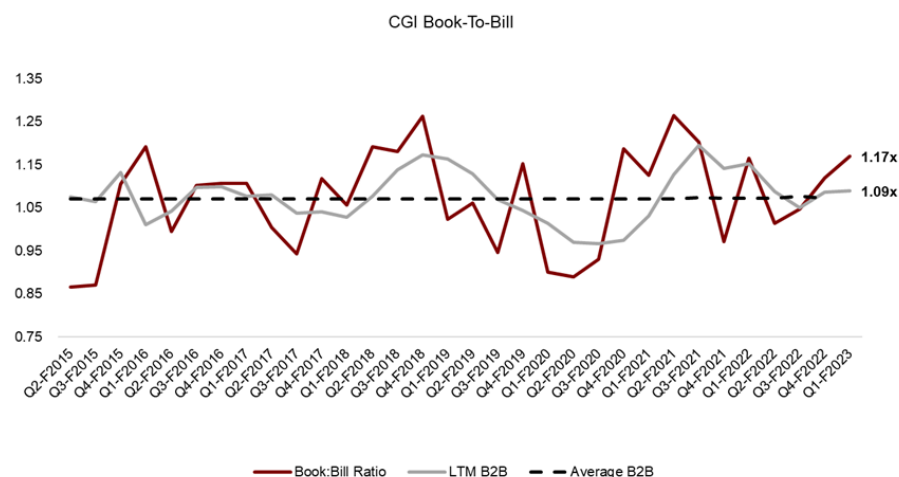
Our downside scenario of \$91 is based on -1% revenue growth, 10.50% net margins and 16x EPS.



Q1/F23 Results Beat: CGI reported revenue of \$3.45B (consensus \$3.31B) and adjusted EPS of \$1.66 versus consensus of \$1.60. Constant-currency revenue growth was 12.3% in the quarter, as the company encountered a ~0.7% FX headwind. Adjusted EBIT margins of 16.1% were 20 bps below consensus and adjusted EBIT of \$554MM was ~2% above consensus and our estimate. Free cash flow (FCF) of \$512MM was roughly in line with our estimate and well above the Street at \$412MM.

Bookings: Contract signings of \$4.04B resulted in a book-to-bill ratio of 1.17x in FQ1 (TTM 1.09x), up from 1.12x in FQ4. TTM book to bill was driven by the U.K./Australia (1.41x) and U.S. Commercial (1.17x). Bookings were relatively weaker in U.S. Federal (0.99x) and Central/Eastern Europe (0.99x). CGI's backlog ended the quarter at \$25B, or 1.9x annual revenue.

Exhibit 1: CGI – Book-to-bill, Q2/F15 - Q1/F23



Source: Company reports and CIBC World Markets Inc.

Updates To Our Model: We have updated our model to reflect FQ1 results. We have increased our revenue assumptions by 3% in each of F2023E and F2024E as we incorporate the company's recent bookings and the solid business environment. We expect EBIT margins to improve 10 bps per year in F2023E and F2024E as the company offsets wage inflation and increased travel expenses with economies of scale from recent bookings, a shift in mix to more managed services/IP, and improved efficiencies from global delivery centres.

Exhibit 2: CGI – Changes To Our Model, F2022 - F2024E

	Revenues (\$MM)	EBIT (\$MM)	Adjusted EPS (Continuing Operations)	CFO (\$MM)
F2022	12,867	2,087	6.10	1,865
F2023E				
CIBC Est. – New	13,967	2,279	6.89	2,096
CIBC Est. – Prior	13,547	2,216	6.67	2,146
Consensus	13,631	2,229	6.69	2,042
F2024E				
CIBC Est. – New	14,449	2,375	7.33	2,303
CIBC Est. – Prior	13,953	2,298	7.07	2,095
Consensus	14,151	2,344	7.24	2,163

Source: Company reports, FactSet and CIBC World Markets Inc.

Environmental, Social and Governance (ESG) Metrics for GIB.A-TSX

CIBC ESG Metrics					
Governance Metrics					
Insider Ownership	2017	2018	2019	2020	2021
Board Gender Diversity	1.5%	0.5%	0.4%	0.8%	1%
Separation of Chair & CEO	18.8%	28.6%	31.3%	31.3%	29%
Dual-class Ownership?	YES	YES	YES	YES	YES
Disclose ESG Data?	YES	YES	YES	YES	YES
Social Metrics					
CEO Comp./Mkt Cap*	2017	2018	2019	2020	2021
Diversity Targets	\$0.4	\$0.5	\$0.5	\$0.2	\$0.6
Women Managers	YES	YES	YES	YES	YES
	14%	12%	14%	19%	33%
Environmental Metrics					
Emissions Intensity**	2017	2018	2019	2020	2021
Net-zero Targets?	NA	NA	5	4	3
	NO	NO	YES	YES	YES

*CEO Compensation is shown as per thousand dollars of market capitalization

**Emissions Intensity calculated as total emitted CO2e divided by million \$ of CAD revenue

Sustainalytics ESG Risk Rating

15.3

Updated on
Jun 19, 2022

-1.6

Momentum

Low Risk



Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK (1 st = lowest risk)	PERCENTILE (1 st = lowest risk)
Global Universe	1476/14667	11th
Software & Services INDUSTRY	67/1000	8th
IT Consulting SUBINDUSTRY	22/207	11th

Sustainalytics Material ESG Issues

These are the Material ESG Issues driving the ESG Risk Report

Issue Name	ESG Risk Exposure	ESG Risk Management	ESG Risk Rating	Contribution to ESG Risk Rating
	Score Category	Score Category	Score Category	
Corporate Governance	9.0 High	54.3 Strong	4.1 Medium	26.8%
Human Capital	7.6 Medium	48.2 Average	4.1 Medium	26.9%
Product Governance	2.1 Low	17.5 Weak	1.7 Negligible	11.3%
Business Ethics	4.8 Medium	53.8 Strong	2.3 Low	15.2%
Data Privacy and Security	7.6 Medium	75.0 Strong	3.0 Low	19.8%
Overall	31.0 Low	54.4 Strong	15.3 Low	100%

CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	6	0	Value	144	-10
Momentum	1	0	Momentum	39	+30
Quality	3	0	Quality	16	-1
Market	1	0	Market	34	+3
Low Volatility	1	0	Low Volatility	9	0
Growth	7	0	Growth	90	+1

Note: Ranking out of 14 stocks

Note: Ranking out of 235 stocks

General Notes Behind the Quantitative Scorecard

Delta refers to the change in the ranking over the past month. Number of stocks "Within Sector" is defined by the number within the GICS. In the "Within S&P/TSX" category, we use all stocks in the S&P/TSX Composite. For detail on the Quant Factors included in each style above, please contact the CIBC Portfolio Strategy Team.

The table above is based upon quantitative, statistical, and mathematical analysis and is not intended to serve as a fundamental recommendation.

CIBC Technical Scorecard

Factor	TSM Score	Factor	TSM Score
TSM	1	Momentum	B
Beta	0.68	MACD	A
Volatility	↗	Alpha (Sector)	A
Trend	↗	Alpha (Index)	A
RSI	Neutral		

General Notes Behind the Technical Scorecard

TSM: The Trendspotting Matrix uses technical factors to score uptrend durability.

Momentum and alpha metrics compare performance over one-month, one-quarter and one-year timeframes, outputting a rating from A to D.

Trend/Volatility metrics measure price deviations relative to underlying moving averages.

RSI is an oscillator that provides mean-reversion estimations.

MACD is a momentum indicator rated from A to D based off the strength of its signal.

The table above is based upon a technical methodology that examines the past trading patterns and trades and is not intended to serve as a fundamental recommendation.

Source: Sustainalytics, Compustat, FactSet, Bloomberg and CIBC World Markets Inc.

Price Target Calculation

We derive our price target of \$146 by applying a multiple of 20.0x to F2024E EPS. The multiple is supported by CGI's three-year average premium multiple to business services peers. This is supported by a discounted cash flow (DCF) valuation with long-term growth of 0.5%, a discount rate of 7.88%, and a terminal cash flow multiple of 13.5x.

Key Risks To Price Target

The primary risks to our price target include the following: 1) volatility in the global IT environment; 2) increasing competition from other enterprise application vendors; 3) the company's ability to introduce new or updated technology in a timely manner; 4) the company's ability to successfully integrate and operate any current or future acquisitions; and 5) the loss of key management or other employees.

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Outperformer	OP	Stock is expected to outperform similar stocks in the coverage universe during the next 12-18 months.
Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
Underperformer	UN	Stock is expected to underperform similar stocks in the coverage universe during the next 12-18 months.
Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
Not Rated	NR	CIBC World Markets does not maintain an investment recommendation on the stock.
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Overweight	O	Sector is expected to outperform the broader market averages.
Marketweight	M	Sector is expected to equal the performance of the broader market averages.
Underweight	U	Sector is expected to underperform the broader market averages.
None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

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(as of 01 Feb 2023)	Count	Percent	Inv. Banking Relationships	Count	Percent
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Neutral	134	44%	Neutral	133	99%
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Tender	3	1%	Tender	3	100%
Restricted	8	3%	Restricted	8	100%

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